

## Summary of Dialogue between Ricoh Outside Directors and Shareholders (Institutional Investors)

Ricoh conducted a small meeting between its outside directors and shareholders (institutional investors) , as follows.

- ❑ Date: November 18, 2022, from 10:00 a.m. to 11:30 a.m.
  - ❑ Shareholders: 11 representatives of 10 institutional investors
  - ❑ Ricoh outside directors:
    - Masami Iijima, lead outside director and chairperson of Nomination Committee
    - Mutsuko Hatano, chairperson of Board of Directors
    - Keisuke Yokoo, chairperson of Compensation Committee
- (Facilitator: Tomohiro Umeda, head of Board of Directors Office)

The session started with a presentation from Mr. Iijima, followed by responses to questions received in advance and a dialogue (questions and answers and an exchange of views). Below is a summary of the dialogue.

### 1. Dialogue after responding to questions in advance that related to the presentation

#### (1) Board Culture

##### Question

*I think it's wonderful that you defined your board culture from the perspective of management sustainability. What sorts of deliberations led to this?*

##### Response from Masami Iijima

As you observed, the backdrop was that management sustainability and coherence are vital to delivering ongoing corporate growth.

As we noted in our presentation, the Board of Directors is a permanent entity that answers to shareholders. Board members, myself included, play roles in that respect during their limited terms. We would have considered it problematic if governance slackened off to an extent from the approach toward it or if thinking regarding it shifted with changes in Board membership or the management structure.

While the Board ought to respect different ideas and diversity, it should also prize the basic stance and culture that it has inherited to boost corporate value over the medium through long terms even if the business climate and structure change. It was in view of this that the Board returned to Ricoh's founding principles to discuss and summarize the culture that it should inherit.

In the review process, all directors and auditors freely shared their ideas in writing and respected each other's ideas in discussing Ricoh's ideal setup in Board meetings and on other occasions.

We have also decided to share the statement that we framed not just as an internal document but also as a public statement of our commitment to shareholders and other stakeholders, making it something important to pass on to future generations of Board

members.

When facing challenging decisions, all Board members return to the Board culture as the starting point for making the right judgments.

### **Question**

*Although the roles of outside directors are not fully delineated in Japan, I think it's great that you have dived deep into those roles and defined the culture that your company should retain. Were there any contentious aspects of your deliberations or points about Ricoh that you would like to particularly emphasize?*

### **Response from Masami Iijima**

In the Three Ps Balance that I outlined in the presentation, the Prosperity component is about resolving social issues while delivering economic growth. The People component represents our goal of creating a society that leaves no one behind. All this relates to the Love your neighbor part of the Spirit of Three Loves. The Planet component signals our commitment to the Earth. So, I think these Three Ps are all very important.

For this year's Board of Directors effectiveness assessment, we asked all members to explain their views on the Board culture at Ricoh. We then exchanged opinions. Many members highlighted how they thought we should uphold the Spirit of Three Loves as central to the Board culture. We had a lively debate about this. I think that the Spirit of Three Loves is fantastic. In our deliberations, I said that Ricoh would become better if we were to value human capital based on the Spirit of Three Loves and build solid foundations for the future, including in terms of developing human resources, in our drive to become a digital services company.

### **Question**

*In terms of remaining committed to your founding spirit, I think that you can present your culture to shareholders as you have done this time. That said, what do you think the Board should do to encourage new members to retain the Board culture?*

### **Response from Masami Iijima**

Since establishing the Board of Directors Office, which reports directly to the Board, that office has explained the Board culture and other basics about Ricoh to new members. While outside directors will come and go, we believe that this setup ensures that the Board will retain its culture for years to come. In Nomination Committee meetings, we directors constantly discuss the attributes of outside directors we next invite to join us in view of prevailing conditions at Ricoh, its direction, and the business climate. Along the way, we conduct interviews and exchange views with other outside directors before determining appointments. So, in that respect I'm confident that the Board culture will endure.

