

DIALOG

Corporate Governance System for Creating a 100-Year Company

In September 2022 taking advantage of the Group reorganization, the Avant Group became a company with an Audit and Supervisory Committee.

Ms. Goto, an Independent Outside Director (Audit and Supervisory Committee Member), and Mr. Noshiro, a Director (Audit and Supervisory Committee Member) discussed the purpose of the transition and the ideal group structure.

Objective of Transition to a Company with an Audit and Supervisory Committee

Goto I was appointed as an Outside auditor of Avant Corporation (currently Avant Group) in September 2021. Had you been considering a transition to a company with an Audit and Supervisory Committee before that?

Noshiro After the number of outside directors became a majority in September 2020, there have been notably more opinions that the board of directors should spend more time discussing strategy than detailed business execution. To this end, my understanding is that a company with an Audit and Supervisory Committee structure is better able to delegate authority for business execution and is therefore desirable.

Goto My understanding is that our Company has shifted to a company with an Audit and Supervisory Committee because we have tended to have a monitoring type of Board of Directors rather than a management type. As you said, if there are many outside

directors, I think it would be desirable for the Board of Directors to utilize the knowledge of outside persons in decision-making on important business execution and supervision of execution, rather than making decisions on a wide range of business execution matters. Certainly, at the time of the transition to a company with an Audit and Supervisory Committee, the number of Outside Directors including Audit & Supervisory Committee Members decreased by one from the previous five to four. However, in terms of the number of Directors, four out of seven Directors (including Audit and Supervisory Committee Members) are Outside Directors, which is no different from the previous line-up in which three out of five Directors were Outside Directors.

Noshiro We believe that the more the independent outside directors (including audit and supervisory committee members) vote, the more we make decisions based on diverse values and that this contributes to the creation of a 100-year company. On the other hand, at first glance it can be said that

with diversity and inclusion, it could become easier to generate votes against proposals, but I think the answer to this is to operate the meetings so that ever more thorough discussions are possible. Based on the comments made at the Board of Directors meetings since her appointment, there have been opinions that we should make more effective use of Ms. Goto's value as a director.

Goto Some people may have the impression that the change from Auditors to Directors (Audit and Supervisory Committee) for Mr. Noshiro and I is cosmetic. However, in reality, we have the right to vote in the selection of representative directors and on decision-making on the execution of extremely important business operations, as well as the authority to state opinions at the General Meeting of Shareholders regarding the appointment, dismissal and remuneration of directors who are Audit and Supervisory Committee Members, and as such I feel that we are in a position of much greater responsibility than corporate auditors. From now on,



CHIE GOTO

Director (Audit Committee Member)
Outside, Independent Director

TSUYOSHI NOSHIRO

Director (Audit Committee Member)

Mr. Noshiro, who works full-time and has a deep understanding of the Company, Mr. Nakano, who is an expert on corporate value, and I, who is an expert on legal matters, we hope to make an Audit and Supervisory Committee that can effectively exercise supervision over the execution of business. Except for matters reserved by law, I hope that the Board of Directors will be able to, in a timely manner, flexibly create the optimal balance between execution and supervision, and take advantage of the most important advantage of a company with an Audit and Supervisory Committee, which is the ability to delegate decision-making related to the execution of important business operations to directors.

Noshiro In my opinion, it would be better for the Board of Directors not to make a hasty decision on the transfer of decision-making authority to executive directors. This is because I believe that it would be in line with our management philosophy of “Creating a 100-Year Company” to review the transfer of authority when we have changes in the composition of the board, or the Group CEO changes in the future. I think it is a good thing that in the recent revision of the Board of Directors Regulations, the items of authority to be transferred are confirmed every year after the General Meeting of Shareholders.

Aim of Changing the Organizational Design at the Same Time as the Group Reorganization

Goto There are some views that given the importance of the Company's reorganization, it may have been better that the Company shifted to a

company with an Audit and Supervisory Committee at a later date. What do you think of this opinion?

Noshiro My understanding is that this change in organizational design is linked to the change in the group's management system following the reorganization. Under the new structure, Group CEO Morikawa mainly formulates strategies, while Group COO Okabe and Group COO Nagata lead and execute the organization based on these strategies. My view is that “organizations follow the strategy.”

I think a company with an Audit and Supervisory Committee, where the board is more of a monitoring function is more appropriate because it separates strategies from execution (organizational composition) and creates an environment in which Mr. Morikawa can concentrate on group strategies and fewer items regarding execution will make it to the board agenda.

Goto As a background to the reorganization of the Company, it has been pointed out that insufficient communication with the team executing the Company's management strategy was one of the reasons why the transformation to the business model targeted in “BE GLOBAL 2023” did not proceed well. With the separation of strategic decision making by top management from its execution, there is a need to clearly define how the two sides interact, which also requires strengthened communication, and as such I think that to achieve this it was necessary to make the transition to a company with an Audit and Supervisory Committee at the same time.

Noshiro The adoption of the Group Corporate Officer System and the establishment of CxO positions is part of the separation of the Group's strategy and execution.

In addition, to make the Audit and Supervisory Committee Rules more monitoring oriented, we have changed the part of the model of the Japan Audit & Supervisory Board Members Association in which authority is somewhat concentrated on internal Audit and Supervisory Committee Members so that outside Audit and Supervisory Committee Members can play an active role. For example, in the model, Audit and Supervisory Committee Members who have the right to investigate business assets and subsidiaries are selected, and these selected Audit and Supervisory Committee Members can do anything, but the Audit and Supervisory Committee Members who are not selected cannot do anything. For this reason, we have proposed a rule to separate the items that should be investigated by an internal Audit and Supervisory Committee Member and the items that should be investigated by an external Audit and Supervisory Committee Member, and to select a member in charge of investigation for each of them.

Goto As a lawyer, I have the opportunity to check similar regulations of other companies, but I have the impression that companies are generally not proactive about deviating from the model. There will be a problem if there is a discrepancy with the legal regulations, and I think it can simply be troublesome to forge your own path while maintaining consistency. But in this case, I feel that the Company's efforts to make changes to various provisions with intent of creating an ideal system for the Audit and Supervisory Committee, is an indication of the Company's desire for ideal governance.

