Provisional translation

Case Studies on Board Effectiveness in Japan 2026

金融庁
Financial Services Agency, the Japanese Government

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* The cases presented in this document are based on information collected through interviews and therefore do not necessarily correspond to actual individual cases.

Introduction

- In July 2026, **Japan's Corporate Governance Code** was revised. The revision emphasises the importance of the following points with a view to enhancing board functions:
  - **Persistently considering the ideal state of the board**;
  - **Ensuring the expertise of independent directors** and improving the effectiveness of their functions; and
  - Promoting initiatives such as **enhancing the functions of the board secretariat (e.g., corporate secretary)** who supports the board.

- **This document summarises and analyses the results of interviews with selected companies on these** and other initiatives to enhance board effectiveness, taking into account the following directions set out in the "Action Programme for Corporate Governance Reform 2025" (published on June 30, 2025).

> - *To discuss the extended roles of independent outside directors and to enhance the functions of the board secretariats (corporate secretaries), the FSA will establish a platform called the "Consortium for the effective implementation of corporate governance" (tbd) to collect and analyse good practices to update the "Case studies on board effectiveness".*
> - *Regarding initiatives for sustainability-conscious management, the FSA will continue to gather and update case studies in the "Consortium for the effective implementation of corporate governance."*

- This document has been prepared by adding newly collected cases to, and incorporating previously published cases from, the "Case Studies on Board Effectiveness" (published on June 2, 2025).

- It is expected that **each company will, as necessary, refer to the initiatives of other companies presented in this document and use them in implementing its own initiatives to enhance board effectiveness**.

* This document presents examples of initiatives undertaken by companies to advance substantive corporate governance reform, recognizing that approaches to enhancing board effectiveness vary depending on each company's circumstances. It is not intended to require all companies to adopt the initiatives described herein uniformly.

List of Companies Interviewed on Board Effectiveness

- To identify practices that enhance board effectiveness, the FSA interviewed companies that are proactively pursuing corporate governance reform.
- The companies interviewed are below. All are listed on the Prime Market or Standard Market of the Tokyo Stock Exchange.

Interviewed companies (in Japanese alphabetical order) *

1. Ajinomoto Co., Inc.
2. Astellas Pharma Inc.
3. Azbil Corporation
4. AS ONE CORPORATION
5. ANA HOLDINGS INC.
6. SWCC Corporation
7. ORIX Corporation
8. KAGOME CO.,LTD.
9. SANYO SHOKAI LTD.
10. J.FRONT RETAILING Co.,Ltd.
11. Shin-Etsu Chemical Co., Ltd.
12. DAIICHI SANKYO COMPANY, LIMITED
13. TDK Corporation
14. TOKYO PRINTING INK MFG. CO., LTD.
15. Tokyo Electron Ltd.
16. Nitori Holdings Co., Ltd.
17. Japan Tobacco Inc.
18. NEC Corporation
19. Hitachi, Ltd.
20. Fujitsu Limited
21. HOYA CORPORATION
22. Mitsubishi Corporation
23. Murata Manufacturing Co., Ltd.
24. The Yamanashi Chuo Bank, Ltd.

* Includes companies interviewed in preparing "Case Studies on Board Effectiveness" (published on June 2, 2025)

We would like to express our gratitude to the companies that cooperated with us.

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Initiatives Concerning the Ideal State of the Board and the Division of Responsibilities between the Board and Management (1/4)

■ There were cases in which companies undertook corporate governance reforms **in response to issues identified through investor feedback, board effectiveness evaluations, and management crises**. In light of the composition of the board and management, initiatives were undertaken to **enhance board discussions** and **delegate authority to management.**

Background	Initiatives concerning the ideal state of the board and the division of responsibilities between the board and management
✓ **Through dialogue with investors in Europe and the United States, as well as through board effectiveness evaluations, challenges relating to the ideal state of the board were identified**, highlighting the need for corporate governance reform to accelerate corporate transformation.	✓ With regard to the ideal state of the board, decisions were made through discussions on the direction of reform, including with independent directors, at board meetings and off-site meetings. As a means of accelerating the reform, the company proceeded to adopt a new organisational structure. **In the course of the reform, the board was positioned as a forum for discussing the company's mid- to long-term vision and management direction.** To establish such a board, **it was necessary to delegate substantial authority to management**, and efforts were also made to **strengthen governance on the executive side** to support such delegation.
✓ **While the formal aspects of corporate governance had been well developed, they were not sufficiently effective in practice**. **Against the backdrop of a management crisis**, it became necessary to pursue corporate governance reform alongside reforms to business strategy.	✓ **The composition of the board was reviewed, and individuals with experience in managing global companies were appointed**. This led to more active and substantive discussions at board meetings. The roles of each committee were also reviewed. Previously, the appointment of the next CEO had been the exclusive prerogative of the incumbent chair and CEO; however, **the nomination committee was restructured to participate in the selection, nomination, and development of CEO candidates**.
✓ With a chair (*kaicho*) who exercises strong leadership in management, **the roles of the board chair (CEO) and independent directors are important in ensuring that external perspectives are appropriately reflected in management**.	✓ Previously, the board had discussed detailed matters of business execution; however, **in response to views expressed by independent directors that discussions should focus more on broader, strategic issues, more time has been devoted to strategic discussions**. **The CEO, who serves as chair of the board, has fostered an atmosphere that encourages independent directors to express their views, thereby promoting more active and substantive discussions at board meetings.**

Initiatives Concerning the Ideal State of the Board and the Division of Responsibilities between the Board and Management (2/4)

- Some companies repeatedly discussed the ideal state of the board and **identified further evolution as an action plan**, while others sought to enhance board effectiveness by **reviewing the "Important Management Matters" that serve as the basis for board discussions**.

Initiatives concerning the ideal state of the board and the division of responsibilities between the board and management

✓ **Formulation of action plans to deepen substantive discussions at the board**

- **Responsibility for business execution, including large-scale projects, has been fully delegated to executive officers**, and the board functions as a monitoring board. The board approves the business plan as a basic management policy and monitors progress on a quarterly basis.
- Based on the results of board effectiveness evaluation, one of the action plans for the fiscal year ending March 2026 was to hold discussions on the ideal state of the board to support the group's sustainable growth.
  In light of external trends in corporate governance and the company's circumstances, including changes in top management, the company discussed the composition of the board—including the number of directors, the ratio of independent to internal directors, and diversity—as well as the roles expected of the board, internal directors, and independent directors, the matters to be decided by the board, and whether that composition was appropriate during the executive succession transition period. These discussions were summarised, leading to the conclusion that **substantive board discussions should be further deepened, and this in turn led to the formulation of the action plan**.

✓ **Reviewing "Important Management Matters" and promoting initiatives to enhance sustainable corporate value through discussions based on them**

- The board has defined its role as **setting the broad direction by discussing and examining "Important Management Matters" that have a significant impact on corporate value**, supporting appropriate risk-taking by management, and verifying the appropriateness of business execution processes and outcomes in order to ensure effective oversight.
- Defining the board's role as setting the broad direction implies that **the board provides insights from a broad perspective in discussions with management, thereby functioning together with management as "the two wheels of a cart" in corporate management**. At board meetings, among agenda items categorised as resolutions, reports, and deliberations, the board discusses the "Important Management Matters" as deliberation items for which it is expected to set the broad direction.
- The company defines board effectiveness as the extent to which the board appropriately fulfills the roles described above. Based on the results of board effectiveness evaluations, **"Important Management Matters" to be addressed by the board were reviewed in light of evolving management challenges and the company's desired future state, with a view to enhancing corporate value over the mid- to long-term**. The revised **"Important Management Matters" are discussed at board meetings as a shared foundation for the board and the executive side**, thereby promoting initiatives to enhance sustainable corporate value.

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Initiatives Concerning the Ideal State of the Board and the Division of Responsibilities between the Board and Management (3/4)

- There were cases where **agenda items were further reviewed following a transition in organisational structure**, **the ideal state of the board continued to be discussed by an advisory committee**, and companies **explored ways to enhance strategic discussions.**

Initiatives concerning the ideal state of the board and the division of responsibilities between the board and management

✓ **Further review of agenda items following the transition in organisational structure**

- In establishing a new governance framework under a new CEO, the company transitioned to a Company with Three Committees in order to **enable the board to function effectively as a forum for discussing important mid- to long-term management issues.**
- During discussions on the transition in organisational structure, the secretariat explained to the directors that, following the transition: **(i) the executive structure would become more agile and capable of timely decision-making, particularly with respect to growth strategies; and (ii) at the same time, the board's objective oversight function would be strengthened. This helped establish a shared understanding.**
- Following the transition, agenda items were further reviewed, and **substantial authority was delegated by the board to the executive side** to the extent permitted by law and regulation.

