

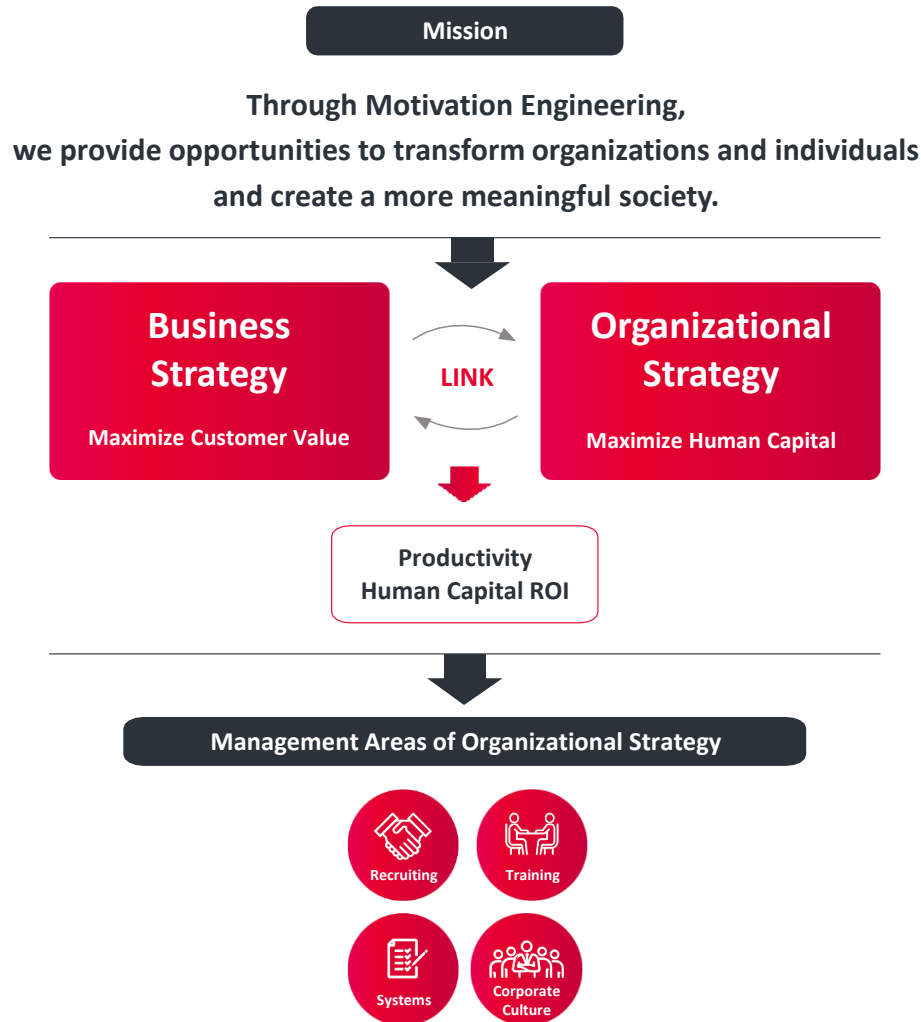
CHAPTER 1

STRATEGIES



CHAPTER 1 | Strategies

01 Management Approach



High-Level Linkage of Business and Organizational Strategies to Accomplish Our Mission

Some take the view that organizations are determined by business strategy, but we also believe that a **business strategy is determined by the organizations to which it applies**. That is why we give **equal value to our business and organizational strategies**, and **consistently link them** in order to achieve our mission.

We have made **productivity (human capital ROI)** the core management metric for monitoring the degree of linkage between our business strategy and our organizational strategy.

To carry out both our business strategy and organizational strategy, and thus improve productivity, we conduct a variety of measures in **four domains: recruiting, development, systems and corporate culture**.