Noshiro Additionally, I personally felt that this reorganization of the Group



I think that a wide range of diversity beyond just skills is important.

CHIE GOTO

was a particularly big decision, as not only did Mr. Morikawa step down as President of the former Diva, which he founded as the origin of the Group, but we also split the former Diva into two companies, making this decision to step down irreversible. With the impossibility of Mr. Morikawa being able to return as head of the former Diva, the further separation of execution means that we are also making a little progress with the potential succession of the Group CEO.

Goto Mr. Noshiro you are capable of such insightful analysis because you have followed our company's progress for a long time.

Ideal Corporate Governance System

Noshiro In designing an organization, a company with a Nominating and Supervisory Committee, etc. may be an option, but if it is only presentation of proposals, I am against it. The reason for this is that under the current Japanese Companies Act, the composition of the Board of Directors is determined solely by the members of the Nominating Committee, and outside directors who are not members of the Nominating Committee do not have any right to vote on the composition of the Board of Directors. Thus, if there are seven directors and a majority are outside directors, as was the case of the Company, governance will be weakened.

Goto The Company has established a voluntary Compensation Advisory Committee, and I am one of the committee members. The Committee proposes specific compensation for Directors and Executive Officers, and although it is an optional advisory committee, I believe that it fulfills a certain supervisory function. The Audit and Supervisory Committee has the authority to express its opinions on the remuneration of Directors who are Audit and Supervisory Committee Members. In addition, linking this to the fact that the Compensation Advisory Committee is functioning in a specific manner, the Company has established a system in which it is easy to exercise its management evaluation function in terms of remuneration and personnel affairs. As a member of the Compensation Advisory Committee,

Strengthening the link between the compensation system for directors and the next medium-term management plan is a key to strengthening the oversight under the new structure.

TSUYOSHI NOSHIRO



I feel the weight of my responsibility, but I feel that exercising this evaluation authority will fulfill my role.

Noshiro I feel that governance is really getting stronger gradually since the Compensation Advisory Committee was established. Strengthening the link between the compensation system for directors and the medium-term management plan to be launched in July 2023 is a key to strengthening the oversight of the executives under the new structure.

Goto Looking forward, I think the challenge is board configuration and succession. What about you, Mr. Noshiro?

Noshiro I agree. This is a personal idea that I have never referred to at the Board of Directors' meeting, and if I propose it, there may be opinions against it, so, we need to discuss it

carefully. However, regarding the succession of outside directors, I think that one candidate should be proposed by the Group CEO and another candidate should be selected by a meeting of outside directors. In other words, if there is diversity in the mother body who chooses the candidate, the diversity will progress.

Goto I see. It's interesting idea that a wide range of people can become candidates rather than just choosing candidates by the same person or by the same route.

Noshiro It is based on the idea that it is not necessarily good for the Group CEO to be continuously involved in all the appointments if we truly aim to "create a 100-year company." The fact that it was just the Board of Corporate Auditors that selected you, Ms. Goto as

a candidate in 2021 may have given me about the inspiration for this idea.

Goto In the future, when considering the composition of the Board, reflecting management strategy at the time, I think it will be necessary to further refine the skill matrix and to consider the diversity of attributes such as gender, nationality, and generation. If you just choose people who fit the skills you want now, you won't be able to come up with new ideas. From a long-term perspective, I think that a wide range of diversity beyond just skills is important.

Noshiro There is probably no right answer as to what kind of board structure is good, it is something we need to hear various opinions on and continue discussing.

Corporate Governance

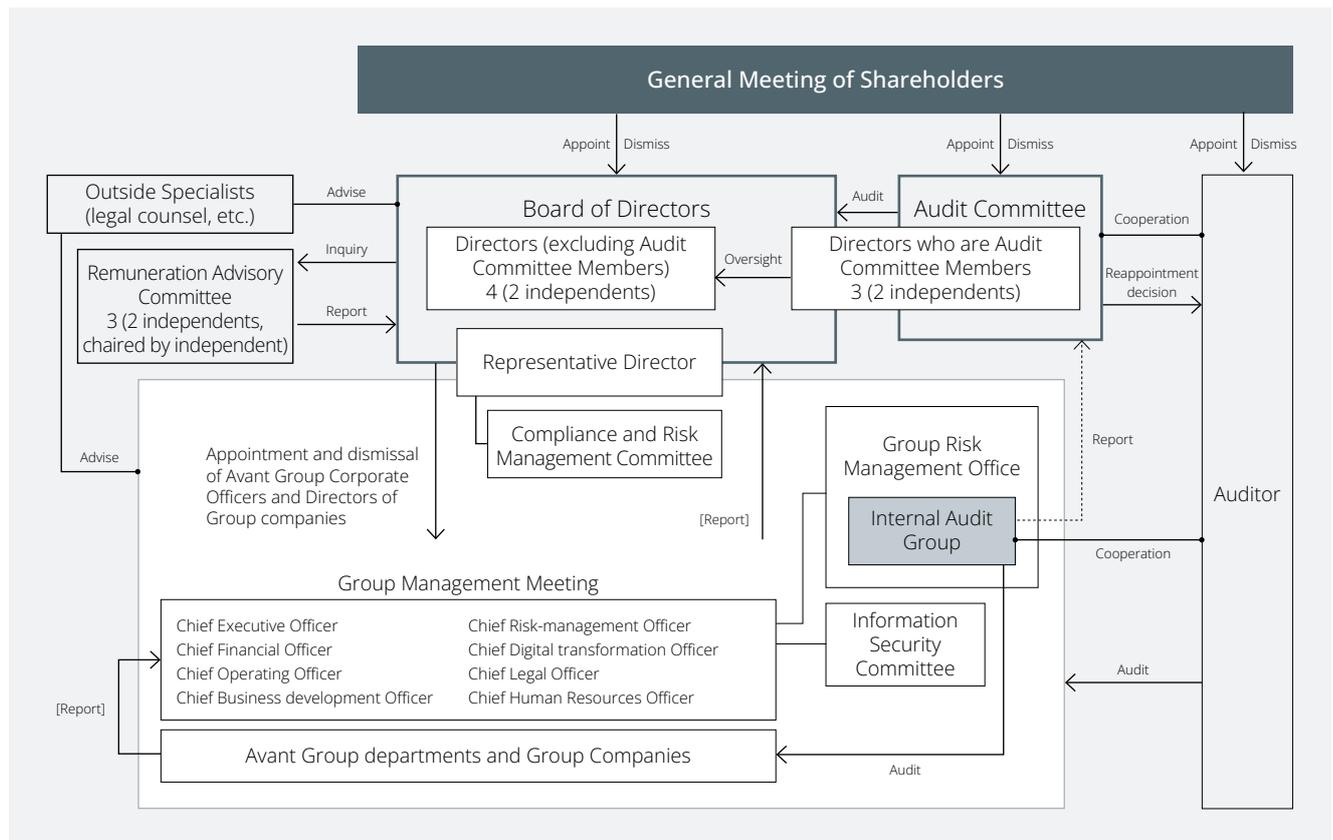
What Corporate Governance Means to the Avant Group