## **(2) CEO Evaluations**

### **Question**

*Ricoh's senior management evaluation process, including the selection of assessment items, seems very good. To the extent that you can tell us, what do these assessments encompass, and how your nominations and compensation reflect them?*

**Response from Masami Iijima**

Our CEO evaluations are among the most advanced for a Japanese company. They are very rigorous.

We evaluate the CEO and executives concurrently serving as directors in two phases. The first is to discuss whether they are suitable to keep serving. The second is annual, leveraging detailed data on the assumption that these people will continue to serve. The Nominating Committee handles both phases. The CEO leaves the room, with only outside directors on the committee remaining to conduct the assessment.

We hold two separate evaluations because if the person in question does not continue to serve the first one in the fall allows time to transition to a new structure. The second evaluation is before fiscal year-end to evaluate year-end performance.

Evaluations particularly consider whether management contributes to sustainable corporate value improvements. We accordingly consider a balance of perspectives to determine whether management is driving corporate value beyond the short term. These are such financial benchmarks as business performance and progress under the mid-term management plan. They also include such capital market and shareholder perspectives as the share price, total shareholder returns and other shareholder returns, and such future financial indicators as ESG, human resources development and customer satisfaction.

Nomination Committee findings go to the Board of Directors for sharing with all members, including those on the Audit and Supervisory Board. The CEO gets detailed written feedback on evaluations, including with regard to expectations and issues to address. This helps the CEO run the company with a sense of urgency and undertake a Plan-Do-Check-Act cycle in management, reviewing the current year and exploring improvements for the following year.

The Nomination Committee's findings also serve as references for assessing whether remuneration levels are appropriate.

**Question**

*How do you assess the current CEO? What challenges and evaluations does this process encompass?*

**Response from Masami Iijima**

I'll start by sharing the atmosphere with Ricoh's Board of Directors. I became an outside director in 2016. What surprised me then was that the board was a vehicle for outside directors to share their views honestly, no matter how blunt. Deliberations were frank, free-wheeling and open. In discussing mid-term management plans, outside directors gave the impression that Ricoh embraces free and vigorous discussions, with some of them feeling free to declare that nothing had changed from previous plans.

At the same time, this was when many issues emerged. I came away with the impression that management faced numerous challenges and was in disarray. I was convinced but we had to strengthen the management structure, as such issues as

problems at Ricoh India and accounting practices at U.S. affiliates demonstrated that it was time for everyone in the company to pull together to overcome these difficulties. We started out by asking what governance structure we should adopt and who to entrust the next mid-term management plan to. The Nomination Committee and the Board of Directors spearheaded extensive discussions about the next president. This approach differed from the convention at the time among Japanese companies. That had been for the chairman and president to select a successor president, with the nomination committee and board of directors approving. After quite a transparent, objective, and independent process, the Nomination Committee resolved to recommend Jake Yamashita as the next president.

We have accorded the CEO high marks for his reforms to reinforce governance and his ESG initiatives over the past six years. At the same time, the printing and other existing businesses are experiencing global downturns. We believe that the time it is taking for Mr. Yamashita's drive to transform Ricoh into a digital services company is an issue, although the pandemic is admittedly a factor in that. We have asked him to remain CEO while giving him solid feedback on these assessment points and challenges and our expectations for the future.

### **Question**

*You said that your CEO evaluations are among the most advanced among Japanese companies. Why haven't they taken a similar tack?*

### **Response from Masami Iijima**

We are aware that other companies have adopted Ricoh's evaluation methodology and using it when changing CEOs. At traditional Japanese companies, the chair and president tend to choose on the president, with the nomination committee and board of directors approving. These days, nomination committees take the initiative in listing candidate successors, holding interviews, and reporting to boards for their decisions. These are robust processes to choose new presidents that I think are becoming more commonplace.

