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# Corporate Governance Report

Last Update: June 23, 2023

SMS Co., Ltd.

Natsuki Goto

Representative Director and President (CEO)

Securities Code: 2175

<https://global.bm-sms.com/>

The corporate governance of SMS Co., Ltd. (the “**Company**” or “**SMS**”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views updated

Based on the mission (**Group Mission**) of SMS and its subsidiaries (**Group**) of improving people’s quality of life by providing information infrastructure for an aging society, the Group strives to achieve sustainable growth and increase its corporate value over the long term by valuing all stakeholders including shareholders, customers, business partners, employees, and local communities. The markets for medical care, elderly care, healthcare, and senior life, which are the business domains of the Group, are growing at an accelerating pace and changing rapidly. Therefore, the Company must make swift and decisive management decisions. At the same time, it is essential to build a sound management system with transparency and fairness to earn the trust of all stakeholders.

Corporate governance is a framework for achieving transparent, fair, and swift management decision-making. The Company believes it is important to ensure effective corporate governance to realize the Group Mission and increase its corporate value over the long term. Based on this recognition, the Company will achieve effective corporate governance through the following basic policies:

#### (1) Ensuring the Rights of and Equality among Shareholders

##### (i) Ensuring the Rights of Shareholders

The Company discloses information in a timely and appropriate manner and strives to improve the environment in which shareholders can exert their rights to ensure substantial equality among all shareholders, including minority and/or foreign shareholders and the appropriate exercise of their rights.

#### (ii) General Shareholders Meetings

The Company believes that a General Shareholders Meeting is an opportunity for constructive dialogue with shareholders. To enable the shareholders to exercise their voting rights appropriately, the Company provides notices with accurate information on voting on the Company website days ahead.

#### (iii) Capital Policy

The Company believes it is essential to contribute to shareholder value by achieving sustainable growth and increasing its corporate value over the long term. The Company aims to achieve continuous growth in net income and maintain higher ROE than its cost of equity by efficiently utilizing its limited management resources. As huge business opportunities emerge in the market related to an aging society where the Group operates, the Company will use its profits for the investments necessary for sustainable growth and long-term corporate value enhancement. Therefore, the Company's basic policy for the dividend is to prioritize growth investments while considering the financial conditions when determining dividend payouts to its shareholders.

Capital policies that may affect the rights of existing shareholders, such as large-scale capital increases, shall be conducted through appropriate procedures based on a thorough consideration of its necessity and rationality not to harm the rights of shareholders unduly.

#### (iv) Cross-Shareholdings

The Company does not hold any listed shares under a so-called "cross-shareholdings" structure. The Company will not hold such shares if it is not possible to reasonably explain that such shares will lead to long-term enhancement of corporate value after comprehensive considerations of factors including consistency with the Group's strategy, synergy effects, and risks.

#### (v) Anti-Takeover Measures

The Company believes that achieving sustainable growth and long-term enhancement of corporate value and building good relationships with shareholders and investors through IR activities will defend against hostile takeovers. Therefore, the Company has not adopted any anti-takeover measures.

#### (vi) Related Party Transactions

The Company conducts all transactions through the necessary screening and approval process depending on the transaction scale and significance following internal regulations.

Any transaction which may cause conflicts of interest is subject to the prior approval of the Board of Directors and is required to be reported to the Board after it is carried out.

Related party transactions are conducted by taking into account the general terms and conditions of transactions in the market, and the status of such transactions is monitored to prevent any disadvantages to the Company. The Company discloses related party transactions in the annual securities report and non-consolidated financial statements attached to the convocation notice for the General Shareholders Meeting.

### **(2) Appropriate Cooperation with Stakeholders Other Than Shareholders**

The Group Mission states that the Company aims to continue contributing to society through its business activities. To this end, it is essential to build good relationships and cooperate with all stakeholders, including

shareholders, customers, business partners, employees, and local communities. The Company's basic stance toward each stakeholder is as follows:

- For customers: The Company values customers (operators, workers, and end-users) through its information-based services.
- For business partners: The Company builds sound coexistence relationships with business partners by procuring products and services of appropriate quality at appropriate prices.
- For employees: The Company provides employees with various growth opportunities through the sustainable growth of its business and aims for mutual development between the Company and employees.
- For local communities: The Company contributes to the sustainable development of local communities by solving various social issues that arise in an aging society through its business activities.

### **(3) Ensuring Appropriate Information Disclosure and Transparency**

The Company believes that it has the responsibility to disclose appropriate information on a timely basis and sufficiently fulfill its accountability. In addition to ensuring disclosures in compliance with relevant laws and regulations, including the Companies Act, the Financial Instruments and Exchange Act, and the rules of the Tokyo Stock Exchange, the Company discloses information that may affect the investment decisions of shareholders and investors, in a timely and appropriate manner.

### **(4) Responsibilities of the Board of Directors**

As a Company operating in a market that is accelerating and changing rapidly, it is imperative to build a management system that enables swift and sound management decisions in a timely and appropriate manner to realize the Group Mission and increase its corporate value over the long term. Therefore, the Company has adopted an organizational form of a company with an Audit and Supervisory Committee and the authority of the business execution of the Board of Directors has been delegated to the Representative Director and President (**CEO**), and other Directors. The Board of Directors focuses on substantial discussions regarding management strategies and issues from a broader perspective and enhances its supervisory function over business execution. At the Audit and Supervisory Committee, the Committee members who have the voting rights of the Board of Directors (all are Independent Outside Directors) conduct audits to improve the effectiveness of audit and supervision. The Company has also established the Nomination and Remuneration Advisory Committee to ensure objectivity, fairness, and transparency in the nomination of Director candidates, the appointment/dismissal of the senior management, and the remuneration decision for Directors who are not the Audit and Supervisory Committee members. To realize the most appropriate composition of the Board of Directors suitable for a rapidly changing business environment, the Company has set the policy for the nomination of Director that requires candidates a deep understanding of the Company's business along with a wealth of experience and broad insight in areas such as finance, accounting, legal affairs, and corporate management, regardless of age, gender, or nationality. Specifically, the Company aims to achieve diversity among the members of the Board of Directors in terms of their backgrounds, areas of expertise, and international experience. In addition, for Outside Directors who are the Audit and Supervisory Committee members, the Company aims to achieve diversity in terms of tenure to harmonize the experience of long-serving Directors with the fresh perspectives of the new Directors. The Company believes that the above system enables the Directors to fulfill their duties. Thereby the Company will realize the Group Mission and increase its corporate value over the long term.

## **(5) Dialogue with Shareholders**

The Company recognizes that it must engage in constructive dialogue with shareholders and investors with a long-term perspective to realize the Group Mission and increase its corporate value over the long term. Therefore, the Director of Corporate Management (CFO) supervises dialogue with shareholders, and the policy of the dialogue is decided in cooperation with the CEO. The CEO explains the management strategies and the business conditions at quarterly results briefings and actively participates in IR interviews. In addition, opportunities for dialogue between Outside Directors and shareholders are provided as necessary.

## **[Reasons for Non-Compliance with the Principles of the Corporate Governance Code] updated**

### **Supplementary Principle 4.11.1 Views on Overall Balance, Diversity, and Size of the Board of Directors**

The Company operates in the markets which are growing at an accelerating pace and changing rapidly. The Company believes that it is essential to appoint Director candidates, who have a deep understanding of the Company's business, a wealth of experience and broad insight in areas such as finance, accounting, legal affairs, and/or corporate management etc., regardless of age, gender, or nationality, in order to realize the most appropriate composition of the Board of Directors according to the Company's strategy. Specifically, the Company aims to achieve diversity among the members of the Board of Directors, in terms of their backgrounds, areas of expertise, and international experience. In addition, for Outside Directors who are the Audit and Supervisory Committee members, the Company aims to achieve diversity in terms of tenure to harmonize the experience of long-serving Directors with the fresh perspectives brought by new Directors. Although there are no Outside Directors with management experience at listed companies or companies equivalent to those at this moment, the Company believes it has the most appropriate structure that realizes active discussions at the Board meetings from diverse perspectives needed to execute the Company's current strategy by achieving diversity among Outside Directors, in terms of their backgrounds, areas of expertise, international experience, and tenure.

