

## **Disclosure for the year ending March 31, 2019 (Evaluation of effectiveness of the Board of Directors)**

### **Evaluation of the effectiveness of the Board of Directors**

Each year, the Board of Directors analyzes and evaluates its effectiveness, taking into consideration relevant matters, including self-evaluations of each Director, and discloses a summary of the results.

The methods and results of the evaluation of effectiveness of the Board of Directors for the year ending March 31, 2019 are summarized as follows (*Please refer to [the Attachment](#) regarding the result of the evaluation of effectiveness of the Board of Directors*):

#### **1. Evaluation method**

- (1) In January 2019, questionnaires pertaining to matters such as the composition of the Board of Directors, its operational status, and topics for deliberations, were distributed to fourteen Directors and five Audit & Supervisory Board Members (hereinafter referred to as the "2019 questionnaire").
- (2) Moreover, opinions were exchanged regarding the effectiveness of the Board of Directors in meetings attended by all External Directors and External Audit & Supervisory Board Members (hereinafter referred to as the "External member meetings") held on February 1, 2019.
- (3) In its meeting held on February 12, 2019, the Governance Committee engaged in discussions on the basis of the results of the 2019 questionnaire and External member meetings.
- (4) The Board of Directors, after discussing such matters while taking the Governance Committee's report into account, decided on the matter of evaluating its effectiveness for the year ending March 31, 2019 in its meeting held on March 20.

With respect to the carrying out of the above evaluation method, at a Governance Committee meeting held in November 2018, the decision was made, as the current format's effectiveness was recognized previously, to persist with the current self-evaluation format involving the evaluation of the effectiveness of the Board of Directors for the year ending March 31, 2019, upon having verified the adequacy of processes that encompass methods of evaluating the effectiveness of the Board of Directors carried out by a third party.

#### **2. Questionnaire item**

Major categories of questionnaire items of the 2019 questionnaire are listed below. The 2019 questionnaire contains fields for free comments related to such categories, and has been evaluated using methodology that involves assigning one of five grades to each question. Furthermore, evaluation also encompasses the extent to which effectiveness of the Board of Directors has improved in comparison with the previous year by assigning one of three grades, in order to gain an understanding of progress achieved in that regard.

- I. Composition of the Board of Directors
- II. Operational status of the Board of Directors
- III. Deliberations of the Board of Directors
- IV. Roles and duties of the Board of Directors
- V. Advisory Committee
- VI. Execution of duties of the Directors and Audit & Supervisory Board Members themselves
- VII. Support, etc. for Directors and Audit & Supervisory Board Members
- VIII. Overall comments.

### **3. Initiatives in the year ending March 31, 2019 geared to achieving greater effectiveness**

During the year ending March 31, 2019, the Board of Directors and the Board of Directors Secretariat have engaged in the following initiatives taking into account results of the evaluation of effectiveness of the Board of Directors for the previous year. The Governance Committee also held meetings in September and December 2018, where committee members confirmed, reported and otherwise took action with respect to challenges of improving effectiveness and the status of initiatives geared to resolving issues.

#### **(1) Composition of the Board of Directors**

In November 2018, a free discussion session at the Company's training institute (hereinafter referred to as the "free discussion") was held, during which discussions were held on the design of the Company's governance and organizational structure, and more detailed discussions were held on what would be the most optimal composition of the Board of Directors in accordance with the design of the organizational structure to be chosen for the Company. In addition, the appointment Mr. Uchiyamada (Chairman of Toyota Motor Corporation) as a candidate for the Board of Directors, who has significant business experience, is scheduled to be submitted to the Annual General Meeting of Shareholders to be held on June 20, 2019 (*Please refer to [the Attachment](#) regarding the composition of the Board of Directors*).

A significant majority of the External Directors and External Audit & Supervisory Board Member (hereinafter referred to as the "External members") responding to the 2019 questionnaire provided favorable assessment concerning the composition of the Board of Directors. However, opinions were also raised that, in order to make future improvements, the number of External Directors should be reduced, or that the ratio of External Directors should be increased, favorable opinions were raised that the number of people with business experience has increased, and opinions were also raised that there will be an expectation for External Directors to discuss the knowledge, experience, and attributes required of External Directors in the Nomination Committee.

#### **(2) Topics for the Board of Directors to deliberate**

In addition to formulating agenda items which would be suitable topics for discussion with External members, the Board of Directors also held meetings to discuss company-wide themes such as internal controls, risk management, sustainability, and cybersecurity, as well as issues based on trends and current social circumstances (*Please refer to [the Attachment](#) regarding the number of Board and other meetings held. Please refer to [the Attachment](#) regarding the number of attendance. Please refer to [the Attachment](#) regarding number of proposals/reports to the Board of Directors*).

