

TSE-Listed Companies White Paper on Corporate Governance 2019

Tokyo Stock Exchange, Inc.



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Tokyo Stock Exchange, Inc.

Introduction

From the perspective of ensuring shareholder protection on par with international standards so that both domestic and foreign investors can participate in the market with confidence as well as enhancing corporate governance based thereon by illustrating corporate governance initiatives of all Tokyo Stock Exchange (hereinafter, “TSE”) listed companies and progress therein, TSE has made a comprehensive analysis of the current state of their corporate governance based on data in reports on corporate governance disclosed by listed companies (hereinafter, the “CG Report”), and published the White Paper on Corporate Governance in every other year since 2007. This White Paper on Corporate Governance 2019 (hereinafter “this White Paper”) is the seventh publication in the series.

Up until now, TSE has taken various initiatives, such as urging listed companies to enhance corporate governance in 1999, formulating the Principles of Corporate Governance for Listed Companies in 2004, institutionalizing CG Reports in 2006, and introducing the independent directors/*kansayaku* system in 2009. In 2015, the Japan’s Corporate Governance Code (hereinafter “the Code”), which established fundamental principles for effective corporate governance at listed companies was formulated, and in June 2018, the Code was revised to further pursue corporate governance reform so that it is more substantial through engagement between companies and investors.

In the White Paper, analysis is conducted in consideration of recent progress in corporate governance reform related to Japanese companies. We hope that this White Paper will provide the stakeholders involved in these efforts with an overview of the state of corporate governance efforts by listed companies in Japan that undergo dramatic changes.

Finally, we would like to acknowledge the great assistance rendered by Daiwa Institute of Research Ltd. for the preparation of this White Paper.

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White Paper on Corporate Governance 2019

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Part I

Structure of this Document

The structure of this document can roughly be divided in “Part I” and “Part II”.

“Part I” introduces the capital structure, corporate attributes, etc. of TSE-listed companies subject to CG Report analysis, and then provides an overview of the status of the comply or explain approach under the Code.

The structure of “Part II” is similar to the chapter structure for the Code with five as follows: “1. Securing the Rights and Equal Treatment of Shareholders”, “2. Appropriate Cooperation with Stakeholders Other Than Shareholders”, “3. Ensuring Appropriate Information Disclosure and Transparency”, “4. Responsibilities of the Board”, and “5. Dialogue with Shareholders”, and contains an analysis of the details of disclosures by listed companies in the CG Reports.

Furthermore, the TSE and the Financial Services Agency (FSA) revised the Code in June 2018 to further pursue corporate governance reform so that it is more substantial, and the analysis in this White Paper is based on the revised Code.

Scope of Analysis

This time, as a general rule, we analyzed data from the CG Reports of domestic companies listed on TSE First Section, TSE Second Section, Mothers, and JASDAQ of TSE totaling 3,594 companies as of July 13, 2018 (excluding four companies listed from July 1, 2018 to July 13, 2018).

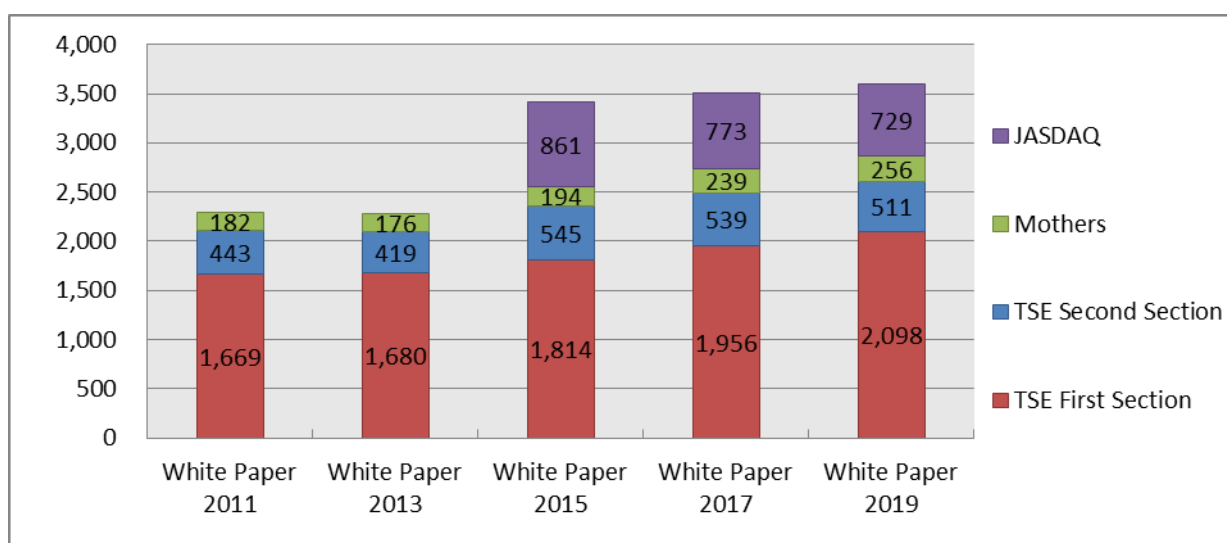
In addition, in consideration of the fact that the submission deadline for the CG Reports in reflection of the revised Code¹ was December 31, 2018, we analyzed the status of the comply or explain approach in response to the Code and the status of disclosures based on each principle for CG Report data submitted by 2,621 TSE First Section and TSE Second Section companies by December 31, 2018. We also analyze the status of committee establishment (Part2 Chapter 4, Section 11) for CG Report data submitted by TSE First Section, TSE Second Section, Mothers, and JASDAQ of TSE totaling 3,621 companies.

Furthermore, we also looked at data from the previous surveys, and referred to changes in numbers, where appropriate².

¹Under this revision of the Code, six principles and eight supplementary principles were established or revised, and TSE First Section and TSE Second Section companies have updated the fields for “Reasons for not implementing each of the principles of the Code” and “Disclosures based on each of the principles of the Code” in the CG Report based on the principles after the revision.

² In the charts in this White Paper, “changes from the previous survey” refers to the comparison with data of the previous White Paper (as of July 14, 2016). Some charts also include earlier data for the time-series comparison purpose. As for the time-series comparison with 2006, 2008, 2010, 2012, 2014, and 2016, the data used was as of October 31, 2006, August 21, 2008, September 10, 2010, September 10, 2012, July 14, 2014, and July 14, 2016, respectively. We use “point” (percentage point) for comparisons between percentages.

Chart 1 Change in the Number of Companies in Scope of Analysis for the TSE-Listed Companies White Paper on Corporate Governance



White Paper Vol. (as of)	White Paper 2007 31-Oct-07	White Paper 2009 21-Aug-08	White Paper 2011 10-Sep-10	White Paper 2013 10-Sep-12	White Paper 2015 14-Jul-14	White Paper 2017 14-Jul-16	White Paper 2019 2016/7/14*
TSE First Section	1,687	1,717	1,669	1,680	1,814	1,956	2,098
TSE Second Section	495	466	443	419	545	539	511
Mothers	174	195	182	176	194	239	256
JASDAQ					861	773	729
Total	2,356	2,378	2,294	2,275	3,414	3,507	3,594

(*) Excluding four companies listed from July 1, 2018 to July 13, 2018

Methodology for Analysis

Since July 7, 2008, upon submission of the CG Reports to TSE, XBRL files are automatically generated. TSE used data in XBRL files for numerical data classification and aggregation for this analysis as well³. To analyze the overall trends of topics in free-text description sections, TSE defined several keywords, as appropriate, and aggregated the number of responses containing such keywords in the descriptions. Furthermore, for disclosures based on each of the principles in the Code, typical and characteristic examples of such descriptions are also introduced in this White Paper.

³ As numerical data is rounded, aggregate percentages in some charts may not be 100%, or aggregate figures in charts may not be equal to figures in texts.

1. Corporate attributes⁴

1-1. Market division

The numbers of TSE-listed companies by market division are as follows: 2,098 companies listed on TSE First Section, 511 companies on TSE Second Section, 256 companies on Mothers, and 729 companies on JASDAQ (Chart 2). Note that there are 318 companies (8.8%) that are cross-listed on other exchanges in Japan.

Chart 2 Number of Listed Companies (by Market Division)

Market	Number of companies		Ratio
		Change from 2017	
Total	3,594	87	100.0%
JPX-Nikkei 400	399	-	11.1%
TSE First Section	2,098	142	58.4%
TSE Second Section	511	▲ 28	14.2%
Mothers	256	17	7.1%
JASDAQ	729	▲ 44	20.3%

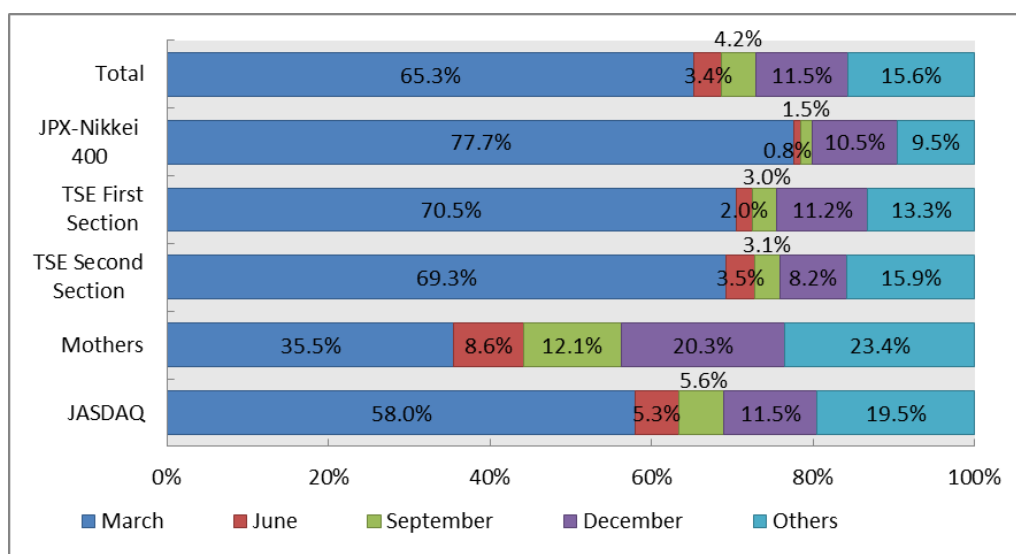
1-2. Fiscal year-end

Chart 3 shows when a fiscal year of TSE-listed companies ends. The percentage was highest for companies with a fiscal year that ends in March, at 65.3%. As the percentage of companies with a fiscal year that ends in March was 76.4% in 2006, it has decreased by 11.1 points over a period of 12 years. If you look at each market division in terms of a percentage share of companies with a fiscal year ending in March, the share is large in TSE First Section (70.5%) and TSE Second Section (69.3%), while that of Mothers and JASDAQ is only 35.5% and 58.0% respectively, indicating dispersed fiscal years ending in December or September.

⁴ In the CG Report, companies are, in principle, required to report the status as of the end of the most recent fiscal year.

Note that because statement of market capitalization is not required in the CG Report, the market capitalization as of July 13 has been separately aggregated.

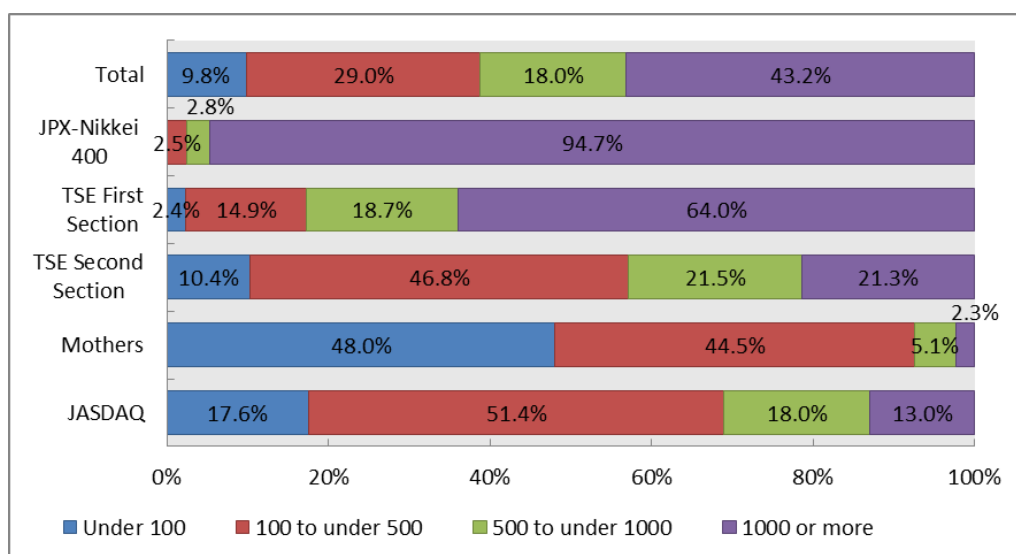
Chart 3 Fiscal Year End (by Market Division)



1-3. Number of employees (Consolidated)

The distribution of the size of TSE-listed companies in terms of the number of employees (consolidated)⁵ is as shown in Chart 4. Companies with 1,000 or more employees (consolidated) accounted for 43.2% of the total. Looking at the result by market division, as the companies with 1,000 or more employees (consolidated) accounted for 64.0% of TSE First Section, this reflects the larger size of companies in this division than other markets.

Chart 4 Number of Employees (Consolidated) (by Market Division)

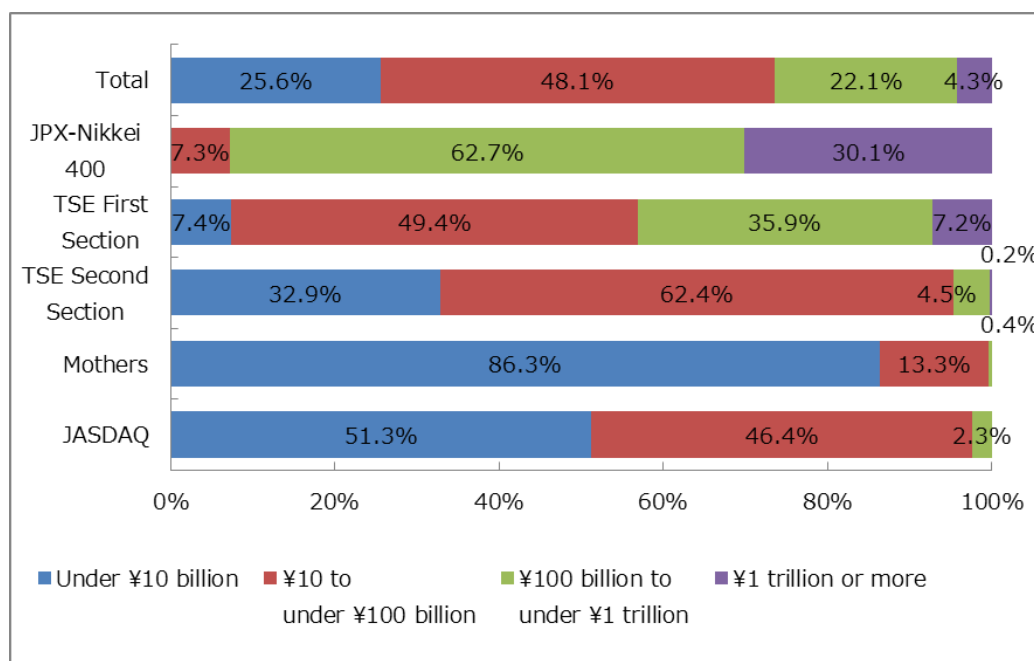


⁵ In the case of companies which do not prepare consolidated financial statements, we used unconsolidated numbers of employees.

1-4. Consolidated Sales

The distribution of the size of TSE-listed companies in terms of consolidated sales is as shown in Chart 5. Companies with 10 billion yen to less than 100 billion yen in consolidated sales accounted for the largest share of 48.1%. Looking at the results by market division, the percentage of companies with high consolidated sales tends to be higher in the order of TSE First Section, TSE Second Section, JASDAQ, and Mothers. As for JPX-Nikkei Index 400 (below, “JPX-Nikkei 400”) companies, companies with 100 billion yen or more in consolidated sales made up 92.8%, including those with 1 trillion or more which accounted for 30.1%.

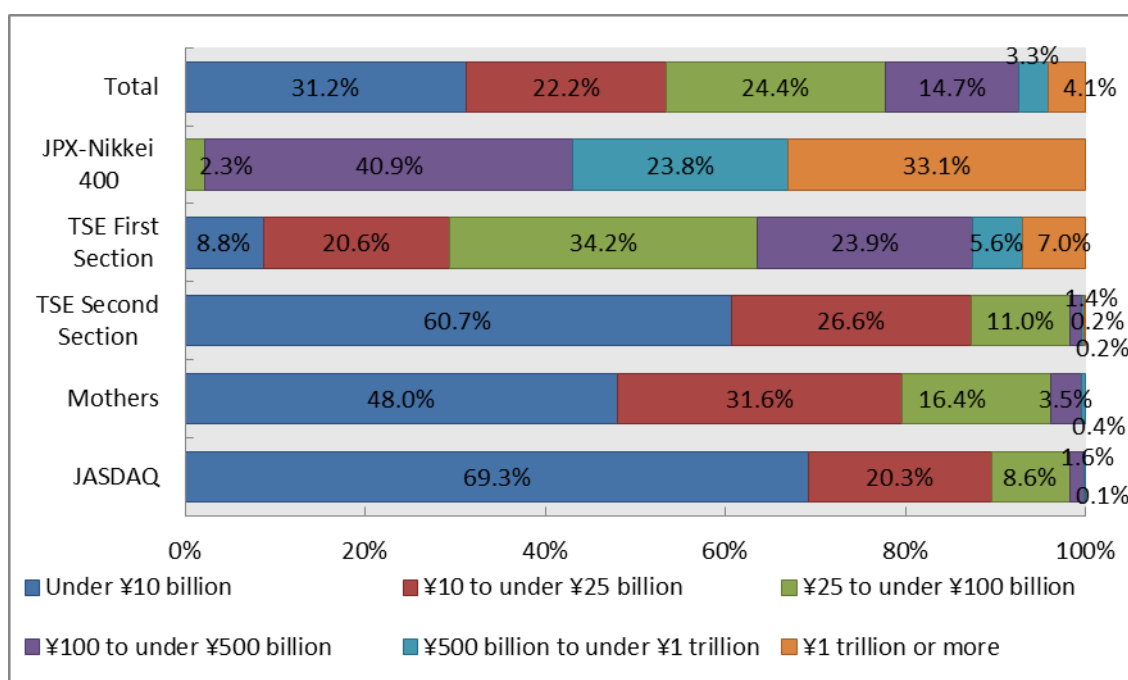
Chart 5 Consolidated Sales (by Market Division)



1-5. Market capitalization

The market capitalization of TSE-listed companies is as shown in Chart 6. Looking at the results by market division, the percentage of companies with a high market capitalization is high for TSE First Section, and there is a tendency for many companies with a small market capitalization of less than 10 billion yen to be listed on TSE Second Section, JASDAQ, and Mothers. Among JPX-Nikkei 400 companies, companies with a market capitalization of 100 billion yen or more made up the majority at 97.7%, including those with 1 trillion or more which accounted for 33.1%.

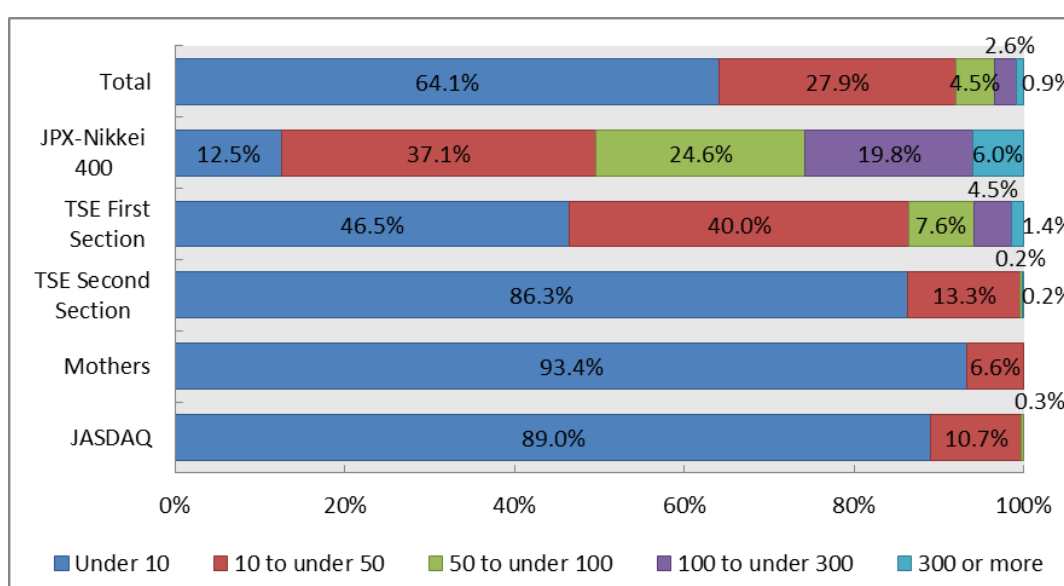
Chart 6 Market Capitalization (by Market Division)



1-6. Number of consolidated subsidiaries

The numbers of consolidated subsidiaries of TSE-listed companies are as shown in Chart 7. Companies with less than 10 consolidated subsidiaries accounted for 64.1%, which was the most common response. Looking at the results by market division, the percentage of companies with 10 or more consolidated subsidiaries tends to be higher in the order of TSE First Section, TSE Second Section, JASDAQ, and Mothers. As for JPX-Nikkei 400 companies, companies with 10 or more consolidated subsidiaries made up 87.5%.

Chart 7 Number of Consolidated Subsidiaries (by Market Division)



1-7. Foreign shareholding ratio

Chart 8 shows foreign shareholding ratios among TSE-listed companies by market division. Looking at the results by market division, the percentage share of companies with a higher foreign shareholding ratio is greater among those listed on TSE First Section, compared to other market divisions. Specifically, companies with 30% or more foreign shareholding constitute 15.6% of companies listed on TSE First Section, 3.1% of TSE Second Section companies, 3.5% of Mothers companies, and 2.9% of JASDAQ companies. Among JPX-Nikkei 400 companies, the category of 30% or more foreign shareholding is the largest, accounting for 46.1%, while the category of less than 10% foreign shareholding made up only 3.3%.

As for the relation with consolidated sales as shown in Chart 9, the larger the consolidated sales are, the higher percentage share is accounted for by companies with higher foreign shareholding ratio.

Chart 8 Foreign Shareholding Ratio (by Market Division)

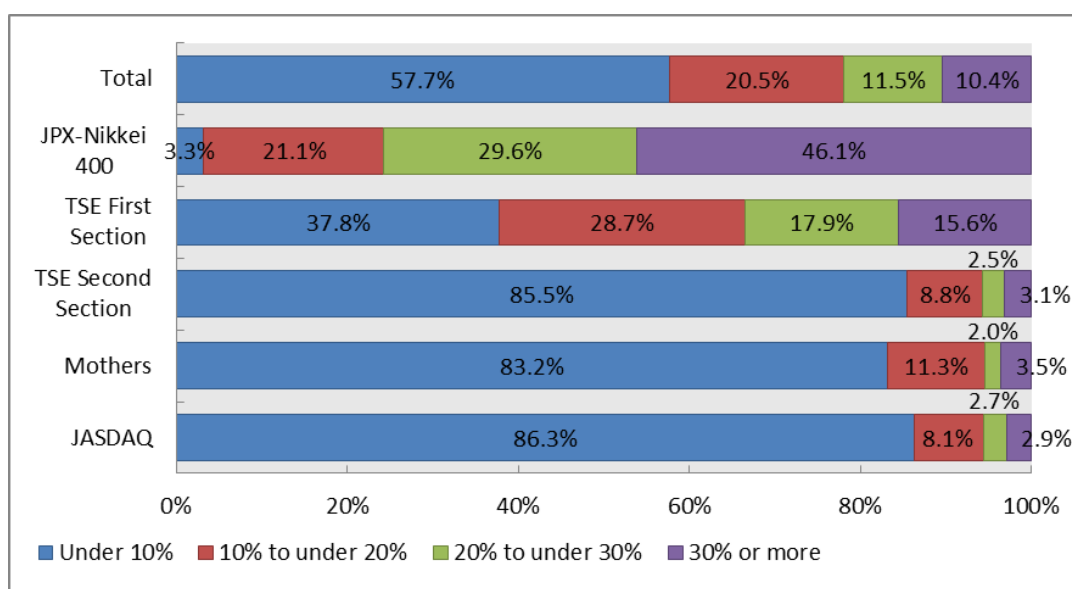
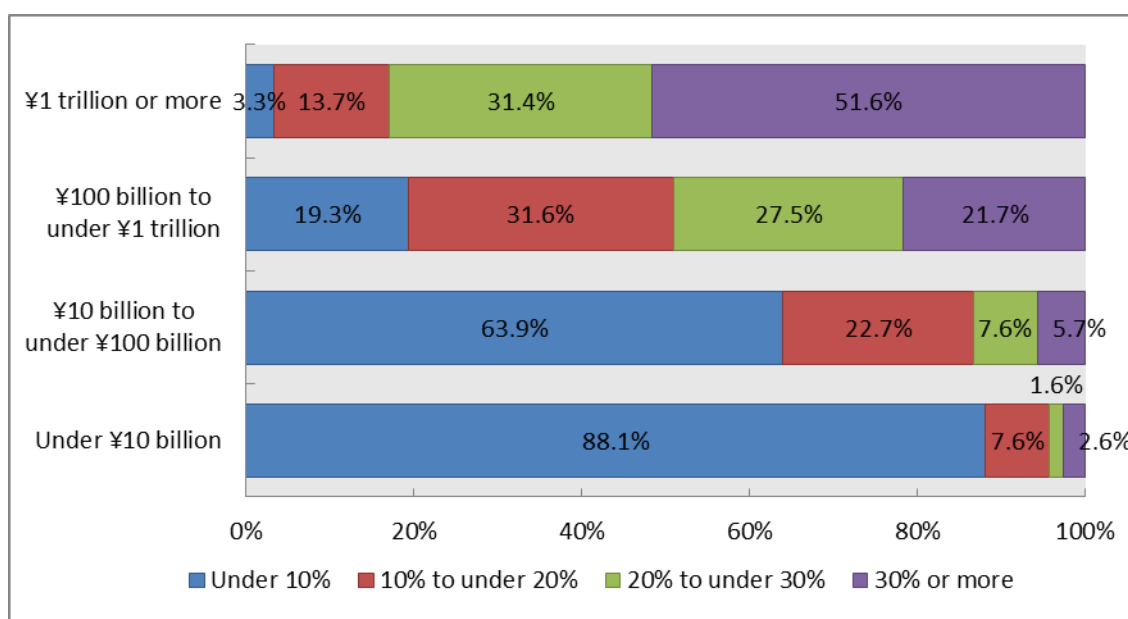


Chart 9 Foreign Shareholding Ratio (by Consolidated Sales)



1-8. Major shareholders⁶

As for information on major shareholders, the CG Report requires companies to provide the names of the top ten shareholders, the number of shares held, and the shareholding ratio. Among major shareholders, Chart 10 shows shareholding ratios of the largest shareholder of TSE-listed companies. The shareholding ratios of the largest shareholder tend to get higher in the order of Mothers, JASDAQ, TSE Second Section, and TSE First Section. Among JPX-Nikkei 400 companies, there are more companies with low shareholding ratios of the largest shareholder than in TSE First Section. As for the relation with the consolidated sales as shown in Chart 11, the larger consolidated sales are, the lower shareholding ratios of the largest shareholder are. This indicates that there is a high degree of dispersion of shareholders among companies in TSE First Section and companies with high sales.

⁶ The CG Report requires companies to provide this information according to their shareholder registry, similarly to the “major shareholders” section in the annual securities report.

Chart 10 Shareholding Ratio of the Largest Shareholder (by Market Division)

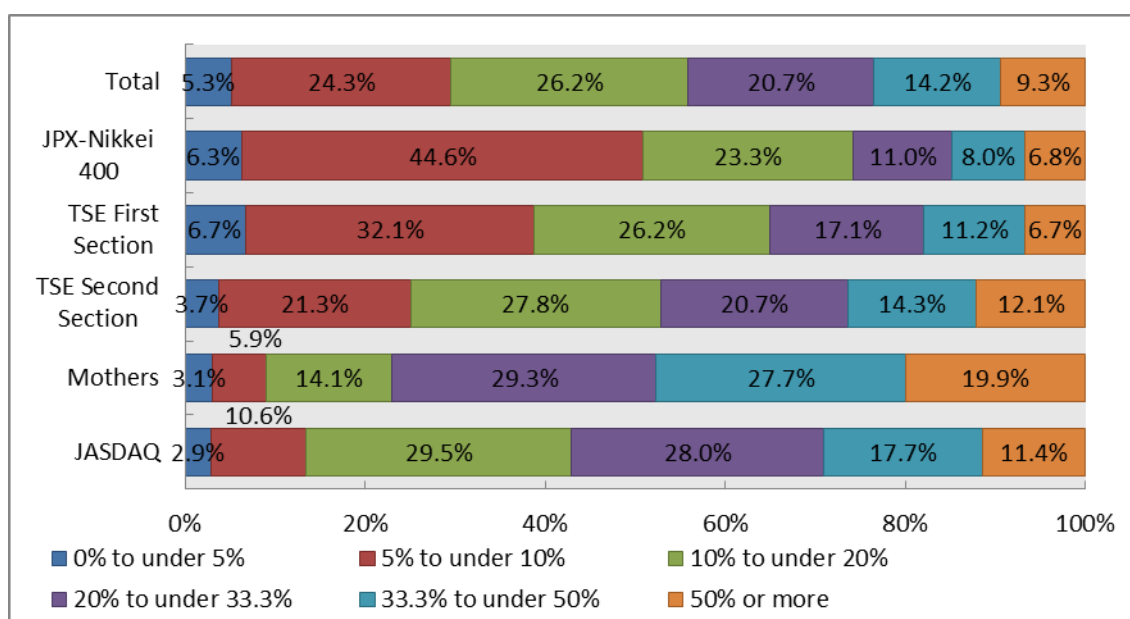
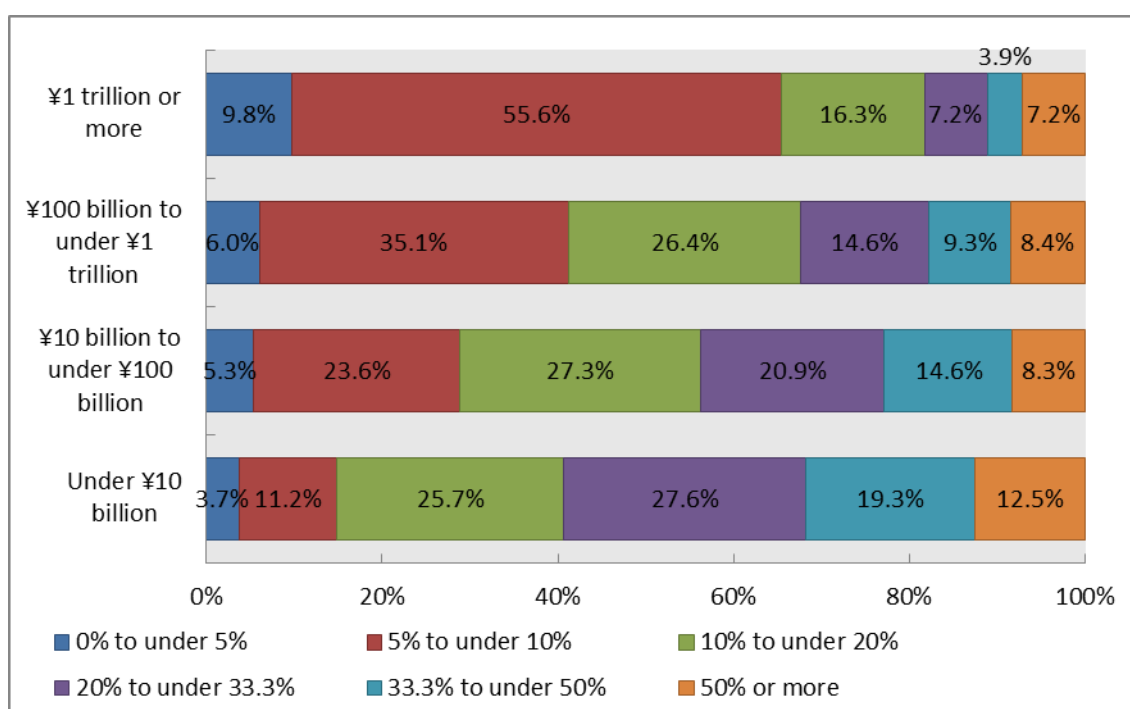


Chart 11 Shareholding Ratio of the Largest Shareholder (by Consolidated Sales)



1-9. Existence of controlling shareholder /parent company

Companies are required to state in their CG Reports whether or not they have any controlling shareholder⁷, and whether or not they have a parent company⁸. A controlling shareholder is a concept which includes a (1)

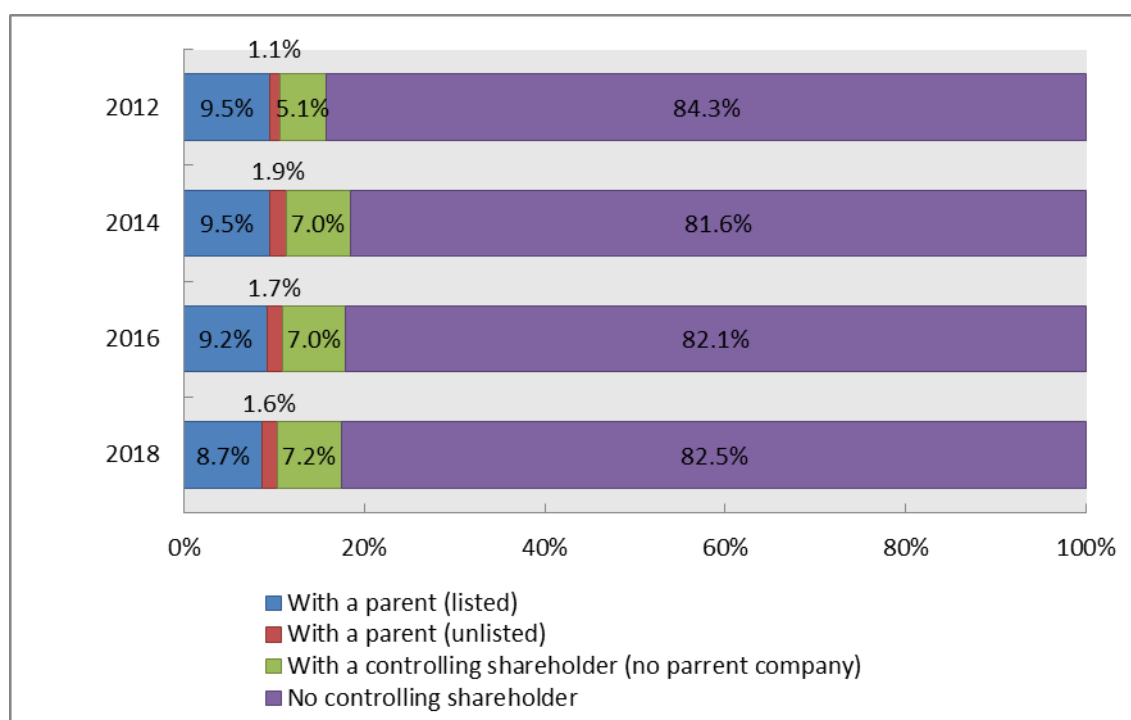
⁷Rule 2, (42)-2 of Securities Listing Regulations, and Rule 3-2 of Enforcement Rules for Securities Listing Regulations

⁸ It refers to a parent company defined in Article 8, Paragraph 3 of the Regulation for Terminology, Forms and Preparation of Financial Statements.

parent company and a (2) major shareholder⁹ who holds the majority of voting rights of a listed company after combining the voting rights held for its own account and the voting rights held by a close relative, a company whose majority of voting rights are held by the major shareholder, etc. Among TSE-listed companies, 629 companies have controlling shareholders, accounting for 17.5% of all listed companies. Out of them, 372 (10.4% of all listed companies) have parent companies, and 257 (7.2% of all) have controlling shareholders other than a parent company.¹⁰ 313 (84.1%) of companies with parent companies (8.7% of all) have listed parent companies (Chart 12).

In terms of market division, 17.0% of TSE Second Section companies and 13.9% of JASDAQ companies have parent companies. The percentage of companies that have controlling shareholders other than a parent company is high for Mothers (26.2%) and JASDAQ (10.2%) companies (Chart 13). It is believed that this is due to the fact that in many cases individuals such as founders are the controlling shareholders for Mothers and JASDAQ companies. While the percentage of all listed companies with a controlling shareholder increased slightly with the addition of JASDAQ when TSE and Osaka Securities Exchange merged in 2013, it has decreased slightly since then (Chart 12).

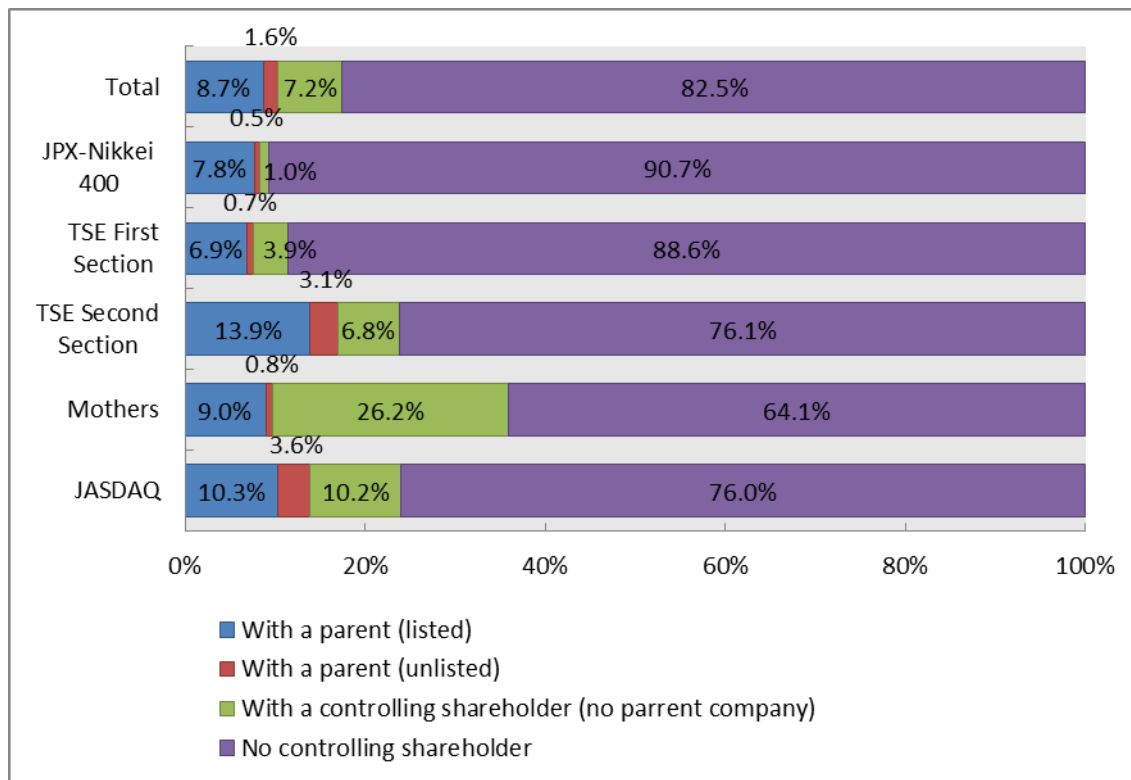
Chart 12 Existence of Controlling Shareholder /Parent Company



⁹ Article 163, Paragraph 1 of the Financial Instruments and Exchange Act

¹⁰ Controlling shareholders other than parent companies are generally individuals such as owners.

Chart 13 Existence of Controlling Shareholder /Parent Company (by Market Division)



2. How listed companies have addressed the Corporate Governance Code

The Code¹¹ established principles for contributing to the achievement of effective corporate governance, and it is composed of a total of 78 principles, consisting of 5 General Principles, 31 Principles, and 42 Supplementary Principles. It adopts a “comply or explain” approach (either comply with a principle or, if not, explain the reasons why not to do so). In other words, the Code assumes that if a company finds specific principles (General Principles, Principles, and Supplementary Principles) inappropriate to comply with in view of their individual circumstances, they need not be complied with, provided that the company explains fully the reasons why it does not comply. Companies listed on TSE First Section and TSE Second Section have an obligation to disclose the status of the comply or explain approach for all 78 principles in the CG Report under listing regulations.

In June 2018, the Code was revised to further pursue corporate governance reform so that it is more substantial. One principle and four supplementary principles were added, and five principles and four supplementary principles were revised. As of December 31, 2018 after a round of listed companies have submitted CG Reports in response to the revised Code, TSE has totaled the status of response to the revised code by 2,621 companies listed on TSE First Section and TSE Second Section. Chart 14 shows the response to the revised Code by TSE First Section and TSE Second Section companies. For TSE First Section and TSE Second Section overall, 15.0% of companies have complied with all 78 principles. Considering that 25.9% of companies had complied with all 73 principles as of July 2017 before the Code was revised, the percentage of companies complying with all principles has decreased significantly. One of the reasons behind this is that companies are switching over to “explain” rather than “comply” as they had done in the past because a higher level of effort is required for some principles that have been established or revised.

In terms of market division, of the 2,128 TSE First Section companies, 18.1% of companies comply with all principles, and 67.3% of companies comply with at least 90% of all principles. On the other hand, of the 493 TSE Second Section companies, 1.2% of companies comply with all principles, and 60.2% of companies comply with at least 90% of all principles, which indicates that TSE First Section companies tend to comply with more principles than TSE Second Section companies. Among JPX-Nikkei 400 companies, the percentage of companies complying with all principles is 43.9%, which is significantly higher than TSE First Section and TSE Second Section total.

The results by market capitalization are as shown in Chart 15, and the general trend is that the larger companies comply with more principles.

In terms of the results by industry, the ratio of companies that complied with all principles was highest for banking (45.8%), followed by insurance (44.4%), petroleum and coal products (33.3%), and pharmaceuticals (29.3%)(Chart 16).

In terms of the compliance rate for principles that were established or revised under the recent Code revision, when comparing with July 2017 before the Code revision, the compliance rate has declined for principles such as Supplementary Principle 4.1.3 (Succession plan), Supplementary Principle 4.10.1 (Optional nomination and remuneration committee, etc.), and Principle 4.11 (Diversity of the board) as shown in Chart 17. The

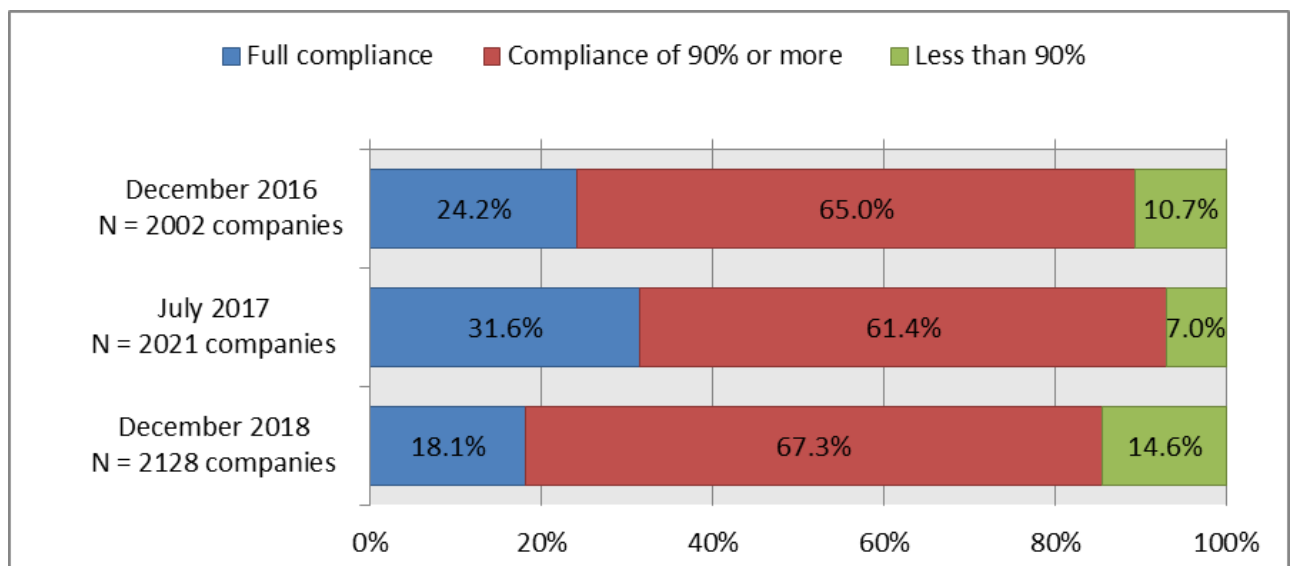
¹¹ Refer to the Japan Exchange Group website for the full text of the Code. <https://www.jpx.co.jp/equities/listing/cg/>

principles that were recently established or revised mainly consist of areas where there were gaps in the levels of activities believed to be necessary between listed companies and investors in the past, and it can be inferred that there is some degree of listed companies that need time to consider how to respond to the additional efforts that will be required as a result of the revision. For example, for Supplementary Principle 4.10.1, the establishment of an optional nomination or remuneration committee was one example of the means to seek the appropriate involvement and advice from independent directors in the past, and even companies without an optional nomination or remuneration committee would be able to “comply” by seeking the appropriate involvement and advice from independent directors. However, with the revision of the Code, companies that have not established an independent advisory committee such as a nomination or remuneration committee are required to explain why. For Principle 4.11, because “gender and international experience” are clearly stated in regards to the diversity of the board, there are many companies without women or people with international experience on the board that have shifted from “comply” to “explain”.

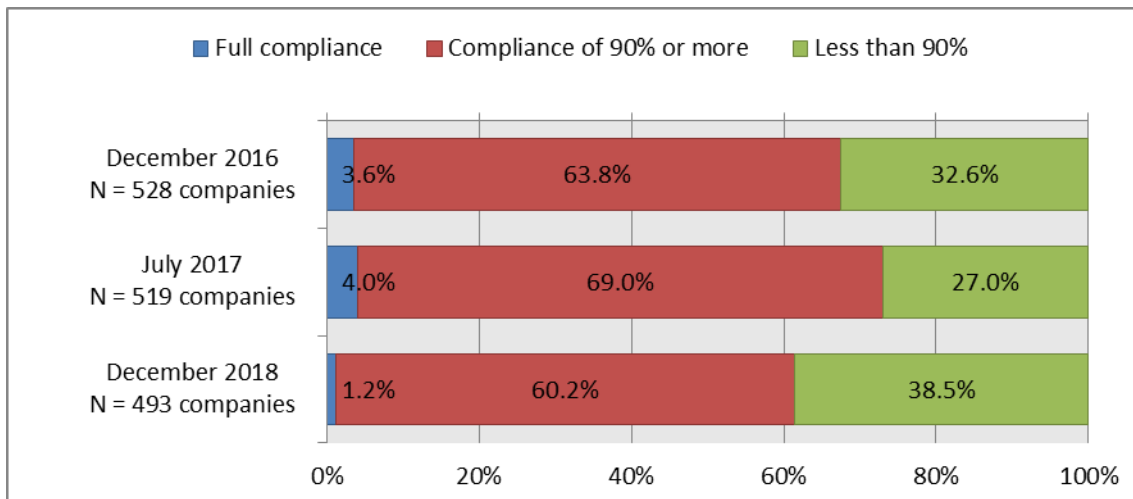
Considering that the purpose of the establishment of the Code is to support active management decisions that contribute to sustainable growth and medium to long-term improvements in corporate value by listed companies through constructive engagement with institutional investors, it is only natural that careful consideration and high-quality “explanations” in light of the individual circumstances of listed companies are preferable to simply formal “compliance”. Particularly for principles that were established or revised through the recent Code revision, it is hoped that listed companies deeply consider their response.