✓ **Ongoing discussions at an advisory committee on further strengthening corporate governance**

- **Even before the transition from a Company with *Kansayaku* Board to a Company with Supervisory Committee, the board had already functioned as a monitoring board.**
- Discussions on the transition in organisational structure heightened **awareness of the need to further enhance board deliberations by delegating certain authority to management.**
- Previously, discussions tended to be largely concluded in pre-briefings, and board meetings themselves tended to serve as a forum for formal confirmation rather than substantive discussion. However, in light of the chair's views, **the importance of active discussions has become a shared understanding in relation to the ideal state of the board.**
- **The ideal state of the board continues to be discussed at an advisory committee on strengthening corporate governance, comprising all independent directors as well as the chair (*kaicho*) and the CEO.**

✓ **Reviewing the division of responsibilities between oversight and execution and exploring ways to enhance strategic discussions**

- In response to growing public debate on strengthening supervisory functions through the separation of execution and supervision, as well as on corporate governance more broadly, the company is considering a transition from a Company with Kansayaku Board to a Company with Supervisory Committee. At present, internal directors also serve concurrently as executive officers, and **challenges have been identified in the division of responsibilities between oversight and execution.**
- In periodic board effectiveness evaluations conducted by an external evaluator, it has been noted that discussions at board meetings have not been sufficiently in depth. **Rather than limiting agenda items to matters for resolution or reporting, the company is considering optimising the scope of authority delegated to management, while also enhancing strategic discussions.**

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Initiatives Concerning the Ideal State of the Board and the Division of Responsibilities between the Board and Management (4/4)

■ Many companies **carefully select agenda items to ensure that the board has sufficient time to focus on overseeing management and to engage in discussions from a broad, mid- to long-term perspective**.

Initiatives concerning the ideal state of the board and the division of responsibilities between the board and management

- ✓ Previously, the board had too many items requiring resolution with limited meeting time, leaving insufficient room for strategic discussions. **In line with changes to organisational structures, the board rules were revised to delegate substantial authority to management** and limit items requiring board resolution primarily to those required by law, thereby freeing up time for strategic dialogue.
- ✓ Following the transition to a Company with Three Committees, the criteria for agenda items initially remained unchanged from those applied when the company operated under a Company with Kansayaku Board. After learning that other companies limit matters brought before the board for resolution to statutory items and taking into account the results of board effectiveness evaluations, **the company reviewed its submission criteria with a view to accelerating business execution and implemented related initiatives in stages**.

  Previously, the company brought a wide range of matters before the board so that independent directors could review them from an external perspective, recognising that the company's internal assumptions might not always align with broader societal expectations. As a result, the board continued to be perceived as a management board, and the submission criteria were not revised. **Taking the opportunity of a change in president, the company decided to revise the submission criteria** and repositioned the board from a management board to a monitoring board.
- ✓ We are considering ways to set the agenda for the board meetings. For example, on the premise that execution and supervision are separated, **progress reports are submitted to the board multiple times during the development of our mid-term business plan, rather than presenting only the final version**. This approach enables the board's feedback to be reflected into the plan.
- ✓ The matters to be discussed at board meeting were streamlined by **raising the monetary thresholds** for agenda items. This helped secure time for strategic discussions from broad, mid- to long-term perspectives. For example, the threshold for new investments and investment projects had been set at X billion yen and Y billion yen, respectively, and both were raised to Z billion yen.
- ✓ **To accelerate decision-making, the company established a management committee on the executive side as a decision-making body and delegated a significant portion of the board's decision-making authority to it**. The company has continued to delegate authority from the board to the management committee and, as a further step, has also promoted delegation within the executive side. Depending on the nature of the matter, decision-making authority has been delegated by the management committee to individual executive officers.

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Initiatives to Enhance the Functions of the Board under Each Organisational Structure (1/2)
Company with Kansayaku Board

- In some companies, regardless of their organisational structure, initiatives have been undertaken to achieve effective corporate governance **through high-level discussions at the board level and agile execution**, in light of their specific circumstances and the pace of change in the external environment. For example, some companies **have continuously reviewed, refined, and developed their approaches to the division of responsibilities and coordination among relevant parties**, including those responsible for oversight and execution, the board and its committees, and the audit committee or *kansayaku* board and the internal audit function.

Company with Kansayaku Board

In companies with Kansayaku Board, initiatives were observed to leverage the advantages of supervisory and audit functions exercised by *kansayaku*, who are independent of the board, while strengthening the board's supervisory functions through **the use of optional committees and careful design of their composition**. In addition, **efforts were made to enable the board to focus on high-level discussions** by **delegating authority on the basis of trust between supervision and execution**, streamlining agenda and reporting items, and improving coordination.

[Enhancing supervisory functions through the use of optional committees]

✓ Although the company is a Company with Kansayaku Board, it has **strengthened its supervisory functions by ensuring that independent directors constitute a majority on both the nomination and remuneration committees.** Given its supervisory functions have been enhanced in practice, the company positions itself as **a hybrid Company with Kansayaku Board**.
  - **As the frequency of board meetings and the number of agenda items increase**, the company streamlines the agenda and provides advance briefings to **ensure sufficient time for questions and answers at board meetings**. In addition, the company provides **opportunities for intensive discussion**, such as off-site meetings.
  - **Supervision by the *Kansayaku* Board from an independent standpoint, separate from the board, is highly substantial.** Although the Company with *Kansayaku* Board is an organisational structure unique to Japan, **overseas investors have not raised any particular concerns about governance at present**. This is presumably because independent directors constitute a majority and **the governance framework is regarded as appropriate**.

✓ **The Company has established an optional corporate governance committee as a forum for discussing and shaping its future governance framework.** The committee comprises all independent directors, together with the CEO, CFO, and head of the strategy division from the executive side, thereby enabling discussions between independent directors, who bring external perspectives, and executives who are well-versed in internal operations and experienced in execution.

[Initiatives to promote high-level discussions]

✓ The board **places emphasis on discussions from a high-level perspective**.
  - For a Company with *Kansayaku* Board, one contributing factor was the large number of reporting items on the board agenda. To address this, **the company streamlined the agenda by changing presenters from individuals responsible for each division to the executive officers overseeing those divisions**, thereby enabling the board to focus more on high-level discussions. **Close coordination among the board, the management committee, strategic functions, and each division is emphasised**, and **sufficient discussion at the management committee** is a prerequisite before matters are brought before the board.
  - Previously, the executive side had not earned the full trust of the independent directors and *kansayaku*, and as a result, was subject to micromanagement by them. In response, the executive side and the board secretariat made sustained and diligent efforts over many years to listen carefully to and respond to all views expressed by the independent directors rather than dismissing them, thereby building a relationship of trust with the board. As a result, **independent directors have increasingly expressed the view that substantial delegation of authority should be pursued to position the board as a forum for high-level discussions.**

I 2

Initiatives to Enhance the Functions of the Board under Each Organisational Structure (2/2)
Company with Three Committees / Company with Supervisory Committee

Company with Three Committees

In some cases, companies sought to **enable the board to function as a monitoring body** for discussing management strategy **by delegating substantial authority to the executive side**, while also **strengthening oversight by independent directors and enhancing coordination among the executive side, committees, and internal audit functions**.

[Strengthening oversight by independent directors]

- ✓ **All three committees are composed solely of independent directors, thereby strengthening oversight**. Furthermore, independent directors who are not members of these committees may participate in them as observers on a voluntary basis, thereby **strengthening coordination among the three committees and independent directors.**
- ✓ **To strengthen governance**, **the company appointed an independent director as chair of the board** three years after the transition in organisational structure.

[Enhancing coordination with the executive side, the committees, and internal audit function]

- ✓ **The board secretariat is responsible for supporting the operation of the board, the nomination committee, and the remuneration committee**. By combining these three secretariat functions**, the company facilitates coordination among the board, the nomination committee, and the remuneration committee, enabling prompt and consistent reporting to the chair**. **To ensure its independence, the audit committee secretariat is handled by a separate unit, which works closely with the internal audit function**. **It also coordinates with the board secretariat** through cross-appointments of personnel and information-sharing.
  To enhance the effectiveness of board discussions, **mechanisms have been introduced to improve communication with the executive side. A liaison meeting between directors and executive officers has been established to provide directors with information and to facilitate exchanges of views with executive officers**. In addition, initiatives such as off-site meetings have been introduced to **facilitate information-sharing and intensive discussions on important management issues**.

Company with Supervisory Committee

There were also cases in which companies **delegated certain authority to the executive side to enhance deliberations**, while **flexibly using and designing optional committees** in light of their specific issues, in order to review the division of responsibilities between execution and supervision. In addition, there were cases in which companies explored how to ensure the independence of the audit and supervisory committee from management while also achieving **appropriate division of responsibilities and effective information-sharing with the board and internal audit function**, in order to enhance corporate value and strengthen supervisory and audit functions.

[Flexible use and design of optional committees]

- ✓ Before the transition in organisational structure, the company had established an optional body to consider corporate governance, nomination, and remuneration matters collectively. However, because **both nomination and remuneration are highly important matters, there were limits to the depth of discussion when they were addressed within a single body**.
  Given the close relationship between discussions on basic corporate governance policies and the nomination of senior management, an advisory committee was established, comprising all independent directors, to address these matters in an integrated manner. At the same time, to enable more in-depth discussion of remuneration, a separate advisory committee with more limited membership was established upon the transition in organisational structure.

