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

Five years have passed since the Company started evaluating the effectiveness of its Board of Directors (BOD). To ensure the impartiality and objectivity of evaluation, the Company, in addition to conducting a self-assessment of the BOD, asked Japan Board Review Co., Ltd. (JBR), a third-party institution specializing in assessing various companies' boards of directors, to evaluate the effectiveness of the BOD for the fiscal year ending May 31, 2020 (FY2019). As part of the evaluation, JBR reviewed documents prepared for the BOD, Nominating Committee, Audit Committee, and Compensation Committee (the Three Committees), as well as the minutes of their meetings and observed BOD meetings. In addition, JBR prepared a questionnaire in consultation with the Chair of the Board, chairs of the Three Committees, and the President and Chief Executive Officer, and asked all directors and three executive officers who regularly attended BOD meetings to complete it. JBR followed up the questionnaire by interviewing each respondent and compiling an evaluation report on the BOD, including a list of identified issues related to its effectiveness. JBR submitted the report—as well as recommendations for improvement—at a BOD meeting in March 2020. The BOD used the evaluation report and recommendations offered by JBR as a basis for discussion of how to address the identified issues and conduct future BOD meetings.

■ A Summary of the Evaluation Results Provided by a Third-Party Assessor

JBR acknowledged that the Company's BOD and Three Committees were performing as they should to continually improve their effectiveness, and that the Company was in transition to make its BOD more effective in responding to profound changes in business environments. JBR also found that the Company's Audit Committee was making every effort to conduct audits from a management perspective.

JBR recommended that the Company take the following actions to further improve the effectiveness of its BOD and Three Committees:

1. JBR acknowledged that the Company's outside directors were actively participating in deliberations at the BOD meetings by providing advice and opinions from broad perspectives, based on their professional expertise and experience. JBR recommends that a smaller group of BOD members hold off-site meetings to have fundamental discussions of important management issues prior to deliberation by the full BOD.
2. JBR acknowledged that the composition of the BOD was in good order. JBR recommends that the Company bring in—as outside directors—former business executives from outside the Company who have experience in managing global businesses, overhauling and transforming companies' business portfolios, or launching and running new businesses. This will assist the BOD in having more animated discussions of fundamental issues related to corporate management.
3. JBR acknowledged that the Three Committees were performing as well as expected. JBR recommends that the Nominating Committee more vigorously review a succession plan for the CEO position and the composition of outside directors and share the results with the BOD. JBR also recommends that the Audit Committee formulate a long-term succession plan to maintain its effective auditing capabilities.

■ Results of the Self-Assessments by the BOD and the Three Committees

Results of the self-assessments by the BOD and the Three Committees for FY2019 are as follows:

1. Self-Assessment by the BOD

Four of the eight members of the BOD are independent outside directors, two of whom are women. The BOD comprises a certified public accountant, a lawyer, and other members with a wealth of professional expertise and experience across a diverse range of fields such as corporate management, corporate finance and accounting, and business management studies. BOD meetings are chaired by one of the outside directors. Matters deliberated at BOD meetings during FY2019 consisted of management strategies (39%), corporate governance (23%), and business operations and others (38%), which was in line with the annual plan formulated at the beginning of the fiscal year. The BOD held 14 meetings during FY2019. The principle of holding a BOD meeting every month was appropriate, and the annual plan for BOD meetings incorporated prior input from its members and covered all bases.

During FY2019, much time was spent in BOD meetings reviewing the progress that the Company was making in implementing its Medium-Term Management Plan “LOGISTEED 2021” and discussing the Company’s risk management policy and practices.

In reviewing the progress of LOGISTEED 2021, the BOD acknowledged that the plan covers the entire supply chain operations and provides implementation details for each proposed solution. The BOD asked the Company’s executive officers to clarify how proposed solutions are related to each other and to consider developing business models that use external data. It was timely that a complete picture of the Company’s Enterprise Risk Management (ERM) program—which the BOD had requested—was presented to the BOD. The BOD asked the executive officers to appoint a risk owner for each identified risk, quantify each risk, and determine how to respond effectively to a tail risk. The independent outside directors met to have a brainstorming session as they had done in the previous fiscal year, and BOD members held small meetings with executive officers and external experts to discuss important management issues, including defining the direction and approach that the Company should take to ensure its sustained growth and increase its medium- and long-term enterprise value.

