

Mitsubishi UFJ Trust and Banking Corporation Governance Research[®] 2025 —The status and outlook for Prime-listed companies—

Mitsubishi UFJ Trust and Banking Corporation
Corporate Consulting Division
October 2025

三菱UFJ信託銀行 人をつなぐ。未来をつなぐ。

世界が進むチカラになる。



What is the Mitsubishi UFJ Trust and Banking Corporation Governance Research® ?

Corporate governance reforms in Japanese companies are entering a phase focused on substantive initiatives aimed at achieving sustainable growth and enhancing corporate value over the medium to long term.

To further enhance these efforts, it is essential to assess the company's current situation, identify areas requiring improvement, and implement measures to achieve higher standards.

Mitsubishi UFJ Trust and Banking Corporation Governance Research® is intended to serve as a resource to support companies in undertaking these initiatives.

Introduction

Supervised by: Yusaku Kurahashi, Attorney at Kurahashi Law Office

- ✓ Many companies responded to this year's governance research. We sincerely thank you for your cooperation.
- ✓ As a result of the corporate survey, it was reconfirmed that companies are addressing a wide range of practical corporate governance issues in a substantial manner, including: (1) Changes of governance structure, (2) Composition and operation of the board of directors and nomination and remuneration committees, (3) CEO and board succession, (4) Management and capital strategies, (5) Engagement with capital markets, and (6) Response to sustainability-related issues. In addition, the institutional investor survey provided numerous substantive comments and messages on each theme, going beyond merely formal or perfunctory responses.
- ✓ The prevailing trend surrounding listed companies is often described as an era of shareholder primacy, where "management that is conscious of cost of capital and stock price" is expected. At the same time, there is a growing awareness of the challenges posed by the short-term orientation of capital markets. In areas such as management strategy, capital allocation, capital strategy, and responses to key management issues, management is required to make multifaceted decisions that take a broad view of various stakeholders and time horizons. The board of directors is increasingly important as a forum for discussion and decision-making, and it is essential to substantively advance corporate governance initiatives aimed at enhancing the board's effectiveness.



- ✓ We hope that the results of the 2025 Governance Research will serve as a useful reference for companies to consider their autonomous and intrinsic initiatives.

Professional Background

- 2004 ○ Graduated from the Faculty of Law, the University of Tokyo
- 2006 ○ Graduated from the University of Tokyo Law School and passed the bar examination
- 2007 ○ Registered as an attorney
- 2013 ○ Completed Master's Degree in Law and Finance, University of Oxford
- 2015 ○ Partner at Nakamura, Tsunoda & Matsumoto
- 2023 ○ Partner at Kurahashi Law Office (current position)

Major Works

- "Practical Guide to Evaluating the Effectiveness of Board of Directors"
 - Shojihomu Co., Ltd. (2016)
- Co-author of "Practical Guide to Matters Submitted to the Board of Directors (2nd Edition)"
 - Shojihomu Co., Ltd. (2016)
- Co-author of "How to Read and Think About the Corporate Governance Code (3rd Edition)"
 - Shojihomu Co., Ltd. (2021)
- "Practical Issues and Solutions for Providing Effective Functions for Outside Directors in the Future, Given the Increase in the Ratio of Outside Directors" / "Toward Improving the Effectiveness of Nomination and Remuneration Committees"
 - "Practitioners Discuss the Current State and Future Prospects of Boards of Directors," edited by the Mitsubishi UFJ Trust and Banking Corporation Corporate Governance Practitioners Study Group, published by Shojihomu Co., Ltd. (2024)



Executive Summary -Current Status of Prime Listed Companies-

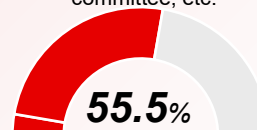
POINT

Substantive efforts are being made to address various corporate governance issues.

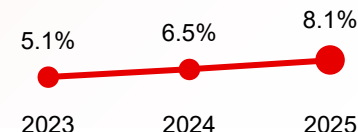
The supervisory function of the board of directors is being strengthened

- The transition to a committee-based governance structure is progressing
- The number of outside directors serving as chairpersons is gradually increasing

Adoption of companies with an audit and supervisory committee or a nominating committee, etc.

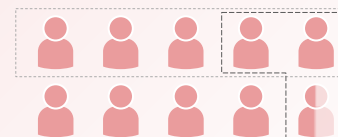


Percentage of boards chaired by outside directors



Diversity in the composition of the board of directors is progressing

- The proportion of companies appointing a majority of outside directors is expanding
- The number of female directors is increasing, and the appointment of non-Japanese directors is also progressing, particularly among global companies

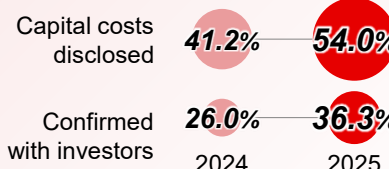


"A majority of outside directors" is considered ideal
38.7%

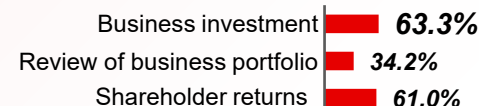
Appointment of female directors
Average **2.0** (1.7 outside + 0.3 inside)

Management focused on capital costs is progressing

- Discussions and disclosures, including those by the board of directors, are progressing
- Management initiatives are also being emphasized to improve PBR



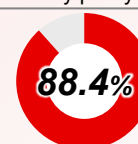
Priorities for improving PBR



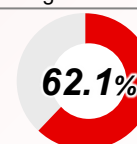
Increasing incorporation of sustainability elements into management

- Basic policies and systems are largely complete
- Non-financial KPIs are also being set

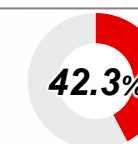
Sustainability policy formulation



Setting KPIs linked to management strategies



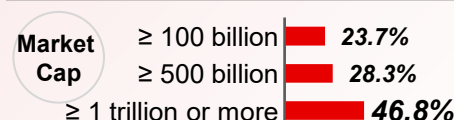
Setting KPIs for business divisions



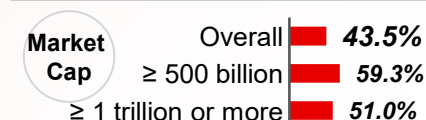
Increasing dialogue with investors

- Increasing participation of outside directors in dialogue
- A large number of companies have met with activists

Outside directors participating in meetings



Companies conducting meetings with activists



Executive Summary -Future Issues to Be Considered-

POINT

It will be important for the board of directors to hold effective discussions on how to address various issues and to further promote their realization.

Main issues to be considered in the future

Enhancement of the board of directors' supervisory functions

- Demonstration of leadership by the chairperson (➡See page 23 for reference)
- Information sharing from the nomination and remuneration committee to the board of directors (➡See page 33 for reference)

Management innovations based on changes in the composition of the board of directors

- Enhancement of the operation of the board of directors' succession plan (➡See page 22 for reference)
- Utilizing effectiveness evaluation to build consensus among executives (➡See page 27, 28 for reference)

Ongoing efforts for management that is conscious of cost of capital

- Continuing practical efforts in line with management policies (➡See page 44 for reference)
- Addressing issues arising from the reduction of cross-shareholdings (➡See page 47 for reference)

Substantive response to sustainability issues

- Evolution from disclosure-focused response to opportunity- and risk-based response (➡See page 50 for reference)
- Substantive response according to business characteristics (➡See page 53, 55 for reference)

Autonomous management based on the results of dialogue with investors

- Board of directors' deliberations regarding responding to investor requests (➡See page 59 for reference)
- Discussions on management based on investor feedback (➡See page 60 for reference)

Investors' views on issues to be considered

- In addition to ensuring the independence of the nomination and remuneration committee, enhanced disclosure is expected to provide insight into the actual activities of the committee
- Expectations are high for the nomination committee to deliberate on the appointment of outside directors and succession plans
- The skills matrix is expected to be reviewed in accordance with management strategies and utilized in the consideration of the composition of the board of directors and the appointment of directors
- To improve PBR, it is important to reform the business portfolio and reduce underperforming assets (including cross-shareholdings)
- The increase in share buybacks is seen as a move towards balance sheet management
- Incorporation into management strategies, and the establishment and management of non-financial KPIs are essential
Companies should clarify how they are linking sustainability measures to improving corporate value
- Outside directors should act as representatives of shareholders' views and deepen their understanding of capital markets

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Governance Research® 2025

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(Unless otherwise noted, the aggregated results presented in this report pertain to companies listed on the Prime Market.)

1. Survey Overview

Survey Overview

Purpose

- Survey on governance trends with the aim of increasing the corporate value of listed companies and, ultimately, the competitiveness of Japanese companies.
- Conduct comparative analysis by market, market cap, etc. to clarify the company's relative position.

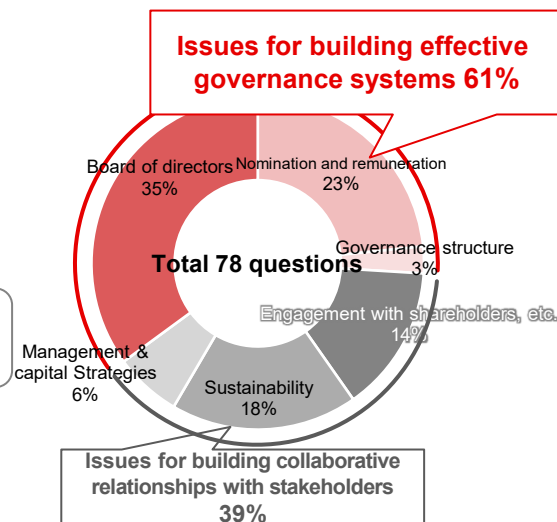
Corporate Survey

- Japan's largest governance survey
- Focusing on governance systems and approaches to stakeholder relations

Number of participating companies

Question structure

1,299 companies
Of which, 732 companies are listed on the Prime Market¹



- Implementation period: July 1st (Tue) - August 8th (Fri), 2025
- Answer format: Fill in the form on the web or in Excel files
- Others: Some of the responses were used in a joint research project with Professor Miwa and Professor Asai of Meiji University and Professor Yamada of Seijo University entitled "The Impact of Institutional Investors on Corporate Value."

(Notes) 1. This report is based on responses received by August 29, 2025 from 724 Prime Market-listed companies

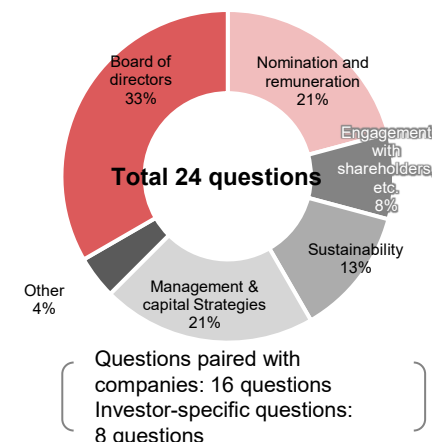
Institutional Investor Survey

- Questionnaires and interviews with major institutional investors managing domestic stocks
- Covers more than 80% of domestic equity investment trust assets

Number of participating investors

Question structure

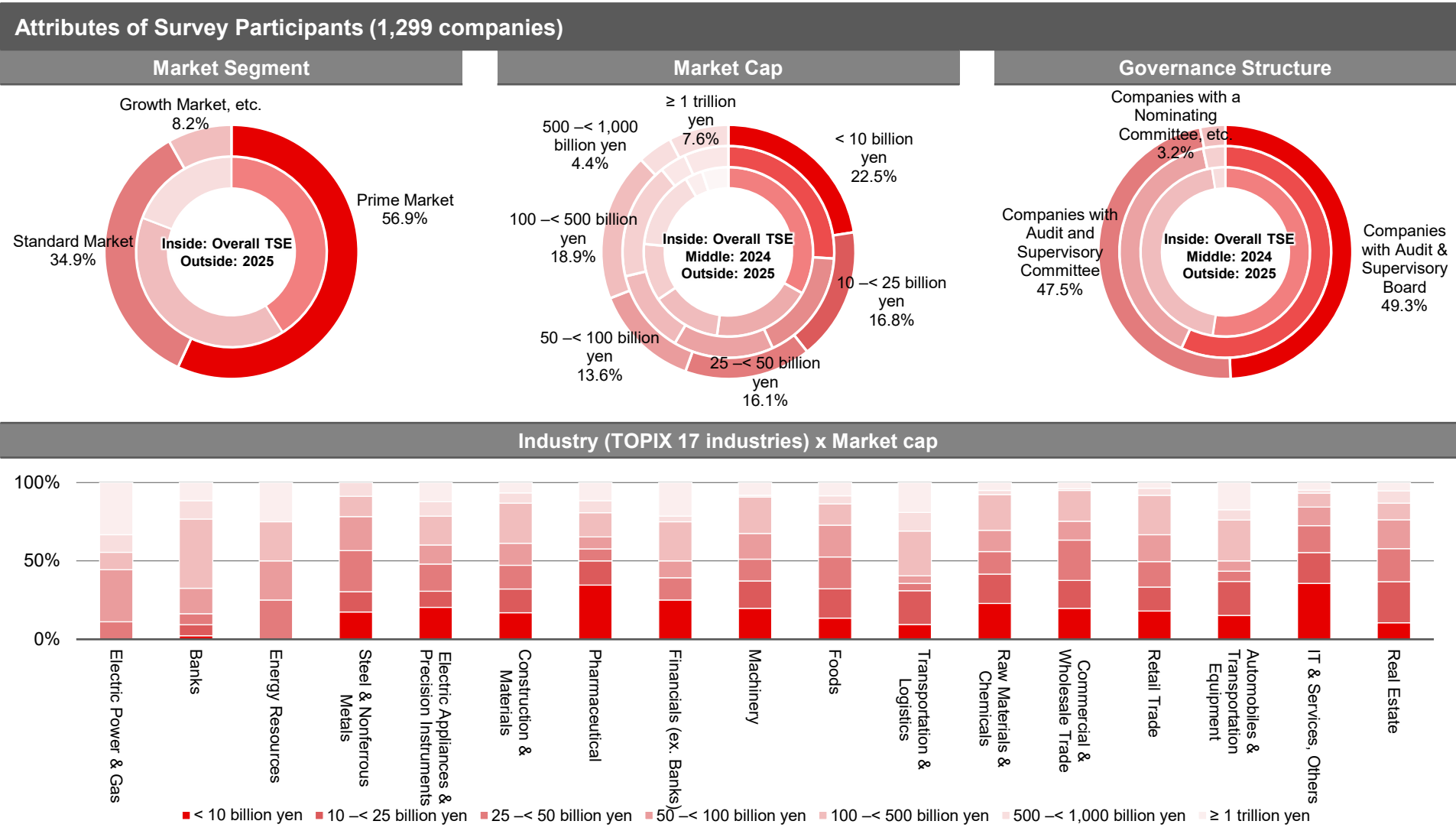
19 companies
Covering 82.4%² of AUM of domestic public mutual funds



- Implementation period: July 1st (Tue) - October 10th (Fri), 2025
- Answer format: Questionnaires using Excel files, individual interviews (11 out of 19 companies)
- Respondent attributes: Fund managers, proxy voting officers, and engagement officers

2. According to research by MUTB

Attributes of Survey Participants



(Notes) Company attributes are as of August 2025. Percentages are rounded to the second decimal place

2. Results

(1) Towards Establishing an Effective Governance Structure

- Governance Structure
- Board of Directors
- Nomination and Remuneration

Choice of Governance Structure

Corporates

Institutional
investors

Survey Results

- ✓ Approximately 30% of companies with an Audit & Supervisory Board are considering a shift to a committee-based model.
- ✓ The scope of consideration partially includes companies with a nominating committee, etc.

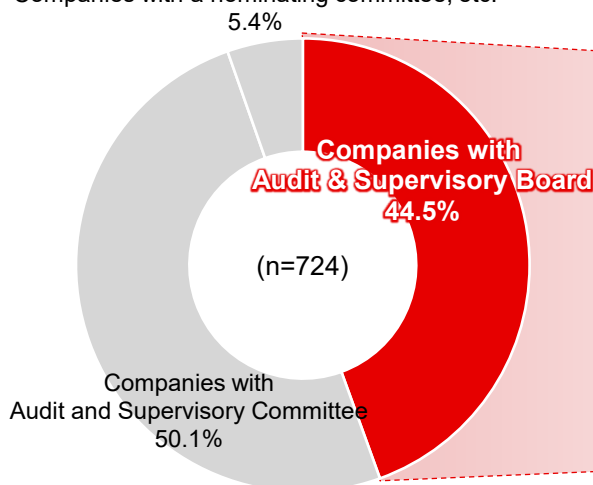
Supervisor Comments

- ✓ Companies with committee-based models now exceed 50%, with further transition expected.
- ✓ There is also discussion about amending the Companies Act, and in the medium to long term, there may be a trend to encourage companies to adopt a nominating committee system.

Governance structure of respondents ¹

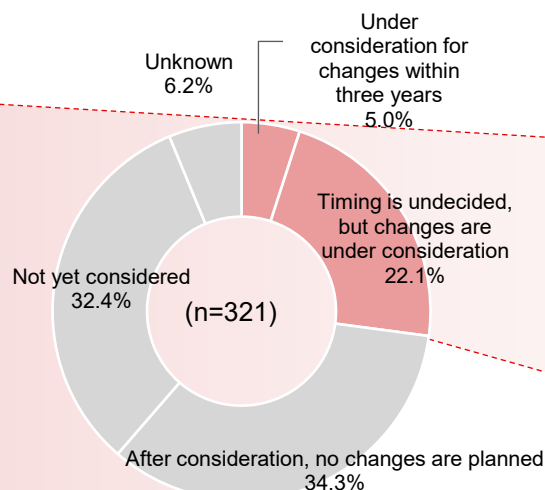
- Committee-based model exceeds 50%
- Companies with Audit & Supervisory Board: 45%

Companies with a nominating committee, etc.



Governance structure—Status of consideration (Q1: companies with an Audit & Supervisory Board)

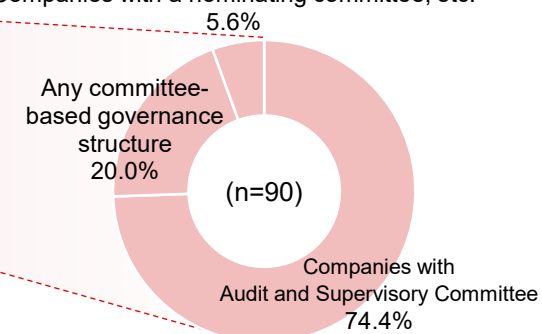
- Just under 30% of companies with an Audit & Supervisory Board are considering a governance structure change



Governance structures—Under consideration (Q2: companies with an Audit & Supervisory Board)

- While the majority of companies are considering “Audit and Supervisory Committee structure”, just over 20% are also considering “nomination committee structures”

Companies with a nominating committee, etc.



(Notes) 1. QUICK (as of September 2025)

2. Results

(1) Towards Establishing an Effective Governance Structure

- Governance Structure
- Board of Directors
- Nomination and Remuneration

Board of Directors | Roles

Corporates

Institutional
investors

Survey Results

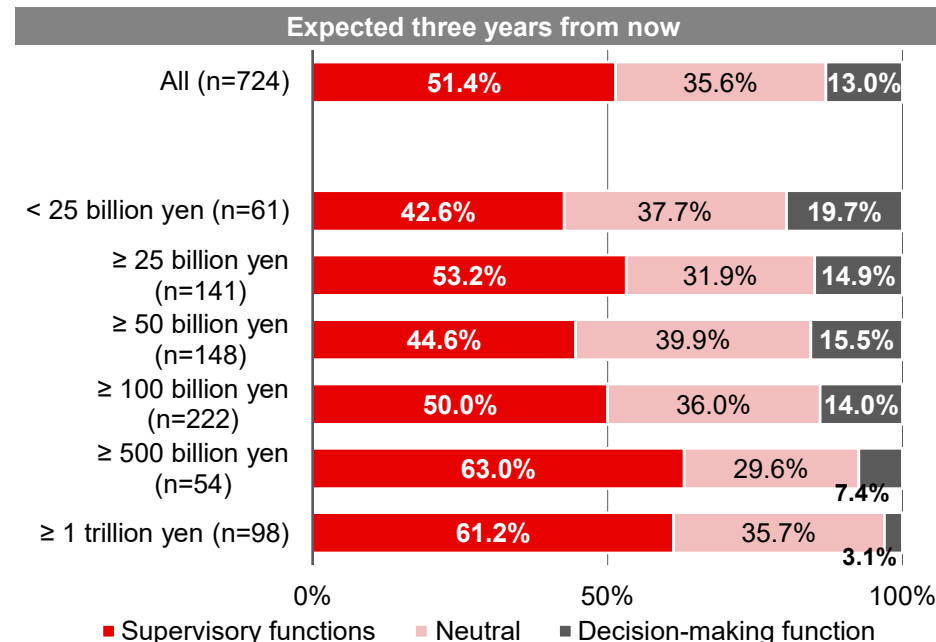
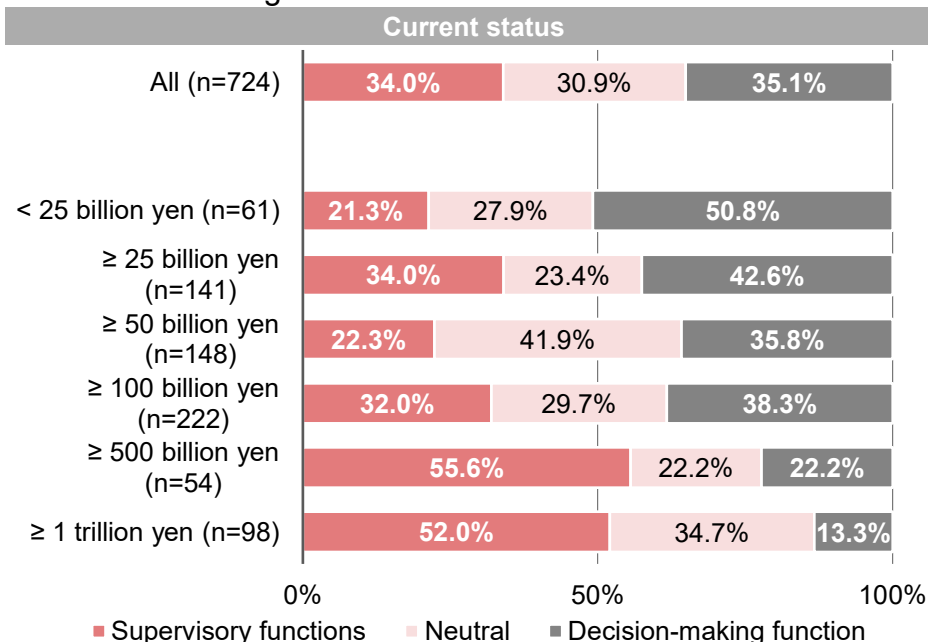
- ✓ The role of the board of directors is currently split among supervision, neutral, and decision-making
- ✓ Looking ahead three years from now, there is a tendency for supervisory functions to become more important

Supervisor Comments

- ✓ The board's supervisory function is increasingly emphasized, likely driven by efforts to "separate supervision from management execution"
- ✓ This trend is expected to continue in the future. Continued efforts are required to maintain systems and operations that allow the board's supervisory function to be effectively exercised

What functions of the board of directors are important? (Q6)

- The larger the market cap, the more importance is placed on supervisory functions
- The smaller the market cap, the more importance is placed on decision-making functions
- Overall, the percentage of companies that place importance on supervisory functions is expected to increase compared to the current situation



Board of Directors | Composition - Ensuring Independence -

Corporates

Institutional
investors

Survey Results

- ✓ The majority still regard "at least one-third" as the ideal ratio of independent outside directors. Meanwhile, companies with a market cap of 1 trillion yen or more tend to aim for a "majority"

