

Corporate Governance Reform in Japan

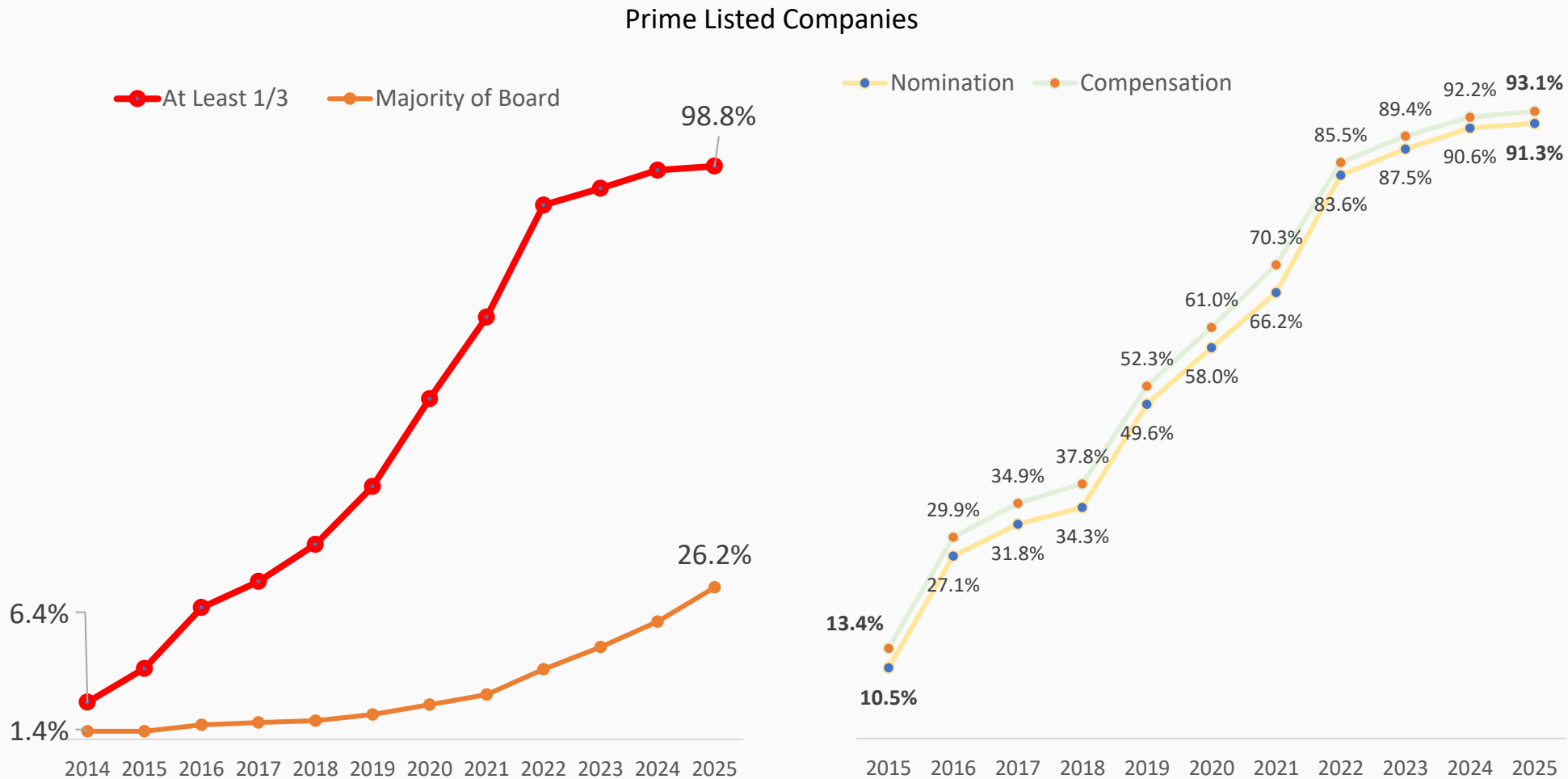
Tokyo Stock Exchange, Inc.