The BOD acknowledged the need to update the composition of its outside directors to be able to respond more effectively to profound changes anticipated in business environments as well as the need to focus its deliberations on fundamental management issues, such as the restructuring of the Group’s business portfolio and the allocation of available resources. More specifically, the BOD intends to discuss the following issues intensively at future BOD meetings in order to provide clear guidance:

- The trends in innovation and digital transformation in the logistics industry
- The “To-Be” business portfolio with medium- and long-term implications
- Initiatives to meet SDGs requirements and implement ESG management practices

2. Self-Assessments by the Three Committees

During FY2019, the Nominating Committee met seven times, the Audit Committee 16 times, and the Compensation Committee eight times. Each committee meeting was chaired by an outside director. Results of the self-assessments by the Three Committees for FY2019 are as follows:

(1) Nominating Committee

The Nominating Committee discussed candidates for next-generation members of the management team and executive officers. The committee had no objections to reappointing the current President and Chief Executive Officer for another term for FY2020, upon deliberation based on the Process of Reappointing the President and Chief Executive Officer, which was established by the Committee.

The Committee intends to fulfill its responsibilities more actively by discussing intensively the composition of the BOD and succession plans for the CEO and directors and sharing the outcome of deliberation with the BOD.

(2) Audit Committee

The Audit Committee—based on its audit policy—audited the legal compliance, appropriateness, and efficiency of the ways in which the Company’s directors and executive officers performed their duties. During FY2019, the Committee conducted on-site audits of the Company’s four corporate divisions and eight Group companies outside Japan considered to pose high potential governance risks, identified management issues with each of the units, and offered recommendations for improvement, for which each of them submitted a plan of proposed actions. The Committee verified the effectiveness of the BODs of 81 Group companies around the globe, which collectively play a central role in practicing groupwide governance, by auditing them. The Committee recommended that executive officers of each Group company take corrective actions based on the results of those audits, as well as on regular audit reports submitted by their corporate auditors and audit reports submitted by the Internal Auditing Office. Group companies, acting on the recommendations offered by the Committee, added more dedicated corporate auditors to their staff during FY2019, which has helped enhance the groupwide governance in cooperation with the Committee. The Committee acknowledges that the Group companies’ executive officers were quick to act upon the recommendations offered by the Committee, 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 at regularly scheduled meetings to identify risks across the Group and improve the quality of the audits they perform, which ensured the effectiveness and efficiency of the audits based on the division of roles among the three bodies.

With regard to the task of continuously increasing the Group's enterprise value as required by the Corporate Governance Code, the Committee acknowledges that the system for evaluating the performance of a business unit against the return on invested capital—established as a KPI based on weighted average cost of capital, which the Committee had recommended—has taken hold in the Group, indicating that the Group has stepped up its efforts for management to pursue greater capital efficiency.

In FY2020 and beyond, the Committee intends to focus its audits on the following two areas:

- Verifying that the ERM program is working in the Group from the perspective of loss management
- Verifying that the Group takes environmental and social considerations into account in its management decisions. As the Committee has already spent much time auditing the Group's corporate governance (G) aspect of ESG management practices in line with meeting SDGs requirements, it will focus on the environmental (E) and social (S) aspects of ESG management practices.

(3) Compensation Committee

The Compensation Committee reviewed the current compensation scheme for the Company's executive officers, which comprises monthly salary and performance-based compensation. To establish a new scheme with a clear focus on motivating executive officers to contribute more to the Company's sustained growth, the Committee reviewed their current compensation levels and weighed the pros and cons of proposed revisions to the executive compensation scheme to include base salary, performance-based compensation, and long-term incentives. The Committee engaged Towers Watson Co., Ltd., a consulting firm specializing in executive compensation, to conduct an extensive benchmark analysis of the Company's executive compensation plan against those of other companies of varying sizes across a diverse range of industries. Based on the findings of the analysis, the Committee discussed that following need to be determined:

- The right balance between the fixed and variable portions of compensation and between the cash and non-cash (shares) portions of compensation
- A compensation scheme based on the medium- and long-term business performance of the Company
- KPIs to be used to determine the amount of performance-based compensation

From this discussion, the Committee weighed up approaches to motivating executive officers to achieve their individual medium- and long-term goals and determining the amount of executive compensation to reward them based on the accomplishment of those goals.

The Committee intends to achieve greater objectivity and transparency based on the policy and procedure for determining the amount of compensation for the Company's directors and executive officers.

End of Report