With regard to the size of the Board of Directors, the Articles of Incorporation limit the number of Directors who are not the Audit and Supervisory Committee members up to nine, and the number of Directors who are the Audit and Supervisory Committee members up to five. Currently, the Board consists of two Directors who are not the Audit and Supervisory Committee members and three Directors who are the Audit and Supervisory Committee members (all are Independent Outside Directors). The Company believes that it has the Board with necessary and sufficient size to supervise management and ensure swift decision-making. The skill matrix of the Board of Directors is on the last page.

The nomination of Director candidates shall be consulted with the Nomination and Remuneration Advisory Committee, of which Independent Outside Directors account for the majority, in order to ensure objectivity, fairness and transparency, and shall be decided by the Board of Directors based on the advice of the Committee. Candidates for Directors who are the Audit and Supervisory Committee members are to be nominated by the Board of Directors with a prior accord of the Audit and Supervisory Committee.

## **Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans**

As the Company operates in the rapidly changing environment, it is necessary to constantly update the strategies. To this end, the Company formulates or revises its medium-term management plan every year. The Company sets not only the strategies but also the targets for sales and profits in the plan and shares them internally. For shareholders and investors, the Company explains the outline of the strategies and financial forecasts in its financial results briefings and other materials.

With regard to profitability and capital efficiency, the Company is continuing to grow its net income while achieving higher ROE than its cost of equity by efficiently utilizing its limited management resources: in fiscal 2022, ROE was 19.0% and EPS growth rate was +18.4%. In terms of market valuation, the Company is continuing to maintain sufficient levels of PBR and PER (7.29x and 43.2x, respectively; both calculated based on the closing price on March 31, 2023). The Company will continue to update its management strategies and business portfolio and make investments necessary for growth, with the aim of realizing the Group Mission and increasing its corporate value over the long term. While the Company does not disclose specific targets of profitability and capital efficiency, it will continue to consider how to communicate and disclose information that contributes to the decisions of shareholders and investors.

**[Disclosure Based on the Principles of the Corporate Governance Code]** updated

### **Principle 1.4 Cross-Shareholdings**

The Company does not hold any listed shares under a so-called “cross-shareholdings” structure. The Company will not hold such shares if it is not possible to reasonably explain that such shares will lead to an increase in corporate value after comprehensive considerations of factors including consistency with the Group's strategy, synergy effects, and risks.

### **Principle 1.7 Related Party Transactions**

The Company conducts all transactions through the necessary screening and approval process depending on the transaction scale and significance in accordance with internal regulations.

Any transaction which may cause conflicts of interest is subject to the prior approval of the Board of Directors and is required to be reported to the Board after it is carried out.

Related party transactions are conducted by considering the general terms and conditions of transactions in the market and the status of such transactions is monitored in order to prevent any disadvantages to the Company. The Company discloses related party transactions in the annual securities report and non-consolidated financial statements attached to the convocation notice for the General Shareholders Meeting.

### **Supplementary Principle 2.4.1 Ensuring Diversity in the Promotion etc. of Core Personnel**

Mid-career hires account for more than 90% of the total employees of the Group. Foreign employees account for approximately 30% as the Company is actively operating overseas. In the promotion of core personnel, the Company

makes judgments based on their abilities in accordance with their expected roles, regardless of age, gender, nationality, or other attributes. As a result, the ratio of mid-career hires and foreign nationals in management positions does not differ significantly from the overall personnel composition, and the ratio of female managers is more than 30%, indicating that the Company has achieved a decent level of diversity in its core personnel.

The Company intends to continue to develop human resources and improve the work environment to ensure diversity, sustainable growth, and long-term enhancement of corporate value.

The Company discloses its policies, initiatives, indicators and targets regarding human capital on its website. (<https://global.bm-sms.com/sustainability/people/>)

### **Principle 2.6 Roles of Corporate Pension Funds as Asset Owners**

The Company has not adopted any corporate pension plan and there is no opportunity to perform its role as an asset owner of a corporate pension plan. The Company will take necessary measures in the event such as an acquisition of a company with a corporate pension plan.

### **Principle 3.1 Full Disclosure**

(i) The Group Mission and management strategies are disclosed on the Company's website and in the financial results briefing materials, the annual securities reports, etc.

(ii) The company's basic stance on corporate governance is described in the section of this report entitled "I. 1. Basic Views."

(iii) The determination policy and procedure of the Director remuneration are described in the section of this report entitled "II.1 Director Remuneration, Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods."

(iv) The nomination of Director candidates and the appointment/dismissal of the senior management shall be consulted with the Nomination and Remuneration Advisory Committee, of which Independent Outside Directors account for the majority, in order to ensure objectivity, fairness and transparency, and shall be decided by the Board of Directors based on the advice of the Committee. Candidates for Directors who are the Audit and Supervisory Committee members are to be nominated by the Board of Directors with a prior accord of the Audit and Supervisory Committee.

In nominating the candidates for Directors, with the aim of realizing the most appropriate composition of the Board of Directors suitable for the business environment, the Company's policy is to nominate candidates who have a deep understanding of the Company's business along with a wealth of experience and broad insight in areas such as finance, accounting, legal affairs, and/or corporate management, regardless of age, gender, or nationality. In appointing the senior management including the CEO, the Company appoints persons familiar with the Company's business who are able to fulfill their responsibilities and contribute to the realization of the Group Mission and the improvement of its corporate value over the long term.

With regard to the dismissal of Directors and the senior management, the Board of Directors will not nominate a person as a candidate for Director and will dismiss him/her from the position as the senior management in the event that the person is found to have violated laws and regulations, the Articles of Incorporation, or internal rules, or that the Board of Directors determines that the person has not fulfilled the functions and roles required for his/her office based on the advice of the Nomination and Remuneration Advisory Committee.

(v) The explanation for the nomination of the current Directors is contained in the “Convocation Notice for the Annual Shareholders Meeting.”

### **Supplementary Principle 3.1.3 Sustainability Initiatives**

#### **(1) Sustainability initiatives**

The Company has established a Sustainability Committee to examine policies and measures on sustainability issues and to monitor progress. The Sustainability Committee, chaired by the CEO and composed of all Directors, meets in principle four times a year. The Sustainability Promotion Office serves as the secretariat of the Committee and supports the formulation and implementation of sustainability-related strategies and measures in cooperation with each business and corporate department. The Office and the department in charge of risk management integrately conduct group-wide risk management related to sustainability issues. The Company discloses its policies and initiatives regarding sustainability in the annual securities report and on its website. (<https://global.bm-sms.com/sustainability/>)

The Company does not expect that climate change issues will seriously affect the Group’s business activities or that its business activities will have a significant impact on climate change at the present time. However, the Company considers that it is important to address climate change issues to realize a sustainable society. The Company therefore decided to support for the Task Force on Climate-related Financial Disclosures (the “TCFD”) recommendations in October 2022.

Details of disclosure based on the TCFD Recommendations are on the Company’s website. (<https://global.bm-sms.com/sustainability/environment/>)

#### **(2) Investment in human capital and intellectual property**

The Company believes that human capital and intellectual property are important management resources to promote the Group’s business.

The Company discloses details of human capital policies, initiatives, and indicators/ targets on its website. (<https://global.bm-sms.com/sustainability/people/>)

With regard to intellectual property, the Company makes investment as necessary, including defensive measures, to protect its knowhow and trademark rights.

#### **Supplementary Principle 4.1.1 Scope and Content of the Matters Delegated to the Management**

SMS is a company with the Audit and Supervisory Committee and its Articles of Incorporation stipulate that the Company may delegate all or part of the decisions regarding important business execution from the Board of Directors to Directors, except for matters stipulated by laws and regulations, from the viewpoint of ensuring speedy business execution and strengthening the supervisory functions of the Board.

The Board of Directors is supposed to make resolutions on matters prescribed by laws, regulations and the Articles of Incorporation, matters delegated by the resolutions of General Shareholders Meetings, and other important management decisions. The related standards are stipulated in the “Rules of the Board of Directors.”