At the core of our management philosophy, which is grounded in Japanese culture, is the belief that companies should be regarded as a “public entity” of society. Even in a globalized society, we respect this management perspective as a cultural asset and strive to develop as an organization that exists for the benefit of society.

We describe our corporate activities based on this Japanese management perspective as “creating a 100-year company” and since our founding have positioned it as our corporate philosophy. It is not simply sustaining a company or brand. It is our passing down from generation to generation, our management view that companies are “public entities,” where all members of the company passionately work in a free and creative manner to provide value to society that results in a 100-year company. To achieve this, we practice group management that fosters organizational independence and group synergy.

To foster group management that contributes to the growth of people and organizations, we place great emphasis on highly honed corporate governance. By continuing engage in dialog with various stakeholders and learn from this, we aim to develop our business with an open perspective so that we can provide value to society without being biased toward any particular stakeholders.

Avant Group's Corporate Governance Structure

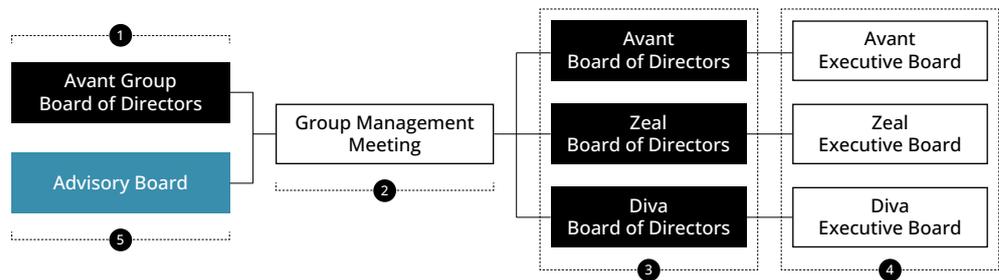


Governance Structure

The Company is a holding company with business support functions that support the growth of operating companies, and we aim to create an organizational structure that takes charge of governance and control functions and clarifies the functions, authority, and responsibility of each Group company.

The Company reorganized the Group on October 1, 2022 in order to accelerate the growth of existing businesses and create new growth businesses in the next Medium-term Management Plan. To further this end, at its meeting on August 17, 2022, the Board of Directors resolved to make a transition to a company with an Audit Committee, and the related amendments to the Articles of Incorporation were approved at the 26th Annual General Meeting of Shareholders held on September 27, 2022. The purpose of this change is to allow the Board of Directors to broadly delegate the authority of the Board of Directors to make decisions on the execution of business to Directors, where under appropriate supervision of the board, they will be able to realize swift and decisive management decision-making and execution.

Changes in Group Governance Due to Reorganization



- ① Changed from a company with auditors to a company with an audit committee to focus on monitoring from a medium- to long-term perspective.
- ② To strengthen the Group's management execution capability from a medium- to long-term perspective, strengthen the Group CxO system, and establish executive processes for the Group CxOs. Mainly responsible for the formulation of the Group's medium-term strategies and plans, specific gap-fill measures needing investment, and risk management.
- ③ To link the Group's strategy with the strategies and plans of each operating company to, the Boards of Directors of the operating companies were changed to monitoring boards with the participation of all Group CxOs.
In addition to monitoring the execution (including risk management) of the operating companies, the Company will jointly create each company's medium- to long-term strategies and plans in conjunction with the Group's medium- to long-term management strategies.
- ④ Strengthen corporate officer structures at each company, they will be responsible for everything from strategy and planning to execution.
- ⑤ The Advisory Board was newly established to incorporate external knowledge.
Invite as necessary to meetings regarding strategy, diversity, etc.

Corporate Officer System

The President and Representative Director and Director in charge of Finance appointed by the Board of Directors lead the execution of business as the Group CEO and the Group CFO, respectively, and the Corporate Officers appointed by the President and Representative Director (Group CEO) share responsibility for the execution of business. At the Group Management Meeting chaired by the Group CEO and attended by the following Corporate Officers and Group CxOs, discussions are held on strategically important issues with the aim of achieving sustainable growth and enhancing corporate value through Group management. Important matters are referred to the Board of Directors through the Group CEO and Group CFO.

- Chief Executive Officer
- Chief Operating Officer
- Chief Digital Transformation Officer
- Chief Legal Officer
- Chief Finance Officer
- Chief Business Development Officer
- Chief Risk Management Officer
- Chief Human Resources Officer

In addition, the Representative Directors and Directors in charge of Business Administration of each Group operating company engage in business execution while keeping the Group's overall strategy in mind as Corporate Officers of the Company. The Group CxOs, including the Group CEO, participate in the Board of Directors meetings of each Group company as an officer or observer to appropriately monitor the status of business execution.