Chart 14 Code Compliance by Company (by Market Division)

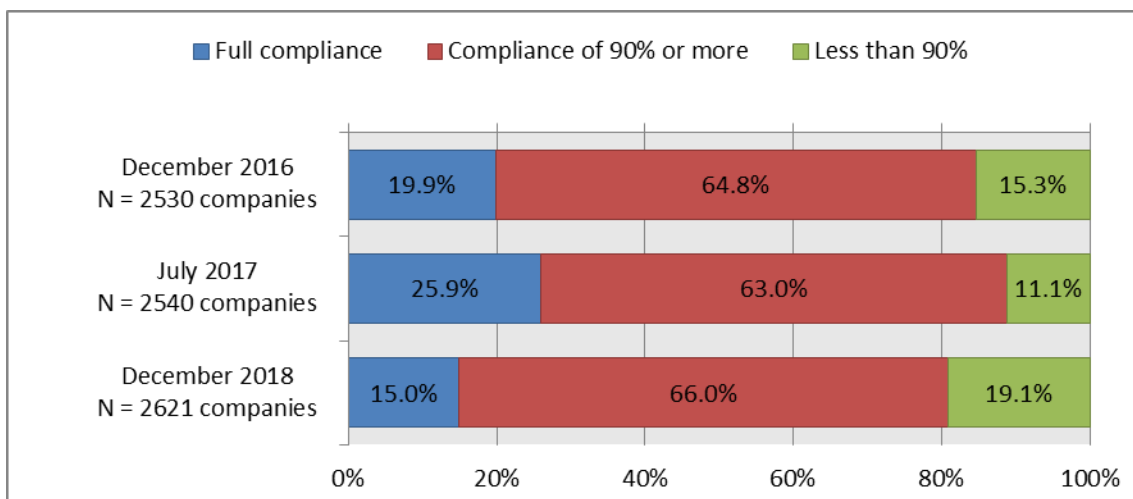
■ TSE First Section



■ TSE Second Section



■ Total of TSE First Section and TSE 2nd Section



■ JPX-Nikkei 400

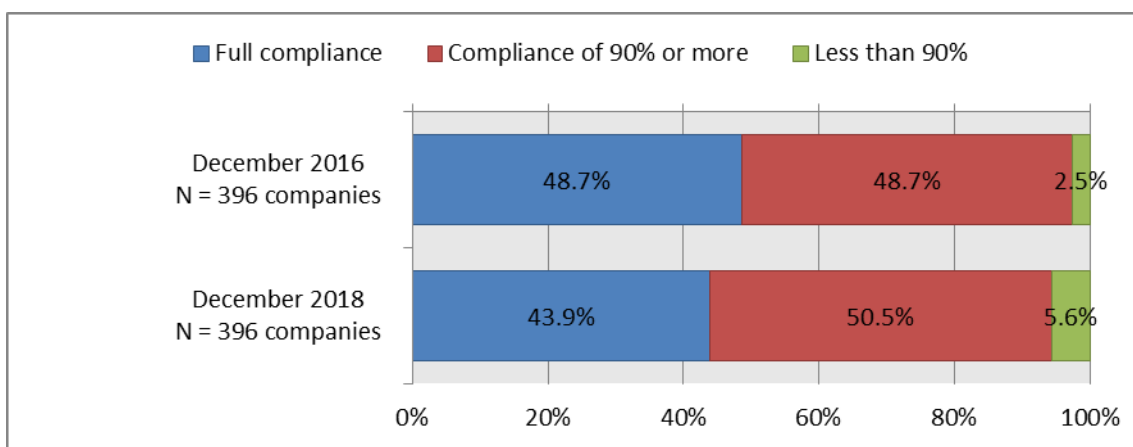


Chart 15 Code Compliance by Company (by Market Capitalization)

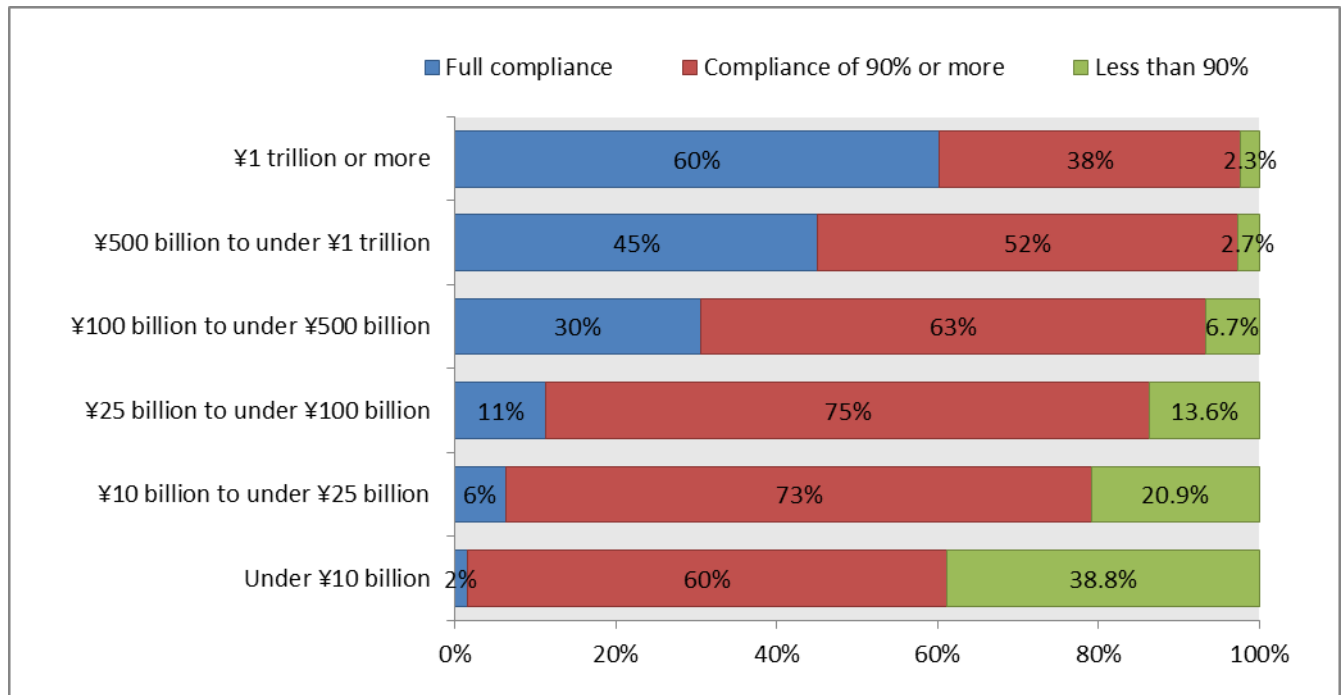


Chart 16 Code Compliance by Company (by Market Industry)

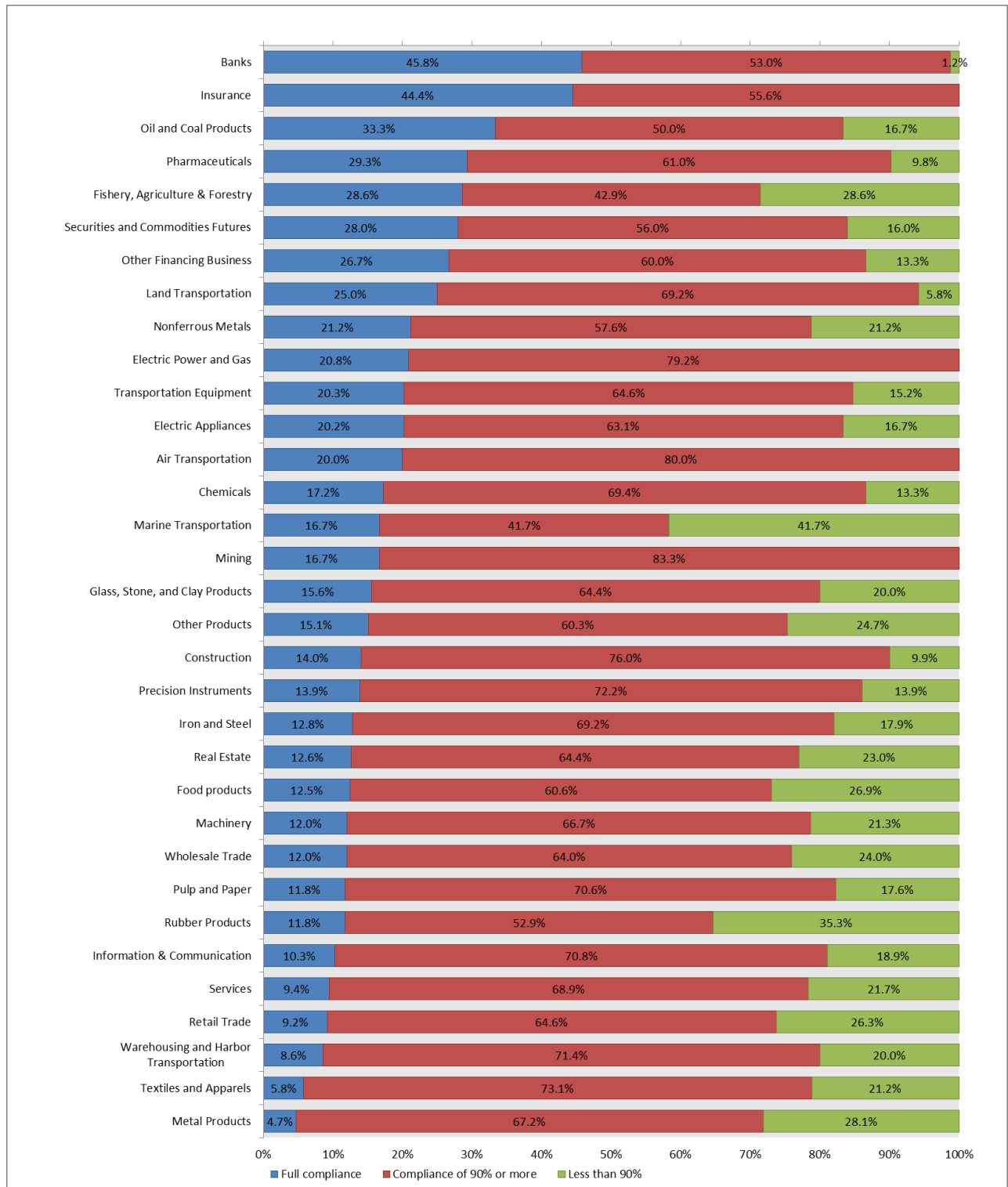


Chart 17 Code Compliance for Revised or Newly Established Principles by Company and Comparison to the Previous Year (by Market Division)

Principle	Summary of newly established and revised principles	Compliance rate (Comparison to July 2017)		
		TSE First Section	TSE Second Section	Total
Principle 1.4	Disclosure of policies and approaches regarding the reduction of cross-shareholdings, assessment of whether or not to hold individual cross-shareholdings and disclosure of this assessment, establishment and disclosure of specific standards on voting rights	86.5% (-10.7pt)	82.8% (-12.6pt)	85.8% (-11.0pt)
Supplementary Principle 1.4.1	Prohibition of hindering sales of cross-held shares through means such as implying a possible reduction of business transactions	99.4% (Newly established)	99.8% (Newly established)	99.5% (Newly established)
Supplementary Principle 1.4.2	Ensuring the economic rationale of transactions with cross-shareholders	99.7% (Newly established)	99.6% (Newly established)	99.7% (Newly established)
Principle 2.6	Support and management of conflicts of interest by sponsor companies to ensure that corporate pension funds perform their roles as asset owners	95.5% (Newly established)	93.5% (Newly established)	95.1% (Newly established)
Principle 3.1	Disclosure of the policies and procedures for the dismissal of the senior management and explanations with respect to the individual dismissals	92.7% (-1.5pt)	86.0% (+0.5pt)	91.5% (-0.9pt)
Supplementary Principle 3.1.1	Documentation including disclosures in compliance with relevant laws and regulations	99.6% (-0.3pt)	99.4% (-0.4pt)	99.5% (-0.3pt)
Supplementary Principle 4.1.3	Involvement in the establishment and implementation of a succession plan for the CEO and other top executives and oversight on the systematic development of succession candidates	70.4% (-17.3pt)	60.6% (-21.4pt)	68.6% (-18.0pt)
Supplementary Principle 4.2.1	Design of remuneration system in accordance with objective and transparent procedures for the remuneration of management and determining actual remuneration amounts	69.9% (-5.1pt)	48.9% (-5.6pt)	66.0% (-4.9pt)
Supplementary Principle 4.3.2	Appointment of the CEO in accordance with objective, timely, and transparent procedures	84.2% (Newly established)	78.7% (Newly established)	83.2% (Newly established)
Supplementary Principle 4.3.3	Establishment of objective, timely, and transparent procedures for the dismissal of the CEO when it is determined that the CEO is not adequately fulfilling the CEO's responsibilities	86.4% (Newly established)	83.6% (Newly established)	85.8% (Newly established)

Principle 4.8	Appointment of a sufficient number of independent directors at companies that believe they need to appoint at least one-third of directors as independent directors	91.4% (+2.1pt)	69.4% (+1.9pt)	87.2% (+2.5pt)
Supplementary Principle 4.10.1	Establishment of independent advisory committees such as an optional nomination committee or remuneration committee to which independent directors make significant contributions	52.1% (-27.2pt)	31.8% (-34.6pt)	48.3% (-28.4pt)
Principle 4.11	Constitution of board that achieves both diversity, including gender and international experience, and appropriate size, and the appointment of persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law as <i>kansayaku</i>	69.9% (-27.0pt)	64.5% (-30.3pt)	68.9% (-27.6pt)
Principle 5.2	Accurate identification of cost of capital and review of business portfolio	82.7% (-10.4pt)	67.1% (-14.4pt)	79.8% (-10.9pt)

Part II

1. Securing the rights and equal treatment of shareholders

Chapter 1 of the Code requires listed companies to secure effectively the rights and equal treatment of shareholders based on the recognition that shareholders are the cornerstone of the diverse stakeholders of listed companies and an important starting point of corporate governance.

[General Principle 1]

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.

In addition, companies should secure effective equal treatment of shareholders.

Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

TSE has requested listed companies to create an environment to facilitate the exercise of shareholders' voting rights in order to achieve effective corporate governance by securing shareholder rights and equal treatment of shareholders, through early notification of general shareholders meetings, scheduling of the meetings avoiding the peak day, exercise of voting rights by electronic means, the use of electronic voting platforms for institutional investors, and the English translation of convening notices^{12 13}.

This chapter will look at the state of these efforts, and conduct an analysis of the status of response to each of the principles in Chapter 1 of the Code. In particular, an analysis will be conducted on the contents of disclosures of cross-shareholdings and related party transactions which listed companies are required to disclose under the Code.

1-1. Early dispatch of convening notice

2,493 of companies (69.4% of all listed companies) state that they dispatch convening notices for general shareholders meetings earlier¹⁴, of which, 548 companies (15.2%) stated approximately 3 weeks prior to the general shareholders meeting, and 40 companies (1.1%) stated about 4 weeks in advance.

In terms of the results by market division, companies providing early notification accounted for 80.2% of companies listed on TSE First Section, showing a higher ratio compared with TSE Second Section (62.8%), Mothers (79.3%), and JASDAQ (39.4%) (Chart 18). As for JPX-Nikkei 400 companies, 89.7% of them dispatch the notices well in advance. This is 9.5 points higher than that of TSE First Section. In addition, as shown in Chart 19, companies with higher consolidated sales are more likely to provide early notification, and

¹² TSE "Request for Creating Environment to Facilitate Shareholders' Exercise of Voting Rights at General Shareholder Meetings" TSE Jo/Sa (listing company support) No. 255 (March 18, 2003).

¹³ Rule 446 of Securities Listing Regulations, and Rule 437 of Enforcement Rules for Securities Listing Regulations.

¹⁴ In the CG Report, "early notification" is defined as the cases where companies dispatched convening notices of the most recent ordinary general meeting of shareholders 3 or more business days earlier than the statutory notification deadline.

the larger the company, the more likely it is to send out convening notices early. Another notable feature is, as shown in Chart 20, that companies with higher foreign shareholding ratios are more likely to provide early notification.

Chart 18 Efforts for Encouraging Shareholders' Participation in General Meetings (by Market Division)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform for institutional investors	Preparation of convening notice, etc. in English
Total	69.4%	38.6%	40.8%	31.4%	35.4%
JPX-Nikkei 400	89.7%	54.1%	88.5%	85.0%	90.2%
TSE First Section	80.2%	44.7%	54.4%	45.3%	50.5%
TSE Second Section	62.8%	31.7%	15.9%	7.4%	11.2%
Mothers	79.3%	30.5%	60.2%	43.4%	43.8%
JASDAQ	39.4%	28.9%	12.1%	4.3%	5.8%

Chart 19 Efforts for Encouraging Shareholders' Participation in General Meetings (by Consolidated Sales)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform for institutional investors	Preparation of convening notice, etc. in English
Under ¥10 billion	58.2%	26.8%	30.7%	18.0%	18.8%
¥10 billion to under ¥100 billion	66.7%	39.3%	27.7%	18.9%	24.7%
¥100 billion to under ¥1 trillion	83.2%	45.8%	69.9%	61.8%	65.7%
¥1 trillion or more	94.8%	64.7%	97.4%	96.1%	97.4%
Total	69.4%	38.6%	40.8%	31.4%	35.4%

Chart 20 Efforts for Encouraging Shareholders' Participation in General Meetings (by Foreign Shareholding Ratio)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform for institutional investors	Preparation of convening notice, etc. in English
Less than 10%	62.0%	33.1%	25.0%	14.1%	15.7%
10% to under 20%	76.9%	45.9%	49.7%	40.1%	48.2%
20% to under 30%	78.5%	45.0%	68.0%	61.7%	69.5%
30% or more	85.5%	48.0%	80.7%	77.2%	81.5%
Total	69.4%	38.6%	40.8%	31.4%	35.4%

The compliance rate¹⁵ with Supplementary Principle 1.2.2 that prescribes the early dispatch of the

¹⁵ The Code adopts an approach of “comply or explain” (either comply with a principle or, if not, explain the reasons why not to

convening notice and digital disclosure (TDnet and websites) in advance of sending the convening notice for the purpose of ensuring sufficient time for consideration of the agenda for general shareholders meetings was 97.9% as of December 31, 2018.¹⁶

1-2. Avoidance of peak day

Companies with a fiscal year ending in March accounted for 65.3% of all TSE-listed companies (Chart 3), still showing a high ratio. Partly because shareholders' rights may be exercised only within 3 months from the record date¹⁷, most companies hold their annual general shareholders meetings around the end of June. During the fiscal year ended March 31, 2018, 30.9% (725 companies) held their annual general shareholders meetings on a peak day¹⁸¹⁹. Because the concentration of the holding date makes it difficult for shareholders holding multiple stocks to attend, TSE has requested efforts to diversify the dates of annual general meetings²⁰. Recently, some listed companies have set a date differing from the fiscal year end as the record date of the general shareholders meeting and have also set the schedule for the general shareholders meeting more flexibly, and it is hoped that such efforts to avoid the peak day also spread among companies with a fiscal year ending in March going forward²¹.

In the CG Report, out of all companies with a fiscal year ending in March, 38.6% scheduled such meetings on days other than the peak day (Chart 18). In terms of supplementary explanations, many companies mentioned the “establishment of an environment that makes it possible for as many shareholders as possible to attend” (324 companies, 13.8% of companies with a fiscal year ending in March). For example, there were also descriptions on holding general shareholders meetings on Saturdays or Sundays for shareholders' convenience, and in relation to venues, there were descriptions on consideration to the convenience of access, such as the distance from stations.

Looking at companies with a fiscal year ending in March by market division, companies avoiding the peak day accounted for 44.7% in TSE First Section, showing a higher ratio than those of TSE Second Section (31.7%), Mothers (30.5%), and JASDAQ (28.9%) (Chart 18). As for JPX-Nikkei 400 companies, 54.1% avoided the peak day. This is 9.4 points higher than TSE First Section. In addition, looking at the relation with consolidated sales, the higher the sales, the more likely the companies are to avoid the peak day (Chart 19). Looking at the relation with foreign shareholding ratios, the higher the ratio, the more likely the companies are to avoid the peak day (Chart 20). Note that the compliance rate with Supplementary Principle 1.2.3 that

do so). The “compliance rate” is the percentage of companies that have complied with each principle among the companies in the scope of calculation. The same applies below.

¹⁶ Calculated based on a population of 2,621 First Section and Second Section companies that had made disclosures up to December 31, 2018. Hereinafter, the same applies for the compliance rate for each principle of the Code unless noted otherwise.

¹⁷ Article 124, Paragraph 2 of the Companies Act.

¹⁸ “Peak day” refers to the date when an extremely large number of listed companies held their annual general meetings (usually the highest peak day), based on the dates of the most recent annual general meetings.

¹⁹ Information on general shareholders meetings for companies with a fiscal year ending in March on the JPX website (<https://www.jpx.co.jp/listing/event-schedules/shareholders-mtg/01.html>)

²⁰ Rule 446 of Securities Listing Regulations, and Rule 437-1 of Enforcement Rules for Securities Listing Regulations

²¹ In light of the recommendation in the Report by the Working Group on Corporate Disclosure of the Financial System Council released in April 2016, the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc. and the Ordinance for Enforcement of the Companies Act have been partially revised, and an institutional environment is being developed in an aim for greater flexibility in the schedule for general shareholders meetings, including the change in the timing of the description of major shareholders in the securities report and matters on the top ten shareholders in the business report from the end of the fiscal year to the base date for exercising voting rights as a general rule.

prescribes the appropriate determination of the schedule of the general shareholders meeting was 98.7%.

1-3. Exercise of voting rights by electronic means

The exercise of voting rights by electronic means is made available by the stipulation of the board that shareholders not able to attend the general shareholders meeting may exercise their voting rights by electronic means²². Companies which have established infrastructure for the exercise of voting rights by electronic means account for 40.8% of all listed companies. Although this is an increase from 33.1% in the last survey, such infrastructure has not been fully instilled. Yet it can also be interpreted that development efforts are gradually going ahead led by large companies as mentioned below.

In analysis by market division, companies adopting the exercise of voting rights by electronic means accounted for 60.2% of Mothers and 54.4% of TSE First Section companies, which was high compared with TSE Second Section (15.9%) and JASDAQ (12.1%) companies (Chart 18). In case of JPX-Nikkei 400 companies, 88.5% adopted electronic voting rights exercise, marking a much higher ratio than that of TSE First Section (54.4%). Companies with higher consolidated sales (meaning larger companies) show a higher ratio of adopting electronic voting (Chart 19). Furthermore, companies with higher foreign shareholding ratios are more likely to adopt electronic voting rights exercise (Chart 20).

1-4. Use of electronic voting platform for institutional investors

TSE has striven to foster an environment where institutional investors may exercise their rights easily. The CG Report requires listed companies to place a check mark in the box, if they use electronic voting platforms for institutional investors, such as those operated by ICJ²³ and trust banks, as an initiative toward raising participation in general shareholders meetings and facilitating voting rights exercise.

31.4% of all listed companies state that they use electronic voting platforms for institutional investors.

Looking at the use of electronic voting platforms in each market division, the ratio in TSE First Section companies was 45.3%, which is higher than other market divisions, such as JASDAQ (4.3%). Meanwhile, in case of JPX-Nikkei 400 companies, 85.0% utilize electronic voting platforms, marking a much higher ratio than that of TSE First Section (Chart 18). Companies with higher consolidated sales (meaning larger companies) show a higher ratio of utilization of electronic voting platforms. For example, 96.1% of companies with consolidated sales of 1 trillion yen or more utilize electronic voting platforms (Chart 19). In addition, the ratio of utilization is higher for companies with higher foreign shareholding ratios, reaching 77.2% for companies with a foreign shareholding ratio of 30% or more (Chart 20).

1-5. Preparation of convening notice, etc. in English

There has been an increase in foreign shareholdings in recent years, as according to the FY2017 Survey on Distribution of Shares²⁴ released by stock exchanges nationwide in Japan, the ratio of shareholdings by

²² Article 298, Paragraph 1, Item 4 and Paragraph 4 of the Companies Act.

²³ “ICJ” stands for Investor Communications Japan. For more details, please visit their website.
(<http://www.icj.co.jp/>)

²⁴ Survey on distribution of shares on the Japan Exchange Group website
(<https://www.jpx.co.jp/markets/statistics-equities/examination/01.html>)

foreigners including overseas institutional investors exceeded 30%, reflecting the increasing presence of foreign shareholders recently. Accordingly, in light of this increase in foreign shareholders, there are a growing number of companies that are making independent efforts for foreigners through means such as preparing convening notices in English. The CG Report requires listed companies to enter a check mark in the box if they prepare convening notices of ordinary general shareholders meetings, etc. or summaries of such notices, etc. in English as an initiative toward raising participation in general shareholders meetings and facilitating voting rights exercise.

The ratio of companies that prepared convening notices, etc. (including their summaries) in English was 35.4%. By market division, this is 50.5% of TSE First Section companies and 43.8% of Mothers companies, meaning that about half of these companies prepare English versions. Meanwhile, only about 10% of TSE Second Section companies (11.2%) and JASDAQ companies (5.8%) prepare English versions (Chart 18). JPX-Nikkei 400 companies showed a much higher ratio of 90.2% than that of TSE First Section (39.7 points higher). In addition, in terms of consolidated sales, the larger the company, the higher the compliance rate, as 97.4% of companies with consolidated sales of 1 trillion yen or more prepare notices in English (Chart 19). Meanwhile, in terms of foreign shareholding ratios, preparation is most common for companies with a foreign shareholding ratio of 30% or more (81.5%), and the preparation rate decreases as this ratio decreases (Chart 20).

Note that the compliance rate with Supplementary Principle 1.2.4 of the Code that prescribes the creation of an infrastructure adopting electronic voting (such as the use of an electronic voting platform), and the provision of English translations of the convening notices was the lowest among the compliance rate by principle (45.2%). In terms of the reason for non-compliance, the most common explanation of the reason was that measures are not conducted because the current ratio of foreign shareholders is low, but that compliance would be considered in the future if this ratio increases.

1-6. Other efforts for facilitating shareholders ' active participation in general shareholders meetings and smooth exercise of voting rights

In cases where companies make efforts for facilitating shareholders ' active participation in general shareholders meetings and smooth exercise of voting rights in addition to the above-mentioned measures, they are supposed to provide supplementary explanations on such efforts.

In a review of the supplementary explanations in the CG Reports, we found that 33.5% of TSE-listed companies (1,205 companies) referred to the use of company websites, etc.²⁵ Descriptions related to visual presentation accounted for 11.5%. (415 companies)²⁶. Examples of efforts include arranging slides used in briefings for securities analysts and institutional investors so that they are easy to understand for individual shareholders rather than simply reading off the convening notice, and using a style of the chairperson giving an explanation to the shareholders at the venue in their own words, and the chairperson providing careful responses to questions.

Efforts to further facilitate communications with shareholders included holding company briefings after the

²⁵ Reference to "website" covers companies which mentioned either of the following keywords: "website" or "homepage".

²⁶ Reference to "visual" covers companies which mentioned either of the following keywords: "visual" or "PowerPoint".

general shareholders meetings, using the company's plant as the venue for the general shareholders meetings, holding events such as receptions double as briefings on the company's products or factory tours after the general shareholders meetings, and measures to provide shareholders with a better understanding of the company's products.

1-7. Cross-shareholdings (Principle 1.4)

While cross-shareholdings have decreased recently, the decrease by non-financial corporations is modest, and the ratio of voting rights accounted for by cross-shareholdings remains high. It has also been pointed out that the presence of shareholders who are expected to support company management could lead to a lack of management discipline, and that cross-shareholdings are risk assets on company balance sheets that are not proactively used and therefore inefficient in terms of capital management.

In light of these circumstances, under the revision of Principle 1.4 in the Code regarding cross-shareholdings, it is necessary to (1) disclose the policies and approaches regarding the "reduction" of cross-shareholdings instead of the policies and approaches regarding the "holding" of cross-shareholding as in the past. In addition, regarding (2) the assessment of cross-shareholdings by the board, companies are required to assess whether or not to hold each individual cross-shareholding, specifically examining whether the benefits and risks from each holding cover the company's cost of capital, and to then disclose the results of this assessment. Furthermore, regarding (3) disclosures on the exercising of voting rights that have also been required in the past, it has become necessary to establish and disclose specific standards and vote in accordance with the standards.

The compliance rate with Supplementary Principle 1.4 is 85.8%²⁷ (2,249 companies), and the compliance rate has decreased by 11.0 points compared to July 2017 before the revision of the Code. It newly became necessary to make disclosures on the policies and approaches regarding the reduction of cross-shareholdings with the recent revision, and it appears that some companies have switched from "compliance" to "explanation" as a result.

The contents of the disclosures of the companies in compliance with this principle will be analyzed below.

First, (1) the contents of disclosure on policies and approaches regarding the reduction of cross-shareholdings can be broadly divided into cases in which cross-shareholdings are held and reduction policies have been indicated and cases in which there are no cross-shareholdings, at the time of recording respectively. The first pattern applies for 86.3% (1,940 companies) of companies complying with this principle, while the second pattern applies for 13.7% (309 companies).

Among the latter companies that do not have cross-shareholdings, there were companies that made statements that there are currently no cross-shareholdings, such as "the company does not hold any listed shares for purposes other than the purpose of pure investment", and companies that did not currently have any cross-shareholdings but made statements such as "the company will consider holding in the future if it is deemed that it would contribute to improvements in corporate value".

Meanwhile, when analyzing by the keywords policies and approaches regarding reduction among the former companies that hold cross-shareholdings, 67.5% (1,519 companies) of complying companies clearly stated

²⁷"No cross-shareholdings" was totaled as "complied"

keywords such as “reduce, sell, dispose”, while 7.6% (171 companies) of these companies went as far to state they had a “policy of not having cross-shareholding”, such as “the company will not have cross-shareholdings as a general rule”. There were also some companies that indicated a reduction and sales policy, and that clearly stated that new acquisitions would not be made as a general rule. Considering that 16.8% (362 companies) of companies’ statements on policies regarding cross-shareholdings contained the keywords such as “sell (dispose, etc.)” suggesting the intent to reduce cross-shareholdings in the future in July 2016 before the revision of the Code, this suggests that many TSE First Section and TSE Second Section companies started to become aware of the reduction and selling off of cross-shareholdings with the requirement to clarify a reduction policy under the revision of the Code.

Next, in regards to (2) assessments on whether or not to hold cross-shareholding by the board, 33.7% (758 companies) of complying companies clearly stated keywords such as “the cost of capital” or “capital efficiency”. Although it was necessary to verify the economic rationale in the previous Code, many companies had only conducted verification based on standards such as the holding purpose and transaction amounts, and there has been almost no verification going as far as considering the cost of capital, excluding some financial institutions. It can be inferred that the recent Code revision has made many companies aware of the cost of capital. In addition, some companies have explained a verification process in consideration of the cost of capital. For example, there was a company that clearly stated that verification is conducted on whether economic benefits such as transaction profits and dividends are in line with the WACC (weighted average cost of capital). There were also companies that mentioned they assess whether or not to hold cross-shareholding in consideration of company targets and actual ROE, ROA, and ROIC.

In addition, some companies explained the result of such assessment and results of actual sales of cross-shareholding. For example, there were companies that stated “whether cross-shareholdings are appropriate was examined at the board held in the month of ●”, and 14.3% (322 companies) of complying companies disclose the verification results in these situations. In addition, 4.7% of companies (105 companies) mentioned actual sales of cross-shareholdings. As the demands of capital markets toward the reduction of cross-shareholding increase, it appears that boards are trying to emphasize their efforts to reduce the cross-shareholdings of their companies to investors and shareholders by specifically indicating verification results and actual sales of cross-shareholdings.

Lastly, analyzing the contents disclosed in terms of (3) specific standards for exercising voting rights on cross-shareholdings, the majority of companies clearly indicate that they actually exercise voting rights after individually analyzing each proposal with statements such as “we exercise voting rights after confirming every proposal from the perspective of improving the company’s mid to long-term corporate value”. Some companies also indicated separate specific proposals such as anti-takeover measures, retirement allowances, and treatment of retained earnings such as dividends, and sort out the approaches toward such proposals. However, these are a minority of companies overall, as according to keyword analysis, only 52 companies mentioned “anti-takeover measures”, 47 companies mentioned “appointments (of officers)”, 50 companies mentioned “treatment of retained earnings (proposals)”, and 32 companies mentioned “retirement allowances”. There were also 16 companies that stated they used institutional investors or a proxy advisory firm as a reference when exercising voting rights.

Chart 21 Keywords in Policies Related to Cross-Shareholdings and the Exercise of Voting Rights Related to Cross-Shareholdings

Item	Number of companies	Applicable ratio	(Reference) Previous total (July 2016)
Companies complying with Principle 1.4	2,249 companies	100%	
■Holding policy			
Descriptions assuming holding	1,940 companies	86.3%	89.9%
No current holdings	309 companies	13.7%	-
■Keywords related to policies			
Corporate value	1,695 companies	75.4%	48.5%
■Keywords related to transactions (transactions, sales, etc.)	1,609 companies	71.5%	69.7%
Keywords related to reduction (reduction, sale, etc.).	1,519 companies	67.5%	(Note 1) 16.8%
Medium to long-term	1,436 companies	63.9%	49.2%
Risks	793 companies	35.3%	15.4%
Cost of capital (capital efficiency, etc.)	758 companies	33.7%	-
Economic rationale	617 companies	27.4%	21.7%
Keywords related to strategy (business strategy, etc.)	573 companies	25.5%	19.0%
Dividends	246 companies	10.9%	3.0%
Stock price	185 companies	8.2%	(Note 2) 5.7%
■Keywords related to the exercise of voting rights			
Corporate value	1,695 companies	75.4%	-
Shareholder value	434 companies	19.3%	-
Appointments (of officers)	70 companies	3.1%	-
Anti-takeover measures	52 companies	2.3%	-
Treatment of retained earnings	50 companies	2.2%	-
Retirement allowances	32 companies	1.4%	-
Damage (corporate value, shareholder value, etc.)	415 companies	18.5%	-
Careful or in opposition	257 companies	11.4%	-

(Note 1) The ratio in 2016 includes the keywords “sell, dispose, etc.”, and the ratio in 2018 includes the keywords “reduce, sell, dispose, etc.”.

(Note 2) The ratio in 2016 includes the keywords “stock price, market trends, etc.”, and the ratio in 2018 includes the keywords “stock price”.

Looking at specific disclosure examples among financial institutions including those in the banking and insurance industries, many companies that have put forward a basic policy of reducing cross-shareholdings, underpinned by factors such as long-standing needs to reduce cross-shareholdings that are risk assets in response to capital adequacy regulations, etc.

As an example of disclosure by a financial institution, [Example 1] clearly states a basic policy of reducing “the amount of shares held for the purpose of strategic investment”, indicating a quantitative reduction target. In addition, as methods for examining the economic rationale, the example states that “economic rationale is examined based on the bank’s overall business RORA, which is based on its ROE target, as a target value”, and the actual results of verification are explained. In addition, like in [Example 2], there are cases of declaring a

basic policy of not having cross-shareholdings, and then clearly describing the reduction plan, process for verifying the economic rationale, and results

[Example 1]

■Strategic shareholdings policy

◇The circumstances surrounding strategic shareholdings have changed greatly in recent years due to, among other things, the tightening of international financial regulations and the introduction of the Corporate Governance Code in Japan.

◇Based on these changes, the Company has adopted a basic policy that its Group banks, taking into account shareholding risk, capital efficiency and international financial regulations, shall reduce the amount of shares held for the purpose of strategic investment, following sufficient consultation with the relevant corporate business clients.

◇Shares held for the purpose of strategic investment will be examined for their significance and economic rationale from the perspectives of our corporate business clients' growth and earnings and the strengthening of business relations. We shall proceed with selling those shareholdings for which there is insufficient rationale, after securing an understanding of the relevant corporate business clients. Even where there is sufficient rationale, we may sell those shareholdings in accordance with our basic policy of reducing strategic shareholdings, taking into account, among other things, the market environment and our business and financial strategy.

◇In fiscal year 2017, the Company reduced its strategic shareholdings by approximately 201 billion yen (simple combined revenue of Group banks, acquisition cost basis), and its ratio of equity holdings at acquisition price over Tier1 capital declined from 16.6% to 14.2% as of March 31, 2018. The Company aims to lower this to around 10% by the end of the current medium-term business plan (March 31, 2021).

■Examination of significance and economic rationale of shareholdings

◇At each Group bank, all shares held for the purpose of strategic investment are being confirmed for their significance and economic rationale (risk-return) over the medium- to long-term from the perspectives of our corporate business clients' growth and earnings and the strengthening of business relations. Based on Principle 1.4 of the Corporate Governance Code, individual strategic shareholdings are examined by the Company's board of directors.

◇Economic rationale is examined based on the Bank's overall business RORA, which is based on its ROE target, as a target value.

◇The results of the March 31, 2018 validations are as follows.

- We confirmed the validity of the significance of these shareholdings as most of the validation targets were held with the aim of enhancing the medium- to long-term economic interests of the Bank and Group banks. Regarding economic rationale, the overall business RORA of all of the verification targets as a whole exceeded the target value.

- By company, approx. 80 percent of business partners exceeded the target value. The approx. 20 percent that fell below the target value are aiming to improve profitability, but if they do not improve within a set period, we will consider selling.

(Banking industry)

[Example 2]

[Policy on cross-shareholdings]

The group shall not acquire and hold the shares, etc. of its business counterparty, etc. (the "strategic shareholdings"), except in the

case where it is deemed that such acquisition and holding will contribute to medium to long-term enhancement of the corporate value of the group, from the perspective of, among other things, establishing a stable transactional relationship over the long-term, business alliance, or facilitating or reinforcing collaborative business development with the business counterparty, in principle.

- Regarding each of the strategic shareholdings, the board of directors shall examine the correlation between benefits/risks and cost of capital of those shareholdings in light of the aspect of maintaining and enhancing the overall relationship with the business counterparties, and verify the appropriateness of those shareholdings, etc.

- In principle, the group shall sell the strategic shareholdings in the case where the significance and rationale of holding them is not observed, after taking into consideration various factors, including the impact of selling the shares on the stock market.

[Plan for reduction of strategic shareholdings]

- The company shall aim to reduce the ratio of strategic shareholdings to common equity Tier 1 capital (excluding valuation difference on available-for sale securities) of 42% as of the end of March 2016 by half in approximately five years starting from fiscal year 2016.

- Results of reduction: Reduction of 35.2 billion yen in fiscal year 2017 (accumulated amount in the two years from fiscal year 2016 under the current plan is 67.4 billion yen), ratio of strategic shareholdings to common equity Tier 1 capital of 35% as of the end of March 2018

[Examination of significance and rationale of strategic shareholdings]

- In accordance with profitability standards, the company carefully observes and examines the relationship between the benefits/risks and the capital costs of strategic shareholdings based on the following indicators.

- Profitability indicators

$$(\text{Profit after deduction for credit costs/expenses}) \div (\text{Equity risk-weighted assets} + \text{credit risk-weighted assets})$$

Regarding shares of the business counterparties that do not meet profitability standards, if the necessity for holding the shares is recognized from the comprehensive standpoint of maintaining and enhancing the relationship with the business counterparties, the company shall conduct negotiations to enhance and improve profitability. If the necessity of shareholdings cannot be recognized, the company shall conduct negotiations to sell the shares.

As of the end of March 2018, approximately 20% of the book value of the strategic shareholdings did not meet profitability standards.

(Banking industry)

Next, we will introduce some examples for industrial companies. First, a general approach toward policies and approaches regarding the reduction of cross-shareholdings is to explain the significance of having cross-shareholdings and to state a policy of reducing holdings of stocks with decreased significance based on periodic reviews. For example, in [Example 3], it states that cross-shareholdings may be held as a means of creating business opportunities and that stocks with decreased significance will be sold.

[Example 3]

Stance on acquisition, holding and reduction in holding of listed stocks

- may acquire and hold shares and equity stakes of non-affiliated companies (“general investment shares”), as a means of creating business opportunities and building, maintaining and strengthening business and partner relationships. Cross-shareholdings are included in these general investment shares.

When acquiring general investment shares, the Company judges whether or not to make the acquisition based on the significance and economic rationale of the acquisition, periodically reviews its holding policy after an acquisition and promotes reducing holdings of stocks with decreased significance. Moreover, the Company confirms the significance of holding shares of major listed companies, included in general investment shares, from a company-wide management perspective, and regular verifications by the board of directors are conducted as discussed later. In addition to the scheme described above, the Company has a policy for proactively reorganizing its portfolio and sold approximately 0.1 trillion yen of listed shares, previously included in general investment shares, on a consolidated and market value basis during FY2017, reducing its holdings by 10% year on year.

(Excerpt)

(Wholesale trade)

Now, we will introduce some examples of descriptions of specific methods for examining the economic rationale of cross-shareholdings in consideration of the cost of capital. Although many companies have adopted a process of examination of economic rationale in consideration of the cost of capital along with the recent revision of the Code, for many companies, only a statement such as “an examination is made in consideration of the cost of capital, etc.” is made in the CG Report. Among these examples, [Example 4] indicates a specific way of thinking toward the benefits of holding and cost of capital as the examination method. In particular, mention is made of the specific figure of a WACC of 6% as the cost of capital. [Example 5] is another example of specifically describing the examination method. It clearly indicates set quantitative criteria for the ROA, market value of stock, and transaction amounts. This is an example of clear criteria that make it easy for investors to understand the company’s stance. In [Example 6], the method of calculating the cost of capital is clearly indicated. In particular, a weighted average by the holding ratio of institutional investors in Japan and overseas is used for the calculation of the risk-free rate as an approach that takes into consideration the perspective of institutional investors. By indicating the examination process in a more specific and objective manner in this way, it can help to foster the understanding and satisfaction of investors toward the examination process and examination results.

[Example 4]

In certain cases, we acquire and hold the shares of business partners to build good relationships with them and to increase the company’s corporate value from a medium- to long-term perspective through development of smooth business transactions.

For the strategic shareholdings of listed companies, the board of directors examines the relationship between the benefits of holding (dividend income and profits from business transactions) compared to the acquisition price of each individual stock and the company’s cost of capital (WACC set at 6%), and considers selling off promptly stocks with a decreased level of necessity.

(Metal products)

[Example 5]

The company holds the shares of companies if it judges that doing so is necessary to achieve sustainable growth or enhance its social value and economic value, or to build good relations with business partners and facilitate business as part of management strategy, including business alliances and the stable procurement of raw materials. Under the basic policy of disposing or reducing, as promptly as possible, the holding of certain shares which are considered insignificant in light of the situation at the end of the

immediately preceding business year, the company examines at meetings of the board of directors every year the significance, economic rationale and other factors of cross-shareholding and determines whether or not to continue each holding and the number of shares to be held. In the examination of economic rationale for each holding, the ratio of the amount which the issuer of the shares contributed to the profits of the company in the immediately preceding business year to the value of the shares held by the company at the end of the business year is calculated. When the ratio is below a figure equivalent to approximately double the average ROA of the company for the past five years on a non-consolidated basis, such shares shall be subject to review for sale. In addition, shares whose market price has declined 30% or more from the book value thereof and shares of a company with whom the company has transactions amounting less than 100 million yen per year are also subject to review for sale thereof. Moreover, shares of the company's suppliers and clients that do not meet these standards shall be subject to deliberation at meetings of the board of directors every year as to whether or not to sell them and those chosen shall be sold. As a result of a review, the company sold some of its cross-shareholdings in FY2018.

(Food products)

[Example 6]

Since the Corporate Governance Code was applied in 2015, the company has worked to eliminate cross-shareholdings in accordance with the objectives of Principle 1.4. In terms of the holding status of cross-shareholdings, when comparing the end of FY 2015 and the end of FY 2018, the number of stock issues held was reduced by 6 issues and the ratio of cross-shareholdings to total assets was reduced by 2.4 points.

In addition, voting rights on individual cross-shareholdings are exercised while giving comprehensive consideration to consistency with our holding policy and whether the proposal contributes to improvements in the corporate value of the issuer.

Going forward, the board of directors will continue to review the holding status of cross-shareholdings at the end of the fiscal year and specifically examine individual cross-shareholdings to determine whether the holding purpose is appropriate and whether the benefits and risks from holding are in line with the cost of capital (cost of shareholders' cost of capital = $\text{risk free rate} + \beta \text{ value} \times \text{risk premium}$) to assess whether or not to hold individual cross-shareholdings while reducing cross-shareholdings that are not consistent with the company's holding policy. [Principle 1.4]

*For this risk free rate, a weighted average risk free rate that takes into consideration the holding ratio of institutional investors in Japan and overseas is used.

(Food products)

Now, we will introduce some examples of descriptions of the results of examinations of cross-shareholdings and actual sales of cross-shareholdings. [Example 7] is an example of an explanation of the actual examination results. Specifically, the disclosure explains the examination results in both quantitative and qualitative terms. In the quantitative examination, while the related profits fell below an amount equivalent to the cost of capital in consideration of the carrying amount on the balance sheet at the end of the term for approximately half of the stocks, it is explained that the significance of holding was confirmed for all stocks in the qualitative examination. In addition, the approach toward sales of cross-shareholdings in the future is clearly indicated, and in this sense, cross-shareholdings are carefully examined and explained. [Example 8] specifically describes the actual sales of cross-shareholdings. [Example 9] describes actual sales of cross-shareholdings along with the reasons for continued holding of specific stocks. Cross-shareholdings account for 30% of that company's

total assets, so this is a matter that investors and shareholders are very interested in. It is believed that the disclosure takes into consideration engagement with the capital market in light of these circumstances.

[Example 7]

[Principle 1.4 Cross-Shareholdings]

(Excerpt)

■Details of the examination by the board of directors

The details of the examination by the board of directors regarding cross-shareholdings held as of March 31, 2018 are as follows.

[Equity method affiliates]

After examining whether all individual stocks are in conflict with the disposal standards based on profit criteria and qualitative criteria prescribed internally, the policy for disposal, holding, and evaluation is confirmed for stocks in conflict with the disposal standards.

[General investment listed shares]

In terms of economic rationale, as a result of the examination of the status of related profits including dividends and related transaction profits in comparison to the cost of capital in consideration of the carrying amount on the balance sheet at the end of the term for all individual stocks, it was confirmed that the related profits for approximately half of the stocks exceeded the cost of capital. At the same time, the qualitative holding significance was examined and confirmed for all individual stocks. We also confirm stocks we will consider to sell going forward because of a diluted significance for ownership, etc. in consideration of quantitative and qualitative aspects.

(Wholesale trade)

[Example 8]

(Excerpt)

[Overview of evaluation]

In accordance with the above-mentioned basic policy, the board has conducted assessment of the individual holdings in terms of stockholding ratio, existence of board representation or dispatched executives, business alliance, state of business transactions, dividend received, etc. and made judgment for appropriateness of holding them at the regular board meeting held in December, 2018. The total number of share-holdings was reduced to 31 as of the end of November, 2018 from 36 recorded as of the end of March, 2018 as a result of disposition of five holdings during the current fiscal year to the date.

(Chemicals)

[Example 9]

Policy with respect to cross-shareholdings:

In a perspective of enhancing the corporate value of the company on a mid- to long-term basis, we hold certain cross-shareholdings in the light of attaining growth of business through strengthening, maintaining and developing trade relationship and securing profits from shareholding and consideration for the social significance of the company.

If, as a result of a validation of cross-shareholdings conducted every year, the significance in such shareholdings is not validated, the relevant shares are disposed of by sale as a rule.

Under this policy, the company holds shares of ●●●● Co., Ltd. These shares will continue to be held as important business

partners in terms of economic rationale and future business opportunities.

Examination of holding of cross-shareholding:

The company examines whether or not to hold each cross-shareholding once a year at the ●● group's management committee and board of directors in consideration of factors including necessity in business activities such as maintaining or strengthening business transactions for each stock and the efficiency of assets including the cost of capital. For stocks that the rationale of holding cannot be confirmed, response including reduction is taken in consideration of factors including engagement with the issuing company.

Note that some holdings were sold as a result of the examination conducted during the fiscal year ended March 31, 2018.

(Electric appliances)

[Example 10] is an example of a characteristic disclosure example related to the exercising of voting rights. As proposals that could have a significant impact on the corporate value of companies invested in, examples such as proposals regarding the election of directors or *kansayaku* of companies where a significant scandal has occurred, companies where business performance has suffered for a long period of time, proposals regarding measures to defend against hostile takeovers are listed, and it is clearly stated that care is taken in response to such matters. In addition, like in [Example 11], there are also companies which clearly stated that they exercise voting rights in consideration of voting guidelines released by external proxy advisory firms and asset managers. While there are concerns that many companies may exercise voting rights in a manner that is indulgent towards the management of the company invested in as cross-shareholdings are based on maintaining business relationships, using the stance of a third party such as institutional investors towards the exercise of voting rights could be one means of ensuring objectivity. In such a case, it is expected to not only formally rely on third-party standards, but to actively validate suitability of those standards.

[Example 10]

(2) Standards with respect to the exercise of voting rights for cross-shareholdings

Voting rights are exercised in consideration of the perspective of improving the mid to long-term corporate value of the company and company invested in. When exercising voting rights regarding proposals including those below that could have a significant impact on the corporate value of the company invested in, specific care is taken to gather and carefully consider the necessary information and make a judgment on whether to approve or disapprove a proposal.

- Proposals regarding the election of directors or corporate *kansayaku* (when a significant scandal has occurred or business performance has suffered for a long period of time)
- Proposals regarding organizational restructuring
- Proposals regarding the introduction of measures to defend against hostile takeovers

(Electric appliances)

[Example 11]

(Excerpt) The company will exercise its voting rights appropriately with respect to cross-shareholdings after comprehensively judging whether doing so will contribute to sustainable growth and the increase of corporate value over the mid- to long-term and

contribute to the common interests of the shareholders of the company invested in, taking into consideration the voting guidelines of external proxy advisory firms, asset managers, and the like.

(Pharmaceuticals)

[Column 1] About cross-shareholdings

Principle 1.4 of the revised Code calls for the clarification of the policies towards the reduction of cross-shareholdings and examination of the economic rationale in consideration of the cost of capital. Investors have conventionally had strong demand toward the reduction of cross-shareholdings, and in addition to some institutional investors that demand in shareholder proposals the articles of incorporation to include a clearly stated policy of selling off cross-shareholdings, etc. and call for returns to shareholders as dividends-in-kind, there has also been an increase in individual investors that ask questions at the general shareholder meeting on strategic shareholding and cross-shareholdings.

In response to these types of changes in the external environment, some listed companies have advanced with the reduction of cross-shareholdings. According to a questionnaire survey²⁸ by the National Kabukon Association, among the 1,682 companies that responded to the questionnaire, 18.3% (compared to 21.3% in the 2017 survey) had a policy of selling off cross-shareholdings in part or full, while 32.9% (compared to 22.9% in the 2017 survey) were considering selling off cross-shareholdings. This suggests that about half of companies are selling off or considering the selling off of cross-shareholdings. In a time series comparison, the percentage of companies of selling off cross-shareholdings or considering selling off cross-shareholdings has increased significantly (7.1 points) compared to 2017.

In fact, in recent years listed companies have begun to sell off cross-shareholdings and use the sales proceeds for growth investments or acquisition of treasury stock. There are also cases that include “the events leading to or reasons for holdings are unclear”, “cross-holdings for business partners in the past in which only the shares remain as there are no longer any transactions due to changes in the business environment”, or “cross-holdings that had little value in the past now accounting for a large percentage of the financial statements due to skyrocketing share prices” In these cases, as it is difficult for companies to reasonably explain the significance of the holdings to shareholders and investors, companies have sold off mainly such cross-shareholdings.

In addition, in response to the Report by Working Group on Corporate Disclosure of the Financial System Council, the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc. was revised in January 2019, and accordingly, disclosures related to cross-shareholdings in securities reports have been strengthened as a provision of governance information aimed at encouraging constructive engagement with institutional investors. Along with requirements for disclosures on matters including the examination method for the reasonableness of holdings, the number of stocks subject to individual disclosure has been expanded from 30 stocks to 60 stocks, and these requirements will apply for listed companies with a fiscal year ending in March 2019.

One reference point for changes in cross-shareholdings is the number of issues of investment securities held for purposes other than pure investment, which is disclosed in the annual securities report. Chart 22 displays the year-over-year change in the number of issues of such stocks held by 100 major companies (TOPIX 100). There has been a decrease in the number of issues, particularly for financial institutions, as the number of issues has decreased for 62 of 100 companies. In addition, Chart 23 displays changes in the total number of issues of such stocks held by industrial companies excluding financial institution and one company with special factors (86 companies) over the past five years. You can see that while cross-shareholdings were on the decline before the application of the Code, there has been even a further reduction triggered by the application of the Code.

²⁸ FY2018 National Survey Report of the National Kabukon Association

The number of issues of investment securities held for purposes other than pure investment by companies listed on TSE First Section and the distribution of the ratio of total assets and market capitalization is shown in Chart 24. For many companies the ratio of such securities to total assets or market capitalization is less than 5%. However, there are also several companies for which the ratio of holding of such securities exceeds 20% of total assets or market capitalization.

Moves to reduce cross-shareholdings could accelerate going forward due to factors that include the revision of the Code, the enhancement of disclosures in securities reports, and increasing pressure by institutional investors and other investors to reduce cross-shareholdings. There are already cases of industrial companies that have released plans to reduce cross-shareholdings in financial results briefing materials and medium-term management plans, etc. Companies with cross-shareholdings are being required to explain the significance of cross-shareholdings even more carefully to shareholders and investors than in the past.

Chart 22 Changes in the Number of Issues of Cross-Shareholdings Held by Major Companies (TOPIX 100)

Top 20 companies that decreased the number of issues of cross-shareholdings
(listed shares held for purposes other than the purpose of pure investment)

Industry	Number of issues held in 2017	Number of issues held in 2018	Difference	Reduction rate
Banking	2,348	2,247	-101	-4%
Insurance	2,887	2,801	-86	-3%
Banking	2,181	2,119	-62	-3%
Banking	2,747	2,692	-55	-2%
Insurance	2,026	1,977	-49	-2%
Insurance	1,946	1,908	-38	-2%
Wholesale trade	505	472	-33	-7%
Wholesale trade	317	288	-29	-9%
Insurance	956	931	-25	-3%
Electric appliances	364	341	-23	-6%
Electric appliances	309	288	-21	-7%
Wholesale trade	288	267	-21	-7%
Food products	337	318	-19	-6%
Machinery	226	207	-19	-8%
Banking	1,401	1,385	-16	-1%
Chemicals	107	93	-14	-13%
Transportation equipment	62	49	-13	-21%
Iron and steel	372	361	-11	-3%
Electric appliances	79	68	-11	-14%
Retail trade	114	104	-10	-9%

YOY change	Number of companies
Increase	25
No Change	12
Decrease	62
-	1
Total	100

Companies with an increase in the number of issues held
(two issues or more)

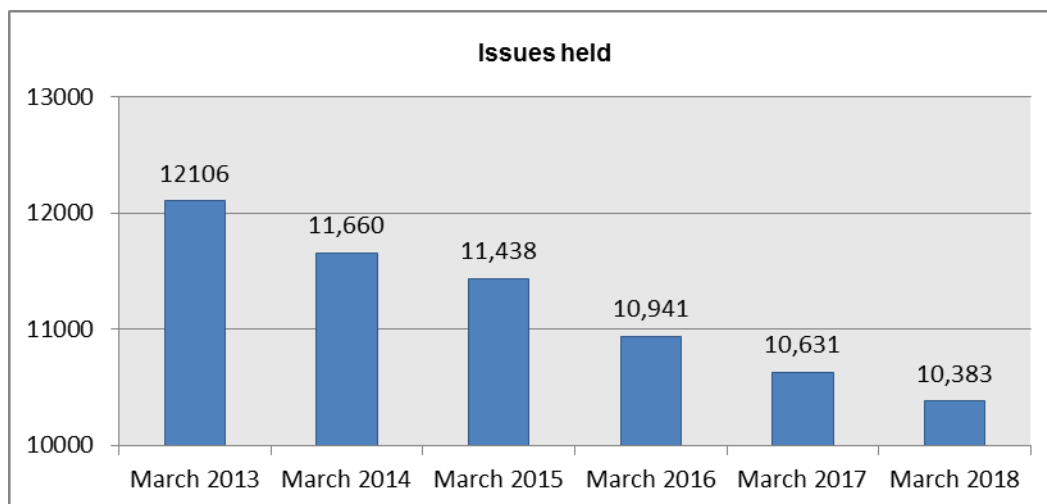
Industry	Increase in the number of issues held	End of the period
Electric appliances	2	152
Transportation equipment	2	189
Electric appliances	2	72
Electric power and gas	2	188
Electric appliances	2	22
Transportation equipment	2	125
Land transportation	2	43
Air transportation	3	87
Insurance	4	12
Land transportation	5	75
Electric power and gas	6	178
Transportation equipment	6	123
Real estate	9	210
Information & communication	9	106
Food products	26	204
Chemicals	141	340
Insurance	186	232

(Note 1) The companies in red characters are financial institutions. For the chemical and insurance companies for which there has been an increase in 100 issues or more, there has been a significant increase because the aggregation scope for holdings of subsidiaries under a holding company differs from the previous year.

(Note 2) "Shares held for purposes other than pure investment" are totaled as cross-shareholdings

Source: Created based on securities report of each company

Chart 23 Decrease (Cumulative) by Major Companies (Excluding Financial)



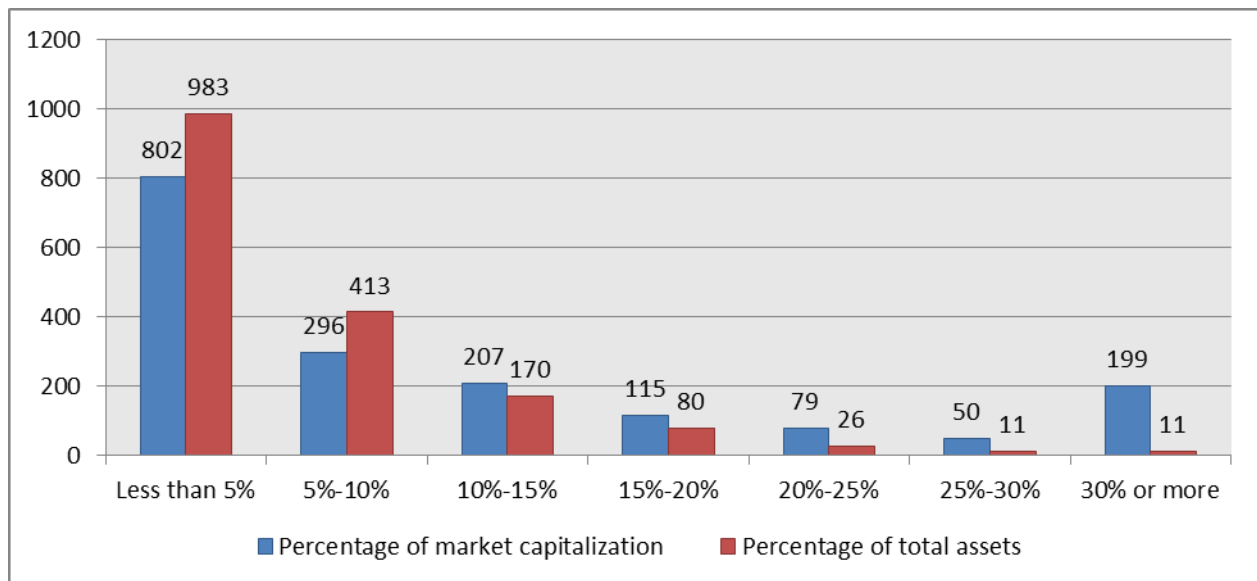
March-13	March 2014	March 2015	March 2016	March 2017	March 2018
Total number of issues held as cross-shareholdings (86 companies excluding financial institution and one company with special factors)	11,660	11,438	10,941	10,631	10,383
Average number of issues held	134	131	126	122	119
Reduction rate	-4%	-2%	-4%	-3%	-2%

(Note 1) Total excluding a chemicals company for which the scope of subsidiaries subject to totaling differs for 2018 and 2017

(Note 2) "Shares held for purposes other than pure investment" are totaled as cross-shareholdings

Source: Created based on securities report of each company

Chart 24 Ratio of Cross-Shareholdings to Total Assets and Market Capitalization of TOPIX Index Companies (Excluding Financial Institutions)



	Percentage of market capitalization	Percentage of total assets
Average	12.0%	5.6%
Medium	6.0%	3.7%

(Note 1) “Shares held for purposes other than pure investment” are totaled as cross-shareholdings

Source: Prepared based on QUICK AMSUS

1-8. Matters concerning anti-takeover measures

TSE has stipulated matters for compliance for the adoption of anti-takeover measures as matters that should be observed in Code of Corporate Conduct²⁹³⁰³¹, while Principle 1.5 of the Code stipulates that the necessity and rationale of the adoption or implementation of anti-takeover measures should be carefully examined, that the appropriate procedures should be ensured, and that sufficient explanations should be provided to shareholders. The compliance rate for this principle was 99.4% (2,605 companies).