October 2025



1999	<u>TSE requested listed companies to enhance corporate governance</u>
2004	<u>Principles of Corporate Governance for Listed Companies” were published</u> <ul style="list-style-type: none">✓ It was formulated with the objective of providing a foundation for a common understanding of governance in Japan. Functions expected of governance, such as protecting shareholder rights, were organized
2006	<u>Submission of “Report on Corporate Governance” became mandatory</u> <ul style="list-style-type: none">✓ Publication of the status of the company's governance initiatives became mandatory (at least once a year).✓ Comprehensive analysis is made and the “White Paper on Corporate Governance” is published every two years.
2007	<u>The “Code of Corporate Conduct” was introduced</u> <ul style="list-style-type: none">✓ The adoption of minimum required governance systems for listed companies became mandatory, such as the establishment of a board of directors and a board of company auditors
2014	<u>“Japan’s Stewardship Code” was formulated</u> (by the Financial Services Agency) *Revised in 2017 and 2020 <ul style="list-style-type: none">✓ It requires institutional investors to encourage sustainable growth to their investee companies
2015	<u>“Japan’s Corporate Governance Code” was formulated</u> (At least two independent outside directors (or one-third if necessary), etc.) <ul style="list-style-type: none">✓ It requires listed companies to achieve effective governance through their autonomous responses
2018	<u>“Japan’s Corporate Governance Code” was revised</u> <ul style="list-style-type: none">✓ Principles and Supplementary Principles concerning cross-shareholdings, asset owners, etc., were expanded
2021	<u>Japan’s Corporate Governance Code” was revised again</u> <ul style="list-style-type: none">✓ Principles and Supplementary Principles concerning fulfilment of functions of the board of directors, ensuring diversity of core human resources, and sustainability, etc., were expanded

● The number of independent directors have increased ...



Request “Management to be Conscious of Cost of Capital and Share Price”

- End of March, 2023 TSE made the request to promote constructive dialogue between companies and investors.
- On January 15, 2024 TSE started publishing a List of Companies that have responded to the request (Updated monthly).

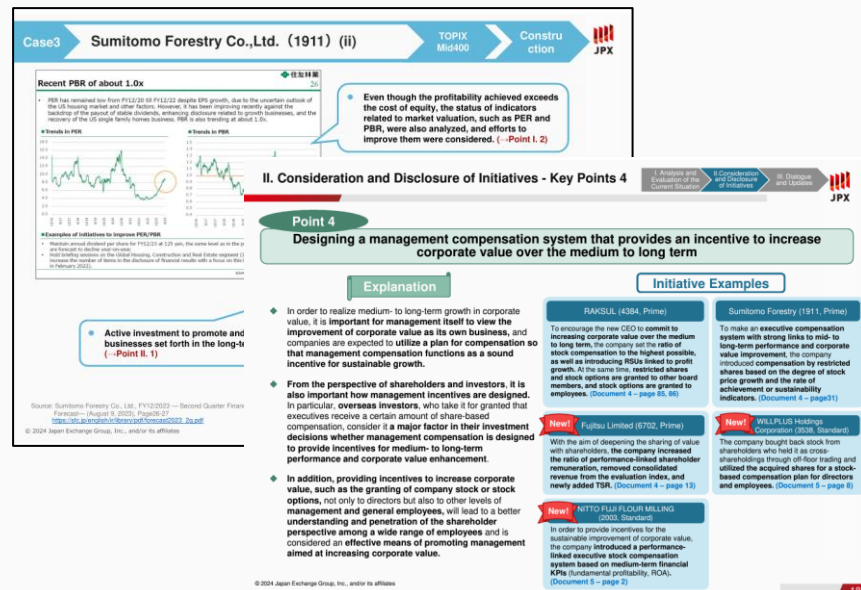
Request Calling Prime & Standard Companies to take 3 steps



Key Points and Case Studies

- To familiarize companies with the right type of mindset, we published a set of 55 investor-recommended examples of excellent disclosure and key points to consider
- We also have 18 examples of poor disclosures that are out of line with what investors are looking for

Key Points/Good Examples



- ✓ Progress on initiatives
- ✓ Business portfolio review
- ✓ Independent director dialogue
- ✓ Target setting
- ✓ Balance sheet/capital allocation policy

Bad Examples

Examples of Misalignment 1

Target setting is not in line with investors' perspectives

Example A (Created Based on Actual Disclosure)

Our ROE has remained low, at around 3%, and our PBR has continued to be under 1. (Omitted)
As a target to be reached by 2027, we aim for an ROE of 5%, and we will continue to promote the initiatives set out in our medium-term management plan in order to achieve further growth and improve profitability in our business going forward.
* No mention of cost of capital