In addition, the “Rules of Authorities” stipulates the decision-making authority for each committee/position in respect of business execution. The Company reviews these rules in a timely manner according to the status of legal system and the Company's situation, with the aim of ensuring that each committee including the Board of Directors or person at each position makes effective and swift decisions.

#### **Principle 4-9 Independence Standards and Qualification for Independent Directors**

The Company's views on the independence of the Outside Directors are described in the section of this report entitled “II-1 Independent Directors, Other Matters related to Independent Directors.”

#### **Supplementary Principle 4.10.1 Involvement and Advice of Outside Directors regarding Nomination and Remuneration**

The Board of Directors consists of two Directors who are not the Audit and Supervisory Committee members, and three Directors who are the Audit and Supervisory Committee members (all are Independent Outside Directors). The Company established the Nomination and Remuneration Advisory Committee, of which Independent Outside Directors account for the majority, in December 2018. The Committee is chaired by the Lead Independent Outside Director. Please refer to "II-2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Determination of Remuneration, etc." regarding the role of the Committee.

#### **Supplementary Principle 4.11.2 Status of Concurrent Positions Held by Directors and Audit & Supervisory Committee Members**

The status of important concurrent positions held by Directors is disclosed annually in the “Convocation Notice for the Annual Shareholders Meeting” and the annual securities report.

The attendance rate of Directors at meetings of the Board of Directors and that of Directors who are the Audit and Supervisory Committee members at meetings of the Audit and Supervisory Committee are very high (the attendance rate of all Directors at meetings of the Board of Directors: 100%, the attendance rate of all Audit and Supervisory Committee members at meetings of the Audit and Supervisory Committee: 100%, in fiscal 2022), and they are executing their duties as Directors appropriately. Therefore, the Company believes that the status of concurrent positions held by Directors falls within a reasonable range.



### **Supplementary Principle 4.11.3 Analysis and Evaluation of Board Effectiveness**

The Company believes that the Board of Directors has demonstrated its effectiveness as all Directors engage in active discussions and deliberations to make important decisions by fully utilizing their experience and expertise. In addition, the Company believes that the effectiveness of the Board of Directors is sufficiently ensured through the audit and supervision by the Audit and Supervisory Committee. From fiscal 2022, the Company conducts a questionnaire survey of all Directors on the effectiveness of the Board of Directors, analyzes and evaluates the result, and plans to disclose it later.

### **Supplementary Principle 4.14.2 Training Policy for Directors and Audit & Supervisory Committee Members**

In the appointment of Directors, the Company has nominated persons who have sufficient knowledge and capabilities to fulfill their respective duties, in accordance with the business environment, and has obtained approvals of the appointments at the General Shareholders Meetings. In addition to requiring Directors to improve themselves, the Company provides them with information relating to the Company's business, financial and organizational status, changes in laws and regulations and other industry trends as appropriate, so that Directors can respond to the rapidly changing business environment and properly fulfill their roles. The Company also provides information and support for expenses regarding external training courses as necessary in order for them to collect information and acquire knowledge.

### **Principle 5.1 Policy for Constructive Dialogue with Shareholders**

The CFO supervises dialogue with shareholders, and the policy of the dialogue is decided in cooperation with the CEO. The CEO explains the management strategies and the business conditions at quarterly results briefings and actively participates in IR interviews. In addition, opportunities for dialogue between Outside Directors and shareholders are provided as necessary. All sections that should cooperate with the IR section, such as the finance section and the risk management section, belong to the same Corporate Management Division as the IR section, and each section provides assistance for IR activities as necessary.

With regard to relationships with shareholders, the Company endeavors to identify the ownership structure of shareholders, including shareholders substantially holding the shares, and the content of dialogues with shareholders is fed back to the senior management as necessary. In order to prevent leakage of insider information, the Company holds a quiet period before the announcement of financial results and thoroughly controls insider information by refraining from answers or comments to inquiries about financial results.

## 2. Capital Structure

Foreign Shareholding Ratio	30% or more
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### Status of Major Shareholders updated

Name/Company Name	Number of Shares Owned	Percentage (%)
MORO, LLC	15,404,918	17.67
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,631,100	15.64
Custody Bank of Japan, Ltd. (Trust Account)	6,450,900	7.40
BNYM AS AGT/CLTS NON TREATY JASDEC (Standing Proxy: MUFG Bank, Ltd.)	2,460,911	2.82
STATE STREET BANK AND TRUST COMPANY 505001 (Standing Proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	2,421,340	2.77
AS ONE Corporation	2,404,000	2.75
The Dai-ichi Life Insurance Company, Limited (Standing Proxy: Custody Bank of Japan, Ltd.)	2,366,200	2.71
SSBTC CLIENT OMNIBUS ACCOUNT (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch)	1,514,822	1.73
CEPLUX THREADNEEDLE (LUX) (Standing Proxy: Citibank, N.A. , Tokyo Branch)	1,162,900	1.33
REAPRA PTE.LTD.	1,105,000	1.26

Controlling Shareholder (except for Parent Company)	N/A
Parent Company	None

### Supplementary Explanation updated

- The status of major shareholders above is the status as of March 31, 2023.
- Shareholding ratio is calculated excluding treasury shares.

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo, Prime Market
Fiscal Year-End	March
Type of Business	Services
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1,000 or more
Sales (consolidated) as of the End of the Previous Fiscal Year	JPY10 billion or more and less than JPY100 billion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	10 or more and less than 50

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholders

N/A

### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

N/A

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Committee
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#### Directors

Maximum Number of Directors stipulated in the Articles of Incorporation	14
Term of Office of Directors stipulated in the Articles of Incorporation	1 year
Chairperson of the Board of Directors	Representative Director and President
Number of Directors	5
Appointment of Outside Directors	Appointed
Number of Outside Directors	3
Number of Independent Directors	3

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Tomoki Matsubayashi	Lawyer								△			
Toyotaro Suzumura	Scholar								○			
Nobuko Takagi	Certified Public Accountant											

\* Categories for "Relationship with the Company"

\* "○" when the Director presently falls or has recently fallen under the category;

"△" when the Director fell under the category in the past

\* "●" when a close relative of the Director presently falls or has recently fallen under the category;

"▲" when a close relative for the Director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive Director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

f. Consultant, certified public accountant or legal professional who receives a large amount of monetary consideration or other

g. property from the Company besides remuneration as a Director

h. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

- i. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the Director himself/herself only)
- j. Executive of a company, between which the Company's Outside Directors are mutually appointed (the Director himself/herself only)
- k. Executive of a company or organization that receives a donation from the Company (the Director himself/herself only)
- l. Others

**Outside Directors' Relationship with the Company (2) updated**

Name	Audit & Supervisory Committee Member	Independent Director	Supplementary Explanation of the Relationship	Reason for Appointment
Tomoki Matsubayashi	○	○	The Company has entered into a legal advisory contract with Tanabe & Partners, to which Mr. Matsubayashi previously belonged. However, the Company has determined that the contract between the Company and the law firm does not affect Mr. Matsubayashi's independence as an Outside Director because (i) he has no history of being involved in any of the Company's cases at the law firm ever since he was appointed as the Outside Director in November 2007, (ii) he left the law firm at the end of February 2017, and (iii) transaction amounts between the Company and the law firm never exceeded 1% of annual consolidated sales	Mr. Tomoki Matsubayashi has been working as a lawyer for many years and has abundant knowledge and experience as well as broad insight as a legal professional. Prior to his appointment as an Outside Director who is a member of the Audit and Supervisory Committee of the Company, Mr. Matsubayashi served as an Outside Director and subsequently a part-time Corporate Auditor of the Company. With that combined, the total length of his tenure with the Company is 15 years and 7 months at the conclusion of the 20th Annual General Shareholders Meeting held on June 23, 2023. The Company aims to achieve diversity in terms of the tenure for Outside Directors (Audit and Supervisory Committee members) to harmonize the experience of long-serving Directors with fresh perspectives brought by new Directors. In this regard, Mr. Matsubayashi plays an important role as an Outside Director (Audit and