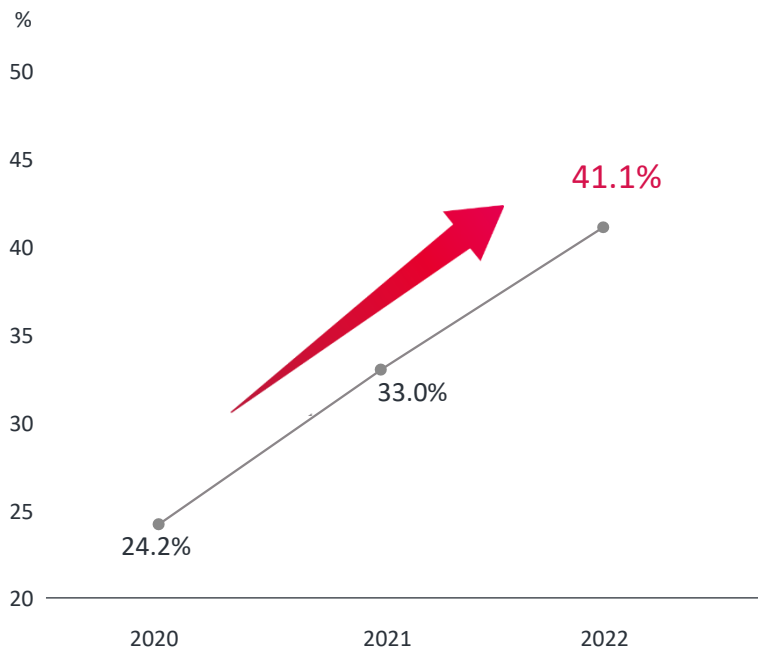
All our organizational strategies are designed and implemented based on Motivation Engineering, our core technology and the source of our competitive advantage. We continuously apply Motivation Engineering in our own organizations with the aim of being a role model for all other companies.

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02 Core Management Metric: Productivity

Human Capital ROI

Human Capital ROI in 2022: **41.1%**



Note: Human capital ROI = Adjusted operating income ÷ Human capital costs
 Human capital costs are calculated as total expenditures including employee salaries and bonuses, statutory internal and external welfare expenses, commuting expenses and other executive compensation.

Ongoing Pursuit of Productivity from Linking Our Business and Organizational Strategies

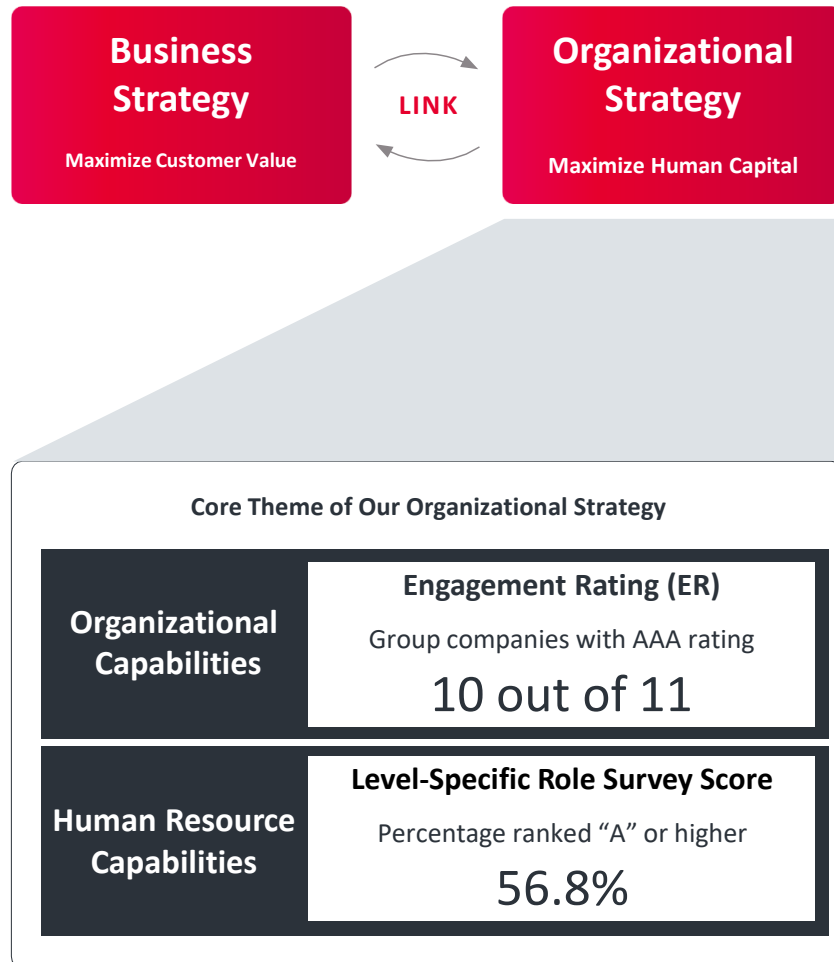
We emphasize productivity as a metric that shows the degree of optimization of the linkage between our business strategies and our organizational strategies. In particular, the Link and Motivation Group monitors **human capital return on investment (ROI)** as a core management metric.