The CG Report requires companies to indicate whether any anti-takeover measures have been adopted. Companies which adopted such measures are required to describe objectives of the adoption and an overview of the scheme. Anti-takeover measures may have a large impact on the rights of shareholders, and have the potential to be abused to serve the interests of officers. In this respect, the CG Report requires companies with such measures to provide explanations including the rationale of such adoption.

(1) Number of companies with anti-takeover measures

According to the CG Reports, companies which adopted anti-takeover measures accounted for 10.6% of TSE-listed companies, or 382 companies. Although the number of companies that put anti-takeover measures in place increased significantly around 2005 due to factors including changes in the management environment such as the unraveling of cross-shareholding and growing interest towards hostile takeovers (increased from 132 companies in 2006 when surveys for the White Paper were started to 461 companies in 2008), the number has gradually fallen recently as a result of the development of laws concerning abusive hostile acquisitions and the harsh view of investors toward anti-takeover measures. In fact, the percent of domestic institutional investors opposed to proposals at general shareholders meetings regarding the adoption or continuation of anti-takeover measures has increased, and according to totals by ICJ³², the opposition ratio for domestic institutional investors exceeded 80% as of March 2018.

The adoption ratios by market division were as follows: 14.3% in TSE First Section, 9.2% in TSE Second Section, 1.6% in Mothers, and 4.1% in JASDAQ (Chart 25). The adoption ratio for JPX-Nikkei 400 companies was 11.8%, which was lower than for TSE First Section.

In relation to company size, generally, larger companies are more likely to have introduced anti-takeover measures (Chart 26), although a decreasing tendency was seen in “1 trillion yen or more” category. Furthermore, there has also been a significant decrease by 5.1 points since the last survey in the “1 trillion yen or more” category. As for the relation with foreign shareholding ratios, while the percentage of companies that have introduced anti-takeover measure tends to increase as the foreign shareholding ratio increases, there is a decreasing tendency when the foreign shareholding ratio is 30% or more (Chart 27).

In relation to the shareholding ratio of the largest shareholder, companies with lower shareholding ratios by

²⁹ “Anti-takeover measure” refers to a measure which a listed company adopts prior to the commencement of a takeover by a person who is not desirable to the management, out of measures to make it difficult to realize the acquisition of the listed company (meaning an act to acquire as many shares as necessary to exercise influence on the company) by issuing new stocks or new share subscription rights mainly for the purpose other than fundraising and other business reasons.

³⁰ “Adoption” here refers to an act where a company made decision on specific details of anti-takeover measures, such as a resolution on issuance of new stocks or new share subscription rights for takeover defense.

³¹ Rule 440 of Securities Listing Regulations.

³² “ICJ” stands for Investor Communications Japan “The status of the exercise of voting rights by institutional investors from the viewpoint of electronic voting platform”

the largest shareholders are more likely to have adopted such measures, and in the most recent survey , the adoption ratio was highest for the category less than 5% (Chart 28).

While the state of adoption of anti-takeover measures are as outlined above, the majority are advance-warning rights plans for which the approval of the general shareholder meeting is gained. Specifically, companies establish procedures during normal times that should be followed by acquirers in the event of a hostile takeover attempt. In the event of a hostile takeover attempt that does not follow the procedures established in advance, it will be handled as an abusive acquisition that damages corporate value, and the board will decide to issue new share subscription rights and enact a rights plan.

Meanwhile, out of all companies which have not adopted anti-takeover measures, when looking at the explanations of the reason for this, most companies explained that the maximization of corporate value is the most effective anti-takeover measure and that there were no current plans to introduce anti-takeover measures.

Chart 25 Adoption of Anti-Takeover Measures (by Market Division)

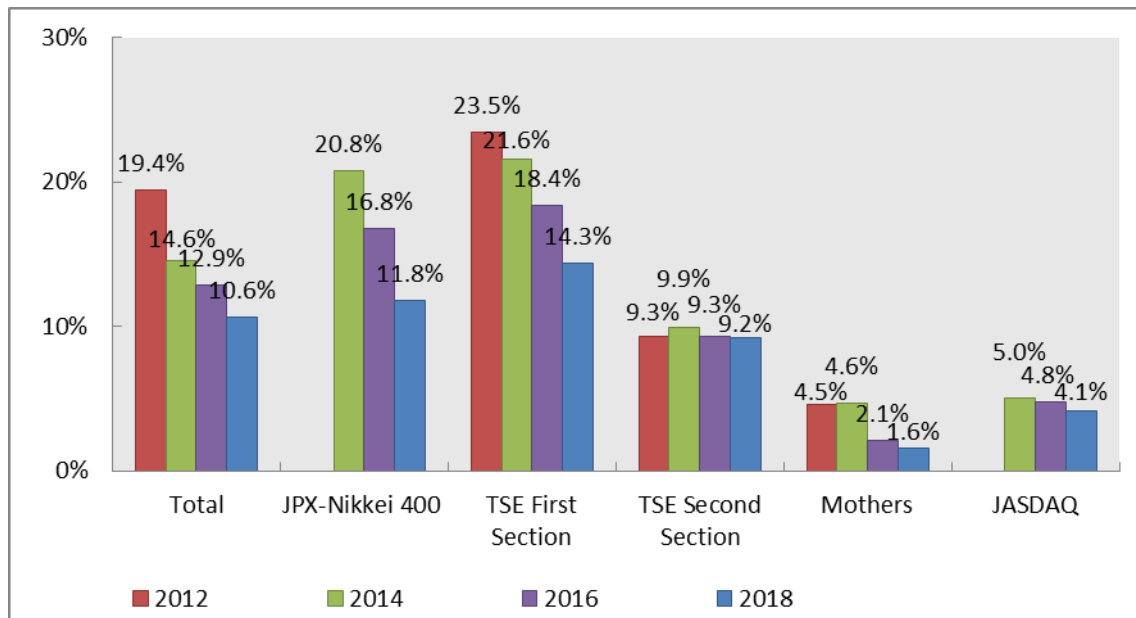


Chart 26 Adoption of Anti-Takeover Measures (by Consolidated Sales)

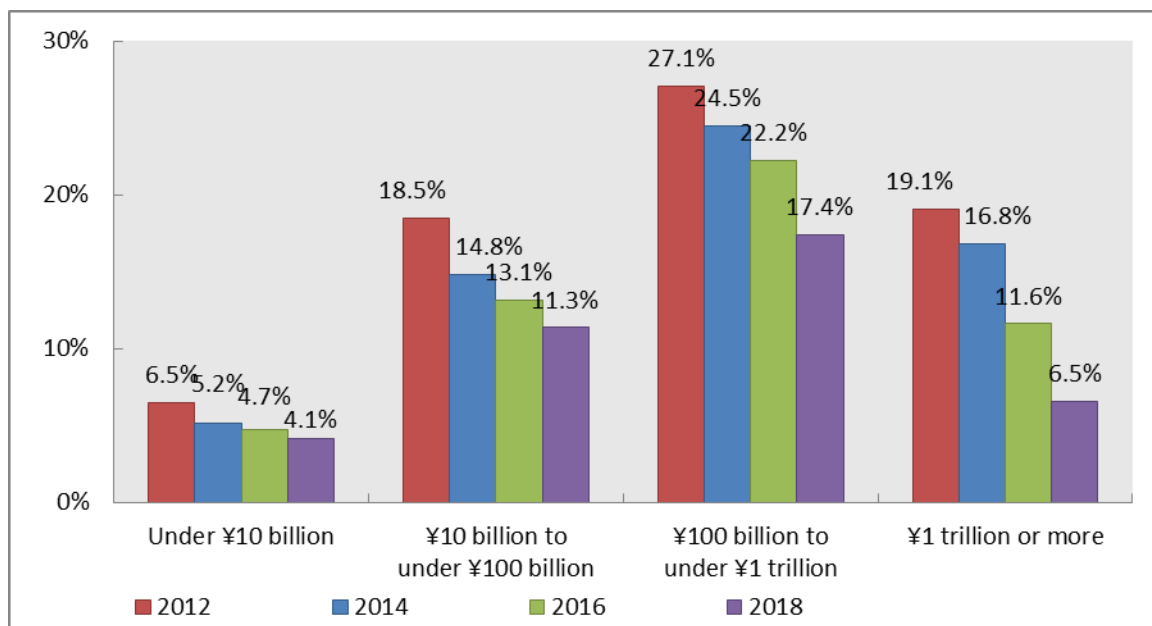


Chart 27 Adoption of Anti-Takeover Measures (by Foreign Shareholding Ratio)

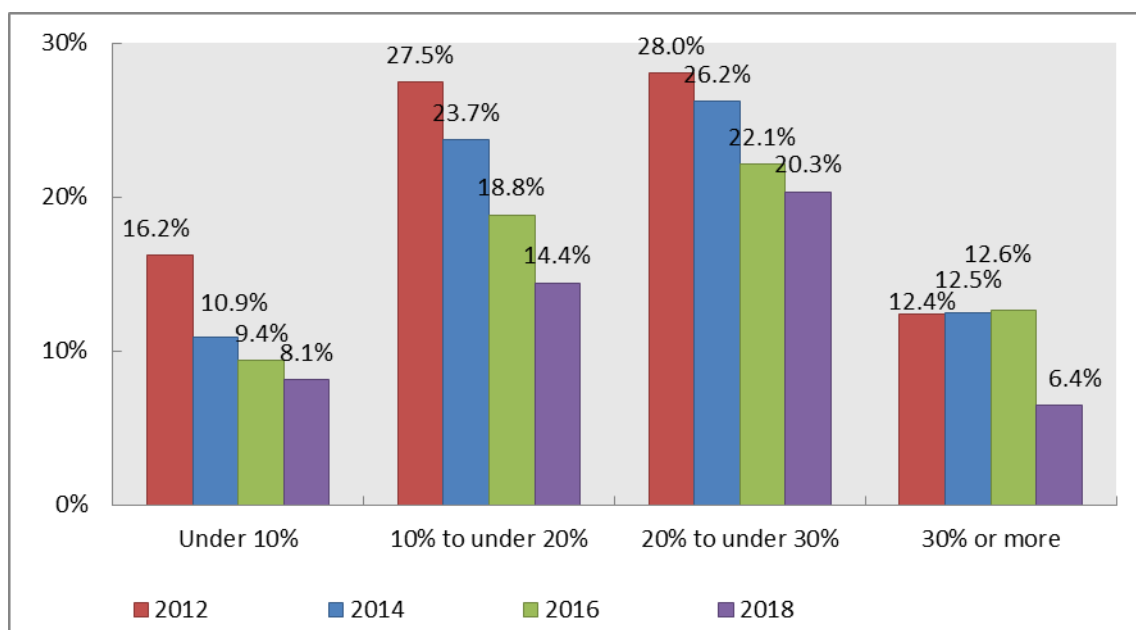
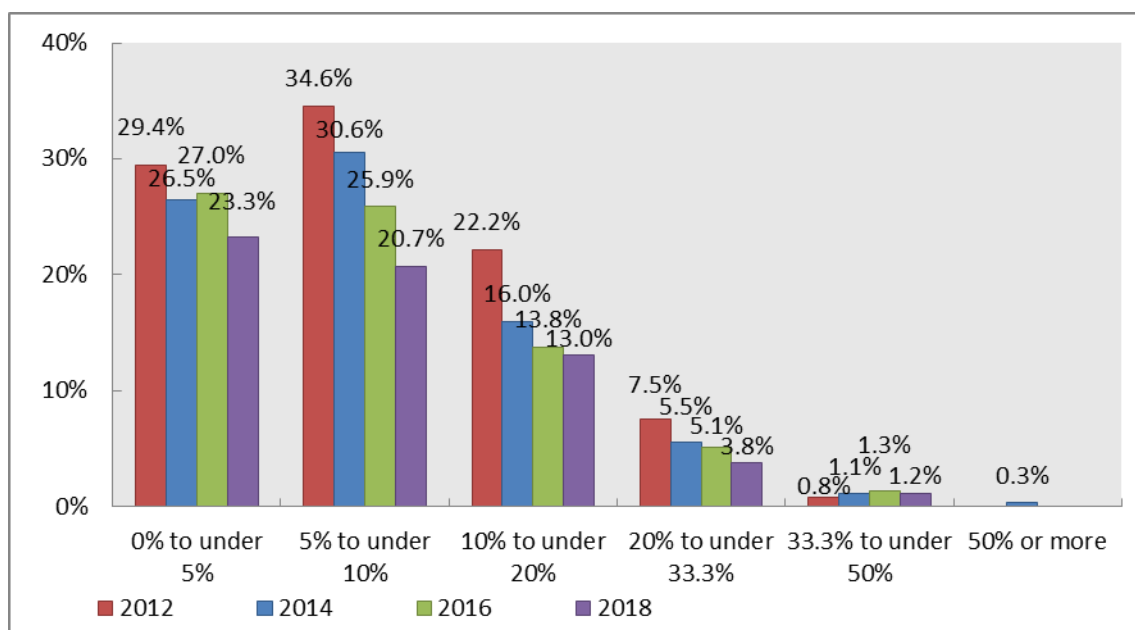


Chart 28 Adoption of Anti-Takeover Measures (By Shareholding Ratio of the Largest Shareholder)



(2) Corporate governance system of companies with anti-takeover measures

Chart 29 displays a comparison of the corporate governance structure of companies that have adopted anti-takeover measures, and companies without anti-takeover measures. For companies with anti-takeover measures, it is believed that the role of independent directors as advocates for minority shareholders is more important. The ratio of companies that have appointed independent directors is higher in companies with anti-takeover measures. It is believed that this is due to the fact that in relation to company size, generally, larger companies are more likely to introduce anti-takeover measures, and the appointment of independent directors has also particularly advanced among larger companies.

Chart 29 Adoption of Anti-Takeover Measures and Board Independence

	Average number of directors (per company)	Average number of independent directors (per company)	Ratio of companies appointing at least 1 independent directors	Ratio of companies appointing 2 or more independent directors	Ratio of companies appointing more than 1/3 independent directors
Companies adopting takeover defense measures	9.18	2.33	98.2%	85.6%	30.6%
Companies not adopting takeover defense measures	8.18	2.16	93.0%	70.1%	27.9%

1-9. Related party transactions (Principle 1.7)

Principle 1.7 stipulates that when a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the common interests of its shareholders, it should establish procedures for preventing conflicts of interest, disclose the framework of these procedures, and then conduct monitoring based on these procedures. Because certain disclosures regarding related party transactions are required under the Companies Act and the Financial Instruments and Exchange Act, many companies had already developed frameworks for the protection of investors since before the application of the Code. The CG Reports have also required disclosures for guidelines on measures to protect minority shareholders in conducting transactions with controlling shareholders up until now. Due to these factors, the compliance rate for this principle is high at 99.8% (2,617 companies).

The contents of disclosures for Principle 1.7 can be broadly divided into procedures for preventing conflicts of interest and transaction conditions.

In terms of procedures for preventing conflicts of interest, it seems that many companies have already established a structure that requires the approval or resolution of the board of directors or reports on the status of transactions as procedures for related party transactions based on laws and regulations including the Companies Act, etc. If we analyze keywords used, 90.1% (2,360 companies) mention the “board”. The next most common keyword is “resolution or approval” which is mentioned by 83.4% (2,183 companies). In addition, 47.4% (1,241 companies) mentioned “report” and 32.2% of companies (843 companies) mentioned “laws and regulations and the Companies Act”. In addition, 49.4% (1,294 companies) mention “rules and regulations, etc.”, which means that about half of companies have also clearly stated that the structures mentioned above have been documented in internal regulations, etc. Note that 17.5% (457 companies) mention “surveys”, indicating that the status of related party transactions is regularly monitored through questionnaires, survey forms, etc.

21.5% (564 companies) had disclosures that mentioned “transaction conditions”. The majority of these cases are disclosures on procedures consisting of confirming the suitability, etc. of transaction conditions. Only 4% (93 companies) specifically mention that they take market price into consideration when deciding transaction conditions.

If we analyze individual cases, there are examples of detailed disclosures on the specific process for related party transactions. For example, in [Example 1], the basic policies and structures for related party transactions are mentioned, and there are detailed disclosures on each process that includes the identification of transactions, the approval of new transactions, the management of existing transactions, and a check by *kansayaku*. This can be considered a distinctive case as there are many companies that only mention “require a resolution of the board” as a disclosure.

There are also some companies that clearly state that they have set a process for confirmation of the suitability of transactions by outside officers and external experts in approval procedures for related party transactions, and established structures to ensure that the interests of general shareholders are not damaged by related party transactions. For example, in [Example 2], the reasonableness of transactions and the appropriateness of procedures are validated through a third party committee composed of independent directors,

etc., and a legal check is conducted by legal counsel for resolutions by the board. In addition, as indicated in [Example 3], there are companies that clearly stated that they confirm the opinion of an internal committee composed of outside directors or a third party committee composed of legal counsel, etc.

In [Example 4] and [Example 5], a listed subsidiary that has a listed parent company and which sales to the parent account for a particularly high percentage of own sales describes process for determining the transaction price to ensure transparency in parent-subsidary transactions. It is explained that price negotiations in consideration of factors including the market price are conducted to ensure that the interests of general shareholders are not unfairly damaged through parent-subsidary transactions.

[Example 1]

[Principle 1.7]

The Company has established the Related Party Transaction Management Regulations that stipulate matters including basic policies, procedures, and management methods of related party transactions, and developed structures in accordance with these regulations so that transactions with related parties do not harm the Company or the common interests of shareholders or lead to any concerns with respect to such harm.

[Basic policy on the implementation of related party transactions]

The parties in related party transactions are parties that have a specific relationship with the company, and are recognized as parties that can have an influence over the company.

Accordingly, transactions with related parties will need to be judged extremely carefully from the perspective of protecting the general interests of shareholders including the necessity of transactions.

[Structure to ensure the appropriateness of related party transactions]

a. Assessment of transactions

Whether a business partner constitutes a related party will be determined by the Finance Department when each department submits an application to register a new business partner,

and if a business partner constitutes a related party, the Finance Department will assess and manage all transactions with that business partner.

Related party transactions with consolidated subsidiaries are surveyed and assessed based on the consolidated survey form that is submitted from consolidated subsidiaries every fiscal year.

The presence of transactions with officers and their close relatives is surveyed and assessed based on the related party survey form that is submitted from each officer every fiscal year.

b. Approval of new transactions

When commencing new transactions with parties that constitute related parties, it is necessary to gain approval through the approval procedures based on the Management Authority Regulations and Management Authority Reference Table after confirming the reasonableness of the transaction itself (business necessity)

and the suitability, etc. of transaction conditions.

For significant transactions subject to disclosure based on the Companies Act, Financial Instruments and Exchange Act, Regulations Concerning Financial Statements, etc., accounting standards, etc., it is necessary to gain approval from the board.

c. Management of existing transactions

For existing related party transactions that are ongoing, the reasonableness of continuing the transaction (business necessity) and the suitability, etc. of transaction conditions will be monitored through regular reports to the management committee and board, and if any matters that should be considered regarding the appropriateness of the transaction are discovered, whether the transactions should be continued will be considered and reviewed.

d. Check by *kansayaku*

Kansayaku will check the appropriateness, suitability, etc. of related party transactions when viewing and investigating approval documents in operational audits that are regularly conducted every fiscal year for new transactions.

Existing ongoing transactions will be checked through reports regularly received from the Finance Department.

(Food products)

[Example 2]

(Excerpt)

When conducting transactions with directors, major shareholders, etc. (“related party transactions”), for transactions that could have a major impact on the Company and the common interests of shareholders, the Company will validate the reasonableness of transactions and the appropriateness of procedures through a committee composed of independent directors and independent third parties.

When holding a resolution by the board on related party transactions, the Corporate Administration Department will request corporate legal counsel to conduct a legal check. In addition, the responsible department will also commission a legal check to legal counsel as necessary for matters related to transactions between the Company and the Company’s subsidiaries.

(Precision instruments)

[Example 3]

In cases where the Company is to perform transactions with officers, major shareholders, etc. (“related party transactions”), a meeting structure whose members consist of Directors, etc. decides on whether to submit a proposal for approval of the transaction to the Board of Directors, and as necessary, seeks opinions of an internal committee (members of which consist of Outside Directors, etc.) or a third-party committee (members of which consist of lawyers, etc.). When a related party transaction is subject to a resolution for approval at the meeting of the Board of Directors, any Director who is related to such transaction may not participate in the resolution on the ground of being a person with special interest, and therefore is not included in the quorum. Going forward, the Company will disclose its efforts to monitor related party transactions.

(Service industry)

[Example 4]

The company has established a system as follows to ensure transactions with officers or major shareholders do not infringe on the interests of the Company or our shareholders. Transactions between the company and its parent company ●●● Co., Ltd. and companies of the ●●● Group are managed based on the ●●● Inter-Group Transaction Management Rule, and the arm’s length rule is thoroughly enforced for transactions between related parties. In addition, the approval of the board of directors is

required for significant transactions with the parent company, etc. For competitive transactions and conflicts of interest transactions between the company and directors, it is clearly specified that the approval of the board of directors is required as a general rule based on the Companies Act. In addition, strict procedures are conducted for directors involved in such transactions such as exclusion from resolutions as specific related parties. Note that regular checks are conducted for the presence of transactions with directors, auditors, and major shareholders, etc.

(Other financing business)

[Example 5]

1. In regard to a transaction between the company and a director and a conflicting interest transaction by a director, the company discloses important information related to the transaction to the board of directors, obtains its approval in accordance with the corresponding laws and regulations, and reports to the board of directors after the transaction is complete.

2. Transactions with ●●● Co., Ltd. which is a major shareholder, are conducted fairly and appropriately to prevent damaging the interests of the Company through means such as presenting the company's desired price in reference to the market price and total costs and then deciding through negotiations.

(Electronic devices)

Chart 30 Related Party Transaction Keywords

Item	Number of companies	Applicable ratio	(Reference) Previous total July 2016
Companies complying with Principle 1.7	2,617 companies	100%	-
■ Related to procedures			
Board	2,360 companies	90.1%	88.1%
Resolution or approval	2,183 companies	83.4%	81.5%
Rules (board rules) and regulations, etc.	1,294 companies	49.4%	53.2%
Reports	1,241 companies	47.4%	47.4%
Laws and regulations and the Companies Act	843 companies	32.2%	31.3%
Surveys (questionnaires, survey forms, etc.)	457 companies	17.5%	16.8%
Outside directors, <i>kansayaku</i> , legal counsel	430 companies	16.4%	17.0%
■ Related to transaction conditions			
Transaction conditions	564 companies	21.5%	19.7%
Market price	93 companies	4.0%	4.0%

1-10. Guidelines on measures to protect minority shareholders in conducting transactions with controlling shareholder

The CG Report requires listed companies with a controlling shareholder to describe guidelines on measures to protect minority shareholders. Specifically, it is necessary to provide concrete descriptions on matters such as policies on internal frameworks and systems, the internal decision-making process, and the use of external agencies, with the aim of preventing the company itself and, eventually, minority shareholder interests from being undermined by transactions or other activities which are made to favor such a controlling shareholder by using its influence as a controlling shareholder. In addition, in terms of the implementation status of measures

prescribed in the guidelines, as part of “disclosure of matters relating to controlling shareholder, etc.”, timely disclosure is required after the end of each fiscal year³³.

Among TSE-listed companies, 629 companies or 17.5% have controlling shareholders. Of these companies, 372 companies (equivalent to 10.3%) have parent companies, and 257 companies (equivalent to 7.2%) have controlling shareholders that are not parent companies (see Chart 12).

Looking at the contents of measures prescribed in the guidelines, there are many cases of clearly indicating conditions of transactions with controlling shareholders should be equivalent to general transaction so that the interests of minority shareholders will not be damaged. For some listed companies, there were cases of mentions of the establishment of regulations related to sales and purchases with controlling shareholders so that transaction conditions are not more favorable than those for general transactions and cases in which specific transaction details are stated, for example, while real estate lease transactions are conducted with controlling shareholders, care is taken so that the transactions are conducted based on standard transaction conditions in consideration of existing lessees and market prices in the neighborhood. Meanwhile, there were also statements that transactions will not be conducted with the controlling shareholders as a general rule.

In addition, in terms of the internal decision-making process, there were many descriptions of decision-making by the board regarding transactions with the controlling shareholders, as well as descriptions of the appointment of outside directors independent from controlling shareholders in order to ensure independent management decisions by the listed companies themselves. In addition, some listed companies mentioned validation of the appropriateness of the transaction by the *kansayaku* board in addition to a resolution of the board.

While there were not many descriptions of this type, there were some descriptions of seeking the opinion of external agencies including accounting auditors, lawyers, tax accountants, etc. as necessary regarding the appropriateness of transactions with controlling shareholders.

1-11. Other special circumstances which may have material impact on corporate governance

The CG Report contains a section titled “Other special circumstances which may have material impact on corporate governance” that requires listed companies which have a parent company and/or listed subsidiaries to describe their stance (policies) on corporate governance based on such a fact and relations. Specifically, matters that would be preferable to state for this item include: (1) in case where a company has a parent company - views on, and measures and policies for, maintaining independence from the parent company; (2) in case where a company has a listed subsidiary - views on, and measures and policies for, the independence of the listed subsidiary. In addition, if there are other matters which may have a material impact on corporate governance in consideration of individual circumstances of each company, they should be described.

As for (1), 224 companies (60.2% of companies with a parent company) provided an explanation on the independence from their parent companies. Specifically, there were many cases in which companies explained how they maintain their independence from the parent companies by presenting such examples as concrete business execution based on independent decision-making centered around the board including independent

³³ Rule 411 of Securities Listing Regulations, and Rule 412 of Enforcement Rules for Securities Listing Regulations.

directors rather than business execution based on instructions, etc. by the parent company. These included cases in which independent business activities were conducted while sharing internal control policies including those on compliance and risk management with the parent company to ensure smooth group management.

As for (2), 86 companies explained about the independence and autonomy of listed subsidiaries. Among these disclosures, there were descriptions of requiring advance consultation and reports for matters necessary for appropriate and smooth group management and matters that require management, etc. based on laws and regulations while respecting independence.

2. Appropriate cooperation with stakeholders other than shareholders

Chapter 2 of the Code requires appropriate cooperation with stakeholders other than shareholders as described below.

[General Principle 2]

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.

The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

In addition to shareholders, listed companies have many important stakeholders that include employees, customers, parties outside the company such as business partners and creditors, and bodies that serve as the foundation for the continuation and activities of companies such as the local community, and companies are expected to aim to achieve sustainable growth and the creation of mid to long-term corporate value through appropriate cooperation with these stakeholders.

TSE has required listed companies to describe in the CG Report the status of efforts to respect the position of stakeholders such as stipulations on respecting the position of stakeholders in internal regulations, etc., the implementation of environmental conservation activities and CSR activities, and the formulation of policies, etc. concerning the provision of information to stakeholders.

Furthermore, as the Japan Revitalization Strategy (Cabinet decision on June 14, 2013) positioned promotion of the active participation of women as a central part of the growth strategy, and in light of such trends, TSE recommends listed companies to disclose the state of women's active participation.

This chapter will analyze the status of developments in such efforts at listed companies. In particular, a column will introduce an analysis on the status of the appointment of female corporate officers as part of these efforts.

2-1. Rules on respect for the positions of stakeholders under internal regulations

2,469 TSE-listed companies (68.7% of TSE-listed companies) stated in the CG Report that they have provisions on respect for the positions of stakeholders in their internal regulations, etc. By market division, TSE First Section leads other divisions with 77.4%, followed by Mothers (63.7%), TSE Second Section (59.9%), and JASDAQ (51.7%) (Chart 31). Among JPX-Nikkei 400 companies, 87.7% reported that they have such provisions. As for the relation with consolidated sales, companies that are large are more likely to have such provisions (Chart 32).

2,465 companies (68.6%) provided supplementary explanations on provisions in internal regulations. The stakeholders that were mentioned in the supplementary explanations included shareholders (720 companies), employees (852 companies), business partners (386 companies), local communities (263 companies), and

consumers and customers (314 companies). There were also reference to suppliers (17 companies) and banks (20 companies). Companies stated as purposes respect for position (245 companies), contribution to society (63 companies), trust (391 companies), expectations (103 companies), and ethics (515 companies), among other purposes. In terms of the details stated, there were many descriptions on the contents prescribed in the business principle, action guidelines, etc. in order to live up to the trust and expectations of stakeholders.

Chart 31 Efforts to Respect Stakeholder Positions (by Market Division)

	Stipulations on respecting the position of stakeholders in internal regulations, etc.	Implementation of environmental conservation activities and CSR activities	Formulation of policies, etc. concerning the provision of information to stakeholders
Total	68.7%	67.7%	56.0%
JPX-Nikkei 400	87.7%	93.7%	73.9%
TSE First Section	77.4%	79.6%	63.1%
TSE Second Section	59.9%	62.4%	39.3%
Mothers	63.7%	40.2%	80.5%
JASDAQ	51.7%	46.6%	38.7%

Chart 32 Efforts to Respect Stakeholder Positions (by Consolidated Sales)

	Stipulations on respecting the position of stakeholders in internal regulations, etc.	Implementation of environmental conservation activities and CSR activities	Establishment of policies, etc. concerning the provision of information to stakeholders
Under ¥10 billion	54.0%	41.6%	53.5%
¥10 billion to under ¥100 billion	67.2%	67.8%	50.8%
¥100 billion to under ¥1 trillion	83.8%	91.7%	64.1%
¥1 trillion or more	95.4%	98.7%	88.2%

2-2. Implementation of environmental conservation activities and CSR activities

2,433 TSE-listed companies (67.7%) stated in the CG Report that they carry out environmental conservation activities, CSR activities, etc. In terms of market division, TSE First Section accounted for the largest share with 79.6%, followed by TSE Second Section (62.4%), JASDAQ (46.6%) and Mothers (40.2%). Among JPX-Nikkei 400 companies, 93.7% companies implement such activities. This is 14.1 points higher than TSE First Section (79.6%) (Chart 31). In addition, the implementation rate tends to get higher, the higher consolidated sales are. While the implementation rate is 41.6% for companies with consolidated sales less than 10 billion yen, when consolidated sales reach 1 trillion yen or more, the implementation rate becomes 98.7%, as the gap increases depending on the scale of consolidated sales (Chart 32).

2,430 companies (67.6%) provided supplementary explanations concerning environmental conservation and CSR activities. Although 685 companies reported that they obtained ISO14000 or ISO14001 certification,

which are international standards for establishing an environment management system, this is lower than the 722 companies in the previous survey. In addition, there were more companies explained that they published environment or CSR reports (364 companies, which is an increase from the 331 companies in the previous survey), or integrated report (46 companies) and described the status of their own company's CSR activities, etc. There were also many companies providing explanations that emphasized initiatives aimed at tackling environmental issues such as the establishment of a CSR committee (91 companies), global warming countermeasures (112 companies), and CO₂ emission figures (68 companies). Furthermore, there were statements on direct actions such as support in response to the 2011 Great East Japan Earthquake (41 companies), support in response to the 2016 Kumamoto Earthquake (15 companies), and volunteer activities (91 companies), as well as statements on disaster prevention and contingency measures (90 companies), power saving/energy saving (256 companies), solar power generation (65 companies), recycling (196 companies), and reducing use of natural resources (106 companies).

Note that the compliance rate was 99.7% for Principle 2.3 that stipulates that companies should take appropriate measures to address sustainability issues, including social and environmental matters.

2-3. Development of policies to provide information to stakeholders

2,013 or 56.0% of TSE-listed companies stated in the CG Report that they developed policies, etc. for providing information to stakeholders. In terms of market division, Mothers led other divisions with 80.5%, followed by TSE First Section (63.1%), TSE Second Section (39.3%), and JASDAQ (38.7%) (Chart 31). In case of JPX-Nikkei 400 companies, those with such policies accounted for 73.9%, which is 10.8 points higher than TSE First Section (63.1%) (Chart 31). In relation to consolidated sales, there is a basic tendency toward a higher likelihood of development of such policies with larger companies, as 88.2% of companies with consolidated sales of ¥1 trillion yen or more developed such policies, which was followed by companies with consolidated sales of ¥100 billion to under ¥1 trillion yen (64.1%) (Chart 32).

2,011 companies (56.0%) provided supplementary explanation regarding providing information to stakeholders. Many of them mentioned disclosing information to shareholders and investors in accordance with the Financial Instruments and Exchange Act and the regulations stipulated by TSE, working towards timely and proactive information disclosure, and there were also cases of descriptions of a website URL or the disclosure policy being released on the website.

2-4. Descriptions regarding the “visualization” of state of women ’ s active participation in the capital market

TSE revised the Reporting Guidelines for the CG Report (effective on April 18, 2013) concerning disclosure of the state of women ’ s active participation, and made the current state of efforts to promote women to officer positions an optional item for stating in the section “Efforts to Respect Stakeholder Positions”.

In terms of the details stated, there were 758 companies (21.1% overall) that mentioned keywords such as “women”, “gender”, and “gender difference”³⁴, which is a slight increase from the previous survey (721

³⁴ It includes companies which mentioned one of the following keywords: “women”, “gender”, “gender difference” and “diversity”.

companies or 20.6% of all) (Chart 33). By market division, TSE First Section leads other divisions with 28.5% in the use of such keywords, followed by 11.1% in JASDAQ, 11.0% in TSE Second Section, and 9.4% in Mothers. As for JPX-Nikkei 400 companies, 50.6% of them referred to women's active participation. This is 22.1 points higher than TSE First Section (28.5%) (Chart 33). In relation with the number of employees (consolidated) and consolidated sales, the larger the number or sales, the more likely companies are to describe the state of women's active participation (Chart 34 and Chart 35).

In order for women to play active roles in corporations, it is necessary to develop environments for supporting childcare or nursing care, for example, through the development of reduced work hours systems for childcare, flextime systems, and childcare leave. As corporate efforts for improving the environment, 460 companies (12.8%) provided explanations using such keywords³⁵ as “work-life balance”, “child rearing”, or “(maternal/childcare) leave”, which is a slight increase from the previous survey of 439 companies (12.5%). By market division, TSE First Section leads other divisions with 18.3%, followed by 5.9% in TSE Second Section, 5.8% in JASDAQ, and 2.0% in Mothers. As for JPX-Nikkei 400 companies, 36.3% of them referred to women's active participation. This is 18.0 points higher than TSE First Section (18.3%) (Chart 33). In relation with the number of employees (consolidated) and consolidated sales, the larger the number or sales, the more likely companies are to describe the state of women's active participation (Chart 34 and Chart 35).

It is expected that efforts by companies to promote the active participation of women will continue to develop going forward, and that companies will describe more about this item accordingly.

Note that the compliance rate was 99.6% for Principle 2.4 that stipulates that companies should promote diversity of personnel, including the active participation of women, to ensure the sustainable growth of companies.

Chart 33 “Visualization” of State of Women’s Active Participation (by Market Division)

	State of woman's active participation	Change from the previous survey	Improving the environment for women's active participation	Change from the previous survey
Total	21.1%	+0.5%	12.8%	+0.3%
JPX-Nikkei 400	50.6%	+2.1%	36.3%	+2.6%
TSE First Section	28.5%	+0.3%	18.3%	- 0.1%
TSE Second Section	11.0%	+0.2%	5.9%	+0.7%
Mothers	9.4%	+1.8%	2.0%	+0.7%
JASDAQ	11.1%	- 1.2%	5.8%	- 0.6%

³⁵ We counted descriptions which include one of the following keywords: “diverse human resources”, “equal treatment”, “work-life balance”, “child rearing”, “child raising” or “(maternal/childcare) leave”.

Chart 34 “Visualization ” of State of Women ’ s Active Participation (By Number of Employees (Consolidated))

	State of woman’ s active participation	Change from the previous survey	Improving the environment for women’s active participation	Change from the previous survey
Under 100	9.6%	- 0.0%	2.5%	- 0.4%
100 to under 500	11.0%	+0.4%	6.3%	+0.1%
500 to under 1000	18.2%	+0.4%	8.2%	- 1.5%
1000 or more	31.7%	+0.7%	21.4%	+1.2%

Chart 35 “Visualization” of State of Women ’ s Active Participation (by Consolidated Sales)

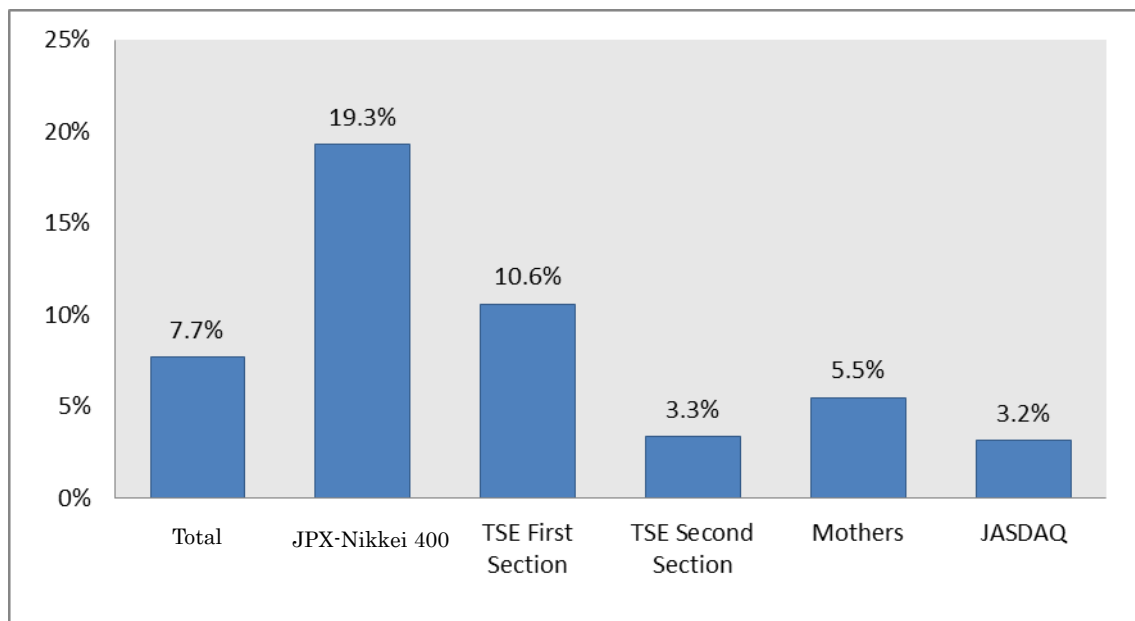
	State of woman’ s active participation	Change from the previous survey	Improving the environment for women’s active participation	Change from the previous survey
Under ¥10 billion	9.5%	- 1.0%	4.2%	- 0.8%
¥10 billion to under ¥100 billion	18.3%	+0.8%	10.2%	- 0.2%
¥100 billion to under ¥1 trillion	31.7%	+1.2%	22.0%	+1.9%
¥1 trillion or more	66.7%	+3.4%	45.8%	+3.2%

Furthermore, in the CG Report, the current state of efforts to promote women to corporate officer positions can optionally be stated in supplementary explanations disclosed in “Other” in “3. Efforts to Respect Stakeholder Positions”. In this section, out of all TSE listed companies, 276 companies³⁶ (7.7%) disclose that they have appointed women to officer positions (directors, *kansayaku*, *shikkoyaku*, or *shikkoyakuin* of the company or its subsidiaries) (Chart 36).

By market division, TSE First Section leads other divisions with 10.6%, followed by Mothers (5.5%), TSE Second Section (3.3%), and JASDAQ (3.2%). As for JPX-Nikkei 400 companies, 19.3% of them referred to the appointment of women to officer positions. This is 8.7 points higher than TSE First Section (10.6%).

³⁶ Applies for companies that stated that they have appointed women to officer positions in supplementary explanations disclosed in “Other” in “3. Efforts to Respect Stakeholder Positions”. For this reason, it does not include companies that may have actually appointed women to officer positions if there is no such statement in this section.

Chart 36 Appointment of Female Corporate Officers (by Market Division)



In terms of the results by industry, the appointment rate was highest for the insurance at 30.8% (appointment by 4 of 13 companies in the insurance industry), followed by electric power & gas at 29.2% (7 of 24 companies) (Chart 37).

Looking at results by consolidated sales, the ratio of companies that stated that they had appointed women to corporate officer positions tends to increase as consolidated sales increase. Among companies with consolidated sales of 1 trillion yen or more, 32.0% stated that they had appointed women to corporate officer positions (Chart 38).

Chart 37 Appointment of Female Corporate Officers (by Industry)

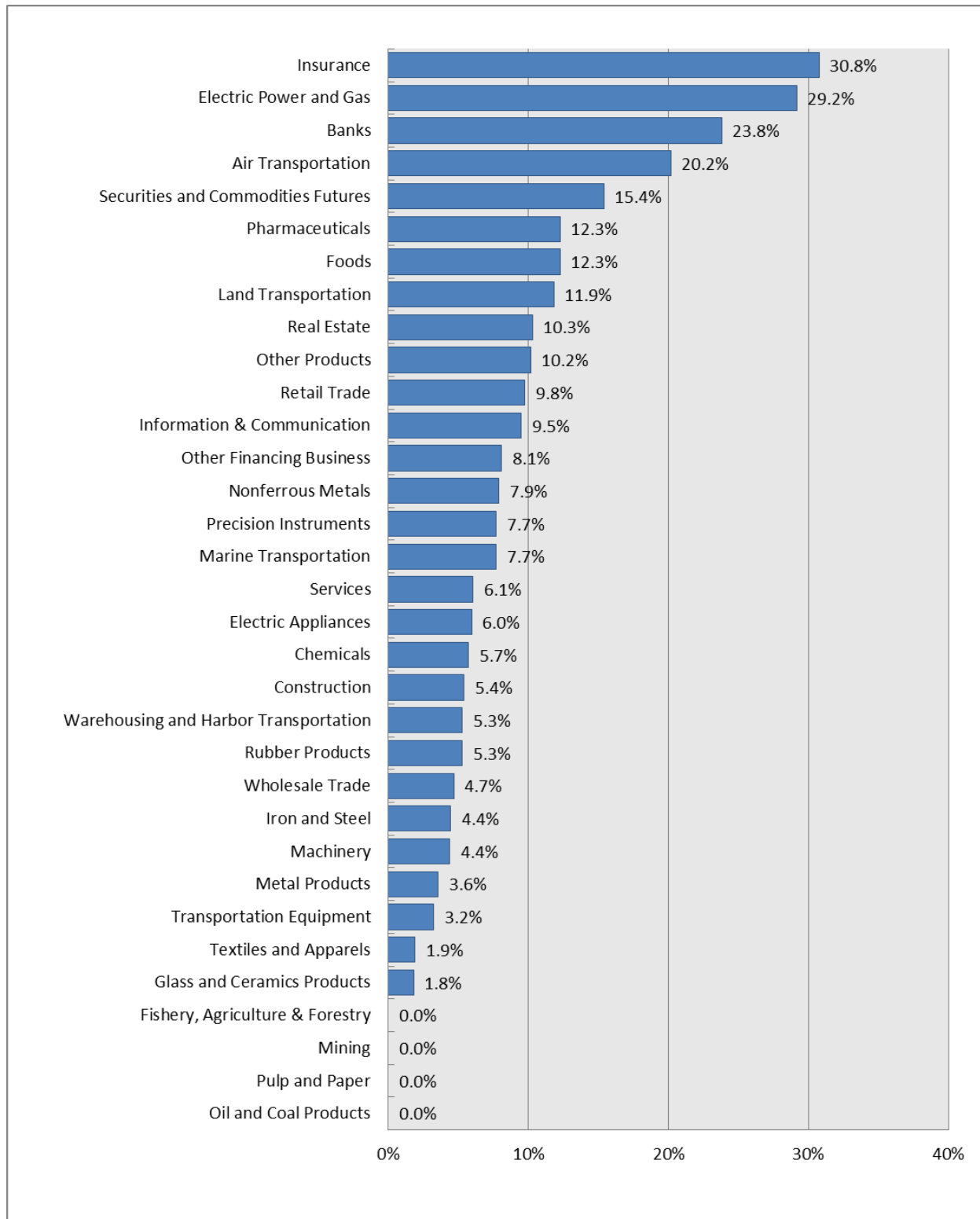
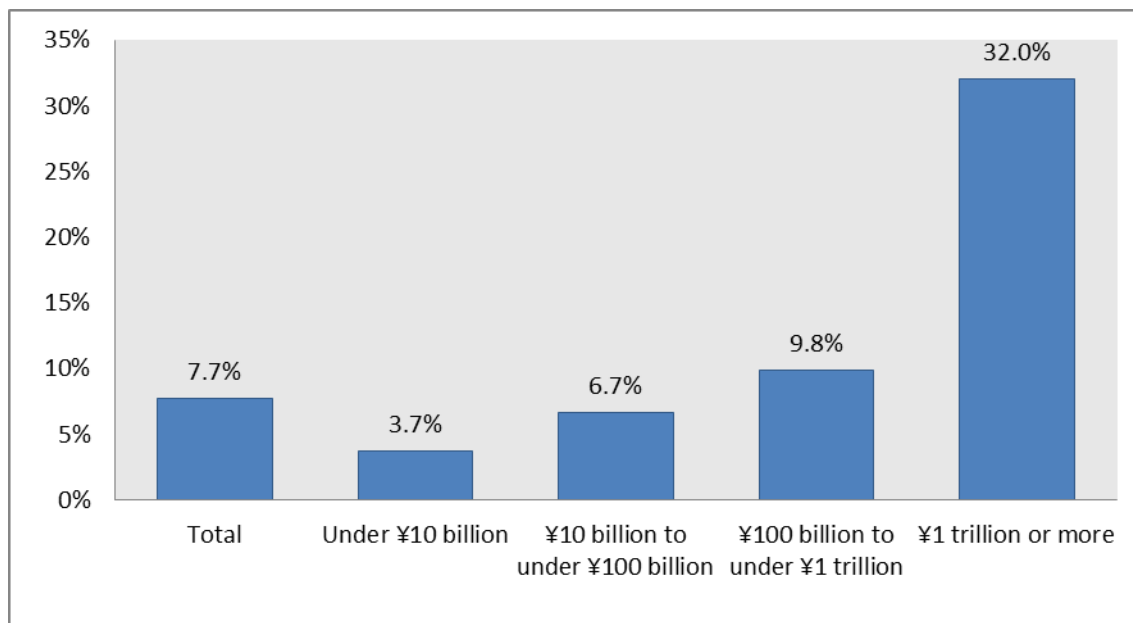


Chart 38 Appointment of Female Corporate Officers (by Consolidated Sales)



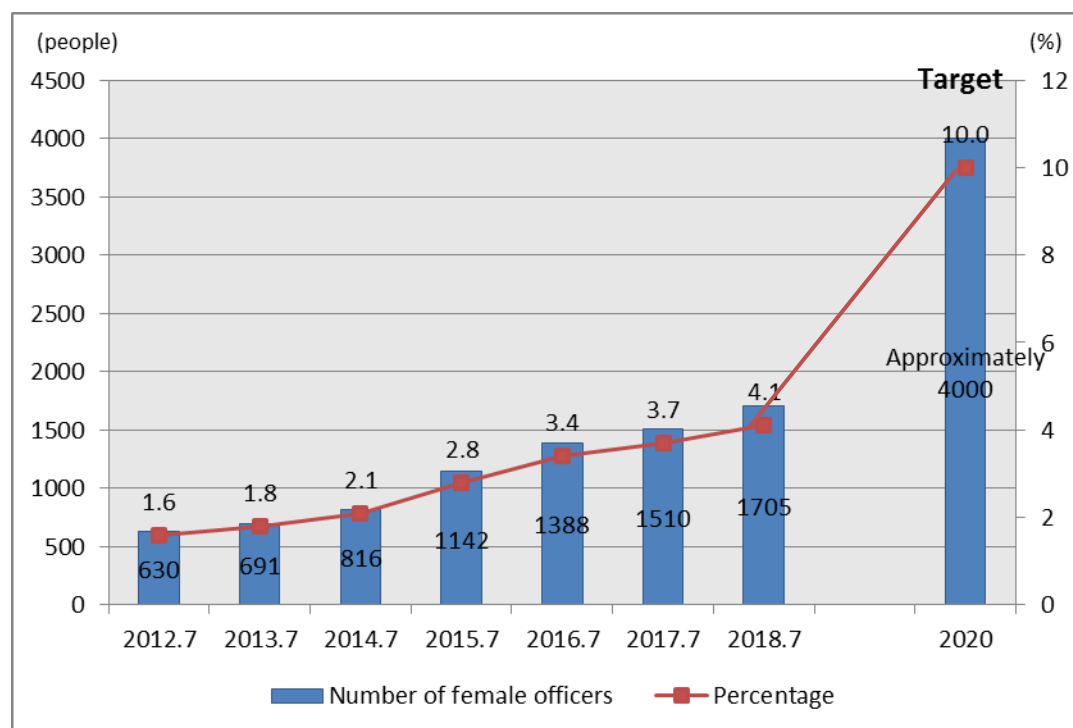
In terms of disclosures stated regarding the appointment of women to officers, the majority of companies stated the number of female corporate officers at the company itself or the entire corporate group. Companies that did not state that they have appointed women to officer positions had disclosures regarding policies such as a “policy to promote women to officers depending on their abilities” and a “policy to develop women managers”, or disclosures regarding ratios such as the “women employee ratio” or “women management position ratio”.

[Column 2] Visualization of promotion of women's active participation

Promotion of the active participation of women is important for the sustainable growth of Japan, and is one of the priority issues of the Abe Cabinet. This is due to the fact the involvement of women in decision making by companies not only leads to the incorporation of diverse values in corporate management, but also leads to the promotion of innovation at organizations that are accepting of diverse values, improvements in the competitiveness and social reputation of companies, and improvements in corporate value.

In April 2013, Prime Minister Abe called on the economic community and requested listed companies to actively promote women to officer and manager positions to achieve the government's target of 30% by 2020, and as a result, the number of female officers at listed companies has steadily increased, growing by approximately 2.7 times from 630 female officers to 1,705 female offices at listed companies during the period of six years from 2012 to 2018³⁷³⁸.

Chart 39 Number of Female Officers at Listed Companies



Source: Gender Equality Bureau Cabinet Office August 3, 2018

In addition, moves to look at the status of active participation by women in the capital markets started with the Review Meeting on the “Visualization” of the Active Participation of Women in the Capital Market that was established by the Cabinet Office in FY2012. In addition, from FY2013 a survey was conducted on disclosure of the state of women's active participation in the CG Reports, and the survey was conducted on not only the

³⁷ Gender Equality Bureau Cabinet Office August 3, 2018 (<http://www.gender.go.jp/policy/mieruka/company/yakuin.html>)

³⁸ The ratio of female officers in Japan in 2018 was 4.1%, which is still a low level when compared with the ratio of female officers in various foreign countries such as Norway (38.7%), France (34.4%), the UK (23.2%), Germany (22.6%), and the US (17.9%) (the ratios are for 2015, the source is the same as Note 37).

status of quantitative disclosures, but also on best practices and the information disclosure systems of various countries. Afterwards, a survey was conducted on not only the CG Reports, but also CSR reports and integrated reports.

Furthermore, in 2018, the usage of information on the advancement of women from the perspective of ESG investment was followed up on³⁹, and in investigative research on this theme, almost 70% of institutional investors answered they use information on women's active participation because they think that "such information has a long-term impact on business performance".

Four key points for how promoting women's active participation leads to growth that were revealed through interviews with institutional investors in this research were "innovation (new initiatives through revisions as a result of the incorporation of the perspectives of women in positions only men have handled in the past)", "productivity increase by working-style reform", "talent acquisition", and "risk reduction through diversity (there are early insight through the establishment of diversity in decision making and judgments)". In addition, five key points for disclosure of information on women's active participation that institutional investors place importance on were as follows: "1. The importance of disclosing what is thought to be 'obvious'", "2. Presenting the relevance for business strategy instead of only listing numbers", "3. Upper management's projection of its stance, which ties into actual measures", "4. Data that allows for comparison over time", and "5. KPIs having been set".

³⁹ Gender Equality Bureau Cabinet Office FY2018, "Women's advancement and information disclosure: what institutional investors look for"

2-5. Fulfill Function of Corporate Pension Funds as Asset Owners (Principle 2.6)

Principle 2.6 requires companies to take and disclose measures to improve deployment of human resources and operational practices and to appropriately manage conflicts of interest which could arise between pension fund beneficiaries and companies to ensure that corporate pension funds fulfill their functions as asset owners. This is a principle that was newly added when the Code was revised in June 2018, and some factors underlying the addition of this principle include the awareness of the issue that corporate pension funds that positioned at very upstream are not fully performing their role and function as asset owners in a manner that will truly benefit beneficiaries in the optimization of the entire investment chain from corporate pension funds (asset owners) that provide funds to entrusted asset management institutions (asset managers) and companies invested in⁴⁰.

Among 239 institutional investors that are entrusted asset management institutions which have professed to follow Japan's Stewardship Code as of December 14, 2018, 14 institutions are corporate pension funds, and considering that there are 761 defined benefit corporate pension funds according to the Pension Fund Association (as of March 1, 2019), only a minority of corporate pension funds have adopted Japan's Stewardship Code yet.

One of the reasons that corporate pension funds are reluctant to adopt Japan's Stewardship Code is the significant challenge presented by a lack of specialized human resources. Because the human resources department is responsible for the corporate pension fund at many companies and fund directors, etc. often have a human resources background, in many cases such personnel lack specialized knowledge regarding the monitoring of asset management institutions.

In addition, under the recent Code revision, management of conflicts of interest between pension fund beneficiaries and companies is required. The reason for this is concerns that the circumstances of companies could take precedence over the interests of beneficiaries when exercising voting rights on companies invested in by corporate pension funds and selecting asset management companies.