			<p>of either party and was always less than 10 million yen every fiscal year. Further, there is no business relationship between the Company and Nozomi Sogo Attorneys at Law, which Mr. Matsubayashi currently belongs to.</p>	<p>Supervisory Committee member). More specifically, he is the only Outside Director candidate who has been involved in the Company's management since an early stage of the Company, and deeply understands the Company's Philosophy and Principles as well as how the Company should contribute to its stakeholders, including shareholders, according to the Philosophy and Principles. With such experience and understanding, he is expected to play an irreplaceable role by effectively monitoring and supervising the management team to ensure that the team fulfill its responsibilities to realize the Philosophy and Principles and enhance corporate value over a long term. Furthermore, given that his tenure as Director is longer than that of our Representative Director, the Company believes that appropriate checks and balances against the Representative Director would be provided. Mr. Matsubayashi has been designated as an Independent Director as well with the expectation that he will provide effective oversight and supervision of management from an independent standpoint. He does not fall under any of the criteria itemized by the Tokyo Stock Exchange that could potentially cause conflicts of interest against common shareholders, such as being a major client or supplier of the Group or a consultant who receives large amount of monetary consideration or other</p>
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				property besides the remuneration as a Director, and meets the independence standards set by the Company itself.
Toyotaro Suzumura	○	○	The Company has a business relationship with The University of Tokyo, which Mr. Suzumura currently belongs to, in relation to joint research, our recruiting advertisement service, and others. However, the Company has determined that the relationship between the Company and the university does not affect Mr. Suzumura's independence as an Outside Director because transaction amounts between the Company and the university never exceeded 1% of annual consolidated sales of either party and was always less than 10 million yen every fiscal year.	Mr. Toyotaro Suzumura is an internationally recognized computer scientist, and has a wide range of knowledge and experience as well as broad insight in areas such as big data analysis and utilization. To realize the Group Mission of "to improve people's quality of life by providing information infrastructure for an aging society," it is crucial for the Company to utilize the vast amount of data related to medical care, elderly care, and healthcare accumulated through its domestic and overseas businesses. We believe that Mr. Suzumura's abundant knowledge, experience, and broad insight gained through his global career will allow him to effectively monitor and supervise the Company's management in promoting mission-driven activities and bring a valuable and insightful perspective to such activities. Mr. Suzumura has been designated as an Independent Director as well with the expectation that he will provide effective oversight and supervision of management from an independent standpoint. He does not fall under any of the criteria itemized by the Tokyo Stock Exchange that could potentially cause conflicts of interest against common shareholders, such as being a major client or supplier of the Group or a consultant who receives large amount of monetary consideration or other

				property besides the remuneration as a Director, and meets the independence standards set by the Company itself.
Nobuko Takagi	○	○	-	<p>In addition to the working experience at an audit firm and tax accountant corporation as a Japanese CPA, Ms. Nobuko Takagi has provided M&amp;A advisory services at an M&amp;A advisory firm, offered strategic planning services in the industry, been on the management side of a management consulting firm, and served as an outside director at a listed company. Ms. Takagi has abundant knowledge, experience, and broad insight as an expert in finance and accounting as well as a management consultant. Ms. Takagi has been designated as an Independent Director as well with the expectation that she will provide effective oversight and supervision of management from an independent standpoint. She does not fall under any of the criteria itemized by the Tokyo Stock Exchange that could potentially cause conflicts of interest against common shareholders, such as being a major client or supplier of the Group or a consultant who receives large amount of monetary consideration or other property besides the remuneration as a Director, and meets the independence standards set by the Company itself.</p>



## Audit and Supervisory Committee

### Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Internal Directors	Outside Directors	Chairperson
Audit & Supervisory Committee	3	0	0	3	Outside Director

Appointment of Directors and/or Employees to Support Duties of the Audit & Supervisory Committee	Appointed
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### Matters related to the Independence of Such Directors and/or Employees from Executive Directors

The Internal Audit Office plays the role of the Audit and Supervisory Committee secretariat and assists auditing duties as appropriate.

In order to ensure the independence of the employees of the Internal Audit Office who assist the Audit and Supervisory Committee in its duties, decisions concerning personnel changes, etc. are made with the prior consent of the Audit and Supervisory Committee. In addition, employees who have received an order from the Audit and Supervisory Committee in relation to auditing duties are not subject to instructions or orders from Directors (excluding Directors who are the Audit and Supervisory Committee members) regarding that order.

### Cooperation among Audit & Supervisory Committee, Accounting Auditors, and Internal Audit Function

The Audit and Supervisory Committee strives to cooperate with the Internal Audit Office to conduct auditing duties. The Audit and Supervisory Committee receives quarterly reports from the accounting auditors on audit results, and the Audit and Supervisory Committee cooperates with the accounting auditors by having meetings on a timely basis to exchange opinions and information.

The Internal Audit Office, in addition to assisting in the duties of the Audit and Supervisory Committee, holds monthly meetings with the Audit and Supervisory Committee, where reports are made on audit plans as well as the results and progress of audits, and opinions and information are exchanged. The Internal Audit Office also reports on the status of operation of the whistle-blowing system. By these ways, the Office strives to cooperate with the Audit and Supervisory Committee. It exchanges opinions and information with accounting auditors mainly regarding internal control audits based on the Financial Instruments and Exchange Act, and closely cooperates with each other in order to improve the effectiveness and efficiency of audits.

Also, the internal control section evaluates matters raised by above audits and strives to implement necessary measures.

## Voluntary Establishment of Nomination/Remuneration Committee

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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### Committee's Name, Composition, and Attributes of Chairperson

Committee corresponding to Nomination Committee

Committee's name			Nomination and Remuneration Advisory Committee			
All Committee Members	Full-time Members	Internal Directors	Outside Directors	Outside Experts	Other	Chairperson
3	0	1	2	0	0	Outside Director

Committee corresponding to Remuneration Committee

Committee's name			Nomination and Remuneration Advisory Committee			
All Committee Members	Full-time Members	Internal Directors	Outside Directors	Outside Experts	Other	Chairperson
3	0	1	2	0	0	Outside Director

### Supplementary Explanation

The Company established the Nomination and Remuneration Advisory Committee in December 2018. The committee is an advisory body to the Board of Directors, which was established to deliberate on the nomination/dismissal of Directors (including the appointment/dismissal of the Representative Directors and other senior management), remuneration for Directors who are not the Audit and Supervisory Committee members, succession plans for the CEO, and other important matters of the Group. Since May 2021, the committee has been responsible for determining the amount and the timing of remuneration for each individual director of the Company (**Each Director**) who is not a member of the Audit and Supervisory Committee.

The members selected for the Nomination and Remuneration Advisory Committee are as follows:

Chairperson:

**Tomoki Matsubayashi**, Chairperson of the Audit and Supervisory Committee and Lead Independent Outside Director

Committee members:

**Nobuko Takagi**, The Audit and Supervisory Committee member and Independent Outside Director

**Natsuki Goto**, Representative Director and President (CEO)

### Independent Directors

Number of Independent Directors	3
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## Other Matters related to Independent Directors

The Company has set the following criteria for the objective judgment of independence as a requirement to designate Outside Directors as Independent Directors. They are deemed to have sufficient independence from the Company if none of the following items are found to apply.

- a. Person who engages in business execution of the Company or the Company's subsidiaries (collectively, the "Group"), or a person who engaged in business execution of the Group at any time in the past 5 years.
- b. Business partner of the Group, for which the sales of the Group in the most recent business year exceeds 1% of the Group's annual consolidated sales, or a person who engages in business execution of such business partner.
- c. Party for which the Group is a business partner and whose sales for the Group in the most recent business year exceeds 1% of the party's annual consolidated sales, or a person who engages in business execution of such business partner.
- d. Attorney at law, certified public accountant, consultant, etc. who obtains monetary consideration or other property exceeding JPY10 million from the Group besides the remuneration as a Director (in cases where the person obtaining such property belongs to an incorporated entity, partnership or other organization, the transaction amount exceeding 1% of the annual consolidated net sales of either party or exceeding JPY10 million is referred to)
- e. Major creditor of the Group or a person who engages in business execution of a financial institution and other large creditors, which is indispensable for the Group's financing and on which the Group is dependent without alternative options.
- f. Major shareholder of the Company (holding 10% or more of voting rights) or a person who engages in business execution of such shareholder.
- g. Party which receives donations exceeding JPY10 million from the Group in the most recent business year, or a person who engages in business execution of such party
- h. Accounting auditor who engages in the auditing duties of the Group or a certified public accountant who engages in the execution of the duties in such accounting auditor.
- i. Person who engages in business execution of a company holding cross-directorships with the Group.
- j. Person who falls under any of the above items from (b) to (i) at any time in the past 3 years.
- k. Spouse or relative within the second degree of kinship of a person who falls under any of the above items from (a) to (j) (excluding a person who is not significant with regard to (e) to (h))
- l. Notwithstanding the provisions of the respective items (a) to (k) above, a person with special grounds for being unable to perform his/her duties as an Independent Outside Director, such as a potential conflict of interests with common shareholders.