Board of Directors

With the aim of improving corporate value and giving consideration to diversity, the Company appoints Directors of the Company from among persons with diverse and specialized knowledge of management, legal affairs and compliance, finance and accounting, M&A and finance, IT business, global awareness, governance, human resources and organization, and candidates with experience and knowledge as a manager. The Company's Board of Directors consists of four Directors (including two outside and independent Directors and one foreign national) and three Directors who are Audit Committee Members (including two outside and independent Directors and one female).

Activities of the Board of Directors (14 meetings)

Decision	Matters to be reported
<ul style="list-style-type: none"> ■ Key personnel and organization of the Avant Group ■ Approval of executive compensation plan and compensation amounts ■ Revision of the executive compensation standards of the Avant Group ■ Endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) ■ Approval of Prime Market selection policy ■ Determination of the Group's restructuring policy 	<ul style="list-style-type: none"> ■ DIVA Empower project report ■ Metapraxix financial report ■ Report on succession plan of subsidiary presidents ■ Report on changes in institutional design ■ Progress report on reorganization ■ Report on issues and strategies for the next mid-term business plan ■ Innovative solutions business report ■ Stock price trend report ■ Integrated Report

Audit Committee

The Company has adopted an Audit Committee structure. The Audit Committee consists of three members, one full-time Director and two Outside Directors. In addition to having Audit Committee Members appointed in accordance with the Companies Act attend meetings of the Board of Directors and other important meetings, the Audit Committee listens to reports from Directors on the status of business execution, reviews important approval documents, and investigates the status of operations and assets in each division. It also exchanges information with internal audits. In the fiscal year under review, the Audit Committee prepares an audit report after receiving the results of the accounting audit and examining the business reports and financial statements, and supplementary schedules.

Composition of Directors and Audit Committee Directors (as of October 1, 2022)

Characteristics of the Board of Directors		Majority are independent outside directors	1 foreign national	1 female
Name	Reason for appointment			
 <p>Tetsuji Morikawa Representative Director and President Group CEO Shares held: 9,764,000 shares</p>	As President and Representative Director since the founding of the Company in May 1997, he has led the management of the Group for 25 years. Through the sale of its proprietary consolidated accounting software package, the company has established itself as a provider of infrastructure for a variety of management information, particularly financial information, and has demonstrated leadership in diversifying its business through M&A and transitioning to a holding company structure. Currently, he is driving measures to expand the recurring business, which is the key to sustainable growth. We requested his appointment for the further development of our group.			
 <p>Naoyoshi Kasuga Director Group CFO Shares held: 15,405 shares</p>	He joined the firm in October 2010 after working at a commercial bank and the New York Stock Exchange. Since September 2011, he has served as the Company's Director in charge of Finance and is currently the Group CFO, overseeing the Company's financial affairs based on his broad experience and knowledge of management. We requested his appointment for his outstanding character and insights.			
 <p>Naohisa Fukutani Director Outside Director Independent Shares held: 55,700 shares</p>	In addition to his experience in commercial and investment banking, his many years of experience in managing an independent M&A advisory firm and providing management guidance to a wide variety of companies have provided him with valuable advice on formulating and executing management strategies and strengthening governance, and he has also served as the lead independent outside director and chairman of the Compensation Advisory Committee. We requested his continuing appointment as we believe that he will continue to contribute to the supervision of management and the strengthening of corporate governance.			
 <p>Jon Robertson Director Outside Director Independent Diversity Shares held: 0 share</p>	He has 30 years of experience leading highly international organizations in Japan and the Asia-Pacific region, and has excellent management, leadership, and communication skills. He has a deep knowledge of the latest IT technologies, including the cloud-native field, and has demonstrated his leadership skills with enthusiasm in the rapidly changing IT industry. We request his continued appointment in the expectation that he will contribute to the achievement of our vision BE GLOBAL and our mid-term management plan to create corporate value through cloud computing.			
 <p>Tsuyoshi Noshiro Director (Audit Committee Member) Shares held: 1,868,800 shares</p>	After gaining experience as a certified public accountant at an auditing firm and a securities-affiliated venture capital firm, he joined the firm in February 1998. Since then, he has served as General Manager of the Administration Division, was Director in charge of Finance from 2001, and has been a full-time corporate auditor since September 2011. Based on his deep understanding of the Company's business operations, at meetings of the Board of Directors and the Board of Corporate Auditors, he provides useful opinions as a non-executive full-time director, focusing on legal, accounting, governance, human resources, and other perspectives.			
 <p>Chie Goto Director (Audit Committee Member) Outside Director Independent Diversity Shares held: 0 share</p>	In addition to her work experience at regular companies, she is a licensed lawyer and certified public accountant and has been involved in various companies as a legal and financial accounting expert, including M&A, tax compliance, and harassment cases. She is currently fulfilling her responsibilities as an outside corporate auditor of the Company, and we believe that she will continue to provide useful advice in the process of management judgment and decision-making as a member of the Audit Committee, utilizing her extensive knowledge as a legal and accounting expert in the Company, thereby strengthening the functions of the Board of Directors of the Company.			
 <p>Makoto Nakano Director (Audit Committee Member) Outside Director Independent Shares held: 0 share</p>	He has deep knowledge in a wide range of fields, including business administration, accounting, and corporate finance, and has established a broad research network in both business and academic fields on the theme of corporate value, which is also our materiality. He has conducted numerous financial and corporate value training programs for senior management of listed companies, and we believe that he is capable of appropriately performing his duties as an outside director of the Company as a member of the Audit Committee. In addition to advising us on how to improve the corporate value of our company and our clients, we expect him to play an active role in the development of our next generation management team.			

* Appointed as a director at the 24th Ordinary General Meeting of Shareholders to be held on September 23, 2020.