The compliance rate for Principle 2.6 is 95.1% (2,493 companies), and the contents of the disclosures can be roughly classified into three types: “(1) companies that have introduced a defined benefit pension plan”, “(2) companies that have introduced a defined contribution pension plan”, and “(3) companies that do not have a pension plan”.^{41,42}

Among “(1) companies that have introduced a defined benefit pension plan”, there are many cases of descriptions on human resources and operational practices such as appropriate assignment of human resources and training for human resources, the establishment of an asset management committee, and the use of external consultants. In addition, some companies stated that they monitored asset managers as operational practices. In terms of the management of conflicts of interest, many companies stated that conflicts of interest were

⁴⁰ Note that under the Regulation for Enforcement of the Defined-Benefit Corporate Pension Act (Article 84, Paragraph 1, Item 2), it is necessary to make efforts to assign personnel with specialized knowledge and experience to make decisions on the composition of assets and there are provisions regarding efforts related to human resources measures. In addition, it is necessary for defined benefit pension funds with over 10 billion yen of assets to establish an asset management committee under the “Guidelines on the Roles and Responsibilities of Personnel Involved in Asset Management Related to Defined Benefit Corporate Pension Funds”, and the same approach as the revised Code can be seen in laws, regulations, guidelines, etc.

⁴¹ Companies that do not have a pension plan (3) are totaled as companies complying with Principle 2.6.

⁴² There are also companies that have introduced both a defined benefit pension plan and a defined contribution pension plan, and which have disclosed measures regarding the respective plans.

“appropriately managed by an asset management committee, etc.”

Among “(2) companies that have introduced a defined contribution pension plan”, there were disclosures on conducting employees education on defined contribution pension plan and the appropriate selection of asset management institutions. In the case of a company that has introduced a defined contribution pension plan, although it is not assumed that the company fulfills a direct role or function as an asset owner because employees select investment products and make investments on their own, it is necessary to develop an appropriate environment from the perspective of pension asset formation by employees.

If we analyze keywords used, among companies complying with Principle 2.6, keywords related to the form of pension included “defined benefit” (594 companies, 23.8%), “contract-type” (138 companies, 5.5%), and “defined contribution (401K)” (517 companies, 20.7%).

In addition, keywords related to efforts to fulfill the function as asset owners included “human resources” (657 companies, 26.4%) and “specialism (expertise, experts, etc.)” (576 companies, 23.1%). In addition, based on the aim for appropriate management of the pension fund from a multifaceted perspective through committees, etc., 564 companies (21.5%) mentioned a “committee (asset management committee)” and 545 companies (21.9%) mentioned “accounting” or “finance” as departments besides the human resources department involved in the asset management committee as participants.

Moreover, 72 companies (2.9%) mentioned the use of “(external/asset management) consultants” and 836 companies (33.5%) mentioned the “monitoring” of asset managers, and many of these companies stated that they were complying with the intent of the Code by appropriately monitoring the exercise of voting rights by asset managers.

In addition, 297 companies (11.9%) mentioned stewardships (Japan’s Stewardship Code, stewardship activities, etc.), and many of these companies stated that they selected asset managers that have accepted the Stewardship Code (Chart 40).

Looking at individual cases, like in [Example 1], there are companies which state that they dispatch human resources with specialized knowledge and skills to corporate pension funds while appointing external advisors to supplement their specialties. In addition, in the management of conflicts of interest between pension fund beneficiaries and the company, a decision-making process is described in which conflicts of interest are appropriately managed through final decisions made by a governing board after gaining the approval of an asset management committee with members that include employees.

[Example 2] is an example of a company with a corporate pension fund that has signed Japan’s Stewardship Code, and states that ESG investments were started at the same time as the signing of Japan’s Stewardship Code by that company’s corporate pension fund (however, it also states that human resources are not currently sufficient and that the support of the financial department is being received).

[Example 3] describes how decision regarding the exercise of voting rights are being left to the discretion of the asset management company to remove any possibility of interference by the company.

[Example 1]

The ● Corporation Pension Fund (hereinafter, the “● Fund”), which assumes management of domestic defined benefit pension plan as ● Corporation’s corporate pension plan, manages its assets in line with its Basic Pension Plan Management Policy (hereinafter, the “Policy”) which was set to secure beneficiaries’ rights of benefit and to stabilize company’s contribution liability.

In order to realize prudential and appropriate asset management structure in ● Fund, ● Corporation appoints asset management director of ● Fund who should have proper knowledge and skills, based on the nomination by general manager of finance department, and ● Fund appoints external advisor to supplement their specialties in asset management.

Based on the Policy, decisions on fund management are made by governing Board of ● Fund after approval of asset management committee. Members of said committee include representative employees of ● Corporation, by which conflicts of interest between ● Fund and ● Corporation is properly controlled. ● Fund issues asset management policy letter to newly appointed asset management fund and periodically reviews and evaluates funds’ compliance status based on said policy letter.

(Electric Appliances)

[Example 2]

Given the importance of human capital, the “●●● Corporation Pension Fund (“the Fund”)” adopted the Corporate Stewardship Code in February 2018 and commenced ESG investment as part of corporate governance reform. Going forward, the Fund will strive to maximize pension returns, and improve the Fund by enhancing human capital, etc. Currently, the Fund does not have sufficient resources in place, and there is a framework for the finance department to provide support to the Fund. In the future, the Company will work to distribute sufficient resources including the deployment of staff who have the requisite experience and qualities, and striving to develop such staff, etc. in order for the Fund to be able to fulfill its expected function as asset owner.

Major decision making on asset management is decided and confirmed by a representative committee based on deliberation of an asset management committee. While the finance department provides support as a member of the asset management committee, the composition of the representative committee has the talent management department as its core member, and since the finance department has no authority to make decisions, the Company believes that this system is able to appropriately manage conflicts of interest.

<https://pop.html> (●●● Corporation Pension Fund Principles of a Responsible Institutional Investor)

(Pharmaceuticals)

[Example 3]

(Excerpt) Furthermore, for stocks of listed companies in Japan, management is entrusted to asset management institutions that profess to follow Japan’s Stewardship Code, and stewardship activities are monitored. Conflicts of interest which could arise between corporate pension fund beneficiaries and the Company are managed appropriately as follows: 1) when selecting asset management institutions, the Company carries out a comprehensive assessment that covers not only quantitative aspects such as investment performance, but also qualitative aspects such as an institution’s investment policy, management framework, and compliance, 2) asset management institutions are required to formulate and disclose a policy regarding the management of conflicts of interest, and 3) decisions regarding the exercise of voting rights are left to the sole discretion of the entrusted asset management institution to remove any possibility of interference by the Company.

(Electric Appliances)

Chart 40 Keywords Related to Fulfilling Function as an Asset Owner

Item	Number of companies	Ratio
Companies complying with Principle 2.6	2,493 companies	100%
■ Related to form of pension		
Defined benefit	594 companies	23.8%
Contract-type	138 companies	5.5%
Defined contribution (401K)	517 companies	20.7%
■ Related to efforts		
Human resources	657 companies	26.4%
Specialism (expertise, experts, etc.)	576 companies	23.1%
Committees (asset management committee)	564 companies	21.5%
Accounting and finance	545 companies	21.9%
■ Others		
Consultant	72 companies	2.9%
Monitoring	836 companies	33.5%
Stewardship	297 companies	11.9%

[Column 3] Disclosures on efforts related to ESG

Recently, there has been growing interest in capital markets on efforts by companies related to ESG (environment, social, and governance). In light of the lessons learned from the over emphasis on the short-term investments during the global financial crisis in 2008, there has been a global shift in focus toward long-term investment, and as of 2018, the ESG investment balance was USD 30.7 trillion⁴³, which is a 34% increase in the global investment balance from 2016.

The presence of ESG investment is also rapidly growing in Japan, and the signing of the Principles for Responsible Investment (PRI) that incorporate ESG in the investment process by Japan's Government Pension Investment Fund (GPIF) in September 2015 has triggered the spread of ESG investment in the asset management industry in Japan. Although the ESG investment balance in Japan in 2018 was USD 2.1 trillion and this accounted for 18.3% of the entire investment balance, this is still a low amount when compared with global levels.

In addition, the GPIF selected indexes composed of companies excelling in ESG in July 2017 and started investments of about 1 trillion yen, which has led to rapidly growing interest regarding ESG investments by listed companies as well. In addition, in engagement by institutional investors with companies invested in, there has been a recent increase in investors conducting engagement on the response to the "environment" and "social" themes in addition to "governance", which has conventionally been an engagement theme. In the recommendations and research on "Approaches toward Enhancing Equity Value" that is released by the Life Insurance Association of Japan every year, "the enhancement of disclosures on ESG information" was proposed as a new requirement for listed companies in the survey for FY2017. In addition, 41.2% of institutional investors have called for the enhancement of disclosures on non-financial information including the environment and social according to this survey.

In response to this growth of interest toward ESG among investors and shareholders, more listed companies have started to disclose non-financial information including ESG. For example, as shown in Chart 41, there has been a recent dramatic increase in the number of companies issuing an integrated report, and an integrated report was issued by 411 companies in 2017. In addition, according to a field survey on general meetings of shareholders conducted by the National Kabukon Association in 2018, 23.8% of companies disclosed the details of activities including ESG on convening notices for the general shareholder meeting, and this would be up to 40% of companies if companies with plans for such disclosures in the future are included. Over the past several years, there have been more cases of disclosures on ESG efforts in financial results briefing materials and medium-term management plans explanatory materials, etc., reflecting the growing interest of companies toward such efforts.

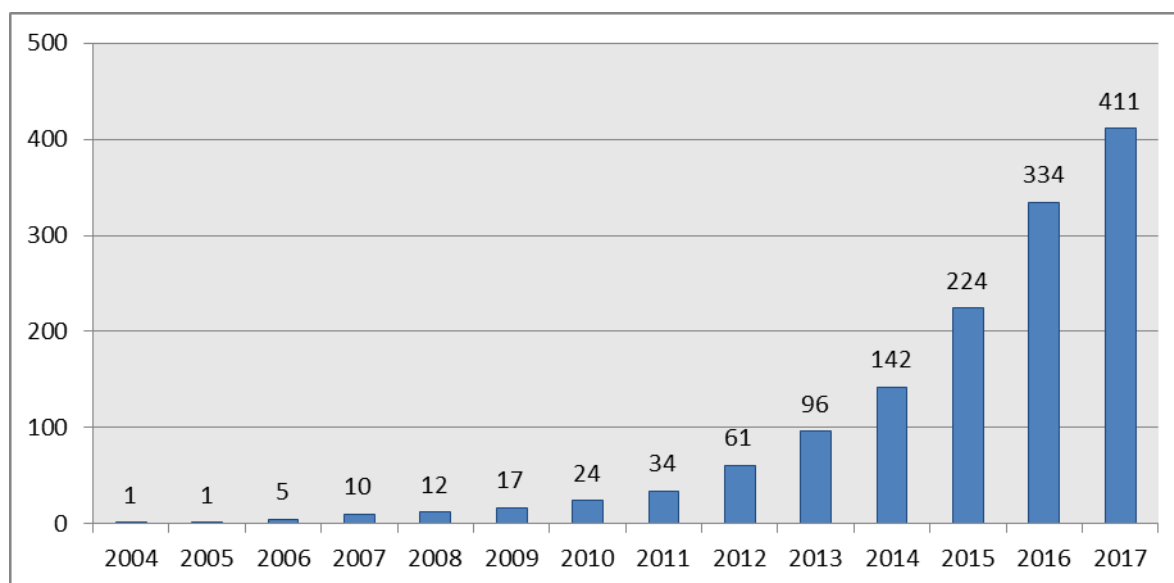
ESG themes for which there is growing interest in capital markets on a global level include the active participation of women and efforts in response to climate change (low carbon). While details of efforts related to the active participation of women are described in "2.4 Descriptions regarding the "visualization" of state of women's active participation in the capital market" and "[Column 2] Visualization of promotion of women's active participation", as examples of recent trends in the capital market, major institutional investors established policies to make opposition votes toward election of CEOs invested in who do not have female officers, and a

⁴³ GSIA (2019) 2018 Global Sustainable Investment Review

major proxy advisory firm announced a recommendation to oppose the election of directors believed to have a responsibility toward the absence of female officers at Japanese companies from 2019. In addition, under Principle 4.11 of the revised Code, the board of directors should incorporate diversity including gender, and it is expected that more listed companies will newly appoint female officers going forward.

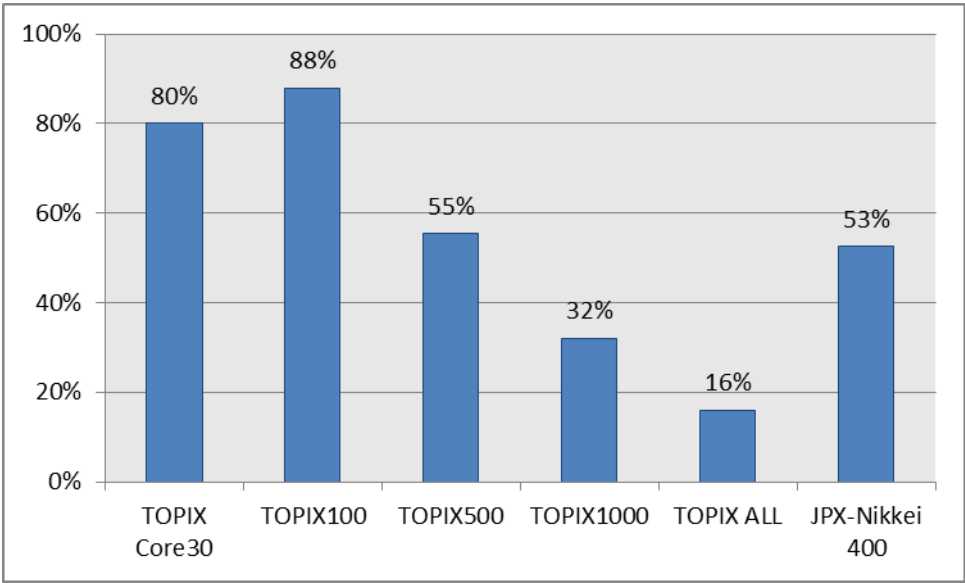
Furthermore, efforts in response to climate change (low carbon) are also beginning to spread. In 2016, the FSB Task Force on Climate-related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB), which is an international organization that aims to stabilize the financial system, and has made recommendations aimed at understanding and disclosing the financial impact of risks and opportunities brought about by climate change. Although cases are limited, some companies started to make disclosures according to the recommendations of the TCFD in the integrated report and cases of disclosures including KPI on efforts in response to climate change and a low-carbon society in the financial results briefing, etc. Meanwhile, as shown in Chart 42, there are significant differences depending on size on the status of disclosures on emissions of greenhouse gases (carbon dioxide, etc.) by listed companies. While more than 80% of TOPIX Core 30 and TOPIX 100 companies have made disclosures on greenhouse gas emissions, the disclosure rate is lower for TOPIX 500 and TOPIX 1,000 companies.

Chart 41 Transition of Number of Companies Issuing an Integrated Report



Source: Disclosure & IR Research Institute, ESG/Integrated Report Research Department, “2017 Integrated Report Publication Status Survey [Final Report]”

Chart 42 Status of Disclosures on Emission Amounts of Greenhouse Gases (Carbon Dioxide, etc.)



Note: Stocks included in S&P/JPX Carbon Efficient Index used for presence of disclosure (1,692 companies), population is TOPIX overall companies

Source: Totaled based on S&P/JPX Carbon Efficient Index

3. Ensuring Appropriate Information Disclosure and Transparency

Chapter 3 of the Code states the following regarding ensuring appropriate information disclosure and transparency.

[General Principle 3]

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk, and governance.

The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

It is essential for listed companies to conduct disclosures based on laws and regulations in a timely and appropriate manner in order to protect investors and ensure the reliability of capital markets. In addition, listed companies should also actively provide information not based on laws and regulations including company objectives (e.g., business principles), business strategies, and corporate governance besides financial information and disclosures.

This chapter will cover the contents of disclosures based on Principle 3.1 “Full Disclosure” for which disclosures are required in the CG Report. In addition to an analysis of the items that disclosure has been required in the CG Report, we will introduce in columns the status of the creation of corporate governance guidelines and the analysis of the trends among listed companies that disclose the CG Report in English.

3-1. Full disclosure (Principle 3.1)

Principle 3.1 requires information disclosure on the items in (i) to (v) below as full disclosure.

- (i) Company objectives (e.g., business principles), business strategies and business plans
- (ii) Basic views and guidelines on corporate governance based on each of the principles of the Code
- (iii) Board policies and procedures in determining the remuneration of the senior management and directors
- (iv) Board policies and procedures in the appointment and dismissal of the senior management and the nomination of directors and *kansayaku* candidates
- (v) Explanations with respect to the individual appointments, dismissals, and nominations in the appointment and dismissal of the senior management and the nomination of directors and *kansayaku* candidates based on (iv)

With the revision of the Code, it has become necessary to establish objective, timely, and transparent procedures for the dismissal of the CEO under the new Supplementary Principle 4.3.3, and under (iv) and (v) of Principle 3.1, it is necessary to disclose and explain the policies and procedures concerning dismissal as well as appointment and nomination.

Because there are many companies that already have disclosures on these matters through various disclosure

materials and forms of media that include annual securities reports, convening notices for the general shareholder meeting, the CG Reports, and corporate websites, a distinctive feature for these matters is that in many cases descriptions tell readers to refer to the materials that have already been disclosed. The compliance rate for Principle 3.1 was 91.5% (2,397 companies). The contents of the disclosures for (i) through (v) for companies in compliance with Principle 3.1 will be analyzed below.

(1) Company objectives (e.g., business principles), business strategies and business plans

Many companies already have disclosures on company objectives (e.g., business principles), business strategies and business plans in other forms of media, and accordingly disclosures such as “the company objectives (e.g., business principles), business plans and mid-term management plans are stated on our website” are common. If we analyze keywords used, 72.4% of companies (1,736 companies) include a keyword such as “website” , and 52.4% of companies (1,257 companies) state a specific URL. Other references included are financial results briefing (10.8% or 260 companies), summary of financial statements (8.1% or 193 companies), explanatory materials for the financial results (6.0% or 145 companies), business reports (2.8% or 67 companies), and convening notices (1.8% or 43 companies) (Chart 43).

In terms of specific examples, there are many cases of descriptions on only the name of the reference documents or URLs. While such descriptions would reduce the disclosure burden for listed companies, it has also been pointed out that from the perspective of users of the information, information can be hard to find if there is only references. On the other hand, there are cases such as displayed in [Example 1], in which an overview is described in the CG Report, and the details are stated on the website.

[Example 1]

1 Corporate philosophy

The “●● Way” has been prescribed as follows as a corporate philosophy which constitutes the foundation of the business activities of the ●● Group.

(1) Mission

Our mission is to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world, with products and brands of excellent value that are created from the consumer's and customer's perspective. This commitment is embraced by all members of the Group as we work together with passion to share joy with consumers and customers in our core domains of cleanliness, beauty, health and chemicals.

(2) Vision

We aim to be the global group of companies that is closest to the consumers and customers in each market, earning the respect and trust of all stakeholders.

(3) Values

1) *Yoki-Monozukuri*

2) Innovation

3) Integrity

(4) Principles

- 1) Consumer Driven
- 2) *Genba-ism*
- 3) Respect & Teamwork
- 4) Global Perspective

(For further details regarding the “●● Way,” please see www.●●.com/jp/corporate/about/policies/●●way/)

(Chemicals)

Chart 43 Keywords Related to Disclosures on Company Objectives (e.g., Business Principles), Business Strategies and Business Plans

Item	Number of companies	Ratio	Reference (As of July 2016)
Companies complying with Principle 3.1	2,397 companies	100%	100%
Website, etc. (HP, website)	1,736 companies	72.4%	72.8%
Individual URL stated (https://~)	1,257 companies	52.4%	51.8%
Financial results briefing	260 companies	10.8%	9.5%
Summary of financial statements	193 companies	8.1%	11.0%
Explanatory materials for the financial results	145 companies	6.0%	4.5%
Business report	67 companies	2.8%	3.1%
Convening notices	43 companies	1.8%	1.9%

(2) Basic Views and Policies on Corporate Governance

① Disclosure based on Principle 3.1 (ii)

Because disclosures similar to this item were already required under “Basic Views” in the CG Report and annual securities reports, there are many companies that clearly indicate the reference destination through a statement such as “basic views towards corporate governance are stated in the CG Report and the annual securities report”. According to an analysis of keywords, 52.1% of companies (1,250 companies) mentioned “governance report (including the CG Report, this report)”, 21.2% of companies (509 companies) mentioned “website, etc. (HP, website, etc.)”, 11.8% of companies (282 companies) mentioned “annual securities report”, and 15.2% of companies (365 companies) mentioned a reference URL.(Chart 44)

As a specific example, in [Example 2], the company’s basic policy is explained in consideration of the company’s operating environment, capital cost, etc. In [Example 3], “corporate governance guidelines” that have been summarized in consideration of the Code are referenced.

[Example 2]

(1) Under the group-wide corporate philosophy of “The ●● Group aiming to satisfy its customers with the highest levels of quality and integrity, while contributing to the promotion of healthy living and the enrichment of society worldwide,” the Company Group conducts business activities in the “Alcoholic Beverages,” “Soft Drinks” and “Foods” segments and the “International Operations” segment, under the command of ●● Group Holdings, Ltd., a pure holding company. In addition, the Company Group makes efforts to resolve social issues through our business activities in the three business activity domains of “Food and Health,” “The Environment” and “People and Society,” and sets out the respective material issues (key priorities) in each domain, toward the realization of a “sustainable society,” which is essential for developing our corporate activities.

(2) In the “Medium-Term Management Policy” which was formulated with an aim to realize the “Long-Term Vision,” the Company strives to further develop “Management for Corporate Value Enhancement” by setting the following three key priorities:

1. Strengthening of power of earnings generating by positioning the domestic profit base as the cornerstone of earnings and the overseas business as a growth engine

- Promotion of innovation and demonstration of leadership in the industry with high value addition and differentiation as key areas of focus

- Earning structure reforms and business model evolution through business integration and value chain sophistication

- Acquisition of foundations for growth, mainly in overseas markets, leveraging strengths originating in Japan

2. Asset and capital efficiency improvement that takes into consideration capital cost

- Capital efficiency improvement with an emphasis on equity spread (ROE – cost of shareholders’ equity)

- Business administration and business portfolio restructuring utilizing ROIC (rate of return on invested capital) as a performance indicator

3. Reinforcement of ESG initiatives to increase sustainability

- Upgrading of “hidden capital assets” such as nature, social capital, and personnel and its development toward a CSV strategy

- Implementation of “active corporate governance” that contributes to the practice of management to enhance corporate value

Furthermore, the “Medium-Term Management Policy” aims to enhance sustainable corporate value by positioning the “Long-Term Vision” and “Medium-Term Management Policy” as an “engagement agenda (agenda for constructive dialogues)” while assuring the flexibility of its corporate strategy by setting out a policy on a rolling basis in accordance with the changes in the business environment while indicating guidelines for Key Performance Indicator assuming for the coming three years.

(Foods)

[Example 3]

[Basic Policy on Corporate Governance]

The Company has formulated and disclosed the Corporate Governance Guidelines as a basic policy on corporate governance to clarify the Company’s specific initiatives and fulfill its duty of accountability to shareholders in pursuit of even higher levels of corporate governance to realize sustainable growth and improvement in corporate value over the medium to long term.

(Formulated May ●, 2015/revised June ●, 2018)

(URL)

(Construction)

Chart 44 Keywords Related to Basic Views and Policies on Corporate Governance

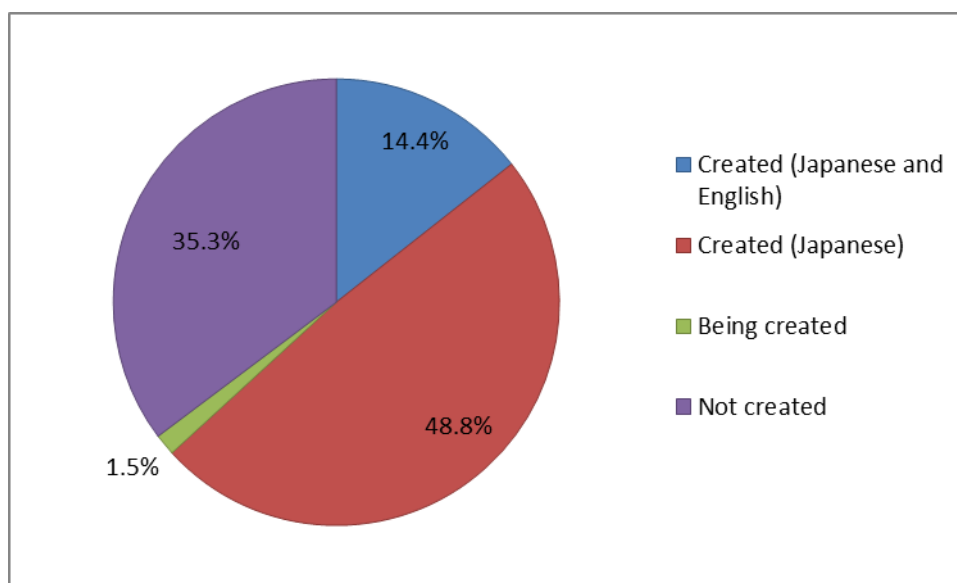
Item	Number of companies	Ratio	Reference (As of July 2016)
Companies complying with Principle 3.1	2,397 companies	100%	100%
Governance report, etc. (CG Report, this report, etc.)	1,250 companies	52.1%	50.0%
Website, etc. (HP, website, etc.)	509 companies	21.2%	20.8%
Individual URL (https://～)	365 companies	15.2%	15.2%
Annual securities report	282 companies	11.8%	10.9%

[Column 4] Status of the creation of corporate governance guidelines

Many companies have developed their own corporate governance guidelines. According to a survey by the National Kabukon Association, as shown in Chart 45, among the companies that responded to the survey, as of October 2018, 1,063 companies (63.2%) had created corporate governance guidelines and 242 companies (14.4%) had created an English CG Report in addition to a Japanese one. In addition, as shown in Chart 46, among companies that have created corporate governance guidelines, 797 companies (73.2%) have disclosed the guidelines in the CG Report and 699 companies (64.2%) have disclosed them through their own website.

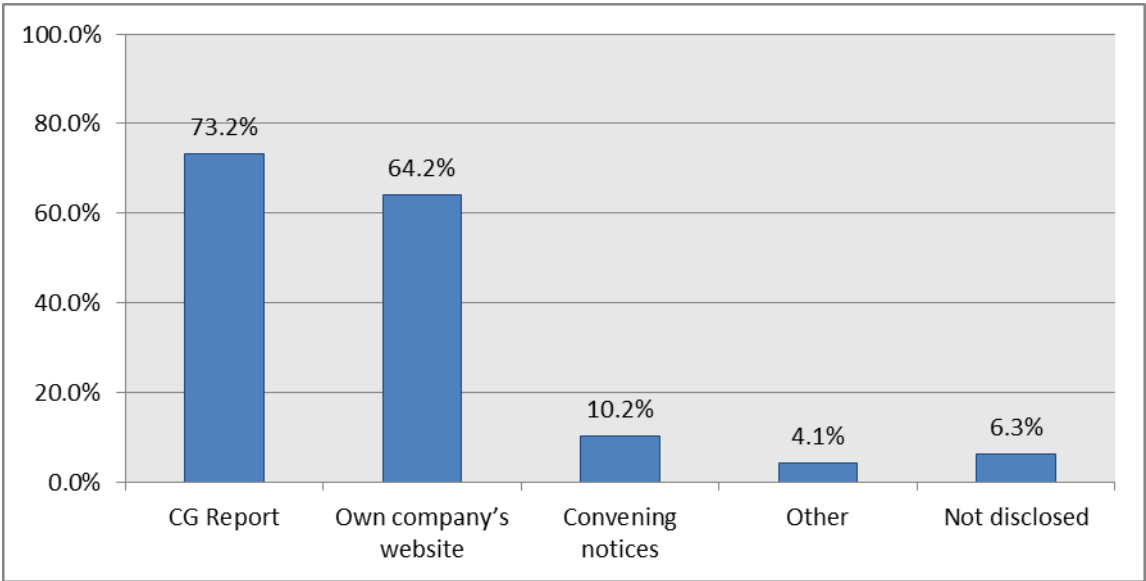
Corporate governance guidelines that systematically present a company's consistent approach to corporate governance can be useful in constructive engagement by shareholders and investors with companies invested in to provide an understanding of the governance structure of the company invested in. In addition, corporate governance guidelines can be a useful tool for providing an understanding to newly appointed officers of the view and status of corporate governance at the listed company. It is hoped that more companies actively use their own corporate governance guidelines.

Chart 45 Status of the Creation of Corporate Governance Guidelines



Source: Created based on FY2018 National Survey Report of the National Kabukon Association (questionnaire survey, population of 1,682 companies)

Chart 46 Disclosure Location of Corporate Governance Guidelines



(Note) The population is 1,089 companies that responded created or being created in Chart 45, multiple answers possible.

Source: Created based on FY2018 National Survey Report of the National Kabukon Association

② Basic Views on Corporate Governance

While Principle 3.1 (ii) requires the disclosure of basic views and policies on corporate governance, the CG Report has required listed companies to describe basic policies for corporate efforts (including the background of such policies) and objectives of corporate governance in a specific and easy-to-understand manner as their basic views on corporate governance. As specific disclosures, the Reporting Guidelines suggest that they describe their views on shareholders and other stakeholders, views on the management monitoring function, and the group-wide perceptions, for instance. We will analyze the contents of this section below.

According to the Code, the achievement of effective corporate governance contributes to the sustainable growth of companies and the creation of mid to long-term corporate value. Looking at the disclosures for this section, mention is made of “mid to long-term”, “sustainable”, and “growth” by 28.4%, 49.0%, and 31.9% of listed companies, respectively (Chart 47). As a high percentage of listed companies (67.2%, 72.7%, 73.1%, respectively) mentioned the keywords of “corporate value”, “stakeholders”⁴⁴, and “transparency” that were keywords for this item in the previous survey, this suggests that transparency in the decision making process, positive relationships with not only shareholders but all stakeholders including employees, customers, business partners and local communities, and the creation of the corporate value through appropriate business activities have been broadly instilled as elements of basic views towards corporate governance. Looking at specific disclosures, many companies had descriptions such as “our basic principles of corporate governance are to enhance the efficiency and transparency of corporate management, and to improve the corporate value” and “establish good relationships with stakeholders”.

Regarding the management monitoring function, companies which referred to “monitoring” or “supervision” accounted for 38.5% of TSE listed companies. Looking at results by the form of organization, while the ratio was 38.3% in a Company with *Kansayaku* Board and the ratio was 36.7% in a Company with Supervisory Committee, the ratio in a Company with Three Committees was quite high 67.6%, and a Company with Three Committees is characterized by the focus on the oversight function of board of directors. While companies which referred to “execution” accounted for 32.7% of all TSE-listed companies, 32.6% of Companies with *Kansayaku* Board, and 30.4% of Companies with Supervisory Committee, a high percentage of Companies with Three Committees referred to “execution” (66.2%). A definite separation between business execution and supervision is a distinctive feature of Companies with Three Committees, and thus the higher percentage reflects the fact that many of them mentioned it in their descriptions.

The trend of companies focusing on corporate social responsibility has continued, and in this survey 24.6% of TSE-listed companies referred to “social responsibility”⁴⁵. It is worth noting that a continued trend of an emphasis on business activities in consideration of social responsibility as the basic policy of the companies, and the disclosure of these activities. Partly because discussions on corporate governance have been provoked by efforts for prevention of corporate scandals, “legal compliance”⁴⁶ and “internal control” were mentioned by 35.1% and 16.4%, respectively, of the companies from the viewpoint of soundness of management (Chart 47).

⁴⁴ Reference to “stakeholders” covers companies which mentioned one of the following keywords: “stakeholders”, “employees”, “local community”, “interested parties”, “customers”, “consumers”, “creditors”, “business partners” and “local residents”.

⁴⁵ Reference to “social responsibility” covers companies which mentioned one of the following keywords: “CSR”, “social responsibility” and “corporate ethics”.

⁴⁶ Reference to “legal compliance” covers companies which mentioned one of the following keywords: “legal compliance”, “compliance with laws and regulations” and “compliance”.

Chart 47 Basic Views on Corporate Governance

		Medium to long-term	Sustainable	Growth	Corporate value	Shareholder value	Shareholders
		Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
Total		28.4%	49.0%	31.9%	67.2%	5.1%	68.6%
Organizational form	Companies with Kansayaku Board	27.9%	49.1%	31.9%	66.5%	5.2%	67.6%
	Companies with a Supervisory Committee	28.5%	48.2%	31.8%	69.0%	4.6%	71.1%
	Companies with Three Committees	45.1%	56.3%	33.8%	71.8%	5.6%	74.6%

		Investor	Monitoring and supervision	Execution	Decision making	Internal control	Stakeholders
		Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
Total		11.1%	38.5%	32.7%	41.2%	16.4%	72.7%
Organizational form	Companies with Kansayaku Board	11.3%	38.3%	32.6%	41.4%	17.2%	73.2%
	Companies with a Supervisory Committee	10.8%	36.7%	30.4%	40.4%	14.6%	70.9%
	Companies with Three Committees	9.9%	67.6%	66.2%	45.1%	7.0%	76.1%

		Social responsibility	Legal compliance	Transparency	Efficiency	Soundness
		Ratio	Ratio	Ratio	Ratio	Ratio
Total		24.6%	35.1%	73.1%	19.3%	26.5%
Organizational form	Companies with Kansayaku Board	25.0%	36.4%	72.8%	19.2%	26.5%
	Companies with a Supervisory Committee	23.3%	32.4%	73.8%	19.1%	27.1%
	Companies with Three Committees	23.9%	19.7%	74.6%	21.1%	18.3%

(3) Policies and procedures for deciding on remuneration

① Disclosure based on Principle 3.1 (iii)

Principle 3.1 (iii) requires the disclosure of the policies and procedures for determining the remuneration of the senior management and directors by the board of directors. There are many companies that already had disclosures on the policy for determining the remuneration of officers in the CG Report and annual securities report before the application of the Code, and 19.1% of companies (457 companies) included the keyword “corporate governance report”, etc. and 9.1% of companies (217 companies) included the keyword “annual securities report”. However, compared to Principles 3.1 (i) and (ii), only a few companies refer to other disclosure materials. Perhaps this is because this item is not covered by existing disclosures for most companies, as it is necessary to disclose both the policies and procedures for determining the remuneration of officers.

The majority of companies mentioned “performance”, or 51.9% of companies (1,244 companies), and it is considered that most companies decide on the remuneration of officers considering their performance. In addition, 47.9% of companies (1,149 companies) mentioned “general shareholder meeting”, and there were mentions of cases of the limits for total remuneration decided on by the general shareholder meeting.

Furthermore, 32.0% of companies (766 companies) mentioned “outside directors”. There were cases of the opinions of outside directors being incorporated in the remuneration decision process and cases of a separate remuneration limit for outside directors from inside officers.

In terms of the policies for deciding on the remuneration of officers, many companies had separate disclosures on fixed remuneration (basic remuneration) and bonuses, and performance-based remuneration. There were many companies that clearly stated that fixed remuneration (basic remuneration) was set in consideration of roles and responsibilities. In terms of the elements of fixed remuneration (basic remuneration), 20.7% (495 companies) mentioned “responsibilities/duties” , and 18.1% (434 companies) mentioned “roles/rank”. In terms of elements of performance-based remuneration, “performance” as described above was most frequently mentioned, and there were also companies that mentioned “sales” , “profits (operating profit, ordinary profit, net profit)” , “ROE/ROA” and “dividends”. In addition, there were also companies that mentioned they referred to “standard levels” and “data provided from external institutions”. 16.8% (403 companies) mentioned performance-based remuneration, 14.1% (339 companies) mentioned stock-based remuneration including stock options, and 10.8% (260 companies) mentioned incentives. The number of companies that mentioned stock-based remuneration has increased since 2016, which suggests that stock-based remuneration has spread. 8.9% of companies (214 companies) stated that they conduct “comprehensive consideration or judgments” on multiple factors (Chart 48).

In terms of the procedures for deciding on the remuneration of officers, a little under half of companies mentioned “ general shareholder meeting ” (47.9% or 1,149 companies). 23.6% (566 companies) mentioned a “remuneration committee, etc.” (Chart 49). It seems that there are many companies that used the revision of the Code as an opportunity to newly establish optional remuneration committees in order to ensure the transparency of the process for deciding on the remuneration of officers (refer to “4-11 Committee, etc., (2) Remuneration”).

[Example 5] is an example of detailed disclosures on remuneration decision policies and procedures. It explains basic remuneration based on position and duties, the stance towards performance-based remuneration, and the introduction of stock-based remuneration based on a trust scheme, including the makeup percentages of each element. In [Example 6], it states that basic remuneration is set based on levels in consideration of industry standards and the results of surveys by external research institutes, and that “stock-based remuneration” is provided as a mid to long-term incentive. Characteristics of disclosures related to bonuses in this example include clearly stated management indicators such as consolidated operating cash flows, consolidated ROE in addition to the degree of achievement of initially planned consolidated ordinary income, a bonus factor that gets higher depending on the position, and bonuses that are not paid as a general rule if consolidated ordinary income falls a certain level below the initial results projections.

Chart 48 Keywords Related to Policies for Determining the Remuneration of Officers

Item	Number of companies	Ratio	Reference (As of July 2016)
Companies complying with Principle 3.1	2,397 companies	100%	-
Performance	1,244 companies	51.9%	51.0%
General shareholder meeting	1,149 companies	47.9%	44.9%
Outside directors	766 companies	32.0%	27.8%
Basic/fixed	763 companies	31.8%	20.7%
Consultation	513 companies	21.4%	18.4%
Responsibilities/duties	495 companies	20.7%	19.7%
Bonus	456 companies	19.0%	20.7%
Roles/position	434 companies	18.1%	16.5%
Performance-based	403 companies	16.8%	7.9% (Note 1)
Stock remuneration (stock options)	339 companies	14.1%	7.6% (Note 2)
Incentive	260 companies	10.8%	-
Profits	198 companies	8.3%	8.6%
Comprehensive consideration or judgments	214 companies	8.9%	8.5%

(Note 1) Although “performance-based remuneration” was counted in the 2016 survey, “performance-based” is counted this time.

(Note 2) Although stock remuneration and stock options were separately counted in the 2016 survey, stock options are included in stock remuneration this time.

Chart 49 Keywords Related to Procedures for Determining the Remuneration of Officers

Item	Number of companies	Ratio	Reference (As of July 2016)
Companies complying with Principle 3.1	2,397 companies	100%	-
General shareholder meeting	1,149 companies	47.9%	44.9%
Remuneration committee, etc.	566 companies	23.6%	13.6%

[Example 5]

The Company’s board of directors will decide on the remuneration of directors based on the following policies, etc., separately for directors who are not members of the Supervisory Committee and directors who are members of the Supervisory Committee.

1. Remuneration for directors who not are members of the Supervisory Committee

(1) Policies for deciding on remuneration

The remuneration of directors who are not members of the Supervisory Committee (including the chairman of the board, president, and representative director who constitute senior management) is composed of a. basic remuneration (fixed), b.

performance-based monetary remuneration (bonus), and c. performance-based stock remuneration in order to reflect corporate performance and better clarify the correlation with shareholder value.

However, the remuneration of outside directors will only consist of basic remuneration (fixed) from the perspective of prioritizing independence in light of their responsibilities.

a. The basic remuneration (fixed) of directors who are not members of the Supervisory Committee will be an appropriate amount in light of their rank, duties etc.

b. The performance-based monetary remuneration (bonus) of directors who are not members of the Supervisory Committee will be determined based on the degree of attainment, etc. of consolidated results (operating profit, net profit, etc.).

c. For the performance-based stock remuneration of directors who are not members of the Supervisory Committee, a share delivery trust framework will be used to deliver the Company's share and provide money based on share delivery points that are granted in accordance with the degree of attainment of consolidated results (net profit, ROE, etc.).

Note that b. performance-based monetary remuneration (bonus) and c. performance-based stock remuneration are set as appropriate percentage of overall remuneration in order to increase the motivation of directors to contribute to improvements in corporate results and medium to long-term corporate value.

In consideration of the policies above, currently the percentage of a. basic remuneration (fixed), b. performance-based monetary remuneration (bonus), and c. the basic amount (the base amount of performance-based remuneration if performance target attainment rate is 100%) of performance-based stock remuneration is set at roughly 70% for a., 20% for b., and 10% for c. In addition, the range of variability in remuneration linked to performance for b. performance-based monetary remuneration (bonus) and c. performance-based stock remuneration will be 0 to 200%.

(2) Procedures for deciding on remuneration

When deciding on the remuneration of directors who are not members of the Supervisory Committee, a Nomination and Remuneration Advisory Committee (with an independent director serving as the chairperson) composed of all independent directors and the president will hold deliberations, and then a specific decision will be made by the board of directors based on the findings this committee in order to ensure transparency and objectivity in the decision making process.

The basic remuneration (fixed) and performance-based monetary remuneration (bonus) of directors who are not members of the Supervisory Committee the total amount of remuneration for directors who are not members of the Supervisory Committee that has been approved by the general shareholder meeting. In addition, the amount and content of the performance-based stock remuneration will be within the amount and content that has been approved by the general shareholder meeting.

(Excerpt)

(Construction)

[Example 6]

The Company regards director remuneration as incentive for achieving sustainable growth and higher corporate value over the medium to long term in line with the Company Policy.

The remuneration of executive directors consists of a monthly fixed "base compensation," "bonuses" that is linked to single-fiscal-year business performance, and "stock-based compensation" that is set according to the level of achievement against the medium-term business plan.

For base compensation, a director remuneration table according to position is set out by referring to such information as industry standards and the results of director remuneration surveys by external research organizations. Remuneration

recommendations are calculated according to the roles and responsibilities of each director within the corresponding range in the table.

For bonuses, after putting forward a proposal for the total amount of director bonuses, a proposal for allocations of bonuses to individual executive directors is determined. The proposal for the total amount of bonuses is determined based on a comprehensive review of management ratios such as consolidated operating cash flow and ROE, in addition to the degree of meeting the initial plan figures for operating performance, especially consolidated ordinary income, over any given single fiscal year. Allocations to individual directors are determined in such a way that a higher-ranking director in the director remuneration table will have a higher bonus coefficient (i.e., the ratio of bonuses to the sum of base compensation and bonuses). The objective of this is to strengthen their commitment to achieve management targets over any given single fiscal year. In principle, no bonus will be paid if consolidated ordinary income is below a certain level against the initial earnings forecast.

Stock-based compensation in the form of “restricted shares” is granted to executive directors with the objective of sharing value with shareholders and establishing a remuneration framework that contributes to higher corporate value over the medium to long term. Transfer restrictions on the restricted shares will be removed if targets under the medium-term management plan are met within a fixed transfer restriction period. The shares are to be unrestricted according to the degree of achieving the targets.

Bonuses and stock-based compensation will not be paid to non-executive directors. Only base compensation will be paid to them according to their individual roles and responsibilities.

The remuneration of each director who is not an Audit and Supervisory Committee member is determined in accordance with the policy described above by resolution of the Board of Directors within a range set by approval of a General Shareholders Meeting. The Nomination and Compensation Committee is consulted before determining the remuneration.

The remuneration of each director who is an Audit and Supervisory Committee member is determined in accordance with the policy described above by unanimous resolution of the Audit and Supervisory Committee within a range set by approval of a General Shareholders Meeting.

In addition to the above, the Nomination and Compensation Committee examines the appropriateness of the policy, structure, and remuneration table and calculation rules on director remuneration, etc. and puts forward revision proposals.

(Retail Trade)

② Disclosure of individual director remuneration

Disclosures on the remuneration of officers as required under Principle 3.1 (iii) are already required in annual securities reports. Listed companies are required to disclose, in their annual securities reports, the total amount of remuneration, etc. for each category of officers, the total amount of each type of remuneration, etc., the total amount of remuneration, etc. of officers who receive 100 million yen or more, and the policy for determining officer remuneration. Regarding disclosure of individual director remuneration, the CG Report requires listed companies to select one of the following: “full disclosure of all individuals”, “partial disclosure” or “no individual disclosure on remuneration”.

The percentage of companies who do not disclose the remuneration of individual directors in the CG Reports for Companies with *Kansayaku* Board and Companies with Supervisory Committee is 90.9% and 92.8% respectively, while the percentage of these companies that make full disclosure of the remuneration on all directors is only 0.0% and 0.1%, respectively. In addition, while 9.0% and 7.1% of these companies disclose information on only psrt of directors, the majority of these companies discloses information on individual

officers who receive 100 million yen or more as required under laws and regulations (Chart 50 and Chart 51).

Looking at Companies with Three Committees, the percentage of companies who do not disclose individual remuneration is 76.1% for individual directors and 60.6% for individual *shikkoyaku*. The percentage of such companies that make full disclosure of such information for all members is 1.4% for directors and 2.8% for *shikkoyaku*, which is higher compared to Companies with *Kansayaku* Board and Companies with Supervisory Committee (Chart 52).

Chart 50 Disclosure of Director Remuneration (Companies with *Kansayaku* Board)

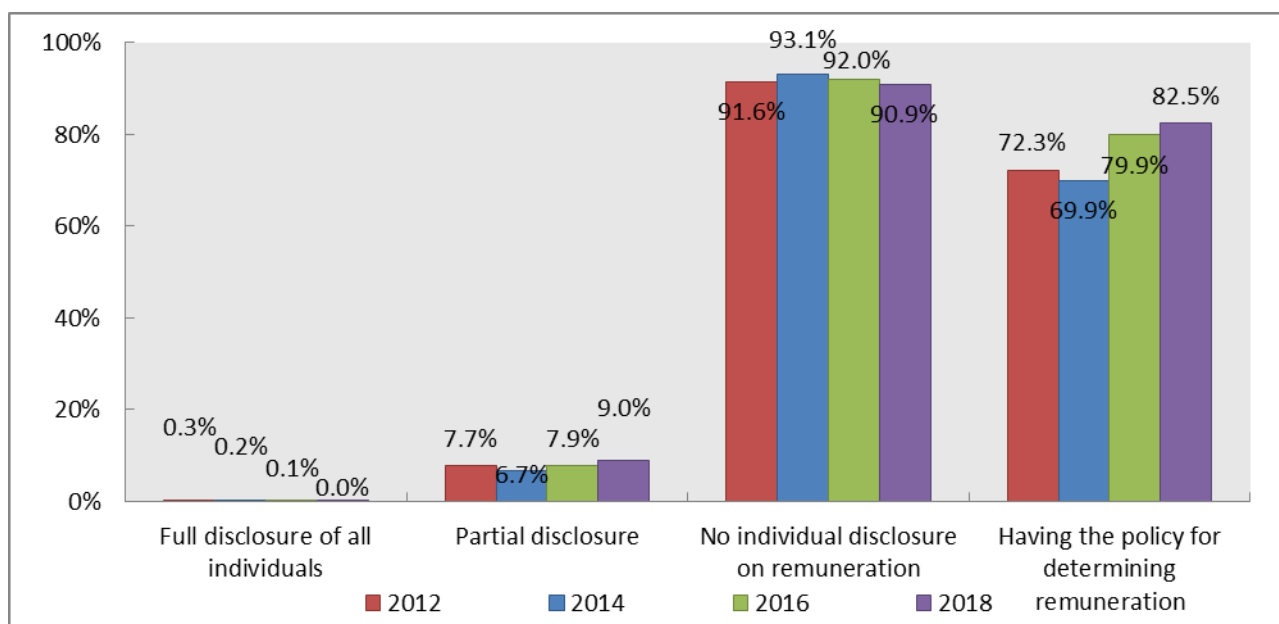


Chart 51 Disclosure of Director Remuneration (Companies with Supervisory Committee)

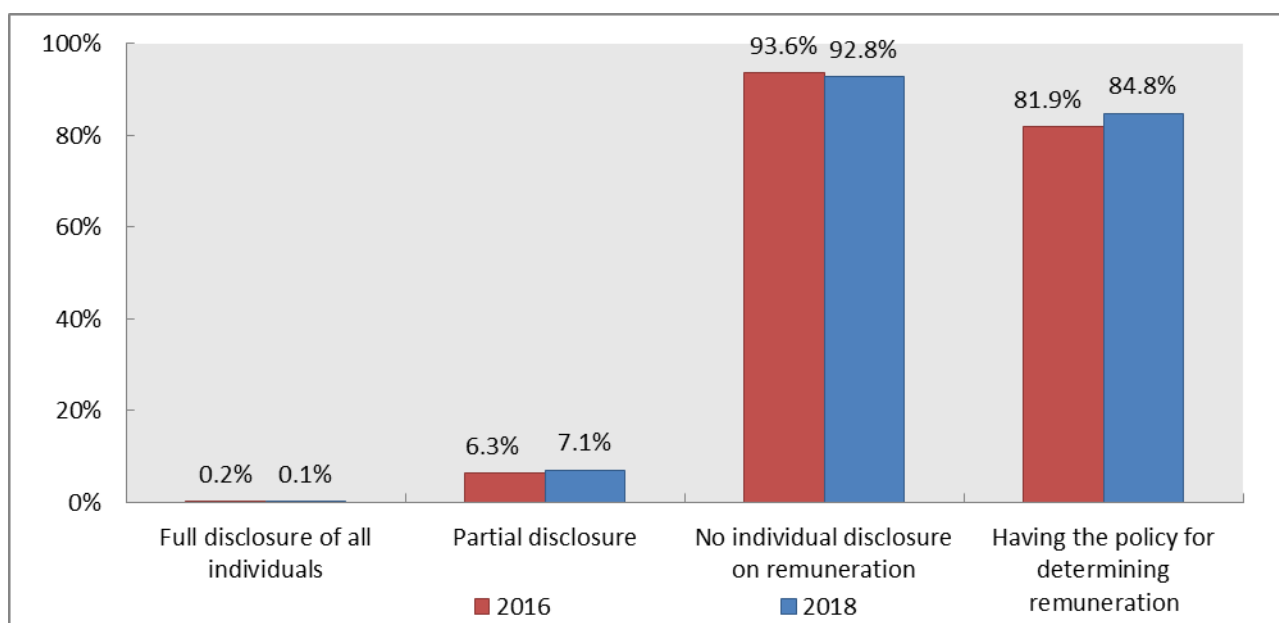
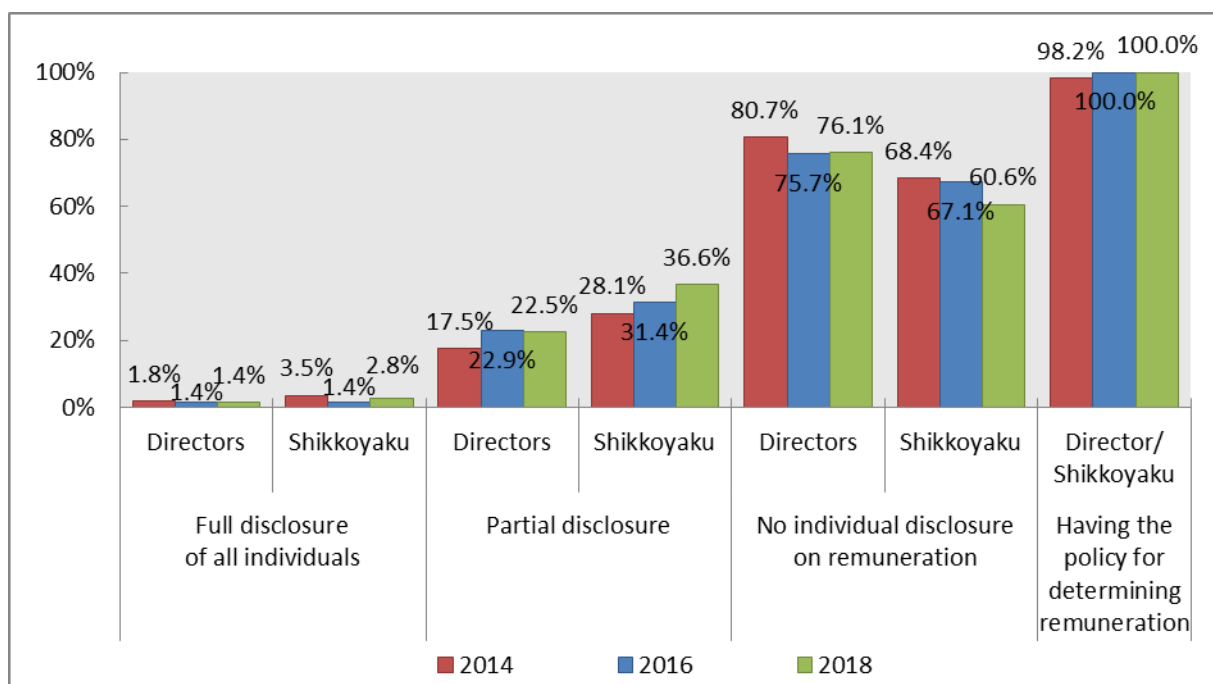


Chart 52 Disclosure of Director/*Shikkoyaku* Remuneration (Companies with Three

Committees)



③ Policy for determining remuneration amounts and calculation method

In terms of the policy for deciding on officer remuneration, in cases where a company has a policy on officer remuneration amounts, etc. or its calculation method, the company is required to provide a description on the content of such policy and method of determination in annual securities reports⁴⁷, while the CG Report requires listed companies to describe their policy for determining director remuneration amounts and its calculation method, where such policies are in place.

In the CG Report, the percentage of companies which reported that a decision policy on director remuneration amounts, etc. and its calculation method are in place accounted for 82.5% of Companies with *Kansayaku* Board, 84.8% of Companies with Supervisory Committee, and 100.0% of Companies with Three Committees (Chart 50 to Chart 52).