In 2022, human capital ROI for the Group was **41.1%**. Human capital ROI decreased in 2020, and the operating margin temporarily declined due to the COVID-19 pandemic. However, improvement in the operating margin resulted in a high level of human capital ROI in 2022.

We consider it **important to invest appropriately in human capital in order to improve organizational results as a return on that investment**. Based on this stance, we will continue to conduct management that aims to balance investment and returns.

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03 Core Theme of Our Organizational Strategy



Enhancing Both Organizations and Human Resources to Maximize Human Capital

In implementing our organizational strategy, we aim to **maximize human capital**. In the Link and Motivation Group, we believe that ongoing efforts to create conditions in which highly skilled employees can work with a high level of engagement will improve the value of human capital and thus lead to business growth.

That is why the core themes of our organizational strategy are organizational capabilities and human resource capabilities. We monitor these capabilities using two priority indicators. For organizational capabilities, we use **Engagement Ratings**, which are an indicator of employee engagement. For human resource capabilities, we use **level-specific role survey scores**, which are an indicator of the extent to which individuals are fulfilling the roles required of them at their respective levels.

To maximize the value of human capital and improve productivity, we will maintain our focus on **improving both organizational capabilities and human resource capabilities**.

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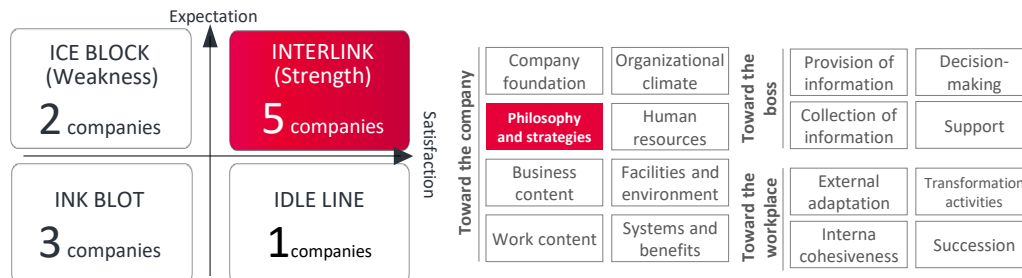
04 Priority Indicator for Organizational Capabilities

Engagement Survey Results

Group companies with AAA rating
10 out of 11

| Engagement Score | Engagement Rating (Companies) | 2020 (Feb.) | 2021 (Feb.) | 2022 (Feb.) | 2023 (Feb.) |
|------------------|-------------------------------|-------------|-------------|-------------|-------------|
| 67 or higher | AAA | 10 | 11 | 9 | 10 |
| Less than 67 | AA | 3 | 1 | 1 | 1 |
| Less than 61 | A | — | — | — | — |
| Less than 58 | BBB | — | 1 | 1 | — |
| Less than 55 | BB | — | — | — | — |
| Less than 52 | B | — | — | — | — |
| Less than 48 | CCC | — | — | — | — |
| Less than 45 | CC | — | — | — | — |
| Less than 42 | C | — | — | — | — |
| Less than 39 | DDD | — | — | — | — |
| Less than 33 | DD | — | — | — | — |

Positioning of Priority Factor “Philosophy” by Company



Note: Engagement factors cover 16 areas.