### **Response from head of Board of Directors Office**

We assess the CEO based on a 30-page quantitative and qualitative evaluation document. This is prepared wholly under the guidance of the Nomination Committee chairperson. Practices related to feedback are also under that chairperson's direction. Ricoh established a setup in which the Nomination Committee can fully oversee the evaluation process. I would add that it has made the process thorough.

## **(3) Human resources**

### **Questions**

- 1) Tell us your views and progress with deliberations in Board meetings about how to bridge the gap between current circumstances and optimal Board and executive officer compositions and about whether digital skill levels at Ricoh are sufficient for it to become a digital services company.*

- 2) *I think that reinforcing human capital (overhauling personnel systems and reskilling people to become more proficient in digital technology) is vital to bolster Ricoh's corporate value over the medium through long terms. In evaluating the effectiveness of the Board of Directors, you stated that you discussed management capital, including human capital in Board meetings. What challenges does Ricoh face today and what improvements do you envisage?*
- 3) *The compositions of the boards of global digital services companies seem to differ from Ricoh's in terms of gender, skillsets, nationalities, and ages. What should Ricoh's Board composition be in the drive to become a digital services company? Also let us know if you are benchmarking your board against those of any other companies in Japan or abroad.*

### **Summary of responses to all three questions from Mutsuko Hatano**

I would like to respond to your questions from the perspectives of Board composition and human capital.

Starting with the board composition, as you observed there are some differences between the setup at Ricoh and Global digital services companies, and we recognise that.

Companies have their own governance policies based on their structures, management situations, and corporate cultures, among other things. So, I don't think it's possible to make blanket judgments about board compositions, although I do think that you've made an important point.

The Nomination Committee discusses the Board composition to ensure proper oversight from shareholder perspectives. It takes into account the business climate, Ricoh's circumstances, and where the company is heading, as well as the skillsets needed for it become a digital services company. Being digital encompasses diverse fields. In view of Ricoh's direction, the committee has discussed the importance of emphasizing not simply digital prowess but also expertise and experience in transforming businesses by applying digital technology.

In the years ahead, I think it will be essential to explore more diversity, not simply in terms of expertise and experience but also in terms of gender, nationality, and age, a requirement being that candidates can share the Board culture values that we have presented this year. I aim to refer to your comments today in future Nomination Committee deliberations.

I would also note that we do not benchmark any specific companies for the Board governance structure, although discussions do refer to other companies, including with regard to advanced approaches. In considering the composition of the Board and evaluating Ricoh's institutional design, the Nomination Committee regularly reviews the governance setups of other companies, including those of TOPIX 100 companies and other entities with the highest market capitalizations.

Now, on the human capital front, the Board discussed and concluded that bolstering human capital is Ricoh's most important management underpinning to become a digital services company.

The Board thus regularly monitors Ricoh's human resources strategy. Last year, it also discussed the development of digital professionals and the deployment of a job-based personnel system.

Key discussions included a shared understanding of the importance of a human

resources strategy to materializing Ricoh's growth strategy. There were also discussions about the compatibility of its human resources and digital strategies and specific initiatives for developing, attracting, and reskilling people. Specific deliberations found that the keys to becoming a digital services company were how to deliver digital transformation in engaging with customers and shift skills of salesperson from selling hardware to providing digital transformation value.

It's through such discussions that executives defined digital professionals and are systematically developing and attracting them. The Board has received reports on such initiatives as the creation of the Ricoh Digital Academy and efforts to reinforce in-house training programs.

The job-based personnel system is heading in the right direction. Still, there was much discussion about how to communicate with employees before deploying that setup and how to avoid drawbacks after implementing it, example concerns being people being unable to move around or being embedded in postings.

Human capital measures relate directly to worker motivation, so the Board has been discussing these issues for several years. It was noted that a challenge for the future is to properly develop and run programs from the perspective of employees seeking to grow as sources for creating customer value and enhancing corporate value.