Comments From Investors

- ✓ It is possible that the ROE target set is lower than the cost of capital.
- ⇒ Cost of capital should be properly understood, and targets that exceed this should be set. In addition, it is expected that the relationship between the level of cost of capital and targets will be mentioned in the disclosure. (Point II.1 Document 3 Page 15)

Example B (Created Based on Actual Disclosure)

Although our ROE of 6% exceeds the cost of equity capital of 5% calculated using CAPM, it is lower than the 7% expected return for our company that we have ascertained through interviews with investors, and we recognize that we are not meeting the expectations of investors.
By steadily promoting the various initiatives set out in our medium-term management plan, we aim to achieve an ROE of 8% by 2035.

- ✓ Although it is good that the company set targets based on investors' expected returns, but if the targets are not that high and the deadline is set too far in the future, it makes investors wonder whether the management is really serious about achieving them.
- ⇒ It is important to set targets not only at a level that investors can understand, but also with a time frame that investors can understand. (Point II.1 Document 3 Page 15)

Example C (Created Based on Actual Disclosure)

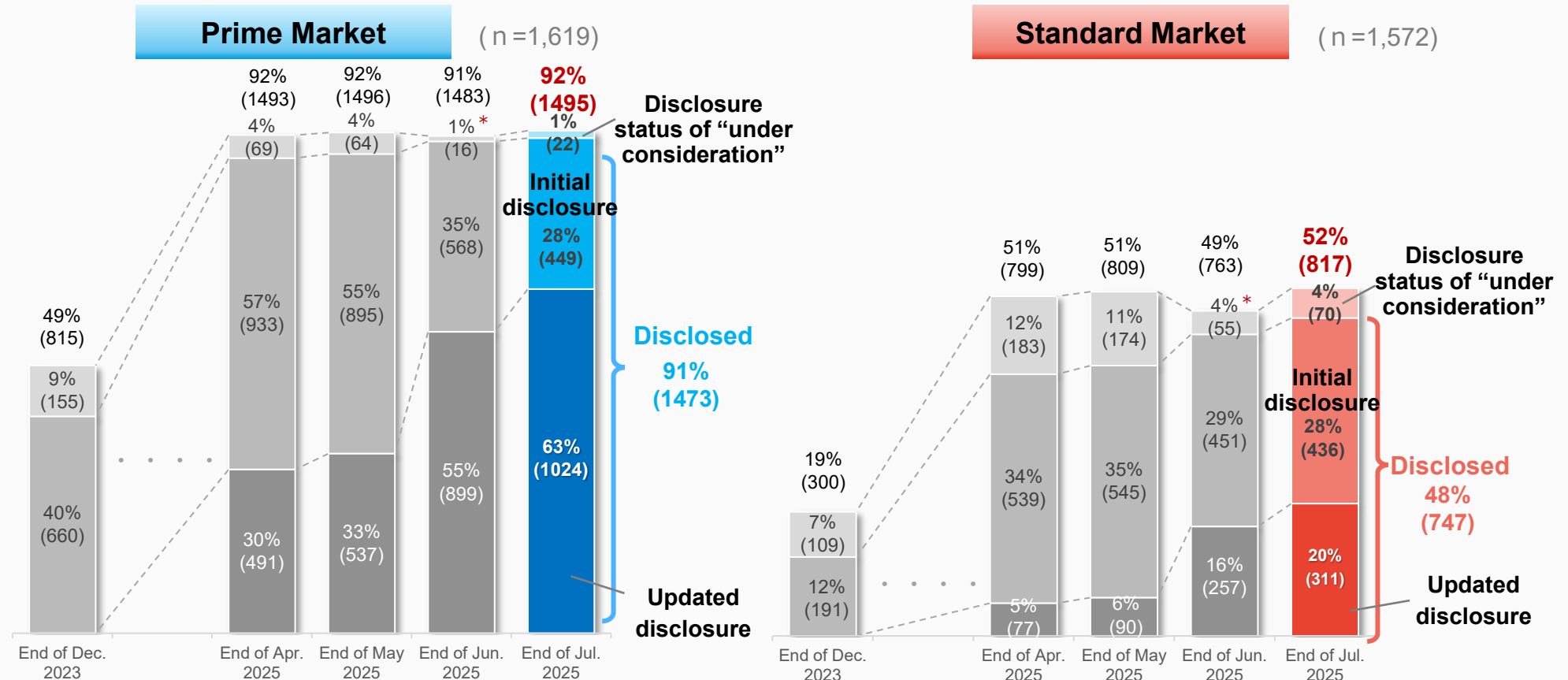
In order to improve our corporate value over the medium to long term through sustainable growth, we place importance on net sales, operating income, and operating income ratio, and disclose target values for each of these in our medium-term management plan. We are also aware of capital costs and capital profitability, but we will first work to improve our financial figures by placing importance on net sales, operating income, and operating income ratio.
*No other reference to capital costs or capital profitability.

