

Results of Analysis and Evaluation of the Effectiveness of the Board of Directors

The Company started in FY2015 a procedure to evaluate the effectiveness of its Board of Directors (BOD) by bringing all its members together in a meeting to review the BOD's performance for the year, and recording the comments and suggestions made during the meeting. In FY2016, the Company changed the method of evaluation to one in which each member of the BOD was asked to complete and sign a self-assessment before bringing them together in a meeting in which to review the results of the assessments and exchange ideas for improvement. Each of the self-assessments consisted of 18 items to be evaluated on a scale of one to five as well as the reason for giving that rating. We continued to use this format in FY2018. Below is a summary of the results of evaluations for FY2018 in three key areas.

■ Matters Selected for Deliberation at BOD Meetings

Matters deliberated at BOD meetings during FY2018 consisted of management strategies (37%), corporate governance (26%), and business operations and others (37%), which was in line with the annual plan formulated at the beginning of the fiscal year. The BOD did not spend much time in FY2017 deliberating on the Company's long-term vision and direction, but had an opportunity to review in FY2018 an outline of the vision and direction drafted by the Company's executive officers and made suggestions for revision, based on which the executive officers formulated the Company's medium-term management plan for FY2019-2021. The BOD acknowledged the need to continue to deliberate on issues of long-term implications, such as the Company's investment strategy, including an M&A strategy, and streamlining the Company's business portfolio. To ensure the effectiveness of the BOD, the Company's independent outside directors met in the Company's Training Center in March 2019 to have a brainstorming session. At the conclusion of the session, the participating directors agreed on the need to better supervise the Company's executive officers (Executive Committee), to whom were delegated a wide range of management authority by the BOD, as well as to share the understanding of what went on in the Company by visiting the offices of the Company and the Group companies. They also agreed to work with the Nominating Committee to play a more active role in selecting and developing candidates for the next-generation leadership team of the Company.

■ Composition and Effectiveness of BOD by Role

Four of the eight members of the BOD are independent outside directors, of whom two are women. The BOD comprises a certified public accountant, a lawyer, and other people with a wealth of professional expertise and experience in such a diverse range of fields as corporate management, corporate finance and accounting, and business administration study. During FY2018, the Nominating Committee met eight times, the Audit Committee met 16 times, and the Compensation Committee met five times. In FY2017, non-executive outside directors started to chair the BOD, the Nominating Committee, the Audit Committee, and the Compensation Committee, and in FY2018, independent outside directors started to chair the Nominating Committee and the Compensation Committee to enhance their neutrality. The results of self-assessments of the effectiveness of each committee are as follows:

(1) Nominating Committee

The Nominating Committee met three times to discuss the process of reappointing an executive officer president with regard to the appointment and dismissal of a CEO, which is one of the important responsibilities of the BOD, and had no objections to reappointing the current president for another term for FY2019, based on the resolution that the Committee adopted at the conclusion of deliberation.

(2) Audit Committee

The Audit Committee acknowledges that the Company's executive officers were quick to act upon recommendations that the Committee made, which indicates that the effectiveness of the Committee was at an adequate level. The three auditing bodies—the Audit Committee, the Internal Auditing Office, and an independent accounting auditor—worked together and shared information to identify risks across the Group and improve the quality of the audits they perform, which ensured the effectiveness and efficiency of the audits. However, the Company's consolidated financial statements for the 56th and later terms, on which the independent accounting auditor had expressed an unqualified opinion, were found in January 2019 to contain some accounting treatments for M&A transactions that were not consistent with IFRS, and as a result the Company restated its consolidated financial statements for those terms when it posted the financial results for the third quarter of FY2018. The Committee recommended that the Company's executive officers improve the internal control process for financial reporting under IFRS, and that the independent accounting auditor further improve the quality of its audits. The Committee will review in FY2019 the progress of improvements implemented by these two parties in order to prevent

errors in financial reporting, which is becoming increasingly complex under IFRS, from being repeated and continue to work more closely with the Internal Auditing Office and the independent accounting auditor and improve the quality of audits. The Committee verified the effectiveness of the BOD, which governs the Company and 84 Group companies around the globe, by auditing them, and recommended that the Company's executive officers take corrective actions based on those audits as well as on regular audit reports submitted by the corporate auditors of Group companies and audit reports submitted by the Internal Auditing Office. The Committee started in FY2018 to evaluate the roles and responsibilities of corporate auditors of Group companies and, based on the results of evaluations, recommended that Group companies take corrective actions. On this recommendation, Group companies will increase the number of their dedicated corporate auditors during FY2019 as part of their efforts to enhance the roles and responsibilities of corporate auditors. With regard to the task of continuously increasing the corporate value as required by the Corporate Governance Code, on the Committee's recommendation, the return on invested capital based on weighted average cost of capital was incorporated into the budget-planning process as a KIP against which to evaluate the performance of a business unit. This arrangement indicates that management that takes capital efficiency more seriously began to take hold in the Group.

(3) Compensation Committee

The Committee acknowledged the need to use additional benchmarks against which to evaluate the performances of executive officers from multidimensional perspectives to determine the amount of their compensation as well as the need to discuss the ratio between the fixed and variable portions of the total amount of compensation and an equity-based compensation scheme. The Committee will take action to have more substantive discussions in committee meetings, including when to have meetings.

■ Planning, Convening, and Administering BOD Meetings

The BOD held 14 meetings during FY2018. The BOD believes that the frequency of having a BOD meeting every month, in principle, was appropriate and that the annual plan for BOD meetings incorporated prior input from its members and covered all bases. The BOD requested that the administrative office brief BOD members on all matters to be deliberated prior to a BOD meeting, as BOD members were—depending on subject matters—sometimes provided with presentation materials immediately before a BOD meeting without prior briefing. In BOD meetings, BOD members deliberated on subject matters from broad perspectives freely and openly.