## **Question**

*You have talked about Ricoh's job-based personnel system in your dialogue in the integrated report. We outsiders are greatly interested in this topic. Are you taking that setup in any particular direction?*

## **Response from Mutsuko Hatano**

Ricoh's job-based personnel system aims to cultivate self-motivated employees. I think that's important for a global company. We established internal key performance indicators for human resources development so Ricoh can become a digital services company. We have deployed measures to reach those indicator goals. Specifically, we set and are pursuing targets and timelines for developing digital experts, business integrators, and people who undertake digital transformation processes. I think that there is still room for Ricoh to improve its job-based personnel system. So, we outside directors have taken advantage of opportunities to engage with young employees to directly confirm how they embrace the system. While there has been some positive frontlines feedback about the system, some employees did raise issues. We will keep close tabs on the situation through Board meetings.

## **Questions**

*Even when perusing your integrated report, I found it hard to see the connection between your objectives and human resources policies and your PDCA cycles. I would like to see more disclosure that is easy to understand, including that relating to current initiatives.*

*You have engaged in a lot of discussion about the skills needed for a digital services company. Once you settle on your definition, I would like you to disclose things externally, such as in the form of a skills matrix. Although arriving at a definition is challenging, I believe that it's an essential skill for a digital services company. And to the*

*extent that you can, please explain whether such a definition would apply to those who could be CEO candidates even further down the track or whether you are in a position to select such people, including from outside Ricoh.*

#### **Response from Mutsuko Hatano**

Nomination Committee selection discussions encompass the perspectives of global talent and digital skills for Ricoh to become a global digital services company.

#### **Response from Masami Iijima**

The Nomination Committee reviews the skills matrix every year. Discussions factor in Ricoh's current situation and global business climate and focus on what sorts of outside director to attract. We also deliberate on what types of talent we should attract for a digital services company, as you mentioned in your question. Being digital covers an array of fields, so there have been varying opinions about this. They include the need for people who not only have digital expertise but also solid experience in transforming business situations by using digital technology. We have received some valuable opinions today, and I would like to refer to them in future deliberations.

#### **(4) Portfolio and capital policy**

##### **Questions**

- 1) *Please share views and the state of play in Board deliberations regarding challenges and solutions for better monitoring your business portfolio through ROIC as an effective tool for enhancing capital efficiency under your next mid-term management plan.*
- 2) *Many investors, us included, believe that Ricoh's business portfolio reviews and capital efficiency improvements in shifting to a software services business setup will enhance its corporate value over the medium through long terms. How do you assess Ricoh's management strategy and capital policy (including its shareholder returns strategy)? What future improvements do you envisage?*

##### **Summary of responses to both questions from Keisuke Yokoo**

I would like to respond to your comments on Ricoh's business portfolio monitoring and capital policy.

As you noted, the Board discussed the framework under the current mid-term management plan for policies to improve returns on capital and enhance corporate value while restructuring to become a digital services company.

One key measure to reach our goals is to undertake business portfolio management by employing ROIC. The Board made this an agenda item for regular monitoring throughout the year.

We receive reports on companywide and business unit wide ROIC when discussing business plans and quarterly results. Since adopting a business unit structure, Ricoh has reinforced ROIC-based business management, making capital returns more visible on a business unit basis and portfolio discussions about situations for each business more objective.

To undertake more advanced business portfolio monitoring, we consider it

important to build the value of digital services from each business, revenue models, growth scenarios, and other strategic aspects of our business portfolio. At the same time, we consider it necessary to accumulate ROIC data, including measures and key performance indicators in the ROIC tree, so we can undertake sophisticated analyses of returns on capital over time.

We think it is important through this process to balance capital returns and growth potential and address the issues of business units while properly allocating resources and transforming our business structure by reshuffling our portfolio.

On the capital policy front, our deliberations under the 20th Mid-Term Management Plan currently in place have focused more than before on corporate value, presenting our stances on an optimal capital structure and cash allocations. In terms of shareholder returns, Ricoh repurchased 100 billion yen in shares last fiscal year and another 30 billion yen this fiscal year. Such buybacks were the first in many years. We believe that we were able to undertake these and dividend steps, based on a policy that reflects shareholder perspectives.