- ✓ Only setting targets based on the profit and loss statement, such as sales and profits, and there is a lack of perspective on how to make the most efficient use of capital to make a profit while being conscious of the balance sheet.
- ⇒ To gain the support of investors with a medium- to long-term perspective, indicators that investors value, such as capital efficiency based on the balance sheet, are expected to be used in setting targets. (Point II.1 Document 3 Page 15)

- ✓ Superficial analysis
- ✓ Refuse/don't disclose dialogue
- ✓ Low targets/far deadlines
- ✓ No consideration of spinning out unprofitable businesses
- ✓ Compensation not linked to long-term value creation

Status of Disclosures/Updates

- ◆ **92% of Prime Market listed companies (1,495) and 52% of Standard Market listed companies (817) have disclosed.** (Including companies with a disclosure status of “under consideration”.)
- Of the disclosing companies, **1,024 companies in the Prime Market and 311 companies in the Standard Market have updated the contents of their disclosures** after making their initial disclosures.



* The number of companies "under consideration" has decreased because some have transitioned to "disclosed." Additionally, starting from January 2025, the inclusion period for "under consideration" on the List of Companies That Have Disclosed Information will be six months, and companies that exceed this period will no longer be included in the list.

Publication of the List of the Companies

- TSE publishes a monthly list of companies disclosing information in response to our request to highlight those companies who are cooperating with our initiatives
- In Nov. 2024, we revised the monthly list of disclosed companies to encourage companies to take further steps as well as encourage more active engagement with investors

List of Companies that Have Disclosed Information in Accordance with “Action to Improve Disclosure that is Conscious of Cost of Capital and Stock Price”

As of October 31, 2024

Sector code	Sector	Market segment	Securities code	Company name	Disclosure Status		Date of disclosure update	Contact from institutional investors		English disclosure
					Disclosure status in compliance with the request	Change in disclosure status from last month		Wish to have more active contact	Where to contact	
****	YYYYYYY	Prime	****	XXXXXXXXXX	Disclosed		12/30/2024			
****	YYYYYYY	Prime	****	XXXXXXXXXX	Disclosed			O	XX Department	Available
****	YYYYYYY	Prime	****	XXXXXXXXXX	Disclosed					
****	YYYYYYY	Prime	****	XXXXXXXXXX	Disclosed	From unlisted to "disclosed"				Available
					Under consideration					Available
					Disclosed		6/10/2024	O	XX Department	
					Disclosed			O	XX Department	
					Under consideration					
					Disclosed		7/15/2024			
					Disclosed	From unlisted to "disclosed"		O	XX Department	
					Disclosed					Available
					Under consideration					
					Disclosed		8/30/2024			
					Disclosed	From unlisted to "disclosed"		O	XX Department	
****	YYYYYYY	Prime	****	XXXXXXXXXX	Disclosed	From unlisted to "disclosed"				Available

② Encourage plan updates

- Highlight those companies with new revisions to disclosed initiatives

③ Connect companies with investors

- Indicate which companies are eager to engage with investors but are currently unable to

① Set a deadline for companies "under consideration"

- June 30, 2025 if "under consideration" on Dec 31, 2024
- 6 months if designated after Jan 1, 2025

We're also encouraging investors to use the list and good/bad examples in their engagement with listed companies to prod them towards medium to long-term corporate value creation

