Independent Outside Director Interview

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we will maximize the synergies from the integration, ensuring sustainable business growth and increased corporate value.

Yoshio Usumi

Outside Director (Independent Director), Full-time Audit and Supervisory Committee Member

Q1 What changes have emerged in management following last year's changes in the management structure and the intra-Group reorganization[*1] including Yahoo Japan Corporation and LINE Corporation?

In April 2023, we abolished the Co-CEO structure that had been in place since the business integration of Z Holdings Corporation and LINE Corporation, and transitioned to a single CEO structure. As a result, we have been able to make very quick decisions regarding the consolidation and discontinuation of overlapping businesses within the Group, including the restructuring of LINE Securities and the termination of LINE Bank project last year.

In addition, we changed our organizational structure and the composition of officers following the intra-Group reorganization in October. Until then, LINE Corporation and Yahoo Japan Corporation each had corporate officers with similar roles, but after the reorganization, this was abolished and the authorities and responsibilities were clarified, which greatly increased the speed of business execution. The unification of business organizations which existed in both companies, such as media, advertising, and commerce, also had a positive impact. These organizations were integrated as in-house companies. Becoming part of the same organization has made employee communication smoother and has intensified discussions aimed at developing new products and services.

This swift decision-making and organizational revitalization are already having a positive effect on our performance. The adjusted EBITDA for fiscal 2023 reached JPY415.0 billion, far exceeding the JPY390.0 billion target of the previous medium-term management plan, which had been withdrawn. It was unfortunate that the result was not reflected in the stock price because I believe the result would have had a more positive impact if we did not have the security incident due to unauthorized access. Nonetheless, I believe we have demonstrated to our shareholders and investors that the business integration of Z Holdings Corporation and LINE Corporation drives business growth.

Naturally, the substantial effects of the business integration on our business are yet to be realized. With the account linkages between LINE and Yahoo! JAPAN, we have launched LYP Premium, but we anticipate that it will take some time for these measures to change user behavior and lead to outcomes such as increase in the use of our commerce services. We will also closely monitor the progress of each of these initiatives.

Q2 The ratio of independent outside directors on the board has now exceeded 50%. Could you share the background leading to this change?

In publicly traded companies with controlling shareholders, independent outside directors have very important roles and responsibilities to protect the interests of minority shareholders. Considering this, the Nominating and Remuneration Committee has held numerous discussions about increasing the number of independent outside directors, and in fact, since the business integration of Z Holdings Corporation and LINE Corporation, we have gradually increased their ratio. One third of the nine directors of the former Z Holdings Corporation, that is, three directors were independent outside directors, but with the business integration of Z Holdings Corporation and LINE Corporation in 2021, we increased the number by one to four independent outside directors out of ten directors. In the intra-Group reorganization in October 2023, the number of directors was reduced from ten to seven, and three of the seven members were independent outside directors. In June 2024, two internal directors retired, and one independent outside director was added, resulting in four independent outside directors constituting the majority of six directors. As a result, we believe we are closer to a better governance structure as a company listed in the Prime Market with controlling shareholders.

In this structural change, CPO (Chief Product Officer) Jungho Shin and CSO (Chief Strategy Officer) Taku Oketani have stepped down from the Board of Directors to focus on business executions. We believe this will allow us to separate management from business execution, accelerate product development and implement marketing strategies to promote the Group's business growth.

Q3 Ms. Yuko Takahashi has been newly appointed as an independent outside director. Please tell us the reason for her appointment.

There are some differences in the roles required of independent outside directors between the former Z Holdings Corporation and the current LY Corporation (the “Company”). Z Holdings Corporation was a pure holding company, and its operating companies such as LINE Corporation and Yahoo Japan Corporation had auditors who have experience as financial officers or are certified public accountants. For this reason, Z Holdings Corporation appointed persons who can supervise the management of the entire Group as its outside directors.

In contrast, LY Corporation is a business holding company that conducts its own business activities. In particular, the Company has been active in M&A for a long time and may continue to go through further organizational restructuring and review its business segments. In order to smoothly support the promotion of such business strategies, we determined that accounting experts should be included among our own outside directors and Audit and Supervisory Committee members. We invited Ms. Yuko Takahashi, who has many years of experience and achievements as a certified public accountant and head of the accounting department at a company, and has served as an outside director and outside auditor at several companies.