[Division of responsibilities and information-sharing among the audit and supervisory committee, the board, and internal audit functions]

- ✓ In preparation for the transition in organisational structure, the board confirmed the importance of coordination between **the board and the audit and supervisory committee. Efforts have been made to prevent any information asymmetry** between directors serving as members of the audit and supervisory committee and other directors.
- ✓ **The audit and supervisory committee operates independently, without involvement from the executive side, thereby ensuring its independence**. It conducts audits not only from the perspective of legality but also from that of appropriateness, and its discussions are active. On the other hand, **challenges remain as to how discussions at the audit and supervisory committee**—for example, discussions on the establishment of a CFO position in response to issues raised by external stakeholders—**should be coordinated with the board and linked to the enhancement of corporate value**. **Challenges are also perceived in the allocation of responsibilities and coordinate with the internal audit function.**

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[Column]
Perspectives Expected of the Board and Its Involvement in the Company-wide PDCA Cycle

- The board is required to fulfil its roles and responsibilities—including **setting the broad direction of corporate strategy, establishing an environment that supports appropriate risk-taking by management, and ensuring effective supervision**—while **continuously considering its ideal state in light of each company's circumstances**.
- Experts have pointed out that **the board should complement management's perspective and, in light of the overall strategy, appropriately support and encourage management. They have also noted that, as the body responsible for driving the PDCA cycle, the board should continuously monitor the progress in strategy implementation**.

Key Comments

✓ At the board level, it is important to **discuss strategy with a view to the company's desired long-term future state**.

✓ While the executive side may become either overly risk-averse or, conversely, underestimate risks in its strong push to advance initiatives, **the board should, in light of the overall strategy, appropriately support and encourage management**.

✓ For the board to add value to the strategies formulated by the management, it is necessary to ask **high-quality questions that compensate for perspectives that may be lacking on the executive side**. To do so, **it is important that the board not become overly immersed in the details of the business or adopt the same perspective as the management, but instead bring different perspectives, including external viewpoints and broader, high-level perspectives**.

✓ **The board should be the body that drives the company-wide PDCA cycle**. The supervisory side and the executive side should both be involved in planning, the executive side should implement those plans, and the supervisory side should review the outcomes. The results should then be fed back to the executive side and reflected in subsequent actions. **The board as a whole should be mindful of this PDCA cycle**.

✓ To achieve this, **both the supervisory side and the executive side need to fully recognise their respective roles**. It is necessary that all parties share a common understanding of which stage of the PDCA cycle is under discussion and **assume clear responsibility for ensuring that the cycle is carried through to completion by fulfilling their respective roles**.

✓ In executing a strategy, deviations from the originally envisioned outcome inevitably arise. It is not sufficient for the board to discuss the appropriateness of the strategy and its implementation only once a year in accordance with the annual agenda. **The board should identify key elements of the strategy, continuously monitor progress, assess deviations from the original plan**, and require management to explain the underlying causes and the measures to address them. In response, **management should carefully consider the points raised by the board and engage in discussions grounded in actual conditions, thereby maintaining a constructive degree of tension and ensuring that the PDCA cycle functions effectively**.

Note: The above reflects remarks made by Ms. Takayo Hasegawa (Representative Director and Chairman of SWCC Corporation) and Ms. Chieko Matsuda (Professor, Graduate School of Management, Tokyo Metropolitan University) at the Symposium of the Consortium for the effective implementation of corporate governance, held on 17 December 2025. Their affiliations and titles are as of the time of the event.

CEO Succession (1/2)

- The board is required to **be proactively involved in the development and implementation of CEO succession planning** and to **provide appropriate oversight to ensure that the successor development and the selection of a suitably qualified CEO are carried out in a planned manner with sufficient time and resources**.
- In some companies, **the nomination committee leads discussions on CEO candidates and is involved in their development. By reviewing their approach to candidate selection in light of their specific circumstances**, these companies are working toward effective CEO succession.

CEO Succession

✓ **The nomination committee plays a leading and ongoing role in CEO succession planning and in developing executive candidates.** [Company with Three Committees]

Functions of the Nomination Committee

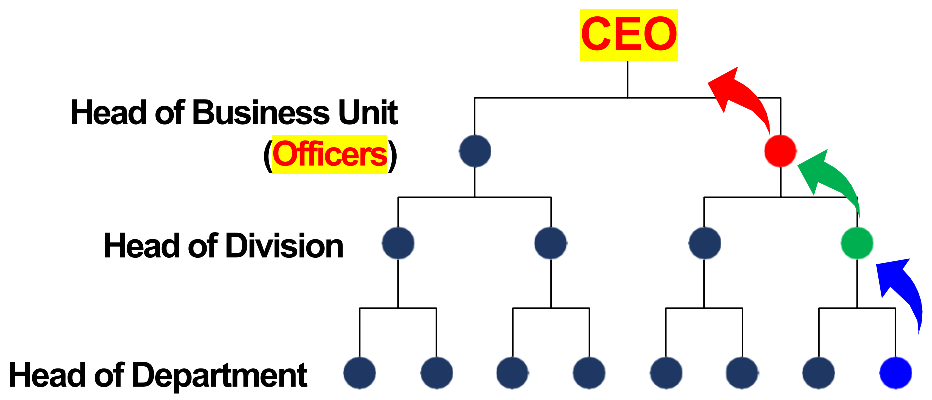
- Following a management crisis, the company undertook corporate governance reforms, including a review of the board's composition, which led to more active board discussions. As a further initiative, the company significantly revised the functions of the nomination committee based on the view that **the board's most important responsibility is to select the next CEO**.
- Previously, the selection of the CEO had, in substance, been the exclusive prerogative of the chair(*kaicho*) and the president; however, discussions among directors, centred on the nomination committee, became increasingly active. In addition, **the nomination committee has become involved in developing future CEO candidates**.
- The nomination committee discusses potential future CEO candidates and, **with a view to developing future management leaders, deliberates on their selection and holds individual meetings with them**.

Development and Selection of Executive Candidates and Succession Planning Approach

- In the past, management candidates were typically developed through the accumulation of experience within individual business areas. However, to cultivate management talent capable of responding to a rapidly changing business environment, **the company has adopted a policy of identifying candidates at an early stage and providing them with a broad range of experiences** (see next page).
- With regard to CEO succession planning, as the pace of change in the business environment accelerates, the company aims to establish a framework to ensure the timely and appropriate identification and development of management talent capable of leading the group's global business and realising its growth strategy. To this end, the company also **places emphasis on selective training programs designed to accelerate the development of future management candidates from an early stage**.
- In these selective training programs, participants discuss what is required for the company's growth and are given opportunities to make proposals to senior management. Through this process, the company seeks to develop next-generation leaders who can think with a sense of ownership and act with ambition.

CEO Succession (2/2)
(Reference) Example of a Reviewal of the Selection Process (Image)

< Previous >
Tournament-style selection within the same organisation



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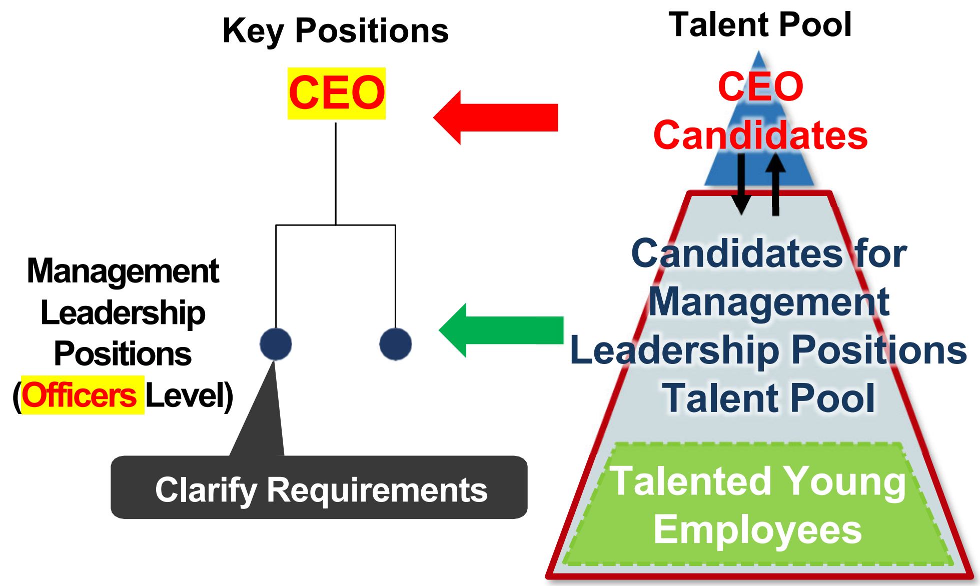
Selection based on requirements from the overall talent pool



Key Features

Previous	Current
Selection of employees from lower-level positions within the same organisation based on outstanding performance	Clarify the requirements for the CEO and other management leadership positions, and select candidates from within or outside the company based on an evaluation of performance and potential

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Initiatives Related to Independent Directors (1/4)
Interaction among Independent Directors / Dialogue with Investors

■ Some companies have introduced initiatives such as **creating opportunities for disccusion and interaction among independent directors (executive sessions), as well as facilitating dialogue between independent directors and investors, thereby helping to stimulate board discussions and reflect investors' views**.