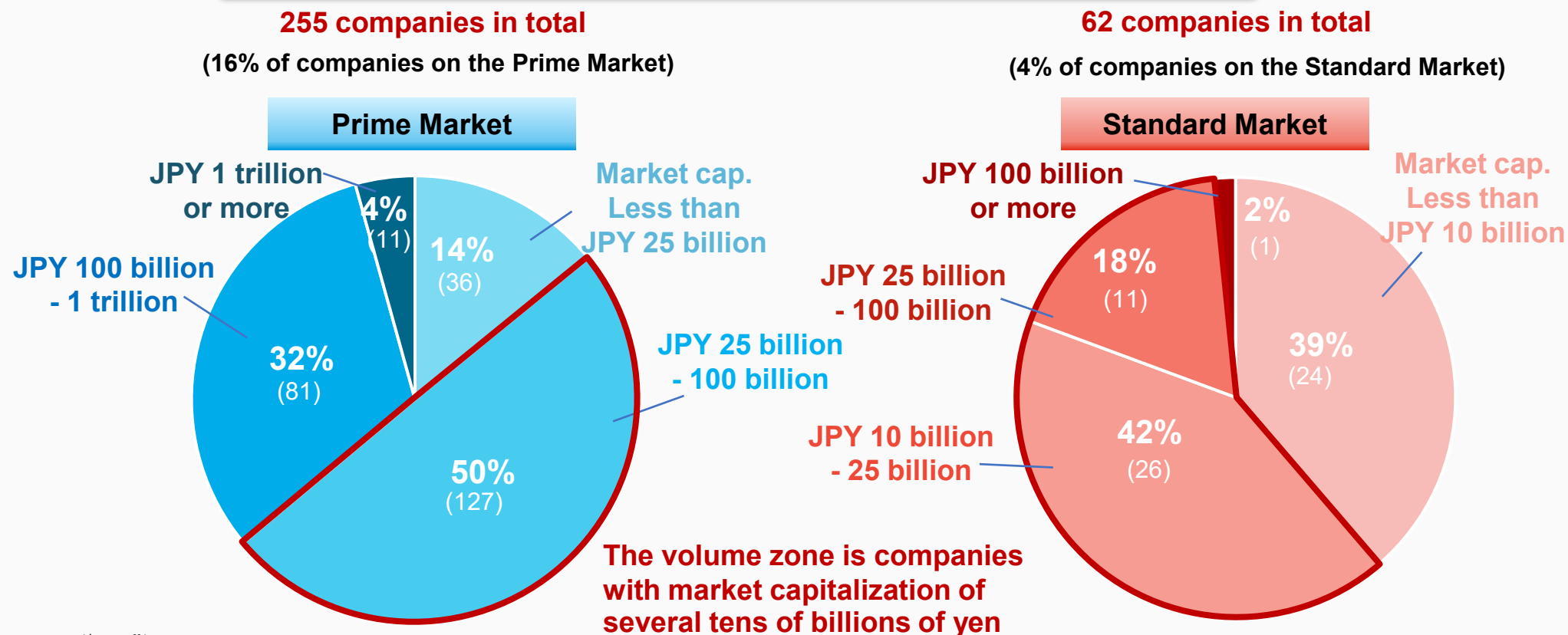
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