

Independent Outside Directors roundtable discussion



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Member of Nomination and
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(Independent Officer)

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Independent Outside Director
Chair of Board of Directors
Chair of Nomination and
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Instilling *henkaku* (Change) throughout ISEKI Group as we approach the 100th anniversary of our foundation

To establish a path toward achieving sustained growth as a corporation, ISEKI & CO., LTD. calls on Outside Directors with a range of experience and extensive knowledge to participate in active discussions taking place primarily at Board of Directors meetings. We organized a round table involving four of these Independent Outside Directors to discuss the topics of *henkaku* (Change) at ISEKI Group as we approach the 100th anniversary of our foundation in 2025 and the challenges ahead of us.

A reliable company committed to its founding spirit

Tanaka: I'm an attorney, working primarily in corporate restructuring, including corporate rehabilitation, civil rehabilitation, and out-of court workouts. At ISEKI & CO., LTD., I assumed the position of Outside Audit & Supervisory Board Member in June 2010, and became an Outside Director in March 2016. ISEKI has established a solid position as an integrated manufacturer specializing in agricultural machinery that commands outstanding technological capabilities, with a track record that

includes the development of Japan's first ever auto-threshing combine harvester. On the other hand, however, the Company has a tendency to pursue its founding spirit so far that it gets caught up in high-mix, low-volume production, giving an impression of poor resilience, to use the common term these days.

Taira: Yes, but I do think the Company's outstanding technological capabilities are worthy of attention. I became an Outside Audit & Supervisory Board Member in March 2016. What's great about ISEKI is its

wholehearted devotion to responding to farmers' needs, which has driven it to put everything into developing technologies and making products. But the question is, can the products it develops actually generate profits? The Company isn't currently doing enough to secure profits, and that's a problem. Besides that, I'd like to see ISEKI invest effort in factory automation to boost its manufacturing capabilities. I'm also looking forward to the development of new products that can help address challenges such as sustainable coexistence with nature and climate change.

Nakayama: I took up the post of Outside Director at the Company in March 2021, after working at a general trading company, mainly in the machinery division and the food resources business unit, and then serving as an executive at a leasing company. ISEKI's image was that of a leading agricultural machinery manufacturer, and I found its employees extremely conscientious, but I do now sometimes feel that they could be a bit more business-minded. As Shoji Tanaka said, the Company has a high-mix, low-volume production model, and as long as there are farmers who need that, the Company has to also provide maintenance services. This is a reliable company committed to its founding spirit, but it seems to have a tendency to prioritize its social role somewhat to the detriment of economic rationality.

Iwasaki: I became an Outside Director at ISEKI & CO., LTD. in June 2013, and subsequently took up outside directorships at two other companies. In light of my experience at those two companies, I was appointed as Chair of ISEKI's Nomination and Compensation Committee as well as Chair of the Board of Directors, which placed me in a position of responsibility for all aspects of the Company's governance. Before I became an Outside Director at the Company, the name "ISEKI" conjured up a strong image of a Japan-based machinery manufacturer in my mind. Since taking up my post, however, I've realized that services and repairs are also key revenue streams for ISEKI, and that in recent years the ratio of overseas business has increased; developments such as these have convinced me that the Company's making steady progress in shifting onto a growth trajectory. Looking ahead, I think the issue will be how the Company can target crops other than rice to develop its overseas business.

The entire Group must change its mindset

Iwasaki: One of the targets of the Mid-term Management Plan announced in February 2021 was a consolidated operating margin of 5.0% in FY2025. When I look at progress toward meeting this target, it seems to me that it will be extremely difficult to achieve if the Company simply continues its existing initiatives without changing anything. That's why I believe our role as Outside Directors is to call on the executive team to bring about a change of mindset throughout the entire ISEKI Group and pursue selection and concentration across the Group as a whole, encompassing everything including all businesses and products. Then we should closely monitor the resulting process of trial and error.