	Attendance at meetings of the Board of Directors, the Audit Committee and other committees	Specialties possessed by directors and directors who are Audit Committee Members							
	Board of Directors 14/14 Remuneration Advisory Committee 7/7	Management	Legal Affairs and Compliance	Finance and Accounting	M&A and Finance	IT Business	Global	Governance	Human Resources & Organization
	Board of Directors 14/14	Management	Legal Affairs and Compliance	Finance and Accounting	M&A and Finance	IT Business	Global	Governance	Human Resources & Organization
	Board of Directors 14/14 Remuneration Advisory Committee 7/7	Management	Legal Affairs and Compliance	Finance and Accounting	M&A and Finance	IT Business	Global	Governance	Human Resources & Organization
	Board of Directors 13/14	Management	Legal Affairs and Compliance	Finance and Accounting	M&A and Finance	IT Business	Global	Governance	Human Resources & Organization
	Board of Directors 14/14 Audit & Supervisory Board 18/18	Management	Legal Affairs and Compliance	Finance and Accounting	M&A and Finance	IT Business	Global	Governance	Human Resources & Organization
	Board of Directors 11/11* Audit & Supervisory Board 14/14* Remuneration Advisory Committee 7/7	Management	Legal Affairs and Compliance	Finance and Accounting	M&A and Finance	IT Business	Global	Governance	Human Resources & Organization
	Appointed as a member of the Audit Committee following approval at the 26th Ordinary General Meeting of Shareholders on September 27, 2022	Management	Legal Affairs and Compliance	Finance and Accounting	M&A and Finance	IT Business	Global	Governance	Human Resources & Organization

Analysis and Evaluation of the Effectiveness of the Board of Directors

With the aim of realizing sustainable enhancement of corporate value, we recognize the issues related to the responsibilities, composition, and operation of the Board of Directors, and are committed to continuous improvement. The Board of Directors conducts an annual analysis and evaluation of the effectiveness of the Board of Directors based on each director's self-evaluation and other factors.

Evaluation method

In the fiscal years ending June 2018 and 2019 we conducted evaluations by a third party organization from the perspective of increasing the independence and objectivity of our analysis and evaluations, but as the Board of Directors pointed out that it was difficult to clarify issues due to the focus on quantitative evaluation, from the fiscal year ending June 2020 onward, the Company decided to focus on its own questionnaire survey and conduct interviews between all directors and auditors with appropriate third-party organizations.

To more clearly identify issues from June 2021, we have created and implemented our own questionnaire form to allow participants to evaluate the issues and describe their opinions on how to respond to them. The survey was administered to all directors and auditors in July 2022, and the report was presented to the Board of Directors on August 5, 2022.

Summary of evaluation results

Summarizing the survey responses, the effectiveness of the Board of Directors was generally highly rated and evaluated as being properly operated. On the other hand, some have pointed out that the discussion of various issues that were previously recognized as challenges has not progressed, and that more time should be spent on broader issues such as management strategies and mid-term management plans, necessitating a specific response.

(1) Organization of the Board of Directors

As for the organization of the Board of Directors, the following opinions and issues were noted

- Establishment of a nominating committee is not necessary, as the Board of Directors should thoroughly discuss the nomination process and fulfill its oversight responsibilities.
- Diversity and expected role of each director needs to be clarified.
- With a view to Avant's current status and future vision, a structure in which monitoring functions should be organized.

(2) Agenda for the Board of Directors meeting

While it was recognized that progress has been made in discussions on the Corporate Officer appointments and executive remuneration systems, it was pointed out that there has been no progress in discussions on the issues that had been pointed out as requiring continued discussion (Succession Plan, criteria for appointment and dismissal of directors). It was also noted that capital policy and investor feedback need to be actively discussed.

(3) Management of the Board of Directors meetings

More problems than ever were identified with the reporting system. An increasing number of participants pointed out that the points of resolution and report items were unclear and that they were not distributed or explained sufficiently in advance. It was also pointed out that periodic reporting projects, etc., should be simplified by focusing on key points, while at the same time providing opportunities to gain a deeper understanding of the strategies and actual conditions of operating companies.

Future actions

In light of the above remarks, we report that we will push for the following actions in the operation of the Board of Directors for the fiscal year ending June 2023.

- (1) Discussions to be held throughout the year and matters requiring reporting to be discussed in terms supervision and execution.
- (2) Materials should be accompanied by an executive summary, so that it can be explained by it.
- (3) Streamline discussion time by distributing materials a week in advance, or by explaining in advance.
- (4) Off-sites and business briefings to be made regular.

Executive Remuneration System

Remuneration System and Determination Process

The Company's policy and calculation method for determining remuneration for directors and corporate officers, as well as the criteria for the remuneration structure and amount of remuneration for directors and executive officers, were resolved by the Board of Directors at its meeting held on January 29, 2021.

Furthermore, the Board of Directors, at its meeting held on March 17, 2021, resolved to establish a Compensation Advisory Committee as a voluntary advisory body to strengthen the independence, objectivity, and accountability of the decision-making process. The Compensation Advisory Committee consists of two independent directors and the Group CEO, and its chairman is selected from among the independent outside directors. We strive to ensure objectivity by, for example, taking advice from outside experts and considering market-wide or industry-wide standards. The Compensation Advisory Committee's agenda includes the following.

Compensation Advisory Committee's Agenda

- (a) Policy for determining remuneration, etc. for directors and corporate officers,
- (b) Draft proposals for remuneration, etc. for directors, audit committee members and executive officers to be submitted to the General Meeting of Shareholders,
- (c) Draft policy for determining the individual remuneration, etc. of directors and corporate officers to be submitted to the Board of Directors,
- (d) Draft proposals for the individual remuneration, etc. of directors and corporate officers to be submitted to the Board of Directors, and
- (e) Other matters deemed necessary by the Board of Directors with respect to the preceding items.

Remuneration for the Company's directors is divided into two categories: fixed remuneration (periodic remuneration of a fixed amount) and performance-linked remuneration.

Fixed remuneration is paid in a standard amount by position, taking into consideration the level commensurate with the required abilities and responsibilities.