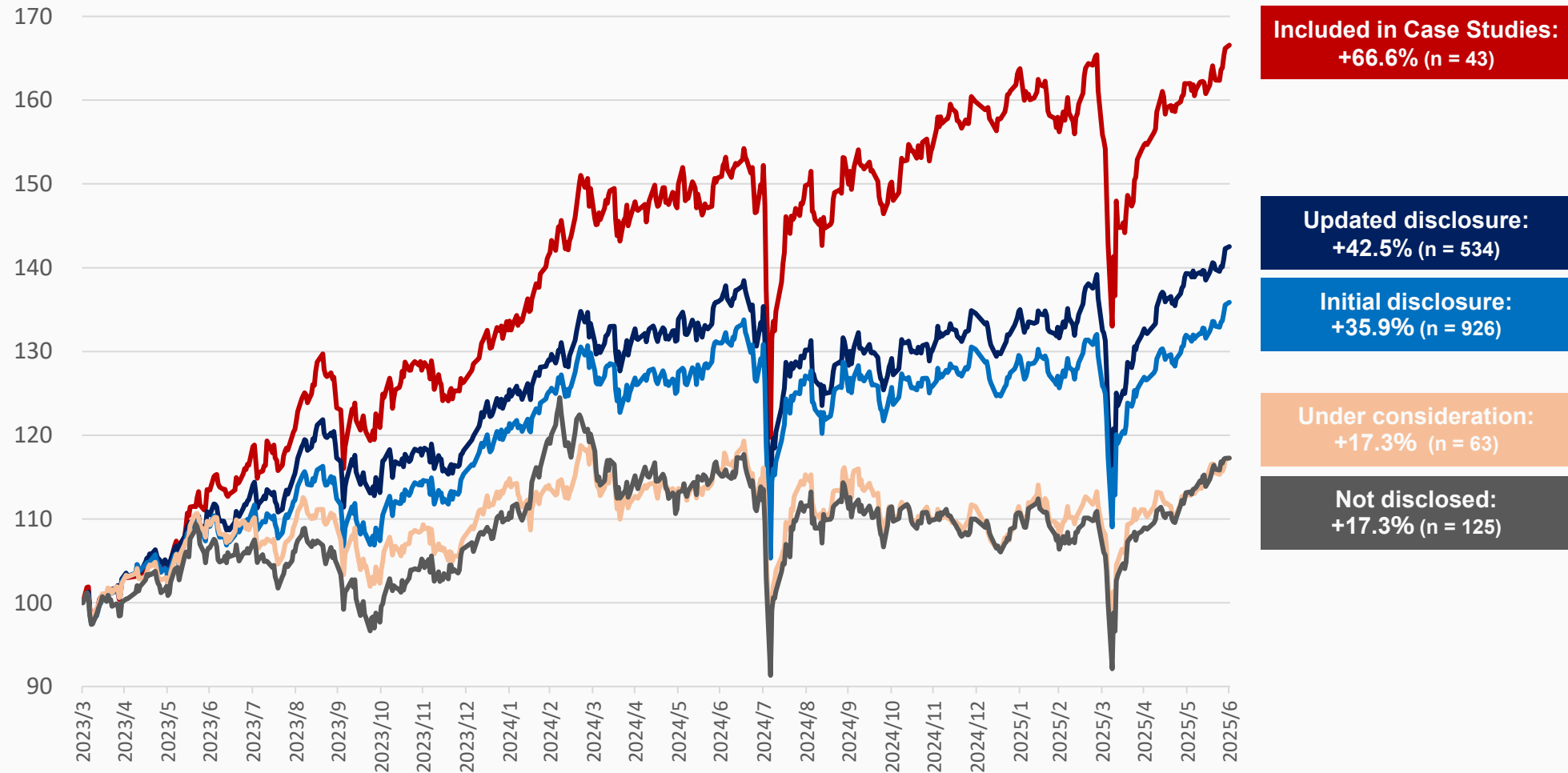
Companies Wishing to Have More Active Contact from Institutional Investors