Taira: I'm very impressed with the various growth strategies described in the Mid-term Management Plan. However—and this is an issue common to many Japanese corporations, which have corporate cultures emphasizing reliability—the Company has a tendency to be slow in getting started on things. First it prepares, then double-checks its preparations, and only once a successful outcome is assured will it take action. The prevailing attitude seems to be that, whatever needs to be done, the correct procedure must be followed to the letter. But sometimes I'd like the Company to just set off into uncharted territory without fear of failure. The rapid progress that results should reveal a path toward achieving the targets of the Mid-term Management Plan.

Tanaka: Personally, I'm not very optimistic about achieving the targets of the Mid-term Management Plan. Nonetheless, looking at current business results, overseas businesses are performing well. As part of the Company's overseas partnership strategy, it's developing the business globally by transferring technology to Tractors and Farm Equipment Limited (TAFE) in India and shifting production of some models to the factories of PT. ISEKI INDONESIA. Measures such as these are progressing steadily in overseas businesses, including those in North America and Europe, enabling the Company's operations as a whole to expand. Such strategies are proving successful: In the Company's overseas businesses, both sales and the profit margin look set to achieve the Mid-term Management Plan's targets ahead of schedule. I believe this is the result of a change in mindset thanks to technological collaboration between the Development & Production Division and the Overseas Business Division. I have high hopes that this sort of positive example will provide the breakthrough necessary for the entire Group to pursue a change of mindset.

Nakayama: Looking at the situation both in Japan and overseas, it's obviously the overseas business that's expanding substantially and offers further growth potential. However, agriculture overseas differs fundamentally from Japanese agriculture in many

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respects, and Japanese technologies can't simply be used overseas without modification. What's more, there are already corporations in those countries providing agricultural machinery, so ISEKI's products have to be exceptionally appealing to break into those markets. But ISEKI Group does have the technological and product development capabilities it cultivated within Japan, as well as the advantage of overseas markets' trust in Japanese products. What it needs now is a change of mindset toward exploiting such intellectual property to its advantage. And I'm convinced that a virtuous cycle in terms of mindset transformation will emerge when ISEKI achieves sustained success overseas in leveraging its domestically cultivated strengths of accurately identifying local needs and supplying tailored solutions.

Steady progress in governance reform

Taira: Discussions at meetings of the Board of Directors have changed a great deal since Atsushi Iwasaki became Chair in March 2022. Before that, the topics for discussion would include a lot of administrative matters, but now the focus has been narrowed down to topics more closely related to management strategy, and Board meetings are more active as a result. Also, Chair Iwasaki moves things forward by encouraging each Board member to speak, so everybody now has a chance to express their honest opinions and remarks. Another tangible change from my perspective is that the Corporate Planning Department, which acts as the Board's secretariat, has become more exacting in terms of the documents it requires individual departments to produce, and the departments are doing a great job in this regard, leading to more detailed documentation and discussions at Board meetings. The Board also set up new forums for deliberation, such as the ESG Committee and strategy debates, which take the form of free discussions. As a result of these developments, I think governance reform is progressing steadily.

Tanaka: I've been a member of the Company's Board of Directors for a relatively long time, having served as both Outside Audit & Supervisory Board Member and Outside Director. Compared with how it was a few years ago, the Board has clearly evolved in terms of its effectiveness and vitality. This evolution was an effort to break free of the stagnation that ISEKI's corporate culture of diligence and reliability tended to induce. We're rousing the management team to action that will drive the Company forward. As Mami Taira pointed out, the individual departments that prepare documents for Board meetings are producing more effective documentation, and going all out to keep up with this action on the part of the management team. And at the strategy debates held as free discussions after Board of Directors meetings, Board members are debating among themselves without inhibition. At times during these debates, challenging opinions from the perspective of shareholders or the markets come up, and sometimes these result in strategy proposals being rejected. However, I have a strong sense that, as a result of Board members leading the way in demonstrating *henkaku* (Change) and engaging in serious discussion in this way, a change-oriented mindset is permeating among ISEKI's employees, enabling governance reform to progress throughout the entire Group.