No capital policy is perfect. So, we will continue to discuss an optimal capital structure and a balance between investments in growth and shareholder returns under the review process for our capital policy for the next mid-term management plan based on our current policy. We aim to rigorously deliberate issues, factoring in the views of shareholders.

### **Question**

*I well understand your efforts to pursue sophisticated ROIC management. You also answered questions about the challenges. That said, while you talk about increasing earnings from digital services, your capital efficiency from services segments does not seem to be high. It seems hard for an outsider to determine whether you are really making headway with ROIC management. On top of that, in your drive to become a digital services company for other segments I think you maintain a mixture of businesses that you ought or ought not to cultivate over the long term. We would like to see you achieve an ROE of 8% or more as fast as you can, including by reaching your capital policy and financial strategy goals. Please tell us how you will enhance ROIC management, sharing your views as an outside director and your expectations for executive progress.*

### **Response from Keisuke Yokoo**

I consider your points extremely important for evaluating our digital services businesses. We began analyzing the ROIC's of each business unit and accumulating and organizing data just over a year ago. We have discussed the issues you mentioned in Board meetings. I consider them very important for our future management and business prospects. We are transitioning to digital services company. While we think that we are progressing steadily, we have yet to be secure specific figures to convincingly explain our situation. I would like to continue Board deliberations based on the direction you suggested.

### **Question**

*Relating to your previous answer, what do you as an outside director consider a fair share*



*valuation for Ricoh, and what is causing a gap between that and the current value? Our analysis is that Ricoh's share price trades at a discount. As an outside director, do you attribute that discount to growth potential or other factors? On the other side of the coin, has the capital market overlooked anything in your view?*

### **Response from Keisuke Yokoo**

It's hard to make uniform assessments from quantitative aspects, so I will refrain from a detailed discussion of the share price. Still, some of what was pointed out rings true. We are endeavoring to thoroughly discuss our transformation into a digital services company and our next mid-term management plan, factoring in shareholder perspectives. I consider it important to properly present and implement Ricoh's management plans and secure capital market understanding of its efforts. As with the ROIC management I mentioned earlier, I would like Board deliberations about where our business unit structure will head. As we are pushing forward to become a digital services company, I consider it necessary for shareholders to recognize our progress from their perspectives.

### **Question**

*What you have disclosed regarding your compensation structure gives the impression that the base compensation weighting is massive. It seems unclear whether you have designed your setup to incentivize appropriate risk-taking. I also think it's great that you included ROE and operating margin in your key performance indicators, but I think that total shareholder returns are another consideration when looking at global companies. I think you could include such indicators from perspectives of total returns, particularly for shareholders.*

*I think Ricoh has undertaken many outstanding ESG initiatives, but the inclusion of the Dow Jones Sustainability Indices rating as a key performance indicator for compensation makes me wonder to what extent investors consider that benchmark and whether you have truly linked your perspectives to those of shareholders. Human capital is vital for a digital services company, and I thought commensurate ESG evaluations would be good. Regarding your compensation system, could you tell us about your key performance indicators, including weightings?*

### **Response from Keisuke Yokoo**

We consider total shareholder returns an extremely important benchmark for assessing our management performance. As Mr. Iijima explained, such returns for the past several years have been part of our annual CEO evaluation. In response to a Nomination Committee assessment, the Compensation Committee has spent considerable time discussing remuneration suitability. In reviewing the compensation system design, we adopted operating profit, ROE, and the ESG coefficient you mentioned as what we consider appropriate benchmarks in reflecting the corporate results for the relevant fiscal year with shareholder value improvements.

We are proceeding with our compensation system while factoring in results under our mid-term management plan to see if our approach helps improve corporate value. That said, we consider it necessary to keep discussing this. Also, while the weighting of variable remuneration rises as people move up the executive ladder, think there are still issues we need to address regarding weightings. We like to discuss this in Board and

Compensation Committee meetings, including with regard to the direction you pointed out.