Analyzing the contents of descriptions by companies with a decision policy in this section⁴⁸, of the 2,998 companies with a decision policy, the majority of companies mentioned “performance” (59.3% or 1,777 companies), which suggests that consideration is given to performance in deciding on officer remuneration in the same manner as descriptions based on Principle 3.1 (iii). 9.8% (294 companies) mentioned “performance-based remuneration”, 17.5% (525 companies) mentioned “stock remuneration”, and 7.7% (231 companies) mentioned “stock options”. In terms of the decision process, 77.1% (2,310 companies) mentioned “general shareholder meeting”, 32.8% (984 companies) mentioned “outside directors”, and 13.2%

⁴⁷ Note that while there have been changes in disclosures regarding the remuneration, etc. of officers in annual securities reports, etc. relating to fiscal years ending from March 31, 2019 as a result of a revision in the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc., in this White Paper an analysis is conducted based on the disclosures regarding officer remuneration, etc. before the revision.

⁴⁸ While the scope of analysis for disclosures based on Principle 3.1 (iii) was 2,397 TSE First Section and TSE Second Section companies, the scope of analysis for this item was 2,998 companies with a policy for determining remuneration among all TSE-listed companies, so the population differs.

(396 companies) mentioned “remuneration committee, etc.”.

Note that there were 334 companies (11.1%) that stated that the remuneration of outside directors was not performance-based remuneration but fixed remuneration. In terms of the details of disclosures, many companies stated that only basic remuneration is provided to outside directors and no bonuses are provided as their position is independent from business operation.

(4) Policies and procedures for appointment and dismissal of the senior management and the nomination of officers

Because disclosures on the policies and procedures for appointment and dismissal of the senior management and the nomination of officers as required under Principle 3.1 (iv) were not required in annual securities reports, etc. only a few companies referred to the CG Report or annual securities reports, etc., and 3.4% (82 companies) mentioned “corporate governance report, etc.”, while 1.9% (46 companies) mentioned “annual securities reports”.

Regarding policies for the appointment of officers, many companies used keywords related to personal qualities, as 58.5% (1,403 companies) mentioned “experience”, 43.4% (1,040 companies) mentioned “abilities”, 39.2% (940 companies) mentioned “knowledge”, 34.2% (819 companies) mentioned “insight”, and 29.5% (707 companies) mentioned “character”. Keywords related to the expertise of candidates were also seen, such as “finance and accounting”, “law”, “corporate management (corporate manager, etc.)”, and “risk” (Chart 53).

Meanwhile, in terms of policies on the dismissal of officers newly required under the revised Code, many policies mentioned dismissals in cases of major violations of laws and regulations or the articles of incorporation, etc., as 54.1% (1,297 companies) mentioned “dismissal” (excluding “appointment and dismissal”) and 4.5% (107 companies) mentioned “discharge”. As for the reason for dismissal or discharge, 24.7% (591 companies) mentioned “violations (including violations of laws and regulations or the articles of incorporation)” and 11.9% (285 companies) mentioned “wrong doing” (Chart 54). There were also some companies that mentioned poor business performance as grounds for dismissal.

In terms of the procedures for the appointment and dismissal of officers, many companies clearly stated that a decision is made by the board in order for a resolution to be made by the general shareholder meeting, and 32.4% (777 companies) mentioned “general shareholder meeting” and 86.6% (2,076 companies) mentioned “board”. Some companies clearly stated that they respected the opinions and advice of outside directors, etc. in order to ensure the transparency, etc. of the appointment and dismissal process. Some companies also clearly stated that the involvement of an optional nomination committee, etc., as 21.4% (514 companies) mentioned the keyword “nomination committee, etc.” This is due in part to the fact that there has been an increase in the establishment of new and optional nomination advisory bodies with the revision of Supplementary Principle 4.10.1 that states that appropriate involvement and advice from independent directors should be sought through the establishment of independent advisory committees regarding nomination and remunerations (refer to “4-11 Committee, etc., (1) Nomination”).

83.4% (1,999 companies) mentioned “*kansayaku*” and “members of the supervisory committee”, as many companies clearly stated required qualities and a nomination process for *kansayaku* and members of the

supervisory committee were different from those for directors (Chart 55).

There are some specific descriptions for the “qualifications of directors and nomination and dismissal procedure”, “selection standards”, “dismissal standards”, and the “stance towards composition” for each directors and *kansayaku*, respectively, in [Example 7].

[Example 7]

[Qualifications of directors and appointment and dismissal procedures]

The appointment of candidates for directors will be decided on by the board, in consideration of the appointment criteria and stance towards the composition of the board, after discussion by the Nomination Advisory Committee.

(Appointment standards)

1. Have outstanding character and insight, an excellent sense of management, and familiarity with various management issues
2. Have a companywide perspective and excellent objective analysis and judgment abilities
3. Have excellent foresight and insight
4. Able to accurately understand the trends of the times, management environment, and market changes
5. Have strong desire to work towards self-improvement
6. Able to actively voice their opinion from a companywide perspective

Proposals on the dismissal of directors will be decided on by the board in consideration of the dismissal standards.

(Dismissal standards)

1. Conducted an act in violation of public order and morals
2. It has become difficult to continue their duties due to health reasons
3. Have caused significant damage to corporate value as a result of negligence of duties
4. Recognized as not having the qualities prescribed in the appointment standards

(Views on the composition of the board)

1. The board is composed of directors with diverse backgrounds including specialized expertise and experience.
2. The board will be composed of no more than 20 members including at least two outside directors as an appropriate number enabling the board to perform its functions in the most efficient and effective manner.
3. Internal directors will be composed to ensure exhaustive management oversight, centered around the chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), managers of each division, officers responsible for each business, technical department officers, and administrative department officers.
4. The board will be composed so that the various experience and knowledge of each director can complement the functions of the board overall so that the fiduciary duties of the board overall can be fulfilled.

(Excerpt)

(Construction)

Chart 53 Keywords Related to Policies for Appointment of Officers

Item	Number of companies	Ratio	Reference (As of July 2016)
Companies complying with Principle 3.1	2,397 companies	100%	-
Experience	1,403 companies	58.5%	54.8%
Ability	1,040 companies	43.4%	39.4%
Knowledge	940 companies	39.2%	36.9%
Insight	819 companies	34.2%	-
Character	707 companies	29.5%	27.1%
Finance and accounting	607 companies	25.3%	22.8%
Corporate management, corporate manager, etc.	452 companies	18.9%	17.5%
Balance	404 companies	16.9%	16.7%
Comprehensive consideration/judgment	390 companies	16.3%	14.1%
Laws, legal, etc.	322 companies	13.4%	12.4%
Diversity	235 companies	9.8%	8.6%
Risk	135 companies	5.6%	6.0%

Chart 54 Keywords Related to Policies for Dismissal of Officers

Item	Number of companies	Ratio
Companies complying with Principle 3.1	2,397 companies	100%
Dismissal	1,946 companies	81.2%
Discharge	107 companies	4.5%
Violations (violations of laws and regulation or violations of the articles of incorporation, etc.)	591 companies	24.7%
Wrong doing	285 companies	11.9%

Chart 55 Keywords Related to Procedures for Appointment and Dismissal of Officers

Item	Number of companies	Ratio	Reference (As of July 2016)
Companies complying with Principle 3.1	2,397 companies	100%	-
General shareholder meeting	777 companies	32.4%	18.9%
Board	2,076 companies	86.6%	80.6%
Nomination committee, etc.	514 companies	21.4%	14.3%
<i>Kansayaku</i> , members of the supervisory committee, etc.	1,999 companies	83.4%	83.9%
Outside directors	1,172 companies	48.9%	40.8%

(5) Explanations with respect to appointments and nominations of individual officers

Principle 3.1 (v) requires an explanation of the reasons for the individual appointments, dismissals, and nominations of officers. While it is necessary to state the reasons for appointment of outside officers on the convening notice under the Companies Act, this item also requires an explanation of the reasons for appointments of internal officers. In addition, an explanation of the reason for dismissal is newly required with the revision of the Code. Many companies respond by stating the reasons on the convening notice for the general shareholder meeting, and a general example would be something like “the reasons for the appointment or dismissal of candidates for directors and *kansayaku* are stated in the convening notice for the general shareholder meeting”. For this reason, companies mentioned keywords such as “general shareholder meeting” (85.4% or 2,046 companies), “convening notice” (75.8% or 1,816 companies), and “reference documents (reference documents for the general shareholder meeting)” (32.0% or 768 companies). In addition, some companies directly stated the reasons for appointment of officers, etc. in the CG Report like in [Example 8].

[Example 8]

○Explanations with Respect to the Reasons for Nominations of Candidates for Directors and *Kansayaku* by the Board of Directors

With respect to all candidates for directors and *Kansayaku*, the Company has clarified “Reasons for Nomination of the Candidate”

in relevant proposals for the election of the Notice of the Ordinary General shareholder meeting (Reference Document).

The “Reasons for Nomination of the Candidates” for six directors and two Kansayaku proposed for election at the ●th Ordinary General shareholder meeting are shown below. In addition, reasons for nomination for election of three *Kansayaku* other than two members identified above out of five members in the office of the *Kansayaku* as of the conclusion of the ●th Ordinary General shareholder meeting are also shown below.

[Directors]

● :

● has a proven track record in business management and is particularly highly regarded within the marketing field. As a result of this and other factors, the Company invited him to become President and CEO, and in April 2014 he assumed that office. Following his appointment as a director of the Company at the ●th ordinary general shareholder meeting held on June 25 that year, he was selected as representative director by the Board of Directors and since then has undertaken the mandate given by our shareholders to steer the Company’s management.

He continued working to implement our new strategy to accelerate growth geared to realizing the Company’s medium-to-long-term strategy “●” again in 2018, which was the first fiscal year of the three-year second phase of ●. As a result, the Company posted new record highs with respect to net sales, operating profit and net profit attributable to owners of parent company, with both net sales and operating profit for fiscal 2018 having exceeded the record-high levels achieved in fiscal 2017.

Due to these facts and the leadership that enables him to promote reforms, the Board of Directors has continuously selected him as a candidate for director.

(The ●th Ordinary General shareholder meeting)

● :

Since joining the Company, ● has handled work related to R&D and technology at ● Research Labs (currently ●), and possesses a wealth of experience in this field. After assuming the post of executive officer, he has served as officer responsible for areas of new growth and technology alliances, and has also been responsible for cosmetics information development and incubation, among other areas. He has thus contributed to the Company’s growth.

Due to these facts the Board of Directors has continuously selected him as a candidate for director.

(The ●th Ordinary General shareholder meeting)

● :

● worked at ● where he primarily handled the formulation of business strategies, and was also involved with the pharmaceutical industry and the healthcare field. He subsequently served as Head of International Human Resources for ●, where he worked on acquisition, development, and retention of the personnel necessary to conduct business operations in countries worldwide, handling the establishment of human resource systems and formulation of human resource strategies for 36 countries globally. Since joining the Company he has been responsible for supporting the design and establishment of the global human resource framework, and for formulating human resource strategies and systems for the Group.

Due to these facts the Board of Directors has continuously selected him as a candidate for director.

(The ●th Ordinary General shareholder meeting)

● :

● has a high level of knowledge in international corporate strategy, based on which he has actively made statements at meetings of the Board of Directors. He has achieved as outside director of the Company adequate role on supervising the execution of business. Also, as a Chairman of the Company’s Remuneration Advisory Committee and a member of Nomination Advisory

Committee, she attended the meetings of these Committees and actively expressed opinions.

He has not participated in management of companies other than as outside director and audit & supervisory board member. For the reasons stated above, however, the Company is of an opinion that he would be able to achieve adequately the role of outside director. Accordingly, the Board of Directors has decided to continuously select him as a candidate for outside director.

(The ●th Ordinary General shareholder meeting)

● :

● is a university professor and researcher specializing in legal studies, mainly with regard to companies and financial systems, with deep knowledge of law. He has also played important roles at the Legislative Council and Financial System Council, and has been involved in the establishment of the supervisory and examination systems of authorities such as the Financial Services Agency. He thus possesses a wealth of experience. Based on such knowledge and experience, he has actively made statements at meetings of the Board of Directors and has been contributing toward improving the effectiveness of the Board of Directors.

Also, as a member of the Company's Nomination Advisory Committee and Remuneration Advisory Committee, he attended the meetings of these Committees and actively expressed opinions.

He has not participated in management of companies other than as outside director and audit & supervisory board member. For the reasons stated above, however, the Company is of an opinion that he would be able to achieve adequately the role of outside director. Accordingly, the Board of Directors has decided to continuously select him as a candidate for outside director.

(The ●th Ordinary General shareholder meeting)

● :

● has experiences and knowledge gained through his career in business management inside and outside Japan as well as from a standpoint of active manager who is pushing forward patient-centered transformation of the medical industry. Based on which he has actively made statements at meetings of the Board of Directors and has achieved as outside director of the Company adequate role on supervising the execution of business. Also, as a Chairman of the Company's Remuneration Advisory Committee and a member of Nomination Advisory Committee, he attended the meetings of these Committees and actively expressed opinions.

For the reasons stated above, the Company is of an opinion that he would be able to achieve adequately the role of outside director. Accordingly, the Board of Directors has continuously selected him as a candidate for outside director.

(The ●th Ordinary General shareholder meeting)

[Audit & Supervisory Board Members]

● :

Since joining the Company, ● has built up a career primarily in the field of personal care, and possesses a wealth of experience in the Cosmetics business in Japan and its administration as Department Director of the Cosmetics Business Planning Department. In addition, he led the Cosmetics business in the Americas as Executive Vice President of ●, the holding company in the Americas. He also contributed to stable business operation for the Group by focusing on internal control as the Department Director of the Company's Internal Audit Department.

Furthermore, ● has experience and knowledge in financing, accounting and taxation. Due to these facts the Board of Directors has decided to newly select him as a candidate for Audit & Supervisory Board member.

(The ●th Ordinary General shareholder meeting)

● (newly appointed):

Since joining the Company, ● has developed a career focused on areas such as analyzing cosmetics markets and developing sales channels through consumer surveys. In the ● (previously), she subsequently played a leadership role in developing and operating

the new realm of supervising appearance care with respect to providing support to all those with concerns regarding their appearances particularly due to side effects of medical treatments and aging, by providing them with makeup solutions that help them be true to themselves in their day-to-day lives. In the Consumer Information Center (currently ●), she supervised consumer services and risk management while also promoting development of the “●” for aggregating consumer feedback from all over the world, sharing worldwide consumer feedback within the Company, applying it to management and communicating to the individual departments in the Company.

As described above, she has strived to implement the ● Group’s CSR activities and risk management, and to build relationships with consumers.

The Company is of the opinion that she would be able to fulfill functions of audit & supervisory board member drawing on such experience and knowledge. Thus, the Board of Directors has newly selected her as a candidate for audit & supervisory board member.

(The ●th Ordinary General shareholder meeting)

● (newly appointed):

● was the first female career bureaucrat in the Ministry of ● (currently the Ministry of ●) and served as Director of Tourism Promotion Bureau at ●. Meanwhile, she has an extensive network having held a succession of various important posts including that of Deputy Governor of ● Prefecture and Director General of the ● Institute.

After retiring from the Ministry of ●, she had joined ● Company and assumed some important posts in charge of tourism business. After served as Managing Director & CFO, she was appointed as a member of the Audit and Supervisory Committee of ● Company and thus she has a certain amount of experience and knowledge in finance and accounting as well as in business management.

The Company determined that she could monitor the legality and adequacy of directors’ execution of duties as a member of Audit & Supervisory Board utilizing her extensive experience. Thus, the Board of Directors has newly selected her as a candidate for outside audit & supervisory board member.

(The ●th Ordinary General shareholder meeting)

● :

● has held a series of important positions in the legal world, such as ●, he has wide-ranging experience and knowledge focused on the legal field. He also serves as outside Audit & Supervisory Board member in other companies and possesses a wealth of experience and keen insight. He has not participated in management of companies other than as outside director and Audit & Supervisory Board member. For the reasons stated above, however, the Company is of an opinion that he would be able to achieve adequately the role of outside Audit & Supervisory Board member. Due to these facts, the Board of Directors has selected him as a candidate for outside Audit & Supervisory Board member.

(The ●th Ordinary General shareholder meeting)

● :

● is a professor of ● and an expert in finance, accounting and tax issues qualified as certified public accountant. ● currently holds the office of outside director and outside Audit & Supervisory Board member for several companies and has affluent experience and a high level of knowledge.

● has not participated in management of companies other than as outside director and Audit & Supervisory Board member. For the reasons stated above, however, the Company is of an opinion that he would be able to achieve adequately the role of outside Audit & Supervisory Board member. Accordingly, the Board of Directors has continuously selected him as a candidate for outside

kansayaku.

(The ●th Ordinary General shareholder meeting)

(Chemicals)

[Column 5] Status of disclosure of English versions of the CG Report

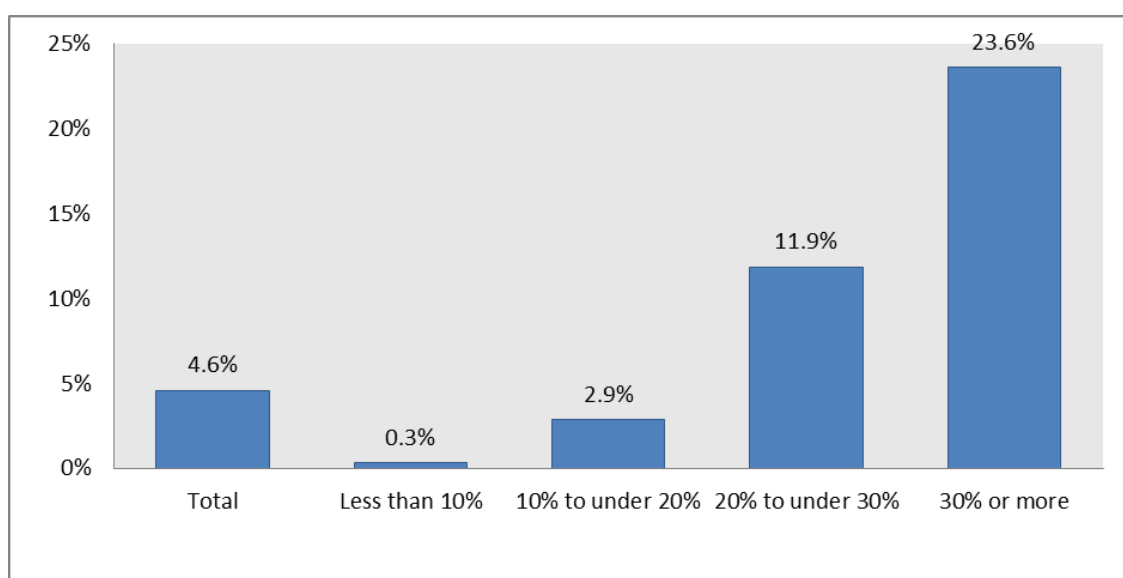
One of the major concerns of foreign investors who invest in Japanese companies is the status of corporate governance at the companies they invest in, and along with the increasing presence of foreign investors in capital markets in Japan, issues related to corporate governance such as the number of outside directors and their independence have been pointed out.

Supplementary Principle 3.1.2 of the Code stipulates that “Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.” Accordingly, disclosure of information in the English language is desirable, particularly for companies with a high percentage of foreign shareholders. However, the compliance rate with Supplementary Principle 3.1.2 is 70.5%, which is comparatively low. In terms of the reason for not complying, a common reason was that “English versions are not prepared because the current ratio of foreign investors is low, but that compliance would be considered in the future if this ratio increases.”

TSE encourages listed companies to communicate corporate information in English and to strengthen communication with foreign investors, etc. If an English version of the CG Report (a partial translation is acceptable) has been prepared, TSE encourages companies to register them to the TSE Company Announcements Service in English through TDnet. Through registration to this service, the English version of the CG Report is distributed to various information vendors that are used by overseas investors, and posted to the website of the Japan Exchange Group. A list and the CG Reports of companies that have released an English version of the CG Report through this service up until now is posted on the following website of the Japan Exchange Group⁴⁹.

Although 165 companies had prepared English versions of the CG Report as of July 13, 2018, they are all TSE First Section companies. Furthermore, as 118 of these companies, or 71.5%, are JPX-Nikkei 400 companies, such companies accounted for an extremely high percentage of English report creators.

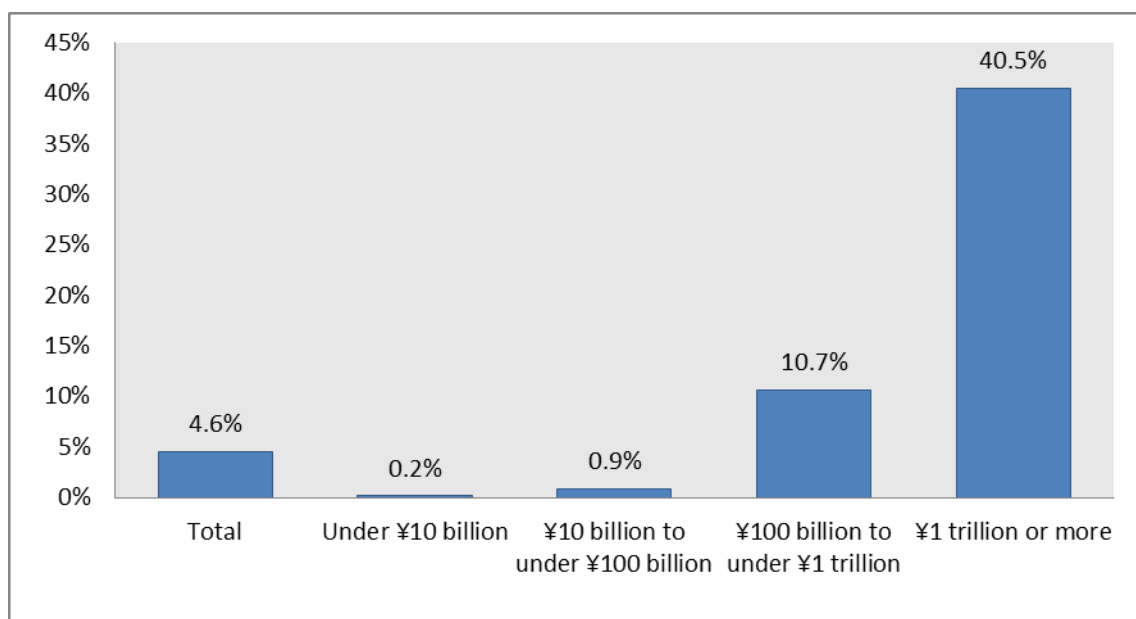
Chart 56 Release Ratio of English Version of CG Report (by Foreign Shareholding Ratio)



⁴⁹ <https://www.jpx.co.jp/english/equities/listing/cg/01.html>

The results by foreign shareholding ratio is as shown in Chart 56. While the English version release ratio is low overall at 4.6%, the release ratio tends to increase as the foreign shareholding ratio increases. For companies with a foreign shareholding ratio of 30% or more, 23.6% of companies have released an English version.

Chart 57 Release Ratio of English Version of CG Report (by Consolidated Sales)



The results by consolidated sales are shown in Chart 57. The English versions release ratio tends to increase as consolidated sales increase. For companies with consolidated sales of 1 trillion yen or more, 40.5% of companies have released an English version.

In this manner, while there is a tendency for companies with a high foreign shareholding ratio that are also large in terms of consolidated sales to release an English version of the CG Report, only 4.6% (165 companies) of TSE-listed companies have released an English version. There is a large gap when this figure is compared with the 35.4% (1,272 companies) of all listed companies that release English versions of the convening notice. In light of the foreign shareholding ratios of the own company, proactive information disclosure in English in the CG Report would be desirable.

4. Responsibilities of the board

Chapter 4 of the Code clarified the responsibilities of the board as follows

[General Principle 4]

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid- to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported
- (3) Carrying out effective oversight of directors and the management (including *shikkoyaku* and so-called *shikkoyakuin*) from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with *Kansayaku* Board (where a part of these roles and responsibilities are performed by *kansayaku* and the *Kansayaku* Board), Company with Three Committees (Nomination, Audit and Remuneration), or Company with Supervisory Committee.

Each principle in Chapter 4 then shows the practical framework for appropriately fulfilling those roles and responsibilities. It has been necessary to describe matters in the CG Report such as the reasons for selecting the organizational form and current structure, the composition of the board and the appointment status of independent directors, and frameworks such as committees related to nomination, remuneration, and audit.

In this chapter, we will analyze the corporate governance structure centered around the board in terms of the organizational form and composition of the board and each committee in the same manner as the previous surveys, and also conduct an analysis of the disclosures pursuant to each principle in Chapter 4 of the Code.

4-1. Organizational form

Looking at the organizational forms of companies, 73.3% (2,635 companies) of TSE-listed companies are Companies with *Kansayaku* Board, followed by Companies with Supervisory Committee, an organizational form introduced with the revision of the Companies Act in 2015 (888 companies, 24.7%) and Companies with Three Committees (71 companies, 2.0%) (Chart 58).

In terms of market division, Companies with *Kansayaku* Board accounted for the highest percentage in each market division, followed by Companies with Supervisory Committee and Companies with Three Committees, which is also the same for each market division. For JPX-Nikkei 400 companies, the percentage of companies that are Companies with Three Committees is comparatively high at 8.8%. There is a slightly high number (31.5%) of Companies with Supervisory Committee in TSE Second Section (Chart 58).

As for the relation with foreign shareholding ratios, the percentage of companies that are Companies with Three Committees is higher as the foreign shareholding ratio increases, and 7.0% of companies with 30% or more foreign shareholding are Companies with Three Committees (Chart 59).

Chart 58 Organizational Form (by Market Division)

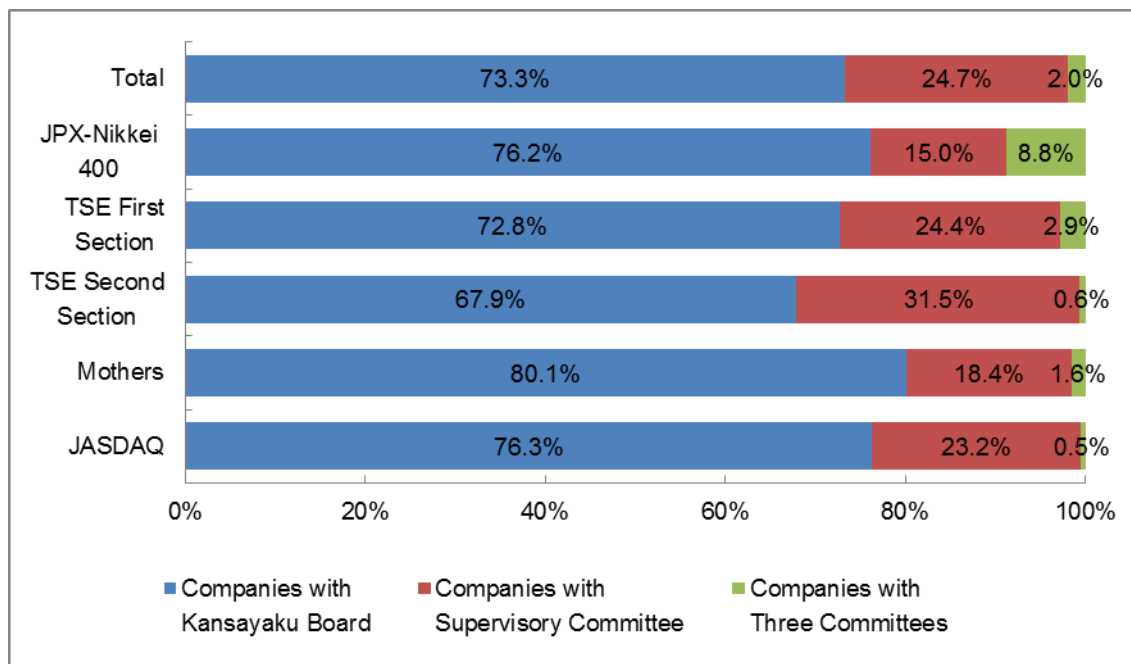
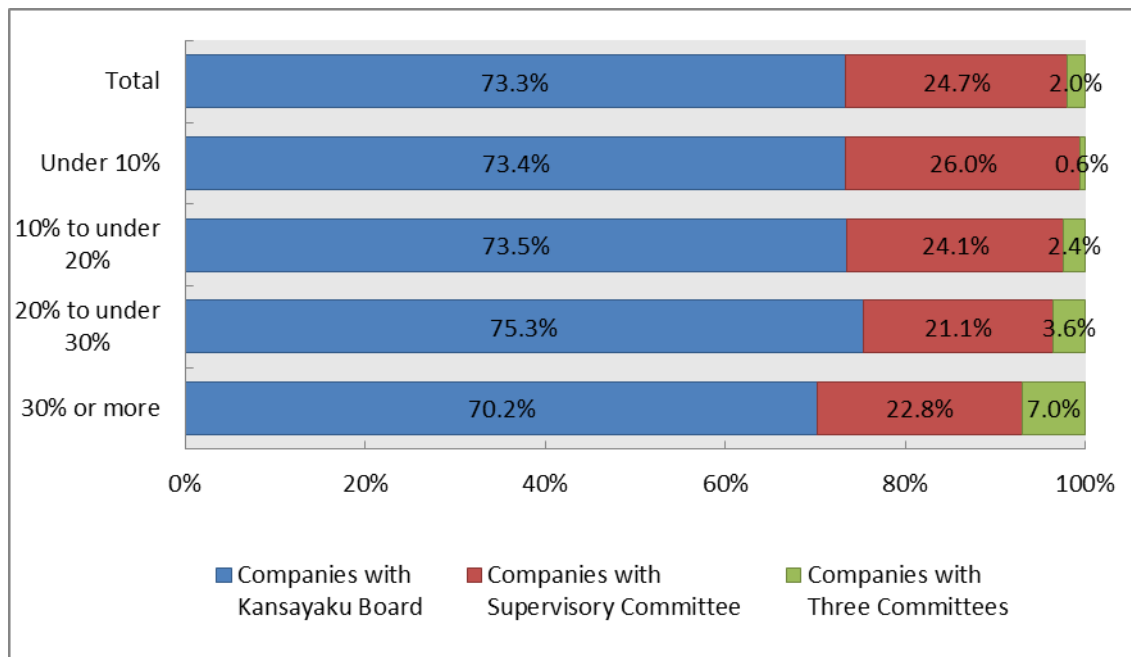


Chart 59 Organizational Form (by Foreign Shareholding Ratio)



4-2. Overview of current corporate governance system⁵⁰

In the “overview of the current corporate governance system” of the CG Report, listed companies are required to provide a detailed overview of the current system of governance including the board, such as business execution, method of audit and oversight, as well as the details of additional measures aimed at enhancement of business execution, the oversight function, etc.

Among Companies with *Kansayaku* Board (2,635 companies), 48.1% (1,268 companies) mentioned “management meetings” and 6.7% (176 companies) mentioned the “board of executive officers” as swift decision-making structures other than the board. They seem to be positioned at the stage prior to discussions at the board meetings. In addition, 52.2% (1,375 companies) stated that they introduced a “*shikkoyakuin* system” in order to promote the separation of the supervision and executive functions. 19.5% (515 companies) mentioned the establishment of an internal control-related committee such as a “compliance” or “risk management” committee.

For Companies with Supervisory Committee (888 companies), 46.6% (414 companies) mentioned “management meetings”, 6.0% (53 companies) mentioned a “board of executive officers”, and 47.4% (421 companies) mentioned a “*shikkoyakuin* system”. 19.9% (177 companies) mentioned the establishment of an internal control-related committee such as a “compliance” or risk management” committee, which is nearly the same percentage as for Companies with *Kansayaku* Board.

Looking at Companies with Three Committees (71 companies), 43.7% (31 companies) mentioned “management meetings” and 0% (0 companies) mentioned a “board of executive officers”. For Companies with Three Committees, there is a statutory *shikkoyaku* system, and 22.5% (16 companies) mentioned “*shikkoyaku*” or the “*shikkoyakuin* system”. 19.7% (14 companies) mentioned the establishment of an internal control-related committee such as a “compliance” or “risk management” committee, which is nearly the same percentage as for Companies with *Kansayaku* Board and Company with Supervisory Committee.

With regard to auditing by *kansayaku* at Companies with *Kansayaku* Board, 12.1% (319 companies) mentioned “audit system”, and disclosed matters such as the numbers of internal and outside directors, and full-time *kansayaku*. In addition, 17.8% (469 companies) mentioned “audit policy”, and 7.1% (186 companies) mentioned “audit standard”, and there were many companies that mentioned that audits were conducted based on corporate audit standards. In addition, some companies mentioned the frequency of *Kansayaku* Board meetings and the activities of individual *kansayaku* such as attendance at important meetings, document review, and visits to subsidiaries for auditing. In addition, there were companies that mentioned the establishment of a *Kansayaku* Office in an effort to improve the completeness and effectiveness of *kansayaku* operations, and companies that mentioned that audits were conducted based on audit policies and audit standards

In relation to audits by the Supervisory Committee at Companies with Supervisory Committee, 8.2% (73 companies) mentioned “audit system”, 14.0% (124 companies) mentioned “audit policy”, and 1.9% (17 companies) mentioned “audit standard”.

⁵⁰ Although there was a partial revision to the Reporting Guidelines for the CG Report including the addition of the fact that it is preferable to describe the frequency of holding, main matters considered, and the attendance status of individual officers and member as the status of activities by the board, nomination committee, and remuneration committee in a notice (TSE Listed Companies No. 2) dated February 21, 2019, for this White Paper, analysis is conducted based on the Reporting Guidelines before the revision.

In relation to audits by the Audit Committee at Companies with Three Committees, 15.5% (11 companies) mentioned “audit system”, 15.5% (11 companies) mentioned “audit policy”, and 5.6% (4 companies) mentioned “audit standard”.

In terms of the audit system for Companies with Supervisory Committee and Companies with Three Committees, there are many disclosures on the composition of the Supervisory Committee or Audit Committee including the number of internal and outside directors, and there were also descriptions of audits on the status of business execution by directors, as well as descriptions of attendance at important meetings such as the board based on the audit policies and audit standards stipulated by the Supervisory Committee/Audit Committee by each committee member. In addition, many companies mentioned the assignment of full-time staff in a supervisory committee office in order to strengthen the audit function.

4-3 Reasons for adoption of current corporate governance system

The CG Report classifies companies by organizational form into Companies with *Kansayaku* Board, Companies with Supervisory Committee, or Companies with Three Committees, and requires Companies with *Kansayaku* Board to state whether they have outside directors and to describe reasons for adopting the current governance structure, including the board in relation to the governance structure composition.

(1) Companies with *Kansayaku* Board

The CG Report requires Companies with *Kansayaku* Board (2,553 companies) that appointed outside directors to explain reasons for adopting such a structure in the context of their current situations, and to describe such matters as roles and functions of outside directors. There were many disclosures that described the roles and functions of outside directors as oversight of business execution by directors and the provision of advice to ensure the appropriateness of decision-making from a position independent from the management team.

Companies with *Kansayaku* Board that do not have outside directors are also required to explain reasons for adopting such a governance structure in the context of their current situations, and for listed companies that are large companies under the Companies Act, it is necessary to state the reason why it would not be appropriate to have outside directors. There are 82 Companies with *Kansayaku* Board that do not have outside directors, which is 3.2% of listed companies that are Companies with *Kansayaku* Board.

In terms of disclosures for such companies that do not have outside directors, reasons that were mentioned included that it was difficult to appoint qualified people who fulfilled the requirements, the current board of directors was efficient and enabled prompt decision making in consideration of the size of the company, the mutual check function of the board was sufficient, and committees related to internal control such as a compliance or risk management committee had been strengthened. Another reason offered is that the appointment of outsider directors without deep industry knowledge or sufficient knowledge of management would result in decision making not suitable for the actual situation, causing a deterioration in the function of the board and wasteful costs.

(2) Companies with Supervisory Committee

As specific reasons for adopting the form of Company with Supervisory Committee, the Reporting Guidelines provide the following examples: comparative advantage over a Company with *Kansayaku* Board in terms of speeding up the decision-making process, increasing the transparency of management and gaining support from foreign investors, overviews of measures being considered to enhance governance functions, and the roles and functions of outside directors.

In analysis of reasons why Companies with Supervisory Committee (888 companies) adopted this form, many companies mention the strengthening of the oversight function with outside directors (66.4% (590 companies) mentioned “outside”). On the other hand, there were comparatively few Companies with Supervisory Committee than Companies with Three Committees that mentioned matters such as speeding up the decision-making process (50.9% (452 companies) mentioned “decision”), speeding up business execution with delegation of authority (11.1% (89 companies) mentioned “authority”), clear separation of oversight and business execution (9.1% (81 companies) mentioned “separation”), and strengthening of the execution function (4.4% (39 companies) mentioned “execution function”).

(3) Companies with Three Committees

As specific reasons for adopting the form of Company with Three Committees, the Reporting Guidelines provide examples in the same manner as for Companies with Supervisory Committee, such as the comparative advantage over a Company with *Kansayaku* Board.

In analysis of reasons why Companies with Three Committees (71 companies) adopted this form, the percentage of companies mentioning the separation of oversight and business execution was higher compared to Companies with Supervisory Committee. Reasons that were commonly mentioned by companies include speeding up the decision-making process (67.6% (48 companies) mentioned “decision”), the strengthening of the oversight function with outside directors (66.2% (47 companies) mentioned “outside”), clear separation of oversight and business execution (64.8% (46 companies) mentioned “separation”), speeding up business execution with delegation of authority (31.0% (22 companies) mentioned “authority”), and strengthening of the execution function (21.1% (15 companies) mentioned “execution function”).

4-4. Directors and the board

(1) Term of directorships in the articles of incorporation

Article 332, Paragraph 1 of the Companies Act stipulates that the term of directorships shall, in principle, continue within two years from the time of their election. However, it also provides for shortening the term of directorships by the articles of incorporation or by a resolution of a general shareholder meeting⁵¹. Recently, in order to respond flexibly to changes in the management environment, there has been an increase in companies with *Kansayaku* Board specifying the term of directorships to be one year for the purpose of strengthening the

⁵¹ Note that in the case of a Company with Supervisory Committee, the term of directors who are members of the Supervisory Committee is two years (not allowed to shorten the term), while the term is one year for other directors (Article 332, Paragraphs 3 and 4 of the Companies Act). For Companies with Three Committees, the term of directors is one year (Article 332, Paragraph 6 of the Companies Act).

corporate governance structure by clarifying management responsibility and gaining the trust of shareholders every year (Chart 60 and Chart 61).

In this survey, among TSE-listed Companies with *Kansayaku* Board, 60.5% of the companies specifies their terms of directorships at one year (Chart 60). The percentage of such companies in each market division is 68.2% in TSE First Section, 52.4% in TSE Second Section, 43.4% in Mothers, and 50.5% in JASDAQ. Out of JPX-Nikkei 400 companies, companies which specify their terms of directorships at one year accounted for 77.0%, 8.8 points higher than that of TSE First Section. In terms of consolidated sales, the top category of 78.1% comes from the 1 trillion yen or more category. Going down the consolidated sales category, there are a declining percentage of companies whose directorships are specified at one year (Chart 63). In terms of foreign shareholding ratio, the ratio is high for the 30% or more category and 20% to less than 30% category (73.7% and 71.1%, respectively), showing a decreasing proportion of companies with a lower percentage of foreign shareholdings (Chart 64).

Chart 60 Term of Directorships in the Articles of Incorporation (Companies with *Kansayaku* Board)

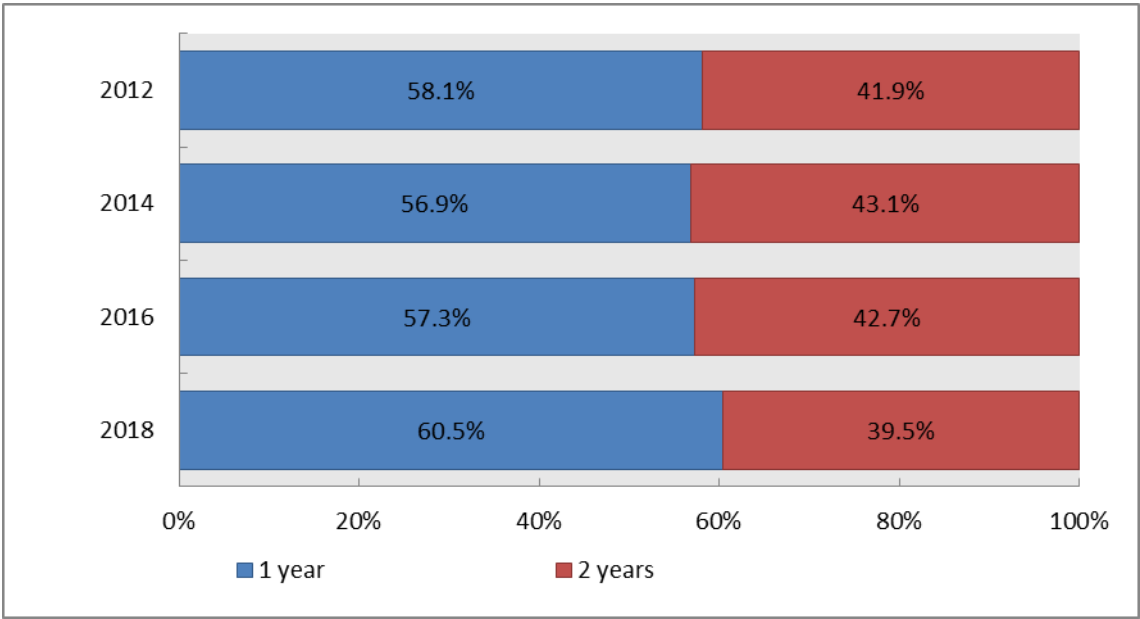


Chart 61 Term of Directorships in the Articles of Incorporation (TSE First Section, Companies with *Kansayaku* Board)

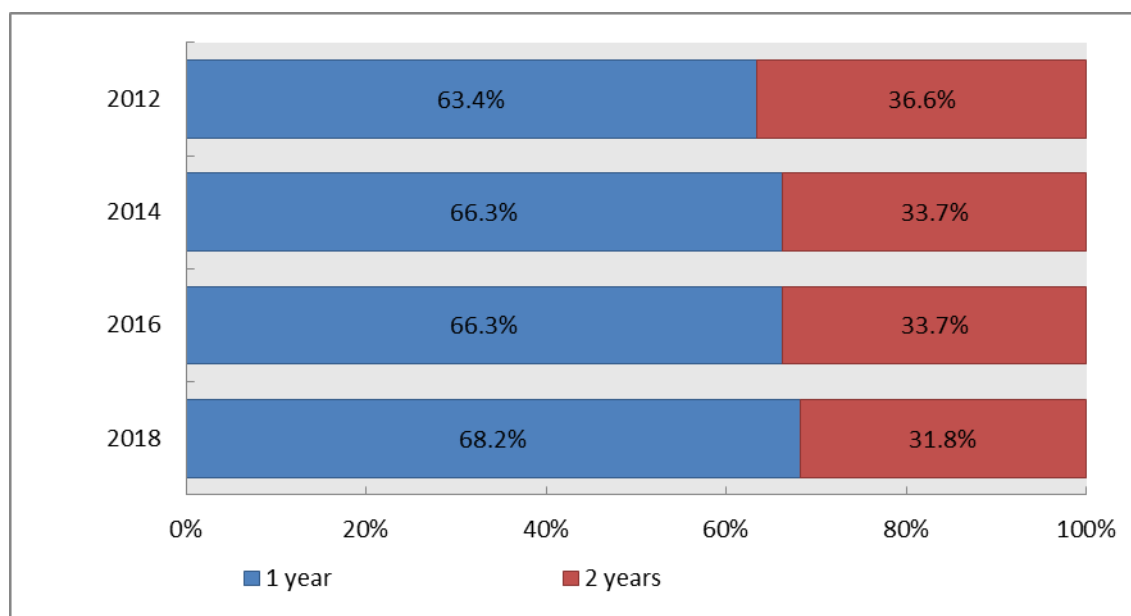


Chart 62 Term of Directorships in the Articles of Incorporation (by Market Division, Companies with *Kansayaku* Board)

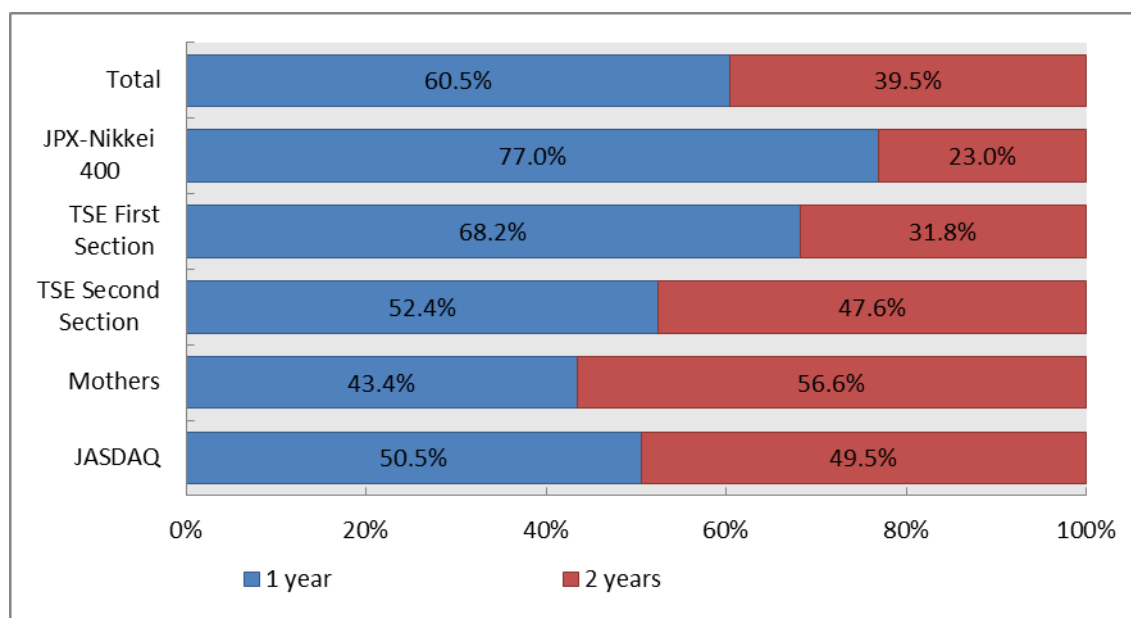


Chart 63 Term of Directorships in the Articles of Incorporation (by Consolidated Sales, Companies with *Kansayaku* Board)

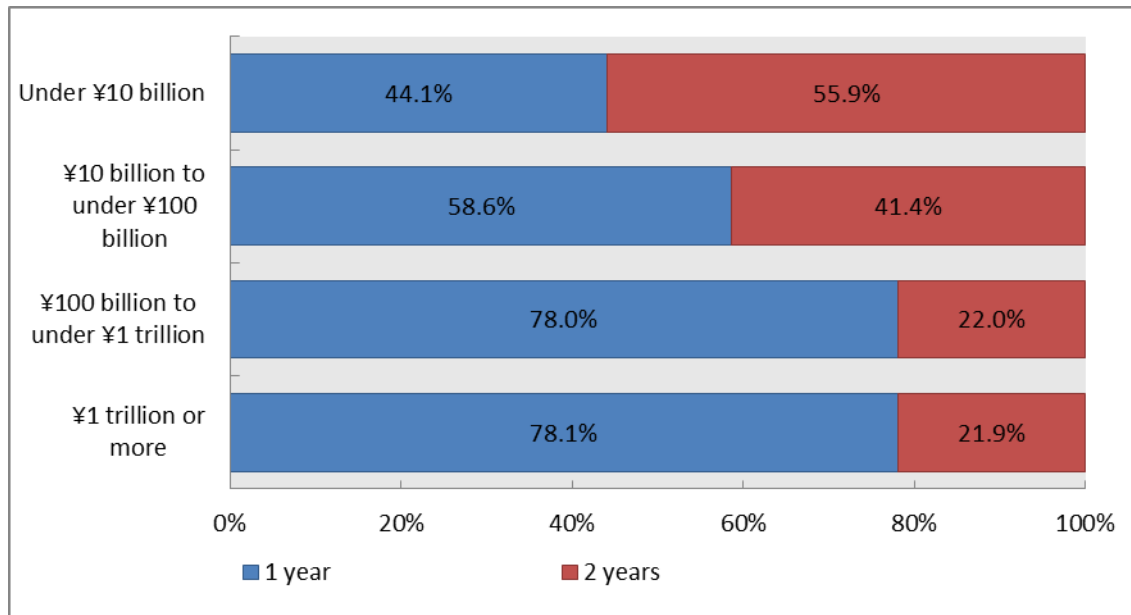
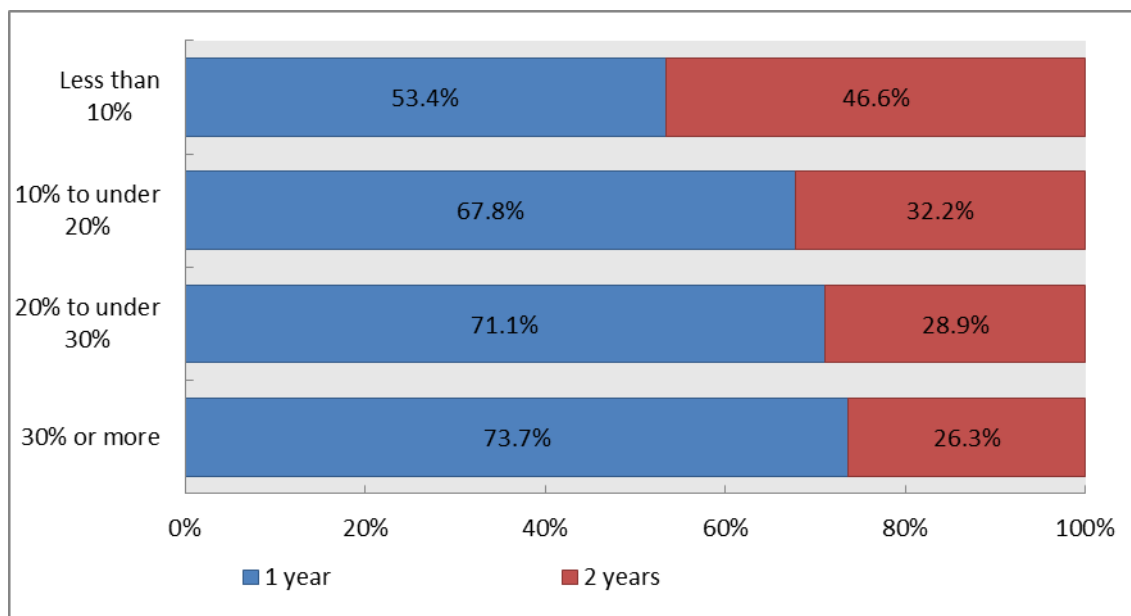


Chart 64 Term of Directorships in the Articles of Incorporation (by Foreign Shareholding Ratio, Companies with *Kansayaku* Board)



(2) Attributes of Chairperson of the Board

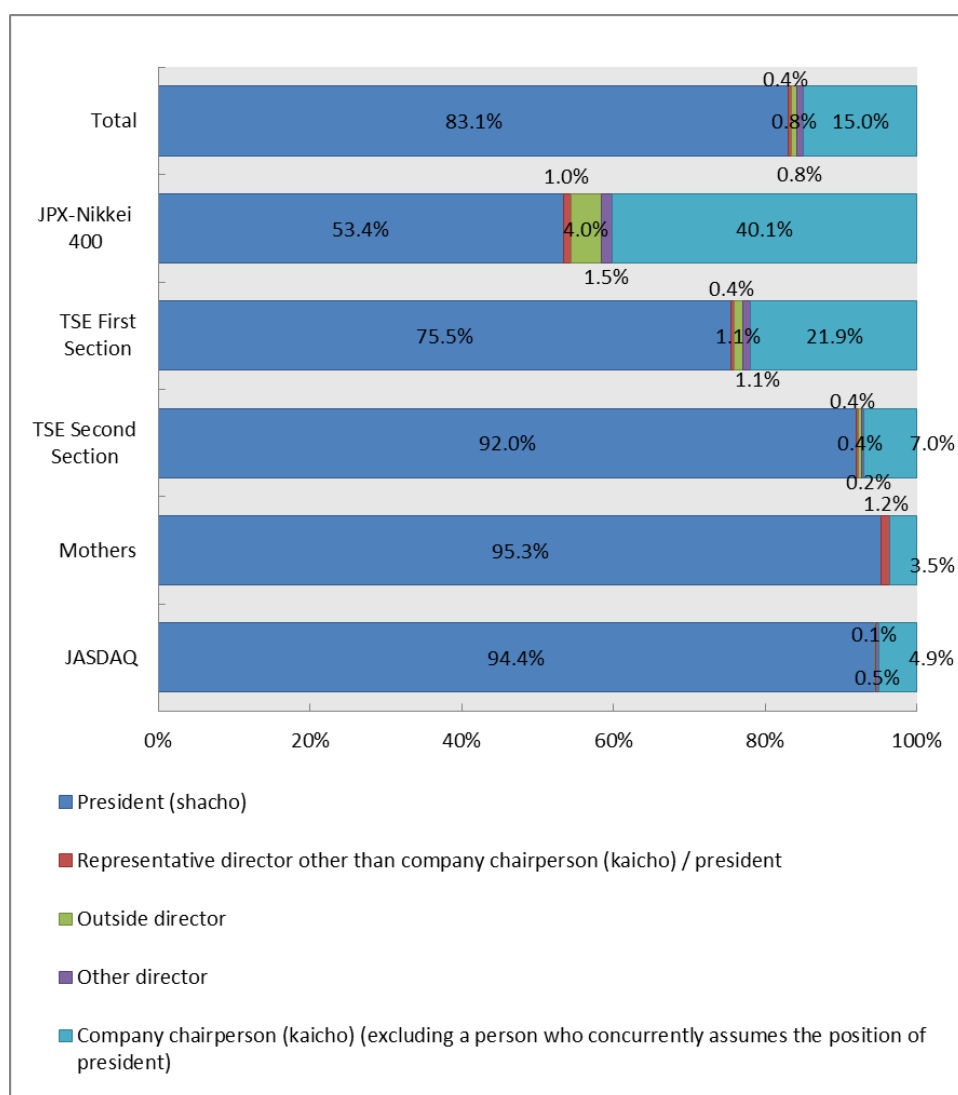
Concerning chairperson of the board, the CG Report requires each company to inform whether or not a chairperson exists, and an attribute of the chairperson, if any, by choosing one of the following: (1) president (*shacho*), (2) company chairperson⁵² (*kaicho*), (3) representative director other than company chairperson/president, (4) outside director, (5) other director, or (6) not applicable.

