

Outside Directors Roundtable Discussion on Corporate Governance

Efforts to promote corporate governance will contribute to the realization of a company that provides the greatest “Joy of Eating” in the world.



Atsushi Iwasaki

Outside Director

Yasuko Kono

Outside Director

Hideo Arase

Outside Director

The NH Foods Group invites individuals with diverse knowledge, experience, and capabilities to be outside directors and who will engage in management activities from an objective position as this underpins an optimal governance system geared toward the corporate ideal of a company that provides the greatest “Joy of Eating” in the world. Outside directors Yasuko Kono, Atsushi Iwasaki, and Hideo Arase talked about corporate governance within the NH Foods Group, ESG initiatives, and expectations for sustainable growth.

Objectives as Outside Directors

Kono: Since I was appointed to the position of an outside director, I have inspected 25 sites, including production sites and distribution sites, under the NH Foods Group umbrella. Up to that time, I had primarily considered food from buying and eating perspectives, but my horizons certainly broadened as I learned about corporate activities from production and sales perspectives. At all the sites I visited, there was an uncompromising attitude toward safety and hygiene and toward quality control, and status was better than I thought it would be. I felt that every single employee was doing his or her utmost to ensure that as many customers as possible enjoy NH Foods-brand products. Based on this insider’s look into the corporate position, I would like to be a bridge between the NH Foods Group and customers, bringing unseen aspects of the Company’s effort to light for customers. A consistent approach is sure to lead to higher brand value.

Iwasaki: The biggest role of an outside director is to help boost corporate value. For the past four years, I have watched the Company as an outside Audit & Supervisory Board Member. A company may have a good corporate atmosphere, and a big company especially is going to want to protect that status. Going forward, I will fulfill my role as an outside director by offering inspiration for change. So then, what kind of company do I expect NH Foods to become? I have identified three facets of corporate existence. First, NH Foods will be

a company free of harassment. This is an absolute must. Second, it will be a company that can infer the real meaning in numbers, so, instead of forming decisions based on only the bottom line, the Company will look for the significance behind the numbers and apply this to corporate management. I’m an accountant, so I think this kind of management insight is very important. Third, NH Foods will be a company that has the capacity to support employees in their efforts to take on challenges. One of the Action Guidelines that the Group has adopted says *to strive to anticipate the changing times and overcome challenges proactively and with courage*. But there is a constant need to confirm that the work environment welcomes and recognizes efforts by employees who are keen to comply with those guidelines. I will emphasize these three facets and engage in conversation from a different perspective than that of an outside Audit & Supervisory Board Member.

Arase: I worked for a medical equipment maker for more than 40 years, and much of my career was spent overseas. I have always been one to take the initiative, in an organizational sense, with a sense of curiosity and ambition. In my 30s, I got the Hong Kong branch running. In my 40s, I was the person responsible for business in Europe and focused my efforts on introducing new products and eliminating long-term risk. Then in my 50s, I rebuilt a poorly performing



I would like to contribute to higher corporate value by serving as a bridge between the NH Foods Group and customers.

company in Brazil, and, moving on to the United States, I got into M&As, business portfolio restructuring, and subsidiary management. In my 60s, I reinforced governance and compliance practices in Singapore. I see my personal core competence being insights related to the planning and execution of strategies, marketing, organization reform, and human resources development. I believe NH Foods’ mission is to respond to stakeholders’ expectations through continuous growth, and I feel I can contribute to the Company’s growth based on the experience I have accumulated to date.

Discussions in Meetings of the Board of Directors

Iwasaki: Compared with four years ago when I was appointed as an outside Audit & Supervisory Board Member, discussions by the current Board of Directors are quite invigorating. Not only has NH Foods always had the groundwork to support robust comments from outside directors, but also in-house efforts to evaluate and improve comply-or-explain, and associate with the introduction of the Corporate Governance Code. Having outside directors seems to have invigorated discussions at Board of Directors meetings.

Kono: From my position, I may comment on what a company should do from a CSR perspective, and the atmosphere at meetings allows for a clear discussion on whatever the topic is. But voicing opinions easily doesn’t necessarily mean good discussions. It’s important to know what viewpoint is appropriate for the topic of discussion and how to form a consensus. Going forward, I think meetings should be held as needed if there are topics that should be discussed by the Board of Directors, even if the issues fall outside the topics planned out at the start of the fiscal year.