## **2. Dialogue (exchange of opinions), including areas not covered in the presentation**

### **Question**

*I think that while Ricoh's institutional design is ostensibly for a Company with a Board of Corporate Auditors structure, the setup seems essentially like that of a Company with a Nomination Committee. What do you think of the view that a Company with a Nomination Committee structure might work better for outside directors to monitor implementation.*

*Also, I think that Ricoh responded flexibly and well to the COVID-19 pandemic, such as by revising its mid-term management plan at the outset. While investors can easily understand financial and other numerical key performance indicators for CEO evaluations, outside director assessments of the CEO are not readily visible to investors. I think that it is particularly important to evaluate Mr. Yamashita's performance. So, how do outside directors, including Nominating Committee members, evaluate elements that you cannot express in numbers?*

### **Response from Masami Iijima**

The Nomination Committee annually assesses our institutional design and the Board's composition while keeping tabs on trends among leading Japanese companies. While we adopted a Board of Company Auditors structure, outside directors constitute a majority of Board members. We greatly reinforced the functions of the Nomination Committee, making like a monitoring board. So, I think we effectively adopted the advantages of Company with Committees and Company with a Board of Company Auditors structures. As to whether we should change our setup, I think we should think carefully, as Ricoh is reforming its business setup. I also think that there are issues from excessively delegation authority to executive teams when you adopt a Company with Nomination Committee structure.

We deployed a business unit structure, delegating considerable authority to the heads of those entities, and are in the midst of evaluating the benefits and shortcomings of that setup. Global risks and other issues could escape the attention of headquarters and business units. Once we finish verifying the effectiveness of our business unit structure, we will explore a range of possibilities for the form the Company should take.

The Board engages in very free and vigorous deliberations. Auditors and others with wide-ranging experience and expertise express views from various angles. Actually, I think that our current structure will accelerate efforts to overcome Ricoh's challenges and provide a supportive push to the executive team. We will keep exploring our institutional design institution, although I think that we should act at the right time. In my view, we could also consider a Company with an Audit and Supervisory Committee structure as an option.

We maintain a two-phase CEO evaluation system. The first phase entails determining whether or not to retain the CEO. For the evaluation at the end of a fiscal year, we particularly emphasize financial perspectives regarding corporate performance as well as shareholder and capital market perspectives, such as total shareholder returns, the share price, and shareholder returns, and ESG and other non-financial perspectives. If

we get views about Ricoh's management at a gathering like today's, we share them with the Board. Our CEO evaluations reflect capital market and shareholder assessments. I think we need to look into making our approach visible externally. Since this will affect Ricoh in various respects, including its share price, I would like to discuss, including with the Board, what the best approach should be.

### **Question**

*Generally speaking, there is a notion of how outside directors should explain to investors that it is hard to replace the CEO while the share price and results are down. That said, if the market undervalues a company and results from structural reforms are poor, markets may deem that the company is not doing well even if things are proceeding solidly inside. When there is such a perception gap, I think it's vital to explain the situation properly. I would greatly appreciate external evaluations of aspects that don't show up in the numbers.*

### **Response from Masami Iijima**

In that respect, I think it's necessary to properly combine a range of developments, including shareholder returns, with performance figures. Ricoh's record operating profit exceeded 180 billion yen, so we need to show numbers first. Also, I consider it necessary to visualize the ways in which each business unit will deliver its digital services. I think that will help the capital market to better assess Ricoh's performance. I think that this process will take some time. I think it's important to note your point about undervaluation. We should present numbers or at least demonstrate early stage progress for business units where numbers have yet to show up.