Interaction among Independent Directors

- ✓ **Outside officers and non-executive directors hold private sessions in the absence of the president and executive officers. The discussion is shared with the board secretariat and the president, and is reflected in the board agenda.** It also serves as a forum for information-sharing among independent directors.
- ✓ In addition to the regular board meetings held in the conference room at the head office, **opportunities were created for free and open exchanges of views among directors in an off-site setting, without materials or minutes. Regardless of whether they were internal or external directors, candid discussions were held, including on how board deliberations should be conducted. Following these opportunities, the atmosphere among directors appears to have become more open and dynamic, enabling more effective discussions.**
- ✓ **To reduce information asymmetry and strengthen relationships among independent directors, a liaison meeting for independent directors is held once every quarter.** At these meetings, participants conduct site visits to business locations and group companies, and also discuss agenda items that should be addressed by the board.

Dialogue between Independent Directors and Investors

- ✓ **The outcomes of dialogue between independent directors and investors on monitoring are reflected in board discussions.**
  - **In the past, independent directors had no opportunities to engage directly with investors. However, recognizing that independent directors represent shareholders, the company established forums two years ago to hear investors' views.**
  - Unlike dialogues involving the CEO or COO, these discussions are conducted from the perspective of how the monitoring board views these matters. **The board secretariat may review the content of dialogues with institutional investors in advance and, where questions should be directed to the executive side, may request that they be framed from a monitoring perspective.**
  - In the fiscal year ended March 2025, we invited domestic and international active institutional investors that have invested in the company over the long term and held two dialogue sessions with independent directors.
    <Example of dialogue themes>
    - ➢ ROE, cost of capital, financial strategy
    - ➢ Board involvement and oversight of sustainability and corporate purpose
    - ➢ Remuneration for directors and executive officers
  - Including key feedback received from investors in the above-mentioned dialogues between independent directors and investors, **investor views are regularly reported to the board and reflected in management decisions and discussions at the board.**
  - While the company has initially began these forums with institutional investors that are already familiar with the company, it aims to open them more broadly in the future.

Initiatives Related to Independent Directors (2/4)

Building Trust with Independent Directors: The Role of Management and the Board Secretariat

■ In some cases, the executive team and the board secretariat gradually built a relationship of trust by responding sincerely to the views of independent directors, which led to the articulation of board culture aimed at enhancing corporate value and fostering lively board discussions.

Building Trust with Independent Directors: The Role of Management and the Board Secretariat

✓ **Building trust through sustained and sincere responses to the views of independent directors**

- In the past, there was a very challenging period during which management had not earned sufficient trust from independent directors and *kansayaku*. At board meetings, independent directors and internal directors, as well as *kansayaku* and management, were often in sharp disagreement. Given this relationship, management at the time was subject to close oversight by the independent directors and *kansayaku*. For example, it was sometimes necessary to hold multiple preliminary briefings before board meetings.
- To improve this situation, **the president and other members of management, together with the board secretariat, made steady efforts over many years to ensure that the views of the independent directors were never dismissed but were fully heard and addressed**. As a result, the level of trust in management among the independent directors and *kansayaku* gradually increased, and **a relationship of trust, coupled with constructive tension** has now been established.
- In the process of building such a relationship of trust, all directors, *kansayaku,* and executive officers came to share the enhancement of corporate value as a common objective. To carry this momentum and experience forward, and taking into account external feedback received through the board effectiveness evaluation, the Board Culture was documented so that the board could continue working toward the achievement of this shared objective.

✓ **Building trust with independent directors through collaboration between management and the board to overcome underperformance**

- **In the process of recovering from a period of poor performance, the management team incorporated suggestions from the independent directors into its plan and implemented them steadily. This has helped build a relationship of trust between the independent directors and management.** In such a relationship of trust, board discussions naturally become more active, and the independent directors have commented that the board provides an environment for free, open and vigorous discussion.
- Currently, about half of the directors have been reappointed since the current president took office. The fact that most of board members worked together to overcome a difficult period and share the successful experience of recovery, together with the continuity created by the repeated reappointment of independent directors, which enables them to share their knowledge of the company with newly appointed independent directors, may also contribute to free-flowing board discussions.

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Initiatives Related to Independent Directors (3/4)

Providing Opportunities for the Exchange of Diverse Views / Observing Management Committee Meetings

■ Some companies are implementing various initiatives to deepen independent directors' understanding of their businesses.

Providing opportunities for the exchange of diverse views

- ✓ Informal **opinion exchange sessions between independent directors and the President/CEO** are held outside of board meetings. Free and open discussions are held on topics that the president wishes to discuss more **candidly**.

- ✓ To help independent directors better understand the company, the following initiatives have been implemented:
  (1) Announcement of internal events related to topics discussed at the board, such as DX and product quality;
  (2) Visits to business site aimed at deepening understanding of manufacturing operations (In FY2023, in response to independent directors' requests to visit relevant business sites and observe firsthand the operations related to items on the board agenda, board meetings were held at one of the company's sites); and
  (3) Meetings held exclusively for independent directors, followed by **dialogue between independent directors and executive officers** based on the discussions at those meetings.

  As for the meetings for independent directors mentioned in item (3) above, their frequency has been increased to six times a year. Multiple dialogues between independent directors and executive officers are arranged to enhance communication among them.

- ✓ Following each board meeting, **the chair (an independent director) and the CEO hold a review session** to align on matters such as the agenda for the following month and beyond.

Observing Management Committee Meetings

- ✓ Independent directors may **attend management committee meetings as observers on a voluntary basis**, and meeting materials are shared with them.

- ✓ Independent directors **attend management committee meetings in person as observers**. Accordingly, on board meeting days, **management committee meetings are held in the morning, followed by board meetings in the afternoon, allowing independent directors to attend both in person**.

  Because officers provide briefings at management committee meetings, a natural sense of tension is maintained. Another benefit is that independent directors can gain a fuller understanding of officers' remarks, which can then be taken into consideration when evaluating the officers and determining their compensation.

Ⅱ

Initiatives Related to Independent Directors (4/4)
Leveraging Expertise / Understanding Frontline Operations and Engaging with Employees

■ Some companies are implementing various initiatives to make full use of the knowledge of independent directors, such as involving them in M&A processes, developing next-generation management talent, and engaging with younger employees.

Leveraging Expertise

- ✓ For large-scale M&A transactions, the company formed a team to **promote and monitor post-merger integration** (PMI) and included independent directors in that team. **Their knowledge and experience** were leveraged to design appropriate programmes to enhance synergies and reduce post-PMI turnover, thereby retaining key talent. In line with the board's supervisory role, independent directors also helped ensure robust discussions on PMI.

  Each independent director brings different expertise and knowledge. **Depending on the circumstances**, companies should **make full use of their extensive expertise**, including in areas such as M&A.

- ✓ Some independent directors serve as **instructors in training programmes for younger employees**. Since independent directors serve on the nomination and remuneration committee, **training programmes for next-generation management talent** also provide useful reference points for their discussions on nominations. We believe that having an independent director serve as an instructor in such training programmes is a highly effective approach.

Understanding Frontline Operations and Engaging with Employees

- ✓ Younger employees can communicate with independent directors from diverse backgrounds, and this interaction is expected to help them develop their capabilities. In addition, independent directors also contribute to the development of younger employees in the pool of candidates for management leadership positions, enabling them to **participate in the succession process**. We intend to continue this initiative.

- ✓ Independent directors and *kansayaku* are given opportunities **to visit business sites and engage with employees**.

- ✓ When a new independent director assumes office, **the company provides an overview of its history and arranges factory tours as part of the onboarding programme**. After independent directors assume office, the company continues its efforts to address information asymmetry between independent directors and internal directors, as well as among independent directors, **through site visits and other measures**.

- ✓ To deepen independent directors' understanding of the company, the company conducts site visits to domestic and overseas plants, R&D centres and other facilities. One independent director commented, "At board meetings, you can only meet the personnel making reports, such as business and administrative managers. **Site visits, however, provided valuable opportunities to meet and interact with employees on the ground.**" **You can also ask questions of those working on the ground, verify whether their answers are consistent with what is reported at board meetings, and meet the next generation of leaders**.

[Column]
Expertise Required of Independent Directors

■ For independent directors to fulfill their roles and responsibilities appropriately and effectively, it is necessary **to appoint a certain number of individuals with the expertise required to do so**.