Supervisor Comments

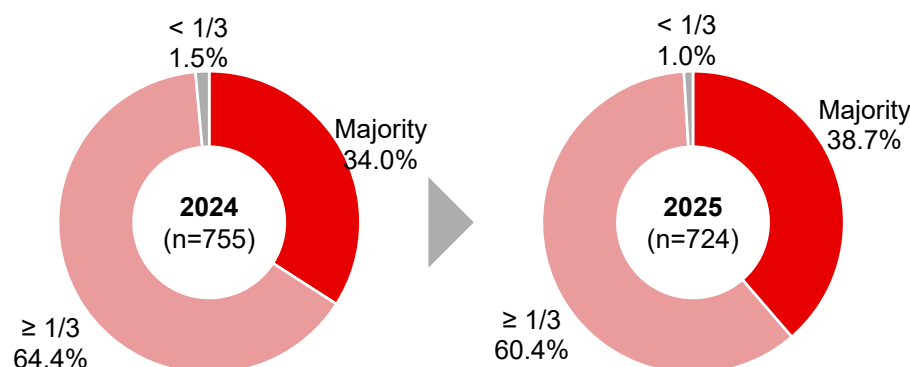
- ✓ While "a majority of outside directors" is not yet standard practice, such appointments are gradually increasing
- ✓ As the era of majority outside directors nears, continued efforts to strengthen board effectiveness and the growing importance of board succession planning are expected

Ideal ratio of independent outside directors (Q5)

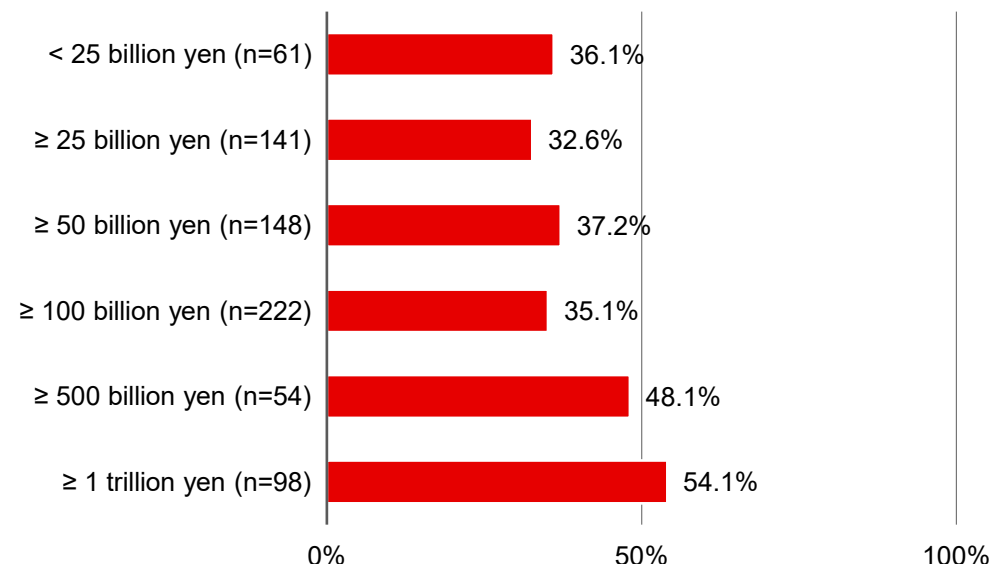
- Over 60% still target at least one-third, as in the previous year
- The number of companies aiming for a majority has increased (+4.7 pts)

- Around half of companies with a market cap of 500 billion yen or more view a majority as ideal

Ideal ratio (year-on-year)



Companies answered "majority" (by market cap)



Board of Directors | Composition - Ensuring Diversity -

Corporates Institutional investors

Survey Results

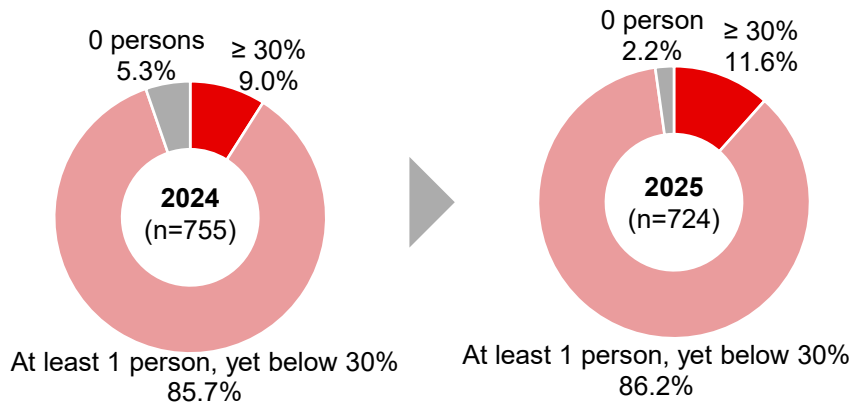
✓ Female outside directors are increasingly appointed, and foreign directors are being recruited in companies with market caps of 1 trillion yen

Supervisor Comments

✓ Gender diversity has improved via the appointment of female outside directors, but promoting internal female directors will become increasingly important
✓ Foreign directors will increasingly be appointed, especially in large, globally-oriented companies

Appointment of female directors (Q3)

- The proportion of female directors appointed has increased from the previous year (+3.1 pts)
- Average female internal directors: 0.3

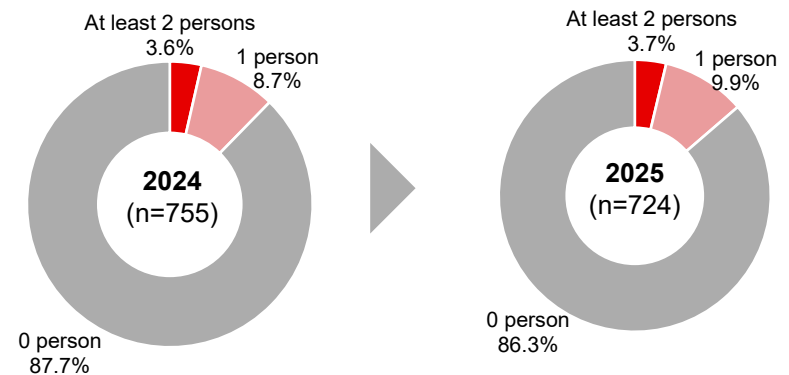


Number of appointments by attribute (2025)

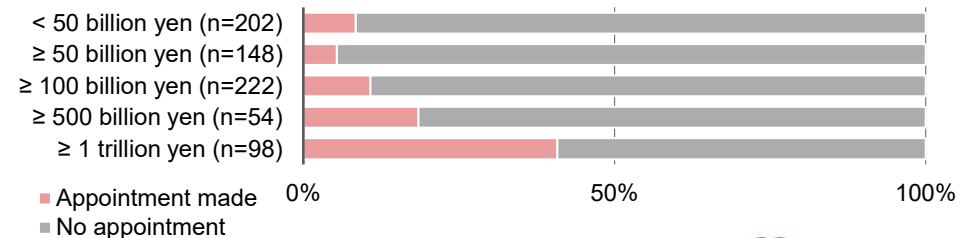
Female Outside Directors	Average	1.7 directors
Female Internal Directors	Average	0.3 directors

Appointment of foreign directors (Q3)

- The proportion of foreign directors appointed remains slightly above 10%, showing little change compared with the previous year
- Among companies with a market cap of 1 trillion yen or more, 40% have appointed foreign directors



By market cap (2025)



Board of Directors | Composition - Investors' Priorities for Improvement -

Corporates

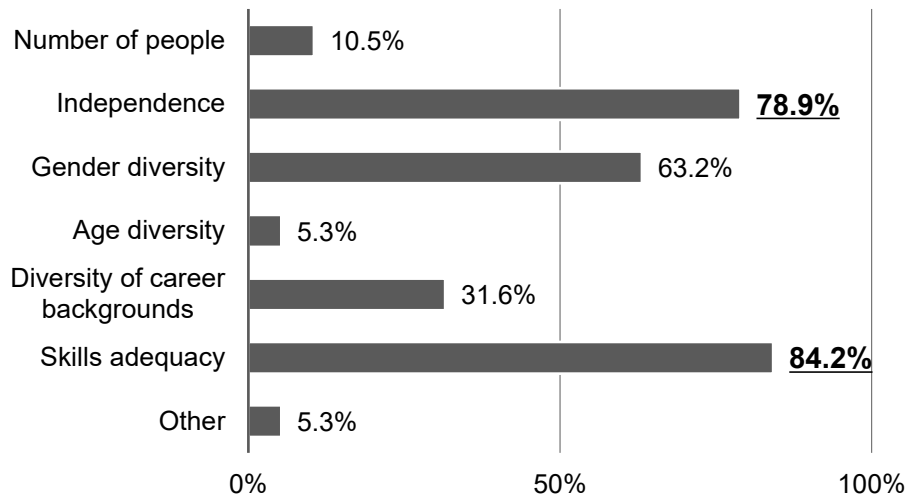
Institutional investors

Investors Survey Results

- ✓ Institutional investors consider "independence" and "sufficient skills" to be priority issues
- ✓ It has been pointed out that rather than simply prioritizing the independence of directors, possessing appropriate expertise is important.

High priority improvement items regarding the composition of executive officers

Questionnaire survey (n=19)



Other responses

- With shared goals, diversity of thought can be ensured independent of gender, age, or career background. Priorities may vary by company.
- Clarify the CFO's role. If the CFO effectively fulfills a central role in financing and business investment, it would further advance the realization of "management that is conscious of cost of capital and stock price."

Interview survey

Expectation of independence

- In Japan, there is a tendency for board directors to be positioned as an extension of internal career advancement. Thus, **outside directors are expected to independently supervise and advise management to enhance corporate value, representing minority shareholders.**
- **Appointing outside directors based only on independence is inappropriate if they do not sufficiently understand the company's business and value chain.**

Gender and tenure diversity matter

- Homogenous Japanese boards need directors with diverse perspectives, including women and foreign nationals. **Diversity is a critical factor for pinpointing core issues and making effective decisions.**
- Tenure diversity matters as well. **Staggered tenure among outside directors signals a balance of continuity and refreshment.**

Skills sufficiency matters

- Supervising business portfolio changes is challenging if directors are heavily concentrated in legal or accounting backgrounds. **Directors who understand the market and business portfolio and can speak from real business experience are vital.**
- **Finance and IR knowledge is indispensable for directors.** Without expertise in M&A, financing, equity issuance, capital markets, and governance, constructive market engagement during hostile takeovers may be difficult.

Board of Directors | Composition - Roles and Skills of Outside Directors -

Corporates

Institutional
investors

Survey Results

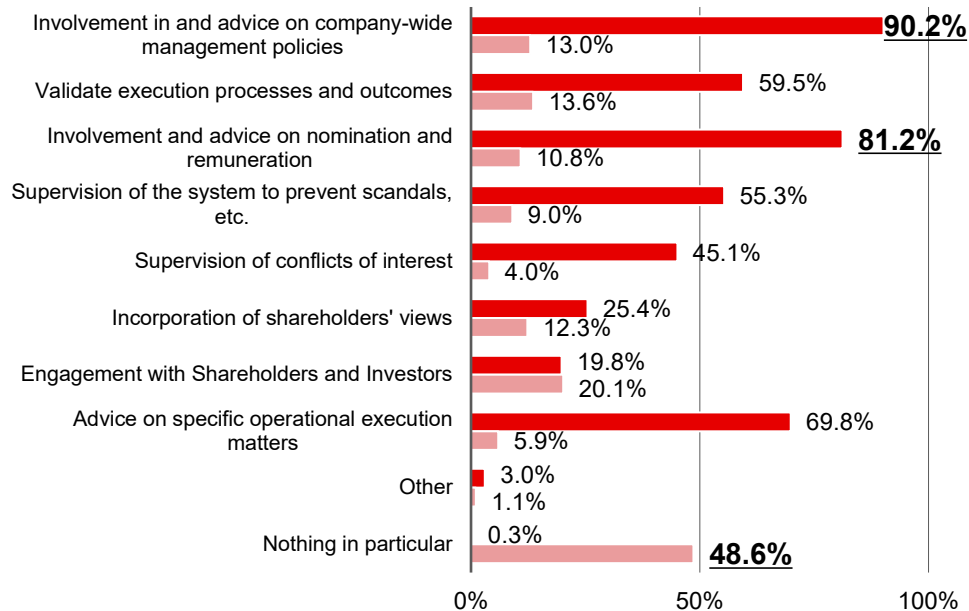
- ✓ Alongside supervision of management execution, expertise-based advice is also expected. Most believe this role is being effectively exercised.
- ✓ IR/SR engagement and related skills are recognized as challenges.

Supervisor Comments

- ✓ It is presumed that outside directors are now used naturally in practice; the phase of criticism over their significance is waning.
- ✓ Rising expectations for market/investor skills reflect practitioners' recognition of more active capital markets.

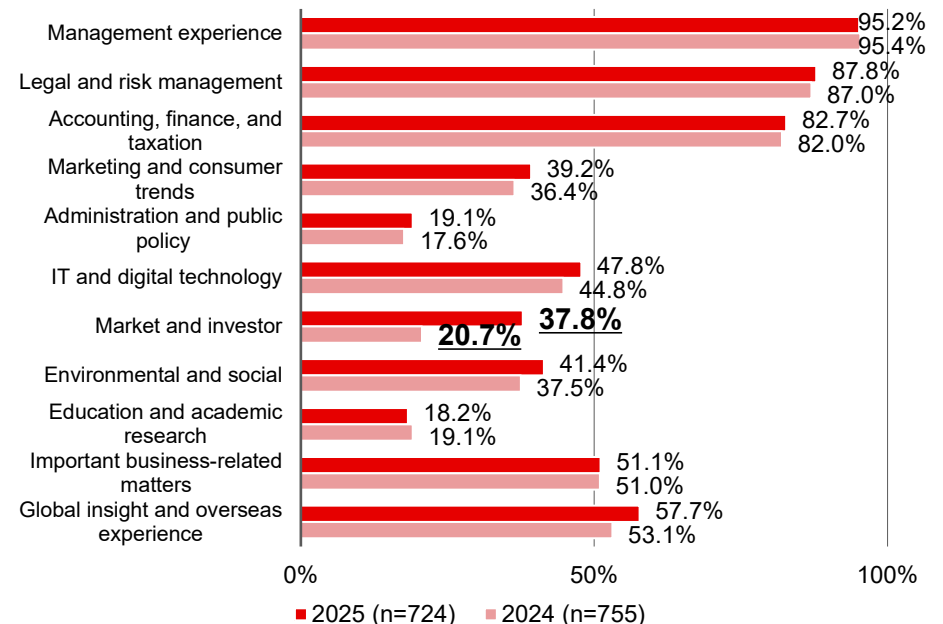
Roles prioritized and roles not fully exercised (Q7)

- 80% or more of companies expect involvement and advice on management policies, as well as nomination and remuneration matters
- "None in particular" was the top response for areas where roles are underperformed



Expected skills (Q8)

- There was a year-on-year increase in expectations for market/investor skills



Board of Directors | Composition

- Roles and Skills that Investors Expect From Outside Directors -

Corporates

Institutional investors

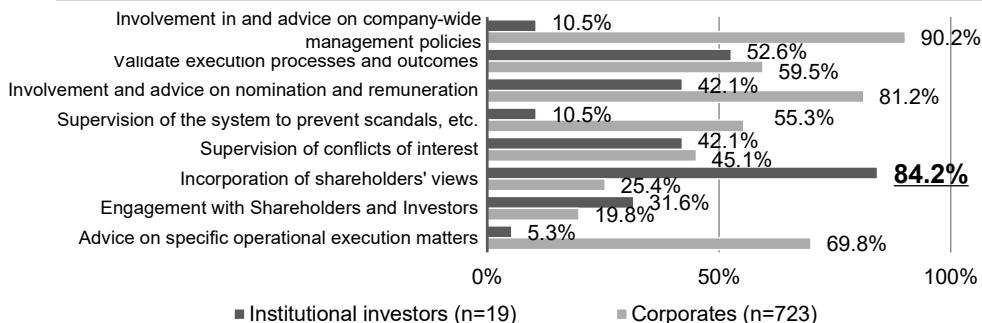
Investors Survey Results

- ✓ Incorporation of shareholders' views and understanding of investors' perspectives and capital markets were raised as necessary roles/skills.
- ✓ It has also been pointed out that board consensus-building skills (e.g., communication skills), not just individual expertise, should be emphasized.

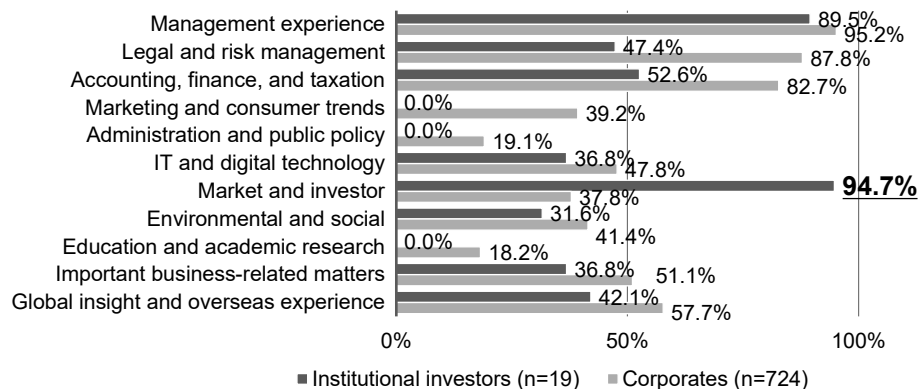
Roles and skills expected from outside directors

Questionnaire survey

Expected roles



Expected skills



Interview survey

Expectation for incorporating shareholders' views

- Only a limited number of companies can successfully translate recurring investor queries from IR into management actions. **Outside directors are expected, as representatives of shareholders, to incorporate investors' perspectives into management decisions**
- **Expected to possess judgment that incorporates an understanding of capital markets and an investor perspective**
- **Outside directors are expected to offer views from an overall optimization perspective**, as management execution and supervision priorities may differ

Expectations for executives with management experience

- Directors with prior management experience are valued not for their operational know-how, but for **their judgment as executives and their experience and expertise in the capital markets**
- **CFO experience aligns more closely with the desired 'management-experienced director' profile than CEO experience**

Soft skills and board roles also matter

- In addition to the expertise indicated in the skills matrix, **soft skills such as communication ability and the capacity to support and work alongside management execution are also important**
- The suitability of appointing a lawyer as an outside director should not be determined exclusively by their professional expertise. If they can structure discussions and foster consensus through dialogue, they can help improve the effectiveness of the board. **What matters more than an individual's skills is the role they fulfill on the board, and evaluating directors merely based on skill balance is not appropriate**

Board of Directors | Composition

- Support System for Outside Directors -

Corporates

Institutional investors

Survey Results

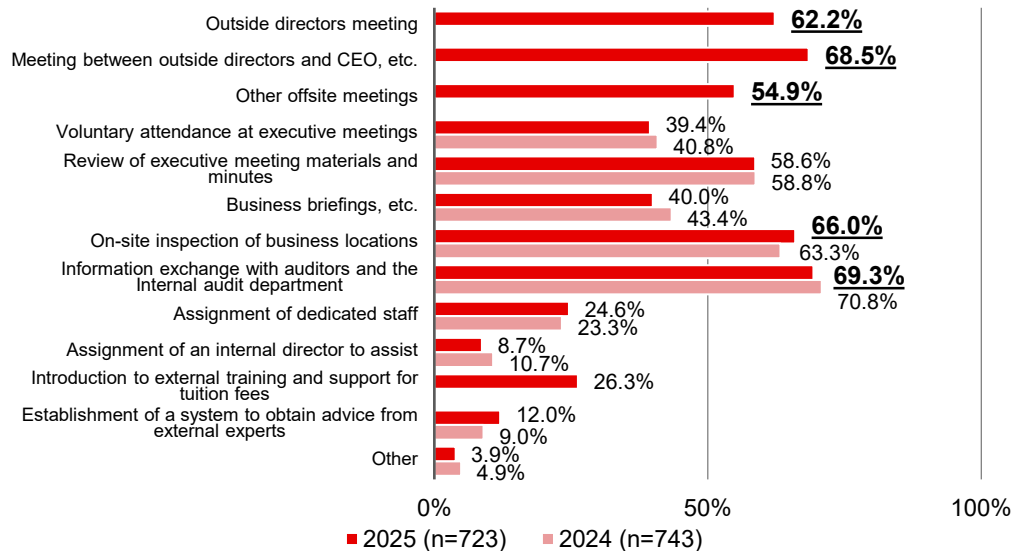
- ✓ From the standpoint of making effective use of outside directors, companies are implementing diverse initiatives.
- ✓ The proportion of companies appointing lead outside directors is just under 20%, but it has seen a slight increase year on year.

Supervisor Comments

- ✓ This suggests that various initiatives to enable outside directors to play an active role have taken root.
- ✓ In particular, off-site activities—including discussions, information sharing, and site visits outside of board meetings—are being widely implemented.

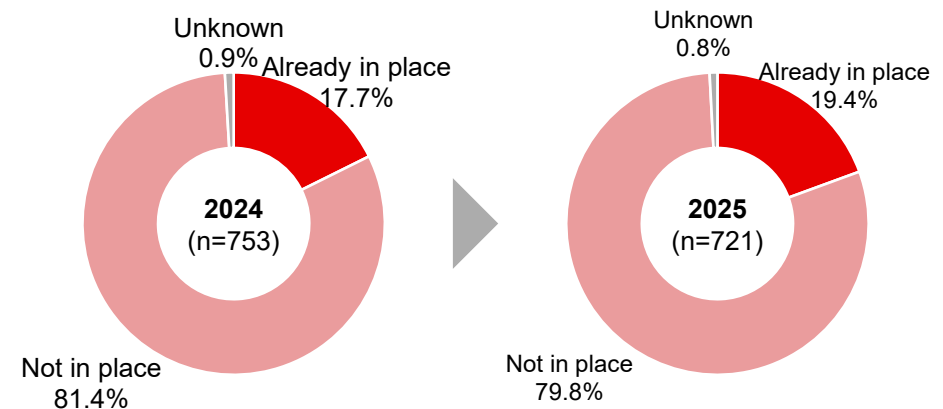
Initiatives undertaken to enable outside directors to play an active role (Q9)

- Many initiatives, including arranging opportunities for executives to exchange information and engage in discussions, as well as conducting site visits, are being actively carried out



Status of lead outside director appointments (Q10)

- The proportion of appointments has remained largely unchanged year on year, at just under 20% (+1.7 pts)



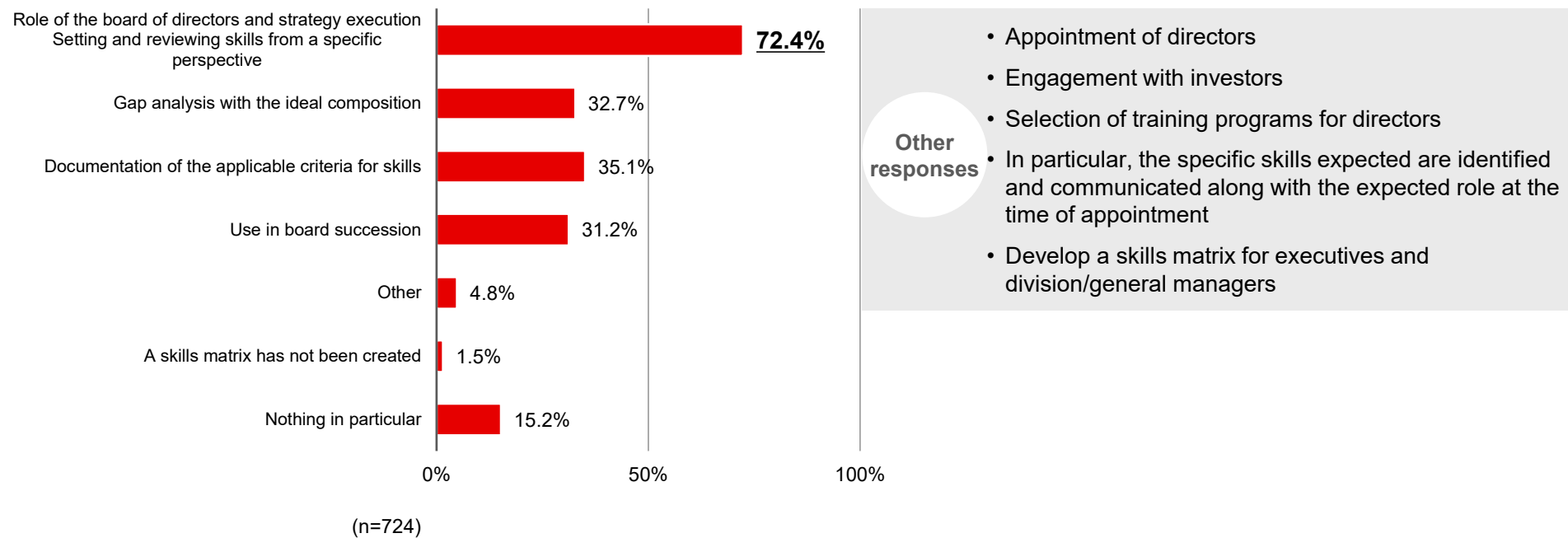
Other responses

- Dialogue sessions with directors of major subsidiaries and future executive candidates
- Enhancement of the secretariat function

Survey Results	✓ The skills matrix is linked to the board’s roles and the company’s management strategies, and to some extent, it is used for gap analysis against the optimal composition, for board succession planning, and for documenting required skills.
Supervisor Comments	✓ The skills matrix is used not only to meet disclosure requirements but also to ensure the effectiveness of the board’s composition.