⁵² Excluding a person who concurrently assumes the position of president.

All TSE-listed companies have a chairperson of the board, and as for attributes of the chairperson of the board, the board is chaired by president in 83.1% of TSE-listed companies (Chart 65), which is the highest percentage. In addition, the company chairperson accounts for 15.0%, meaning that either the president or the company chairperson chairs the board in 98.1%, almost all of the listed companies. The percentage of companies chaired by the company chairperson is 21.9% for TSE First Section companies and 40.1% for JPX-Nikkei 400 companies, the percentage of companies chaired by the company chairperson tends to increase as companies become bigger.

Although some investors have increasingly called for the board to be chaired by an outside director in order to stimulate discussions by the board and strengthen the oversight function of the board through the separation of oversight and business execution, the percentage of companies with a board chaired by an outside director in this survey was 0.8%, so this will be a future issue. In this regard, out of JPX-Nikkei 400 companies, the percentage of companies chaired by an outside director is 4.0%, which is higher than other types of companies.

Chart 65 Attributes of Board Chair (by Market Division)



(3) Number of Directors

In this survey, the overall average number of directors per TSE-listed company was 8.28 persons. While a downward trend has continued since 2008, it increased from the previous survey and has been nearly flat in this survey.

At Companies with *Kansayaku* Board, the average number of directors has decreased from 7.96 persons (2016) to 7.88 persons (2018). Meanwhile, the average number of outside directors has increased from 1.90 persons (2016) to 2.03 persons (2018) and the average number of independent directors has increased from 1.76 persons (2016) to 1.78 persons (2018).

Looking at the results by market division, while there has been a decrease in the number of directors per company for TSE First Section (9.17 persons), there has been an increase for all the other markets as there were 7.77 persons for TSE Second Section, 6.06 persons for Mothers, and 6.88 persons for JASDAQ (Chart 66). In addition, looking at results by consolidated sales, the number of directors tends to increase with the size of consolidated sales (Chart 67).

Chart 66 Number of Directors (by Market Division)

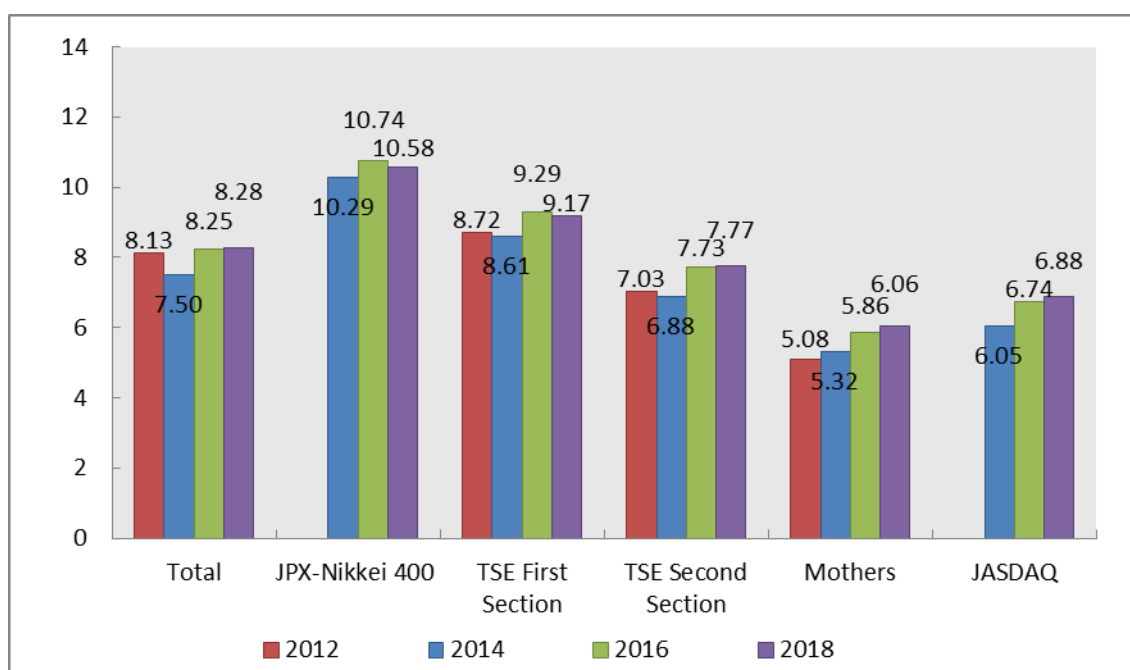
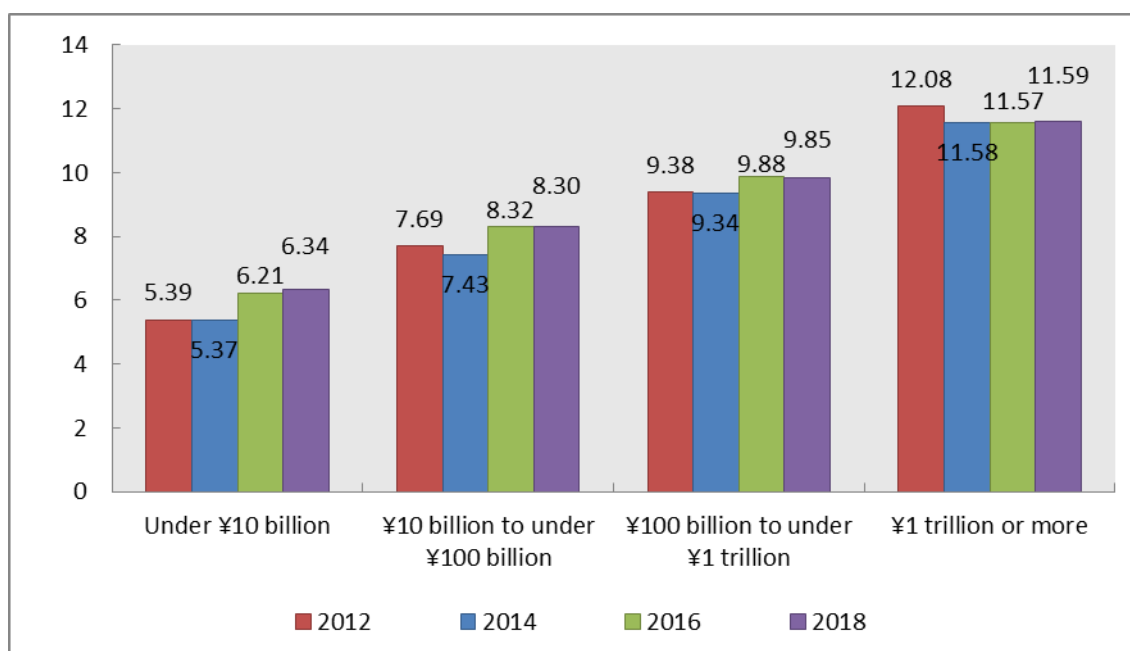


Chart 67 Number of Directors (by Consolidated Sales)



4-5. Implementation of initiatives to offer incentives

The CG Report requires disclosure of the “state of implementation of initiatives to offer incentives to directors, etc.”. This is because it is believed that providing directors, etc. with incentives linked to the improvement of “mid to long-term” corporate value and aligning the interests of directors, etc. and general shareholders enables the development of an environment in which the board supports appropriate risk taking by directors, etc. In addition, because the Reporting Guidelines for the CG Report have been revised in light of the revision of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs in January 2019⁵³, it is hoped that disclosures in the CG Report are enhanced going forward.

Specifically, for companies that introduced a performance-linked remuneration system, it has become preferable to provide supplementary explanations on the indicators related to the performance-linked remuneration, the reason for the selection of the indicators, and the method for deciding on the amount of performance-linked remuneration. In addition, when a policy related to deciding on the payment ratio of performance-linked remuneration and remuneration, etc. other than performance-linked remuneration has been prescribed, it is preferable to provide supplementary explanations on the details of such policy. In addition, if a stock option plan has been introduced, it is preferable to provide supplementary explanations on the total amount and the approach toward the individual payment levels.

(1) Overview of initiatives related to incentives

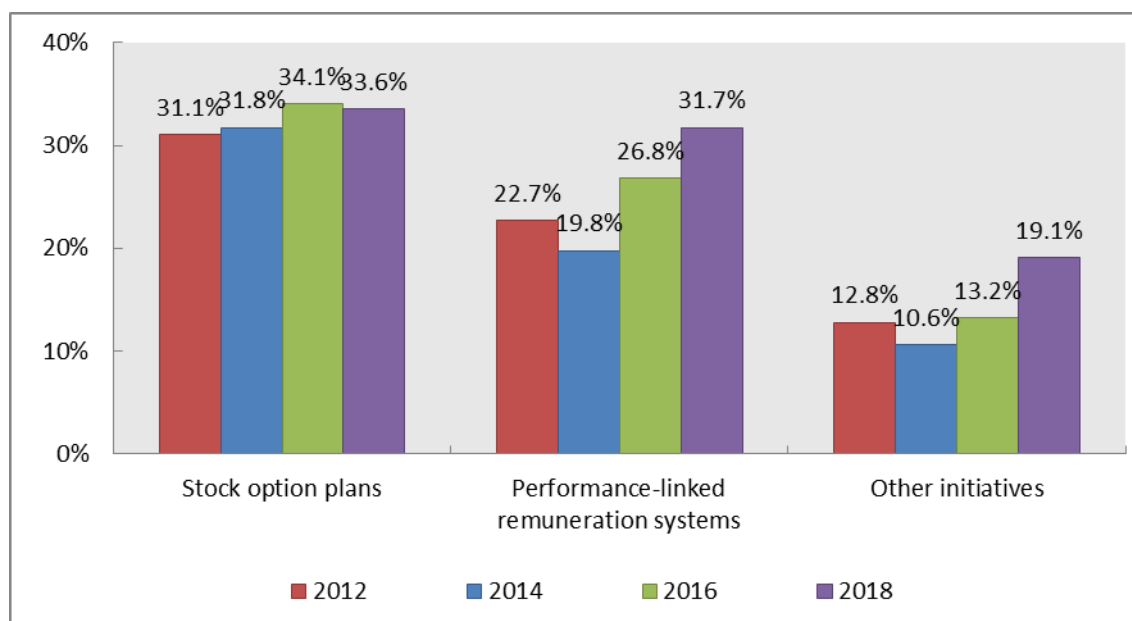
Companies which implemented certain initiatives to offer incentives accounted for 68.6% of TSE-listed

⁵³ The revision with respect to securities report was to enhance descriptions in information regarding the remuneration of officers in terms of the remuneration program, remuneration results, and the remuneration decision mechanism from the perspective of the provision of governance information in order to encourage constructive engagement.

companies. Regarding each category of initiatives to offer incentives, stock option plans are introduced in 33.6% of TSE-listed companies, while performance-linked remuneration systems and other initiatives are introduced in 31.7% and 19.1% respectively (Chart 68).

3,566 companies (99.2% of all) provided supplementary explanations on implementing initiatives to offer incentives.

Chart 68 Implementation of Initiatives to Offer Incentives



(2) Introduction of stock option plans

33.6% of TSE-listed companies have introduced stock option plans. In terms of market division (Chart 69), companies listed on Mothers showed a remarkably higher ratio, 85.5%, than those listed on TSE First Section (32.0%), TSE Second Section (20.4%), and JASDAQ (28.9%). Among JPX-Nikkei 400 companies, those adopting stock option plans accounted for 37.6%, 5.6 points higher than that of TSE First Section. As for the relation with foreign shareholding ratios (Chart 71), the higher the ratio, the more likely companies are to adopt stock option plans.

Chart 69 Implementation of Initiatives to Offer Incentives (by Market Division)

	Stock option plans	Performance-linked remuneration systems	Other initiatives
Total	33.6%	31.7%	19.1%
JPX-Nikkei 400	37.6%	60.7%	30.6%
TSE First Section	32.0%	43.5%	23.7%
TSE Second Section	20.4%	20.4%	16.4%
Mothers	85.5%	5.9%	5.5%
JASDAQ	28.9%	15.1%	12.3%

Chart 70 Implementation of Initiatives to Offer Incentives (by Consolidated Sales)

	Stock option plans	Performance-linked remuneration systems	Other initiatives
Total	33.6%	31.7%	19.1%
Under ¥10 billion	48.5%	12.2%	10.8%
¥10 billion to under ¥100 billion	27.5%	29.7%	18.9%
¥100 billion to under ¥1 trillion	29.8%	50.6%	25.9%
¥1 trillion or more	30.7%	73.9%	35.3%

Chart 71 Implementation of Initiatives to Offer Incentives (by Foreign Shareholding Ratio)

	Stock option plans	Performance-linked remuneration systems	Other initiatives
Total	33.6%	31.7%	19.1%
Under 10%	32.6%	21.3%	16.3%
10% to under 20%	32.1%	39.0%	20.8%
20% to under 30%	31.0%	50.4%	22.5%
30% or more	44.5%	55.0%	27.6%

In the supplementary explanations regarding their stock option plans, there were 143 companies that mentioned the connection with “mid to long-term” corporate value as also indicated in the Code. Specifically, many companies stated that stock options were granted in order to increase the motivation towards increase corporate value over the mid- to long-term and to promote the sharing of interests with shareholders.

139 companies stated that they provided stock options as “incentives”, and many companies stated that used stock options for the purpose of clarifying incentives for performance among directors, etc.

66.4% of the companies have not adopted such stock option plans, and reasons for not adopting stock option plans include the following: a plan will not be introduced because the company aims to increase corporate value stably over the mid to long term rather than aiming for short-term increases in profits or the stock price, stock options will be considered in the future if it is deemed that acquiring human resources and improving incentives for directors would improve corporate value, and while stock options are believed to be an effective system, no stock options have been currently issued.

(3) Implementation of performance-linked remuneration system

31.7% of TSE-listed companies have introduced a performance-linked remuneration system. In terms of the results by market division, 43.5% of companies listed on TSE First Section have introduced a performance-linked remuneration system, showing a higher ratio compared with TSE Second Section (20.4%), Mothers (5.9%), and JASDAQ (15.1%) (Chart 69). Among JPX-Nikkei 400 companies, companies which adopted a performance-linked remuneration system accounted for 60.7%, 17.2 points higher than that of TSE

First Section.

In terms of a relation with company size, companies with larger consolidated sales tend to show a higher ratio of implementing a performance-linked remuneration system (Chart 70). In addition, the higher the foreign shareholding ratio, the more likely companies are to have implemented a performance-linked remuneration system (Chart 71).

Specific examples of systems that were introduced include stock remuneration-type stock options in accordance with a performance-linked table that is linked with percentage changes in consolidated sales and consolidated operating profit for the previous fiscal year and stock remuneration-type stock options in accordance with the degree of attainment of performance targets in the medium-term management plan. There were also companies that only provide performance-linked remuneration and stock remuneration-type stock options to executive directors, and that do not grant such remuneration and stock options to outside directors in order to ensure independence.

(4) Other initiatives

In April 2016, The Ministry of Economy, Trade and Industry released a guide on the introduction of restricted stock as a new form of stock remuneration for officers⁵⁴. Restricted stock is provided to officers as remuneration in the form of actual stock with transfer restrictions for a fixed period of time. 274 companies mentioned restricted stock in this survey, which is a significant increase from the 5 companies that mentioned restricted stock in the previous survey. It is believed that the reasons for this are the ease of understanding of granting shares in kind and the ease of use of the system as a result of the development of various laws and regulations.

In the supplementary explanations regarding the granting of incentives, there were companies that describe the setting of a KPI (key performance index) in advance with the provision of performance-linked remuneration based on the degree of attainment. Looking at some concrete examples of KPI, while there were many cases of using profit indicators such as sales and operating profits, there were also companies that used capital efficiency such as ROE, ROA, ROIC (return on invested capitals) and TSR (total shareholder returns).

(5) Eligible persons for stock options

The CG Report requires companies implementing stock option plans to specify eligible persons by selecting the applicable categories from “inside directors”, “outside directors”, “inside *kansayaku*”, “outside *kansayaku*”, “*shikkoyaku*”, “employees”, “officers of the parent company”, “employees of the parent company”, “officers of subsidiaries”, “employees of subsidiaries” or “other” (multiple answers allowed).

Chart 72, Chart 73, and Chart 74 show the composition of eligible persons, when the sample is limited to TSE-listed companies with stock option plans. Excluding Companies with Three Committees, it is found that the percentage of the companies that offer their stock option plans to inside directors was highest (97.3% of Companies with *Kansayaku* Board, and 97.2% of Companies with Supervisory Committee). Among Companies with Three Committees, the percentage of companies that offer their stock option plans to

⁵⁴Guidebook for Introducing New Stock-based Compensation (“Restricted Stock”) as Board Members’ Compensation to Encourage Companies to Promote Proactive Business Management

shikkoyaku was highest (100.0%). Excluding Companies with Three Committees, this was followed by employees (68.1% of Companies with *Kansayaku* Board and 74.1% of Companies with Supervisory Committee). Among Companies with Three Committees, following *shikkoyaku*, stock option plans were offered mostly to inside directors (64.5%).

Chart 72 Eligible Persons for Stock Options (Companies with *Kansayaku* Board; with Stock Option Plans)

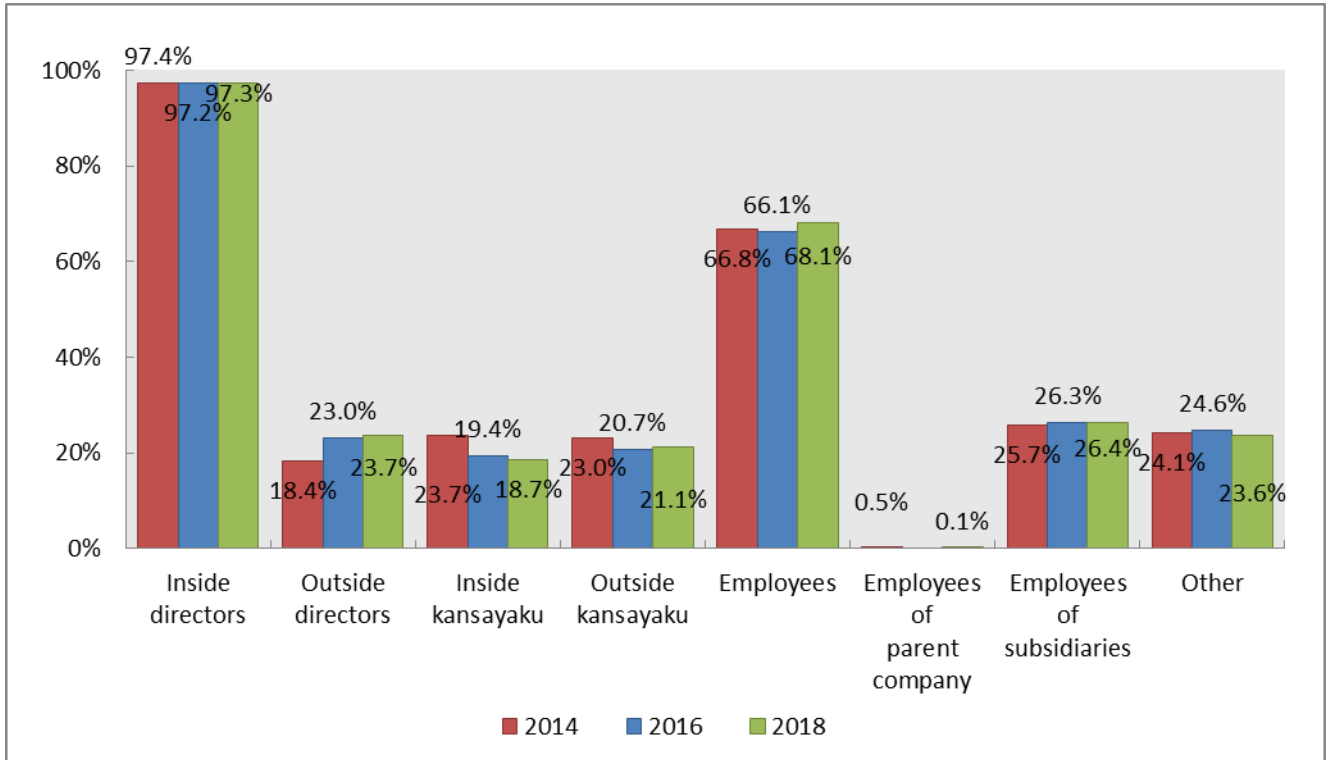


Chart 73 Eligible Persons for Stock Options (Companies with Supervisory Committee; with Stock Option Plans)

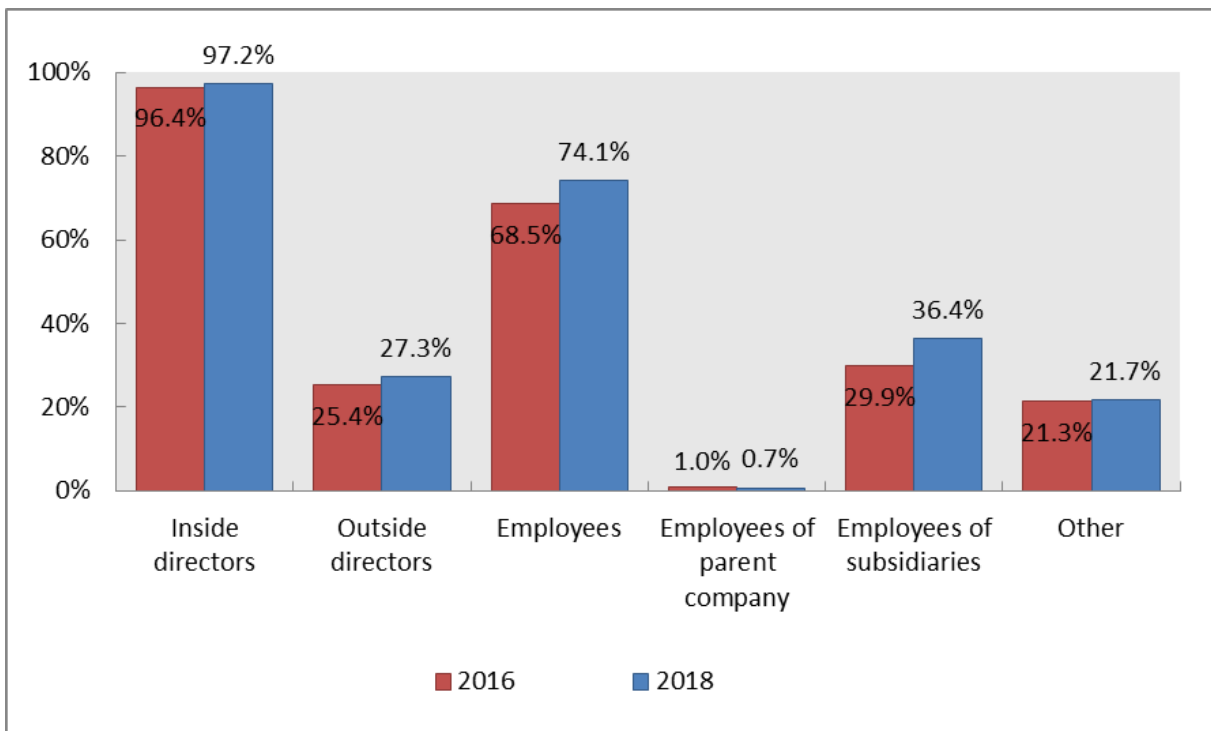
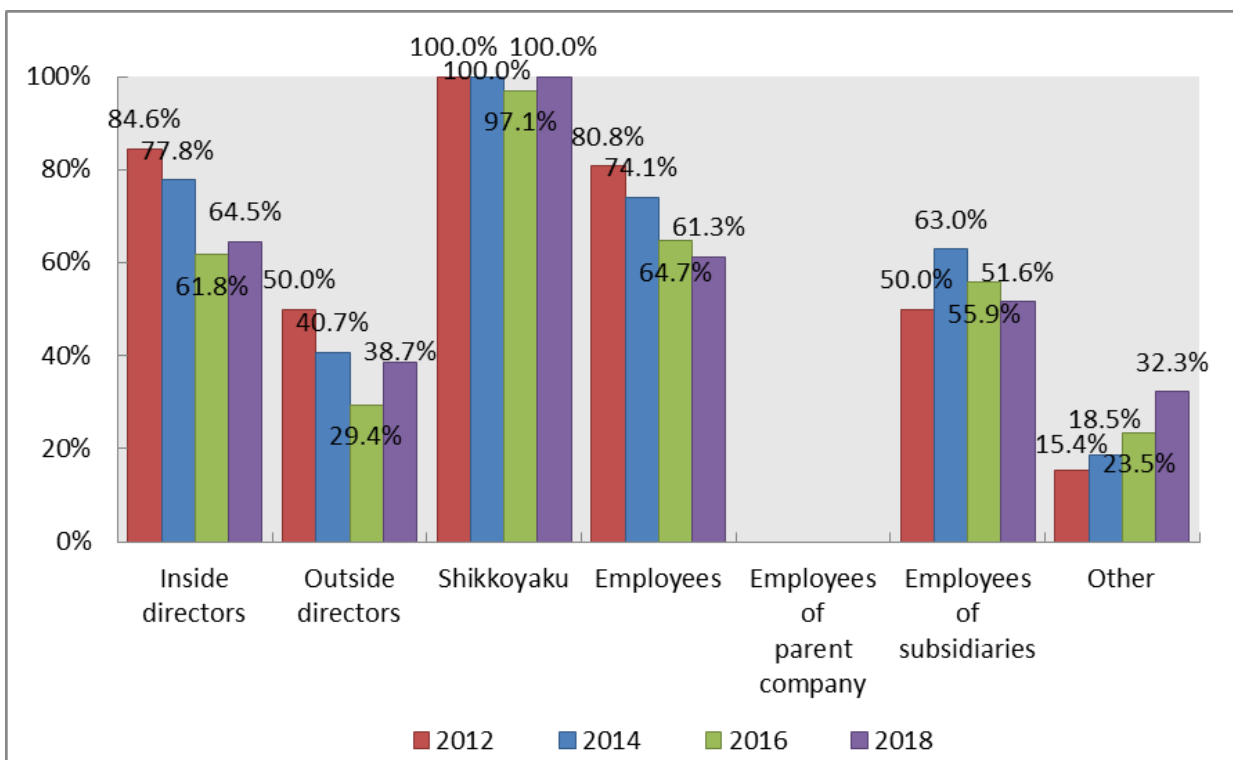


Chart 74 Eligible Persons for Stock Options (Companies with Three Committees; with Stock Option Plans)



4-6. Scope of matters delegated to management (Supplementary Principle 4.1.1)

Principle 4.1 stipulates that “The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans.” In addition, Supplementary Principle 4.1.1 requires the board to specify its own decisions as well as both the scope and content of the matters delegated to the management. The compliance rate with Supplementary Principle 4.1.1 is 99.6% (2,610 companies). For most companies, the board stipulates its own resolutions in the internal regulations such as rules of the board of directors, approval authority regulations, and only a very small number of companies do not comply with this supplementary principle.

However, it has been pointed out that matters regarding basic business strategies and business plans and matters concerning the oversight function have not been sufficiently discussed at the board of companies in Japan. This supplementary principle requires the clarification of the roles and responsibilities of the board in the decision-making system for companies. As many companies appoint multiple directors and the oversight function towards the management team in the board gets even stronger than before, it is becoming even more important than before to clarify and implement the roles that should be fulfilled by the board.

A common type of disclosure by companies regarding this supplementary principle would be “The Company has established Board Rules, and matters prescribed in laws and regulations and the articles of incorporation, as well as important matters related to business execution, are determined through a resolution by the board.” In analysis of actual keywords, 80.9% (2,112 companies) mentioned “rules and regulations, etc.”, 66.4% (1,734 companies) mentioned “laws and regulations, etc.”, and 51.7% (1,349 companies) mentioned “articles of incorporation”. In addition, 31.9% (832 companies) mentioned “duty authority”, 21.4% (558 companies) mentioned “approval (approval authority/approval standards)”, and 5.9% (153 companies) mentioned “agenda standards”. This suggests that many companies have clarified the roles and responsibilities of the board of directors based on laws and regulations, the articles of incorporation, various internal rules, approval authority, etc.

In addition, there were some companies that clearly stated a separation of roles between the board and the management team, such as the establishment of a *shikkoyakuin* system or management meeting. 30.4% (793 companies) included the keyword “*shikkoyakuin*”, while 25.1% (655 companies) included the keyword “meeting (management meeting/*shikkoyakuin* meeting, etc.)”.

The number of companies including keywords such as “business strategies” and “business plans” that are items that should be decided on and determined by the board according to the Code was 11.4% (297 companies) for “strategy (business strategy, etc.)” and 18.2% (474 companies) for “plan (management plan/business plan)”. This is low in comparison to the number of companies that included keywords such as laws and regulations, the articles of incorporation, and various internal rules, which suggests that only some companies disclose the specific matters decided on by the board.

Looking at individual disclosure examples, [Example 1] mentions the separation of supervision and business execution through the introduction of a *shikkoyakuin* system, and clarifies the roles and responsibilities of the board including the overall stance of the company by specifically describing the matters decided on by the board. In addition, like in [Example 2], there are also companies that provide disclosures on the management

committee including the aims of establishment and the positions of attendees.

[Example 3] is a case of the specific internal regulations being clearly indicated. The company has disclosed the detailed standards including monetary standards for matters for a resolution by the board and matters delegated to the representative director, etc. It can be said that by clarifying the specific numerical standards, this clearly indicates the division of roles for the board and the management team towards shareholders, investors, etc. In [Example 4], it mentions that “strategy and vision deliberations” are held for the free exchange of opinions on management strategy, the long-term vision, and themes related to overall management. While only 17 companies (0.7%) mention the “vision”, these mentions include disclosures in which one can see a stance of active involvement by the board in the management strategy and the long-term vision of that company.

[Example 1]

The Company has introduced a shikkoyakuin system that separates oversight and business execution in order to conduct highly effective oversight from an objective and independent standpoint by the board. In order to achieve the sustainable growth of the Group and medium to long-term improvements in corporate value, the board decides on important management matters including basic management policies, management strategies, medium-term management plans, annual management plans, and capital policies, and delegates specific business execution to the management team. The board delegates decisions on individual business execution matters to the management committee, excluding matters stipulated by laws and regulations and decisions on important business execution matters. These classifications are clarified in the internal regulations.

(Fisheries, agriculture, and forestry)

[Example 2]

The Company has established the board that has been entrusted by shareholders as the management decision-making and oversight body, the management committee that makes decisions on business execution based on resolutions by the board, and a shikkoyakuin system that executes business in order to separate management decision making and supervision from business execution. For the purpose of achieving prompt and flexible decision-making and corporate management by the board, and strengthening of the oversight function of the board on the management team including directors, the Company’s board has delegated some decision on business execution other than matters that are to be exclusively decided on by the board under laws and regulations to the management committee. The Company’s management committee has been established as a body for business execution to make systematic and prompt decisions on the matters above delegated by the board. The management committee is composed of the President, executive directors in Tokyo, International Business Division Manager, Construction Management Division Manager, Planning Unit Manager, and Administrative Unit Manager.

(Construction)

[Example 3]

(Excerpt)

The internal regulations (regulations on request for approval) stipulate that matters such as alterations to building equipment, the purchase of fixtures, vehicles, etc., the purchase or disposal of important or large quantities of sales assets, and the acquisition of the LP gas sales rights exceeding 200 million yen are matters for a resolution by the board, while such matters for amounts no

more than 200 million yen are decision matters for the representative director or other bodies depending on the amount. In addition, the writing off and forgiveness of bad debts, indemnification and compensation for damages, obligation guarantees and pledging collateral, etc. for amount exceeding 30 million yen are matters for a resolution by the board, while such matters for amounts no more than 30 million yen are decision matters for the representative director or other bodies depending on the amount.

(Wholesale trade)

[Example 4]

(Excerpt)

The board serves as the Company's central decision-making body, and deliberates and approves basic policies and the most important matters related to the Group's management. The board will regularly be held at appropriate intervals of about ten times per year, and make decisions on matters such as the formulation of business plans and major investments, and resolutions on budget approval for each fiscal year and approval of quarterly closing. In addition, "strategy and vision deliberations" will be held for the free exchange of opinions on management strategy, the long-term vision, and themes related to overall management with outside directors and outside *kansayaku*. Furthermore, agenda standards have been stipulated in the Board Rules that stipulate the scope of resolutions by the board.

(Shipping)

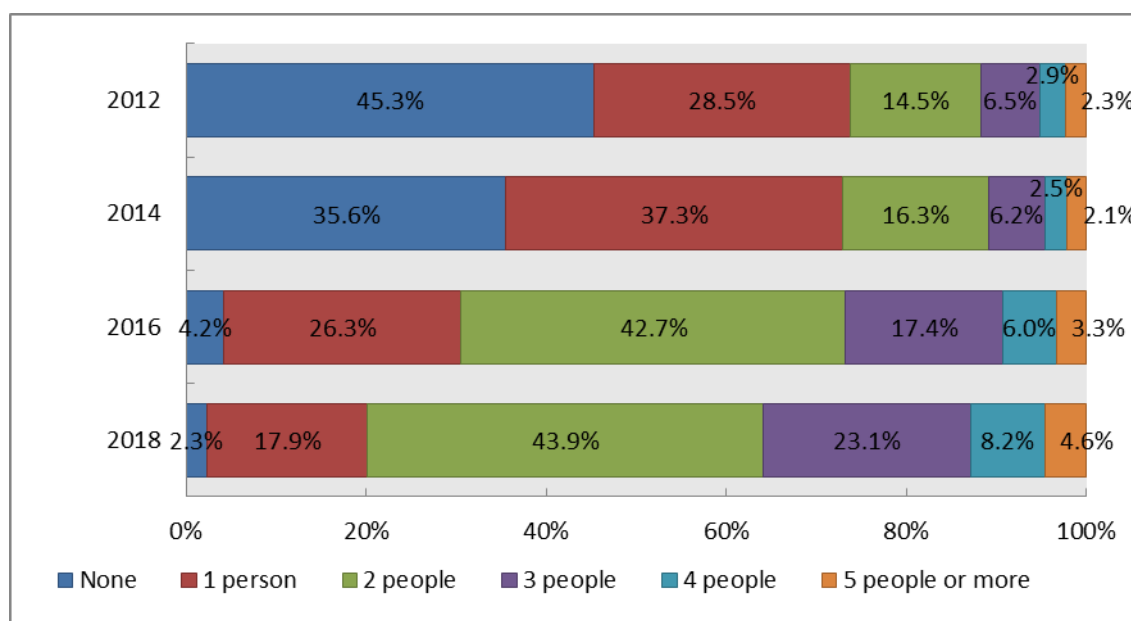
4-7. Appointment of independent directors

(1) Appointment of independent directors and number appointed

① Overview

Companies which have appointed outside directors⁵⁵ accounted for 97.7% of TSE-listed companies, which is a further increase from 95.8% in the previous survey (Chart 75). 93.6% of companies have appointed independent directors, which is also an increase from the previous survey results of 88.8% (Chart 76). 71.8% of companies have appointed at least two independent directors as required in Principle 4.8 of the Code, which is an increase from the previous survey results of 60.4%. In addition, 35.9% of companies have appointed at least three independent directors⁵⁶, which is an increase from the previous survey results of 26.7%. Possible contributing factors behind this increase include an increase in companies that appointed diverse independent directors in order to ensure the diversity of the board and enhance discussions at the board and an increase in companies that have increased the number of independent directors in response to the growing voices of institutional investors recently calling for a ratio of independent directors of at least one-third.

Chart 75 Ratio of Companies by Number of Outside Directors (All Companies)

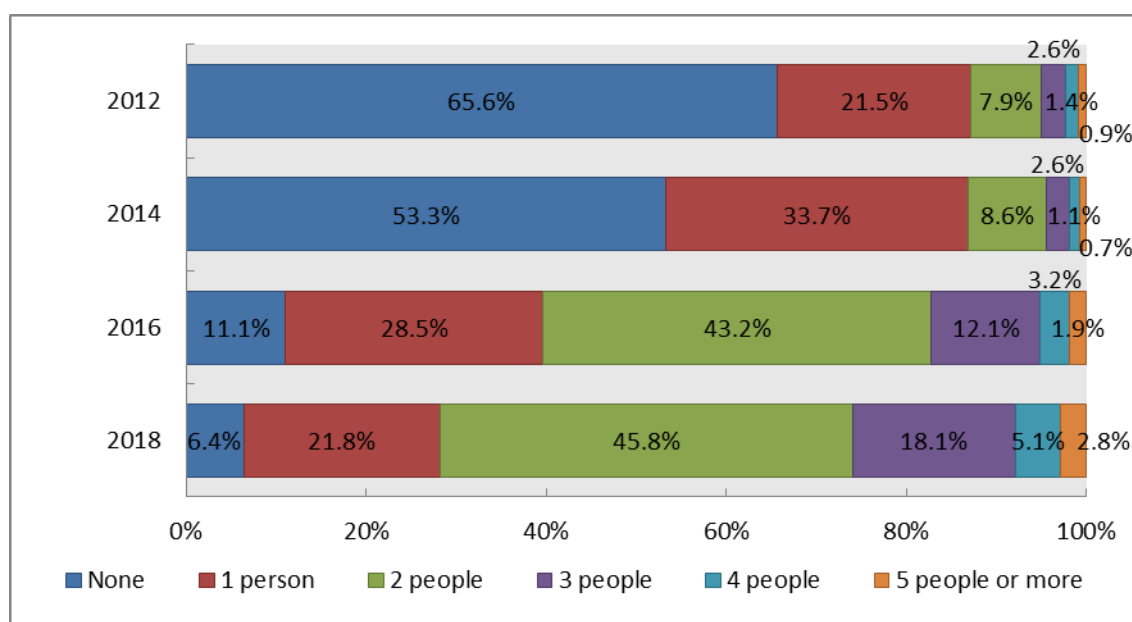


⁵⁵The definition of outside director is subject to Article 2, Item 15 of the Companies Act.

⁵⁶ The definition of “independent director” in this White Paper is “an outside director notified as an independent officer”.

TSE requires listed companies to notify outside directors and outside *kansayaku* with a high level of independence as independent officers to protect general shareholders.

Chart 76 Ratio of Companies by Number of Independent Directors (All Companies)



② By organizational form

Looking at the ratio of companies by number of outside directors by organizational form, the ratio of companies with two outside directors is highest at 48.7% for Companies with *Kansayaku* Board, the ratio of companies with three outside directors is highest at 40.7% for Companies with Supervisory Committee, and the ratio of companies with five or more outside directors is highest at 62.0% for Companies with Three Committees. It can be said that the number of outside directors is high at Companies with Three Committees that are “monitoring model” oriented (Chart 77).

Looking at the ratio of companies by number of independent directors by organizational form, the ratio of companies with two independent directors is highest at 48.8% for Companies with *Kansayaku* Board, the ratio of companies with two independent directors is highest at 39.9% for Companies with Supervisory Committee, and the ratio of companies with five or more independent directors is highest at 53.5% for Companies with Three Committees. In the same manner as for outside directors, it can be said that the number of independent directors is high at Companies with Three Committees (Chart 78).

Chart 77 Ratio of Companies by Number of Outside Directors (by Organizational Form)

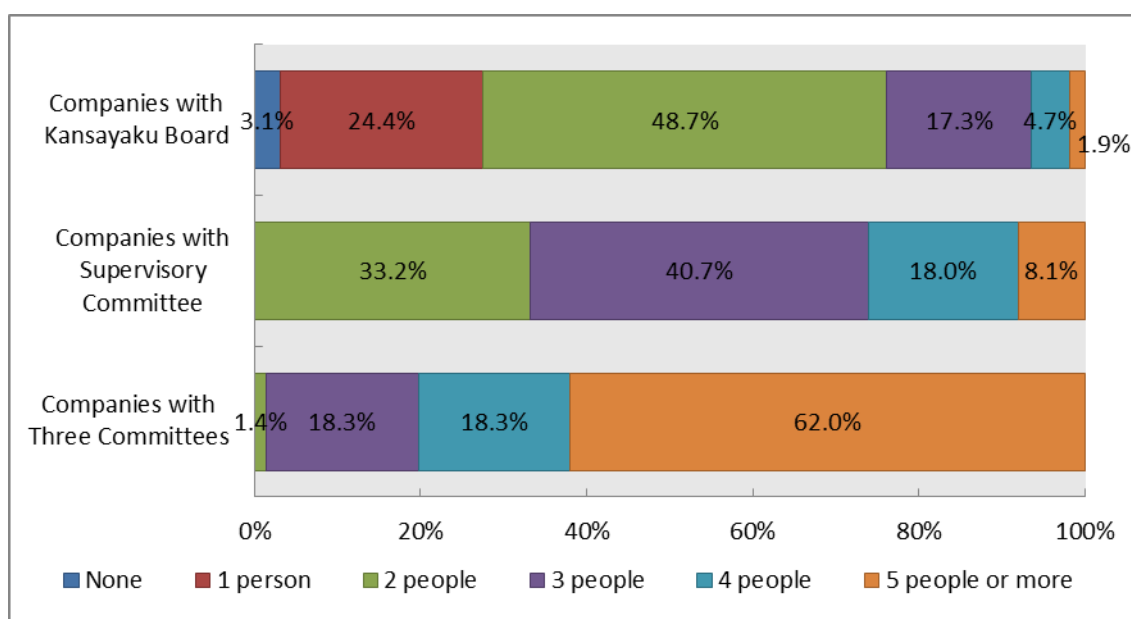
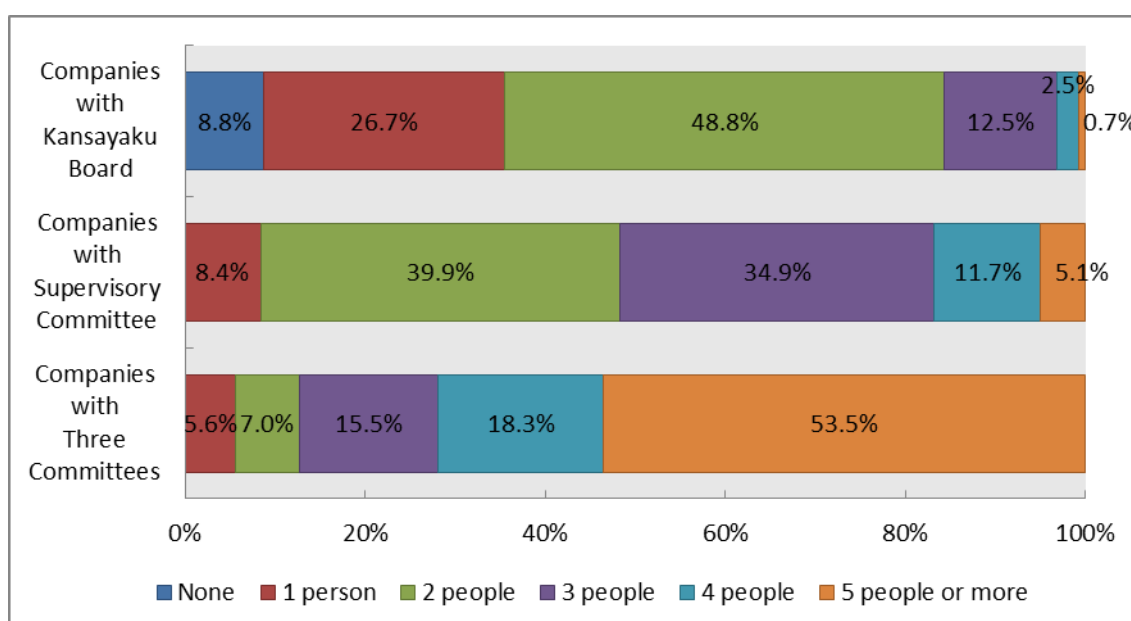


Chart 78 Ratio of Companies by Number of Independent Directors (by Organizational Form)



③ By market division

Looking at the ratio of companies that appointed independent directors by market division, appointment were made by 99.3% in TSE First Section, 95.7% in TSE Second Section, 88.3% in Mothers, and 77.5% in JASDAQ, as the ratio of TSE First Section and TSE Second Section that Principle 4.8 of the Code applies for is higher compared to other markets. In addition, an even higher percentage (100.0%) of JPX-Nikkei 400 companies appointed outside directors (Chart 79).

The average number of independent director per company is 2.04 persons. Looking at the results by market division, the average number of persons is 2.46 persons for TSE First Section, 1.82 persons for TSE Second

Section, 1.52 persons for Mothers, and 1.19 persons for JASDAQ. The average number of 3.11 persons for JPX-Nikkei 400 companies is higher than these divisions (Chart 80).

The ratio of companies with the number of independent directors accounting for at least one-third of the board by market division is shown in Chart 81. The ratio of companies appointing at least one-third of directors as independent directors has increased significantly for each market, and was 28.2% on an all companies basis. As for JPX-Nikkei 400 companies, the percentage of companies with at least one-third of independent directors reached 40.6%, which is 7.0 points higher than that of TSE First Section (33.6%). The ratio of companies with a majority of independent directors has increased significantly for each market as well, and was 2.7% on an all companies basis. As for JPX-Nikkei 400 companies, the percentage of companies with a majority of independent directors reached 6.5%, which is 3.3 points higher than that of TSE First Section (3.2%).

Chart 79 Ratio of Companies by Number of Independent Directors (by Market Division)

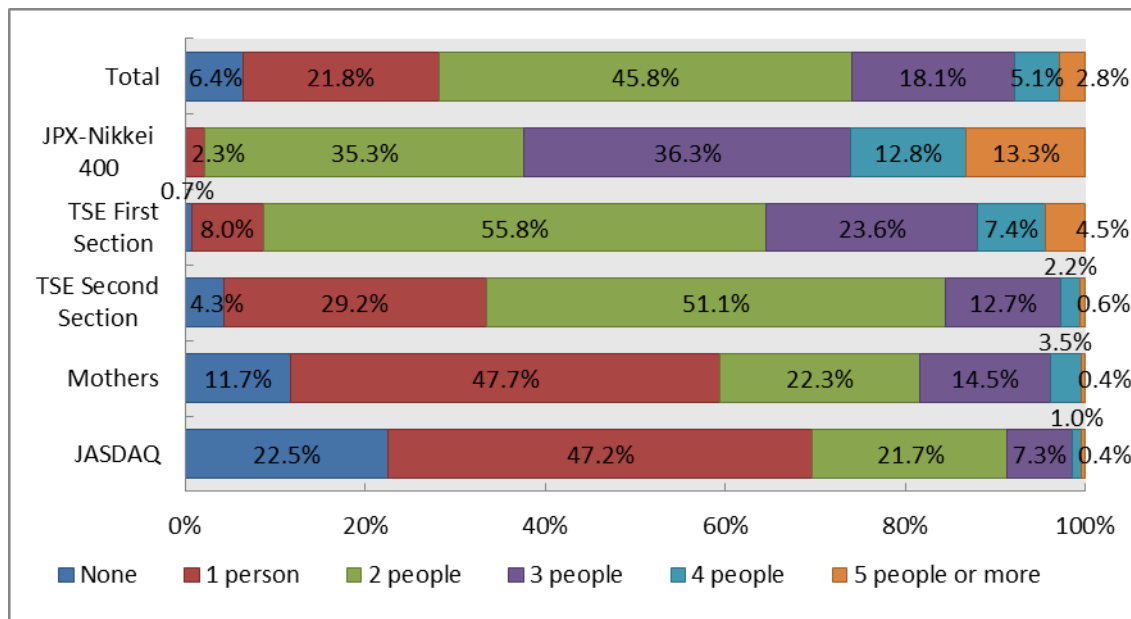


Chart 80 Average Number of Independent Directors (by Market Division)

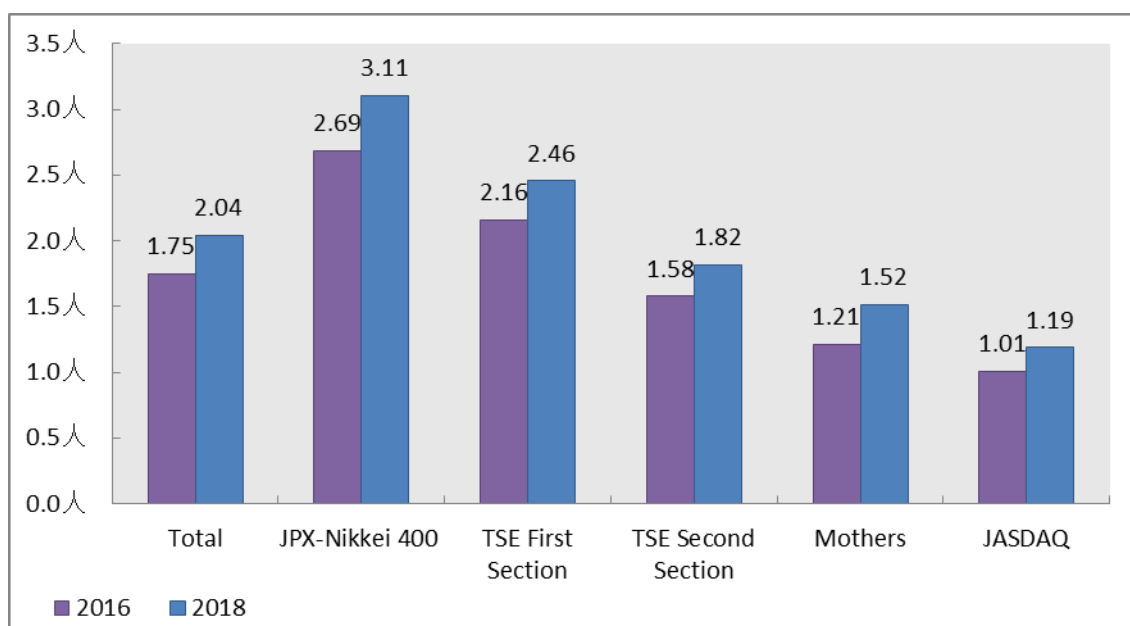
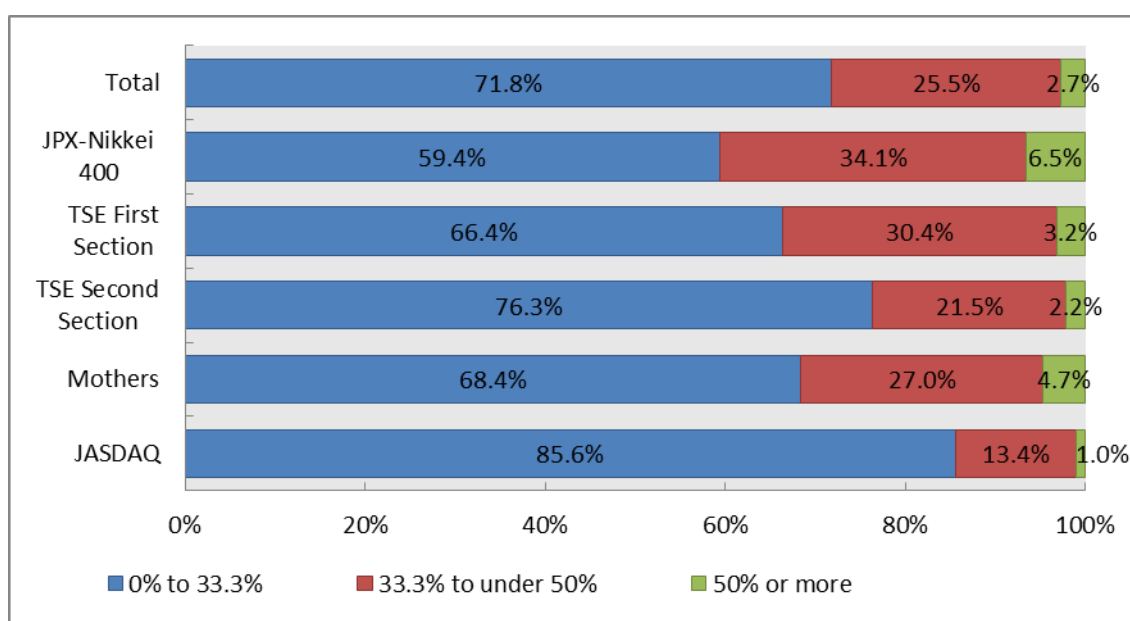


Chart 81 Ratio of Independent Directors on the Board (by Market Division)



④ By foreign shareholding ratio

In relation to the level of foreign shareholding ratio, the higher the ratio, the more likely companies are to appoint independent directors, and the more likely the number of independent directors per company is to increase. Specifically, among companies with the foreign shareholding ratio exceeding 30%, companies which appointed outside directors accounted for 100.0% with the average number of outside directors at 3.01 (Chart 82 and Chart 83), as this ratio and the average number were the highest. However, even among companies with the foreign shareholding ratio of less than 10%, 89.8% of these companies have appointed outside directors, and the gap caused by differences in the level of the foreign shareholding ratio is contracting (Chart 84).

The ratio of independent directors on the board has increased along with increases in the foreign shareholding ratio, as well as for companies with at least one-third of independent directors and companies with a majority of independent directors (Chart 85). The percentage of companies with at least one-third of independent directors has increased, reaching 49.1% for companies with the foreign shareholding ratio exceeding 30%. The ratio of companies with a majority of independent directors has increased significantly, reaching 7.5% for companies with the foreign shareholding ratio exceeding 30%.