Before, LY Corporation’s three independent outside directors were Ms. Maiko Hasumi, Mr. Tadashi Kunihiro, and Yoshio Usumi, myself. Ms. Hasumi, an analyst, primarily discusses our business growth and enhancement of corporate value from an investor's perspective. Mr. Kunihiro, a lawyer, has in-depth knowledge of corporate governance and chairs the Governance Committee. Based on my experience in management as the Member of the Board of Nomura Research Institute, Ltd. supervising corporate administration, I broadly supervise the management of the LY Corporation Group as a full-time independent outside director. The addition of Ms. Takahashi, who has specialized knowledge and experience in corporate finance and accounting, has created an excellent balance in terms of the skills matrix of independent outside directors. Furthermore, the number of female directors increased from one in seven (14%) to two in six (33%), which is a step forward in terms of diversity. We will continue to focus on management supervision and support while leveraging our respective strengths.

Q4 As an outside director, what are your thoughts on the information leakage due to unauthorized access that occurred in October 2023?

This incident was triggered by malware which infected a personal computer owned by an employee of a subcontractor used by NAVER Cloud Corporation (”NAVER Cloud”) in South Korea and LY Corporation. Since the former LINE Corporation and NAVER Cloud managed system network connections using a common authentication platform, unauthorized access to our system was carried out via the NAVER Cloud system, leading to an information leakage.

Our directors and independent outside directors serving on the Audit and Supervisory Committee, regard this incident as the most important management issue, and we have held continuous discussions in various forums since immediately after the incident occurred. As a full-time outside director, I attended the Top Management Committee, which is held as needed, in addition to the Board of Directors meetings, held once a month in principle, and watched in detail the process of confirming the effects of the information leakage, investigating causes, and planning and implementing countermeasures. Since the scope of impact was extremely extensive this time, the business execution side established the schedule of countermeasures while they carefully assessed the scope of impact. Therefore, after the problem was discovered, it took time to formulate and implement countermeasures. I regret to say that we received administrative guidance received twice in March and April of 2024 as a result.

As a measure to prevent recurrence, we announced that we will accelerate the schedule for the system separation with NAVER Cloud, from the original schedule of December 2026 to March 2026. In addition to that, we are working to strengthen various safety management measures, such as making subcontractor management stricter and reviewing internal systems. Furthermore, evaluations are also carried out by third party organizations such as external information security experts, law firms, and panel of experts.

Information security is a critical issue related to the survival of our Company. As an outside director, I believe that I must continue to monitor the situation and reinforce security.

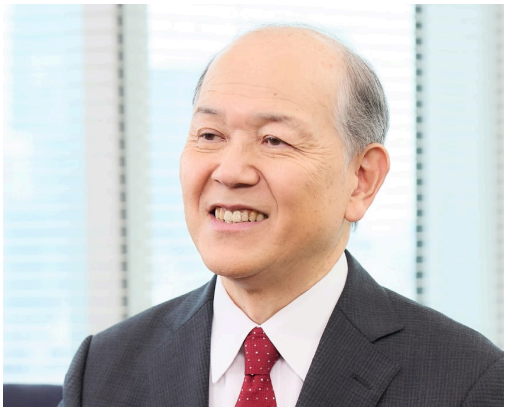
Q5

What are your views on the administrative guidance from the Ministry of Internal Affairs and Communications regarding information leakage due to unauthorized access, which touched on the fundamental review and reinforcement of security governance across the Group, including parent companies[*2]?

Former LINE Corporation was a wholly owned subsidiary of NAVER Corporation, but when the company was listed on the Tokyo Stock Exchange and the New York Stock Exchange in 2016, the shareholding ratio of NAVER Corporation reduced to the 80% range. Furthermore, through the business integration with Z Holdings Corporation in 2021, NAVER Corporation's stake in the Company had decreased to half of the number of shares of A Holdings Corporation, which holds 64% of our shares. It is common practice for wholly owned subsidiaries to share management resources such as information system infrastructure with the parent company, but considering the subsequent changes in the shareholding ratio, I think the operation method could have been changed. I consider that the decision to reduce or terminate outsourcing to NAVER Corporation was significant.