Performance-linked remuneration consists of (1) short-term performance-linked remuneration, which is a bonus linked to business performance for each fiscal year, and (2) medium- to long-term performance-linked remuneration, which is linked to changes in metrics over a three year period. The medium- to long-term performance-linked bonuses are stock-based compensation in the form of common shares of the Company, with the aim of providing Directors with incentives to enhance the Company's corporate value over the longer term and to promote alignment of interests between Directors and shareholders.

The ratio of fixed remuneration and performance-linked remuneration for Directors is as follows, with the achievement of performance targets as a guide (based on a short-term performance incentive coefficient of 100%).

Composition of Directors' Compensation

Director	50-55% (Fixed remuneration)	15%-20% (Short-term performance-linked remuneration)	30% (Medium- to long-term performance-linked remuneration)
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1. Short-term performance-linked compensation

Short-term performance-linked compensation is a monetary compensation system that is linked to the year-on-year change in consolidated operating income, which is consistently emphasized in the Company's medium to long-term management strategy, medium-term management plan, and annual performance. The amount is calculated by multiplying the base amount determined according to the position, etc. by a short-term incentive coefficient set in the range of 0% to 200% according to the fluctuation of consolidated operating income from the previous fiscal year. "Although the Company's stock price was used as a factor in the past, the Board of Directors resolved at its meeting held on August 19, 2020 to use the rate of increase in consolidated operating income as a factor from the 25th fiscal year onward because the rate of increase in the Company's stock price is reflected in the medium- to long-term performance-linked compensation." Specifically, it is calculated by the formula on page 64.

Short-term performance-linked compensation

$$= \text{Base amount of short-term performance-linked compensation} \times \text{short-term incentive coefficient}$$

Short-term incentive coefficient

Assuming that consolidated operating income for the current period is (a) and that for the previous period is (b), the value calculated by the following formula shall be the coefficient

(i) If (a) is less than or equal to (b): 0

(ii) When (a) exceeds (b) but is less than (b) × 112%: $0.5 \times \{1 + ((a) - (b)) \div ((b) \times 112\%)\}$

(iii) When (a) is greater than or equal to 112% of (b): $1 + 0.5 \times ((a) - (b) \times 112\%) \div ((b) \times 6\%)$

* The short-term incentive coefficient shall not exceed 2.0.

Consolidated operating income for the fiscal year ended June 30, 2022, the key performance indicator, was ¥3,247 million, representing a 115% fluctuation (i.e. 15% growth) from the previous fiscal year's consolidated operating income of ¥2,826 million*. As a result of applying this to the formula (iii) above, the short-term incentive coefficient became 1.24 as follows, and 124% of the base amount of short-term performance remuneration was paid as short-term performance-linked remuneration.

$$\left[\begin{aligned} &\text{Short-term incentive coefficient} = 1 + 0.5 \times (\text{Consolidated operating income for the current term: } ¥3,247 \\ &\text{million} - (\text{Consolidated operating income for the previous term: } ¥2,826 \text{ million} \times 112\%)) \div (\text{Previous year's} \\ &\text{consolidated operating income: } ¥2,826 \text{ million} \times 6\%) = 1.24 \end{aligned} \right.$$

* "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) has been applied since the beginning of the fiscal year ended June 30, 2022. However, in calculating performance-linked compensation, operating income for the fiscal year ended June 30, 2021 has been restated to reflect the application of the accounting standard."

2. Medium- to Long-Term Performance-Linked Remuneration

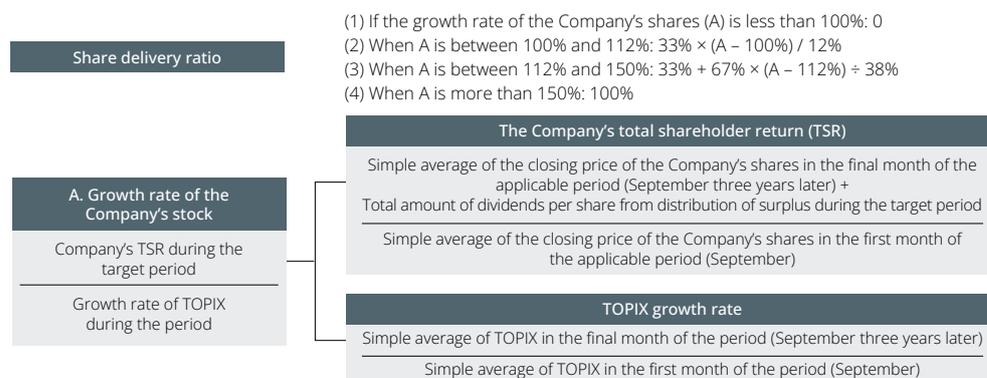
The medium- to long-term performance-linked remuneration is a performance share unit system in which the Company's common shares are paid as a performance-linked stock remuneration system for the purpose of providing Directors with incentives to improve the corporate value of the Company over a longer period of time and promoting further alignment of interests between Directors and shareholders. It is determined by multiplying the number of shares (standard number of shares to be delivered) determined by the Board of Directors of the Company by the share delivery ratio determined in accordance with the growth rate of the Company's shares, which is a representative indicator of the corporate value of the Company.

The Company's share growth rate is calculated by dividing the Company's Total Shareholder Return (TSR) during the target period by the growth rate of the Tokyo Stock Exchange price indexes (TOPIX) during the target period.

At the end of applicable periods, monetary compensation claims shall be paid to the eligible Directors, but all of the monetary compensation claims are to be settled in kind in Company shares, by either issuance of new shares or disposal of treasury stock.

Medium- to long-term performance-linked compensation (number of shares to be delivered)

$$= \text{Standard number of shares to be delivered} \times \text{share delivery ratio}$$



At the 25th Ordinary General Meeting of Shareholders held on September 28, 2021, it was approved that the granting of stock compensation to the President and Representative Director would be limited if the adjusted annual growth rate (CAGR) of net income per share for the three years up to the end of the applicable period is less than 18%, because the Company targets an annual growth rate of operating income of 18% in its medium- to long-term management strategy.

