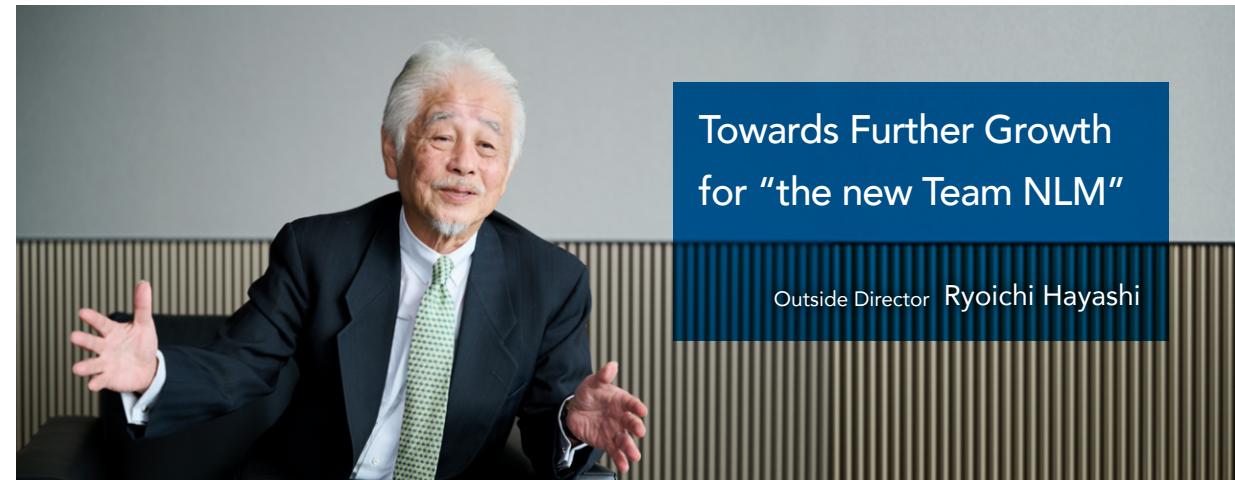


# Message from an Outside Director



I was appointed as an Outside Director in June 2013, and this year marks my 13th year in the position.

At the time of my appointment, the NLM Group's consolidated operating profit was stagnating at 8.2 billion yen, and improving business performance had become a key management priority. Against this backdrop, we transitioned to a holding company structure in 2012, and took this opportunity to drive thorough improvements in the profitability across all group companies. In particular, during the Mid-term Management Plan (FY2016-2018) that began with President Okamoto also serving as the president of the holding company, we were able to achieve annual operating profit of around 30 billion yen.

On the other hand, our excessive focus on profitability led to insufficient governance, and in 2021, issues such as quality problems surfaced. Initially, I also participated in the Special Investigation Committee, where I became keenly aware that attention to quality had deteriorated as the frontline staff placed too much emphasis on short-term profit targets. In light of this reflection, the NLM Group has undertaken fundamental structural reforms, including having top management personally visit workplaces and engage in continuous dialogue to foster a sense of unity with frontline operations.

As an Outside Director, I am responsible for supervising and advising on corporate management, and I place particular emphasis on "creating an environment where employees can work healthily and with vitality." I believe that if we can create an environment where employees can feel secure and demonstrate their abilities, autonomous improvements and innovation will naturally emerge, which will ultimately lead to meeting the expectations of our shareholders. I feel that paying attention not only to short-term figures but also to "less-visible factors" such as employees' motivation and organizational cohesion is the foundation of a company that is sustainable over the long term.

In corporate management, I believe that placing importance on the working environment of employees becomes especially crucial when an organization is faced with difficulties. I consider President Okamoto's response to the quality issues, engaging in repeated dialogue with employees through workplace visits and site manager meetings where frontline leaders gathered at the Head

Office, to have been a major turning point for our company. Furthermore, by reorganizing the numerous group companies that have pursued growth individually into eight business groups, we have been able to accelerate decision-making, optimize the allocation of management resources, and enhance the effectiveness of governance.

Although we are making steady progress in developing our management foundation, I think that the full effects will not be reflected in our figures until the next Mid-term Management Plan (FY2026-2028) or later. It can be said that the current Mid-term Management Plan (FY2023-2025) can be considered the phase in which we began the full-scale operation of a system that optimally utilizes management resources such as people, goods, and capital. Under this system, we are managing each business group using ROIC as an indicator, and are steadily working to improve capital efficiency and profit margins.

Our Board of Directors is composed of four Internal Directors and five Outside Directors, which is a desirable structure from the perspective of the supervisory function. In addition, our Outside Directors include individuals with extensive overseas experience, providing a well-balanced composition that is able to respond appropriately to discussions on global expansion, which is a growth issue for the company. Not only do frank and lively discussions take place at Board of Directors meetings, but there is also an ongoing informal breakfast meeting that is held in principle every other month, where Outside Directors, together with President Okamoto, exchange opinions. This opinion exchange makes the Board of Directors' discussions on management issues and medium- to long-term management policies more substantive. Regarding the Succession Plan, we are also making steady progress in developing candidates and forming a candidate pool.

For the NLM Group's future growth strategy, as demand in the domestic market slows due to factors such as the declining population, it is essential to accelerate our expansion into overseas markets and promote globalization. As someone who came from a trading company, from my own experience, I recognize that developing management talent is extremely important for achieving business success in regions with different cultures and values. It is important to accept small failures and use them as valuable learning opportunities to strengthen management capabilities. In addition, I believe that the key to developing new growth areas is to actively collaborate not only with other companies in the same industry, but also with companies in other industries, with the Marketing & Incubation Administration Office at the core.

While we accelerate these growth initiatives, there are also challenges that we should calmly prepare for. In terms of risk management, I believe that strengthening our foundations for realizing our growth strategy, requires accelerating decisions regarding business entry and exit, as well as further enhancing our management of intellectual property rights and cybersecurity. The NLM Group holds numerous patents and intellectual property, and I believe that it is necessary to further strengthen cybersecurity in order to protect them.

If we position the current medium-term management plan period (FY2023-2025) as a transition phase from "defense to offense," the next medium-term management plan (FY2026-2028) will be an important period in which the NLM Group's true value will be tested. We will utilize the management foundation we have developed to sincerely address each of our issues, including establishing ROIC management, strengthening our substantial competitiveness in overseas markets, and, above all, developing management talent

To our stakeholders, including shareholders and investors, we would like to express our appreciation for your ongoing understanding and support, and we ask that you continue to follow the future initiatives and challenges taken on by the new Team NLM.