### **Question**

*I understood the details and direction you are taking to become a digital services company, your human resources strategy for that shift, and the skills of your directors. But for an outsider things seem a little slow. I wonder if you can reach your objectives during the mid-term management plan, such as by undertaking your human resources strategies. While you explained your ROIC-based business portfolio management, from outside you seem to be lagging.*

*Is it fair to say, as Mr. Iijima mentioned, that there is still a gap between our perceptions and Ricoh's because of insufficient visualization? Alternatively, do outside directors feel that things are proceeding a little slowly? I'd like your thoughts on these things.*

### **Response from Keisuke Yokoo**

Personally, there's something to be said for looking at things in terms of speed. To become a digital services company, we need to transition the organization by segment, transfer people, and prepare them, our structure, and products, including by developing talent. We also need to employ benchmarks like ROIC. I believe that Ricoh has a unique way of moving forward. We need to remain aware of the competitive climate and the moves of other companies to determine how much time to devote to our efforts and to proceed in a way that is unique to Ricoh.

While it is important to consider whether Ricoh is moving slow or fast, I think the key is how it will proceed and the results it will deliver. From that perspective, I think Ricoh's transformation is progressing solidly. We perhaps could have started this process earlier, but in truth it's hard to judge how fast things are proceeding.

### **Response from Masami Iijima**

I will tell the Board that the view from the outside is that we are not moving fast enough, which may be one factor in us seeming undervalued. We will also consider what measures to take down the track.

Looking at where we are now, the adoption of a business unit structure has certainly accelerated strategic deployments. We thus recently completed several acquisitions related to information technology services in Europe and the United States. As you know, we consolidated PFU. I think that the process from initially assessment through closing the transaction was fast in view of its scale.

While there have been some progress delays because we have had to prioritize emergency responses to the pandemic and supply shortages, we have taken measures. I think that adopting a business unit structure accelerated things more than under Ricoh's previous setup.

I also think that our business unit setup has helped us to show the earnings and capital efficiency of operations. We will need to closely oversee operational implementations. Our numbers are improving. Digital services now account for around 40% of sales. Some of you have pointed out issues with capital efficiency, and we will carefully analyze and examine them.

### **Response from Mutsuko Hatano**

I can be impatient. I have sometimes pointed out to the Board that we don't move fast enough. In fiscal 2016, when I became a director, Ricoh was moving in a vague direction. We have fixed on our target of becoming a digital services company. All employees have embraced the Spirit of Three Loves. We have established job descriptions. I think that we can lift the pace of change from hereon.

Since we established a business unit structure, we have set and discussed ROIC targets for each of those units. We receive ROIC reports from business unit heads and discuss them in Board meetings. So, I feel that ROIC management is taking shape. That said, I am very concerned that the business unit structure could weaken the coordination across units and slow operations down. I will remain conscious of that possibility so we can increase operational speed by maintaining a good balance of coordination across and up and down our organization.

### **3. Responses to questions received in advance (others)**

#### **Question**

*We expect outside directors to make varying proposals to enhance Ricoh's corporate value, drawing on their experience at the companies they have worked for and their expertise in their respective fields. Can you share with us examples of recommendations that you have made that have led to changes?*

#### **Response from Masami Iijima**

As I explained today, our outside directors have done much to propose governance reforms and review approaches to formulating mid-term management planning.

To share examples of points that today's presentation did not cover, under our current mid-term management plan outside directors extensively discussed our capital policy from shareholder perspectives, including in terms of an optimal capital structure and cash allocations. Ricoh undertook two share repurchase programs under the current mid-term management plan. We believe that planning amply reflected points that outside directors raised from their experience as senior executives of listed companies.

Outside directors believed that to increase corporate value Ricoh would have to improve capital profitability while transforming the business structure. The company's portfolio management had been weak, and outside directors encouraged the deployment of a ROIC-based business portfolio management setup.

On the M&A front, outside directors have provide a lot of advice. Ricoh is pursuing cross-border acquisitions extensively. This is largely in Europe and the United States, the goal being to expand business in the digital services domain. Outside directors with global management experience have played pivotal roles in providing advice to reinforce the investment evaluation process, decision criteria and risk management upon acquisitions, and areas to consider when undertaking conducting post-merger integrations. Their efforts have helped executives to better identify deals. In recent years, the number of acquisition deals with strategic and growth potential has increased, particularly overseas.