Status of skills matrix utilization (Q4)

- 70% of companies set and review skills based on their strategy
- It is also used for formalizing standards, analyzing gaps with the ideal, and supporting succession planning



Board of Directors | Composition

- Investor Expectations for the Skills Matrix -

Corporates

Institutional investors

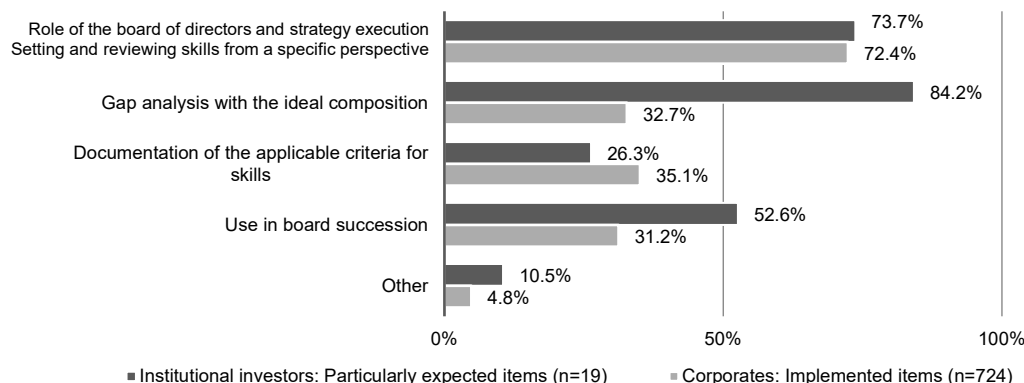
Investors Survey Results

- ✓ Institutional investors expect the review of items from the perspective of the board's role and strategy execution, as well as their use in considering board composition and the appointment of directors.
- ✓ Many stakeholders are calling for companies to clearly disclose their reasoning, criteria, and overall approach to selecting skills.

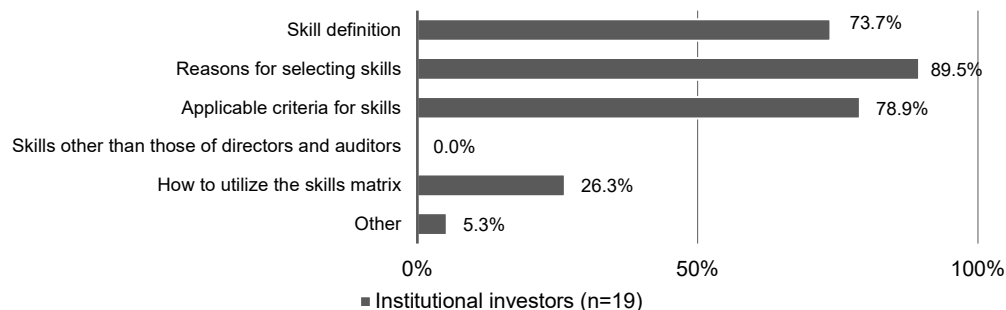
Key expectations and disclosure enhancement requests in the operation of the skills matrix

Questionnaire survey

Key expectations for the operation of the skills matrix



Disclosure enhancement requests



Interview survey

Alignment of skills with strategy is crucial

- **Proactively designing and reviewing the necessary skill set in line with each company's strategy and business environment is crucial.** A skills composition aligned with strategy is indispensable for the board to hold discussions that enhance corporate value

Expectations for use as appointment criteria

- **Leveraging the skills matrix to assess several candidates is essential.** Ensure the board, including outside directors, possesses the necessary skills
- **Companies that keep the board's required skills in mind generally seem to have a clear image of the outside directors they need, taking management strategy and environment into account, even without formal appointment criteria**

Expectation for specific disclosure

- The reasons and evaluation standards for considering a skill as possessed should be explicitly disclosed
- The status of skills matrix initiatives differs across companies. **Actively engaged companies provide concrete content, but some still follow the traditional format**

Survey Results

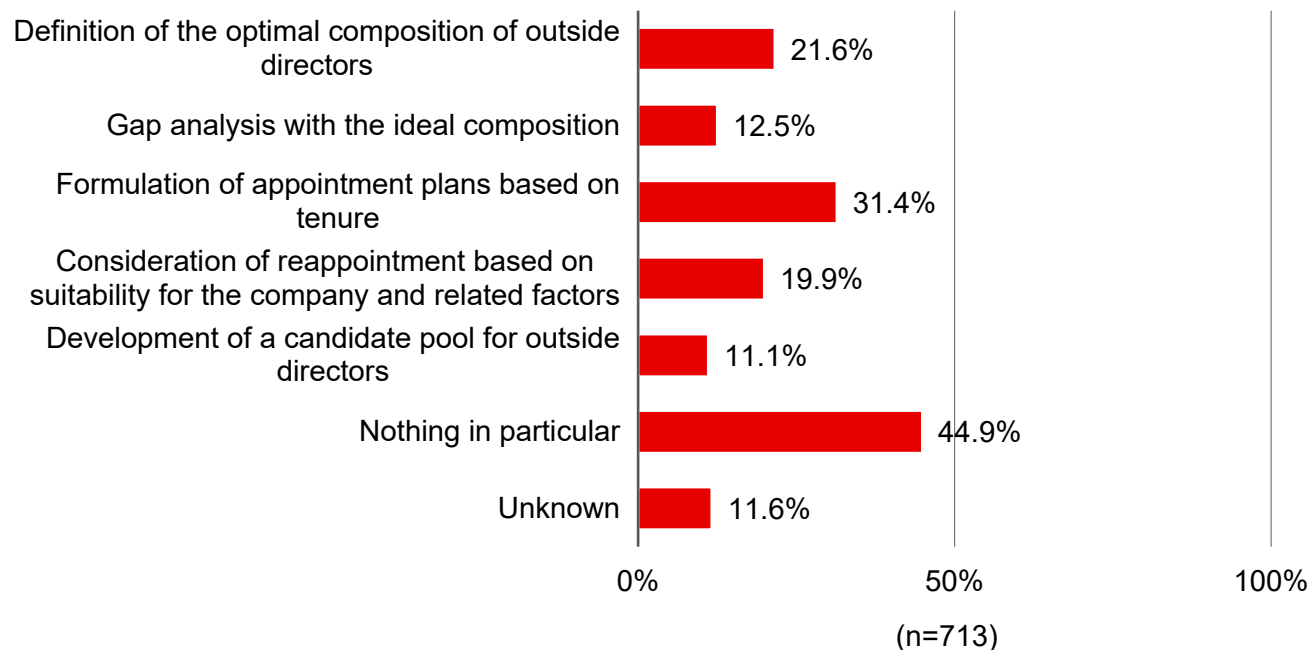
✓ A number of companies have initiatives in place for board succession, including outside directors.

Supervisor Comments

✓ The appointment and reappointment process for outside directors is becoming more effective.
✓ Ten years after the Corporate Governance Code was introduced, and with outside directors' tenures likely to lengthen, succession planning is becoming increasingly critical.

Efforts concerning outside director succession (Q11)

- Nearly half of companies are undertaking specific initiatives (43.5% excluding "None" and "Don't know")
- Primarily, companies focus on succession planning based on tenure and defining the ideal board composition



Board of Directors | Management - Chairperson of the Board -

Corporates

Institutional investors

Survey Results

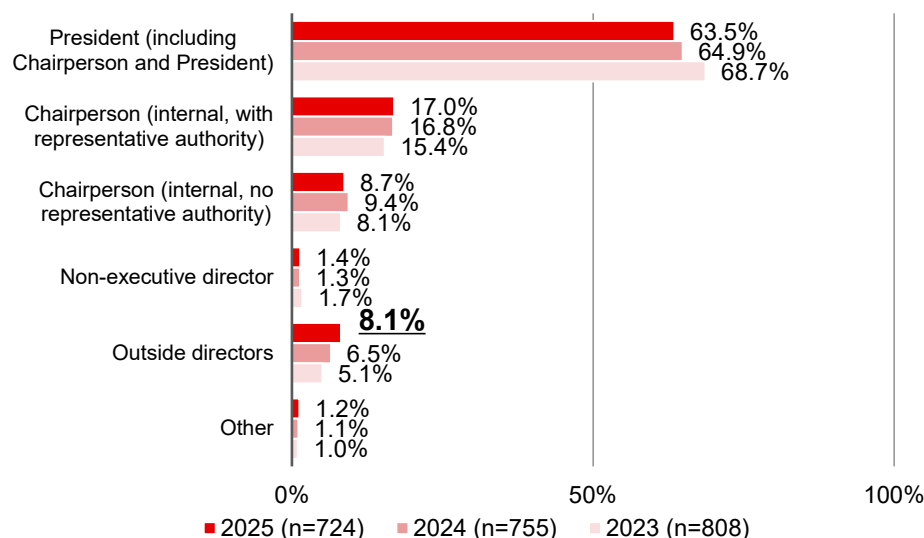
- ✓ Outside director chairs are increasing, reflecting practical trends emphasizing the board's supervisory role.
- ✓ The chairperson is sometimes engaged not just during meetings but also in the overall governance of the board.

Supervisor Comments

- ✓ As companies move toward monitoring boards, outside director chairs are likely to become more common.
- ✓ A chairperson's active role in board management is seen as contributing to stronger corporate governance and higher management quality.

Attributes of the chairperson (Q12)

- Less than 10% of chairpersons are outside directors, but the number has been rising over time

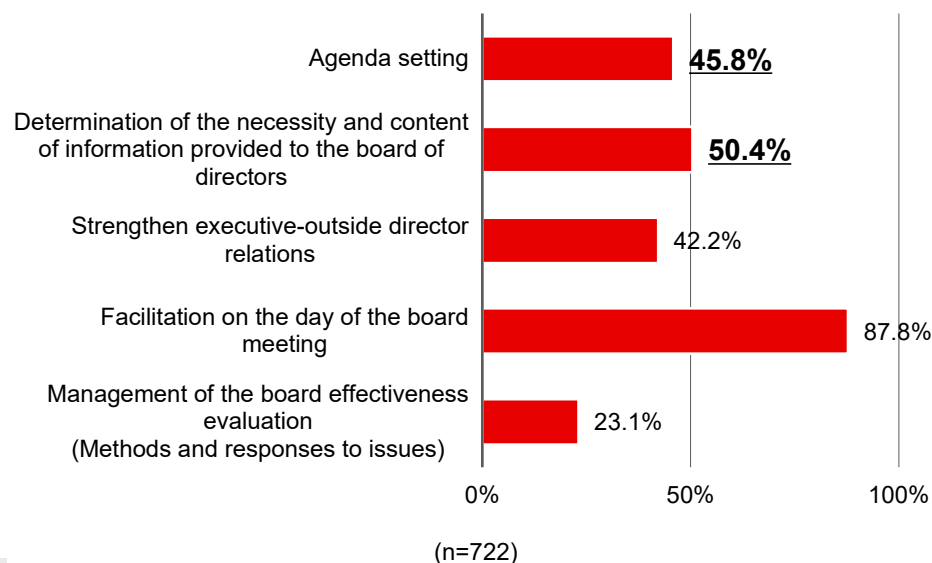


Other responses

- Executive Vice President (CGO), Vice Chairperson
- Appoint the chair as a non-executive director and the vice-chair as an outside director

Areas of active chairperson involvement (Q13)

- In 40–50% of companies, chairpersons actively contribute to information sharing and agenda planning



Board of Directors | Management - Board of Directors Secretariat -

Corporates

Institutional
investors

Survey Results

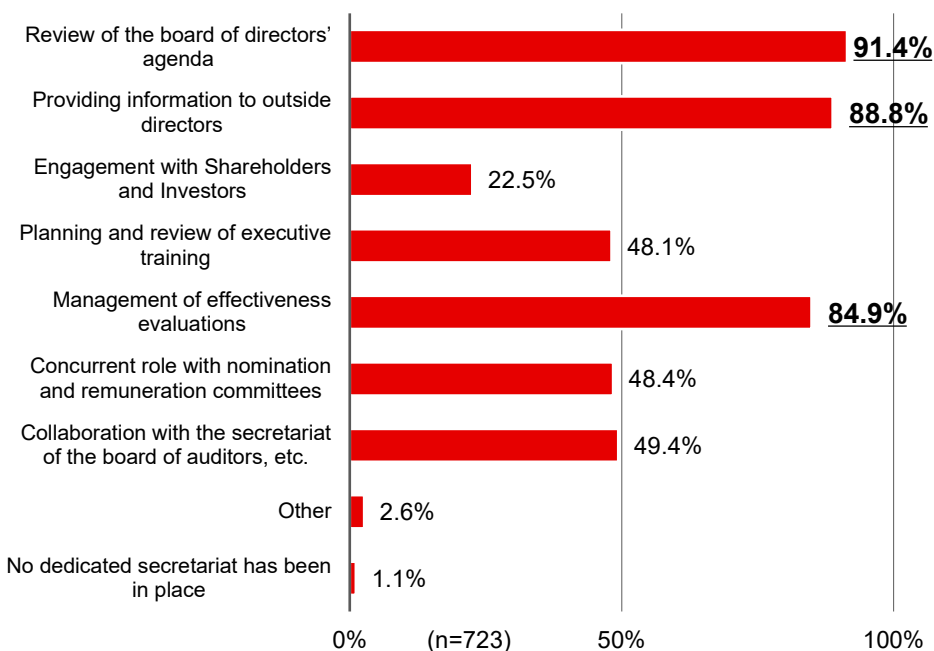
- ✓ The board secretariat's role is no longer limited to meetings and effectiveness evaluations, but has expanded in scope.
- ✓ In some instances, the role involves driving governance measures and facilitating communication between the board and management, reflecting a shift toward a company secretary-like function.

Supervisor Comments

- ✓ The board secretariat plays a key role across corporate governance practices, and its importance in facilitating organizational decision-making is steadily increasing.

Role of the secretariat (Q14)

- Primarily responsible for agenda selection, information provision to outside directors, and effectiveness evaluations
- Coordination with each committee and meeting body, as well as planning and managing off-site activities, is also carried out



Other responses

- Planning initiatives for governance improvement
- Planning and implementing measures to enhance board effectiveness
- Response to the Corporate Governance Code
- Planning and management of off-site meetings
- Evaluation and response to executive requests
- Liaison with executive meetings
- Agenda collection
- Concurrent role with Audit and Supervisory Committee Secretariat
- Support for preparing board materials
- Preparation of minutes and scheduling
- Disclosure response

Board of Directors | Management - Status of Discussions -

Corporates

Institutional investors

Survey Results

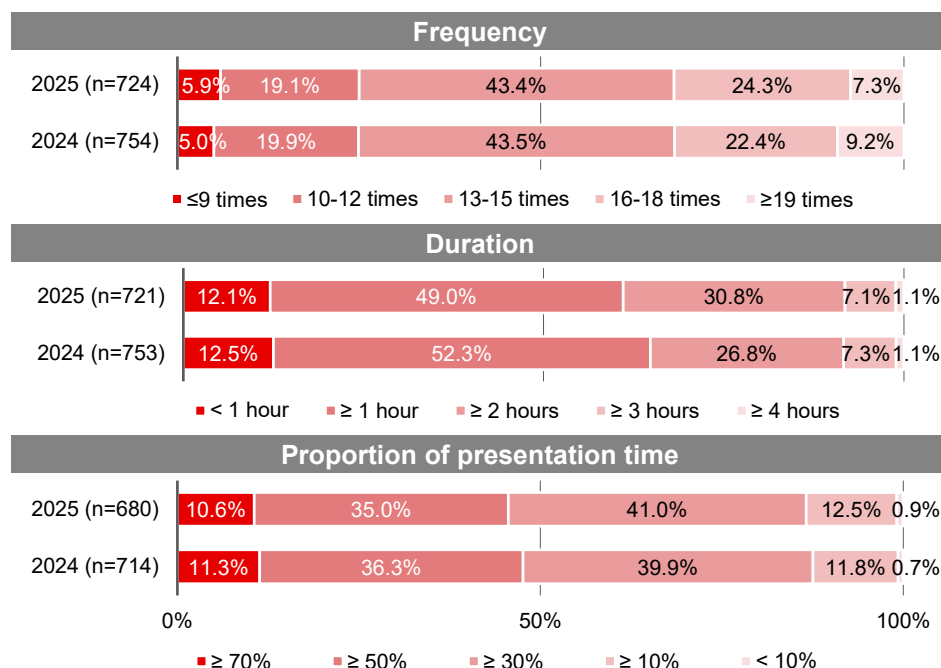
- ✓ Board meeting deliberation time has been increasing.
- ✓ In addition to TSE-requested topics on capital costs and stock price, companies discuss various themes according to their management priorities.

Supervisor Comments

- ✓ Time distribution trends show that board discussions are becoming more prioritized.

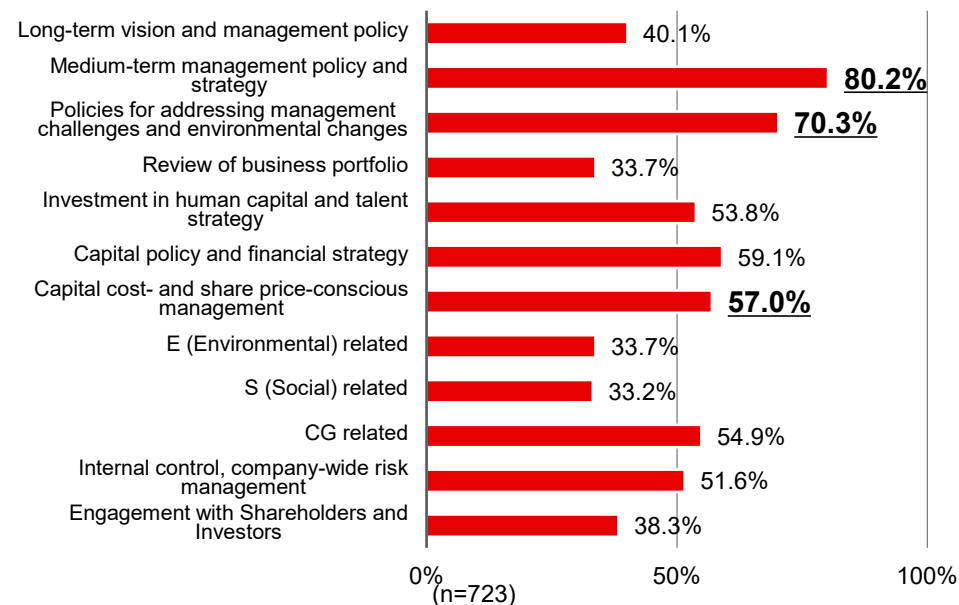
Meeting frequency and duration (Q15, 16)

- Meeting frequency remains largely unchanged from the previous year
- Meetings are getting longer, yet the time allocated for presentations is decreasing



Key deliberation topics (Q20)

- Key discussions revolve around management strategies and management challenges
- Nearly 60% of companies hold discussions on capital costs and capital policy



Board of Directors | Management

- Ideas for Enhancing Deliberations -

Corporates

Institutional
investors

Survey Results

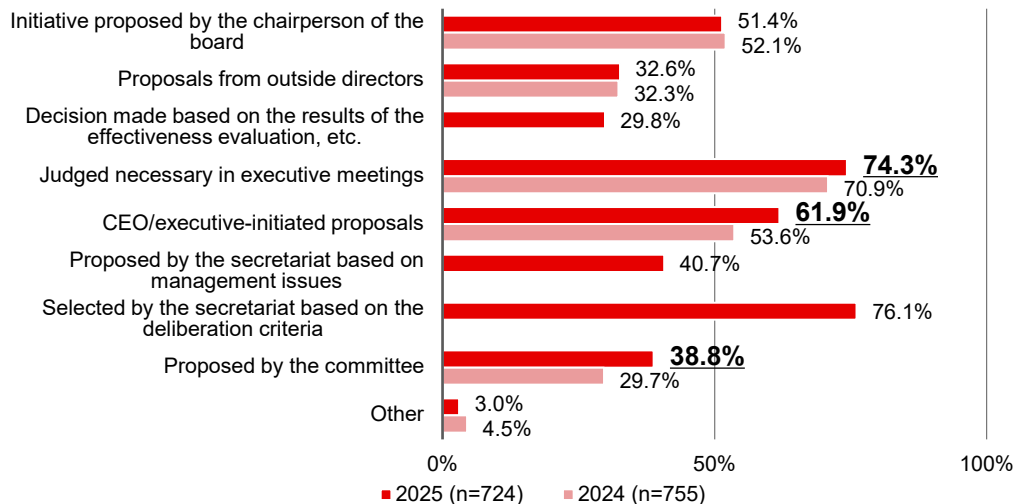
- ✓ Agendas are being set from multiple perspectives.
- ✓ Various initiatives are undertaken to enrich deliberations, reflecting each company's specific circumstances.

Supervisor Comments

- ✓ For board agendas, top-down initiation of topics is as important as bottom-up proposals.
- ✓ The fact that agendas are now commonly initiated by the chair, outside directors, and the secretariat — and informed by board effectiveness evaluations — indicates meaningful progress in board reform.

Agenda-setting process (Q19)

- Year-on-year increase in proposals from committees/executive bodies

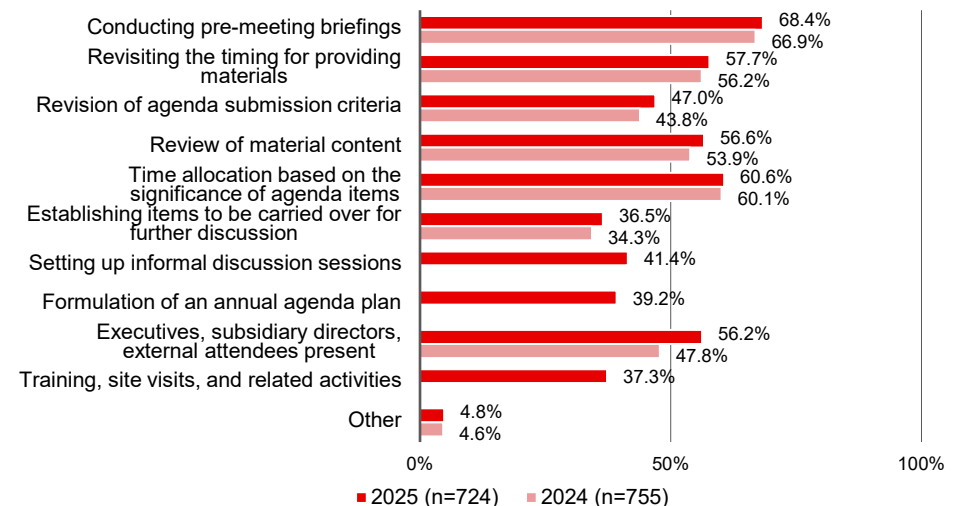


Other responses

- Proposals from outside auditors
- Items deemed by the secretariat as appropriate for board agenda submission

Initiatives to enhance deliberations (Q21)

- Engagement levels increased year-on-year across all items
- Various initiatives were highlighted in the "Other" responses



Other responses

- Sharing executive discussions with outside directors
- Clarification of key discussion points and preparation of summaries
- Holding study sessions on important matters and providing pre-meeting explanations via video
- Optimizing the number of directors and arranging seating effectively

Board of Directors | Evaluation

- Method of Effectiveness Evaluation -

Corporates

Institutional
investors

Survey Results

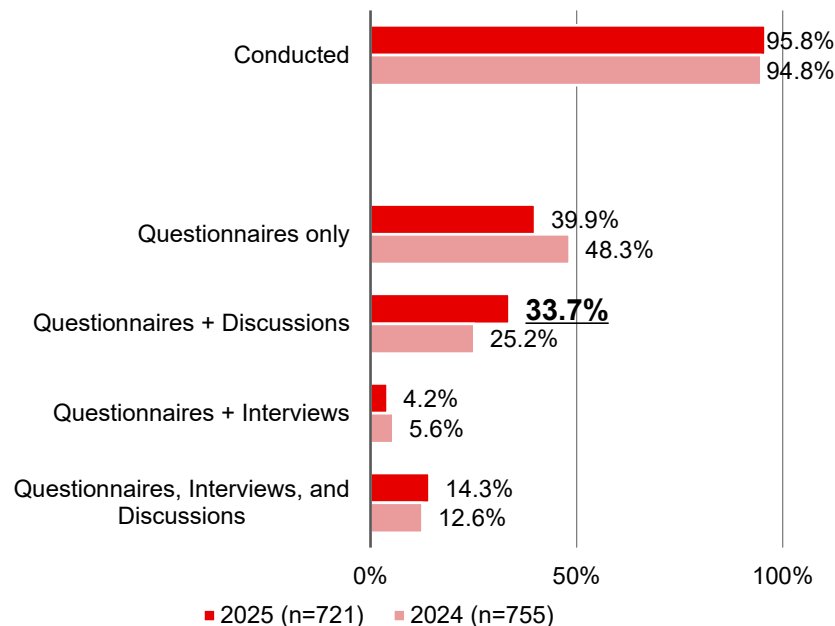
- ✓ Leveraging discussions to delve deeper into survey findings and utilizing external organizations has progressed, thereby improving both the depth and objectivity of assessments.