■ In discussion with panellists active in the practice and study of corporate governance, some pointed to **the expertise required of independent directors in light of the ideal state of the board.**

Key Comments

✓ Independent directors should draw on their knowledge and experience in corporate management and their respective areas of expertise **to determine whether they have a sufficient understanding of and confidence in the management strategy**, including whether any points remain unclear, whether risks and the measures to address them have been sufficiently examined, and whether management is missing earnings opportunities by being overly cautious in taking risks.

✓ The board is accountable to shareholders and other stakeholders, and independent directors in particular are expected to represent shareholders' interests. Therefore, **the external perspective, especially that of investors, should always be kept in mind**. When considering and discussing the future internally, discussions are often framed in a sequential manner, with the future viewed as an extension of the current situation. However, it is also important for the board to ask: "What if the future were considered in a non-sequential manner?"

✓ **Independent directors should be selected based on the direction the company seeks to pursue over the mid- to long term and should possess the skills necessary to support the company's growth.** To fully leverage the skills of such independent directors, it is necessary not only to discuss regularly, in accordance with the annual agenda, the gaps between strategy and execution identified through the board's oversight within the PDCA cycle, but also to maintain continuous dialogue on those gaps. It is important for both the supervisory side and the executive side to maintain a constructive sense of tension in a relationship in which each is subject to constant scrutiny by the other.

✓ For independent directors to demonstrate their skills and for the board to fulfill its supervisory role, **it is important to maintain consistency with the company's strategy.**

Note: The above reflects remarks made by Ms. Takayo Hasegawa (Representative Director and Chairman of SWCC Corporation) and Ms. Chieko Matsuda (Professor, Graduate School of Management, Tokyo Metropolitan University) at the Symposium of the Consortium for the effective implementation of corporate governance, held on 17 December 2025. Their affiliations and titles are as of the time of the event.

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Ⅲ 1

Organisational and Structural Arrangements for the Board Secretariat Functions (1/3)

- **The organisational position of the board secretariat varies from company to company; it may be located (i) on the management side, (ii) directly under the board, (iii) somewhere in between**. In the above cases under (i), the board secretariat is established as a dedicated organisation or as a cross-functional organisation.
- Some companies have **reviewed the organisational positioning of the board secretariat by constantly reassessing the role in supporting the board**, taking into account the characteristics of each of the above arrangements.

Organisational and Structural Arrangements for Secretariat Functions

Management

Dedicated Organisation

- ✓ The Board Office (取締役会室), a dedicated organisation, is in charge of the board secretariat function. Although the legal department previously served as the board secretariat, **a new organisation dedicated to this function has been established under the Strategic Headquarters, specifically within the Corporate Planning Group, which is responsible for the executive management committee**. This has enabled information from the executive side to be conveyed to the board secretariat in a timely manner. This facilitates the provision of information to independent directors through the board secretariat and helps reduce information asymmetry between independent directors and the company.
- ✓ Previously, the Corporate Planning Department was responsible for administrative functions, but a new organisation was **established to consolidate and strengthen corporate governance functions**, including the board secretariat and enterprise risk management. However, because not all functions directly linked to the board, such as the nomination committees and remuneration committees, have been consolidated, there remains room to improve the organisational structure and delegation of authority in order to maximise the benefits of consolidation.

Cross-functional Organisation

- ✓ There is no dedicated organisation serving as the board secretariat. The HR, corporate planning, legal affairs, and internal audit departments work together to support the operation of the board, with **the board secretariat function strengthened through closer cooperation among existing organisations**. This organisational structure has the advantage of reducing the distance between the secretariat and the internal departments, that serves as sources of information, thereby making it easier for the board secretariat to collect internal information.
- ✓ **In line with the roles defined by the board ("setting the overall direction," "supporting risk-taking in business execution," and "appropriately supervising business execution"), the board secretariat operates as a virtual organisation** with the participation of the Corporate Planning Department and the Legal and Compliance Department. While we see no issues with the current arrangement, we continue to consider the optimal structuture for the board secretariat so that the board can perform its functions effectively.
- ✓ The system is compact and proportionate to the size of the company, with a total of four division heads and general managers in the Corporate Management Headquarters serving as the board secretariat. Each member of board secretariat also serves on the secretariat of internal committees, such as the Management Committee and the Project Committee. By taking advantage of this compact structure, the board secretariat seeks to ensure that **each internal committees operates efficiently, with a view to facilitating submissions to the board**.

Directly Under the Board

- ✓ The board operation is managed by the Board Office (取締役会室). The organisation **reports directly to the board, is not subject to the direction of management, and operates independently of other departments, including the Legal Department. Reporting directly to the board helps ensure independence and strengthens coordination with independent directors**.

Intermediary Function

- ✓ In the organisational chart, the board secretariat is **positioned between the board and the CEO. They belong neither entirely to the monitoring side nor entirely to the management side**, rather they focus on building consensus, facilitating communication, and **coordinating from a neutral position.**

Ⅲ 1 Organisational and Structural Arrangements for the Board Secretariat Functions (2/3)

■ To ensure the effective operation of the board, initiatives have been undertaken to strengthen the board secretariat functions through **measures such as realigning its organisational position in line with the new organisational structure and enhancing coordination among relevant departments**.

Organisational and Structural Arrangements for the Board Secretariat Functions

- ✓ The Corporate Governance Office (*コーポレートガバナンス室*) serves as the board secretariat. In addition, the company has appointed a Corporate Secretary, who serves as a bridge between the supervisory and the executive functions, fosters trust through effective communication, and leads governance reforms to ensure the appropriate operation and continued enhancement of the board and the management committee. **These functions were established at the same time as the transition in organisational structure.** Prior to this, the Legal Department served as the board secretariat. The Corporate Governance Office also serves as the secretariat for the nomination, remuneration, audit, and executive committees under the Corporate Secretary, thereby strengthening coordination with the management, including the chair and the president.

  Prior to the transition in organisational structure, the secretariat functions for each committee were handled separately. Although some coordination existed among them, it was not always adequate. **By consolidating these functions into a single unit, the company has been able to operate a unified secretariat.** For example, operational practices, including meeting formats, differed across departments; however, integrating these functions within a single unit has made those differences clear and **improved the standardisation and efficiency of committee operations**.

  Through **cross-appointments of personnel from the Corporate Governance Office to other departments**, the office has gained a comprehensive understanding of the activities of not only the board but also each committee and the management committee, thereby strengthening coordination with relevant departments such as corporate strategy.

  The role of the board secretariat is to develop a thorough understanding of the company and support independent directors in the effective performance of their functions. To this end, it acts as a hub for relevant departments and works on an ongoing basis to organise the necessary information and enhance the quality of materials, thereby contributing to more effective discussions at the board.

- ✓ **A dedicated board secretariat has been established.** The company has established the nomination committee and the remuneration committee as voluntary bodies, and the dedicated secretariat also serves as the secretariat for these committees.

- ✓ **In conjunction with the transition to a Company with Three Committees, a dedicated department has been established to serve as the board secretariat. The department serves as the secretariat for the board and committees—the nomination committee, and the remuneration committee—thereby strengthening coodination among the committees and ensuring prompt and accurate reporting to the chair**. To ensure independence, the audit committee secretariat is handled by a separate department, which works closely with the internal audit function and coordinates with the board secretariat through dual appointments of responsible personnel and the sharing of communication notes**.**

Organisational and Structural Arrangements for the Board Secretariat Functions (3/3)

■ Whether the board secretariat is responsible for the operation of the board or the operation of the general shareholders meeting **depends on the position of the board secretariat within each company.**

Organisational and Structural Arrangement for the Board Secretariat Functions

✓ The board secretariat function is handled by the staff responsible for important meetings and corporate governance in the General Administration Department. In addition, the Corporate Governance Section handles internal approval process, prepares for and operates the general shareholders meeting, and manages internal rules. **Multiple staff members serve concurrently as the board secretariat for both the board and the management committee.**

✓ **The Corporate Governance Department serves as the secretariat for the board and the general meeting of shareholders**. It is part of the compliance function. The board secretariat function was originally handled by the General Administration Department, and subsequently by the Legal Department. In April 2024, a dedicated Corporate Governance Department was established as an independent unit to strengthen corporate governance.

The secretariat functions for the nomination and remuneration committees are handled by other departments, while the Corporate Governance Department serves as the secretariat for the *Kansayaku* Board.

✓ The Board Office (*取締役会室*) has [x] members in total. **The nomination committee and the remuneration committee are operated by the Board Office**. Half of the Board Office members are in charge of both the nomination committee and the remuneration committee. The members of the nomination committee and the remuneration ommittee are the same, with only the chairs differ.

Given the nature of its audit function, **the secretariat for the audit committee is handled by a separate unit.** The secretariat is staffed by [x] full-time staff members. Performance evaluations of the secretariat staff are also submitted to the Audit Committee from the management side, and the executive officers are not involved in the operation of the Audit Committee secretariat.

Recognizing the Board Office as **a key link between the board and management**, **an executive officer was appointed as the head of the board office** last year, to help enhance board effectiveness by facilitating communication between the board and the executive side, including the CEO.

