Special Dialogue

Roundtable Discussion among the Audit and Supervisory Committee Members



Outside Director
Hokuto Nakano

Outside Director as Audit & Supervisory Committee Member
Kentaro Ono

Outside Director as Audit & Supervisory Committee Member
Masahiro Tani

Outside Director as Audit & Supervisory Committee Member
Aogi Suemura

In 2024, the Company shifted from a company with a board of company auditors into a company with an Audit and Supervisory Committee.

How has the effectiveness of our corporate governance changed over the two years since the transformation?

Mr. Nakano, who is one of the outside directors and served as an Audit and Supervisory Committee member until last year, and the three incumbent Audit and Supervisory Committee members discuss the actual situation, current issues on our governance, and how they should respond from their respective perspectives.

Nakano: As a person who worked for banks, one of my roles is to bring the perspective on what the financial market and investors think for the Company into discussion. Initially, the Company seemingly lacked a sense of urgency regarding the low Price Book-value Ratio (PBR), but now, I sense that its corporate culture is changing to the one where the Company as a whole is conscious of the share price. I believed that one of my important obligations is to support this transformation as an Audit and Supervisory Committee member.

Ono: I currently serve as a regular Audit and Supervisory Committee member and the chair of the Committee. What I attach weight to is to have high-quality communication with the parties in charge of business execution while ensuring our independence. For this, it is essential to understand the on-site employees and the actual products and services, and I grasp the actual situation by attending key meetings and conducting on-site visits and share what I have gained with the part-time committee members. I also believe that it is important to check whether each decision made contributes to the enhancement of the corporate value from a third-party perspective.

Tani: What I keep in mind is to provide supplementary perspectives for discussion in terms of on-site management, organization's operations, procurement, and risks. While I sometimes suggest frameworks with the aim of increasing the decision-making accuracy, I respect the autonomy of the parties in charge of business execution and only give advice that helps expand their options. I have been focusing on assessing the appropriateness of capital allocation and medium- and long-term strategies from a third-party point of view since the shift, and will contribute to enhancing the corporate value while playing the role as the one who supports the Company as necessary.

Suemura: I have been engaged mainly in accounting audits of companies as a certified public accountant for over 30 years. While Audit and Supervisory Committee members have two primary duties, which are to supervise business administration and to participate in the decision-making process, I feel a strong sense of responsibility for ensuring governance as an independent third party at the Company. I understand that one of the key roles of Audit and Supervisory Committee members is to make judgment while maintaining the objectivity and transparency that can contribute to the interests of diverse stakeholders.

The Shift to a Company with an Audit and Supervisory Committee and Changes Over the Past Two Years—

Nakano: I do not see dramatic changes in the separation of the executive function and the supervisory function, but I think that the parties in charge of business execution are making steady progress in the decision-making process and business operations, as demonstrated by such facts as a decreasing number of agenda items brought before the Board of Directors. In addition, as Mr. Itami, who retired after serving as both an auditor and an Audit and Supervisory Committee member, said, one of the positive changes is that it has become easier to express our opinions since we began to participate in important meetings as Outside Director and an Audit & Supervisory Committee member. Personally, the biggest change is

Expanded committee meeting participation and deepened understanding of on-site operations.



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that I have gained more opportunities to interact with the Company. I have broadened my understanding of the employees as I've gained an increasing number of opportunities to attend committee meetings and conduct on-site audits. I believe it meaningful that I have filled the gap in my understanding of the actual situation, which tends to be limited for outside directors.

Ono: I think that decisions are now made more speedily as agenda items brought before the Board of Directors are selected in order of priority and authority has been delegated to the parties in charge of business execution. The title of director has allowed the Audit and Supervisory Committee members to be involved in the decision-making process more deeply at an earlier stage. Our role is how the Company can balance offence in terms of pursuing growth and defense in terms of realizing governance. Meaningful dialogues on these matters can be held more smoothly now than before, which I consider a big step forward.