Another significant issue we had was that we did not meet one of the criteria for maintaining a listing on the TSE Prime Market, which was to have a tradable share ratio of 35% or higher. This was because the shareholding ratio of the controlling shareholder was approximately 64%. Therefore, since June, we engaged in continuous dialogue with our controlling shareholder, A Holdings Corporation, and have made a JPY150.0 billion tender offer for JPY388 per share from August 5, including the acquisition of shares held by A Holdings Corporation. Effective September 30, the Company has canceled 6.4% of its outstanding shares and achieved the 35% tradable share ratio on that date. This tender offer and purchase price were determined after deliberations by the Governance Committee on the fairness of the transaction so as not to disadvantage minority shareholders, and by requesting a third-party valuation institution independent of the Company and A Holdings Corporation to calculate the value of the Company's common stock and verifying the rationality of the price. As an outside director, I will continue to monitor the situation to ensure that minority shareholders are not disadvantaged.

Q6 What is your focus as chairperson of the Nominating and Remuneration Committee?



With the business integration of Z Holdings Corporation and LINE Corporation in 2021 and the intra-Group reorganization in 2023, the structure of our Company has undergone significant changes. Over the past three years, the primary focus of the Nominating and Remuneration Committee has been the appointment of directors capable of addressing these changes. With independent outside directors now in the majority, we are achieving the governance structure we have aimed for as a company listed in the Prime Market with a controlling shareholder.

Consequently, starting this fiscal year, we plan to focus on expanding the pool of next-generation personnel that can take on management and business executions from a sustainable perspective, and the Nominating and Remuneration Committee has begun discussions on this. A stronger next-generation talent pool will become a medium- to long-term strength for our Company. We also plan to create opportunities for dialogues between next-generation talent and outside directors to identify potential future management leaders and officers in charge of business execution.

Furthermore, what we have been focusing on since last year is the optimal operation of our executive remuneration system. Performance-based remuneration (cash bonuses), which excludes base remuneration among monetary remuneration to directors, is an incentive for contributions to improving performance and corporate value. 80% of the criteria for determining this comprise three components: revenue, adjusted EBITDA, and adjusted EPS. The Nominating and Remuneration Committee has varied these KPIs and weights in line with the operating environment and the Company's management policies. In fiscal 2023, we increased the weighting of adjusted EBITDA (40%) over revenue (20%) and set adjusted EPS as a new KPI in light of our management policy to streamline our business through intra-Group reorganization. In contrast, in fiscal 2024, we changed the weighting for revenue in view that business growth is as important as earning power. Thus the weighting of revenue was changed from 20% to 30% and adjusted EBITDA from 40% to 30%. (Weighting of adjusted EPS remained unchanged at 20%.) We will continue to encourage executive leadership through optimal and highly transparent operation of the remuneration system, aiming for sustainable growth and the enhancement of corporate value.

Q7 What was the reason for not paying stock-based remuneration in fiscal 2024, following fiscal 2023?

LY Corporation's executive remuneration consists of three components: base remuneration, performance-based remuneration (cash bonuses), and stock-based remuneration. Basically, we think it is desirable to pay each component in a balanced manner. However, we were undertaking significant structural reforms in fiscal 2023, and the executive side requested that stock-based remuneration be withheld to focus on achieving performance targets. Consequently, it was decided to withhold the stock-based remuneration also for the Audit and Supervisory Committee members. Considering the business conditions, including adjusted EBITDA reaching approximately JPY415.0 billion, some suggested that stock-based remuneration should be paid in fiscal 2024. However, due to the severity of the aforementioned information leakage resulting from unauthorized access and the administrative guidance and recommendations, etc. received, we decided to withhold the stock-based remuneration again in fiscal 2024.

CPO Jungho Shin's stock-based remuneration stands out in the executive remuneration. But this was due to stock options granted by the former LINE Corporation before the integration with Z Holdings Corporation. The former LINE Corporation used a U.S.-style compensation structure that provided significant returns if the business grew significantly. In light of the above-mentioned circumstances, CPO Jungho Shin himself requested to return a portion of the stock-based remuneration previously granted to him, and the Nominating and Remuneration Committee accepted his request.