In addition, a discussion on the responses and concerns in the capital markets took place in an External member meeting. Furthermore, discussions also took place regarding the Company's policies with respect to the coal business through deliberations on individual business projects, as well as the Company's policies with respect to businesses in the non-resources sectors (*Please refer to the [Attachment](#) regarding Agenda of External member meetings. Please find the [Attachment](#) regarding activities of external directors and Audit and Supervisory Board Members*).

A significant majority of the External members responding to the 2019 questionnaire provided favorable assessment concerning the items deliberated at meetings of the Board of Directors, and a majority of the respondents overall feel the situation has improved in comparison with the previous year.

### **(3) Methods of deliberation by the Board of Directors**

As opinions were raised in the previous year's evaluation of the effectiveness of the Board of Directors that the Board of Directors should have an opportunity for free discussion with respect to the methods of deliberation in meetings of the Board of Directors, the free discussion was held in which all Directors and Audit & Supervisory Board Members discussed the following topics (*Please refer to the [Attachment](#) regarding Free Discussion among all members of the Board of Directors and Audit and Supervisory Board*):

- The Company's governance and organizational structure
- Themes, current situation, and issues for realizing sustainable growth
- The Company's human resources to support sustainable growth

A significant majority of External members responding to the 2019 questionnaire provided favorable assessment concerning the methods of deliberation in meetings of the Board of Directors, and a majority of the respondents overall feel the situation has improved in comparison with the previous year. On the other hand, as a matter for further improvements, opinions were raised that it was necessary to accurately communicate discussions and nuances at management meetings in order to ensure that External Directors are well aware of the importance of individual matters.

### **(4) Matters concerning the Advisory Committee**

For the fiscal year ending March 31, 2019, there was an expansion of the reporting of the topics of deliberation and results of such deliberations for each Advisory Committee to the Board of Directors, and initiatives were implemented to establish the frequency of meetings and enhance discussions of each Advisory Committee (*Please refer to the [Attachment](#) regarding Advisory Committees activities, the [Attachment](#) regarding Comments from the Chairman of the BOD and each Advisory Committee*).

A significant majority of External members responding to the 2019 questionnaire provided favorable assessment, and a majority of the respondents overall feel the situation has improved in comparison with the previous year. On the other hand, opinions were raised that while the number of deliberations being reported by each Advisory Committee to the Board of Directors have increased as well as there being an increase in transparency, expectations are being placed on discussions being conducted at future meetings of the Board of Directors, and as a result, the matters requiring further improvement were able to identified.

## **4. Summary of evaluation results**

Taking the aforementioned initiatives into account, the Company has reviewed the results of the 2019 questionnaire, and outcomes of exchanges of opinion at the External member meetings and deliberations of the Governance Committee

and the Board of Directors. Accordingly, with respect to effectiveness of the Board of Directors during the year ending March 31, 2019, the findings made by the Board of Directors are as follows:

- Many commented that improvements have been achieved in addressing the challenges stated last year of (i) composition of Directors, (ii) topics for the Board of Directors to deliberate, (iii) methods of deliberation by the Board of Directors, and (iv) Advisory Committees.
- The Board of Directors has a wealth of diversity, and has prepared a structure to secure effective management oversight.
- Meetings of the Board of Directors have been operating smoothly, underpinned by adequate support of the Board of Directors Secretariat in areas such as preparing materials for meetings of the Board of Directors, provision of information, and scheduling.
- The Board of Directors has been securing sufficient time for deliberations and engaging in constructive discussions and exchanges of opinions.
- The direction and business strategies of the Company are actively being discussed by the Board of Directors. In addition, by taking advantage of the opportunities for free discussions between Directors and Audit & Supervisory Board Members including the External members, a wide range of discussions concerning the realization of the Company's sustainable growth were able to take place.
- At meetings of the Board of Directors, reports are given on results of risk analysis from Company-wide and multiple angles, based on which the Board of Directors discusses and reviews such risks drawing on knowledge furnished by respective Directors and Audit & Supervisory Board Members.
- The Board of Directors appropriately supervises the development and operation of internal control systems and risk management systems (*Please refer to the [Attachment](#) regarding Internal Control or Risk Management-related reports, [Attachment](#) regarding operational status of Internal Control systems*).
- The respective Directors and Audit & Supervisory Board Members, upon understanding the Board of Directors' duty to carry out oversight and auditing of the management, have all been devoting sufficient time and effort in fulfilling their responsibilities as Directors or Audit & Supervisory Board Members from an objective standpoint separate from business execution.
- The Company adequately ensures the availability of opportunities and funds for enabling Directors and Audit & Supervisory Board Members to acquire knowledge necessary to fulfill their roles and duties, and also on the whole the Company has ensured availability of frameworks for collaboration involving External members, the management, the Independent Auditor, and the Internal Auditing Division.