A High Level of Employee Engagement Increases the Effectiveness of Business Strategies

To increase our organizational capabilities, we focus on improving **employee engagement**. As the priority indicator, we monitor our **Engagement Rating**, which ranks companies based on their employee engagement results. Currently, **10 out of 11 Group companies have the top AAA rating**, and we believe this high level of employee engagement is a competitive advantage of the Link and Motivation Group.

In addition, the Group positions **“philosophy” as a priority factor in increasing employee engagement**. This is because philosophy is correlated with the engagement score, and we want to create an organization that is united by a corporate philosophy as well as our management philosophy in order to continue providing value over the long term. The most recent results are shown on the left, and some issues remain.

We will continue to promote various organizational measures for further improvement

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05 Priority Indicator for Human Resource Capabilities

Level-Specific Role Survey Results

| | | 2021 | 2022 |
|--------------------|--------------------------------|-------|-------|
| All employees | Number of eligible respondents | 1,386 | 1,137 |
| | Rank A to AAA | 713 | 646 |
| | Percentage of total | 51.4% | 56.8% |
| Managers and above | Number of eligible respondents | 159 | 146 |
| | Rank A to AAA | 111 | 110 |
| | Percentage of total | 69.8% | 75.3% |

Level-Specific Role Surveys

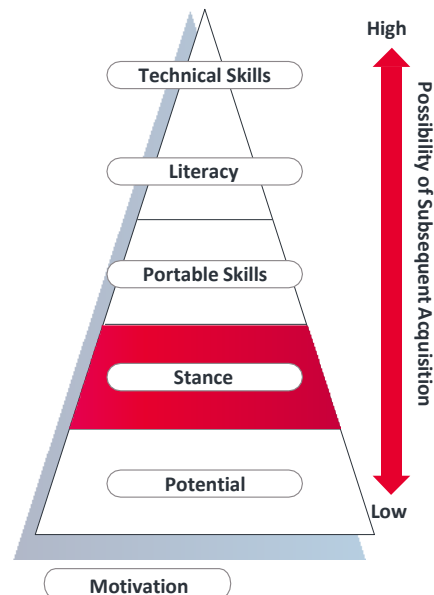
We organized the skills required of working people into our Framework of Requirements for Human Resources.

Level-specific role surveys measure the degree of agreement between the expectations and satisfaction of those who work with the survey subject with regard to that employee's "stance," which we consider to be the most important element in the Framework of Requirements for Human Resources.

Since the expectations for an employee's stance differ by level, we conduct a survey for each level. Results are divided into 11 levels, the same as in the engagement survey, and we calculate the percentage of survey subjects with a rank of "A" or higher.

| | |
|---------------------|-----------------|
| Upper management | Plato Survey |
| Management | Lincoln Survey |
| Leaders | Einstein Survey |
| Mid-level employees | Columbus Survey |
| Junior employees | Darwin Survey |
| Senior employees | KOSI Survey |

Framework of Requirements for Human Resources



Development of the Stance Expected at Each Level Increases the Effectiveness of Business Strategies

To increase human resource capabilities, we focus on improving **level-specific role survey scores**.

In the Link and Motivation Group, we believe that "stance" should be given the highest priority in development among the basic skills required of working adults. Stance refers to an employee's attitude and sense of his or her role in an organization. Without a good stance, no matter how many other skills employees acquire, they will be unable to develop the awareness to deploy those skills, so acquiring more skills will not lead to results. We therefore focus on level-specific role survey scores, which measure the degree of development of an employee's stance.

The results for 2022 are shown in the table on the left. The percentage of **people with a rank of "A" or higher increased compared with the previous year both for all employees and for those in managerial positions**. We therefore believe that the human resource capabilities of the Link and Motivation Group are improving.

By further increasing the percentage of people with a rank of "A" or higher going forward, we will increase the human resource capabilities of the organization, promote our business strategy and improve productivity.