#### **Question**

*The Board 3.0 movement is progressing. This is about having boards of directors going beyond their supervisory functions to involve themselves more in formulating and executing strategies. Please share contributions you could make as an outside director to processes for formulating and executing strategies.*

#### **Response from Masami Iijima**

One factor in Ricoh choosing to adopt a Board of Company Auditors structure was that outside directors can strengthen monitoring while committing themselves to important management decision-making.

As an outside director, I can help formulate and execute strategies from the perspectives of shareholders and other investors, which Board 3.0 discussions emphasize.

I can spearhead discussions about financial targets, growth strategies, and capital policies to bolster corporate value.

I believe in particular that I can help formulate and execute strategies that meet capital market expectations by fostering discussions about growth strategies and capital policies from market perspectives. I can do that by engaging in discussions with management from the early formulation process phases, rather than involving myself in that team's measures mid-course or business plans that management has already formulated.

### **Question**

*You use ESG evaluation organization ratings for non-financial key performance indicators for performance-linked bonuses. I think you could alternatively to use materiality key performance indicators to connect them more clearly to management strategies. To the extent that you can say, how does the Compensation Committee assess current non-financial key performance indicators?*

### **Response from Keisuke Yokoo**

The Dow Jones Sustainability Indices are non-financial key performance indicators for performance-linked bonuses. We use them not just for the bonus calculation formula but also as a tool to confirm ESG initiatives at our business units. We recognize that the benchmarks link to management strategies to an extent.

I also think that using Rating, an external evaluation entity, ensures transparency and objectivity in determining compensation levels for performance-linked bonuses.

The Compensation Committee constantly reviews the design of incentives to enhance corporate and shareholder value. As you pointed out, we think that adopting materiality key performance indicators for non-financial areas and ensuring clearer connections with management strategies is something for us to consider.

Compensation Committee deliberations will keep taking shareholder opinions into consideration.

### **Question**

*Under your next mid-term management plan, we look for you to present a sustainable growth story by clarifying the connections between future financial (ESG) targets and financial targets and their monitoring. Tell us about challenges and progress with Board deliberations.*

### **Response from Mutsuko Hatano**

Under the current mid-term management plan, we have positioned future financial targets on par with financial targets. We provide shareholders with details of these targets and progress with them. The Board at the time of the plan's formulation discussed and decided on targets from multiple perspectives, including whether they are benchmarks contributing to sustainability and have the understanding and support of internal and external stakeholders, and returned to the Spirit of Three Loves.

The Board has met several times to discuss the next mid-term management plan.

It is hard to share specific details today, but I can say that we aim to continue pursuing the goals of the current mid-term management plan while striving to becoming a top global company in ESG terms. I hope to be able to share details of these discussions at another time.

### **Question**

*In stepping up its sustainability efforts, Ricoh draws on ESG committee at the executive level. What are your current thoughts on a need to have a committee at the oversight level to look over sustainability-related matters?*

### **Response from Mutsuko Hatano**

We identify key supervisory issues in our annual Board effectiveness assessments and consider sustainability initiatives as vital areas for Board monitoring.

Specifically, the Board not only monitors progress with ESG targets as a regular agenda item but also provides opportunities for intense deliberations on sustainability strategies and current individual issues by drawing on Directors' review meetings and the Governance Review meetings, which we set up at the supervisory level.

To cite an example, in fiscal 2022, as part of the efforts to formulate the 21st Mid-Term Management Plan the Directors' review meeting in September this year discussed a key desire for ESG strategy, which is to deploy ESG measures in each business unit. The Governance Review Meeting in October discussed the governance structure for the next mid-term management plan. In November, the Board deliberates about operational progress with Ricoh's job-based personnel system.

It's in ways like this that Ricoh is undertaking effective supervision for sustainability while drawing on supervisory level meeting bodies.

We will continue to discuss the most suitable structure in view of feedback and Ricoh's business climate.