Tani: I understand that the aim of the shift is to make the decision-making process speedier through the delegation of authority and allocate the time saved to more important discussions. In fact, the number of reports submitted at meetings of the Board of Directors has dropped and the quality of discussion has been improved. In particular, a process in which policies are discussed in talkfests that involve the officers and then the Board of Directors makes decisions has been established, and in-depth discussions on such matters as capital cost and medium- and long-term strategies have been held while incorporating outside directors' perspectives. The establishment of this cycle has made it possible to make high-quality decisions.

Suemura: I can feel the significance of this shift as a person who has engaged with the Company since the time of a company with a board of company auditors. As the number of outside directors has increased, information sharing and risk awareness have been standardized among the committee members, which consequently has fostered more in-depth opinions at such occasions as meetings of the Board of Directors and talkfests involving the officers and clearly enhanced the quality of discussion. I can say with confidence that the establishment of an environment where the outside directors can hold discussion based on sufficient information is a significant change for boosting the effectiveness of governance. In addition, the process of determining executive remuneration has become more transparent and improved considerably in a short period of time.

Issues Related to the Effectiveness of the Board of Directors and the Enhancement of Corporate Value —

Nakano: When it comes to the effectiveness of the Board of Directors, I see issues lie in the level of diversity of opinions. As is common to many Japanese companies, most of opinions are still made by the president and outside directors, and inside directors have fewer opportunities to give their opinions beyond their respective responsibilities. I will have the Company encourage the inside directors, who have a profound understanding of the Company's actual situation, to proactively voice their opinions from a broader perspective beyond their respective divisions. Furthermore, I think that the business that currently drives the enhancement of the Company's corporate value is the Incineration Ash Recycling business. Through repeated discussion on the importance of effective use of surplus funds and risk taking, we are steadily seeing results and certain achievements in the form of stock price increase. At present, investment has been made in this business on a full scale, which has become the focal point of the discussion on capital allocation.

On the other hand, however, the Company has not made full use of its strengths such as funds, human capital, and technology. It is vital to encourage the employees throughout the Company to become increasingly aware of the importance of risk taking by building up successful achievements like the Incineration Ash Recycling business. I believe that corporate value will rise to even a higher level as their awareness is heightened more.

Ono: I would like to aim for further improvement in the development of a system for increasing the effectiveness of governance. In internal control, especially, it is essential that each of the three lines, which are the first line that is the on-site autonomous control, the second line that is the management by the corporate department, and the third line that is the internal audit department, function properly. In the past six months, we have been discussing how to organize the assignment of roles and an ideal form of cooperation while having discussion repeatedly with the persons in charge so that the roles of the Audit and Supervisory Committee and those of the parties executing internal control do not overlap. What is important for enhancing corporate value is to have both governance and growth strategies work properly. While insufficient governance would degrade corporate value, excessive risk avoidance could lead into a loss of growth opportunities. It is one of my responsibilities to develop an environment where decisions are made based on appropriate risk management and risk taking in cooperation with the outside directors other than those who are the Audit and Supervisory Committee members. In addition, it is crucial to develop human resources from a medium/long-term perspective because it takes time to see results in the manufacturing industry. I would like to contribute to a sustainable enhancement of corporate value through the development of an environment that allows personnel who bears the future of the Company to take on challenges on their own initiative.

Tani: A foundation that enables the Company to balance agility and discipline is being formed, so the Company can relatively easily avoid a risk of being too cautious to get opportunities and a situation where they continue policies without giving sufficient consideration once started. One of the key issues in the future is to sophisticate risk management. The Company needs to redefine the roles assigned to the three defense lines (on-site operations, the corporate department, and the audit) and establish a more sophisticated system in which each line can function more autonomously. At the same time, it is crucial that the scope of internal control be expanded to cover compliance risks as a whole, and that the Audit and Supervisory Committee examine the Company from a much broader perspective.

Furthermore, discussion is being held while keeping capital efficiency, such as business evaluation based on ROIC, in mind. The parties in charge of business execution and the parties supervising the execution need to mutually enhance the quality of discussion and repeatedly engage in more constructive dialogue.



Discussion about Offense and Defense Can Be Held More Smoothly.



The Three Defense Lines Related to Risks Must Be Made to Work Autonomously.