In the organisational chart, the board secretariat is **placed between the board and the CEO**. Board secretariat is **not entirely on the monitoring side or the management side**. it emphasises consolidation, communication, and **the consolidation of views, and operates from a neutral position**.

Roles of the Board Secretariat (1/3)
Preparation for Board Meetings - Careful Prior Coordination with the Chair

■ In some cases, **the board secretariat worked closely with the chair before board meetings** to ensure that **appropriate agenda items discussed in light of each company's circumstances and the problem awareness of the chair**.

Careful Prior Coordination with the Chair

✓ As a measure to facilitate broad and strategic discussions, the company **maintains close coordination with the independent director serving as a chair**. Specifically, for each board meeting, the board secretariat holds two to three meetings with the chair - immediately before and after the board meeting, and before the preliminary briefing. Although the board secretariat has become busier since an independent director became the chair, we believe that the effectiveness of the board has improved.

For example, when an internal director served as chair in the past, that person devoted time to listening to the opinions of the independent directors. However, **now that an independent director serves as chair, the chair actively listens to the opinions of the internal director at board meetings.**

The increased opportunities for dialogue between the chair and the board secretariat have enabled independent directors to provide feedback to the board secretariat on the board's operation, including comparisons with other companies —perspectives that are unique to independent directors. This feedback is now reflected in the subsequent board meetings. In meetings with the chair, the board secretariat considers the allocation of time for the board meeting and the discussion points for important agenda items.

✓ The board secretariat, **together with the chair, who is an independent director**, and the CEO and the COO, sets the board agenda with a focus on priority themes. In addition, the company seeks to enhance board discussions **by creating opportunities to discuss key topics outside formal board meetings.**

Under the initiative led by an independent director serving as the chair, the company ensures that presentations are kept concise and that **most of the meeting time is devoted to Q&A and discussion.** Questions brought up in the board meeting are raised freely by directors.

✓ **Meetings between the chair and the board secretariat are held about twice a month**, in addition to the board meetings. The board secretariat understands the chair's perspectives on issues relating to the board, such as how to encourage mid- to long-term discussions, and reflects those views in the board operations.

Roles of the Board Secretariat (2/3)
Preparation for Board Meetings - Pre-briefings for Board Meeting Attendees

■ **To facilitate active discussions at board meetings**, companies make efforts to distribute **materials in advance, brief independent directors beforehand**, and **hold meetings outside the board meetings**, depending on their policy and the degree of maturity of the board.

Pre-briefing for Board Meeting Attendees

- ✓ In the past, discussions at the board meetings were not very active. This was because the board secretariat was unable to grasp **the views, perspectives, ideas, and concerns of each director**, and the Q&A session tended to take the form of a one-by-one style. Therefore, to better understand each director's views, the company set up meetings outside the board meetings, such as off-site meetings, executive sessions with only independent directors, and individual meetings between the CEO and independent directors.

  By providing such opportunities for discussion outside board meetings, communication among directors improved, enabling the board secretariat to better understand each director's views and comments, and to **reflect them in the way meetings were operated**.

- ✓ The company's basic policy is that the board meetings should have active discussions and deliberations by directors. As such, the board meetings are conducted primarily in person. To maintain this operating policy of the board, the board secretariat makes efforts **to distribute board materials to each director well in advance of the meetings**, but it **does not provide advance briefings on proposals or engage in *nemawashi* (informal prior consultation to build support for proposals) with individual director**.

- ✓ To ensure effective, wide-ranging and strategic discussions within a limited time frame, the company has provided advance briefings to **address information asymmetry** between internal and external directors and has worked to refine its operations. Based on the questions and views raised during the advance briefings, the company identifies the matters to be discussed at the Board meeting and coordinates the agenda, the content of the explanations, and the time allocation between the responsible department and the board secretariat.

  The responsible department provides independent directors with the necessary explanations in advance of board meetings. **We enhanced prior coordination with the business divisions** responsible for explanaining how reporting and advance briefing at board meetings should be conducted.

- ✓ Because board meetings are time-constrained, we hold online **pre-meeting information sessions for about two hours**. On the other hand, **some independent directors do not wish to receive advance briefings**, partly because they are time-consuming.

- ✓ The board is chaired by an independent director. **Both the representative executive officer and the board secretariat brief the agenda and key issues to the chair and then distribute materials and provide advance briefings to each director**, so that the board can focus on its deliberations at the board meeting.

Roles of the Board Secretariat (3/3)
Understanding Directors' Perspectives and Addressing Information Asymmetry

■ Efforts were also made **to strengthen communication between individual directors and the board secretariat outside the board meetings** to better understand the the directors' views. In addition, **efforts were made to address information asymmetry**, such as the board secretariat reporting to the board information regarding the Management Committee discussions and arranging opportunities for independent directors to receive briefings on business operations.

Understanding Directors Perspectives Immediately After the Board Meetings and Addressing Information Asymmetry

- ✓ After each board meeting, the **independent directors hold a meeting called "Independent Directors Meeting" attended only by independent directors**. **The board secretariat attends the meeting** and asks independent directors about the discussions. This enables the board secretariat to better understand the independent directors' views and contribute to more substantive discussions. In addition, **a group was established** within the Independent Directors Meeting **in FY 2024 to review and discuss the progress of key managerial initiatives**. Focused communication between independent directors and top management on specific topics can help bridge information gaps more effectively.

- ✓ Immediately after each board meeting, **the Office of the Board interviews the directors about the positive points and areas for improvement.**

- ✓ We consider it important to share information with the board and address information asymmetry, **and we regularly report to the board on the status of discussions at the Management Committee** (particularly those related to risk management, such as cyber risk, generative AI, and governance). One inside director who is also an audit committee member attends the Management Committee as an observer, which also helps facilitate information sharing.

- ✓ For the board and the executive team to function as two wheels on the same cart, it is important that **the information obtained by the executive team be adequately conveyed to the board** and that a relationship be established in which **both sides can align their views and discuss issues from a perspective that aims to enhance corporate value**. The board secretariat supports independent directors in resolving information asymmetries by arranging opportunities for the heads of business units to explain their operations and strategies to independent directors, taking into account the needs of independent directors.

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IV

Board Effectiveness Evaluation (1/4)
Positioning and Roles of Board Effectiveness Evaluation / Use of External Organisations

- Some companies have taken **steps to ensure that board effectiveness evaluations do not become mere formalities by making the PDCA cycle function effectively.** For example, they **have clarified the positioning and roles of effectiveness evaluations**, and have **responded quickly to issues identified and followed up on the status of responses**.
- The use of external third party varies among companies. Many companies use both internal evaluation and external third parties in combination, taking into account the following points: **internal evaluations enable directors to discuss issues they encounter in their daily work**, **while external third parties provide candid opinions and the perspective of third parties**.

Positioning and Role of Board Effectiveness Evaluation

✓ It is important that **the evaluation of board effectiveness is** not for the purpose of mere disclosure, but **for the purpose of enabling the board to perform its functions properly and thereby achieve the sustainable enhancement of corporate value.**

✓ **The board secretariat is steadily implementing detailed improvement measures based on the evaluation results,** and using the effectiveness evaluation **to enhance the quality of board discussions** by improving the content and methods of information-sharing by the board secretariat and the atmosphere of the board.

The effectiveness evaluation has two aspects: it is a tool for identifying issues and a tool for confirming the status of responses to those issues. We consider that the role of the effectiveness evaluation **as a tool for identifying issues to be particularly important**, and we use evaluation from this perspective.

✓ After conducting a questionnaire survey of board members in August each year as part of the board effectiveness evaluation, the board secretariat presents the resulting issues and challenges at the September board meeting, and the board discusses the agend setting for the following year based on those issues at the October board meeting**. By promptly linking the results of the board evaluation to measures addressing identified issues,** the process avoids becoming a mere formality.

✓ The views expressed by directors in questionnaires and individual interviews are followed up on continuously. **Directors recognise that the views expressed in the effectiveness evaluation will be taken seriously.**

✓ The board effectiveness evaluation **leads to ongoing efforts to improve the board's effectiveness on a fiscal year-by-year basis**. The evaluation for each fiscal year begins in January every year. Around March, the issues and areas for improvement identified in the evaluation are discussed in advance with the chair of the board, and the evaluation is then reported at the board meeting in April**.** Since FY 2024, an external third-party evaluation has been conducted **to support continuous improvement of the board's operation and discussions.**

Use of External Organisations

✓ To ensure objectivity and to incorporate best practices in evaluation methods, we have **outsourced questionnaires and interviews to external experts** for several years. **One advantage** of outsourcing and anonymization is that **independent directors can provide candid and in-depth views**. The **final evaluation, however, is not be left to the external experts, it is determined by a resolution of the board**.

✓ **Questionnaires and interviews are outsourced to external third parties** to ensure objectivity and anonymity, but **the final evaluation is conducted internally.** In conducting the evaluation, the board secretariat and external third parties engage in repeated discussions regarding the content of the questionnaire and the evaluation process. To avoid complacency, the contractor is changed once every three years.

