

A Dialogue between Outside Directors



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Sound, thorough discussions at meetings of the Board of Directors and various committees support the Nichirei Group's robust governance.

The Nichirei Group has devised a variety of plans to invigorate the Board of Directors and to enhance discussions at meetings of its committees. We invited two of our outside directors to talk about discussions at meetings of the Board of Directors and various committees, officer remuneration and the development of Nichirei's next generation of management personnel.

On Nichirei's Board of Directors and Committees

Q. What are your impressions of Nichirei's Board of Directors and its various committees?

Hama The impression I get when attending meetings is that Nichirei's Board of Directors is a forum for very thorough discussions. A great deal of information is provided, and everyone expresses their opinions freely. Aside from the Board of Directors, Nichirei has a number of committees, including the Group Strategy Committee and Group Monitoring Committee. Committee meetings are

very interesting and informative because attendees are highly diverse and speak from a variety of perspectives. I think these thorough discussions support the Nichirei Group's robust governance. On the other hand, discussion at board meetings more often than not follows a pattern of internal officers answering questions from the outside officers. Discussions would be deeper if the internal officers

offered more opinions and raised more questions of their own. This is an issue that should be addressed.

Hamashima I agree. I think it is a feature of Nichirei's Board of Directors that the Audit & Supervisory Board members speak up and offer very useful opinions. The chairperson and president of other Japanese companies are said to have the most influential voices at board meetings and internal directors tend to refrain from speaking, but I don't feel that way at all in the case of Nichirei's Board of Directors. Even directors who concurrently serve as presidents of operating companies do not hesitate to give their opinions on matters involving other operating companies. There is an open atmosphere where various opinions can be expressed, which I think is excellent. On the other hand, in meetings of committees, such as the Management Committee, that are concerned with execution and where my role as an outside director is to monitor such execution, although I can participate as an observer, I realize I should hold back from voicing my opinions too emphatically. I try to take a moderate approach.

Hama I feel the same way about offering opinions at such committee meetings. Management Committee materials are also distributed to outside directors so we can get an idea of what kind of discussions are taking place. If I have any opinions about Management Committee proposals directly related to management strategy, I raise them at the Board of Directors' meeting. As for agenda items

at board meetings, background explanations for both resolutions and reports tend to be a bit time consuming. More time should be devoted to strategic discussions instead. Moreover, although it is good that each director speaks without deference, I feel that specific matters at individual operating companies and the holding company tend to dominate discussions. Essentially, I believe we should spend most of our time discussing topics from a broader perspective, such as how to generate synergies between operating companies, or how to strengthen the Group's assets for evolution of the Nichirei Group. This remains an issue. I would also like to see questions raised and opinions exchanged within the Group and across operating companies in response to the independent opinions we raise as outside directors at meetings of the Board of Directors and the Group Strategy Committee.

Hamashima There are matters that any Board of Directors, not just Nichirei's, is required to pass resolutions on under the Companies Act of Japan. Since these matters take priority, there is a tendency to run out of time for discussions of strategy and other matters. However, Nichirei has many committees and, for example, the Group Sustainability Committee secures the time to discuss sustainability and ESG, then reports the important details of its discussions to the Board of Directors.

Q. What are your thoughts on Nichirei's director training initiatives and the skills of its directors?

Hama Each director's aptitude and experience are disclosed in the form of a skill matrix. Nichirei lists skills in six categories. Although some companies use more categories, I do not consider the number to be much of a problem. How the information on skills is used is more important. For instance, I think skill levels should be set for each director and that information should be utilized for succession planning and acquisition of management talent.

Hamashima Nichirei needs directors with skills in information technology (IT), digital transformation (DX) and, since it is a manufacturer, research. In particular, we are about to enter an era in which a company's competitiveness will change significantly depending on how it deploys DX. DX can be used for stronger risk management to protect the company from cyberattacks, but it can also be used

to pursue business opportunities that lead to business innovation. In addition, IT and DX are highly specialized fields, and it is extremely important to add people with skills in these fields to the Board of Directors. When disclosing the skill matrix, it may be a good idea to present IT and DX skills separately.

Hama Training consists of study sessions for directors and Audit & Supervisory Board members. Study sessions on sustainability were held six times last year and have already been held three times this year. Attendance is voluntary, and sessions are also offered online. This flexibility has resulted in the enthusiastic involvement of many employees.

Hamashima In addition to the study sessions, there is an optional DX correspondence course. I think it is a great opportunity for directors to improve their skills.