For Outside Directors who are the Audit and Supervisory Committee members, the Company aims to achieve diversity in terms of tenure to harmonize the experience of long-serving directors with the fresh perspectives brought by new directors. From this perspective, the Company does not set an upper limit on the tenure.

## Incentives

Implementation of Measures to Grant Incentives to Directors	Introduction of Stock Option System
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### Supplementary Explanation

The Company has introduced a stock option system with the aim of enhancing moral and motivation and promoting medium to long term contributions toward an improvement of the Group's business performance. The summary of our stock options is described in the annual securities report.

Recipients of Stock Options	Internal directors, employees, directors of subsidiaries, employees of subsidiaries
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### Supplementary Explanation

Eligible recipients of the stock options whose exercise rights have not expired as of the filing date of this report.

### Director Remuneration

Disclosure of Individual Directors' Remuneration	Individual Directors' remuneration is not disclosed
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### Supplementary Explanation

N/A

Policy on Determining Remuneration Amounts and Calculation Methods <u>updated</u>	Established
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### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The policy on determining remuneration for Each Director who is not a member of the Audit and Supervisory Committee (the same shall apply in this section) was resolved at the meeting of the Board of Directors held on June 24, 2022. The Company determines the policy based on the consultation with and advice from the Nomination and Remuneration Advisory Committee.

The policy on determining remuneration for Each Director is as follows:

(a) Amount/calculation method of remuneration for individual Directors

The fixed amount of remuneration is determined by referring to the amount of remuneration of the companies with similar business performance or business characteristics to the Company. The fixed amount of remuneration for the following years is determined based on the profit growth rate and other factors, by applying them to a certain table.

(b) Performance-based remuneration: KPIs and calculation method

No performance-based remuneration.

(c) Non-cash remuneration: details and amount/calculation method

Stock options as remuneration may be granted upon resolution of a General Shareholders Meeting or through consultation with/advice from the Nomination and Remuneration Advisory Committee, as necessary.

(d) Ratio of remuneration (a) - (c) to total remuneration for Each Director

In principle, the entire remuneration shall be a fixed remuneration, excluding the amount pertaining to stock options as remuneration already granted. The Board of Directors shall revise the policy on determining the proportion of fixed remuneration and stock options, in case that stock options are newly granted as remuneration.

(e) Timing or conditions for payment of remuneration to Directors

The fixed amount of remuneration shall be paid on a monthly basis during the term of office.

(f) Matters concerning the delegation of all or part of the determination on the details of remuneration for Each Director to third parties including a Director.

The Audit and Supervisory Committee determines the amount and the payment timing of remuneration for Each Director. The Board of Directors shall delegate the authority to Tomoki Matsubayashi (Director, a member of the Audit and Supervisory Committee), Nobuko Takagi (Director, a member of the Audit and Supervisory Committee), and Natsuki Goto (Representative Director and President), who are the members of the committee. The Board of Directors is reported from the Nomination and Remuneration Advisory Committee on the progress and results of its deliberations in accordance with the Regulations of the Committee.

At the 13th Annual General Shareholder Meeting held on June 24, 2016, it was resolved that the maximum amount of remuneration for Directors (excluding Directors who are the Audit and Supervisory Committee members) should be JPY200 million per year (the number of members set in the Articles of Incorporation: up to nine), and the maximum amount of remuneration for Directors who are the Audit and Supervisory Committee members should be JPY100 million per year (the number of members set in the Articles of Incorporation: up to five). At the conclusion of the 13th Annual General Shareholders Meeting, the number of Directors who were not the Audit and Supervisory Committee members was three, and the number of Directors who were the Audit and Supervisory Committee members was three.

The Nomination and Remuneration Advisory Committee determined the amount and the payment timing of remuneration for Each Director in fiscal 2022. Prior to that, at a meeting of the Board of Directors held on June 24, 2022, it was resolved to delegate the authority to determine these matters to Tomoki Matsubayashi (Director, a member of the Audit and Supervisory Committee), Nobuko Takagi (Director, a member of the Audit and Supervisory Committee), and Natsuki Goto (Representative Director and President), who are members of the Committee. The reason is to improve transparency and fairness in determining the remuneration for Each Director by delegating it to the Nomination and Remuneration Advisory Committee, which consists of two Independent Outside Directors and the Representative Director and is chaired by the Lead Independent Outside Director.

The Company regards that the Board of Directors confirmed that the determination method and the determined remuneration for Each Director for fiscal 2022 are consistent with the determination policy resolved at the meeting of the Board of Directors held on June 24, 2022, follows the said determination policy.

As a result of mutual consultation of all Directors who are the Audit and Supervisory Committee members, discretionary authority over the amount of remuneration for Directors who are the Audit and Supervisory Committee members and the payment timing are placed to the Audit and Supervisory Committee Chairperson Tomoki Matsubayashi.

The total amount of remuneration for fiscal 2022 is disclosed in the annual securities report.

## **Supporting System for Outside Directors**

The Company allocates appropriate personnel in consultation with Outside Directors and provides them with relevant documents and information as necessary.

## **2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Determination of Remuneration, etc. (Overview of the Current Corporate Governance System) updated**

### **<Matters concerning functions of business execution>**

The following systems are in place to ensure rational decision-making and business execution by the Board of Directors.

In principle, the Board of Directors meets once a month to report on the status of the execution of duties by Directors and to resolve matters stipulated by laws and regulations, the Articles of Incorporation, and the Rules of the Board of Directors.

In principle, the Executive Committee meets once a week to deliberate important business execution decisions, matters to be discussed by the Board of Directors, and other important matters.

### **<Matters concerning functions of audit and supervision>**

The following systems are in place to strengthen corporate governance and monitoring functions.

Outside Directors attend meetings of the Board of Directors, supervise the appropriateness and fairness of its decision-making from an independent standpoint, and audit the business execution of Directors and the legality and appropriateness of their decision-making based on the audit policy established by the Audit and Supervisory Committee.

Appointment of Outside Directors who meet the requirements for Independent Directors and possess knowledge of legal, accounting, or tax affairs.

To ensure compliance with laws and regulations and the effectiveness of business operations, the Internal Audit Office verifies and evaluates the business operations at each division and subsidiary company and conducts audits to improve internal controls from a standpoint independent from other business execution.

With regard to accounting audits, the Company has concluded an audit contract with Ernst & Young ShinNihon LLC. The certified public accountants who perform the accounting audit duties are as follows.

Name of certified public accountants

Designated limited liability partner: Ryo Kayama

Designated limited liability partner: Kiyoto Tanaka

The composition of assistances for the audit duties: 9 certified public accountants and 26 staff.

### **<Matters concerning functions of nomination and remuneration decisions>**

Nomination of Director Candidates

The nomination of Director candidates is determined by the Board of Directors, based on the consultation with and advice from the Nomination and Remuneration Advisory Committee, the majority of which is composed of

Independent Outside Directors, to ensure objectivity, fairness, and transparency. Candidates for Directors serving as members of the Audit and Supervisory Committee are nominated by the Board of Directors with the consent of the Audit and Supervisory Committee.

#### Determination of Director Remuneration

The determination policy and procedure of the Director remuneration are described in the section of this report entitled “II. 1 Director Remuneration, Disclosure of Policy on Determining Remuneration Amount and Calculation Methods.”