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Monitoring the Directors as the Agent for Stakeholders

Regarding dialogue with investors, we value feedback given on a quarterly basis through IR activities. We will accurately grasp what the market values and what it considers to be issues and reflect such points in discussion at meetings of the Board of Directors.

Suemura: I believe that companies should sophisticate their governance on a continuous basis as the times change. It is also important to tackle common issues among listed companies, such as an increase in the number of outside directors in accordance with the revision to the rules of the Tokyo Stock Exchange and the securing of the transparency and fairness of company's decision-making processes. In addition, it is essential to continuously check whether meeting bodies including the Internal Control Committee and the Sustainability Committee function effectively.

One of the roles of outside directors is to monitor directors. This includes not only risk management, but also confirmation that medium-term business plans and various policies are executed with feasibility from a third-party perspective. As the agent for stakeholders, we must exert our discipline to support the parties in charge of business execution. Currently, the committee members begin to share risk awareness, which indicates that a system for detecting signs of misconduct at an early stage is being developed. I expect that a basis for long-term corporate value will be formed by tackling material issues before they arise and maintaining a healthy sense of urgency.

Points to Improve in the Coming Two Years and the Future Outlook

Nakano: The primary focus should be given to the drastic change in unprofitable businesses and the concentration of resources on growing businesses. Of them, as a pillar that supports the future of the Company, one of the biggest subjects is how much the Company can expand the significantly growing Incineration Ash Recycling business. In addition, I would like to focus on creating next revenue pillars by making the most of the Company's abundant funds and talented personnel.

From the perspective on the effectiveness of governance, the Company has been making steady progress with the development of frameworks and systems. Based on this progress, it is important to shift the focus onto the offense area and enhance the capability to execute growth strategies. There is still room for enhancing the capability to generate revenue, so it is necessary to continue investing in new business opportunities while utilizing the resources that the Company possesses. I would like to contribute to enhancing the corporate value by encouraging the employees to change their mindset through these initiatives.

Ono: It is possible for the Company to instill the messages of the management into mid-level employees and on-site workers and move the organization speedily because the number of employees is about 1,000 and therefore the Company is blessed with agility. I believe that it is vital to further improve swiftness and the execution capability in order to aim for further growth in the next two years.

Particularly, there is an urgent need to deal with technological innovation including DX. The Company needs to keep abreast of DX swiftly because there is still some room for improvement. The Company will be able to further streamline on-site operations and branch out into new fields more easily by sorting out necessary domains to allocate resources. While the parties in charge of business execution have the role in disseminating messages to stakeholders, the Audit and Supervisory Committee members can help the management proceed with the transformation transparently and reasonably. I would like to help the Company realize such changes by leveraging the advantage of its company scale.

Tani: I think that there are three major points for further improvement. The first point is to visualize a value creation story and establish theories. It is necessary to comprehensively organize social impact and indicators such as ROIC and clearly show the path to the creation of the Company's value in order to balance the resolutions of social issues with the generation of economic value.

The second point is to organize the views on risk taking. It is crucial to share the criteria for risk taking across the organization and develop a corporate culture that encourages employees to take on challenges while maintaining the strength of prudence.

The third point is to deepen the involvement by utilizing the opportunities to interact with the on-site employees. I would like to balance the supervisory function and the involvement as a partner and contribute to enhancing corporate value through reality-based discussion with on-site experience leveraged and constructive dialogue with the parties in charge of business execution.

Suemura: Optimization of the business portfolio is one of the issues we must tackle in order to achieve sustainable growth of this Company. My most important mission for the next two years is to find the optimal solution to formulating the best portfolio to invest limited management resources in cooperation with the parties in charge of business execution. Furthermore, it is required to continue sophisticating the governance and establish a stronger internal control system.

At the same time, we must sharpen our sensitivity to changes in the external environment. I think that the number of listed companies in Japan will possibly decrease through restructuring. It is expected that the Japanese government and the Tokyo Stock Exchange will accelerate system reform. Amid these changes, I hope the Company will move forward with a close eye on its position without being excessively swayed by the external environment.