As the growth rate of the Company's shares, which is the basis for the medium- to long-term performance-linked remuneration for the fiscal year ending June 30, 2022, exceeded the growth rate of TOPIX as follows, the Board of Directors resolved at its meeting held on October 7, 2022 to issue shares to Directors. The Company paid a monetary compensation claim of ¥13 million to one Director of the Company, made the contribution in kind, and delivered 4,216 shares of common stock of the Company. Since the adjusted CAGR of net income per share for the three years up to the end of the applicable period is 13.9% and does not meet the criteria for granting compensation, no medium- to long-term performance-linked compensation based on the Plan will be paid to the Representative Director.

Calculation of the number of shares to be delivered

Base number of shares to be delivered = Base amount of medium- to long-term performance-linked compensation ÷ Closing price on the business day before the Board of Directors' meeting to be delivered (October 6)

= ¥13 million / ¥1,571 = 8,726 shares

Number of shares to be delivered = Standard number of shares to be delivered × Share delivery ratio
= 8,726 shares × 48.3% = 4,216 shares

Calculation of share delivery ratio

Total return to shareholders during the period = (1,405.00 + 9 + 11 + 13) / 978.47 = 146.9%

Growth rate of TOPIX during the period = 1,922.22 ÷ 1,579.13 = 121.7%

Growth rate of the Company's shares = Total return of the Company's shareholders during the period / Growth rate of TOPIX during the period

= 147.0% / 121.7% = 120.7%

The share delivery ratio will be 48.3% by applying 2. (3) on the left.

Remuneration for Directors and Corporate Auditors (Fiscal Year Ended June 2022)

Executive category	Total amount of remuneration (¥million)	Total amount of remuneration by type (¥million)			Number of eligible directors (person)
		Fixed compensation	Performance-linked compensation	Of the following: non-monetary compensation, etc.	
Director (excluding Outside Directors)	125	83	42	6	2
Auditor (excluding Outside Company Auditors)	11	11	—	—	1
Outside Director	43	43	—	—	3
Outside Corporate Auditor	10	10	—	—	3

*1 The total amount of non-monetary compensation for Directors (excluding Outside Directors) consists of performance-linked compensation of ¥6 million.

*2 The above includes one Corporate Auditor who retired at the conclusion of the 25th Annual General Meeting of Shareholders held on September 28, 2021.

*3 As there is no person whose total amount of consolidated remuneration, etc. is ¥100 million or more, the amount for each officer is not stated.

Avant Group's Risk Management

The Group has established the Compliance and Risk Management Committee (CRM Committee), which is chaired by the Representative Director, to understand the status of compliance and risk management, appropriately manage risk, and quickly respond to compliance issues. The CRM Committee sets important items related to risk and compliance and targets for them, and conducts monitoring and consultations on risk countermeasures.

The following is a list of significant risks recognized by the Group

	Risk items	Countermeasures
Risks associated with business continuity in the event of a major natural disaster	<ul style="list-style-type: none"> Loss of important information assets, shortage of available personnel, collapse of infrastructure due to damage caused by an earthquake directly under the Tokyo Metropolitan Area, an eruption of Mt. Fuji, or inundation by a typhoon or storm surge, etc. The Group's business sites being damaged by natural disasters such as earthquakes or fires, and leading to loss of important documents and data relating to business execution and intellectual property. 	<ul style="list-style-type: none"> In addition to backing up important documents and data to remote locations and establishing an initial response system such as setting up an emergency response headquarters, a Business Continuity Plan (BCP) was formulated for business resumption.
Risks related to cloud-based service business	<ul style="list-style-type: none"> Service outage or loss of customer data due to system operation trouble, cloud environment failure, cyberattacks, etc. In addition to the possibility that the Group's performance and financial condition may be significantly affected by the payment of compensation for damages, the Group's credibility and brand image may deteriorate. 	<ul style="list-style-type: none"> Establish a cloud service operation organization and a security countermeasure organization and continue to identify and counter risks. Promote system failure countermeasures such as multiple data backup and security measures such as multi-factor authentication. Acquisition of "SOC1 Type2 Report" in compliance with Statement of Assurance Standards No. 18 (SSAE18) in the United States for some cloud services
Risk of security incidents such as information leakage	<ul style="list-style-type: none"> Information may be leaked due to unauthorized external access to the Group's computers, errors by officers and employees of the Group or contractors, or unexpected events. 	<ul style="list-style-type: none"> In order to respond to security risks, an information security policy and a personal information protection policy shall be established, and these policies shall be revised in accordance with advances in information and communications technology, social conditions and changes in the regulatory environment. Acquisition of ISMS certification (ISO/IEC27001: 2013), an international standard, for objective evaluation of these operations and continuous improvement activities Respond to cyber attacks and incidents in accordance with internal rules, and implement measures within the Information Security Committee according to the degree of impact on the Group's business
Risks related to business investment	<ul style="list-style-type: none"> The possibility that business investment and restructuring may not produce the expected investment results due to changes in the market environment, the gap between products developed and market needs, etc. 	<ul style="list-style-type: none"> At the stage of considering business investment, after qualitatively and quantitatively evaluating the investment effect and risk, carefully decide in accordance with the authority specified in the "Authority Rules" in advance. At the implementation stage, the progress against the plan is continuously monitored.
Risks associated with product development quality	<ul style="list-style-type: none"> Product failure There is a possibility that the customer's business may be affected by the occurrence of a problem in the Group's products. 	<ul style="list-style-type: none"> Established the Quality Control Department to reduce quality risks during product development.
Risks related to service quality	<ul style="list-style-type: none"> There may be a deviation from the initially assumed estimate, or there may be technical problems or project management problems that cannot be initially assumed, which may lead to an increase in costs or schedule delays. Payment of compensation for damages caused by higher-than-expected costs or delivery delays 	<ul style="list-style-type: none"> Improvement of project quality through establishment of quality control department Take out insurance in case of emergency
Risks related to securing and fostering human resources	<ul style="list-style-type: none"> The possibility that securing and fostering excellent human resources with specialized knowledge will not progress as planned in the medium term 	<ul style="list-style-type: none"> Strengthen the recruitment system and secure recruitment competitiveness by understanding the appropriate level of remuneration in the market In human resources education, we will enhance the training menu for new employees.