### **3. Reason for Adopting the Current Corporate Governance System**

With the aim of enhancing further the Company’s corporate governance, a partial revision was made to the Articles of Incorporation at the 13th General Shareholder Meeting held on June 24, 2016, and on the same date, the Company thereby transitioned from a company with an Auditor and Supervisory Board to one with an Audit and Supervisory Committee. In this way, the Board of Directors delegates authority for business execution to the Representative Directors, etc., thereby realizing timely and decisive decision-makings of management. The Board of Directors discusses management strategies and management issues in a broader and substantive manner and strengthens the supervisory function for business execution. At the Audit and Supervisory Committee, the Committee members who have voting rights of the Board of Directors (all Independent Outside Directors) conduct audit duties to improve the effectiveness of audits and supervision.

In addition, the Company established the Nomination and Remuneration Advisory Committee in December 2018. The committee is an advisory body to the Board of Directors, which was established to deliberate on the nomination/dismissal of Directors (including the appointment/dismissal of the Representative Directors and other senior management), remuneration for Directors who are not the Audit and Supervisory Committee members, succession plans for the CEO, and other important matters of the Group. Since May 2021, the committee has been responsible for determining the amount and the timing of remuneration for Each Director who is not a member of the Audit and Supervisory Committee.

Furthermore, in order to communicate and coordinate with the management team and to cooperate with the Audit and Supervisory Committee members who are Independent Outside Directors, the Lead Independent Outside Director is selected by mutual election of Independent Outside Directors.

Most of the important decisions regarding the Company’s business execution are made at the Board of Directors and the Executive Committee. The Board of Directors, which consists of five Directors including three Outside Directors meets once a month in principle, and extraordinary meetings are held as necessary. For the purpose of supplementing decision-makings on other important matters, the Executive Committee, which is composed of Directors who are not the Audit and Supervisory Committee members, executive officers and division heads who execute important business operations, is held once a week in principle. In accordance with the internal rules such as the Rules of the Board of Directors, the Rules of the Executive Committee, and the Rules of Authorities, decisions are made on business execution and the status of business execution is monitored. Directors who are the Audit and Supervisory Committee members also attend the Executive Committee meetings as observers when necessary.

In accordance with the audit policies and duties determined by the Audit and Supervisory Committee, Directors who are the Audit and Supervisory Committee members receive reports from Directors who are not the Committee members and employees on the status of their execution of duties, and request explanations and inspect important approval documents as necessary. In addition, Directors who are the Audit and Supervisory Committee members work closely with accounting auditors and the Internal Audit Office to maintain and improve the efficiency and ensure the legality of corporate management. Therefore, we believe that the objectivity in management is ensured by the system above.

The Company has adopted the current corporate governance system since it believes that it will be able to realize the Group Mission and increase its corporate value over the long term through the following factors: rational decision-making and business execution by Directors, fully-functioning audits and supervision, and further strengthened corporate governance.



### III. Implementation Status of Measures for Shareholders and Other Stakeholders

#### 1. Efforts to Vitalize the Annual General Shareholders Meetings and Facilitate the Exercise of Voting Rights updated

	Supplementary Explanation
Early Dispatch of the Convocation Notice of the Annual General Shareholders Meeting	The convocation notice for the 20th Annual General Shareholders Meeting held on June 23, 2023 was sent on June 7, 2023. Prior to the dispatch of the notice, it was disclosed on TDnet and the Company's website on May 31, 2023.
Allowing Electronic Exercise of Voting Rights	For the convenience of our shareholders, the Company allows the exercise of voting rights via their own personal computers or smartphones.
Participation in Electronic Voting Platform and Other Efforts to Enhance the Voting Environment for Institutional Investors	The Company participates in the electronic voting platform for institutional investors operated by ICJ, Inc.
Providing Convocation Notice (Summary) in English	The Company discloses a summary convocation notice in English on TDnet and the Company's website.

#### 2. IR Activities

	Supplementary Explanation	Explanation by Representative
Preparation and Publication of Disclosure Policy	The Company has established an IR policy and discloses it on its website. <a href="https://global.bm-sms.com/ir/ir_policy/">https://global.bm-sms.com/ir/ir_policy/</a>	-
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds quarterly briefings.	Available
Posting of IR Materials on Website	Annual securities reports, financial reports, convocation notices for General Shareholder Meeting, presentation materials, and other materials are posted on the Company's IR web page: <a href="https://bm-sms.co.jp/ir/">https://bm-sms.co.jp/ir/</a> (Japanese) <a href="https://global.bm-sms.com/ir/">https://global.bm-sms.com/ir/</a> (English)	-
Establishment of a Section (Post) for Investor Relations	The IR section is established under the Corporate Planning Department of the Corporate Management Division.	-

### 3. Measures to Ensure Due Respect for Stakeholders updated

	Supplementary Explanation
<p>Establishment of Internal Rules Stipulating Respect for the Position of Stakeholders</p>	<p>Based on the Group Mission of “to improve people’s quality of life by providing information infrastructure for an aging society,” the Group strives to achieve sustainable growth and increase its corporate value over the long term by valuing all stakeholders including shareholders, customers, business partners, employees, and local communities. To achieve this, we have established "Credo" and "SMS Business Guidelines" and are working to spread them to all employees through training at the time of joining the company.</p> <p>Our basic stance toward each stakeholder is described in the section of this report entitled “I-1. (1) Ensuring the Rights of and Equality among Shareholders” and “I-1. (2) Appropriate Cooperation with Stakeholders Other Than Shareholders.”</p>
<p>Implementation of Environmental Preservation Activities and CSR Activities, etc.</p>	<p>&lt;Our approach to sustainability&gt;</p> <p>The Group has established Management Philosophy of "continual growth and contribution to society as an everlasting corporate group" as what we pursue universally. We aim to increase the sum total of our contributions to society by everlasting with growth.</p> <p>SMS's Mission is “to improve people's quality of life by providing information infrastructure suitable for an aging society.”</p> <p>We believe that by working to solve the various social issues that arise in an aging society as the foundation of our business, and by realizing our Mission, we can contribute to the realization of a sustainable society. By working to solve social issues through our business activities, we can achieve sustainable growth as a company that is needed by society. Increasing our corporate value over the long term through the accumulation of sustainable growth more powerfully supports the realization of our Mission and leads to the realization of a sustainable society.</p> <p>In order to support and promote these activities that create shared value with society, it is important to develop and strengthen the management platform, taking into account the demands of society, including perspectives such as governance, human capital, consideration for global environment, information security, respect for human rights, and prevention of corruption/bribery.</p>

	<p>We will continue to earn our various stakeholders' trust and meet their expectations and contribute to the realization of a sustainable society through these activities.</p> <p>&lt;Environmental Initiatives&gt;</p> <p>The Group recognizes the importance of preserving the global environment in order to realize a sustainable society, and is working to address the issues related to climate change and reduce the environmental impact of our business activities.</p> <p>Details of these initiatives are disclosed on the Company's website.  <a href="https://global.bm-sms.com/sustainability/environment/">https://global.bm-sms.com/sustainability/environment/</a></p>
<p>Development of Policies on Information Provision to Stakeholders</p>	<p>The Company strives to ensure the timely, accurate, and fair disclosure of corporate information from the perspective of investors and other stakeholders by complying with the Companies Act, the Financial Instruments and Exchange Act and other relevant laws and regulations and the rules set forth by the Tokyo Stock Exchange, as well as by enhancing our internal systems and investor relations activities.</p>
<p>Other</p>	<p>The Group believes that it is important for employees to work in good health both mentally and physically to realize the Group Mission of “to improve people's quality of life by providing information infrastructure for an aging society”. As a company operating healthcare businesses, we also believe that employees' awareness of their own health will lead to the provision of better services.</p> <p>To this end, we have established the Health Promotion Office directly under the CEO and are implementing various initiatives to maintain and improve employee health and awareness.</p> <p>The main initiatives for Health and Productivity Management are disclosed on the Company's website.  <a href="https://global.bm-sms.com/sustainability/employee-health">https://global.bm-sms.com/sustainability/employee-health</a></p> <p>We have been recognized as White 500 companies in the Certified Health and Productivity Management Organization Recognition Program (large enterprise category), jointly hosted by the Ministry of Economy, Trade and Industry (METI) and Japan Health Council for the forth consecutive year since 2020.</p>

## **IV. Matters related to Internal Control System, etc.**

### **1. Basic Views on the Internal Control System and its Development Status**

The Company has set the following basic policy for internal control to establish the systems necessary to ensure the appropriateness of its operations. The Board of Directors constantly evaluates the design and operation of the internal control system in accordance with the basic policy and takes necessary remedial actions. In addition, the Board of Directors reviews and revises this basic policy as necessary in response to changes in the business environment and other factors, and is committed to maintaining a legitimate and efficient system for business execution. The final revision was resolved at the meeting of the Board of Directors held on December 19, 2018.