Nakayama: As this is only my third year since becoming an Outside Director, I can't make any comparisons with how things used to be, but the Board effectiveness evaluations show that discussions at Board meetings have changed significantly and become very active, so I'm sure that what the two of you say is right. It's certainly true that, given the current discrepancy between the Company's strategic perspectives and Mid-term Management Plan on one hand, and its actual situation on the other, analysis of the reasons for this, and measures to address the issue, come up as agenda items, and are being actively discussed. As an Outside Director,

I'm pushing for the Group to promptly implement measures that arise from such discussions. In this regard, I particularly value the occasions when the managers in charge of individual departments give reports on business execution to the Board of Directors every quarter. By finding out what the executive team are doing, we can ensure transparency in business execution. I want to continue instilling sound governance and a change-oriented mindset through such dialogue, which serves as an indispensable "lifeline" for Outside Directors and Audit & Supervisory Board Members.

Iwasaki: I was looking forward to the results of the Board effectiveness evaluations, as they are also an "achievement rating" for me personally. Fortunately, the evaluations turned out to be good overall, but we must resist the urge to rest on our laurels. The Board reforms I'm implementing incorporate best practices I've seen in other corporations' Boards of Directors. I think things are finally taking shape now that we have advance briefings to help all Directors understand the details of topics for discussion, offline strategy debates following Board of Directors meetings, and opportunities to observe Directors' Operation Committee meetings where topics for discussion are decided. However, we still need to make many more improvements to establish a governance system that's right for ISEKI Group. The key issues with regard to governance reform are whether the Board's supervisory role can be fulfilled effectively during the time available for meetings, and how to ensure that the Board of Directors remains effective. Reform has no end point, but I will continue to aim higher, moving forward one step at a time.

Working with stakeholders to accomplish *henkaku* (Change)

Nakayama: ISEKI Group is a corporate group that facilitates agriculture, a cornerstone of Japan's food security, as well as a listed corporation that is seeking to grow its sales while expanding overseas. As an Outside Director, I'm supporting *henkaku* (Change) throughout the Group so that all ISEKI's stakeholders come to appreciate both of the Group's roles: the social role of taking responsibility for food security and the economic role of growing sales and generating profits.

Taira: From now on, ESG-oriented management and corporate governance will require disclosure regarding active participation by women as one element of diversity and inclusion. ISEKI Group does have a pool of outstanding women, but I get the impression that they have been rather overprotected compared to women in other companies. From now on, I want ISEKI to make a point of giving women opportunities by, for instance, assigning them to key departments and purposely giving them responsibility for projects. I also want the Board of Directors and other decision-making bodies to discuss how to amend the personnel evaluation system and change the mindset of evaluators.

Nakayama: I agree with you; I can see the need to change the current mindset through affirmative action.

Tanaka: Yes, if we're considering the stakeholder perspective, we must remember that employees are stakeholders too. From my own point of view, I'll continue to provide monitoring, oversight, and supervision in my role as Outside Director to enable ISEKI Group to achieve *henkaku* (Change). That change should entail reaffirming the Group's strengths as a manufacturer specializing in agricultural machinery that also has the advantage of reliability, and transforming the Group itself, to achieve the Mid-term Management Plan's targets and fulfill the expectations of shareholders and investors. I intend to do this by driving forward proactive Group compliance, drawing on the perspective acquired in my main occupation as an attorney.

Iwasaki: Fortunately, these days, the Ministry of Economy, Trade and Industry; the Cabinet Office; and other organizations publish all kinds of corporate case studies



and reports summarizing how we Outside Directors and Audit & Supervisory Board Members should instill sound governance within corporations, and stipulating the key requirements for effective monitoring and supervision when implementing initiatives, especially from a human capital perspective. Every single Board member is making active use of such reports to reinforce corporate governance and to work with stakeholders to accomplish *henkaku* (Change). We're also employing various new concepts for calculating corporate value, such as ROIC spread, as a means of advancing ISEKI's efforts to achieve the final targets of the Mid-term Management Plan and enhance corporate value. As we do so, we would be grateful for the continued support of all ISEKI Group stakeholders.