Q8 What discussions have been held at the Board of Directors meetings held in fiscal 2023? Also, what are the key issues for fiscal 2024?

The biggest management challenge for fiscal 2023 was to quickly demonstrate the results of the business integration between Z Holdings Corporation and LINE Corporation, and the Board of Directors put the most effort into discussing strategies for this purpose. In fact, the discussions were becoming in-depth, but since November, we have had to address the problem of unauthorized access.

We have announced three priority issues for FY2024: security governance, product reinforcement, and disciplined cost allocation.

The first issue, security governance, is a critical requirement for the survival of our Company. Without firmly strengthening this area and earning society's trust, our Company will not be able to move to the next stage. Regarding the essential review and reinforcement of Group-wide security governance, including parent companies, etc., which was also pointed out in the administrative guidance, we submitted a report to the Ministry of Internal Affairs and Communications on July 1, 2024, compiling our recurrence prevention measures and review of subcontractor management. The Board of Directors plans to continuously monitor the progress of these safety measures and system enhancements in the future.

Of course, we cannot expect business growth from the aforementioned measures alone. It is important to promote product reinforcements and provide services that are appreciated by many more users. Since the intra-Group reorganization, we have implemented measures such as account linkage and LYP Premium. The Board of Directors will monitor whether these measures are progressing as planned and successfully leading to business growth and profit enhancement. Furthermore, I would like to spend sufficient time discussing the next growth strategy.

The third theme is disciplined cost allocation, which aims to increase the efficiency of such growth investments and obtain greater returns that exceed capital costs. In the share repurchase which began in August, we invested approximately JPY150.0 billion. However, even with this share repurchase, our indicators such as ROE, PBR, and adjusted EPS are still not at a satisfactory level for shareholders and investors. Everyone involved in our management should act with a stronger awareness of capital efficiency, and this point has been pointed out not only at the Board of Directors but also at the Top Management Committee.

In addition to these three themes, I would like to take “employee engagement” as an important issue. Human resources are our most important non-financial capital, and I'm also concerned about how the recent incident on unauthorized access and other issues are affecting engagements. Not only me, but all members of the Audit and Supervisory

Committee recognize employee engagement as an important issue, and we plan to focus on discussions starting this fiscal year.

At our Company, the Top Management Committee meetings are frequently held, almost every day. As a full-time outside director, I participate in these meetings as much as possible to understand our business status and management issues. Also, important themes are taken up by the Board of Directors and discussed in detail by the Governance Committee, Nominating and Remuneration Committee, and other meetings. As a full-time independent outside director, I would like to continue to properly fulfill the role of bridging multiple meeting bodies in this way.

Q9 Finally, please give us a message for the shareholders and investors.

All of the members of the Board are fully aware that the current share price of our Company (as of mid-August 2024) is far from meeting the expectations of the shareholders and investors, and we are very sorry about it. However, LY Corporation is undeniably one of Japan’s largest platform operators, boasting several powerful products that serve as de facto standards such as LINE, Yahoo! JAPAN, as well as PayPay, which is operated by a consolidated subsidiary. Clearly, we are a company with a great future potential. Our significant strengths include our talented engineers who have developed these products and our extensive customer and data bases. As generative AI becomes widely adopted and transforms society, our Company, with its strong customer, data bases, and excellent digital talent, is in a prime position to implement this cutting-edge technology.

Therefore, I am certain that we will be able to meet the expectations of our shareholders and investors in terms of stock price if we implement our growth strategies, particularly product reinforcement, without fail, and ensure that our strengths are reflected in our performance. Furthermore, we will discuss and consider new stock repurchases in accordance with our capital allocation policy. As independent outside directors, we will continue to monitor the Company's growth strategies and management from the perspective of shareholders and investors, and keep all stakeholders informed.

*1 Implemented intra-Group reorganization around Z Holdings Corporation and its core wholly owned subsidiaries, LINE Corporation and Yahoo Japan Corporation, effective October 1, 2023.

*2 The term "parent companies" as used herein means the parent company of LY Corporation and the corporate group which holds more than half of the voting rights of the parent company (not necessarily synonymous with "parent company," "parent company, etc." under the Companies Act of Japan). A Holdings Corporation, the NAVER Group, and the SoftBank Group fall under this definition.

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