- a. System for ensuring that execution of duties by Directors and employees of the Company complies with laws and regulations as well as the Articles of Incorporation
  - 1) Compliance with laws and regulations, the Articles of Incorporation and societal norms is placed at the core of management, and in order to achieve thorough and continued improvement within the Group, a compliance system will be maintained and improved, determining policy related to compliance with laws and regulations, fostering a sense of ethics, and the Group-wide risk management.
  - 2) For the purpose of early detection and correction of violations of laws and regulations, and other compliance issues, the Group shall establish a whistle-blowing system with an internal reporting contact window and legal counsel law office designated to receive information, aiming at early detection or prevention of issues.
  - 3) The Company has established rules related to risk management including compliance, and the department responsible for risk management oversees all organizations handling compliance for the Group. The Executive Committee conducts decision-making related to compliance activities and the details thereof are reported regularly to the Board of Directors.
  - 4) The Internal Audit Office audits the status of compliance with laws and regulations, fostering a sense of ethics and the Group-wide risk management, and reports its activities to the Board of Directors and the Audit and Supervisory Committee.
  - 5) The entire Group takes an unwavering stance toward completely eliminating relationships with anti-social forces and organizations that threaten societal order and safety.
- b. System for storage and administration of information related to execution of duties by Directors of the Company
  - 1) The Company has established rules for the type of documents, period of retention and method of administration for information related to the execution of duties of Directors and its administration, and after recording them in written or electronic media, shall store them along with materials used in management decisions.
  - 2) In preparation for the case of a request from Directors, the Company shall store and maintain records in an appropriate, reliable, and easily searchable state, depending on the type and characteristics of the information, and shall maintain them in a viewable state.
- c. Provisions and other measures related to crisis management for loss at the Company

- 1) The Company has defined rules on the policy for establishing and building a risk management system which covers business activities of the Group, and recognizes the risks of business activities based on these rules. The Company shall also conduct risk management according to importance, with a view toward impact and potential for occurrence.
  - 2) The Company's department responsible for risk management oversees all organizations handling risk management for the Group, including with respect to information security, with important decision-making related to risk management activities conducted at the Executive Committee, and the details thereof are regularly reported to the Board of Directors.
  - 3) The Company has established a countermeasure policy for the Group in the case of a natural disaster, accident or other critical event, and by determining the level of the crisis based on the policy and carrying out a rapid response, prevents damage from growing and minimizes losses.
- d. System to ensure that execution of duties by Directors of the Company is carried out efficiently
- 1) The Company has established its Audit and Supervisory Committee as a means of providing corporate governance aimed at achieving highly effective and flexible execution of duties and strengthening of its monitoring activities.
  - 2) In order to secure such highly effective and flexible execution of duties, the Company delegates part of the Board of Directors' authority to the Chief Executive Officer, etc., as well as to the Executive Officers and the persons in charge of each department, etc., as and when necessary. Directors of the Company who are not the Audit and Supervisory Committee members or Executive Officers conduct prompt sharing of information through holding regular meetings on the progress of operations with each department, thereby implementing appropriate management decisions in a timely manner. The duties, authority and responsibilities of officers and employees shall be set forth in the regulations related to segregation of duties and limitations on authority.
  - 3) The Company's Board of Directors formulates the overall strategy for the Group and engages in the making of important decisions. In addition, each department and subsidiary takes the Group strategy into account when formulating their own strategies. Through regular monitoring of the status of progress, the Board of Directors ensures the execution of overall strategy for the Group as a whole.
  - 4) The Company has established its Executive Committee as an advisory body to the Chief Executive Officer, comprised of Directors who are not the Audit and Supervisory Committee members, Executive Officers or persons in charge of each department involved in the execution of key operations, and meetings of the Executive Committee are regularly held with the aim of debating important matters related to the execution of operations, and thereby advances management efficiency through the sharing of management information.
  - 5) The corporate functional departments of the Company provide support to each department and subsidiary in executing strategy as well as decision-making by the Board of Directors and the Executive Committee, in areas such as business planning, financial planning, management infrastructure, human resources development and risk management. A similar structure is being built in key subsidiaries, aimed at optimizing support for the

respective business strategies of each subsidiary through cooperation with the corporate functional departments of the Company.

- e. System to ensure the soundness and propriety of operations of the Company and its subsidiaries
  - 1) The Company has established policy rules regarding the business administration of subsidiaries, under which important matters related to the business and financial situation of subsidiaries must be reported to the Company, and important decision-making must be made with the approval of the Company, thereby realizing appropriate business administration of subsidiaries.
  - 2) The Company has established departments responsible for the administration of subsidiaries, and conducts administration through cooperation with persons in charge of administration of subsidiaries. Also, the Company collects, organizes and retains the latest information regarding subsidiaries, and provides such information to related parties as required.
  - 3) The internal reporting contact window set up by the Company can be used by all officers and employees in the domestic Group, aimed at early detection or prevention of violations of the laws and regulations and other compliance problems in the subsidiaries.
  - 4) The Internal Audit Office conducts audits regarding the administration of subsidiaries and operations activities.
- f. Matters related to Directors and employees that assist duties of the Company's Audit and Supervisory Committee, matters related to their independence from Directors who are not the Audit and Supervisory Committee members, and a system to ensure the effectiveness of the Audit and Supervisory Committee's instructions towards those assistants
  - 1) The Internal Audit Office assists in the duties of the Audit and Supervisory Committee.
  - 2) In order to ensure the independence of the Internal Audit Office member who assists in the duties of the Audit and Supervisory Committee, the decision requiring the transfer of said member must be made with prior consent from the Audit and Supervisory Committee.
  - 3) An assistant employee who receives instructions related to audit work from the Audit and Supervisory Committee is not subject to instructions from Directors who are not the Audit and Supervisory Committee members with respect to those instructions.
- g. A framework for reporting made to the Company's Audit and Supervisory Committee by the Company's Directors who are not the Audit and Supervisory Committee members and employees, and by the Company's subsidiaries' Directors, Corporate Auditors, other persons falling thereunder and employees
  - 1) In addition to statutory matters, if matters that may have a critical impact on the business, matters thought to be in violation of the laws and regulations or the Articles of Incorporation, matters that may result in a substantial loss to the Company, or other matters that must be reported to the Audit and Supervisory Committee occur, the Group's Directors who are not the Audit and Supervisory Committee members and Corporate Auditors and employees must promptly report the same to the Audit and Supervisory Committee, and the corporate functional departments shall provide support to facilitate smooth reporting.

- 2) The Internal Audit Office regularly reports the results of the internal audit and the circumstances of internal reporting contacts to the Audit and Supervisory Committee.
- h. Systems for ensuring that persons who report to the Company's Audit and Supervisory Committee are not treated in a disadvantageous manner because of their reporting
  - 1) The Company stipulates explicitly in its "Whistleblower Protection Rules" that under no circumstances shall the Company invoke disadvantageous measures such as dismissal or re-assignment against any person who has made a report to the Audit and Supervisory Committee, citing the report as the reason for such disciplinary action.
- i. Matters regarding policies related to processing expenses/liabilities and prepayment/reimbursement of expenses arising related to the execution of duties by the Company's Audit and Supervisory Committee
  - 1) With respect to expenses arising in relation to the execution of duties of by the Audit and Supervisory Committee members and the Audit and Supervisory Committee, normal audit expenditures are included in the initial budget and unplanned expenditures (except for those that are deemed to be clearly not required for the execution of audit duties), shall be handled in a timely manner through advances and expense claims.
- j. System to ensure that audits by the Company's Audit and Supervisory Committee are carried out in an efficient manner
  - 1) The Audit and Supervisory Committee members have the authority to attend major meetings, as well as meetings of the Board of Directors, may access important documents regarding the execution of duties, such as approval documents, and may request explanation by Directors who are not the Audit and Supervisory Committee members and employees.
  - 2) The Audit and Supervisory Committee shall conduct audits in cooperation with the Internal Audit Office. Also, the Audit and Supervisory Committee shall hold regular meetings with the CEO and accounting auditors, exchanging opinions and information therewith.