Supervisor Comments

- ✓ Board effectiveness evaluations can be used not just for assessment, but as a tool to identify challenges, reaffirm the board's mission, and achieve consensus on action policies.

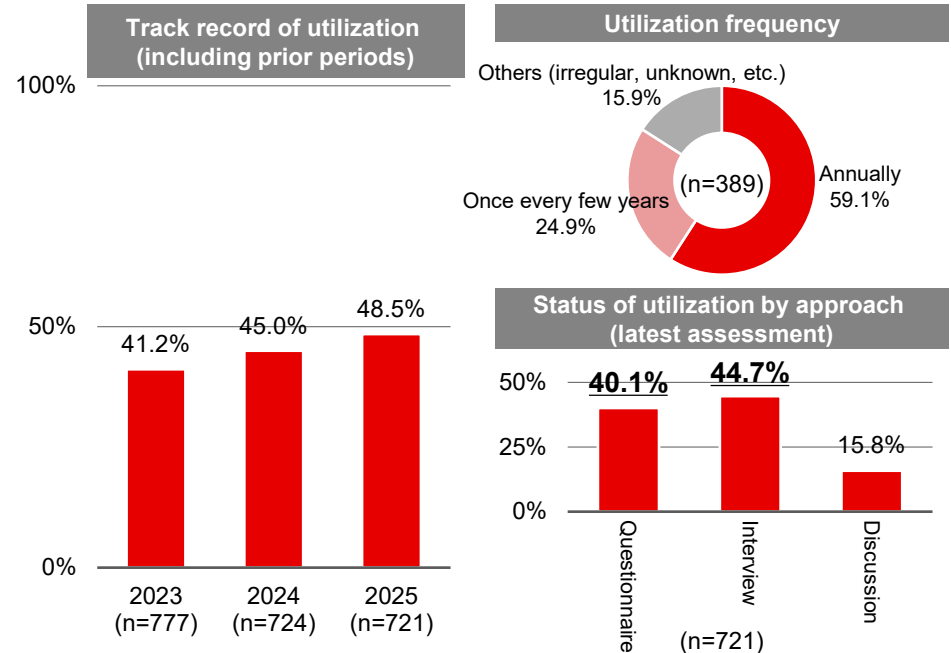
Method (Q23-1)

- More surveys are increasingly conducted with discussions (+8.4 pts)



Utilization of external institutions (Q23-2, 24)

- Use of external institutions is trending upward, with a majority employing them annually
- In the most recent surveys and interviews, slightly over 40% involved external support



Board of Directors | Evaluation - Individual Evaluation -

Corporates

Institutional investors

Survey Results

✓ There has been no change in the implementation of individual evaluations, and self-assessment continues to be the main practice among companies that conduct them.

✓ Response trends indicate that multiple evaluation contents and methods are expected.

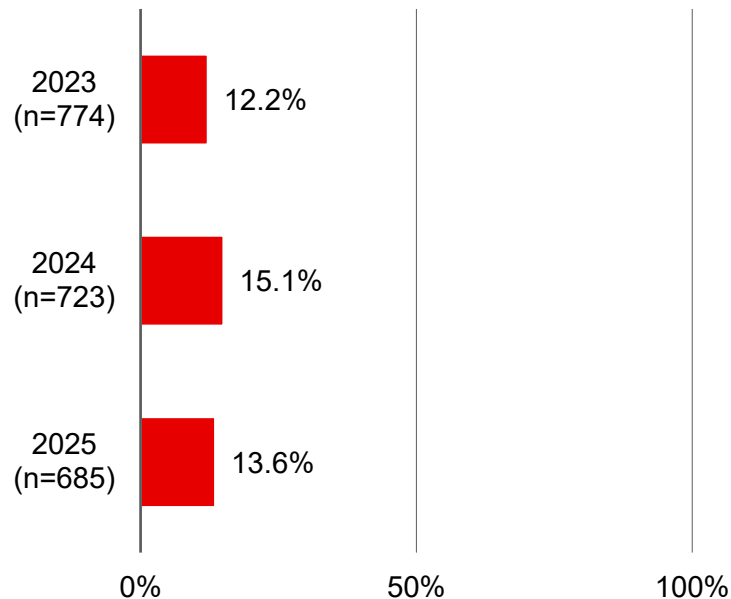
Supervisor Comments

✓ Evaluating whether each director, including outside directors, effectively performs their board duties and reflecting this evaluation in reappointment decisions is inherently essential.

✓ Different methods can be employed, but evaluating each director—using tools such as the nomination committee or board effectiveness assessments—is vital to preserve healthy dynamics among directors.

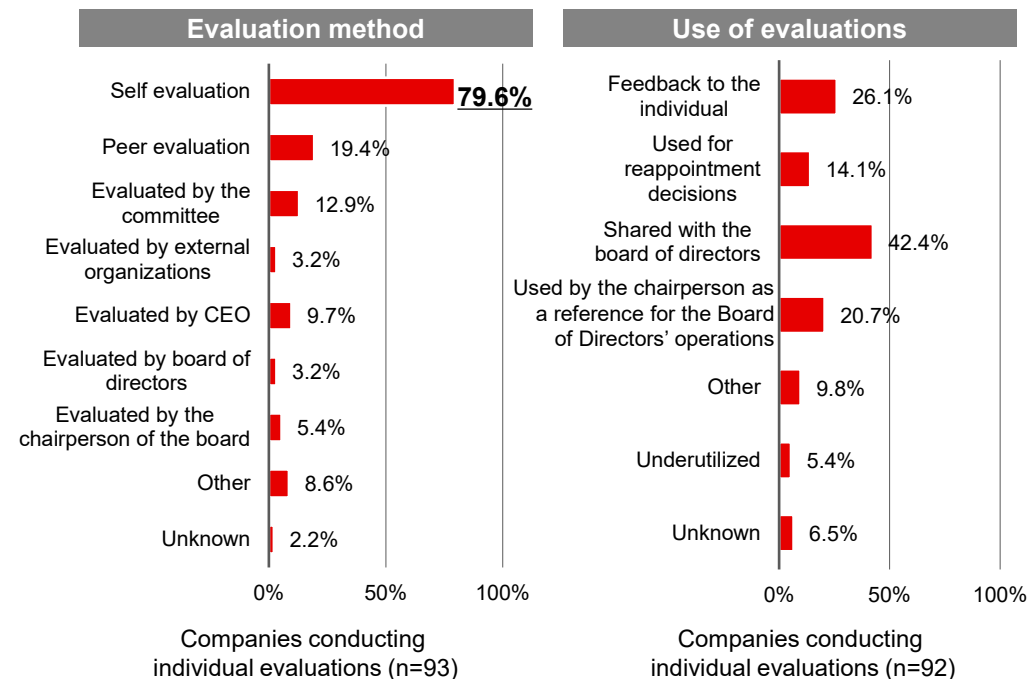
Proportion of individual evaluations conducted (Q27-1)

- Companies conducting individual evaluations have shown little change over time
- Remains in the minority at around 10-15%



Individual evaluation methods and applications (Q28, 29)

- Self-assessments are used by nearly 80% of companies
- Utilization methods differ among companies



Board of Directors | Evaluation - Investor Expectations Regarding Targets for Effectiveness Evaluation -

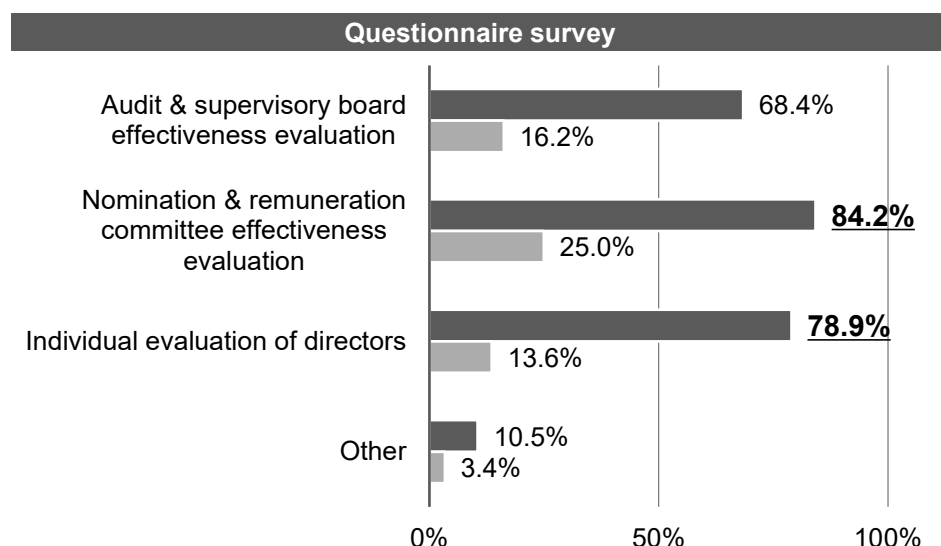
Corporates

Institutional investors

Investors Survey Results

- ✓ The implementation of effectiveness evaluations and individual evaluations for the nomination and remuneration committee is expected.
- ✓ Challenges have been noted in using the results of individual evaluations.

Other items expected to be evaluated



■ Institutional investors: Expecting evaluation as a follow-up (n=19)

Other responses

- Training content / level / frequency
- Third-party assessment (comparison with peers and similarly sized companies included)

Interview survey

Expected implementation and use of individual evaluations

- As many companies have a majority of outside directors, **peer reviews are considered desirable for evaluating them individually**. Because the goal is not to assess internal directors or have internal directors evaluate outside directors, **it may be reasonable to conduct peer reviews among outside directors** when enough outside directors are present
- **Disclosing individual results may be difficult, but the evaluation criteria and methods should be made transparent.** Disclosure of operational policies and case examples is also expected to clarify how individual evaluation results are used to enhance the nomination and remuneration committee and the board effectiveness

Challenges of individual evaluations noted

- Using individual evaluations for purposes such as director appointment proposals is conceivable, but **appears difficult in practice**

Board of Directors | Evaluation - Response to Evaluation Results -

Corporates

Institutional
investors

Survey Results

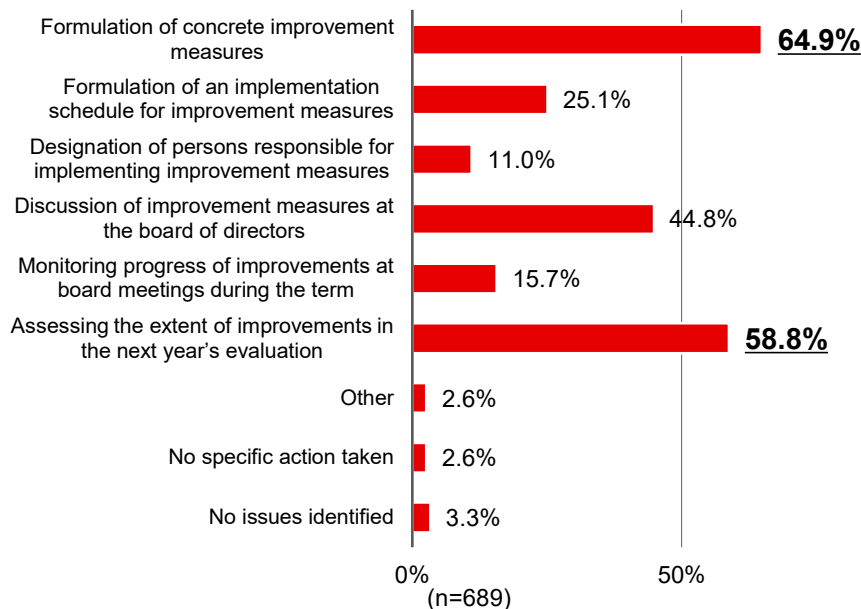
- ✓ **Post-evaluation, some companies set concrete plans and check progress during the fiscal year to strengthen the effectiveness of corrective measures.**
- ✓ **Evaluation practices are becoming more substantive, and disclosure has also been strengthened.**

Supervisor Comments

- ✓ **Board effectiveness evaluations have evolved from a formal process to a well-established practice for enhancing board operations.**
- ✓ **Ongoing improvements are expected.**

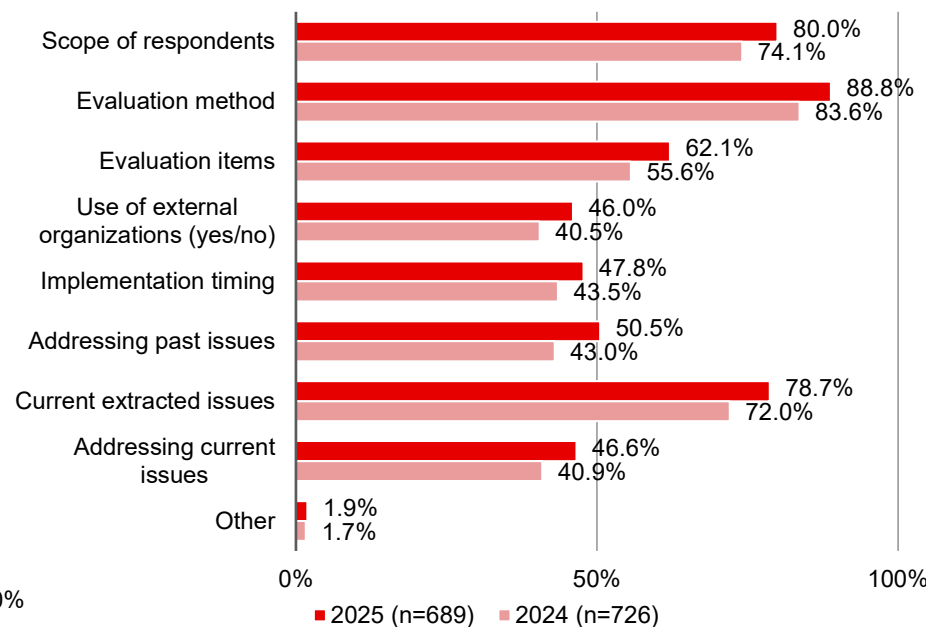
Response to evaluation results (Q26)

- About 60% of companies implement improvement plans and evaluate their effectiveness in the subsequent year
- In certain cases, schedules are set, and progress during the fiscal year is monitored



CG Report disclosures (Q25)

- Response rates rose year-on-year across all items



Board of Directors | Evaluation - Investor Expectations Regarding the Disclosure of Effectiveness Evaluations -

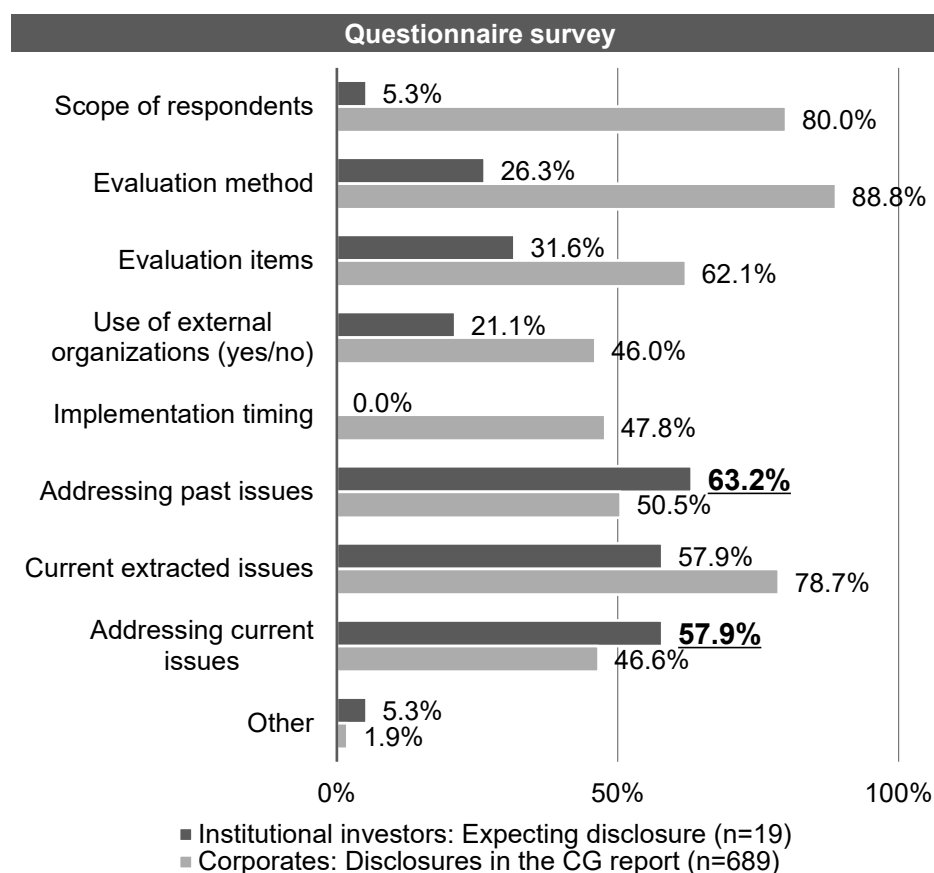
Corporates

Institutional investors

Investors Survey Results

- ✓ There is expectation for improved disclosure on past and current issues and corresponding actions.
- ✓ Disclosure receives significant attention, and references are also made to the Integrated Report.

Expected enhancements in disclosure



Interview survey

Recognized as important information, though it does not impact voting rights

- Mention of the board effectiveness evaluation in the convocation notice does not directly impact voting, but **the content of the evaluation is consulted as reference during discussions on director appointments**
- **Board effectiveness evaluations included in the convocation notice are always reviewed.** Enhanced disclosure, such as information on initiatives from the previous year, is preferred. **Disclosure in the convocation notice** does not impact voting, but **may positively influence perception of the company**

Disclosure in the Integrated Report is also useful

- **Disclosures of dialogues with outside directors in the Integrated Report are considered valuable for understanding the utilization of board effectiveness evaluations**

Expected explanation of each director's responsibilities

- Disclosing details of individual proposals is inappropriate, but **some information on each director's board role is desirable.** For example, indicating instances where a director expressed a view on a specific area and also sought input from the executive team is considered useful for evaluating the effectiveness of the board

2. Results

(1) Towards Establishing an Effective Governance Structure

- Governance Structure
- Board of Directors
- Nomination and Remuneration

Nomination and Remuneration | Committee Operations - Operational Status -

Corporates

Institutional
investors

Survey Results

- ✓ The meeting frequency and various operational initiatives suggest that substantive activities are being carried out.

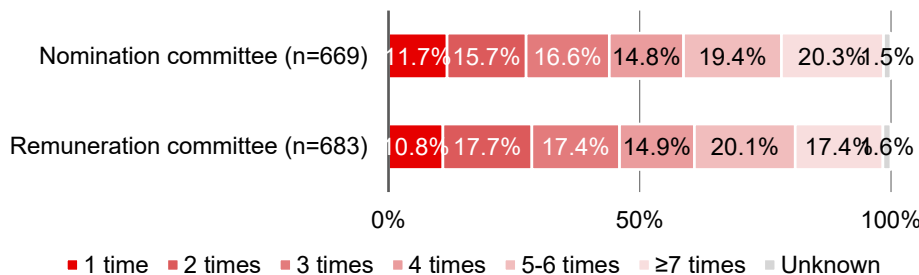
Supervisor Comments

- ✓ As the number of outside directors increases and not all of them necessarily serve on the nomination and remuneration committee, it becomes more important for each committee to report its activities to the board (the content and timing of such reports can be determined as appropriate).

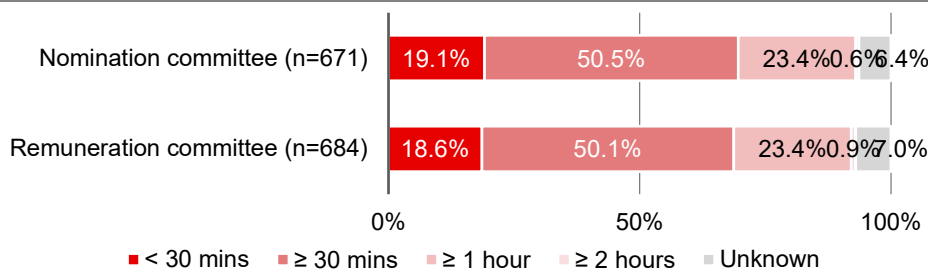
Meeting frequency and duration (Q35, 36)

- 50%+ of companies hold 4 times or more meetings per year; around 10% hold only one
- 70% or more of companies hold meetings of 30 mins or more

Meeting frequency

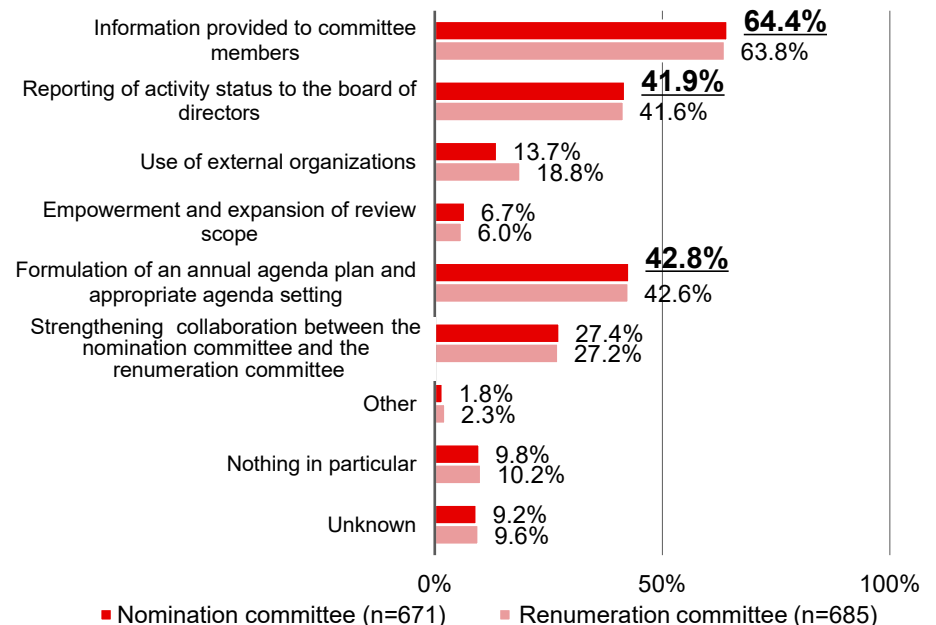


Duration



Operational improvements (Q37)

- The primary form of support consists of supplying information to committee members
- 40%+ of companies report to the board and make improvements in agenda setting



Nomination and Remuneration | Committee Operations

- Investors' Priorities for Improvement -

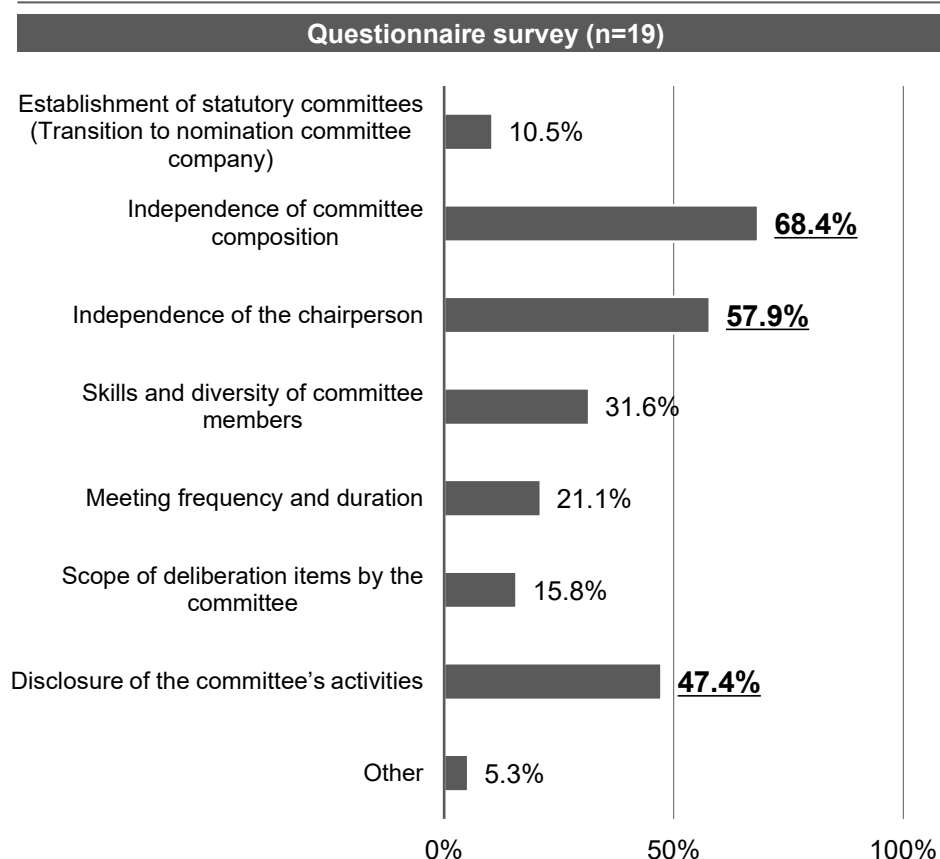
Corporates

Institutional investors

Investors Survey Results

- ✓ Focus is on the independence of the committee composition and chair, as well as on disclosure of committee activities.
- ✓ As ad hoc committees vary by company, there are calls for more comprehensive disclosure.