- ◆ From the List of Companies That Have Disclosed Information as of January 2025, **companies that have applied that they “wish to have more active contact from institutional investors”** are indicated on the list.
 - As of the end of July 2025, a total of **317 companies** had submitted
 - The volume zone is companies with market capitalization of several tens of billions of yen

Distribution of Market Capitalization of Companies That Have Applied



Ref. Stock Prices After the Request (Prime)



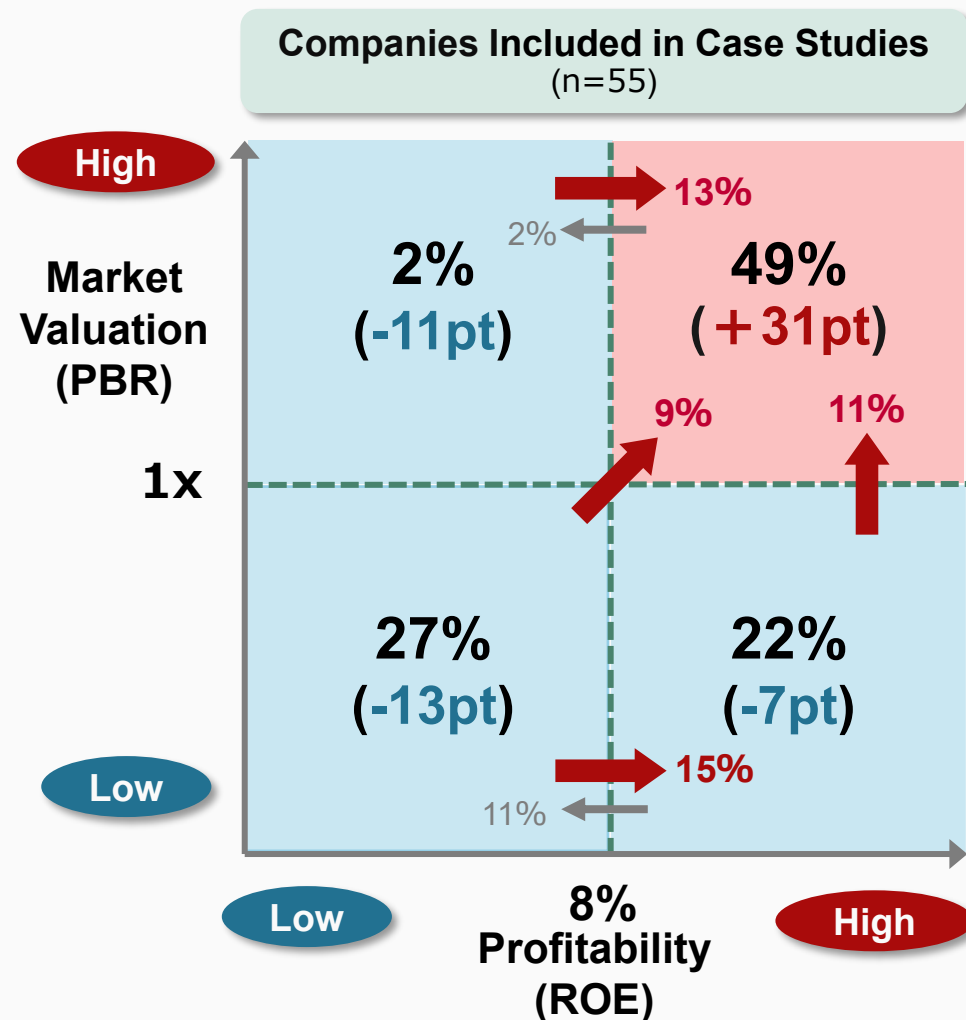
* Estimations of stock price trends for each category (equal weightings) where prices as of 2023/3/31 are converted to 100.

* Disclosure status is based on the list of companies that have disclosed information as of June 30, 2025.

Changes in Market Valuation and Profitability (for Companies Included in Case Studies)

- ◆ Changes in PBR and ROE of listed companies before and after the request (from July 2022 to July 2025) and main initiatives are as follows.

- The ratio (%) of the four quadrants represents the distribution as of July 2025, with the numbers in parentheses and arrows indicating changes from July 2022 to July 2025.



Main Initiatives of Companies Included in Case Studies

- Merger and acquisitions, investment for growth
 - Review of business portfolio
 - Formulation of medium to long-term capital policy
 - Enhancement of information disclosure and IR activities
 - Review of goals based on dialogue
 - Revision of executive compensation
 - Sale of cross-shareholdings
 - Implementation of shareholder returns
- ⇒ In the future, conduct in-depth analysis when updating key points and case studies

Areas	Related Initiatives
IRs	<ul style="list-style-type: none">- Establishment of TSE's "Listed Company Support Group" (Jan 2024-)- TSE Key Points/Case Studies (Feb 2024-)- List of the Companies Wishing more Active Contacts from Investors (Jan 2025-)- Mandatory English Disclosures (Apr 2025-)- Mandatory IR functions (Jul 2025-)- TSE "Investors' Views on IR Systems and Activities" (Jul 2025-)
AGMs	<ul style="list-style-type: none">- Disclosures of Annual Securities Report before AGMs (ongoing)- Voting Policy Adoptions among Investors (ongoing)
M&As	<ul style="list-style-type: none">- METI (Ministry of Economy, Trade and Industry)'s New Guideline (Aug 2023-)- TSE Rule Updates for MBOs (Jul 2025-)
Cross-Shareholdings	<ul style="list-style-type: none">- Method Change of TSE Tradable Share-Market Cap/TOPIX Free Float (Apr 2022-)- Disclosure Rules Change in Annual Securities Report (Apr 2025-)
Compensation Alignments	<ul style="list-style-type: none">- TSE Key Points/Case Studies (Feb 2024-)



【Cautionary statement regarding this material】

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