## **2. Basic Views on System to Eliminate Anti-Social Forces and its Development Status**

- a. The Company has set the measures against anti-social forces in "SMS Business Guideline" and implements awareness-raising activities as necessary.
- b. The Company joins the Special Association for Prevention of Violence and other organizations and builds a system to respond in cooperation with corporate law firms, other external experts, and relevant organizations.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

The Company believes that achieving sustainable growth and long-term enhancement of corporate value as well as building good relationships with shareholders and investors through IR activities will lead to defend against hostile takeovers, and accordingly has not adopted anti-takeover measures.

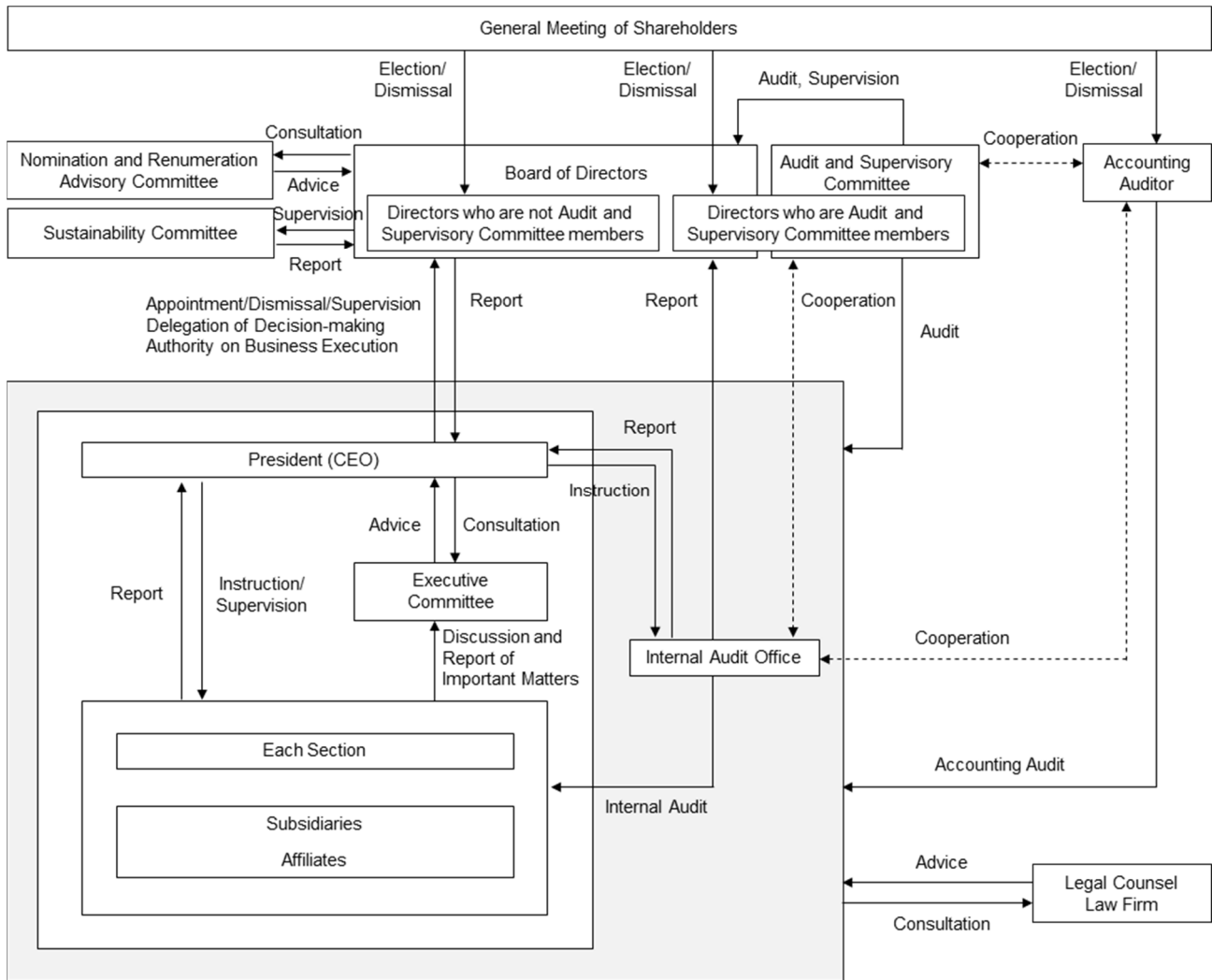
### 2. Other Matters Concerning Corporate Governance System

The Company believes it is essential to disclose company information to shareholders and investors in a timely and appropriate manner in order to gain the social credibility and appropriate evaluation of the Group, and accordingly has built an internal system for timely disclosure.

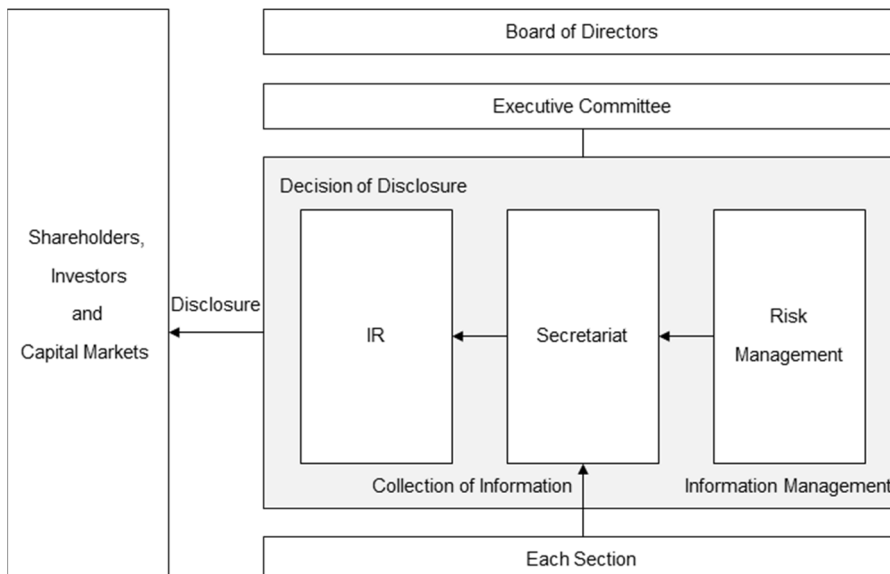
Information regarding material matters of the Group is, in principle, resolved at or reported to the Board of Directors or the Executive Committee. Information regarding material matters is gathered by the secretariat of each committee. The IR section determines the necessity of disclosure of information regarding material matters in cooperation with the secretariat of each committee, finance section, risk management section and other sections, and conducts timely and appropriate disclosure with the approval of the information disclosure officers (the CEO and the CFO). Information regarding material matters is managed centrally by the risk management section.



## Corporate Governance Structure



## Disclosure Structure



## Skill Matrix of Directors

Name	Notable Knowledge and Experiences						
	Management	Business Knowledge	International Experience	Legal & Risk Management	Accounting & Tax	IT	ESG
Natsuki Goto <sup>(1)</sup>	○	○	○	○	○	○	○
Masato Sugizaki <sup>(2)</sup>	○	○	○	○	○	○	○
Tomoki Matsubayashi <sup>(3)</sup>		○		○			○
Toyotaro Suzumura <sup>(4)</sup>			○			○	○
Nobuko Takagi <sup>(4)</sup>			○		○		○

Notes:

- (1) Representative Director and President (CEO)
- (2) Director
- (3) Lead Independent Outside Director (Chairperson of the Audit and Supervisory Committee)
- (4) Independent Outside Director (Member of the Audit and Supervisory Committee)