High-priority improvement items regarding the nomination and remuneration committee



Interview survey

Statutory committee evaluation

- Companies moving to statutory committees are seen as having clarified committee roles and functions

Ensuring the independence of the committee chair is critical

- Decisions on the dismissal or non-reappointment of the CEO by the Nomination Committee are critically important matters that have a direct impact on corporate value. **Ensuring the independence and objectivity of the committee enhances the credibility of corporate governance. Therefore, it is desirable that the chairperson be someone other than top management**

Effective information sharing among committee members is essential

- Recognizing that the nomination and remuneration committees require different skill sets, **we encourage regular information exchange and dialogue between them**

There is limited visibility into the discussions taking place within voluntary committees

- In some companies, meetings are held only twice a year, showing insufficient deliberation frequency. Too few meetings make it difficult to understand the deliberations
- Given that the scope and content of deliberations of voluntary committees differ greatly across companies, **we hope to see more specific disclosure of the matters discussed and the way in which the committees are involved in decision-making, so that their actual role can be properly understood**

Nomination and Remuneration | Committee Operations

- Activities of the Nomination Committee -

Corporates

Institutional
investors

Survey Results

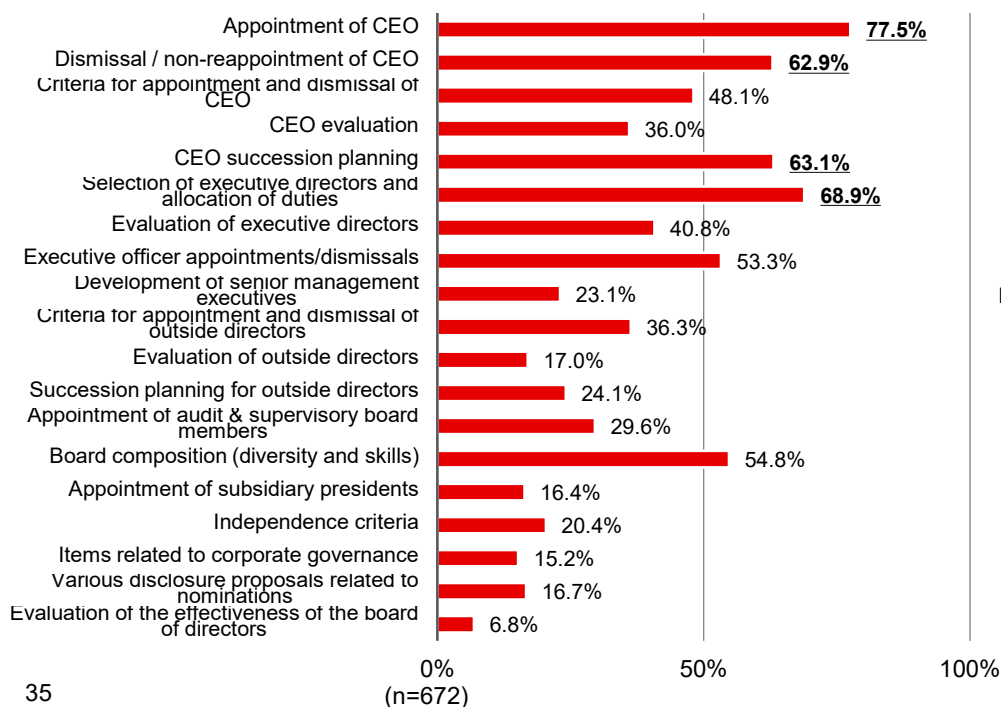
- ✓ Nomination committee focuses on CEO and executive appointments, dismissals, and succession.
- ✓ The nomination committee is becoming more deeply involved in the process of appointing outside directors.

Supervisor Comments

- ✓ With the expansion of the matters under deliberation and a certain degree of involvement in the appointment of outside directors, it appears that the operation of the nomination committee has become more sophisticated.

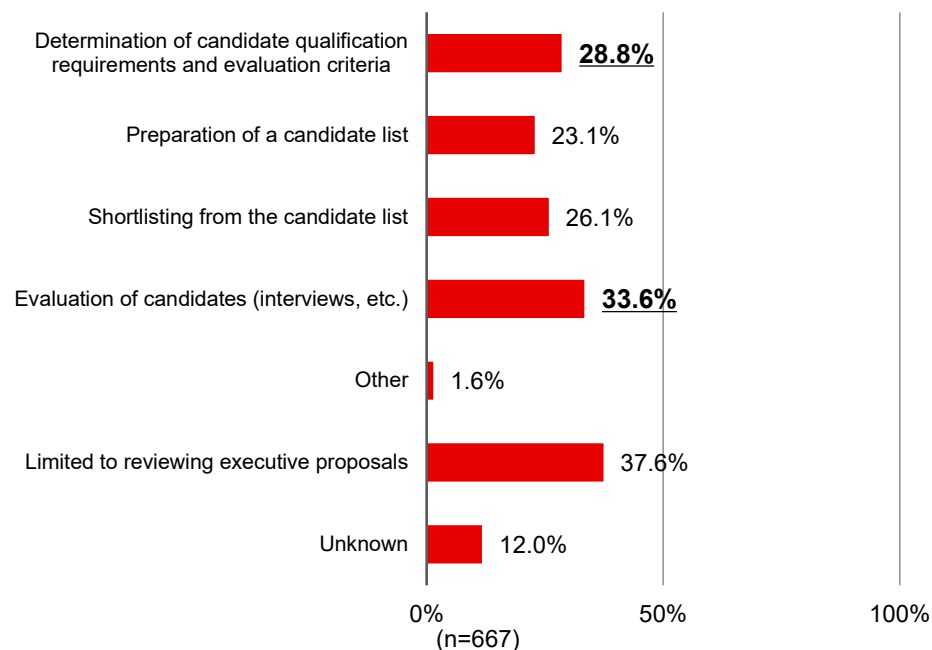
Scope of deliberation items (Q32)

- 60% or more of companies list the appointment, dismissal / non-reappointment / succession planning of the CEO, and the selection of directors with specific titles as items for deliberation



Involvement in outside director appointments (Q33)

- Roughly 30% of companies involve the committee in candidate interviews and in the evaluation of qualification criteria



Nomination and Remuneration | Committee Operations

–Matters that Investors Expect to be Discussed (Nominations) -

Corporates

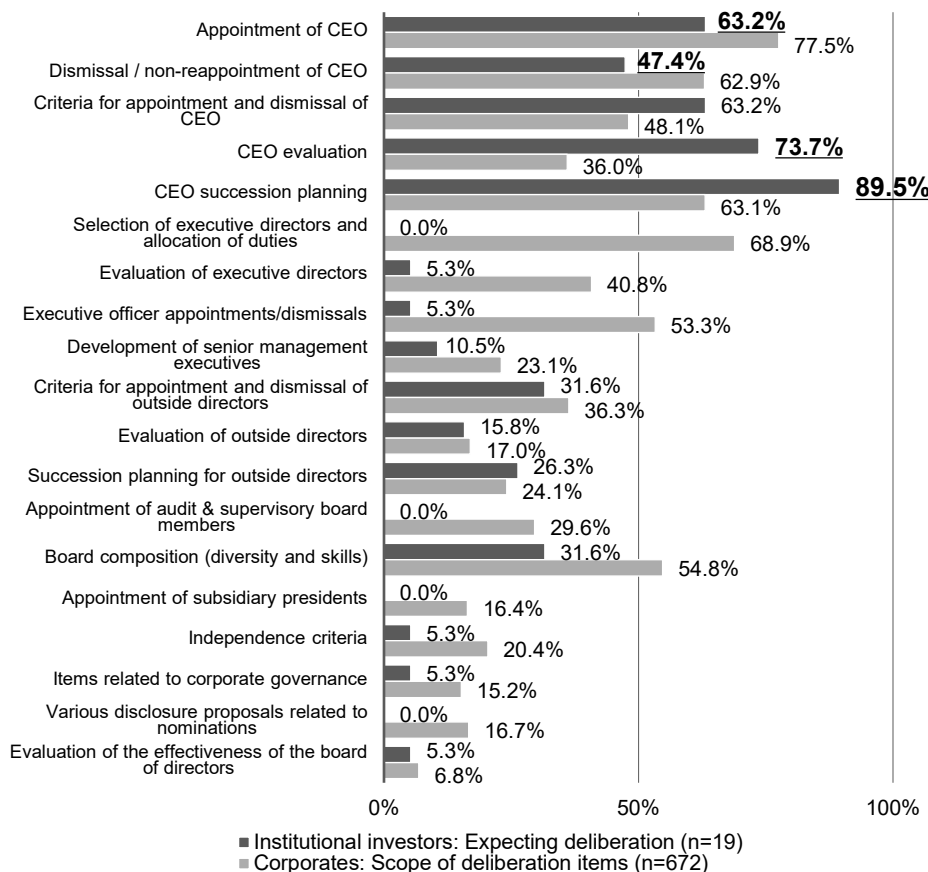
Institutional investors

Investors Survey Results

- ✓ Emphasis on discussions regarding CEO appointment, dismissal, and succession planning.
- ✓ Calls have been made to include discussions on outside director appointments and succession planning.

Topics expected to be addressed by the nomination committee

Questionnaire survey



Interview survey

CEO appointment and dismissal are critical

- We consider **CEO dismissal or non-reappointment to be the single most critical issue in corporate governance, and the standards, rules, and processes for such decisions should be clearly defined beforehand.** Moreover, such systems are intimately tied to succession planning and the CEO appointment process, serving as a foundation for long-term corporate value creation
- In underperforming companies, board-level discussions on CEO appointment and dismissal are often limited, and the basis for these decisions is not clearly defined
- **At a minimum on an annual basis, the board should provide an opportunity to assess the continued suitability of the CEO, addressing both quantitative and qualitative aspects such as performance, stock price, and risk.** This enhances the effectiveness of the board's nomination and supervisory functions

Expectation of involvement in outside director appointments

- **How actively the nomination committee develops the list of outside director candidates is an important consideration.** In particular, **focus on whether executive recommendations are genuinely considered, not just formally accepted**
- In practice, committees often use executive-provided candidate lists, **but discussions on CEO's board vision and desired outside directors are crucial**
- Succession planning for outside directors requires deliberate discussions that take into account the timing of their departure

Nomination and Remuneration | Committee Operations

- Remuneration Committee Activities -

Corporates

Institutional
investors

Survey Results

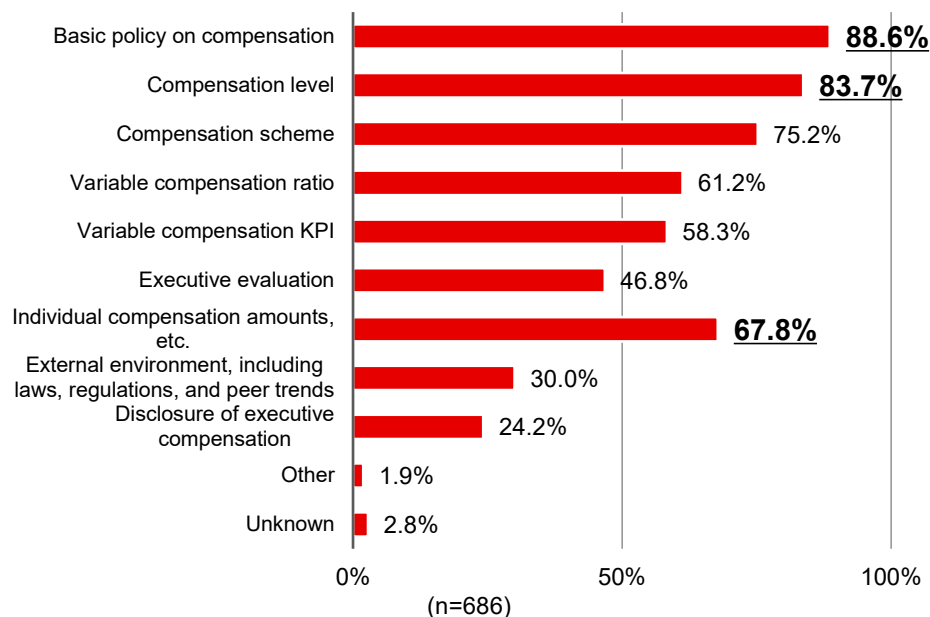
- ✓ The remuneration committee primarily deliberates on compensation policies, pay levels, and individual remuneration.
- ✓ On the other hand, in a certain percentage of companies, the CEO retains the final say on individual remuneration.

Supervisor Comments

- ✓ For compensation, discussions on the content—covering pay levels, compensation systems, and prior KPI setting—are critical, and the process must ensure objectivity, independence, and transparency.
- ✓ From the survey findings, it appears that practices have progressed in both content and process aspects.

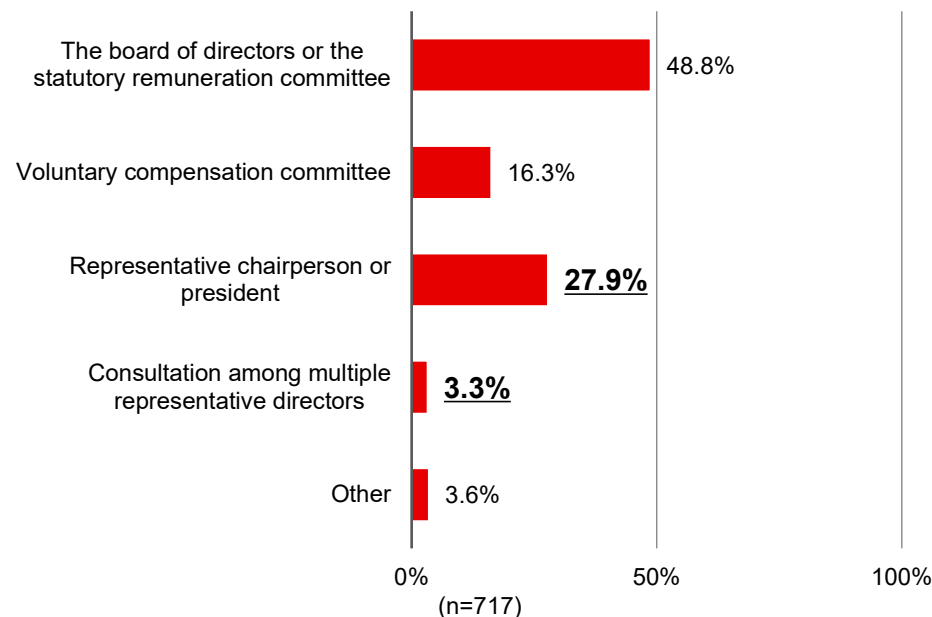
Scope of deliberation items (Q34)

- 80% or more of companies list compensation policy and remuneration levels as items for discussion
- Individual remuneration amounts are also subject to deliberation by just under 70% of committees



Decision-making body for individual remuneration (Q40)

- Decision-making authority is vested in the representative director in 30% of companies



Nomination and Remuneration | Committee Operations

– Matters that Investors Expect to be Discussed (Remuneration) -

Corporates

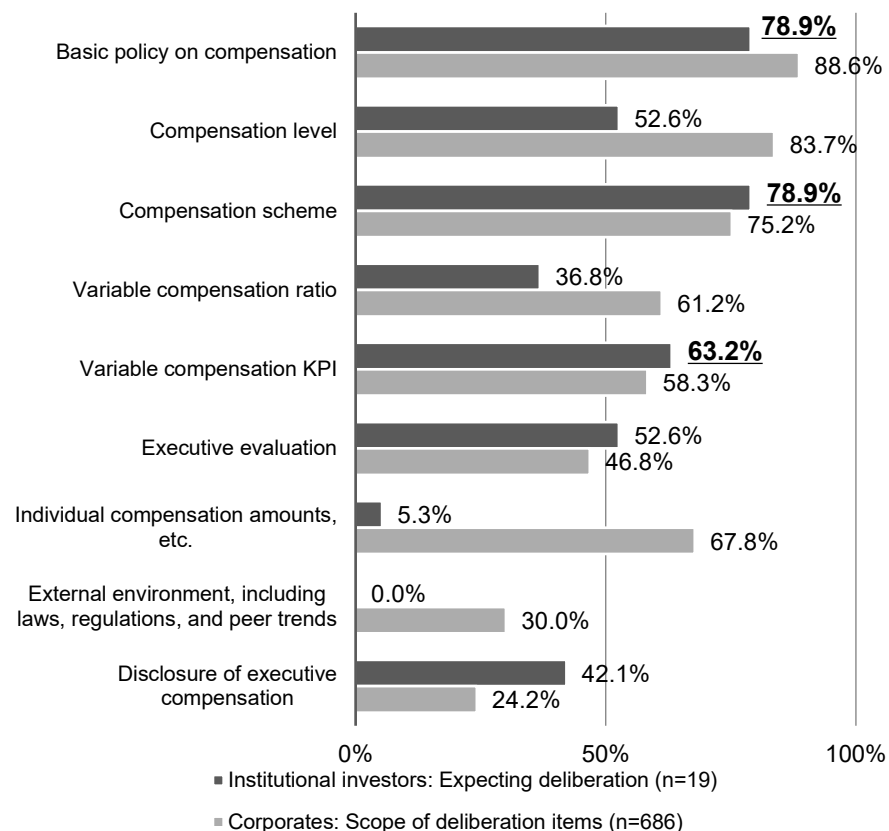
Institutional investors

Investors Survey Results

- ✓ Institutional investors place high importance on core remuneration policies and schemes, as well as the KPIs tied to variable pay, being subject to deliberation.
- ✓ Some believe that it is not necessarily appropriate to conclude that the committee should carry out the final adjustment of the amount after applying the KPIs.

Topics expected to be addressed by the remuneration committee

Questionnaire survey



Interview survey

The appropriate body to determine individual remuneration amounts should be selected in light of the situation

- **Even if the remuneration framework and KPIs are properly set, whether the remuneration committee should go so far as to determine individual payment amounts depends on the circumstances.** Each company should make its own judgment based on its specific circumstances and governance structure

Nomination and Remuneration | CEO Succession Planning

Corporates

Institutional
investors

Survey Results

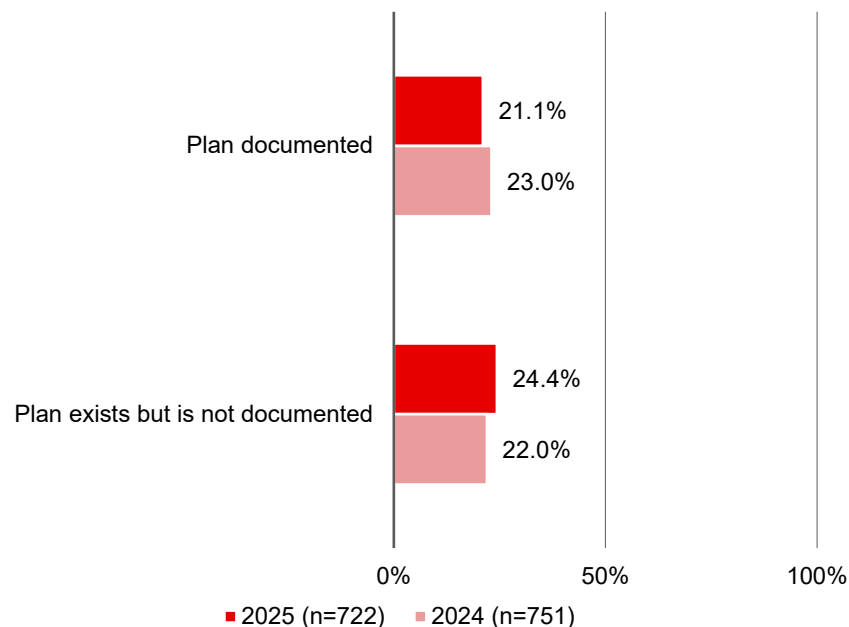
- ✓ There has been little change in plan formulation overall; however, in companies that have begun developing plans, discussions start with the “ideal CEO profile,” and their consideration and execution are steadily advancing.

Supervisor Comments

- ✓ CEO succession planning is underway in nearly 50% of companies, reflecting enhanced board supervision in CEO appointments.

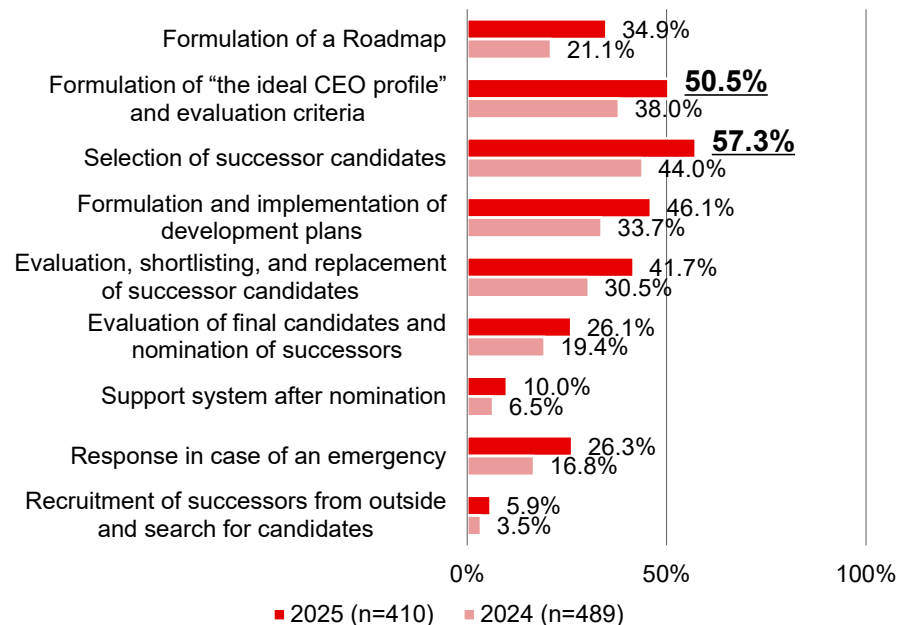
Succession plan status (Q46)

- Little change in plan formulation status



Succession plan content (Q47)

- Response rates rose across all items
- The majority of companies have formulated the ideal CEO profile and selected candidates



Nomination and Remuneration | Remuneration System

- Incentive Remuneration -

Corporates

Institutional
investors

Survey Results

- ✓ Remuneration incentives are being strengthened, while remuneration schemes are becoming increasingly complex and diverse.
- ✓ Equity compensation for outside directors has increased year-on-year but is currently just over 10%.