Based on the details summarized above, the Company's Board of Directors concludes that it has adequately maintained its effectiveness during the year ending March 31, 2019. On the other hand, the following issues were recognized as issues that are required to be addressed in order to achieve greater effectiveness of the Board of Directors.

## **5. Further initiatives geared to achieving greater effectiveness**

### **(1) More detailed deliberations on individual business project**

With respect to the relationship between individual business projects and company-wide strategies to be discussed at meetings of the Board of Directors, as well as company-wide strategies and business plans, the Company has implemented the following measures based on the opinions and recognition of issues from past evaluations of effectiveness.

#### Year Ending March 31, 2017

A review was undertaken on the explanatory materials for individual business projects and by putting forward the Company's strategies and positioning in the asset portfolio, efforts were made to discuss the major direction of the Company through discussions on individual sales projects.

#### Year Ending March 31, 2018

In order to create more opportunities to discuss the major direction of the Company, such as the Company's corporate strategy and medium-term management plan, discussions with respect to the business plan and the new medium-term management plan were held at a meeting of the Board of Directors following the same discussions at an External member meeting. In addition, the issues of 'Key issues in the capital markets and the Company's IR activities' and the 'Company's Digital Transformation' were discussed at External member meetings.

However, several opinions were raised such as that in the current fiscal year, there was difficulty in gaining an overall picture by analyzing individual business projects.

Based on these opinions, efforts will be made to have more detailed deliberations on individual business projects by creating materials that provide easy-to-understand explanations of the positioning of individual business projects as part of the segment strategies.

#### **(2) About the free discussion**

With respect to the free discussion, opinions were raised that "we were able to discuss the direction of the Company and business strategies", "more active discussions were able to take place" and "the format of the training camp was good", and all Directors and Audit & Supervisory Board Members responded that the same concept should continue to be held in the next fiscal year. On the other hand, as matters for improvement, the participants expressed their expectations for further improvement by devising ways to implement themes and methods of the free discussions.

Based on these opinions, it is intended that the free discussion will continued to be held by continuing to devise and improve methodologies for the free discussion and selecting themes.

#### **(3) Further improvement of the operation of the Board of Directors**

With respect to the operation of the Board of Directors, there were opinions calling for (i) further acceleration of the distribution of materials which are intended to be pre-distributed; (ii) enhancing deliberations on important individual businesses projects; (iii) further use of written resolutions; and (iv) more accurate, objective, and clear sharing of discussions at the Corporate Management Committee.

Based on these opinions, the Board of Directors is committed to further improving the operations of the Board of Directors by (i) sharing materials at the draft stage; (ii) with respect to important business projects, enhancing the provision of information to External members in multiple angles and in an objective manner, including by providing more detailed written reports, allocating more time, and the provision of explanations by the Business Division in charge

of the business project, as well as the General Manager of the Investment Administrative Division; and (iii) further utilizing written resolutions, and (iv) more accurate, objective, and clear sharing of discussions at the Corporate Management Committee.

#### **(4) About the Advisory Committee**

With respect to the Advisory Committee of the Board of Directors, opinions were raised that "the deliberation and discussion by the Advisory Committee has been enriched, but the extent to which there is a understanding by Directors other than those who are committee members, is unknown" and opinions were raised that there were expectations to further enhance the reporting of discussions at the Advisory Committee meetings to the Board of Directors.

The Advisory Committee is committed to enhancing deliberations by the Board of Directors concerning the direction and action policies of each Advisory Committee, as well as continuing to regularly report the activities of the Advisory Committee to the Board of Directors.

#### **(5) Method of evaluation of effectiveness**

Regarding the method of evaluating the effectiveness of the Board of Directors, opinions were raised that it would be preferable to conduct a third-party evaluation on a regular basis, and that advice and evaluation should be sought from third parties regarding the ways in which self-evaluation are being conducted, as well as the contents of the questionnaire.

Based on these opinions, the Board of Directors will consider using a third-party evaluation to evaluate the effectiveness of the Board of Directors for the next fiscal year.

The Company's Board of Directors will continue to work to maintain and improve the effectiveness of the Board of Directors, including the matters described above, to ensure thorough supervision of management by the Board of Directors, and to aim for sustainable improvement of corporate value.

\* Note: The information contained in the attached documents is correct as of March 20, 2019.