On Officer Remuneration

Q. What do you think of Nichirei's approach to officer remuneration?

Hamashima The composition of officer remuneration is very well balanced. The remuneration of directors, excluding outside directors, is currently 60% fixed remuneration and 40% variable remuneration. Variable remuneration is further broken down into 20% performance-linked bonuses and 20% stock compensation. ESG factors are also incorporated into performance-linked bonuses and given a fairly large weight, accounting for 20% of the performance-linked bonus (Company-wide performance evaluation) for the representative director. Although discussion of officer remuneration is still ongoing, I believe that Nichirei is fully meeting the demands of the capital market.

Hama As you say, the composition of officer remuneration is well balanced. In addition to

incorporating indices based on short-, medium- and long-term perspectives, it also includes ROIC from a financial perspective, and third-party evaluations of ESG from a non-financial perspective. Moreover, the assessment range is clearly set for each position, and I feel that the system itself is extremely robust. However, there is still room for discussion on ESG evaluations. To be comprehensive, ESG evaluations need to incorporate not just third-party opinions but also indicators that show how Nichirei's various corporate activities have actually contributed to achieving sustainability. Although the introduction of ESG evaluations is a progressive move, I cannot shake the impression that they are still somewhat pro forma.

On Succession

Q. What qualities do you consider necessary for the human resources responsible for the Nichirei Group's management?

Hamashima Generally, the Nichirei Group has an image strongly associated with frozen foods and the processed food business, but it operates various businesses including temperature-controlled logistics, marine, meat and poultry products, and biosciences, giving it a level of diversity that other companies do not have. Therefore, in addition to the individual

growth of each business, the question of how to create chemistry between those businesses to generate new products and services has become a key point for achieving growth across the Group. Continuing to create this chemistry will require a focus not only on tangible assets such as equipment and factories, but also on utilizing intangible assets, such as by developing human resources, increasing engagement, improving brand value, and conducting initiatives for sustainability. That means the Nichirei Group needs human resources with a deep understanding of the value of its various tangible and intangible assets and the ability to improve that value. Those who can increase the value of intangible assets and link them to future profits will be particularly well

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suited to be the next generation of management.

Hama In these times of major changes in the business environment, there are two important qualities managers will need going forward. One is strategic imagination. The Nichirei Group needs human resources who are consistently able to conceptualize its dynamic corporate activities from short-, medium- and long-term perspectives, and then turn those concepts into action. The other is people skills. The Group needs human resources with people skills who can energetically lead the organization both in normal times and in emergencies. In essence, people skills are the ability to listen from the perspective of others. It is crucial for senior management to listen to feedback from the front lines and then consider it as a Group. Creating

an environment where senior management and front-line workers can move forward while engaging in regular, open discussions enables a company to respond quickly to changes in its operating environment. As this interchange happens time and again, it will become part of Nichirei's corporate culture. I think it will be important for the Nichirei Group to consider how to build a talent pool for its next generation that has both strategic imagination and people skills.

Q. What are the points to keep in mind when developing human resources for the next generation of management?

Hama Naturally, in addition to discussing the succession of senior management, there must be in-depth discussions of how to expand the pool of next-generation management talent. We have begun talking about this matter in the Nominating Advisory Committee, but I feel that there has still not been enough debate about the kind of company the Nichirei Group wants to become, and the kind of investments and human resources required to do so. In my opinion, this should be a spirited discussion of what Nichirei wants to do and what it will do to achieve its objectives, rather than something we are doing only because we must. I am in the process of encouraging other board members to talk about what they want to do rather than what Nichirei has to do. Efforts to enhance human capital have so far been conducted by individual operating companies on their own. I would like Nichirei to take steps to change its culture bit by bit through cross-Group initiatives and efforts to maximize Group-wide human resource engagement.

Hamashima All Nichirei Group members, from senior management to regular employees, should have healthy ambition. The word “ambition” can have a

negative connotation, but as a company, Nichirei needs ambition to succeed in fierce competition and enrich the lives of its employees. By clearly communicating its ambitions to stakeholders, the Nichirei Group can receive their support, thereby improving its business performance, paying its taxes, and contributing to society. That is why employees' healthy ambition is so important. Just because someone contributes to business results by meeting their assigned targets, they are not necessarily suited to joining the next generation of management. Nichirei needs human resources who think for themselves about what must be done to create new value in light of changes in the internal and external environment, share their plans to gain the understanding and support of others, and act on their own initiative. People have a hard time acting without a sense of impending crisis. The energy of people who maintain this sense of crisis is one of the driving forces of a company's growth. I would like all employees to be aware of this point and take on the challenge of helping to make the Nichirei Group the company they want it to be.