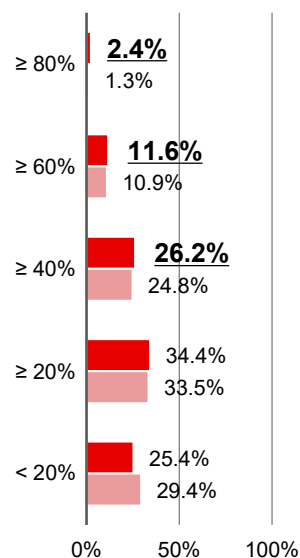
Supervisor Comments

- ✓ Will focus on the potential expansion of stock-based compensation for employees, in addition to that for outside directors.

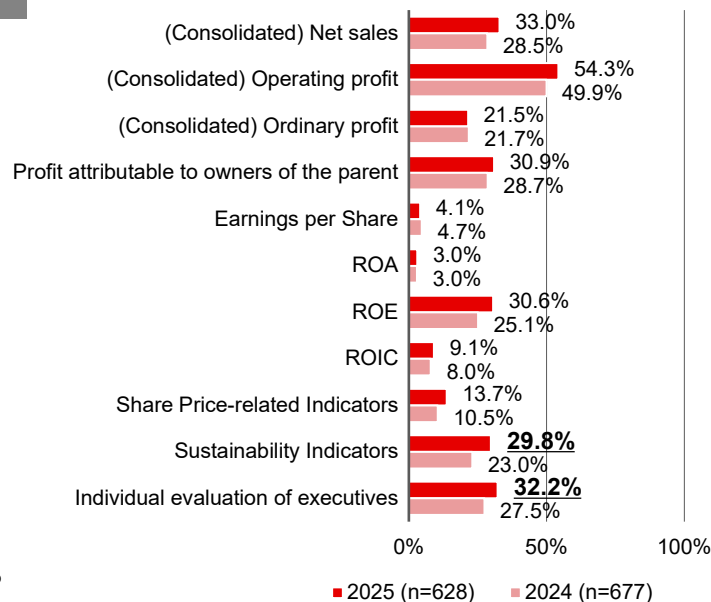
Ratio and metrics of performance-based compensation (Q42, 41)

- Performance-linked remuneration ratio is rising. Companies with a ratio of more than 40% total 40%+ out of all companies
- Growing use of sustainability indicators and qualitative evaluations

CEO performance-based pay ratio

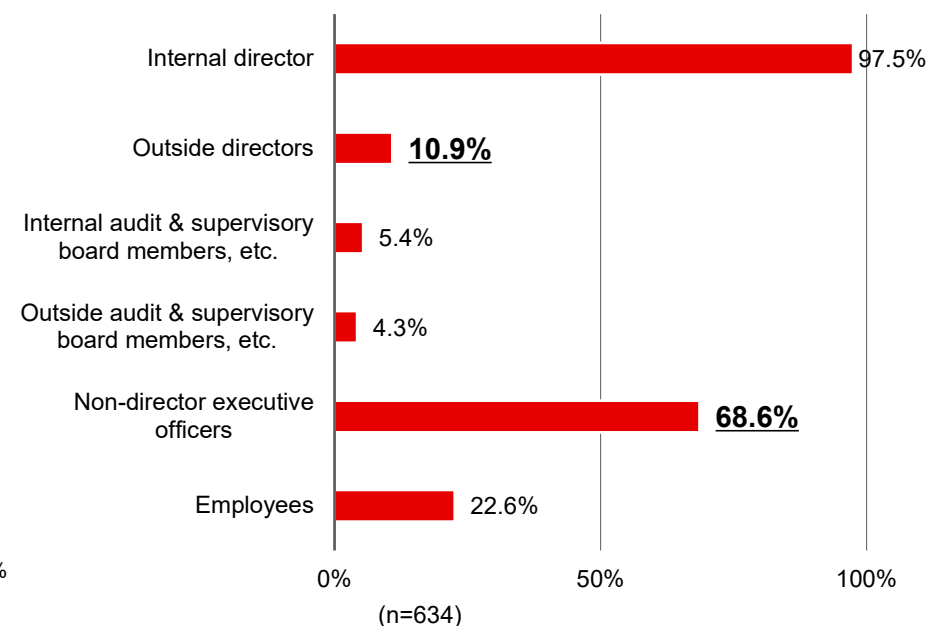


Performance-based pay metrics



Stock-based compensation recipients (Q43)

- Grants often given to executive officers as well as internal directors
- Slight increase in grants to outside directors (+1.7 pts year-on-year)



Nomination and Remuneration | Remuneration System

- Investor Expectations for Incentive Remuneration -

Corporates

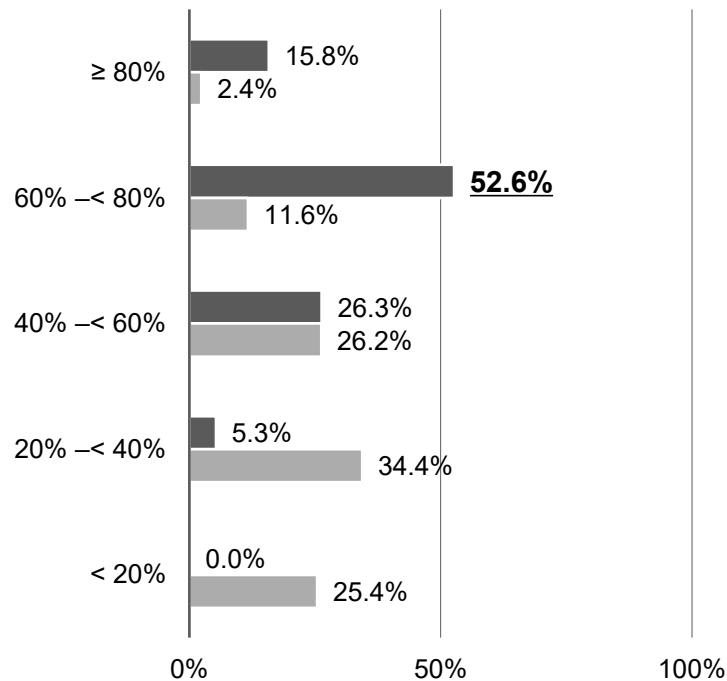
Institutional investors

Investors Survey Results

- ✓ Many believe that 60% or more of CEO pay should be performance-based.
- ✓ Some are of the view that, given the evolving role of outside directors, they too should be awarded incentives such as stock-based compensation.

Ideal CEO performance-based pay ratio

Questionnaire survey



■ Institutional investors: Ideal proportion of performance-linked compensation (n=19)

■ Corporates: Current proportion of performance-linked compensation (n=713)

Interview survey

Need to increase the variable pay ratio

- Japanese executives tend to focus on absolute performance measures, such as domestic standards or past results, whereas the market judges value relative to international peers. **Ensuring consistency with global standards and implementing performance metrics that drive shareholder value are indispensable**
- Excessively high fixed pay is a concern for Japanese executive directors' compensation. **For effective incentives aimed at enhancing corporate value, companies should decrease fixed remuneration and increase performance-linked variable pay**

Outside directors should also receive incentives

- The role of outside directors has shifted from a traditional auditing function to **a more proactive role in enhancing corporate value. Considering these changes, stock-based remuneration should be introduced thoughtfully and without excess**
- Outside directors **should act as both accelerator and brake in management; providing incentives like restricted stock is recommended**. Outside directors, acting for minority shareholders, should actively contribute to corporate value; incentives help ensure this role is effective
- As members of the board, **given their role in board supervision and value-enhancing decisions, incentive compensation for outside directors may be appropriate under certain conditions**. More companies are adopting such pay designs

2. Results

(2) Toward Building Stronger Collaborative Relationships with Stakeholders

- Management & Capital Strategies
- Response to Sustainability Issues
- Engagement with Shareholders, etc.

Survey Results

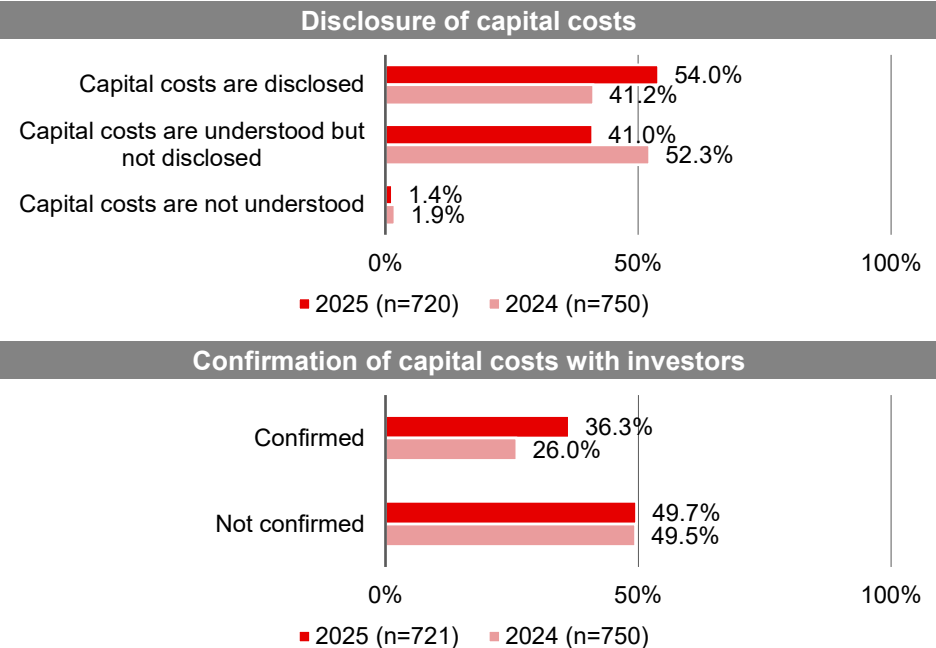
✓ Disclosures, investor engagement, and board evaluations on capital costs are up year-on-year.

Supervisor Comments

✓ Significant progress on TSE requests shows that capital costs management, including board evaluation and analysis, is becoming established.

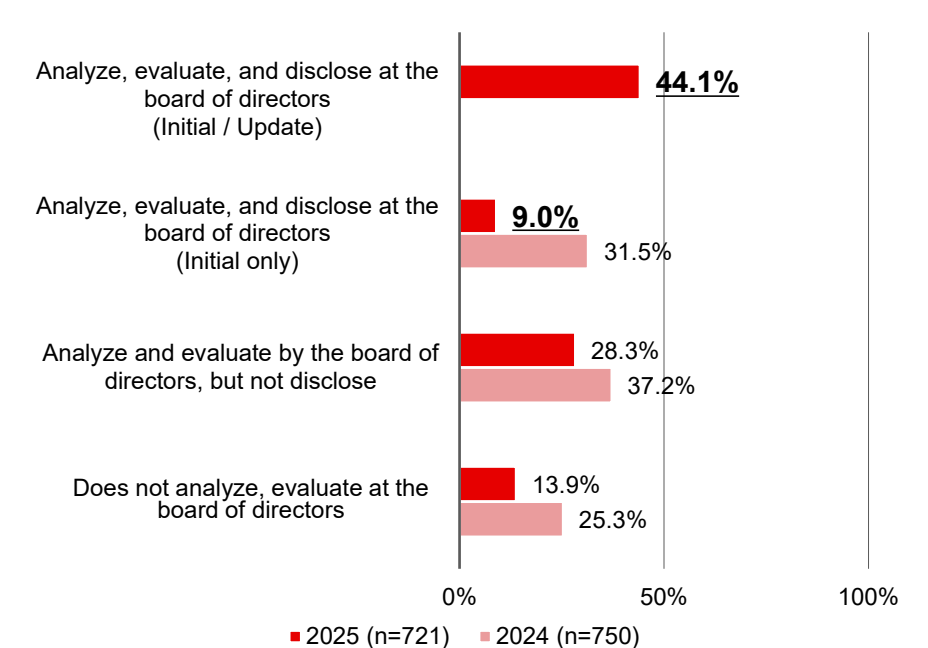
Disclosure of capital costs / engagement with investors (Q48-1, 2)

- Both the disclosure of capital costs and confirmations with investors increased year-on-year



Board evaluation and analysis (Q48-4)

- More than half of companies have carried out analysis and evaluation



Management & Capital Strategies | Response to PBR Improvement

Corporates

Institutional investors

Survey Results

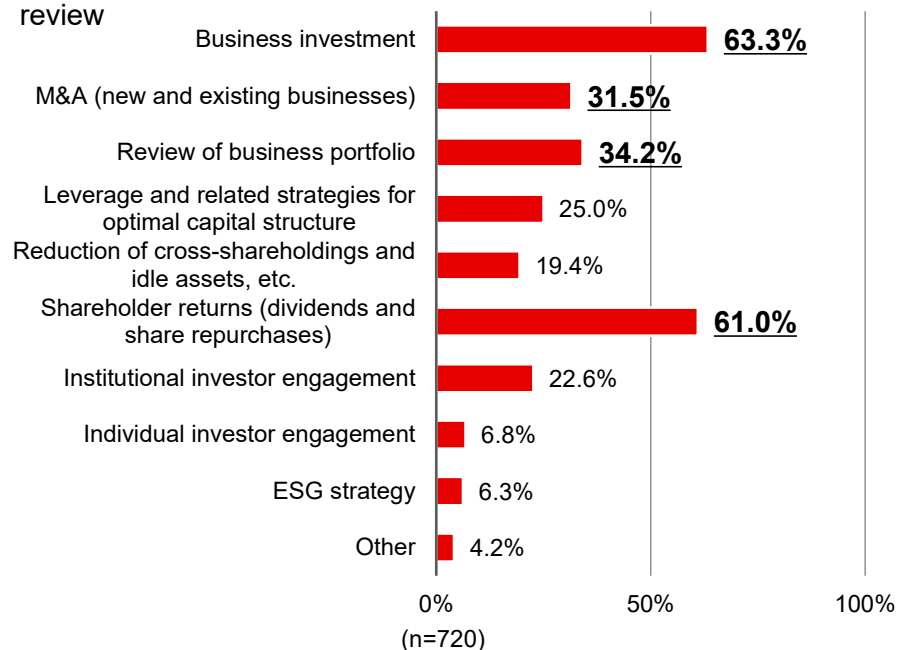
- ✓ In efforts to enhance PBR, companies are focusing not only on shareholder returns but also on business initiatives, with disclosure on these measures advancing.

Supervisor Comments

- ✓ Progress in substantive initiatives to realize the management strategy suggests that greater emphasis is being placed on management practices that take capital costs and share prices into account.
- ✓ It is noteworthy that management measures, including business investment, M&A, and portfolio review, are being prioritized alongside shareholder returns and financial strategy.

Key Initiatives considered for Improving PBR (Q49)

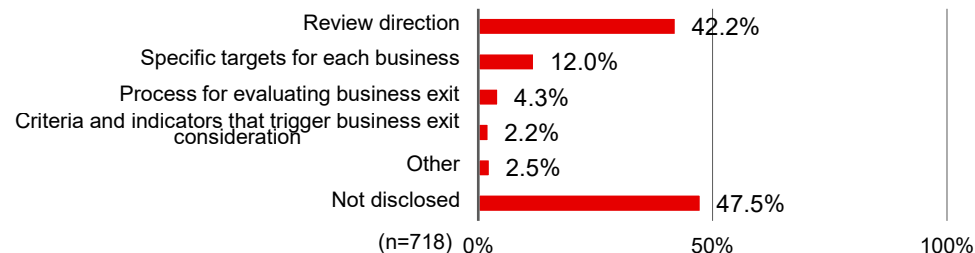
- Business investment ranks highest. Approximately 60% also prioritize shareholder returns at the same level
- 30% or more of respondents reported M&A and business portfolio review



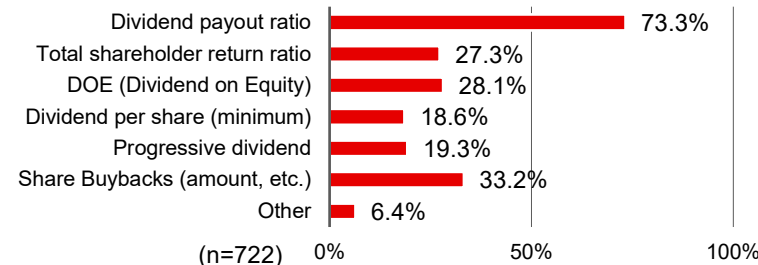
Business Portfolio Disclosure / Shareholder Return Policy (Q50, 51)

- Companies disclose the direction of business portfolio reviews, with specific targets provided in some cases
- Shareholder returns utilize a variety of indicators beyond the dividend payout ratio

Business portfolio disclosure



Shareholder return policy



Management & Capital Strategies | Response to PBR Improvement

- Initiatives Expected by Investors -

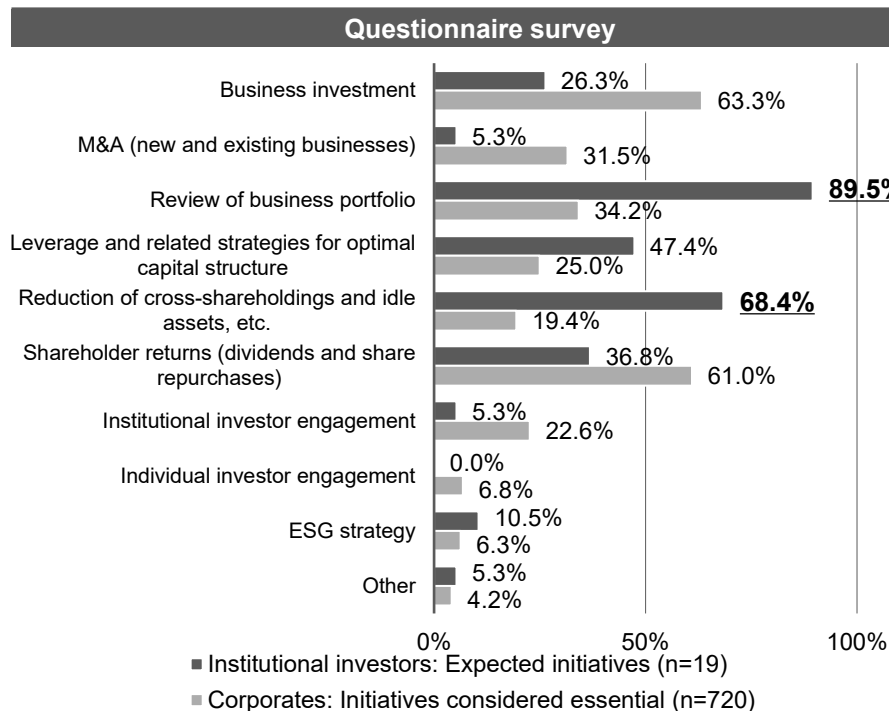
Corporates

Institutional investors

Investors Survey Results

- ✓ Institutional investors focus on business portfolio reviews, the reduction of cross-shareholdings, and the downsizing of non-performing assets.
- ✓ The trend of increasing share buybacks is sometimes viewed positively as reflecting balance sheet-oriented management.

Key Initiatives expected for Improving PBR



Other responses

- Publication of KPIs and disclosures showing the visibility and certainty of performance

Interview survey

Reviewing the business portfolio is essential

- **Companies with persistent PBR challenges often face structural issues in their business portfolios or financial strategies, and addressing these areas should be prioritized.** Initiatives related to business investment and M&A are regarded as subsequent steps

Balance sheet-driven management is essential

- **The increase in share buybacks is viewed not as a short-term measure to boost the stock price, but as a reflection of a shift toward balance sheet-driven management.** An increasing number of companies are pursuing capital structure optimization as part of their medium-term financial strategies
- Business investment and M&A are important management initiatives, but in **companies that need to improve their PBR, they should first prioritize optimizing the efficiency of their balance sheets.** Improving capital efficiency is expected through measures such as cashing in idle assets and cross-shareholdings and exiting unprofitable businesses

Concerns over companies that emphasize business investment

- **Some companies claim they are holding cash for new business investments, but it remains unclear whether they are actually considering concrete projects.** Given their past track record, it is difficult to have high expectations. **If they cannot present concrete initiatives, we would like to see them enhance shareholder returns instead**
- For companies with a PBR below 1, many executives may lack a full understanding of "appropriate capital," and meaningful discussions on this topic may be absent at the board level. We don't dismiss the idea of **allocating funds to growth investments, but we regard it as a serious issue that decisions are being made without a proper finance perspective, specifically without taking capital costs and optimal capital structure into account**

Management & Capital Strategies | Response to PBR Improvement

- Expectations for Business Portfolio Disclosure -

Corporates

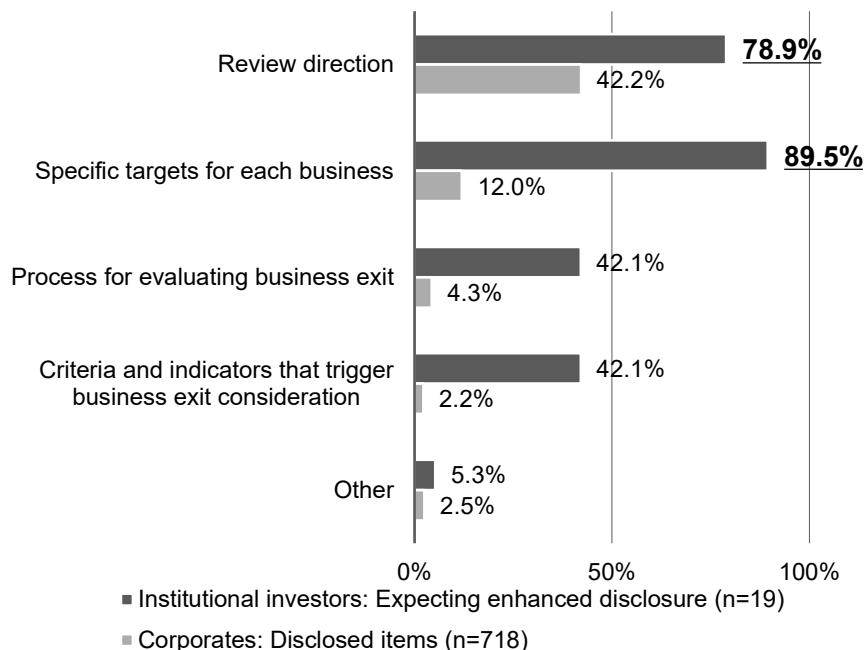
Institutional investors

Investors Survey Results

- ✓ Institutional investors look for both the direction of business portfolio reviews and the disclosure of concrete targets.
- ✓ Although exit criteria are important, some believe that they should be reviewed periodically.