Chart 82 Ratio of Companies by Number of Independent Directors (by Foreign Shareholding Ratio)

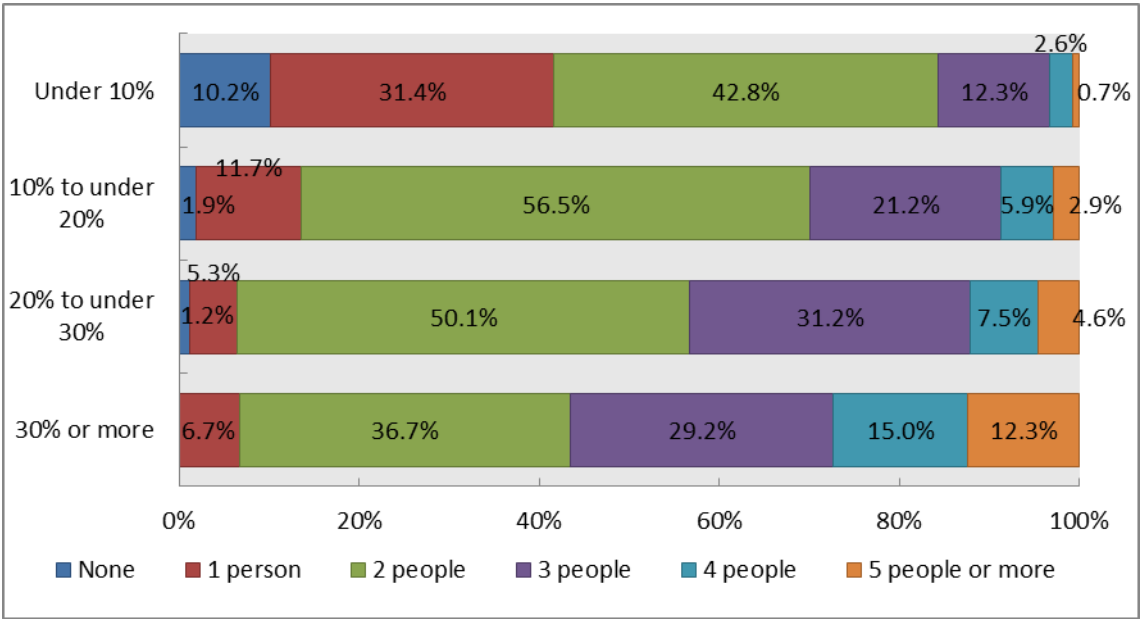


Chart 83 Average Number of Independent Directors (by Foreign Shareholding Ratio)

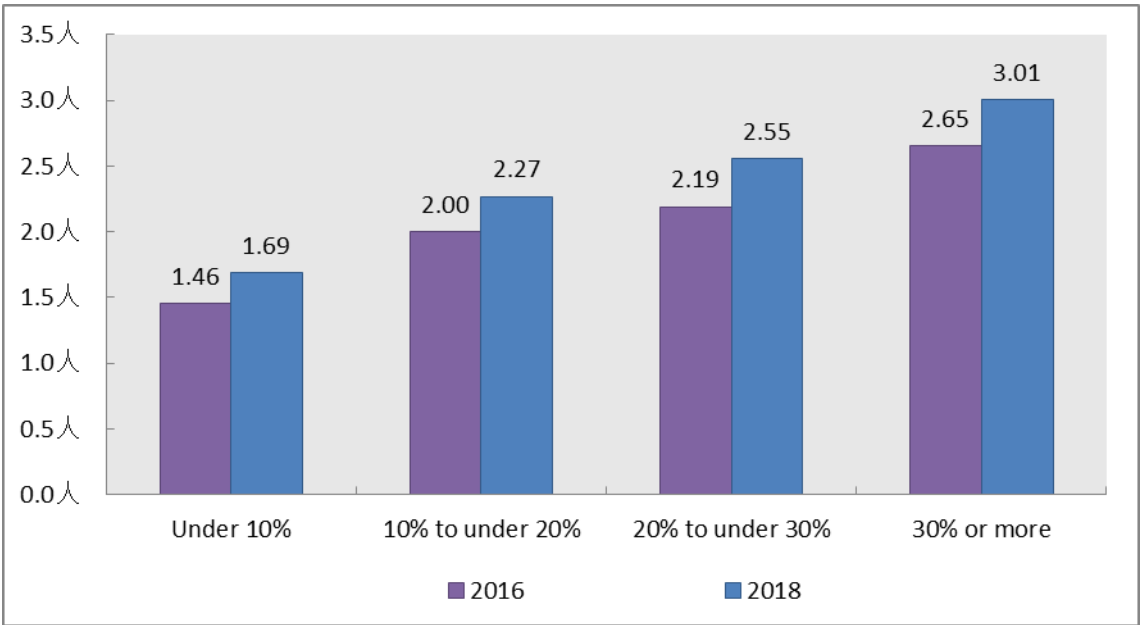


Chart 84 Ratio of Companies by Number of Independent Directors with Foreign Shareholding Ratio of under 10%

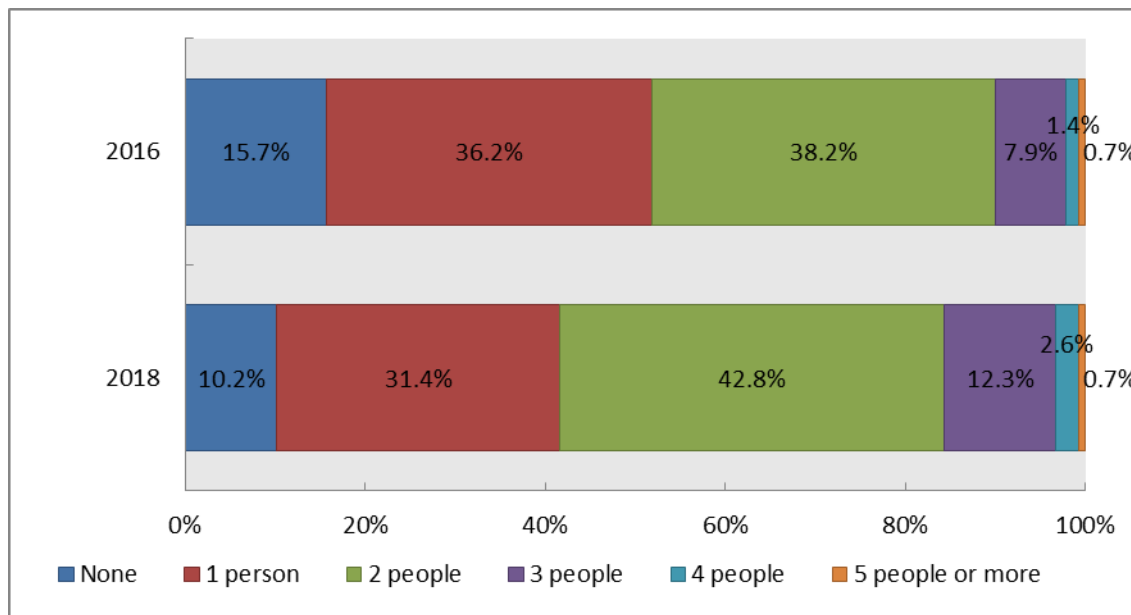
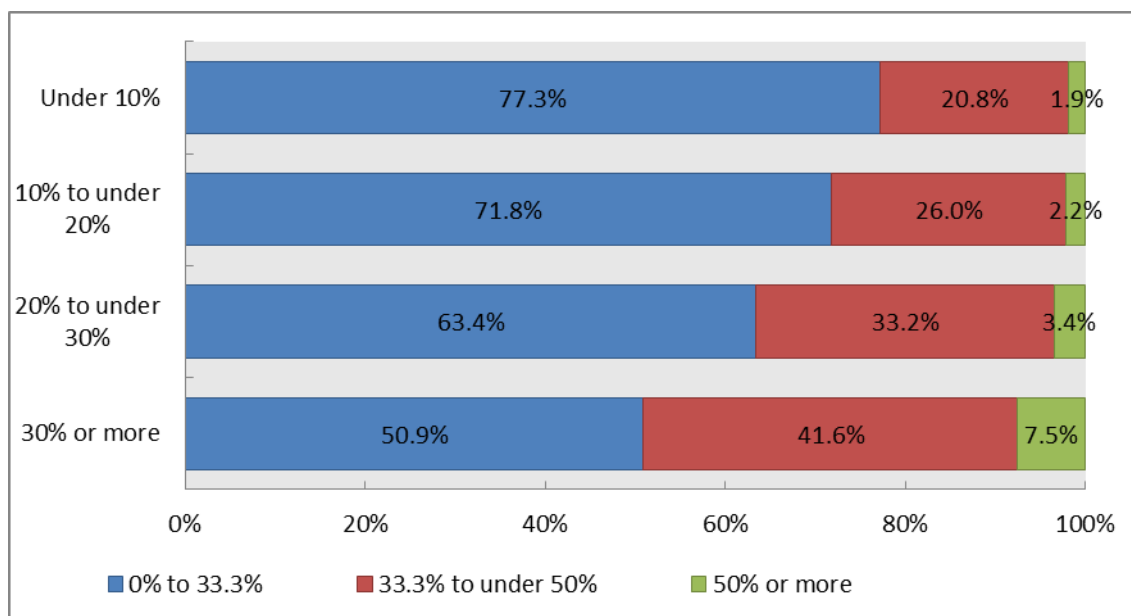


Chart 85 Ratio of Independent Directors on the Board (by Foreign Shareholding Ratio)



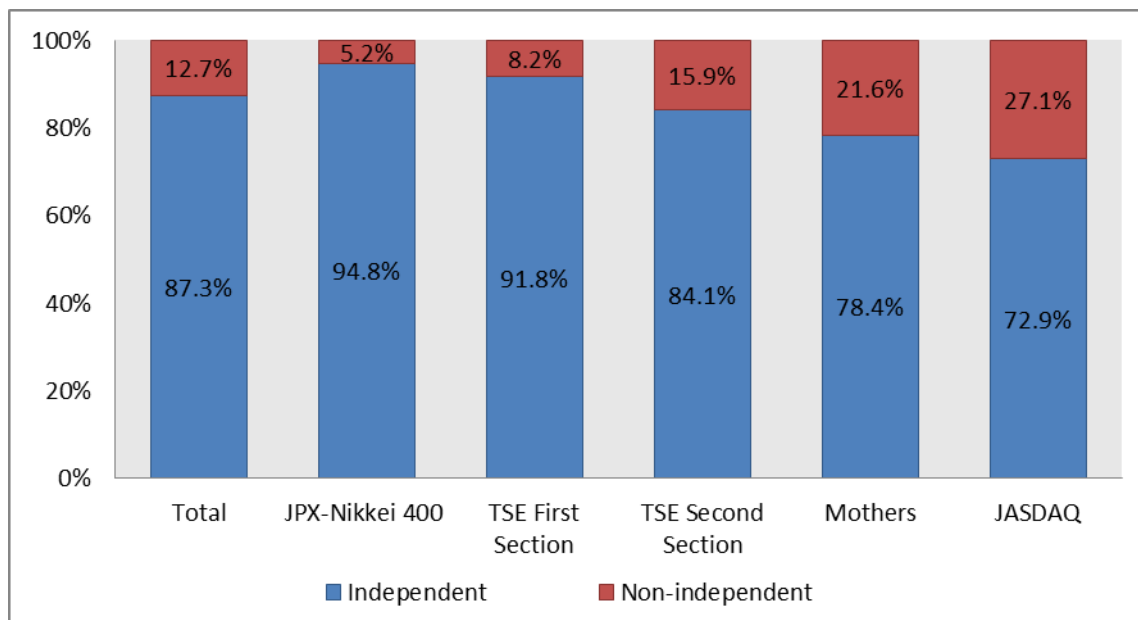
(2) Ratio of independent directors among outside directors

The CG Report requires companies to provide information on the number of outside directors appointed as independent officers. Among outside directors, 86.8% of outside directors were notified as independent officers when looking at all Companies with *Kansayaku* Board. Looking at the results by market division (Chart 86), this percentage is 91.8% in TSE First Section, 84.1% in TSE Second Section, 78.4% in Mothers, and 72.9% in JASDAQ, as there are many non-independent outside directors in Mothers and JASDAQ. Among JPX-Nikkei 400 companies, the percentage has reached 94.8%.

Among the total 8,414 outside directors appointed by 3,598 TSE-listed companies, 7,347 (87.3%) outside

directors were notified as independent officers.

Chart 86 Percentage of Independent Directors among Outside Directors



(3) Attributes of independent directors

The CG Report requires listed companies to specify each independent director's attribute by choosing one of the following: "from other company"⁵⁷, "lawyer", "certified public accountant", "tax accountant", "academic" and "other".

For TSE-listed companies overall, the percentage is high for "from other company". Looking at past trends, the percentage has decreased while the number of people has increased significantly, changing from 65.2% (835 people) in 2012, 63.9% (1,472 people) in 2014, 59.3% (3,644 people) in 2016, and 59.1% (4,338 people) in 2018. This was followed by the category "lawyer", for which the ratio is on the slight increase and the number of people has increased, from 13.1% (168 people) in 2012, 13.8% (317 people) in 2014, 16.1% (986 people) in 2016, and 16.0% (1,172 people) in 2018 (Chart 87).

Next, looking at the attributes of independent directors by organizational form, the percentage is high for "from other company" for every organizational form, at 64.5% for Companies with *Kansayaku* Board, 48.6% for Companies with Supervisory Committee, and 58.8% for Companies with Three Committees. Moreover, the percentage is also high for "lawyer" and "certified public accountant" for Companies with Three Committees (Chart 88).

⁵⁷"From other company" refers to a person who works or has experience in working for another company (Reporting Guidelines for the CG Report, "Description notes").

Chart 87 Attributes of Independent Directors (All Companies)

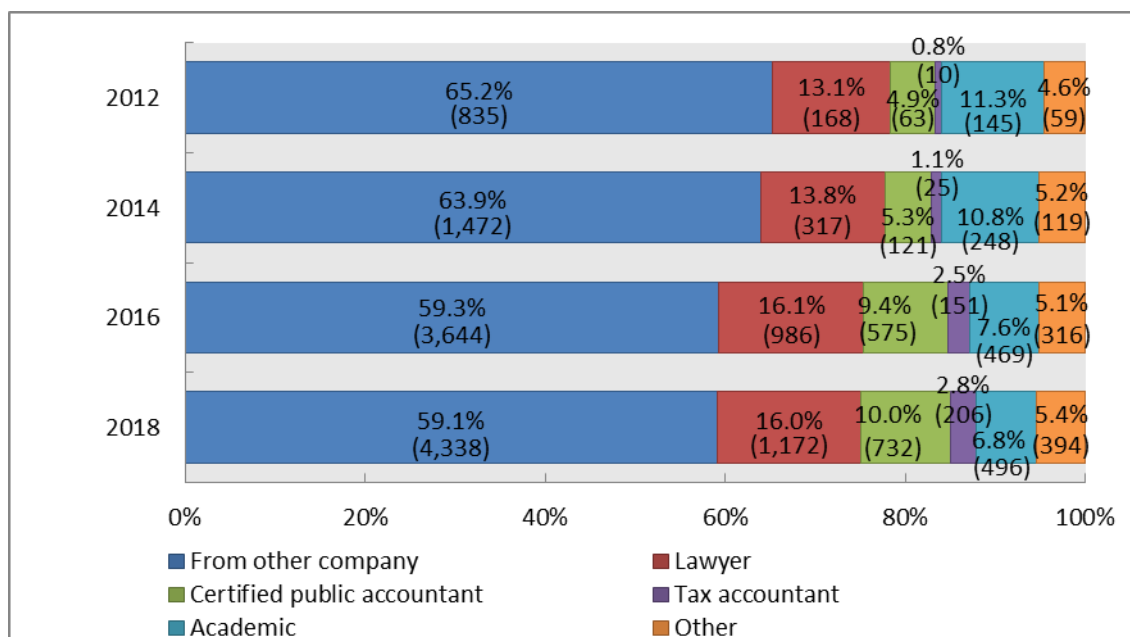
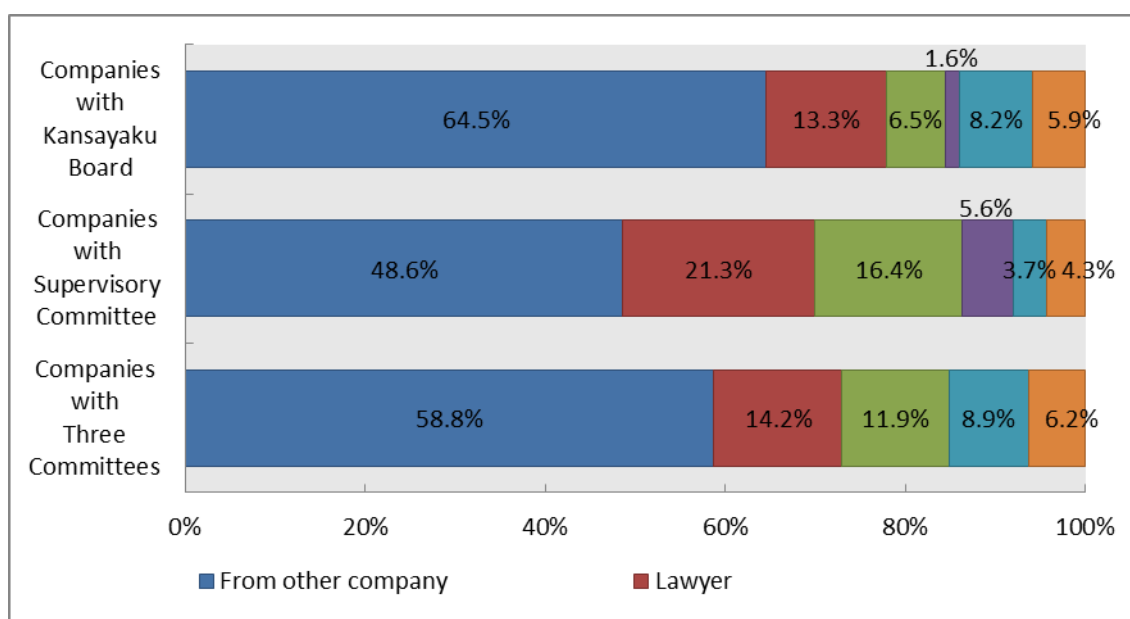


Chart 88 Attributes of Independent Directors (by Organizational Form)



(4) Relation between independent directors and company

The CG Report requires disclosure of relations between independent directors and the company, as companies are requested to select from the 11 types of relationships with the company from a to k below.

Furthermore, for each option it is necessary to make a selection that provides more details on the circumstances by selecting whether an item applies for the individual or a close relative and whether an item applies currently/recently or in the past.

- a A person who has executed business of the company or its subsidiary

- b A person who has executed business of the company's parent company or is non-executive director of the company's parent company
- c A person who has executed business of the company's fellow subsidiary
- d A person who has executed business of an entity for which the company is a major client
- e A person who has executed business of a major client of the company
- f A person who is a consultant, accounting professional or legal professional who receives a large amount of money or other asset other than remuneration for directorship/auditorship from the company
- g A major shareholder of the company (in the case of a major shareholder such as a juridical person or association, including persons belonging to it)
- h A person who has executed business of an entity for which the company is a client (except "d", "e" and "f")
- i A person who is or was from another company at which a person who is or was from said company is an outside director/auditor
- j A person who has executed business of an entity for which the company contributes
- k Other

Chart 89 shows which of the above-mentioned categories the independent directors of TSE-listed companies belong to (as multiple answers are allowed, an outside director may be included in multiple categories).

The percentage of cases for which the selections above did not apply was the highest, accounting for 62.2%. Next, in the case of the selections applying, the percentage was highest for h "other business partner", at 22.9%.

Next, the status of "currently/recently" or "the past" for the individual and "currently/recently" or "the past" for a close relative for each selection is displayed in Chart 90, as "the past" for the individual accounted for the highest percentage (57.8%) of the most common selection h "other business partner".

Chart 89 Relation Between Independent Directors and Company (Individual/Close Relative)

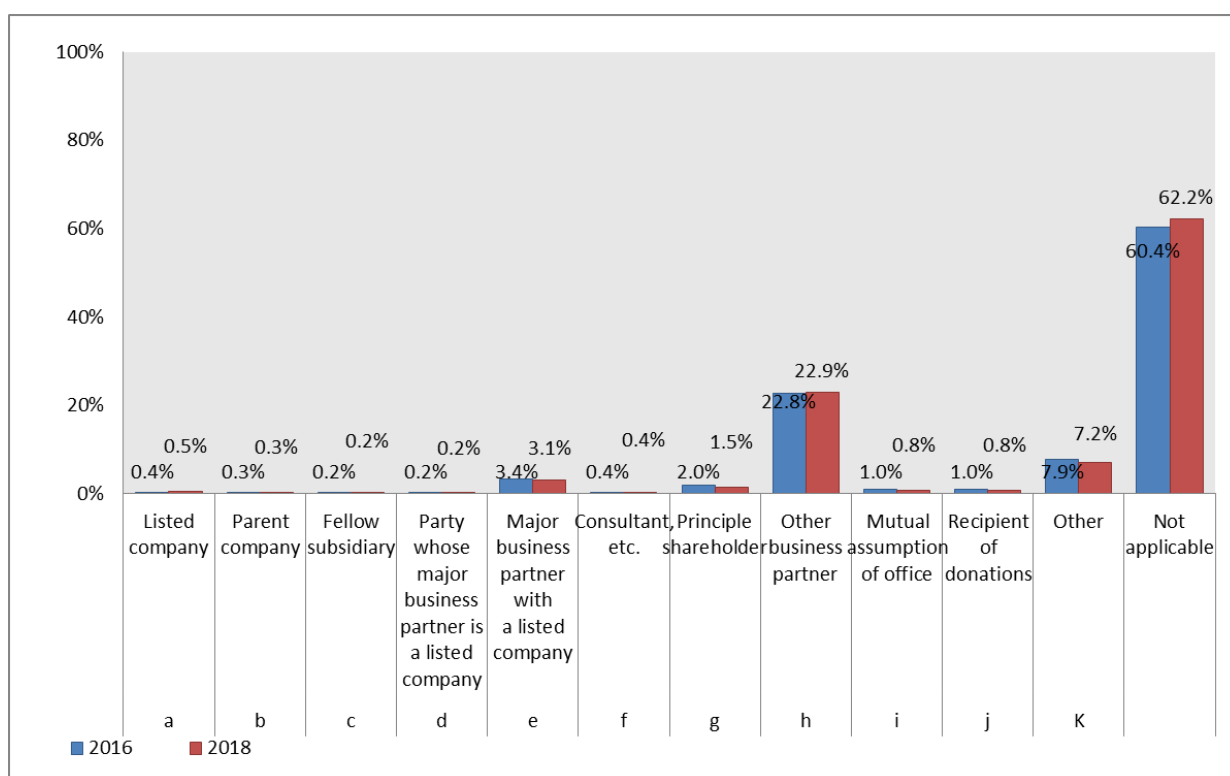
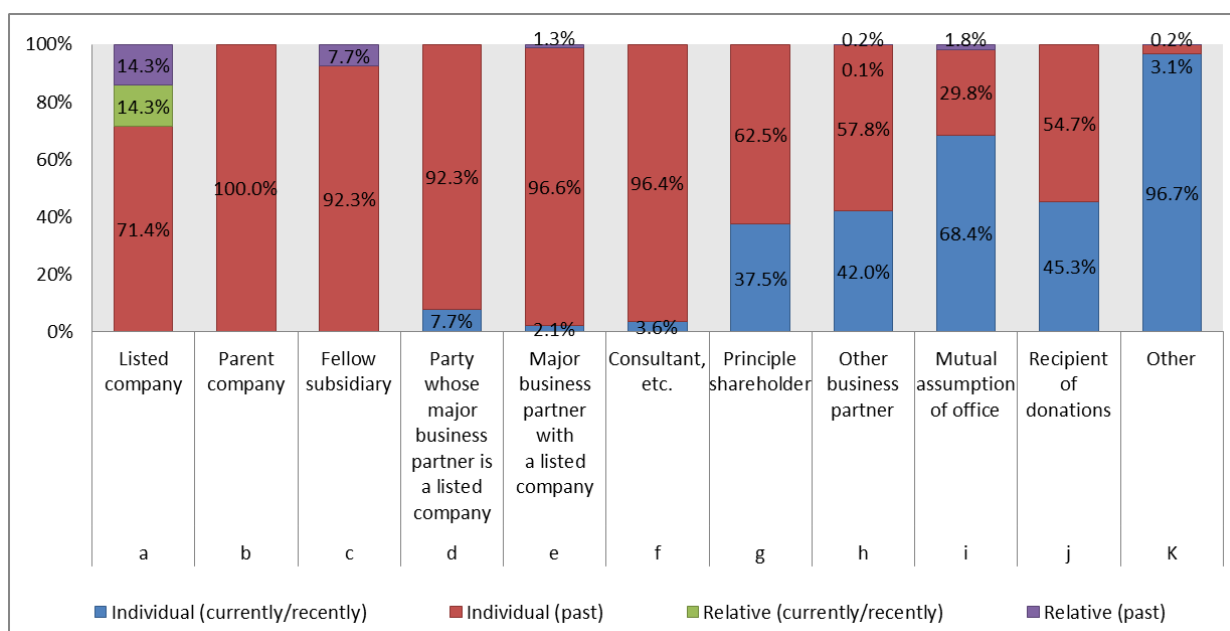


Chart 90 Relation Between Independent Directors and Company



4-8. Attributes of outside *kansayaku*

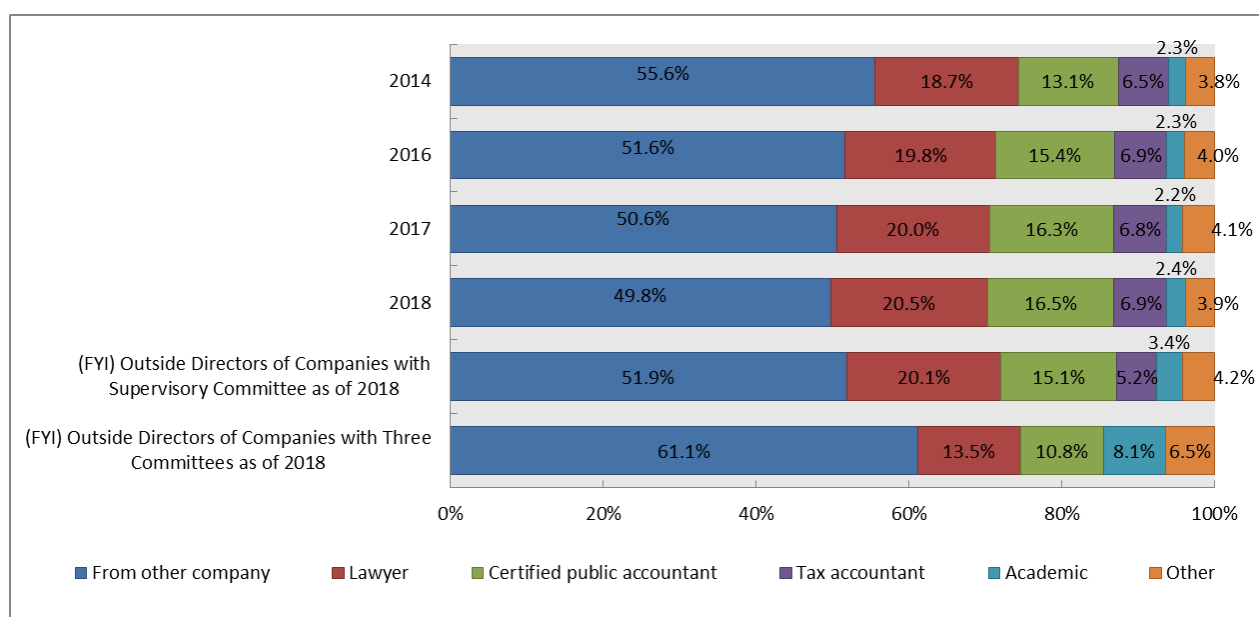
The CG Report requires companies to provide information on the number of outside *kansayaku* appointed as independent officers. Among the total 6,418 outside directors appointed by 2,635 TSE-listed companies that are Companies with *Kansayaku* Board, 4,899 (76.3%) *kansayaku* were notified as independent officers.

In the same manner as the attributes of outside directors, the CG Report requires listed companies to specify each outside *kansayaku*'s attribute by choosing one of the following: “from other company”, “lawyer”, “certified public accountant”, “tax accountant”, “academic” and “other”.

In this regard, among all *kansayaku* of TSE-listed Companies with *Kansayaku* Board, those “from another company” accounted 49.8%, followed by “lawyers” (20.5%), “certified public accountants” (16.5%), “tax accountants” (6.9%), and “academics” (2.4%) (Chart 91).

Comparing the attributes of outside *kansayaku* at Companies with *Kansayaku* Board and outside director at Companies with Supervisory Committee and Companies with Three Committees, the attribute figures for Companies with Supervisory Committee (“from another company” 51.9%, “lawyers” 20.1%, “certified public accountants” 15.1%, “tax accountants” 5.2%, and “academics” 3.4%) are extremely close to the attribute figures for Companies with *Kansayaku* Board. It is believed that this is due in part to the fact that when companies moved from the Company with *Kansayaku* Board structure to a Company with Supervisory Committee structure, many outside *kansayaku* were changed to outside directors.

Chart 91 Attributes of Outside *Kansayaku*

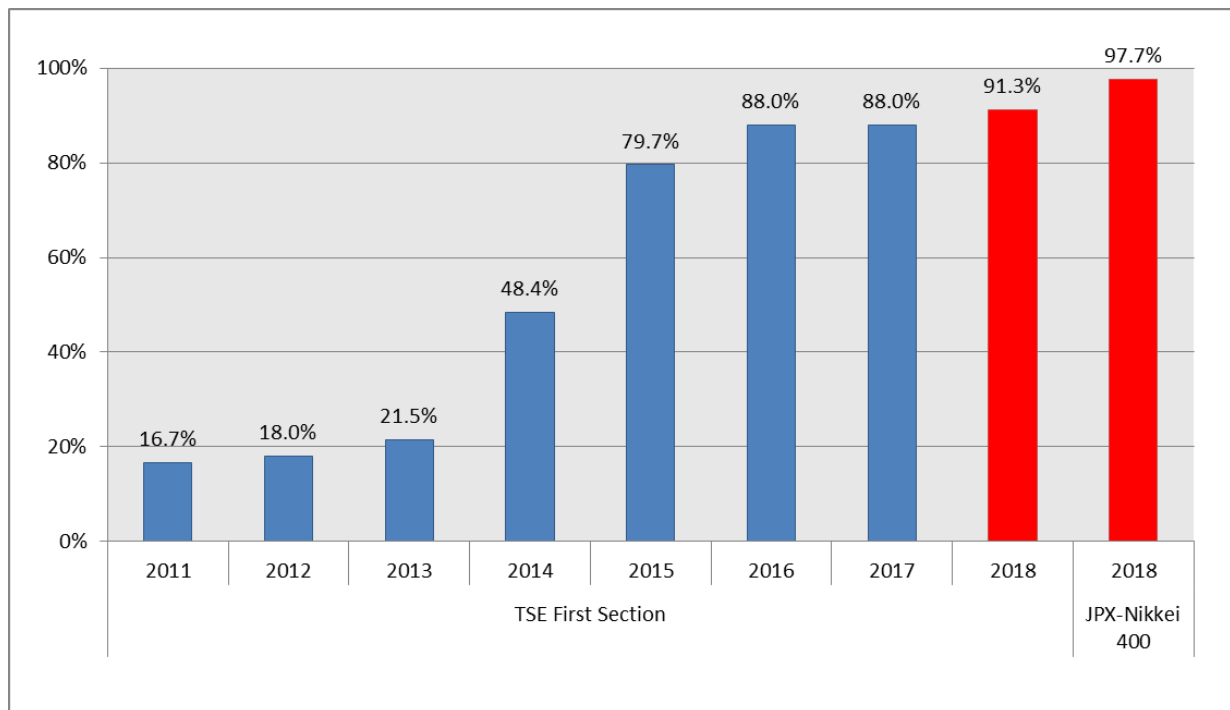


4-9. Effective use of independent directors (Principle 4.8)

Principle 4.8 requires companies to appoint at least two independent directors as a general rule, and also requires companies that believe it is necessary to appoint at least one-third of directors as independent directors to appoint a sufficient number of independent directors. As the compliance rate is 87.2% (2,286 companies) for this principle, this means that the compliance rate is less than 90%. There has been rapid progress in the appointment of independent directors since the establishment of the Code, and as indicated in Chart 92, 91.3% of companies listed on TSE First Section had appointed multiple independent directors as of July 31, 2018. In addition, 33.6% of companies listed on TSE First Section had appointed at least one-third of directors as independent directors (Chart 93). The percentage of companies appointing multiple independent directors or

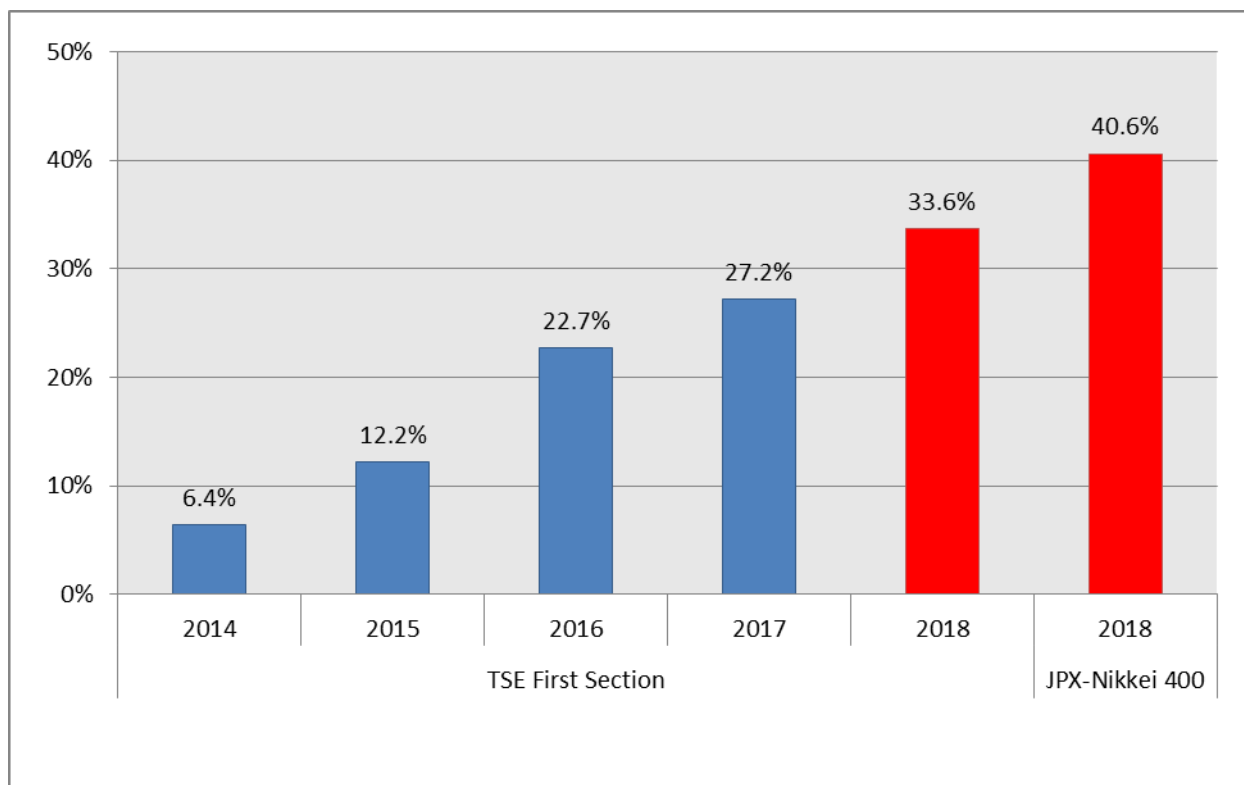
at least one-third of directors as independent directors has increased significantly compared to before establishment of the Code. In particular, compared to 2017, the percentage of companies appointing multiple independent directors increased 3.3 points year on year and the percentage of companies appointing at least one-third of directors as independent directors increased 6.4 points year on year, which shows how there has been a drastic increase in the percentage of companies appointing at least one-third of directors as independent directors. While the rapid increase in the appointment of multiple independent directors since 2015 following the establishment of the Code has calmed, there have also been requests from institutional investors and proxy advisory firms⁵⁸, and it seems that a trend of securing at least one-third of directors as independent directors has spread among companies listed on TSE First Section

Chart 92 Ratio of Companies Appointing 2 or More Independent Directors (TSE First Section)



⁵⁸The standards for exercising voting rights of California Public Employees' Retirement System (CalPers) were changes in March 2017, requiring listed companies in Japan to have at least one-third of directors as independent directors (<https://www.calpers.ca.gov/docs/japan-stewardship-code-jp.pdf>). In addition, the major proxy advisory firm Glass Lewis has required an independent director ratio of at least one-third since 2017, and ISS has required Companies with Supervisory Committee and Companies with Three Committees to have an independent director ratio of at least one-third since 2019.

Chart 93 Ratio of Companies Appointing More than 1/3 Independent Directors (TSE First Section)



4-10. Independence standards and qualification for independent directors (Principle 4.9)

While TSE has minimum independence standards for the independent officer systems in the Listing Rules, it is preferable for listed companies to make practical judgments on each outside director in order to appropriately assess the independence of outside directors, including whether simply not violating the TSE independence standards is sufficient. Accordingly, Principle 4.9 stipulates that the board should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by financial instruments exchange. While the contents of independence judgment criteria that contribute to effective judgments are primarily up to the discretion of each listed company, listed companies are expected to disclose such criteria in order to find reasonable judgment criteria through dialogs between listed companies and the market.

The compliance rate with Principle 4.9 was 97.0% (2,543 companies). Examples of descriptions include the addition of the character required of independent directors (active requirements) in addition to the external requirements of the Companies Act and the independence criteria stipulated by the TSE, etc. (passive requirements). A specific example is “based on the requirements of the Companies Act and the independence criteria stipulated by TSE, the Company selects candidates that will appropriately provide opinions to the Company’s management from an objective viewpoint”. Among companies that have complied with Principle 4.9, 31.9% (810 companies) included the keyword “Companies Act, etc.” in disclosures, while 66.3% (1,686 companies) included the keyword “exchange (TSE, financial instruments exchange, etc.)”. This suggests that many companies firstly make disclosures in consideration of external requirements under the Companies Act

and independence criteria stipulated by TSE, etc. There are some companies that also clearly state that independence criteria uses standards for exercising voting rights of proxy advisory firms, institutional investors, etc. as a reference.

Meanwhile, some companies also established their own quantitative independence criteria for relationships with business partners, large shareholders, etc. In terms of keywords for quantitative criteria, 14.3% (363 companies) mentioned “yen (10,000 yen/100 million yen)” which expresses a monetary amount or “%” which expresses the percent.

Of companies describing quantitative criteria, 88.4% (321 companies) mentioned “business partners”. Of these, the many companies (250 companies) have used “2% of consolidated sales, etc.” as a criteria, for example, defining a “major business partner” as a “business partner for which the annual transaction amount accounts for over 2% of the consolidated sales of the Group or the business partner (including its parent company or major subsidiaries)”. In addition, in relation to business relationship, some companies take both the criteria of the amount of payments made by their company to a business partner and the criteria of the amount of payments paid by a business partner to their company into consideration.

In addition, 33.1% of companies (120 companies) mentioned “lenders”. Many companies (87 companies) mentioned “2% of consolidated total assets, etc.” as a numeral criteria for such lender. In addition, among banks, etc. there were also companies that took into consideration loan transactions, establishing criteria such as “cases in which Bank is the top borrowers for the party and in which changes to the Bank’s credit policy could have a tremendous impact”.

88.4% (321 companies) mentioned “lawyers” and “consultants”, and companies that used 10 million yen as the amount for this criteria were most common (196 companies). There were also cases using 10 million yen in the case of an individual who receive remuneration while using 2% of consolidated sales in the case of a corporation, organization, etc. (94 companies).

57.9% (210 companies) mentioned “donations” from listed companies. Companies that used 10 million yen as the criteria for the donation amount were most common (121 companies). 73.0% (265 companies) mentioned “large shareholders”, of which the majority (242 companies) used “10%” as a standard.

In addition, there were cases of companies incorporating elements such as the service period of independent directors and underwriting lead manager securities companies in independence criteria. In addition, 96.1% (349 companies) also mentioned a cooling-off period during which there have been no conflicts with independence for a set period in the past such as the “past XX years” or “XX years ago”, as a majority of companies that mentioned quantitative criteria mentioned a cooling-off period.

Keywords related to the character required of independent directors included “experience” (24.0%, 611 companies), “specialism (specialized/expert)” (24.5%, 622 companies), “frank (opinions)” (10.3%, 262 companies), and “personal character” (3.6%, 92 companies). This suggest that many companies prioritize past experience. In addition, many companies (13.1%, 333 companies) mentioned “oversight” as a keyword regarding expected roles.

Chart 94 Main Keywords in the Independence Judgment Criteria for Independent Directors

Item	Number of companies	Applicable ratio	(Reference) Previous total (As of July 2016)
Companies complying with Principle 4.9	2,543 companies	100.0%	-
There are quantitative criteria	363 companies	14.3%	13.8%
■ Major business partners	321 companies	12.6%	11.9%
2% of consolidated sales	250 companies	9.8%	8.9%
1% of consolidated sales	21 companies	0.8%	0.6%
■ Major lenders	120 companies	4.7%	4.3%
2% of consolidated total assets	87 companies	3.4%	3.1%
■ Lawyers, consultants, etc.	321 companies	12.6%	11.2%
10 million yen	196 companies	7.7%	7.0%
10 million yen or 2%	94 companies	3.7%	1.6%
■ Donations	210 companies	8.3%	7.6%
10 million yen	121 companies	4.8%	4.3%
10 million yen or 2%	42 companies	1.7%	0.7%
■ Large shareholders	265 companies	10.4%	9.4%
10%	242 companies	9.5%	8.6%
5%	17 companies	0.7%	0.6%

Looking at individual examples, [Example 1] is an example of descriptions regarding character in addition to requirements of the Companies Act and the Listing Rules. It states that the company prioritizes the mental independence that makes it possible to present doubts and hold discussions in meetings such as the board, conduct re-investigations and express contrary opinions.

[Example 2] is an example of quantitative disclosures. The company has established specific quantitative criteria and presents its own objective criteria on the independence of independent directors to shareholders and investors. As in [Example 3], there are also some companies set criteria such as “5% of voting rights” or “1% of the consolidated sales”, which are more stringent than general standards. [Example 4] is an example of a criteria established for “major borrower”, listing the quantitative and qualitative factors based on which judgments are made. In addition, “8 years” is set as the standard for term of office. Some institutional investors have deemed that an independent director with a long term of office (for example, 12 years) lack in independence, and exercise voting rights in opposition to their appointment as officers. This suggests that this trend has spread over the past several year and that companies with an awareness of the term of office as an independence standard could increase in the future.

[Example 1]

In the appointment of outside directors, in addition to the requirements under the Companies Act, the Company also prioritizes the ability to understand various businesses and the mental independence that makes it possible to present doubts and hold discussions in meetings such as the board, conduct re-investigations, and express contrary opinions. In addition, the appointment criteria for independent directors require candidates to fulfill the qualifications for independent officers stipulated by TSE, and to be unlikely to have conflicts of interest with general shareholders.

(Transportation equipment)

[Example 2]

The Company designates outside officers who satisfy the following conditions, in addition to the criteria for independence stipulated by Tokyo Stock Exchange, Inc., as its independent officers.

• A person who does not fall under any of the following items for the most recent 3 financial years:

(1) A person who executes business for the Company's business partner with a trading amount exceeding the standards set forth by the Company (*1);

(2) A person who executes business for the Company's lender with an amount of lending exceeding the standards set forth by the Company (*2);

(3) An individual providing specialized services, such as a consultant, accountant or lawyer, who has received from the Company any money or other property profit that is worth 10 million yen or more per year other than executive remuneration in any year of the most recent 3 financial years; or

(4) A person who executes business for an organization that has received contributions exceeding the Company's standards (*3).

Even if a person falls under any of the conditions from (1) through (4) as stipulated above, any reason for judging that such person still has independence is required to be explained and disclosed when such person is appointed as an independent officer.

*1 Business partner exceeding the standards set forth by the Company refers to a business partner whose trading amount with the Company is 2% of the Company's non-consolidated annual sales or larger in any financial year out of the most recent 3 financial years.

*2 Lender exceeding the standards set forth by the Company refers to a lender who lends to the Company 2% or a larger percentage of the Company's total assets in any financial year out of the most recent 3 financial years.

*3 An organization that has received contributions exceeding the standards set forth by the Company refers to an organization that has received contributions from the Company that exceed 10 million yen per year or 2% of the total annual revenue of such organization, whichever is larger in amount, in any financial year out of the most recent 3 financial years.

(Information and communication)

[Example 3]

The Company designated a person it judges to be well-qualified to supervise the Company management from an independent standpoint without any conflicts of interest with general shareholders and to always express views from a standpoint well-informed on the interests of general shareholders as an Independent Director.

Specifically, the Company observes the following standards of independence:

1. A person who has never belonged to the Company as a Director with executive authority over operations, an executive officer,

or an employee;

2. A person who is not an executive of a customer or supplier, etc. of the Company whose annual transactions with the Company exceed 1% of the Company's net sales or the other party's consolidated net sales;
3. A person who is not a major shareholder holding a stake of 5% or more of the voting rights of the Company or an executive thereof at the end of the fiscal year of the Company;
4. A person who is not an executive of any company in which the Company holds a stake of 5% or more of the voting rights at the end of the fiscal year of the Company;
5. A person who is not an executive of a financial institution from which the Company has borrowed with a balance of loans payable exceeding 3% of the Company's total assets or the financial institution's consolidated total assets, as of the end of the fiscal year of the Company;
6. A person from whom the Company received donations of 10 million yen or more in any of the past ten years or an executive thereof; or
7. A person who is not a consultant, accounting professional, legal professional, a person belonging to a corporation or association thereof, an Accounting Auditor, or advisor who has received cash or other financial gains of 10 million yen or more per year from the Company other than remuneration for Directors and *kansayaku*, etc.

(Retail)

[Example 4]

[Independence Judgment Criteria for Independent Directors]

(1) None of the following categories below apply for the individual currently or in the past

- Executive (*2) of the Group (*1)

(2) None of the following categories below apply for the individual currently or in the past three years

- Executive of major borrowers (*3) of the Bank
- Executive of major business partners (*4) of the Group
- Large shareholders (directly or indirectly holding at least 10% of voting rights) of the Bank, or executives, *kansayaku*, or accounting advisors of these large shareholders
- Executives, *kansayaku*, or accounting advisors of parties whose 5% of the voting rights are held by the Group
- Accounting auditor of the Group or executives of that accounting auditor
- Parties paid remuneration exceeding 10 million yen per year from the Group other than officer remuneration (accounting professionals, legal experts, consultants, etc.)
- Executives of organizations gaining donations exceeding 10 million yen per year from the Group

(3) None of the following categories below apply for a spouse, relative within two degrees of kinship, or person living together with the individual

- Persons stated in (1) and (2) above

(4) There no officers, etc. that have mutually assumed office

(5) The service period of outside directors does not exceed 8 years

(6) There are no circumstances other than those above based on which it has been deemed that the person would not be able to fulfill the duties of an independent director

(7) Even if a person does not fulfill one of the requirements in (2) to (5) above, if the Bank believes that the person has sufficient independence and would be appropriate as an outside director in the light of the personality, insights, etc., that person can be a

candidate for an independent director of the Company by providing an external explanation on the reason for this belief.

(*1) The Bank and subsidiaries, affiliates, and associated companies of the Bank

(*2) Executive director, shikkoyakuin, or employee

(*3) The Bank will determine whether a company constitutes a major borrower based on whether that company is in a position that is subject to significant control from the Bank's management team after giving comprehensive consideration to matters such as the credit share, ratio of the credit amount to sales, total assets, etc., years of debt redemption, balance with deposit transactions, etc., and the status of transactions with other financial institutions.

(*4) The Bank will determine whether a company constitutes a major business partner based on whether it is in a position that is subject to the same degree of influence as from a parent company or affiliate, for example, whether the sales, etc. from transaction between the Bank and the company account for a considerable portion of that company's sales

(Banking industry)

4-11. Committees, etc.

A Company with Three Committees is a company that has a Nomination Committee, Audit Committee, and Remuneration Committee⁵⁹, and each of these committees must be composed of at least three directors, the majority of who are outside directors⁶⁰. In addition, in a Company with Three Committees it is possible to largely delegate decisions on the execution of the operations to *shikkoyaku* they have been entrusted with.⁶¹

Principle 4.10 of the Code stipulates that companies should further enhance governance functions by using voluntary structures, while Supplementary Principle 4.10.1 stipulates that companies should establish optional nomination committees or remuneration committees to which independent directors make significant contributions.

In the CG Report, for Companies with *Kansayaku* Board it is necessary to not only describe matters related to *kansayaku*, but also describe the committee composition and the attributes of the committee head (chairperson) if an optional committee equivalent to a Nomination Committee or Remuneration Committee has been established.

At Companies with Supervisory Committee, if an optional committee equivalent to a Nomination Committee or Remuneration Committee has been established in addition to the Supervisory Committee that must be established under the Companies Act, it is necessary to describe the committee composition and the attributes of the committee head (chairperson).

The current state of required disclosures for committees will be analyzed by the functions of "nomination", "remuneration", and "audits" below. For Companies with *Kansayaku* Board, the function of audits related to *kansayaku* will be analyzed in "audits".

(1) Nomination Committee

① Status of Nomination Committee establishment

While the establishment of a Nomination Committee is mandatory at Companies with Three Committees, the establishment is up to the discretion of companies for Companies with Supervisory Committee and Companies

⁵⁹ Article 2, Item 12 of the Companies Act.

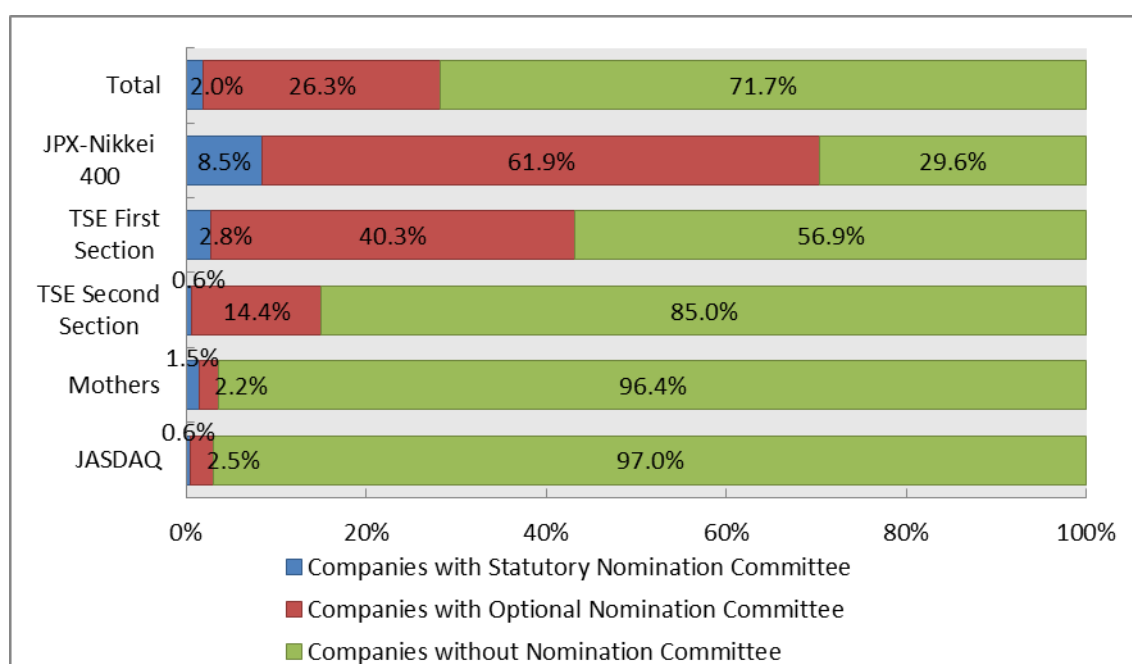
⁶⁰ Article 400, Paragraph 1 and 3 of the Companies Act.

⁶¹ Article 416, Paragraph 4 of the Companies Act.

with *Kansayaku* Board. The status of establishment of statutory or optional nomination committee by market division is displayed in Chart 95. The percentage of TSE First Section companies that have established statutory or optional nomination committees is higher compared to other market divisions. As for JPX-Nikkei 400 companies, 8.5% (34 companies) have established a statutory Nomination Committee, 61.9% (247 companies) have established an optional nomination committee, and 29.6% (118 companies) have not established a nomination committee, and these percentages are higher than those for TSE First Section companies.

The compliance rate with Supplementary Principle 4.10.1 which stipulates that companies should establish an optional nomination committee or remuneration committee to which independent directors make significant contributions for the examination of matters such as nominations and remuneration was 48.3%⁶². The compliance rate with the Code was 76.7% as of July 2017, and there has been a significant decline in the compliance rate following the recent Code revision. While the establishment of an optional nomination committee or remuneration committee was an “example” in the Code before the revision, the phrase “example” has been removed from the original Code, and it has become necessary to establish an optional nomination committee or remuneration committee when complying with Supplementary Principle 4.10.1. It is believed this is why there has been a significant decline in compliance rate. However, the compliance rate is expected to increase in the future because there are many companies considering the establishment of such a committee.

Chart 95 Status of Nomination Committee Establishment (by Market Division)



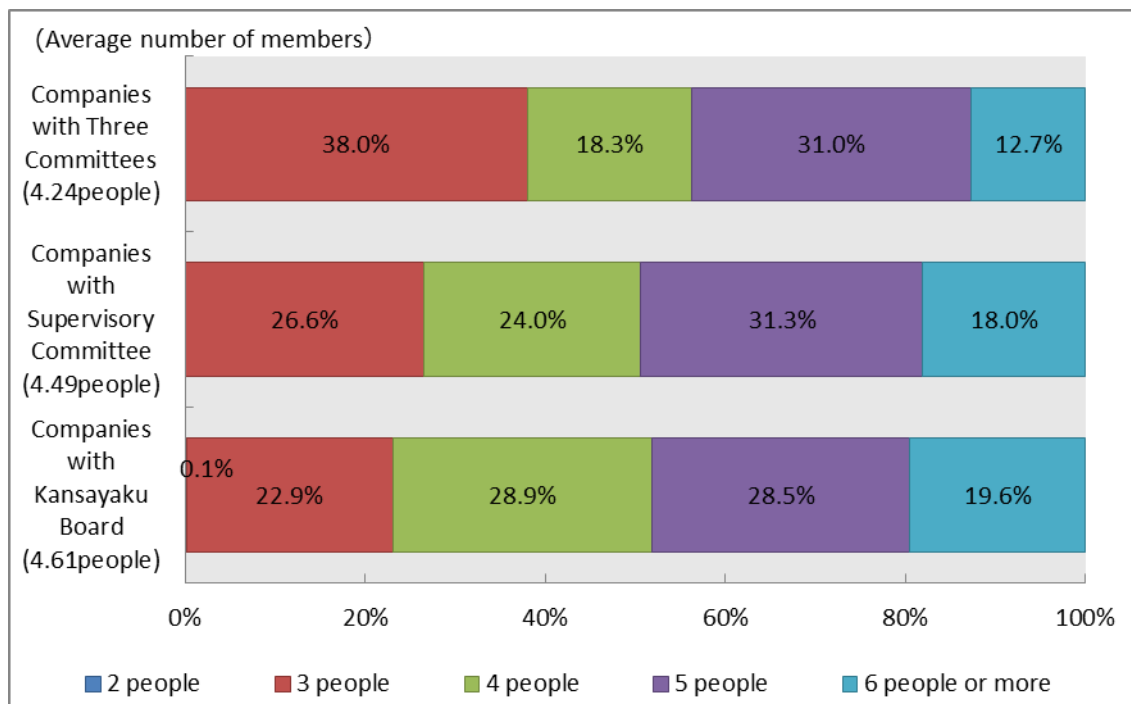
③ Number of Nomination Committee members

Chart 96 displays the number of Nomination Committee members by organizational form. For Companies with Three Committees, it can be said that the number of Nomination Committee members is lower compared

⁶²As a result of the Code revision, Supplementary Principle 4.10.1 requires company to establish an optional nomination committee or remuneration committee to which independent directors make significant contributions

with other organizational forms. The average number of members of a statutory Nomination Committee at Companies with Three Committees is 4.24, and companies with three committee members account for the highest proportion (38.0%). The average number of members of an optional nomination committee at Companies with Supervisory Committee is 4.49, and companies with five committee members account for the highest proportion (31.3%). The average number of members of an optional nomination committee at Companies with *Kansayaku* Board is 4.61, and companies with four committee members account for the highest proportion (28.9%).