✓ **An internal evaluation is conducted annually** using questionnaires and interviews. Internal evaluations **allow directors to engage in in-depth discussions on issues they encounter in their day-to-day work**, while **external evaluations, which have been conducted since before the introduction of the Corporate Governance Code, are carried out once every three years.** External evaluations help ensure objectivity and neutrality and **allow directors to speak candidly about matters that may be difficult to raise internally**.

Board Effectiveness Evaluation (2/4)
Scope of the Evaluation / Methods for Collecting Opinions

- In many cases, self-assessments rather than peer assessments were used within the scope of **the evaluation**. In addition, in many cases, the evaluation covered the board as a whole rather than individual directors.
- Some companies used questionnaires and conducted interviews. While there is an advantage in **receiving candid views and in-depth analysis through discussions**, some pointed out that **similar results can be achieved through free-response sections in questionnaire**, particularly in light of the burden associated with conducting interviews.

Scope of Evaluation		✓ **Although a self-assessment format** is used, it has the limitation that self-assessment tend to be biased toward higher scores, making it difficult to analyse. ✓ **Evaluations were not conducted on an individual director basis.** Some external experts have suggested using individual evaluations, while others have explained that, in practice, self-evaluations are often treated as individual evaluations. **If the evaluation is limited to self-assessment, it is not necessarily effective in evaluating individual.** ✓ In addition to evaluating the board as a whole, **directors also provide individual feedback to one another through questionnaires.**
Methods of Collecting Opinions	Questionnaire	✓ **The survey is conducted once a year in the form of a questionnaire,** including free text responses, and the issues identified through the questionnaire are addressed in good faith to support improvement. At present, we believe that there are no issues with the questionnaire-based approach. ✓ **The survey is conducted in the form of a questionnaire,** however, as an ongoing matter, the company is consulting with the chair who is an outside director, on how to conduct interviews. ✓ **The anonymous questionnaire on the board effectiveness** was prepared by the board secretariat based on input from investors and trust banks. The "Board Issues" item is open-ended.
	Interviews and Questionnaire	✓ A questionnaire consisting of approximately 25 questions, including five-point rating items and free-text responses, was administered. In developing the questions, the board secretariat has taken a creative approach to identifying issues based on trends among investors and regulators. The free-text format is useful for eliciting candid views that may be difficult to express in person. **Interviews are conducted by an external third party once every three years** and are used for in-depth analysis. ✓ After the questionnaires were administered, individual interviews were conducted, the results were compiled by the independent directors. **In the individual interviews, we received many candid views.** ✓ The chair reports to the board on the results of questionnaire administered by the board secretariat and the individual interviews conducted with all directors. **In particular, individual meetings are regarded as a valuable opportunity to obtain candid views.** ✓ **Each year, we conduct a questionnaire survey, followed by individual interviews based on the survey results.** The questionnaire is used as a basis for individual interviews. **Individual interviews of one hour each are conducted with all directors and *kansayaku***, and the results are then discussed. ✓ To evaluate the effectiveness of the board, **a questionnaire survey is conducted for all directors and individual interviews are conducted with independent directors and internal directors**. The results of these surveys are discussed by all directors, and improvement measures are considered and implemented based on the issues identified. ✓ With the support of an external firm, **all directors are asked to respond to a questionnaire and participate in interviews covering 30 to 40 items** in order to obtain their views on the management of the board and agenda-setting.

IV

Board Effectiveness Evaluation (3/4)
Topics and Items / Examples of Utilisation of Evaluation Results

- In addition to evaluating the board's deliberations, discussions, and operations, some companies identify and **extract broader issues such as the board's ideal state and functions, business strategy, and the enhancement of corporate value, from a mid - to long-term perspective**.
- In some cases, the results of board effectiveness evaluations were used to **improve the quality of management meetings**, which form the basis for discussions at board meetings, to **select independent directors** whose skills align with the company's mid- to long-term strategy, and to **set the board's agenda**.

Topics and Items		
	Discussion, Management Issues, and Directors' Perception of Issues	✓ The question included the item **"Are discussions at the board strategic?,"** and the responses helped awarenes. ✓ We place particularly **emphasis on identifying management issues**. Accordingly, the questionnaire is designed to elicit opinions by (i) asking what the company's management issues are, and (ii) incorporating matters identified by the board secretariat and the responsible officer that the independent directors and company auditors particularly wish to address. ✓ The board secretariat and an external third party discussed the questionnaire**, developed a version that highlighted the issues identified by the board members**, and finalised it after consultation with the internal and external directors.
	Composition, Operation and Deliberation of the Board	✓ **The composition and operation of the board, advisory committees, the *kansayaku* board, and board secretariat are assessed on the basis of fixed point observations,** and an open-ended comment section is also provided. ✓ Key evaluation items included the **role, functions, and composition of the board; the operation of the board**; cooperation with the audit firm and risk management; relationships with shareholders and investors; optional committees; matters that should be discussed and shared more extensively; and other open-ended questions. The basic evaluation items are kept unchanged in order to track the changes over time. ✓ To obtain candid views of independent directors, we always ask them questions about **the preparation for the board meeting, agenda setting, and the operation of the board secretariat.**

Examples of the Use of Evaluation Results

- ✓ **The external evaluation had made it clear that the board should be composed of directors with a holistic view of the company**, rather than business unit managers. In response, **some directors were replaced.**
- ✓ **The quality of discussion in the executive committee, which formed the basis for board discussions, was subject to strong criticism**, and under the leadership of the president at that time, **the company undertook reforms of the executive committee.** The number of members was reduced to an appropriate size, and corporate officers were appointed as members, half of whom were foreign nationals. This has transformed the executive committee into a forum for active discussion and **has improved the quality of the board discussions.**
- ✓ To address the issues identified in the board effectiveness evaluation, **an independent director with expertise in human resource development and human resource strategy was appointed.**
- ✓ **The threshold for proposals requiring board approval was raised to focus the board's discussions on substantive matters.**
- ✓ Some members expressed the view that the board should shift to a monitoring model, and we sought to **secure sufficient time for discussion and improve advance briefing**.
- ✓ In addition to the statutory agenda items, we **developed an agenda-setting approach that would enable discussions from a strategic perspective**.
- ✓ Directors' views obtained through the board effectiveness evaluation are presented to the board. The board then discusses areas that should be improved. The representative executive officer shares the areas that should be improved with the executive side and conducts a review. **Six months later, the board confirms whether the issues have been resolved and whether any issues remain outstanding.**

Board Effectiveness Evaluation (4/4)

Disclosure Examples: Measures Taken to Address Issues Identified in the Evaluation and Future Policies

■ Some companies **disclose on their websites** not only the results of board effectiveness evaluation but also **the measures taken to address issues identified in those evaluations and future policies.** Such efforts are considered effective in further strengthening board functions and promoting constructive dialogue with shareholders.

[Disclosure Examples: Measures Taken to Address Issues Identified in Board Effectiveness Evaluations and Future Policies]

Example 1

Progress in addressing issues identified in the effectiveness evaluation of the previous fiscal year

The following issues reported in the previous fiscal year were addressed in the annual plan of the Board of Directors, and efforts for improvement were recognized.

① Decision-making by the Board of Directors to achieve the Medium-Term Management Plan

In order to monitor the execution of the Medium-Term Management Plan (FY2025 - FY2027) and support its achievement, the Board of Directors deepened discussions and confirmed the direction of "Business Portfolio Strategy" and "Risk Management at the Management Level", which are important elements of the Medium-Term Management Plan,

＜Business Portfolio Strategy＞

The Board of Directors has set the strengthening of business portfolio management as a priority measure in the formulation of the medium-term management plan.

The executive side has revised the business portfolio evaluation process, which will be applied from FY2025.

At the off-site meeting in December 2024 and the Board of Directors meeting in February 2025, business portfolio management was discussed.

＜Risk management at the management level＞

At the off-site meeting in August 2024, the direction of future discussions on group risk management was discussed.

From the FY2025, the executive side introduced vulnerability assessments linked to materiality and improved company-wide risk management.

In October 2024, an outside expert was invited as a lecturer and a study session was held for executives on geopolitical risks.

At the off-site meeting in December 2024, a study session was held for board members on sustainability disclosure requirements.

At the Board of Directors Meeting in December 2024, company-wide risk management was discussed.

Future Issues

As a result of the effective evaluation of the Board of Directors this time, the following two items are recognized as the main issues that the Board of Directors should address in the future:

①Continued discussion of medium- to long-term strategies at the Board of Directors meetings

The Board of Directors needs to continue discussions on how to materialize a long-term growth strategy that looks beyond the medium-term management plan. Specifically, we will delve into discussions on the following themes. In addition, attention should be paid to clarifying the points that should be discussed by the Board of Directors and to adding clarity to the content of the report.