Areas where improved disclosure on business portfolio reviews is expected

Questionnaire survey



Other responses

- Cash allocation priorities

Interview survey

A clear explanation of the approach to the business portfolio is desired

- It is desirable for companies to clearly disclose the direction and approach of their business portfolio, such as which businesses they aim to grow profitably and whether they intend to review low-profitability businesses, including possible downsizing or withdrawal

Disclosure of ROIC is useful

- Although more companies are adopting ROIC-based management, it may take three to six years before business-specific ROICs and targets are established. **For highly diversified companies, given that ROIC ultimately becomes a central metric for corporate value assessment, disclosing even a reference ROIC is recommended. As a result, the direction of medium-term management plans and long-term vision becomes clear,** facilitating evaluation by institutional investors

Exit criteria need to be reviewed periodically

- **Establishing exit criteria is important, and the constantly changing business environment, including economic fluctuations, means it is inappropriate to stick rigidly to past standards.** In practice, companies should be able to adjust the criteria flexibly and avoid being excessively bound by exit standards
- **Setting predefined rules for exit considerations is recommended.** Setting clear criteria—e.g., three years for unprofitable businesses or five years depending on the situation—enhances the transparency of decisions. Business continuity should be reviewed regularly, **with annual checks to ensure that changes in the business environment are considered**

Survey Results

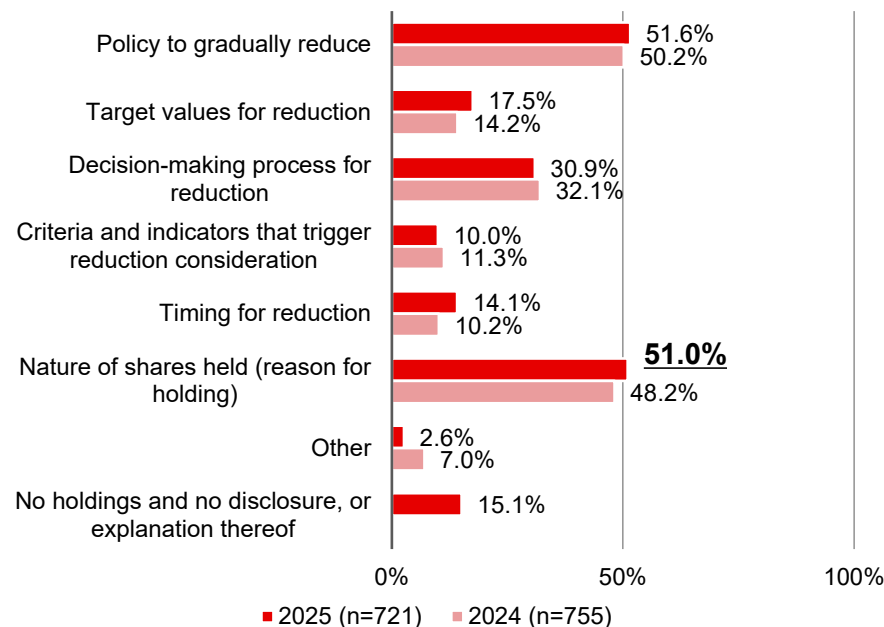
✓ Disclosure regarding the reduction of cross-shareholdings is becoming more concrete, indicating a clear stance toward their reduction.

Supervisor Comments

✓ Cross-shareholdings have been significantly reduced in a short period over the past several years. Accompanying management challenges, including the use of disposal proceeds and shifts in shareholder composition, also become key issues for the board to consider.

Disclosure status (Q52)

- Disclosure rates have risen for nearly all items
- Notably, more companies are disclosing their reduction targets



Other responses

- Voting standards for held shares
- Intention not to reallocate to pure investments
- Ratio of cross-shareholdings to total capital at fiscal year-end
- Plan to fully divest and refrain from future holdings
- Changes in shareholdings
- Track record of sales

Management & Capital Strategies | Cross-shareholdings

- Investor Expectations for Disclosure -

Corporates

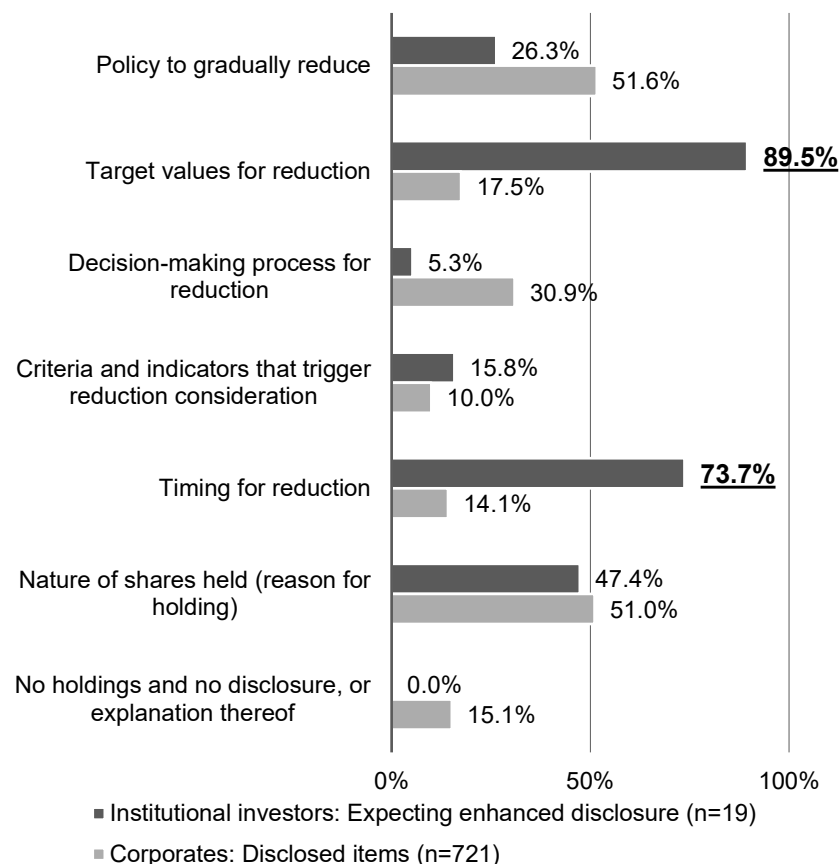
Institutional investors

Investors Survey Results

- ✓ Institutional investors seek more detailed disclosure of targets and timing for reductions.
- ✓ Further reductions are reportedly progressing, influenced by the actions of major companies.

Areas where improved disclosure on cross-shareholdings is expected

Questionnaire survey



Interview survey

Divestments by large companies have accelerated the reduction

- In light of cases like Sompo Japan's full sale of cross-shareholdings and the Toyota Group's acquisition of Toyota Industries Corporation, **it seems that companies are starting to actively and swiftly work on reducing cross-shareholdings**
- We acknowledge that the declaration by the four major property and casualty insurers to sell all their cross-shareholdings **may have influenced the overall approach of financial institutions toward such holdings**

Disclosure of holding purposes is expected

- Some companies describe the purpose of holding all shares identically in the annual securities report, but **the purpose should vary for each share. The purpose of each holding should be clearly stated.** Furthermore, companies should disclose the reasons when the holding purpose of shares is changed, such as a shift to pure investment

Organization of holdings is needed for activist defense

- Since cross-shareholdings and idle assets **attract strong interest from activists and shareholder proposals, it is important to manage and clarify them to avoid being targeted**

2. Results

(2) Toward Building Stronger Collaborative Relationships with Stakeholders

- Management & Capital Strategies
- Response to Sustainability Issues
- Engagement with Shareholders, etc.

Response to Sustainability Issues | General

Corporates

Institutional
investors

Survey Results

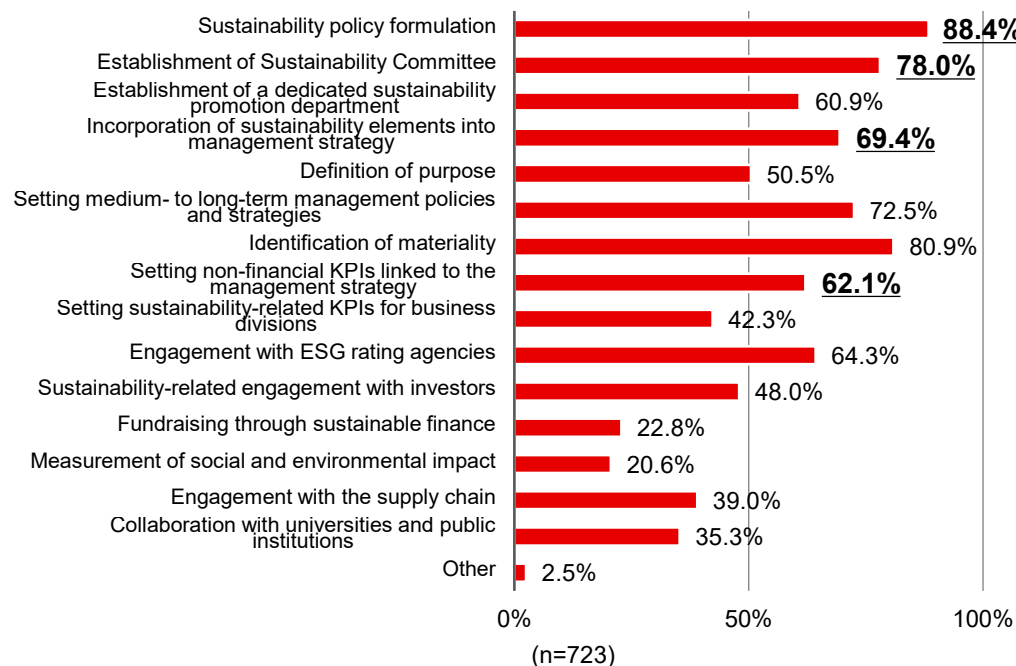
- ✓ Priority issues have been identified and basic structures largely established.
- ✓ It can be observed that alignment with the management strategy is progressing.

Supervisor Comments

- ✓ Sustainability challenges have passed the initial disclosure phase, requiring meaningful and intrinsic responses in terms of business risks and opportunities.

General initiatives (Q53)

- More than 70% of companies have established frameworks, such as policies and committees
- Over 60% of companies are advancing in incorporating these aspects into their management strategies and establishing KPIs



Other responses

- Use of consultants for CO₂ reduction
- Partial transition to renewable energy
- Investing in carbon neutral funds
- Investing in ESG (green) bonds
- Adapting to global disclosure standards
- Investing in sustainable areas
- Group-wide sustainability meetings for discussion and information sharing
- Advancing internal engagement initiatives
- Setting up a regional decarbonization consortium

Response to Sustainability Issues | General - Actions Expected by Investors -

Corporates

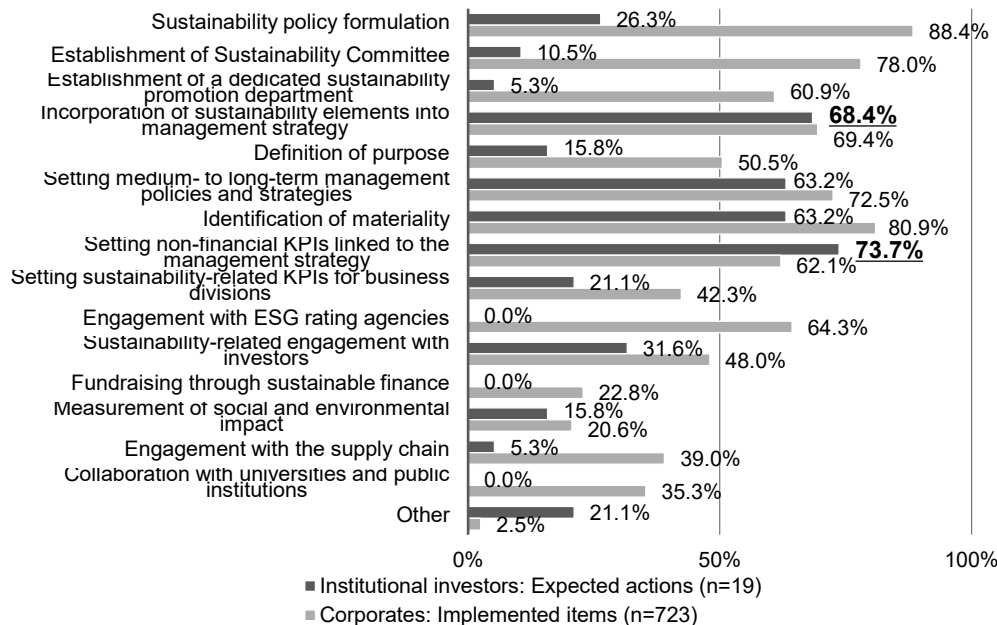
Institutional investors

Investors Survey Results

- ✓ Institutional investors emphasize integrating sustainability into management strategies and establishing non-financial KPIs aligned with those strategies.
- ✓ Companies are expected to explain how they are linking sustainability measures to improving corporate value.

Key expectations for sustainability initiatives

Questionnaire survey



Interview survey

Clearly demonstrate the link to corporate value

- For major companies in particular, there is a focus on how sustainability is incorporated into management strategies and linked to corporate value, with expectations that **companies clearly show the tangible impact of their sustainability initiatives and the value-creation process**
- For companies, addressing social issues from a CSR standpoint is important, but investments are fundamentally expected to generate financial returns. Therefore, it is expected that **companies demonstrate, through concrete examples and metrics, that sustainability and social contribution contribute to corporate value and are compatible with profitability**
- It is observed that some companies lack a clear understanding of how environmental (E) and social (S) initiatives affect business performance, and that ESG activities are often detached from the overall management strategy. **Addressing environmental and social issues is essential for sustainable growth and should be viewed not just as social responsibility, but as a key management challenge tied to long-term corporate value**

Use of non-financial information

- **Non-financial data for each company are checked for trends over time, anomalies, and data validity.** While evaluation varies by industry and company traits, **turnover rate is utilized as a quantitative measure in valuation**
- **Non-financial information is “pre-financial information” that may potentially impact future financials.** In evaluating corporate value, such information should not be overlooked and must be appropriately considered

Other responses

- Connecting executive pay with sustainability targets
- Internal awareness measures / level of adoption
- A company should be able to clearly express how its added value is acknowledged by stakeholders and society

Response to Sustainability Issues | General

- Investors' Priorities for Improvement -

Corporates

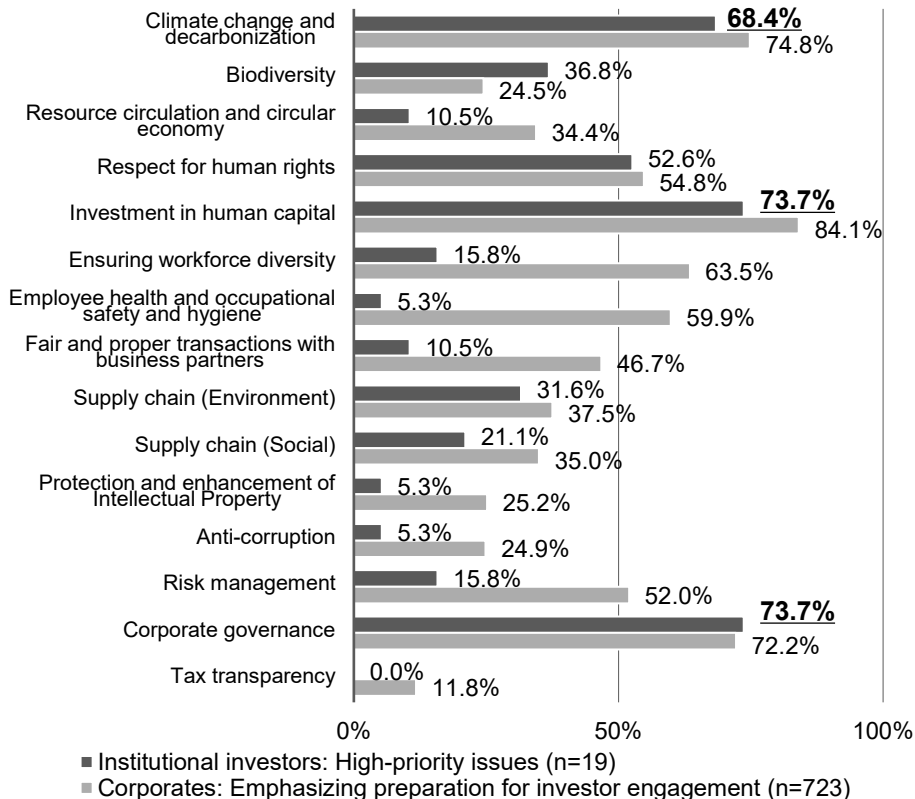
Institutional investors

Investors Survey Results

- ✓ Institutional investors look for efforts in climate change and decarbonization, human capital, and corporate governance.

High-priority corporate initiatives related to ESG

Questionnaire survey



Interview survey

High priority is placed on climate change

- Initiatives on climate change are the top priority. Reducing environmental impact cannot rely solely on the company's actions; **addressing the entire supply chain is essential**

Progress on TNFD initiatives is still underway

- Last year, many large companies published TNFD reports; however, numerous companies are finding the practical implementation challenging, and it is difficult to say that steady progress has been made over the past year

Engaging in sustainability-focused dialogues

- Because sustainability **spans across topics such as CO₂ emissions, nature-positive efforts, and human capital**, there are limits to addressing each individually in standard dialogues. Therefore, **to explore these themes in depth, it is common to set up separate dialogues focused specifically on sustainability**

Survey Results

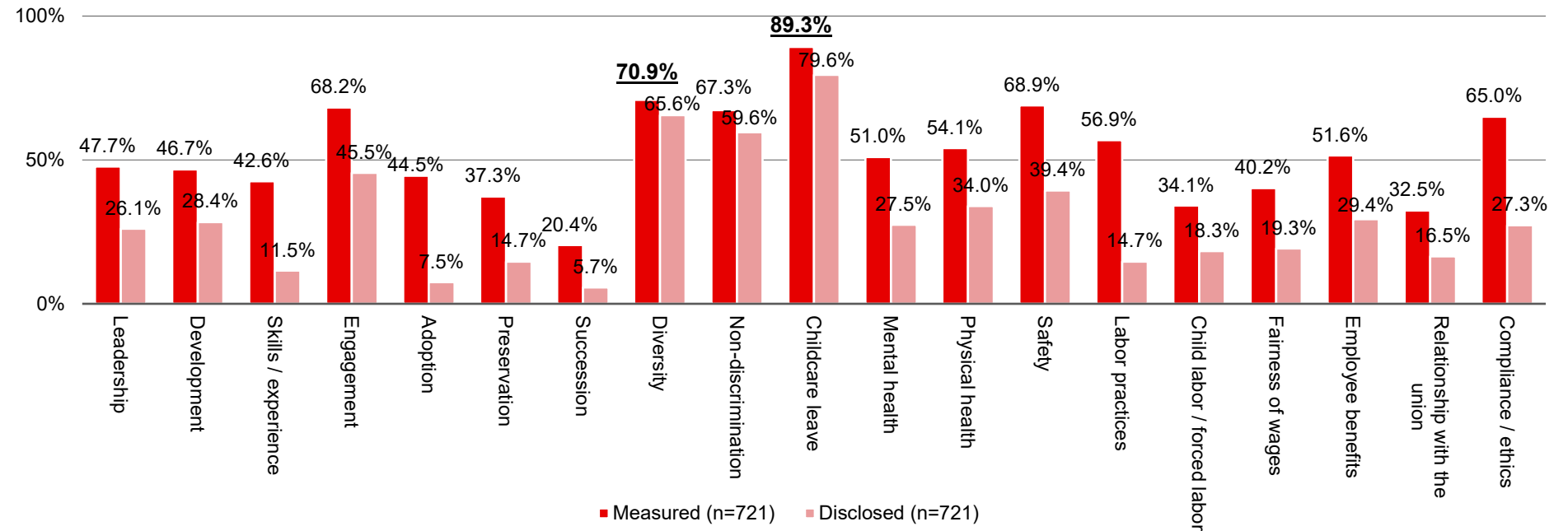
✓ Disclosure mainly covers items related to legal requirements.

Supervisor Comments

✓ Human capital investment is important but tends to be underfunded, as it does not directly affect short-term performance or stock price.
✓ Disclosure should act as a trigger to promote meaningful and adequate human capital investment.

Measurement of disclosure items / disclosure status (Q59)

- Disclosure primarily covers childcare leave and diversity
- Few companies measure and disclose succession-related information



Response to Sustainability Issues | Human Capital

- Information that Investors Value -

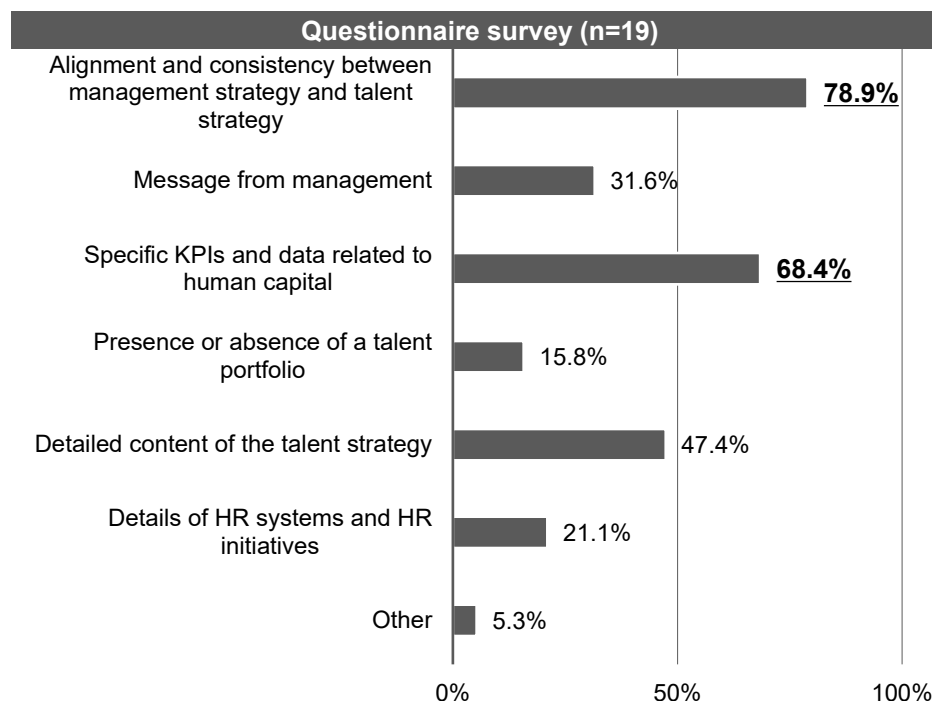
Corporates

Institutional
investors

Investors Survey Results

- ✓ Institutional investors focus on the alignment with management strategy and on concrete KPI information, such as engagement scores.
- ✓ For engagement scores, companies are expected to disclose efforts toward KPI achievement.

Items particularly emphasized in human capital management information



Other
responses

Evaluation system

Interview survey

Focus on initiatives to improve engagement

- Engagement scores are calculated differently by consulting firms, resulting in variability, therefore as an evaluation metric, are not emphasized. In general, **the key is whether KPIs are properly defined and whether actions aligned with them are being consistently carried out**
- Engagement scores should serve as a tool to drive the PDCA cycle, not as an end goal in themselves. **Companies should take concrete actions on low-scoring items and actively disclose their progress**

Each initiative should show how it aligns with the management strategy

- Companies are gradually disclosing how human capital efforts align with their business strategy. However, **it is desirable to clearly indicate the path showing how specific items will improve as a result of an increase in a given metric**

Focus on executive messages in integrated reports

- Executive messages in integrated reports increasingly highlight human capital investment. It is **recognized as an item that should be properly read**

Response to Sustainability Issues | Addressing Specific Themes

Corporates

Institutional investors

Survey Results

- ✓ Responses to specific themes differ across companies.
- ✓ For companies with a set timeline under the SSBJ standards, organizational frameworks are being established.

Supervisor Comments

- ✓ Sustainability issues are becoming increasingly diverse, and it is essential for each company to take substantive actions that reflect the characteristics of its business.

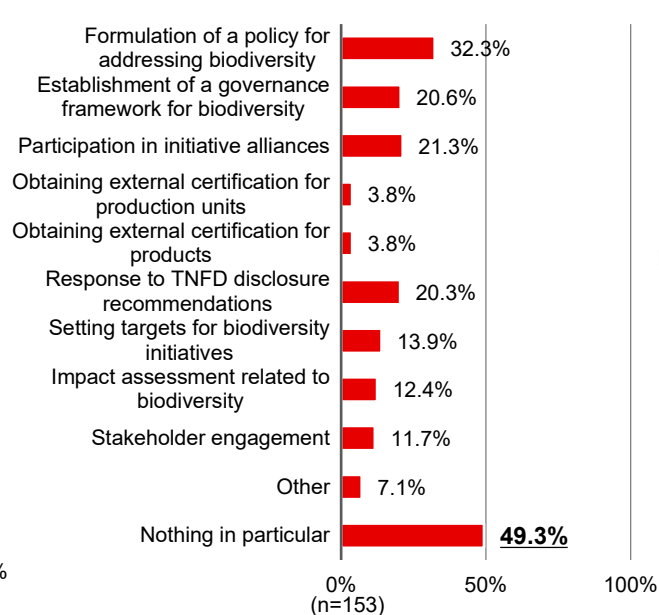
Human rights initiatives (Q60)

- 70% of companies have established and disclosed their policies
- Responses to the other items vary across companies



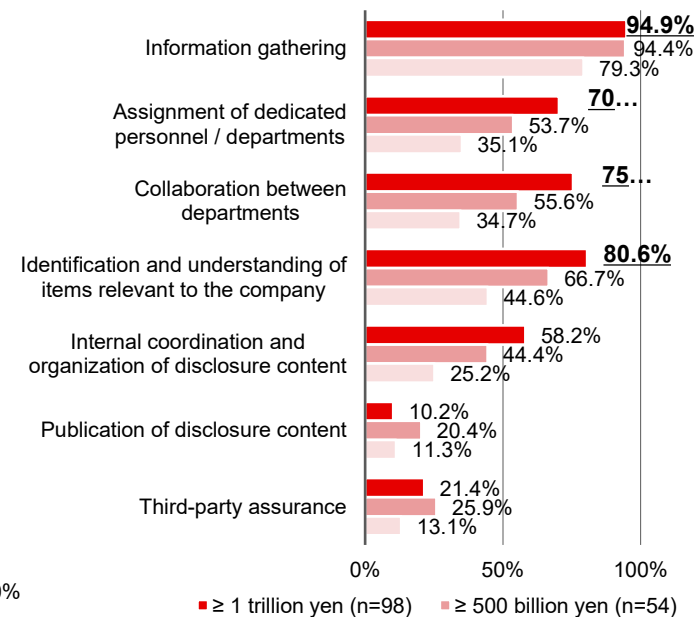
Biodiversity initiatives (Q61)

- The most common response, at roughly 50%, was that no particular measures are being implemented



Alignment with SSBJ Standards (Q63)

- Companies with a market capitalization of 1 trillion yen or more show a higher prevalence of information gathering and internal system development



2. Results

(2) Toward Building Stronger Collaborative Relationships with Stakeholders

- Management & Capital Strategies
- Response to Sustainability Issues
- Engagement with Shareholders, etc.