	Risk items	Countermeasures
Risks related to equity investment and M&A (Risks related to corporate acquisitions)	<ul style="list-style-type: none"> When proceeding with M&A, there is a possibility that transactions may not proceed as expected by the Group due to reasons such as failure to find an appropriate candidate or failure to reach an agreement on transaction terms. Problems that cannot be identified through prior investigations, such as the occurrence of contingent liabilities and the discovery of unrecognized liabilities after investment or M&A 	<ul style="list-style-type: none"> The organization in charge of M&A conducts a detailed due diligence of the financial conditions and contractual relationships of the candidate companies in advance, examines each identified risk, and makes decisions including countermeasures.
Compliance risk	<ul style="list-style-type: none"> Loss of societal trust in the event of non-compliance 	<ul style="list-style-type: none"> Establish compliance and risk management rules and other compliance-related regulations, and ensure that all officers and employees are fully aware of them through education
Risks related to dependence on management	<ul style="list-style-type: none"> In the unlikely event that the President and Representative Director is unable to discharge his duties, there is a possibility that the promotion of business activities, business performance and financial position may be affected. 	<ul style="list-style-type: none"> With the next generation of leaders as directors of the operating companies, delegate management to them, and train successors through supervision and guidance from the holding company Actively promote recruitment activities
Risks associated with the occurrence of a pandemic	<ul style="list-style-type: none"> If the impact of infectious diseases becomes significant and prolonged in the future due to the spread of new infectious diseases or novel coronavirus mutations, it will affect the Company's ability to provide its services. The performance of the Group deteriorates more than expected due to further postponement of IT investment by domestic companies due to their deteriorating performance. 	<ul style="list-style-type: none"> Prepare measures to limit the deterioration of business performance by controlling certain expenses such as outsourcing expenses

MESSAGE FROM the CRO

Since July 2021, we have been strengthening our risk management system by appointing a CRO and establishing a Group Risk Management Department to oversee and promote risk management from the Group's perspective. Our CRO, Mr. Takemura, speaks of our commitment to strengthening risk management.



Hiroki Takemura

Group CRO
Director and Vice President of Diva

Going forward we will continue to implement appropriate risk management, risk hedging, and crisis management

As social conditions continue to remain unstable due to the Great East Japan Earthquake, the COVID-19 pandemic, war, and the weak yen, risk management activities to prepare for risks (events with uncertainty) have become more important for business continuity.

We recognize that the most important current risks in the Group's risk management are earthquakes and information security-related risks such as and cyberattacks, and we promote risk reduction activities. In particular, we have been strengthening measures to address information security risks. In addition to acquiring ISMS certification (ISO/IEC27001: 2013), we are promoting measures to respond to unexpected situations, such as periodic data storage and backup in remote locations. However, as risks cannot be completely reduced or avoided, we place importance on measures to minimize losses (crisis management) by responding to events after they occur. We also promote the development of business continuity plans (BCPs).

By appropriately promoting risk management, risk hedging, and crisis management, we will continue to promote activities that are best for all stakeholders, including our customers, business partners, investors, employees, and local communities.

Leadership

(As of October 1, 2022)

Directors



Tetsuji Morikawa

President and Group CEO
Compensation Advisory Committee Member
[Status of concurrent positions]
CEO, Diva Corporation of America
Outside Director, Kayac, Inc.



Naoyoshi Kasuga

Director
Group CFO
[Concurrent Positions]
Outside Director of Metapraxis Limited



Naohisa Fukutani

Director
Chairman of the Compensation Advisory Committee
[Outside director] [Independent]
[Concurrent Positions]
Senior Advisor, PwC Advisory LLC



Jon Robertson

Director
[Outside director] [Independent] [Diversity]
[Concurrent Positions]
President, Asia Pacific & Japan, Snowflake Inc.

Directors (Audit Committee Members)



Tsuyoshi Noshiro

Director (Audit Committee Member)
[Concurrent Positions]
None



Chie Goto

Director (Audit Committee Member)
Compensation Advisory Committee Member
[Outside director] [Independent] [Diversity]
[Concurrent Positions]
Partner, Sakura Kyodo Law Office



Makoto Nakano

Director (Audit Committee Member)
[Outside director] [Independent]
[Concurrent Positions]
Professor, Graduate School of Business Administration, Hitotsubashi University

Corporate Officers



Takahiro Okabe

Group COO
President and Representative
Director, Avant Corporation
President and Representative
Director, Zeal Corporation



Gen Nagata

Group COO and Group CBO
President and Representative
Director, Diva Corporation



Hiroki Takemura

Group CRO
Executive Vice President,
Diva Corporation



Teppei Terashima

Director, Avant Corporation



Tatsuru Nakayama

Group CDO
Director, Avant Corporation



Shingo Moroi

Director, Avant Corporation



Yoshiyuki Numata

Director, Zeal Corporation



Hiroyuki Morita

Director, Zeal Corporation



Kunihiro Nakamura

Director, Zeal Corporation



Tetsuya Kawamura

Director, Diva Corporation



Shuichi Fukayama

Director, Diva Corporation



Yoko Hosokawa

Director, Diva Corporation



Masamitsu Suzuki

Group CLOs



Eriko Satonaka

Group CHRO

Senior Advisors



Chieko Matsuda

Doctor of Business Administration
Professor, Graduate School of
Business Administration, Tokyo
Metropolitan University Professor,
Faculty of Economics and Business
Administration, Tokyo Metropolitan
University



Georges Ugeux

Chairman and CEO, Galileo Global
Advisors

COO: Chief Operating Officer CBO: Chief Business development Officer CRO: Chief Risk-management Officer
CDO: Chief Digital transformation Officer CLO: Chief Legal Officer CHRO: Chief Human Resources Officer