- Business Portfolio Strategy
- Enhancement of corporate functions
- Company-wide Risk Management
- Group Governance
- Particularly important themes for pre-financed capital, such as the development of management and the promotion of diversity

②Pursuit of an optimal governance system, including further strengthening of the audit system

In order to further improve the governance function, we will continue to pursue the optimal governance system and the composition of the Board of Directors. In order to respond to the expansion of the global scale of business and changes in social conditions, we will further strengthen the organizational audit system based on strengthening the structure of the internal audit department and strengthening cooperation with the Audit & Supervisory Board.

Example 2

Initiatives for fiscal 2024

In fiscal 2024, we took the following actions to address the issues identified in the effectiveness evaluation for fiscal 2023.

Main issues	Details of actions
• Continued strengthening of the effectiveness and efficiency of the Board of Directors • Continued further strengthening of the supervisory function of the Board of Directors	• Continual improvement of the management of the Board of Directors, including adjustment of agenda items and their placement timing, and facilitation of proceedings • Further enhancement of opportunities to share and discuss the main management issues and status of risk management, etc. • Further enhancement of opportunities for communication among officers through the holding of meetings for opinion exchange, etc.

Results of evaluation for fiscal 2024

In the evaluation of effectiveness conducted for fiscal 2024, the items undergoing evaluation obtained good results on the whole as continuing from fiscal 2023, allowing the Company to confirm that the effectiveness of the Board of Directors is improving, and the Board of Directors is functioning effectively. In particular, the Company was highly commended for how its management demonstrates strong leadership and how the composition and operation of the Board of Directors is set up and run at a high level.

Although no pressing issues were identified in the interview, several matters requiring attention were recognized to further enhance the value and effectiveness of the Company's Board of Directors. Accordingly, in order to enhance effectiveness, the Company will target continuous improvements from fiscal 2025 onwards, focusing on the following initiatives.

Main issues	Policy for initiatives going forward
• Continued further strengthening of the supervisory function of the Board of Directors • Continued strengthening of the effectiveness and efficiency of the Board of Directors	• Enhancement of opportunities to share and discuss the governance system and the main management issues, etc. from a medium- and long-term perspective • Enhancement of opportunities for communication among the officers • Improvement of the management of the Board of Directors, including the facilitation of proceedings

The Company will continue to implement improvements required to further enhance effectiveness, including the above-mentioned activities.

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Sustainability-Conscious Management

- In some cases, an executive committee was established to oversee **sustainability-conscious management**, while the board monitored the progress of the committee's actions.
- It is important **to address sustainability-related issues from the perspective of enhancing corporate value and to explain how they relate to business strategy**.

Structure	Sustainability-Conscious Management in Practice
• The board has established the Sustainability Advisory Council as an advisory body to the board. • On the executive side, the company has established two committees under the Executive Committee: (1) the Sustainability Committee, which deals with overall sustainability initiatives, and (2) the Management Risk Committee, which addresses risks primarily at the management level, such as geopolitical risks and information security risks. The two committees work closely together.	• The board has established a framework for making recommendations on the Group's sustainability and ESG matters, including through the Sustainability Advisory Committee. It also makes final decisions on the material sustainability issues that guide management and oversees the implementation of sustainability-related initiatives. • The activities of both the Sustainability Committee and the Management Risk Committee are reported to the Executive Committee and the board.
• Established a system to consider and promote sustainability initiatives on a group-wide basis. • On the executive side, the Group appoints a director with overall responsibility for sustainability and convenes the Group's CSR Promotion Committee and SDGs Promotion Committee, which are supported by various specialised departments. These committees operate under the direction of the Executive Committee, which is comprised of executive officers and other managerial officers.	• Some of our businesses are designed to reduce CO_2 emissions and improve energy efficiency and are therefore well suited to decarbonisation. Progress on these initiatives is reported to the board to ensure effective governance. • Based on the materiality assessment, the Group has set SDGs targets. Discussions are conducted primarily at the executive level, but the process of discussions and disclosure policy are reported to the board with due consideration given to the views of independent directors.
• We have established the Sustainability Management Promotion Committee, which is chaired by the representative director (CEO), as a sub-committee of the board. • We reorganised the existing CSR-related committees and created a structure under which committee members are appointed across all departments to promote sustainability management on a company-wide basis.	• As a chemical manufacturer, we place importance on developing environmentally friendly products. • Sustainability action plans and progress are reported to the board every two to three months, and the board oversees them. • Although internal awareness of sustainability has gradually increased due to the establishment of the Sustainability Management Promotion Committee, these initiatives are still at an early stage.

Corporate Culture and Resilience

- **Regarding corporate culture**, one comment emphasised the importance of top management clearly articulating its intent to drive change and consistently communicating that message throughout the organisation.
- **Regarding resilience**, one comment highlighted the critical importance of maintaining supply chain continuity during a crisis.

Communicating Messages from Top Management	
	✓ Although we operate in an industry driven by innovation, our corporate culture was originally conservative. Therefore, we conducted an internal employee survey and concluded that organisational soundness should be established as a key management objective. In our 2021 management plan, we included **organisational soundness goals** alongside strategic goals and performance goals. **By accepting a certain level of risk**, we have achieved positive results, including **accelerating research activities**. Since the current president took office, we have held town hall meetings and dialogue sessions with the president, and we believe these initiatives have helped instill changes in our corporate culture. We have also enhanced disclosure relating to human capital. ✓ As part of our efforts to retain employees, we have **standardised talent development and evaluation processes globally**. We also believe that the CEO plays a significant role in this area. It is particularly effective that the CEO to visit sites around the world to hold gatherings with employees, where they can repeatedly hear directly what the company considers important. ✓ After taking office, the current president convened all managers to communicate the intention to **reform the organisation into an inverted pyramid structure**. Three years ago, at the start of our current medium-term management plan, we defined our purpose. To instill purpose-driven management, the leadership team began visiting sites to engage in direct dialogue with employees—part of a broader initiative known as “communication reforms.” This effort can also be regarded as a form of internal investor relations. It took time, but the president’s message gradually spread throughout the company. An individual who has served as an independent director of the company for around 10 years commented, “**Successive leaders** have worked to transform the corporate culture and have consistently conveyed messages promoting changes. As this mindset permeated the organisation as a whole, it likely spread externally as well.”
Supply Chain Resilience	✓ As a pharmaceutical company, we believe that our core business inherently helps address social challenges and is directly linked to sustainable growth. In the context of the recent pandemic, responses across the industry varied depending on each company’s business model. Since our focus does not include infectious diseases or vaccines, we do not intend to shift our approach toward those areas. However, **maintaining supply chain resilience within our area of responsibility remains critical** during crises such as pandemics. To that end, we have secured a secondary site to mitigate potential disruptions caused by events like earthquakes or armed conflict.

Human Capital Management

- **Promoting investment in human capital is essential for achieving sustainable growth through the appropriate allocation of business resources.** In some cases, companies have established unique indicators and implemented initiatives to enhance employee engagement.
- Some investors have pointed **to the importance of explaining how such initiatives are linked to the company's business strategy**.

Corporate Practices

✓ With regard to human capital management, we internally developed an indicator of "**value-added productivity"** through discussions, drawing on indicators used by other companies that we identified in our independent study sessions with other business entities, while also ensuring that the indicator was suited to our business model.

✓ We believe it is crucial for each employee to take goal-setting seriously and incorporates it into his or her career development. It is crucial to consider which approaches are easier for everyone to accept, understand, and comment on.

✓ Our basic approach to human capital is to enhance each employee's the skills and motivation. The company values its employees and has never conducted layoffs because of business performance. We believe that **this track record has fostered our employees' trust in management and a sense of psychological safety**. As a result of these initiatives, our employees approach their work with enthusiasm and sincerity.

✓ Human capital is an area in which we must continue to strengthen our initiatives. Although we are implementing various reforms, as a manufacturing company, we have historically allocated more capital to capital expenditure, such as plants, than to human capital, and many issues remain to be addressed. We would like to **use dialogue with investors as an opportunity** to achieve concrete improvements and results.

Perspectives of Institutional Investors

✓ There is increasing demand from institutional investor for companies to disclose non-financial information from institutional investors. Although it is **difficult to quantify the financial impact of investments in human capital**, companies are expected to disclose and explain a range of non-financial in a manner that contributes to enhancing corporate value.

✓ In assessing a company's market value and fair value, financial information tends to be reflected in stock prices relatively quickly. By contrast, it usually takes three to five years for non-financial information to be reflected in stock prices. **Companies that disclose information appropriately are consistently valued by the market**. Therefore, **companies with high ROE also tend to excel in disclosure, and there is a strong correlation between the two**.

When regard to the non-financial information that companies should disclose, investors assess **whether such information is sufficiently aligned with the company's management strategy, whether it is adequate in scope and substance, and whether the disclosed targets are more than mere formality**.

In **human capital management**, companies are encouraged to identify and communicate the types of talent they require, the gaps they seek to fill, and **the areas in which capabilities are currently lacking, together with the measures being taken to address those needs.**