Engagement with Shareholders, etc. | IR and SR Activities

Corporates

Institutional investors

Survey Results

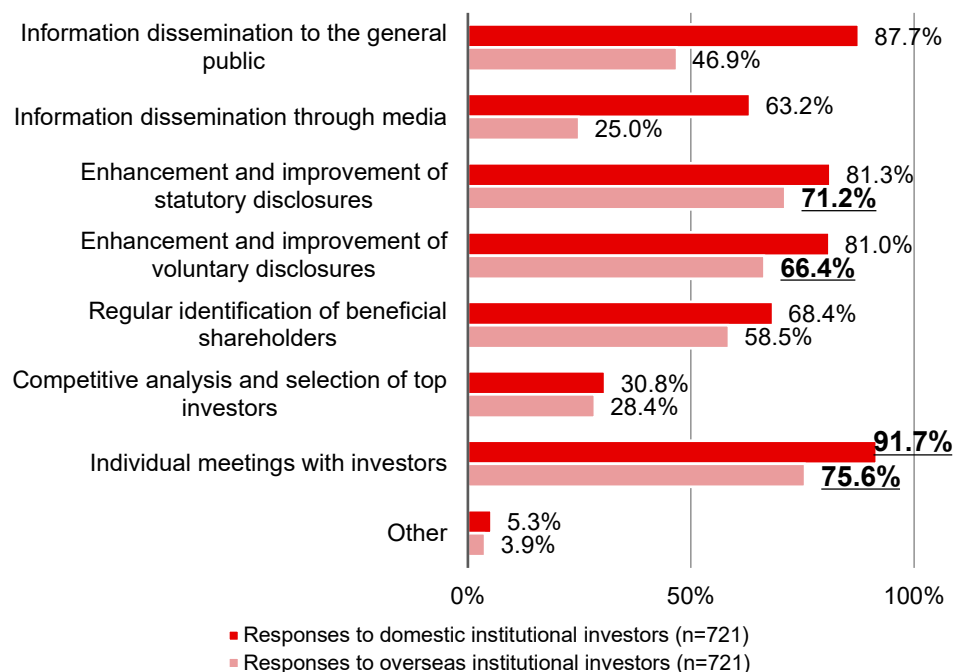
- ✓ In addition to engaging with domestic institutional investors, companies are actively providing information in English and holding one-on-one meetings with overseas institutional investors.

Supervisor Comments

- ✓ Information dissemination and disclosure have been improving year by year, and efforts to engage with investors through individual meetings are also progressing.
- ✓ Regular identification of beneficial shareholders should be monitored in light of developments in the Companies Act amendments.

IR and SR activity status (Q68)

- Over 70% of companies hold one-on-one meetings, regardless of whether they are domestic or overseas
- Over 60% of companies have initiatives in place to strengthen overseas disclosure



<Common to domestic and overseas institutional investors>

- Factory tours and exhibition booth visits (domestic and overseas)
- Preparation of sponsored research reports

<For domestic institutional investors>

- Small meetings with institutional investors led by top management
- Conducting thematic briefings
- Facility visits, including stores, showrooms, and tech exhibition sites
- Shareholder questionnaires

<For overseas institutional investors>

- Participation in small conferences hosted by brokerage firms
- Acceptance of Japan tours hosted by brokerage firms
- Building English websites and creating English tools

Other responses

Engagement with Shareholders, etc. | Current State of Dialogues

- Status of Individual Interviews -

Corporates

Institutional
investors

Survey Results

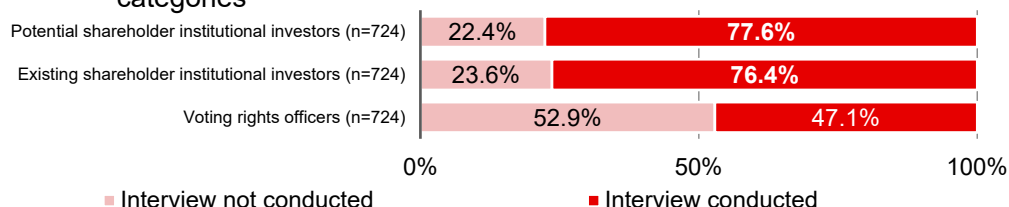
- ✓ One-on-one meetings with institutional investors are advancing.
- ✓ Activist meeting requests are primarily directed at companies with a market cap of 100 billion yen or more.

Supervisor Comments

- ✓ Many companies are meeting with activists, suggesting that diverse contacts, requests, and dialogues are actively occurring even without leading to shareholder proposals.

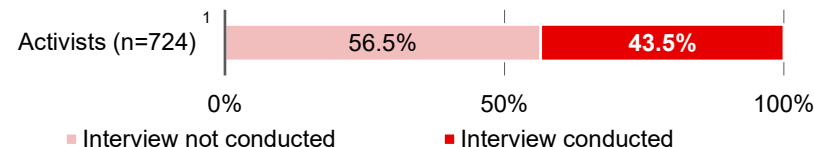
Status of meetings with institutional investors (Q70)

- 70% or more of companies conduct discussions with prospective and existing shareholders
- Meetings are being conducted across all market capitalization categories

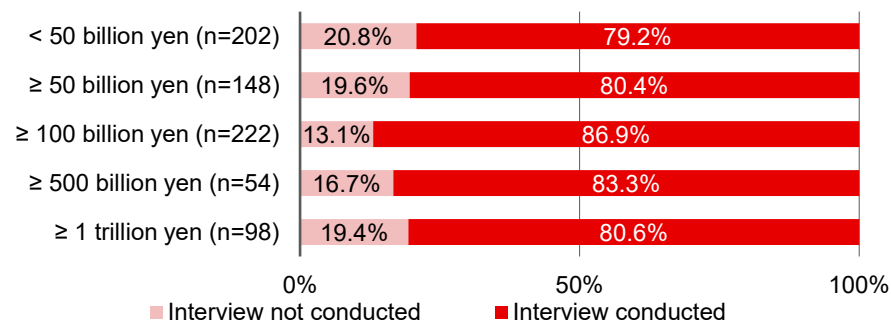


Status of meetings with activists (Q72)

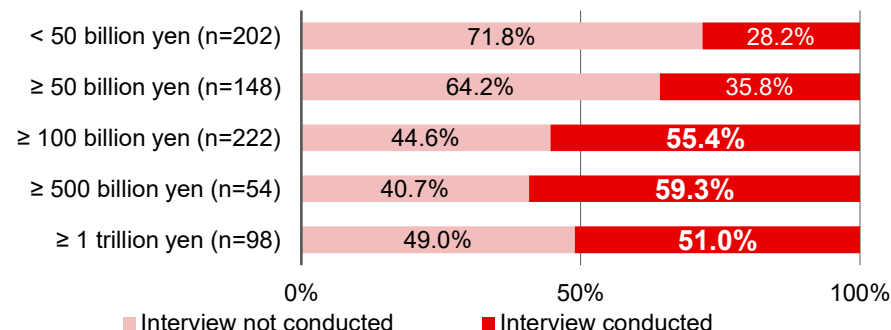
- Overall, 40% of companies engage in meetings with activists
- Among companies with a market capitalization of 100 billion yen or more, such meetings are held in a majority of cases



Breakdown by market cap (sum of potential/existing shareholders and voting rights officers)



Breakdown by market cap



(Notes) 1. For the purposes of the survey, an "activist" is defined as an investor who, through shareholding, seeks to influence a company by making demands on management strategy and governance, using tools such as shareholder proposals, engagement with executives, voting, and media strategies

Engagement with Shareholders, etc. | Current State of Dialogue

- Requests and Responses -

Corporates

Institutional investors

Survey Results

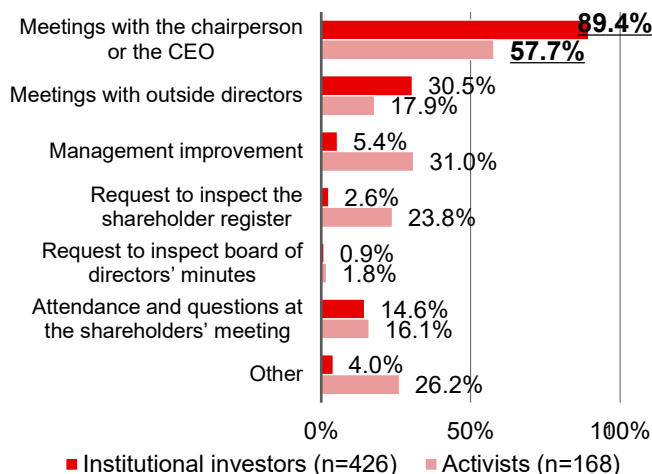
- ✓ Meeting requests mainly focus on the chairperson and CEO, but in large-cap companies, involvement of outside directors in meetings is also becoming common.
- ✓ Requests for improvement from institutional investors and activists primarily relate to stock price, shareholder returns, and the balance sheet (capital efficiency and fund utilization).

Supervisor Comments

- ✓ How the board of directors determines whether and how to respond to improvement requests from institutional investors and activists is itself a key issue for the board of directors.

Requests received over the past year (Q69)

- The most frequent requests were for meetings with the chairperson or the CEO
- Requests from activists vary widely



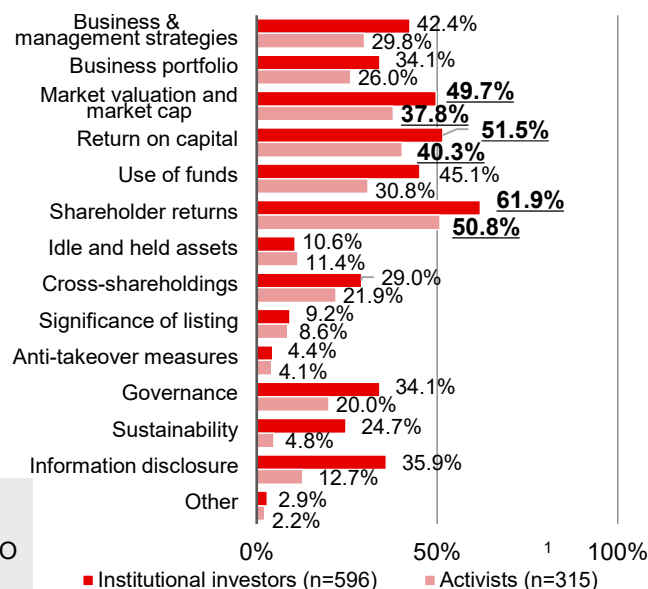
Other responses

<Requests from activists>

- Meetings with the IR Department and the CFO
- Shareholder proposals

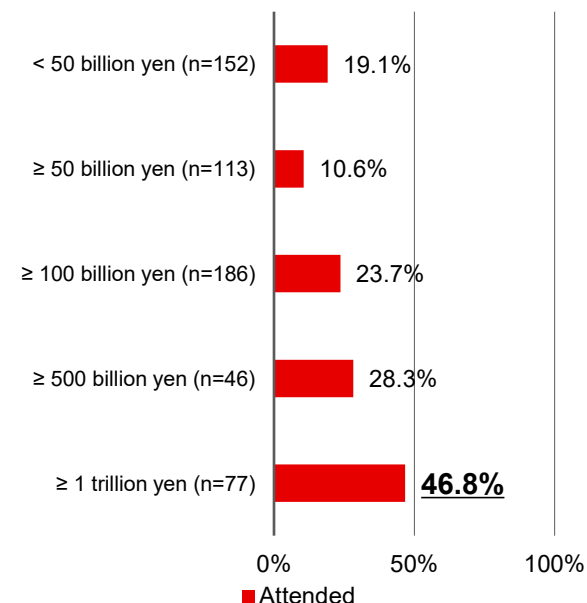
Improvement requests received during meetings over the past year (Q73)

- Both institutional investors and activists most frequently requested enhanced shareholder returns, followed by improvements in profitability and share price



Participation of outside directors in meetings (Q74)

- Outside directors attend meetings in 40% of companies whose market cap of 1 trillion yen or more



(Notes) 1. For the purposes of the survey, an "activist" is defined as an investor who, through shareholding, seeks to influence a company by making demands on management strategy and governance, using tools such as shareholder proposals, engagement with executives, voting, and media strategies

Engagement with Shareholders, etc. | Current Status of Dialogue

- Utilizing the Results of Dialogue -

Corporates

Institutional investors

Survey Results

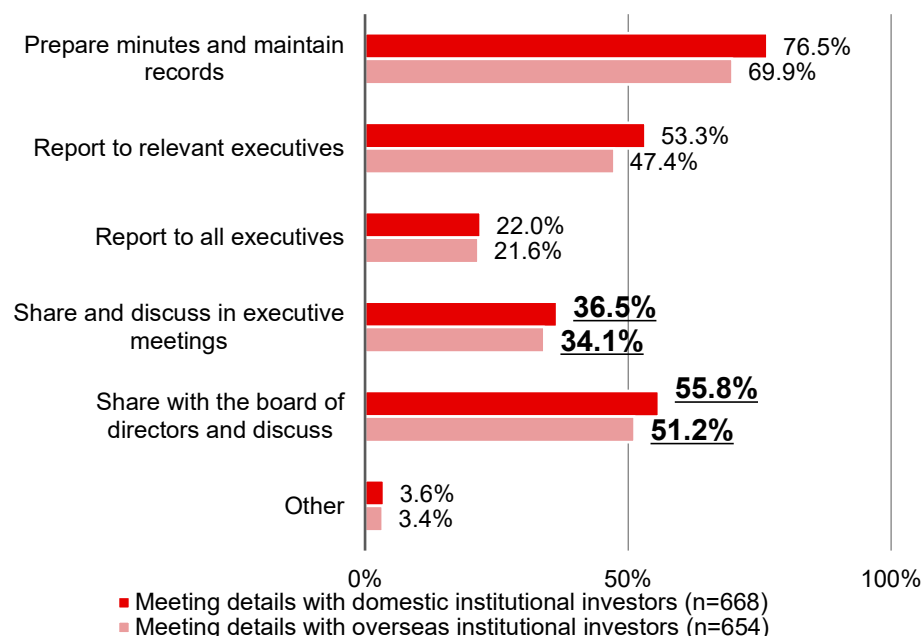
- ✓ Efforts are being made to share and discuss dialogue results among stakeholders.
- ✓ As a result of these efforts, the effectiveness in enhancing the insight of executives is being recognized.

Supervisor Comments

- ✓ Shareholder dialogues seem to be communicated to the board of directors and used as material for discussion.
- ✓ While taking into account the demands of institutional investors and activists, the role of the board of directors in autonomously shaping management strategy, financial policy, and corporate governance is becoming ever more critical.

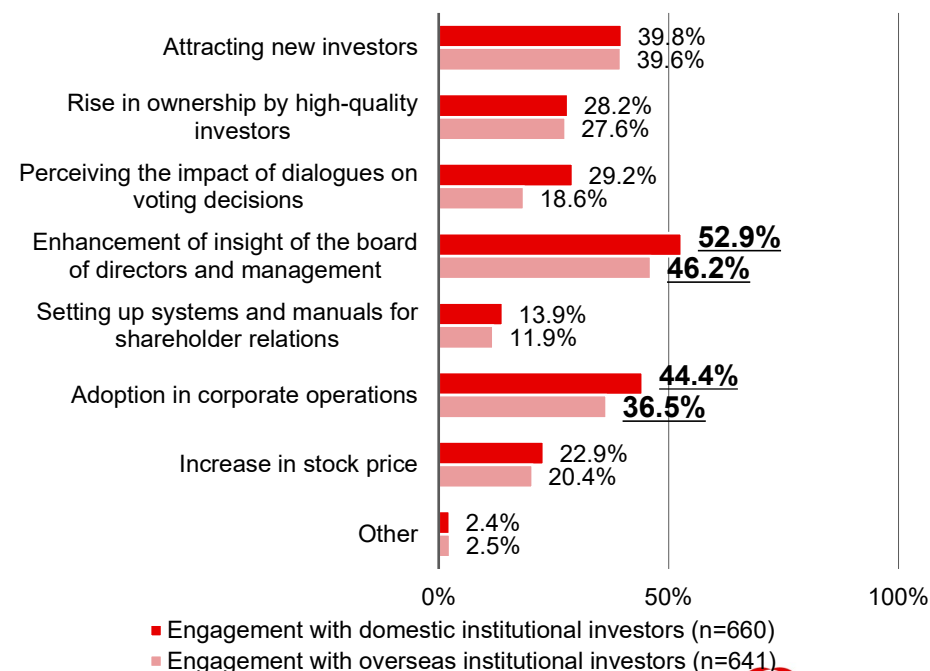
Methods of sharing within the company (Q75)

- Slightly over 50% of companies share dialogue content with the board of directors and discuss it
- Some discussions occur in executive meetings



Significance of dialogues (Q76)

- Many respondents reported that it contributed to enhancing directors' expertise and was adopted in corporate management



Engagement with Shareholders, etc. | Providing Information to Investors

- Disclosure Documents that Investors Value -

Corporates

Institutional
investors

Investors Survey Results

- ✓ Investors primarily utilize the securities report and the integrated report. Decisions on exercising voting rights are mainly considered based on the convocation notice.
- ✓ Some investors indicate that the integrated report has become more comprehensive and its usefulness has increased.

Importance of each disclosure document

Questionnaire survey (n=19)			Interview survey	
Documents considered most important for information gathering (multiple responses allowed) ¹			The usefulness of the integrated report has improved	
1st place	Integrated report	(7 investors)	<ul style="list-style-type: none"> The integrated report has been developed to comprehensively cover corporate information, enhancing its effectiveness as a communication tool. In particular, the integrated report provides a cohesive presentation of the CEO's message, a review of past performance and initiatives, responses to sustainability issues, and explanations of the governance framework. This allows investors to efficiently grasp the current state of the company in a short time, making it a useful resource in the early stages of investment decision-making The format of integrated reports has been standardized to a certain extent, enhancing their usability in terms of readability and comparability. On the other hand, variations in content provide insights into each company's unique characteristics, business priorities, and the level of awareness of its management team. At present, the format feels somewhat overly standardized, and there is still room for each company to express itself more freely and pursue greater uniqueness 	
2nd place	Securities report	(6 investors)		
3rd place	Financial results summary	(5 investors)		
4th place	Medium-term management plan	(4 investors)		
5th place	Shareholder meeting notice, CG report	(1 investor)		
Documents considered most important when making voting decisions ²			The impact of pre-shareholder meeting disclosure of the securities report is minimal	
1st place	Shareholder meeting notice	(18 investors)	<ul style="list-style-type: none"> Our company utilizes information provided by data vendors when making decisions on exercising voting rights. To use securities reports disclosed before the shareholder meeting for exercising voting rights, accurate processing of the information by data vendors and a well-established provision system are essential. Therefore, the pre-shareholder meeting disclosure of this year's securities report did not affect the exercise of voting rights 	
2nd place	Securities report	(1 investor)		

- (Notes) 1. Each investor ranked the shareholder meeting notice, securities report, integrated report, corporate governance report, sustainability report, human capital report, medium-term management plan, and financial results summary in descending order of importance, and the documents ranked first were listed in order of the number of votes received
2. Each investor ranked the shareholder meeting notice, securities report, integrated report, corporate governance report, and financial results summary in order of importance, and the documents ranked first were listed in descending order of the number of votes received

Engagement with Shareholders | Providing Information to Investors

- Expectations for Early Disclosure of Annual Reports -

Corporates

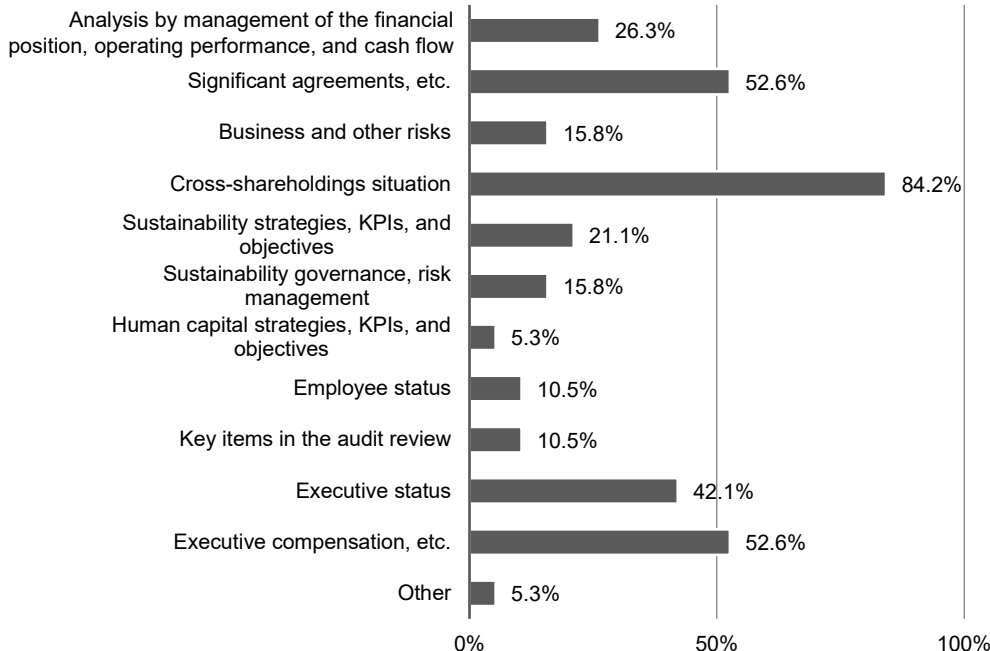
Institutional investors

Investors survey Result

- ✓ Institutional investors focus on "cross-shareholding" information disclosed in the securities report.
- ✓ Some parties believe that listing cross-shareholdings in convocation notices and related documents is sufficient.

Among the items disclosed in the securities report, those that should preferably be disclosed at least three weeks prior to the shareholders' meeting

Questionnaire survey (n=19)



Other responses

- Related-party transactions

Interview survey

Disclosure of cross-shareholdings in convocation notices is considered sufficient

- In Japan, basic financial information can be sufficiently understood from the financial results summary. Many Japanese institutional investors share the view that **if cross-shareholdings are clearly disclosed in convocation notices, there is no need to refer to the annual securities report**
- Although cross-shareholding information is available in the annual securities report before the general meeting, **it is more useful in practice to have it extracted and provided separately as reference material before the meeting**

Pre-shareholder meeting disclosure is generally scheduled 10 business days to three weeks in advance

- Since many asset management companies complete voting around eight business days before the shareholder meeting, **pre-meeting disclosure is ideally made at least about 10 business days in advance**
- **If information for the most recent fiscal period that can be confirmed solely from the securities report is disclosed by three weeks before the shareholder meeting, it becomes possible to respond using the securities report**
- Institutional investors make decisions based on digitized securities reports. **As long as the data is not in a usable digital format, disclosures made before the shareholders' meeting are unlikely to function effectively as a basis for informed decisions**

KAMs attract attention when risks related to internal controls are reported

- KAMs may influence director election proposals, **when risks related to internal controls are reported. They are useful in evaluating the board's supervisory function**

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