Executive Appointments Committee and Compensation Committee

Kono: Following the General Meeting of Shareholders in 2019, I took on the role of chairperson for the Executive Appointments

Committee. Corporate management is increasingly drawing the attention of society, and, against this backdrop, the appointment and dismissal of executive team members as well as their evaluation are understood to be an important duty of outside directors. From this fiscal year, Mr. Arase, with experience in overseas business and corporate management, has been appointed to the committee. For the committee to function properly, it's important to bring in people from outside the Company with the necessary insights and to promote diversity.

Iwasaki: With regard to the nomination of directors, I realize that the specific selection of candidates is a role for in-house directors to fulfill. However, in deciding the precise rules for nomination and ensuring transparency in the process, outside directors fulfill accountability. Also, from this fiscal year, I became chairperson of the Compensation Committee, and it's my goal to create a Company-appropriate framework for the fixed and variable portions of directors' compensation and the long-term incentive system. I would compare the Company's current status with general conditions, and design a system that can obtain internal understanding as well as is suitable from a social perspective and well-regarded by investors. I intend to pursue in-depth discussions over the next year.

Initiatives for Compliance

Kono: Compliance is essential for any company, and I think NH Foods has done a good job of building an overall framework for compliance and promoting awareness. Also, all offices have a compliance manager, and these managers all meet regularly at headquarters to exchange opinions. The Company also holds a compliance conference once a year. Nevertheless, my fear is that the awareness of purpose—what compliance is intended to achieve—would be diminished. People have heard the word “compliance” so much that it doesn't pack the punch it used to, and I don't want compliance to become some simple, repeated process. I want people to be fully engaged in compliance.

Iwasaki: NF Foods holds compliance activities to an extremely high standard relative to other companies. However, as Ms. Kono mentioned, it's not good when people become blasé and complacent about compliance. I think the Company can be more resourceful in its approach to compliance activities. You see, it is far more likely that executives will cause a compliance-related problem, not a regular employee. Therefore, we should consider past examples of compliance violations, including anything that happened at NH Foods, and design activities that are absolutely unswerving in their purpose.

Arase: I have been involved in compliance within Asia since 2015, and I sense that the meaning of compliance has changed. Back then, compliance meant legal compliance. Now, it has come to encompass responding to stakeholder requests. For example, perceptions on overtime have changed. If overtime conforms to the Labor Standards Act and is properly compensated, then, legally, there is no problem. But, recently, companies where employees work a lot of overtime are tagged as exploiting their employees. Compliance efforts will have to be attuned to requests from stakeholders, including employees, customers, government, and shareholders, and meet expectations.



Within the NH Foods Group, compliance activities are held to an extremely high standard, but greater resourcefulness in compliance practices will contribute to the creation of a framework that meets an even higher standard.

Diversity

Kono: Since my predecessor was appointed, NH Foods has had a structure in place that included one female outside director. Is this a reflection of changing perspectives within the Company, or is the Company simply jumping on the trending popularity of diversity? The diversity issues aren't limited to women. It's relatively easy to promote diversity by bringing in specific individuals from outside. The harder part is developing human resources who will assume accountability within the company. As a woman, I hit career plateaus as I progress through different stages of life, but, even then, society had acquired a certain level of understanding about working women. NH Foods has to think about how work styles can evolve and promote a deeper awareness of the human resources system among employees. How does NH Foods define diversity? The Company must be very clear in this.

Iwasaki: NH Foods is a food maker seeking to expand overseas sales as one of the Company's objectives. For this reason, the Company has to establish a grassroots structure that enables women and locally hired employees to play more active roles in the organization and rise to the executive level. Overall, there may be consensus when this topic is brought up, but, on each aspect of this structure, there are many inconsistencies. A fast and routine increase in the ratio of women in management positions is not really good enough. The increase should be a natural progression, and a system to ensure fair evaluation is a must. For example, the Company needs to go beyond the simple evaluation of performance by sales and profit and embrace measures that let every single employee set targets and then accurately assess efforts to achieve those targets.

Arase: At the place where I previously worked in Singapore, more than half of the employees were women, and, also, since Singapore is a multiethnic city state, value perceptions were naturally different to me. When I returned to Japan, I was struck by

how poles apart we are from the rest of the world on diversity. To promote diversity, a big step forward could—and should—come from efforts by corporate Japan. For instance, people from overseas locations within the NH Foods Group could be brought into domestic operations on a regular basis. The opportunity for direct contact with different races, genders, value perceptions, and lifestyles is the first step to understanding diversity. Overseas, I took an innovative approach to communication. To ensure that instructions were conveyed properly, I changed the way I wrote emails when sending messages to area managers in other countries. I would like to share with everyone the insights I have acquired through my contact with different cultures and communication practices.

ESG Initiatives

Kono: At NH Foods, there is a high sense of awareness regarding the disclosure of non-financial information, and divisions that deal with CSR promote systematic activities. However, the level of awareness in offices and frontline divisions needs to be raised. Meanwhile, business partners also make requests. For example, business partners keen to address the issue of plastics in the ocean have asked the question “Can’t something be done about the plastic straws attached to drinkable yogurts?” This really drove home to me that ESG initiatives are needed on the front line, too.

Iwasaki: CSR initiatives, especially progress on CSR procurement, have to be acknowledged. But here, too, there is overall agreement and localized disagreement. Some internal voices call for a top-down approach that presents the big picture to define priorities and make systematic progress toward targets. Supporting this top-down approach is also something we outside directors do. Responding to changes in society will cause temporary expenses, but, from a corporate longevity perspective, this is a necessary investment. Suggestions on what investments to pursue will help senior management in decision making.



In promoting ESG initiatives, the trick will be working E and S into G.

Arase: For ESG, the trick will be working environment E and society S into governance G. We can help incorporate S into G through conversations that make it easy to convey stakeholder opinions to the Board of Directors. And then there’s E—a risk with the power to significantly impact the sustainability of a business. Consider the chain reaction—climate change causes a poor crop of grain, which leads to a shortage of feed for livestock, which prompts a reduction in production of fresh meats. Shifting E factors must be monitored. Overseas, more and more companies have their board of directors discuss E and S, and, going forward, I’d like to see the Board of Directors at NH Foods pursue discussion of E and S and associated risks and opportunities in more depth. What worries me most as NH Foods rolls out E and S initiatives is the assumption that the front line will naturally embrace these initiatives because the environment and society are changing. We outside directors can help to dispel this assumption since we have an outside perspective and will support efforts to work E and S into G.

Kono: The Advisory Committee for the National Action Plan on Business and Human Rights, of which I am a member, laid out a National Action Plan (NAP) that will be announced in June 2020. Like other companies expanding their overseas operations, NH Foods will have to deal appropriately with negative issues, such as the violation of human rights of workers and area residents

as well as environmental pollution at production sites where the Company has established operations. Accountability will come into question. It will be part of the outside directors’ duties to identify trends in Japan and overseas and share knowledge with management. I want NH Foods to be a company that anticipates social changes, implements the necessary investments, and has the challenging spirit to engage in businesses with confidence.

Accessible Information Promotes Understanding for Stakeholders

Iwasaki: To gain the understanding of stakeholders, a company has to make information accessible. NH Foods has made excellent moves, including the sale of foods for people with food allergies, but I don’t think the merits of these efforts have been fully conveyed to society. We have been involved in publishing information for consumers at other companies, so we draw on this experience to offer advice relevant to NH Foods. This will contribute to higher brand value for products in the Group’s portfolio and, by extension, raise corporate value.

Kono: I mentioned earlier that I had been around to production and distribution sites. The efforts I saw being made exceeded my expectations. Such great work is being done, and I think it’s a shame that more people aren’t aware of what the Group is doing. NH Foods has exceptionally good content, and sharing it better would certainly underpin higher corporate value. I would like to contribute to accessible information from a consumer perspective.

Future Initiatives

Iwasaki: NH Foods has three outside directors, and outside directors make up one-third of Board members. But meeting some prescribed standard for the number of people is not necessarily good. Outside directors have to serve a purpose. We three outside directors will be put to the test, exchanging opinions, and bouncing ideas off each other, to contribute to the sustainable development of NH Foods.