Chart 96 Number of Nomination Committee Members



③ Ratio and number of inside directors and outside directors in Nomination Committees

Chart 96 displays the ratio and number of inside directors and outside directors in Nomination Committees by organizational form. For Nomination Committees at Companies with Three Committees, 25.9% of members are inside directors and 74.1% are outside directors. For optional nomination committees at Companies with Supervisory Committee, 37.0% of members are inside directors, 61.9% are outside directors, 0.7% are external experts, and 0.5% are other. For optional nomination committees at Companies with *Kansayaku* Board, 36.0% of members are inside directors, 49.7% are outside directors, 1.9% are external experts, and 12.3% are other. *Kansayaku* are included in “other” here.

Chart 97 Ratio of Inside Directors and Outside Directors in Nomination Committees⁶³

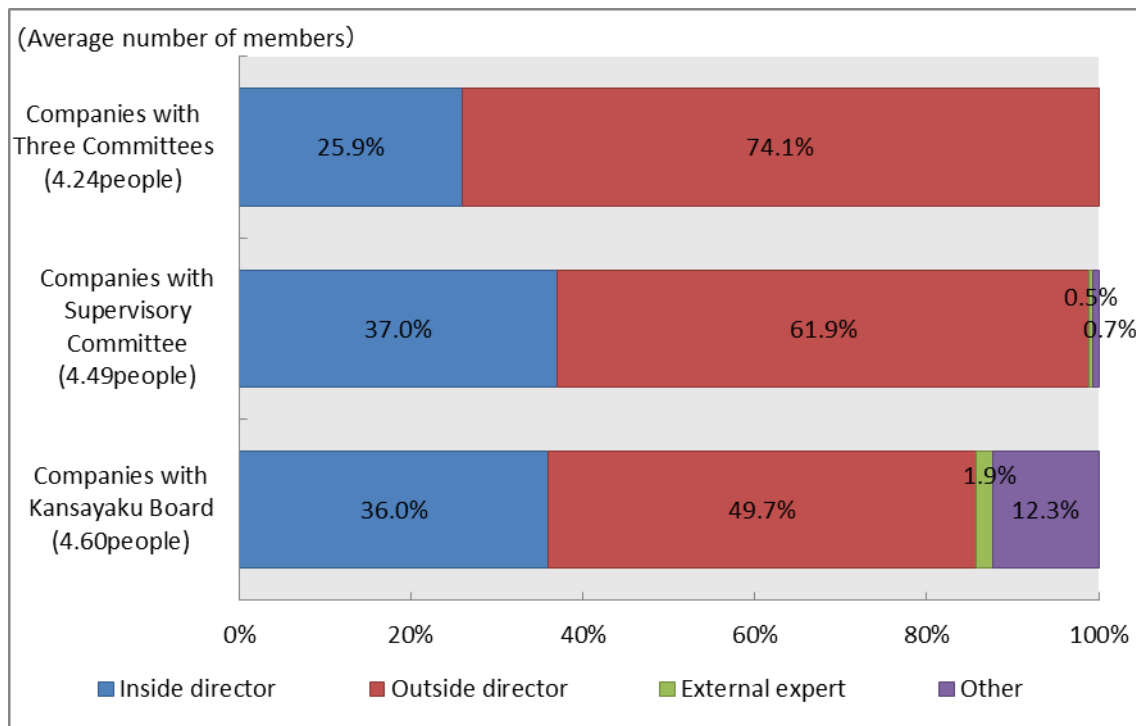


Chart 98 displays the number of inside directors in Nomination Committees. For optional nomination committees at Companies with *Kansayaku* Board and Companies with Supervisory Committee, the number of inside directors is higher compared to Nomination Committees at Companies with Three Committees. While committees with only one inside director account for the majority (67.6%) of Nomination Committees at Companies with Three Committees, committees with two or more inside directors account for the majority of optional nomination committees at Companies with Supervisory Committee and Companies with *Kansayaku* Board.

⁶³ While Chart 96 has been totaled using the “total number of people”, Chart 97 has been totaled using the totals for “inside directors”, “outside directors”, “external experts”, and “other”.

Chart 98 Number of Inside Directors in Nomination Committee

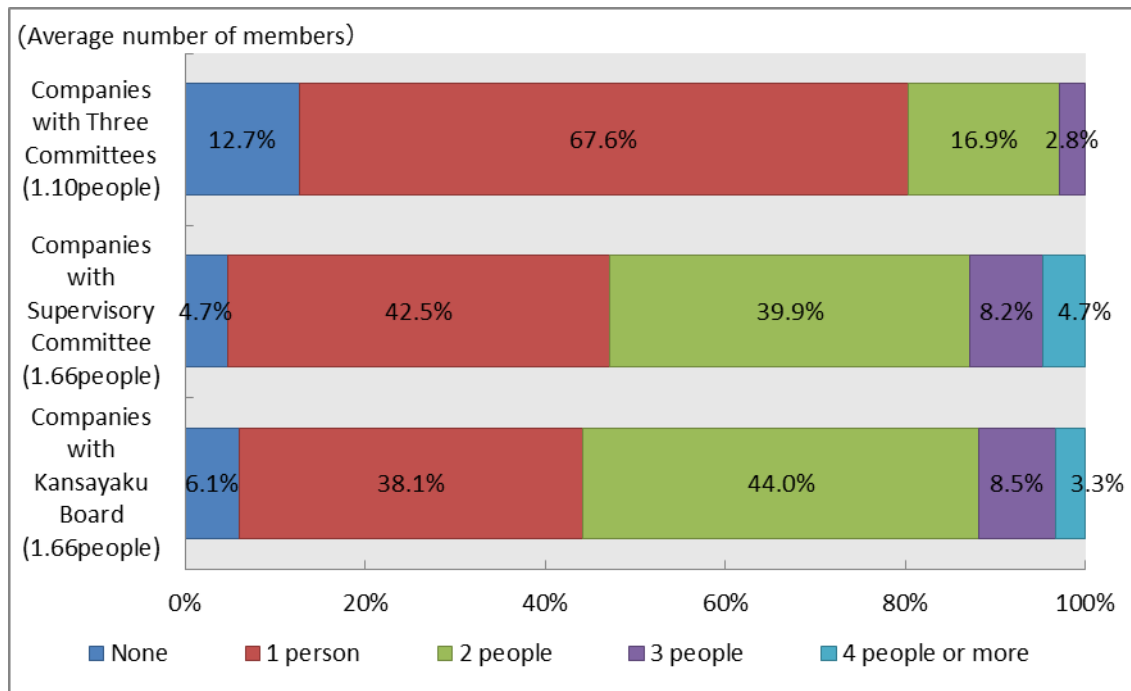
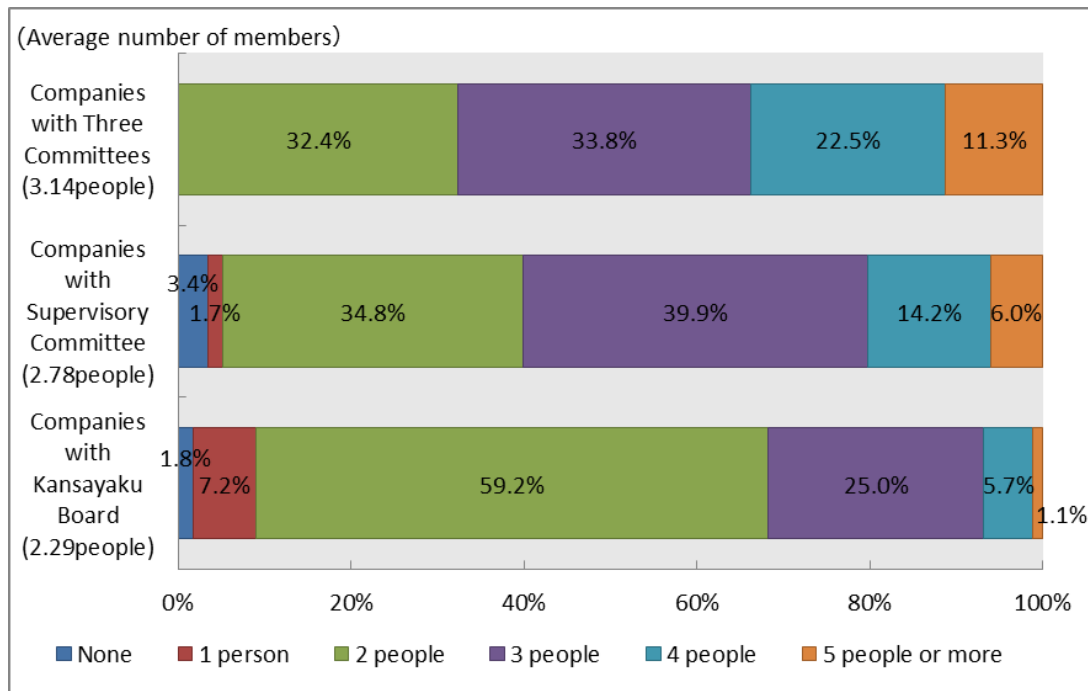


Chart 99 displays the number of outside directors in Nomination Committees. Because the majority of directors that form a Nomination Committee at a Company with Three Committees must be outside directors under the law, at the very least such committees must be composed of two outside directors. For optional nomination committees at Companies with Supervisory Committee and Companies with *Kansayaku* Board, while there are at least two outside directors at the majority of committees, there are also some cases of 0 outside directors.

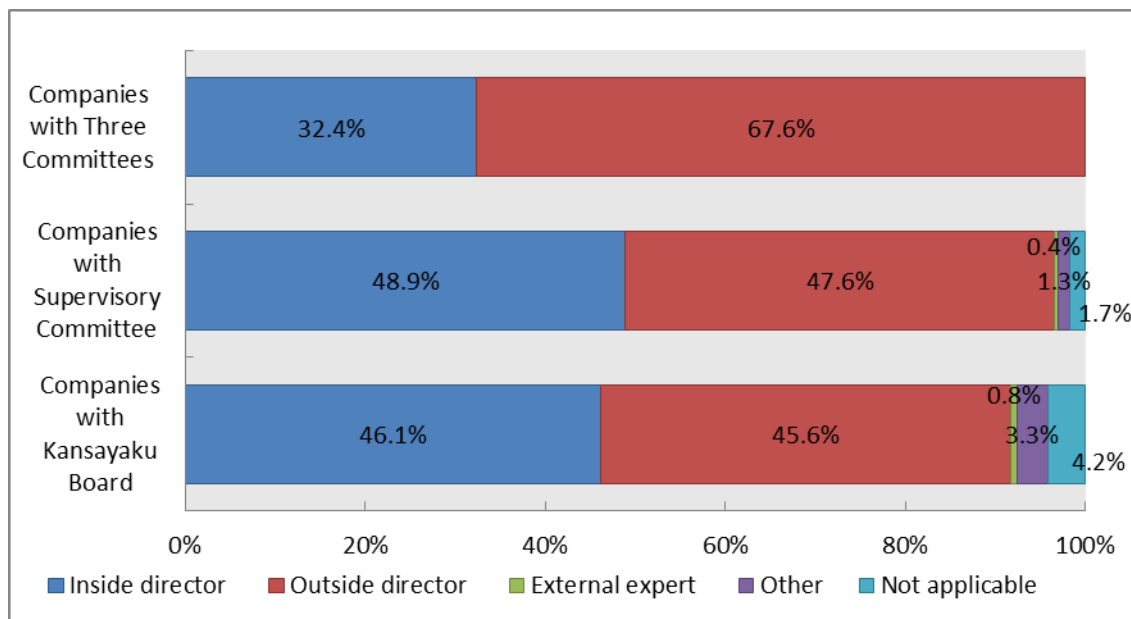
Chart 99 Number of Outside Directors in Nomination Committees



④ Attributes of chairpersons of Nomination Committee

Chart 100 displays the attributes of Nomination Committee chairpersons by organizational form. For Nomination Committees at Companies with Three Committees, the chairperson is an outside director at the majority of companies (67.6%). On the other hand, for optional nomination committees at Companies with *Kansayaku* Board and Companies with Supervisory Committee, the percentage of chairpersons who are inside directors is higher compared to statutory Nomination Committees. At optional nomination committees at Companies with Supervisory Committee, the chairperson is an inside director for 48.9% of committees, while at Companies with *Kansayaku* Board, the chairperson is an inside director for 46.1% of committees.

Chart 100 Attributes of Chairpersons of Nomination Committees

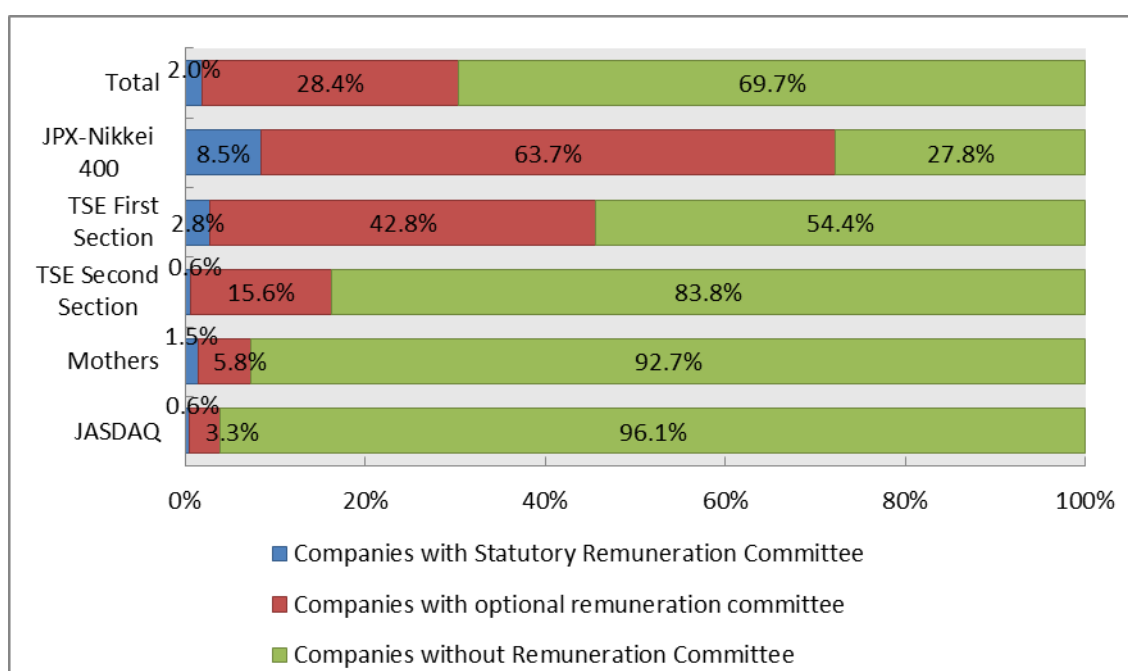


(2) Remuneration Committee

① Status of Remuneration Committee establishment

While the establishment of a Remuneration Committee is mandatory at Companies with Three Committees, the establishment is up to the discretion of companies for Companies with Supervisory Committee and Companies with *Kansayaku* Board. The status of establishment of statutory or optional remuneration committee by market division is displayed in Chart 101. The percentage of TSE First Section companies that have established statutory or optional remuneration committees is higher compared to other market divisions. As for JPX-Nikkei 400 companies, 8.5% (34 companies) have established a statutory Remuneration Committee, 63.7% (254 companies) have established an optional remuneration committee, and 27.8% (111 companies) have not established a remuneration committee, and these percentages are nearly two times higher than those for TSE First Section companies.

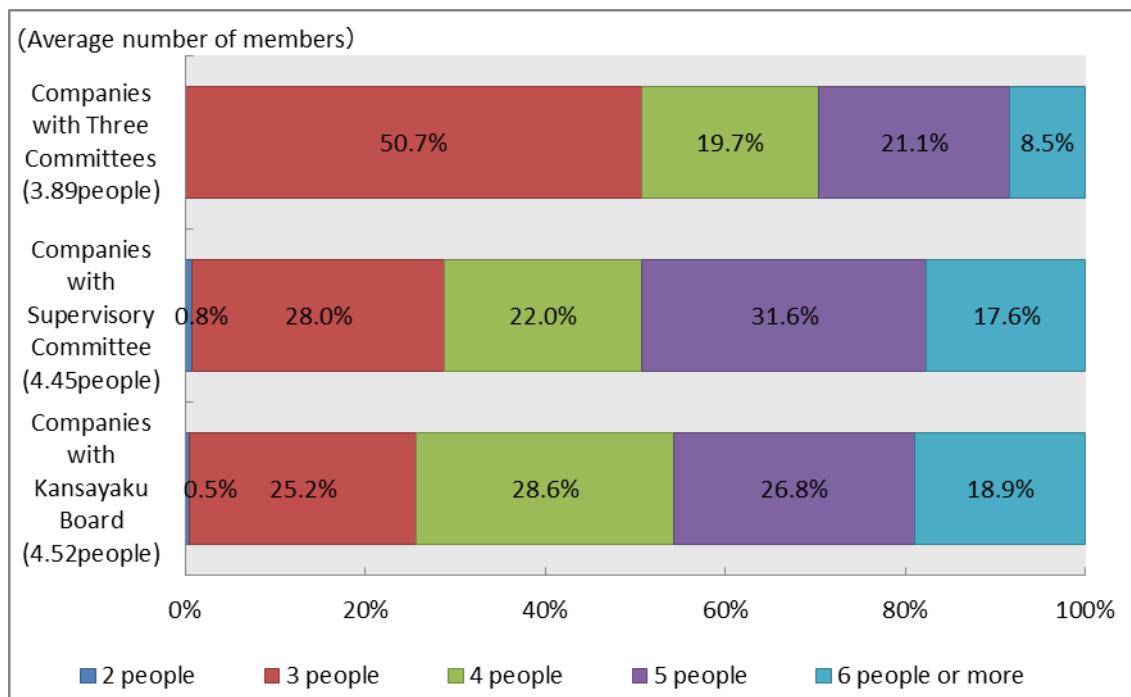
Chart 101 Status of Remuneration Committee Establishment (by Market Division)



② Number of Remuneration Committee members

Chart 102 displays the number of Remuneration Committee members by organizational form. For Companies with Three Committees, it can be said that the number of Remuneration Committee members is lower compared with other organizational forms, in the same manner as for Nomination Committees. The average number of members of a statutory Remuneration Committee at Companies with Three Committees is 3.89, and companies with three committee members account for the highest proportion (50.7%). The average number of members of an optional remuneration committee at Companies with Supervisory Committee is 4.45, and companies with five committee members account for the highest proportion (31.6%). The average number of members of an optional remuneration committee at Companies with a *Kansayaku* Board is 4.52, and companies with four committee members account for the highest proportion (28.6%).

Chart 102 Number of Remuneration Committee Members



③ Ratio and number of inside directors and outside directors in Remuneration Committees

Chart 103 displays the ratio and number of inside directors and outside directors in Remuneration Committees by organizational form. For Remuneration Committees at Companies with Three Committees, 24.6% of members are inside directors and 75.4% are outside directors. For optional remuneration committees at Companies with Supervisory Committee, 37.9% of members are inside directors, 61.0% are outside directors, 0.5% are external experts, and 0.6% are other. For optional remuneration committees at Companies with *Kansayaku* Board, 36.0% of members are inside directors, 48.8% are outside directors, 2.2% are external experts, and 12.9% are other.

Chart 103 Ratio and Number of Inside Directors and Outside Directors in Remuneration Committees⁶⁴

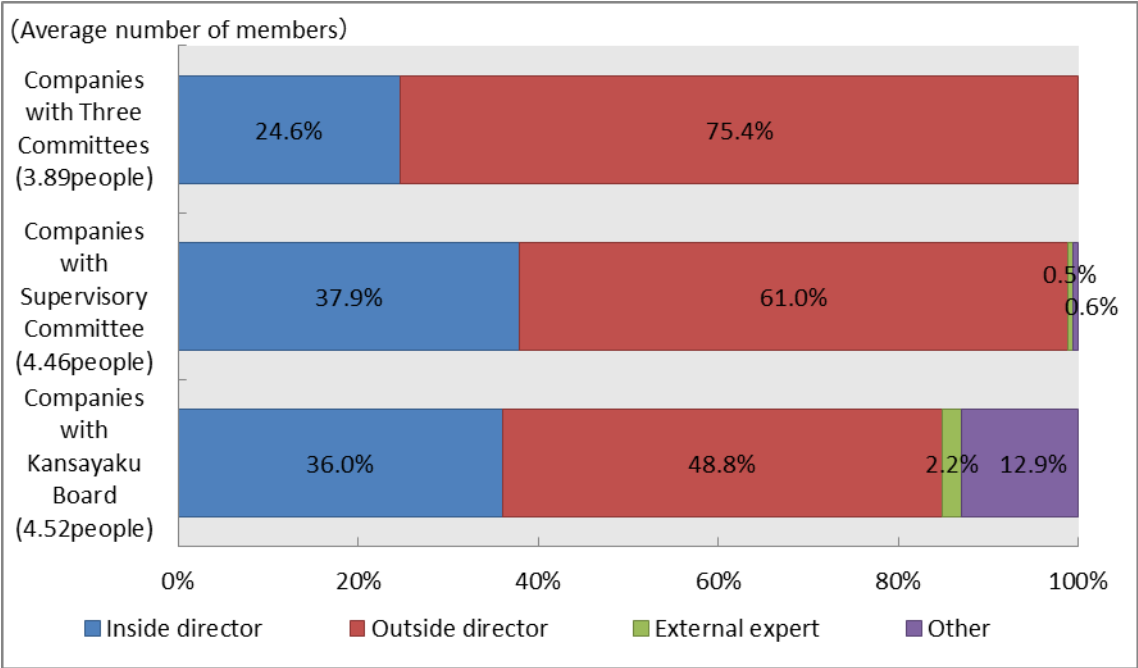


Chart 104 displays the number of inside directors in Remuneration Committees. The average number of inside directors of a Remuneration Committee at Companies with Three Committees is 0.96, and committees with one inside director account for the highest proportion (57.7%). On the other hand, committees with two or more inside directors account for the majority of optional remuneration committees at Companies with Supervisory Committee and Companies with Kansayaku Board.

⁶⁴While Chart 102 has been totaled using the “total number of people”, Chart 103 has been totaled using the totals for “inside directors”, “outside directors”, “external experts”, and “other”.

Chart 104 Number of Inside Directors in Remuneration Committees

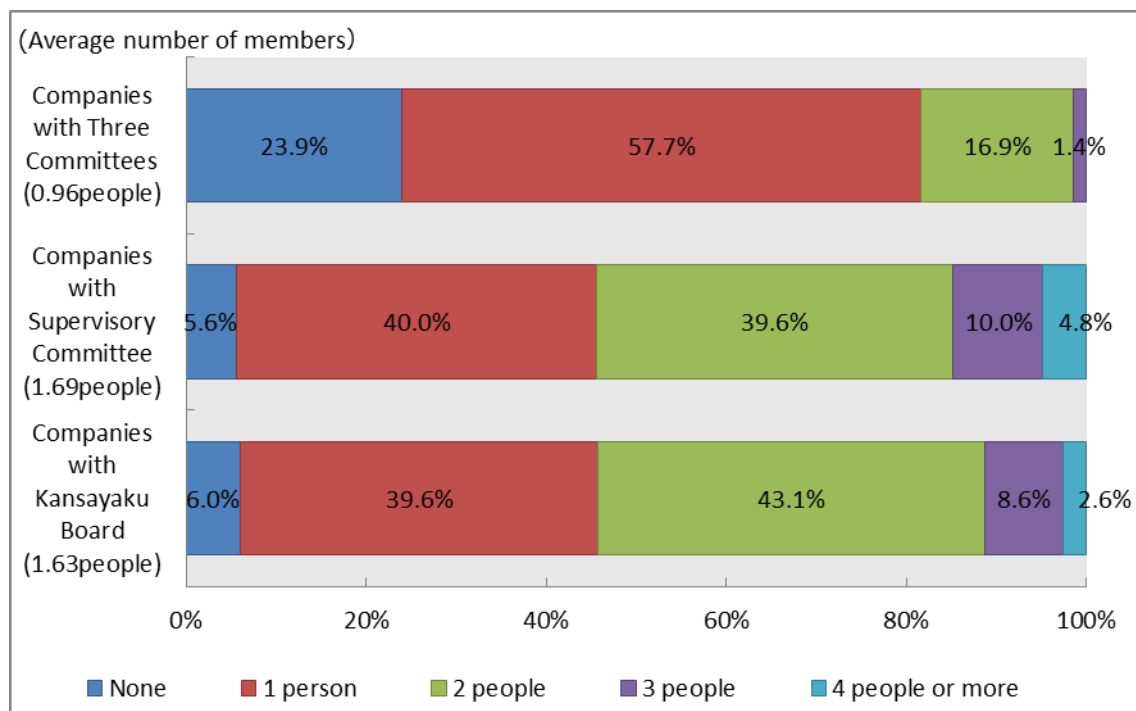
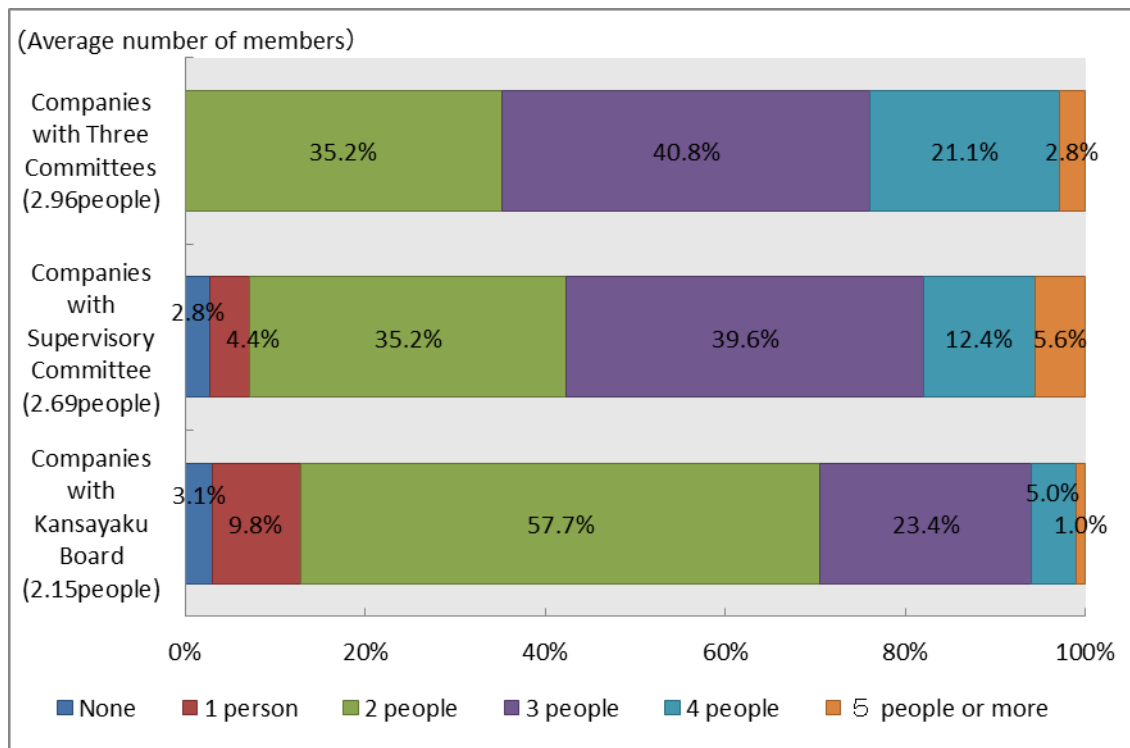


Chart 105 displays the number of outside directors in Remuneration Committees. In the same manner as for Nomination Committees, there were two or three outside directors at the majority of Companies with Three Committees, and there were some cases of zero or one outside director at Companies with Supervisory Committee and Companies with *Kansayaku* Board.

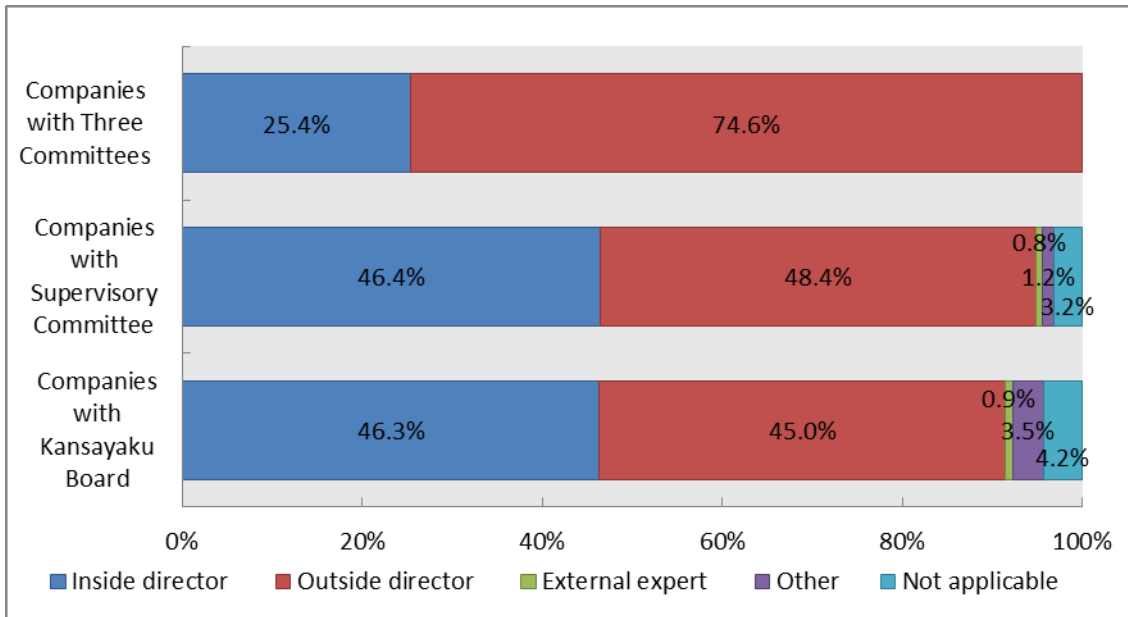
Chart 105 Number of Outside Directors in Remuneration Committees



⑤ Attributes of Chairpersons of Remuneration Committees

Chart 106 displays the attributes of Remuneration Committee chairpersons by organizational form. For Remuneration Committees at Companies with Three Committees, the chairperson is an outside director at the majority of companies (74.6%). For optional remuneration committees at Companies with Supervisory Committee, 48.4% of chairpersons are outside directors, which is higher compared to inside directors (46.4%). For optional remuneration committees at Companies with *Kansayaku* Board, 46.3% of chairpersons are inside directors, which is higher compared to outside directors (45.0%).

Chart 106 Attributes of Chairpersons of Remuneration Committees



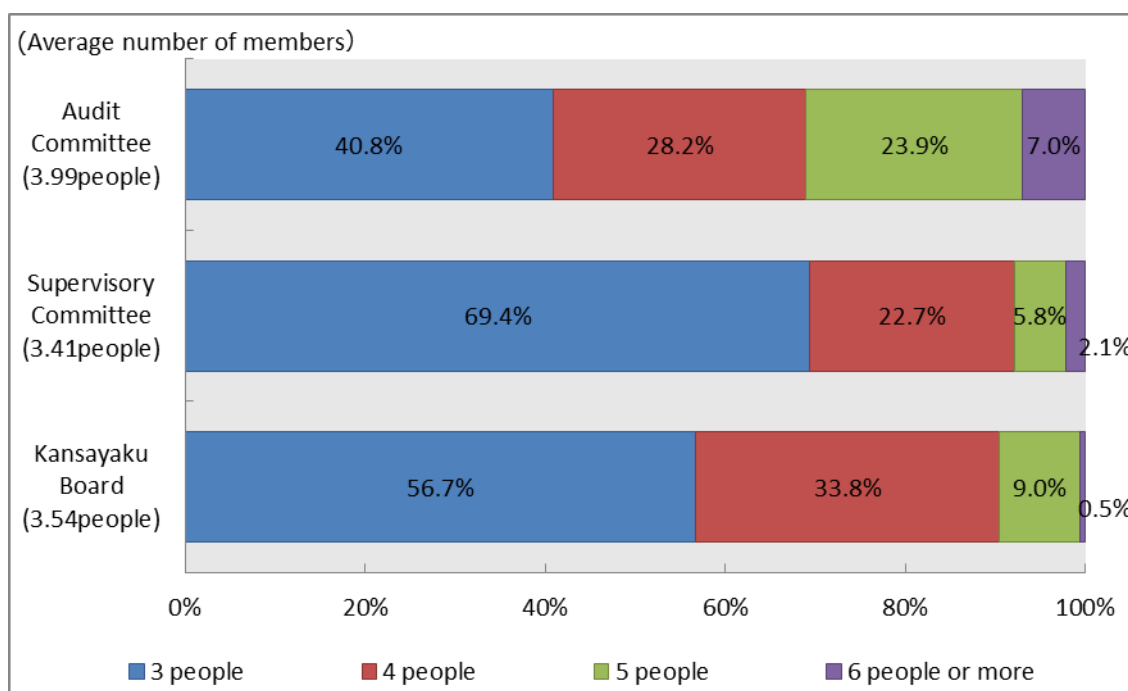
(3) Audits Committee, etc.

① Number of Audit Committee, Supervisory Committee, and *Kansayaku* Board members

Chart 107 displays the number of Audit Committee, Supervisory Committee, and *Kansayaku* Board members. The average number of members of an Audit Committee is 3.99, and companies with three committee members account for the highest proportion (40.8%). The average number of members of a Supervisory Committee is 3.41, and companies with three committee members account for the highest proportion (69.4%). The average number of members of a *Kansayaku* Board is 3.54, and companies with three members account for the highest proportion (56.7%).

Accordingly, the average number of members is highest at Audit Committees of Companies with Three Committees.

Chart 107 Number of Audit Committee, Supervisory Committee, and *Kansayaku* Board Members



② Ratio and number of inside officers and outside officers at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

Chart 108 displays the ratio of inside officers (inside directors and inside *Kansayaku*) and outside officers (outside directors and outside *Kansayaku*) at Audit Committees, Supervisory Committees, and *Kansayaku* Boards.

Note that the inside officers displayed on the graph are inside directors at Audit Committees and Supervisory Committees and inside *kansayaku* at *Kansayaku* Boards. In the same manner, the outside officers are outside directors at Audit Committees and Supervisory Committees and outside *kansayaku* at *Kansayaku* Boards.

For Audit Committees, 20.5% of members are inside directors and 79.5% are outside directors; for Supervisory Committees, 22.7% of members are inside directors and 77.3% are outside directors; and for *Kansayaku* Boards, 30.9% of members are inside *kansayaku* and 69.1% are outside *kansayaku*.

Chart 108 Ratio of Inside Officers and Outside Officers at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

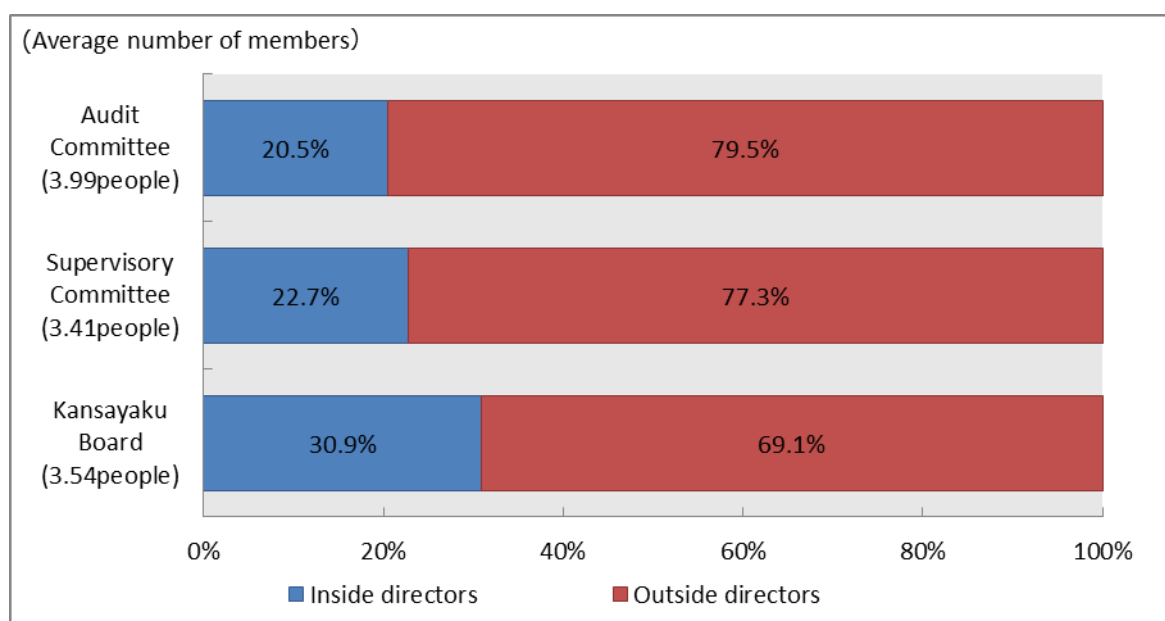


Chart 109 displays the number of inside officers (inside directors and inside *Kansayaku*) at Audit Committees, Supervisory Committees, and *Kansayaku* Boards. For Audit Committees, committees with zero inside director are most common (38.0 %). For Supervisory Committees, committees with one inside director are most common (67.1%). At *Kansayaku* Boards, the majority of companies have at least one inside *kansayaku*.

Chart 109 Number of Inside Officers at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

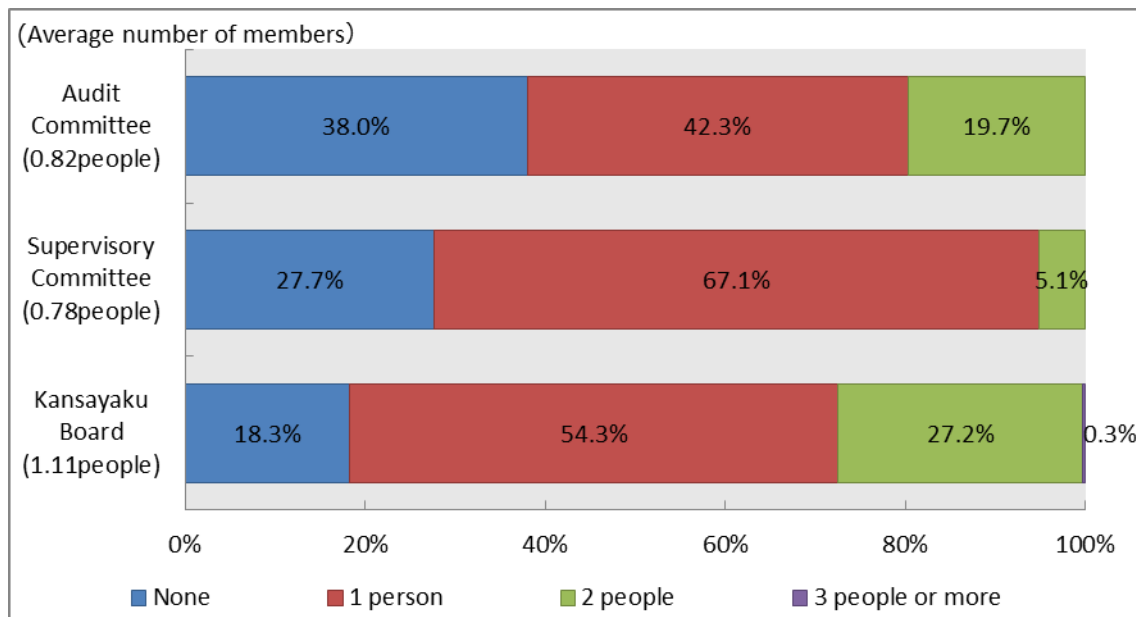
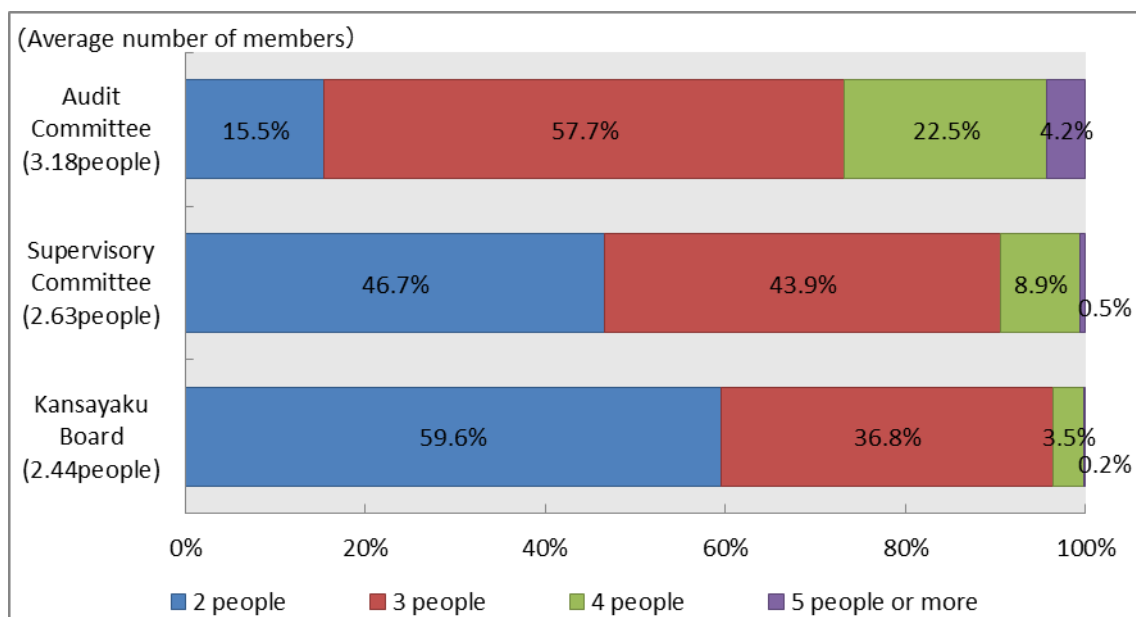


Chart 110 displays the number of outside officers (outside directors and outside *kansayaku*) at Audit Committees, Supervisory Committees, and *Kansayaku* Boards. In either case, while the statutory requirement is for there to be at least two outside officers, for Audit Committees of Companies with Three Committees, the majority of companies have at least three outside directors.

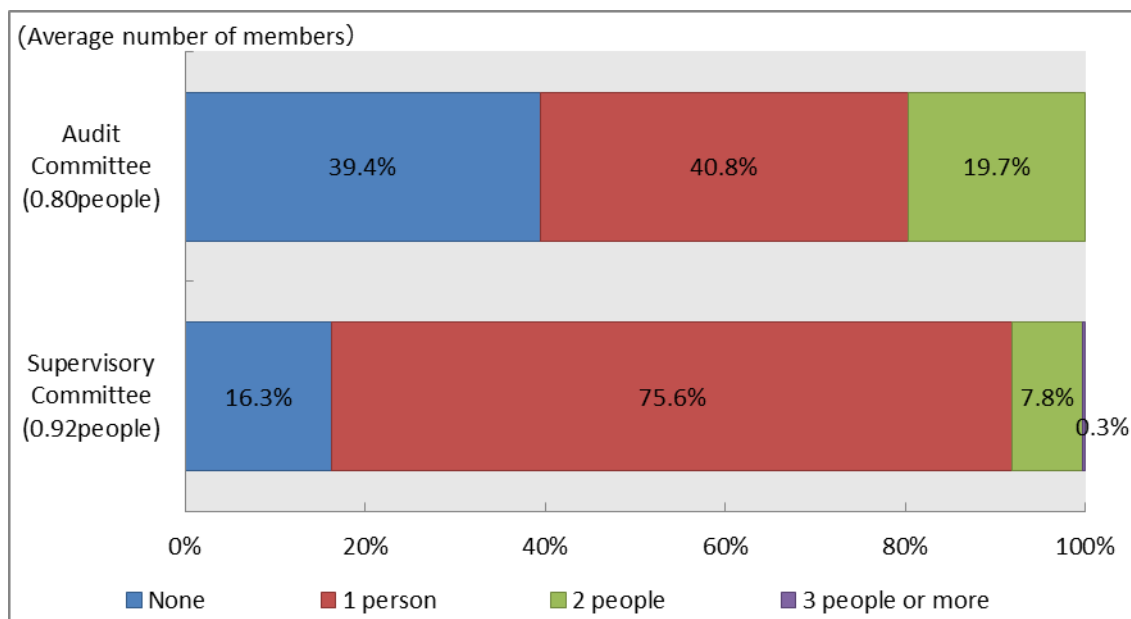
Chart 110 Number of Outside Officers at Audit Committees, Supervisory Committees, and *Kansayaku* Boards



③ Number of full-time members at Audit Committees and Supervisory Committees

Chart 111 displays the number of full-time members at Audit Committees and Supervisory Committees . The average number of full-time members of an Audit Committee is 0.80, and committees with zero or one full-time member account for the highest proportion (39.4%, 40.8%) respectively. The average number of full-time members of a Supervisory Committee is 0.92, and companies with one full-time member account for the highest proportion (75.6%). *Kansayaku* Boards are required to statutorily have a full-time member among the *kansayaku* under the Companies Act.

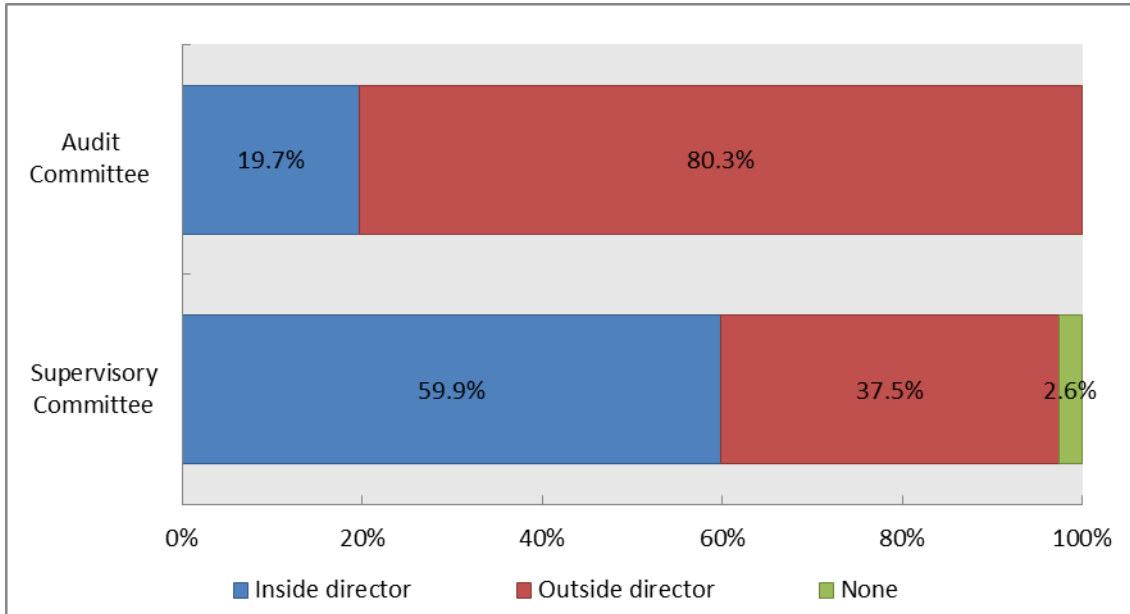
Chart 111 Number of Full-Time Members at Audit Committees and Supervisory Committees



④ Attributes of Chairpersons of Audit Committees and Supervisory Committees

Chart 112 displays the attributes of chairpersons of Audit Committees and Supervisory Committees. While many chairpersons are outside directors at Audit Committees (80.3%), for Supervisory Committees 59.9% of chairpersons are inside directors. In addition, for Supervisory Committees, 2.6% of companies do not designate a chairperson.

Chart 112 Attributes of Chairpersons of Audit Committees and Supervisory Committees



[Column 6] Status of optional nomination committees or remuneration committees

As can be seen in Chart 113, the establishment of optional nomination committees or remuneration committees (below, “optional nomination and remuneration committee”) has advanced at listed companies since the introduction of the Code. With the revision of the Code in June 2018, Supplementary Principle 4.10.1 was revised and it became necessary to establish an optional nomination and remuneration committee to comply with this supplementary principle, and it is believed that the number of companies establishing an optional nomination and remuneration committee will continue to increase in the future.

There is a high level of interest toward optional nomination and remuneration committees in the capital markets. For example, there have been moves of some shareholders to request listed companies to establish an optional nomination and remuneration committee through engagement, written requests, and in some cases through shareholder proposals. In addition, there are major institutional investors that have released a policy on exercising voting rights of agreeing with shareholder proposal on the establishment of an optional nomination and remuneration committee as a general rule^{*1}. Because there have been corporate scandals related to the nomination and remuneration decision process for directors in recent year as well, general investors are also becoming increasingly interested in optional nomination and remuneration committees.

Looking at the status of optional nomination and remuneration committees in general, in many cases they are formed of four to five members including representative directors, outside directors, and as necessary, outside *kansayaku*. In terms of the frequency of holding, according to a questionnaire by the Ministry of Economy, Trade and Industry(METI), while the majority of companies hold such committees one to three times per year, there are also a considerable number of companies that held committees five or more times per year (Chart 114). It is believed that the frequency of holding committee significantly depends on what is discussed to what degrees by an optional nomination and remuneration committee. For example, in the cases of an optional nomination committee being held just once, it is likely that there is a considerable number of companies that only confirm the draft proposal developed by the management team for the director election proposal for submission to the general shareholder meeting. Meanwhile, in the case of a company where the scope of discussion by the nomination committee includes succession planning for the president and CEO and the nomination of *shikkoyakuin* or the management team of major subsidiaries, there is a natural tendency for the committee to be held more frequently. In the same manner for the remuneration committee, it will be necessary to hold a committee more times per year if not only confirming the draft remuneration proposal, but also holding discussions including reviews of the remuneration system at one’s own company in light of remuneration trends at other companies.

With the revision of the Code, it is believed that there will be a spread in the establishment of optional nomination and remuneration committees in “form” only, and after that, the focus will shift to concrete efforts with more “substance”. Considering that many companies hold such committees one or two times per year, it can be inferred that many listed companies are in the process of exploring how to implement an optional nomination and remuneration committee. For annual securities reports from the year ended March 31, 2019, it will be necessary to provide more detailed disclosure on the remuneration decision process in the annual securities report. Against this backdrop and in light of the Report by the Working Group on Corporate Disclosure of the Financial System Council released in June 2018, TSE has changed the Reporting Guidelines

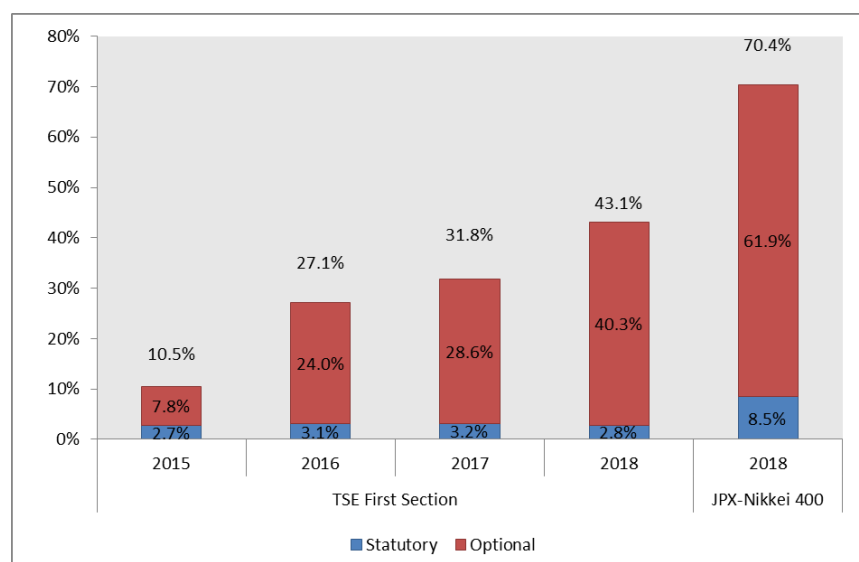
for the CG Report and added the fact that it is preferable to describe the status of activities by the board, nomination committee, and remuneration committee in terms of the frequency of holding, main matters considered, and the attendance status of individual officers and members. Going forward, proactive information disclosure that takes into consideration engagement with shareholders will be required for the nomination and remuneration approach and decision making process.

*1 For example: Nomura Asset Management Co., Ltd.

http://www.nomura-am.co.jp/corporate/service/responsibility_investment/pdf/vote_policy20181101.pdf

Chart 113 Number of Companies That Have Established a Nomination Committee or Remuneration Committee

■ Nomination Committee



■ Remuneration Committee

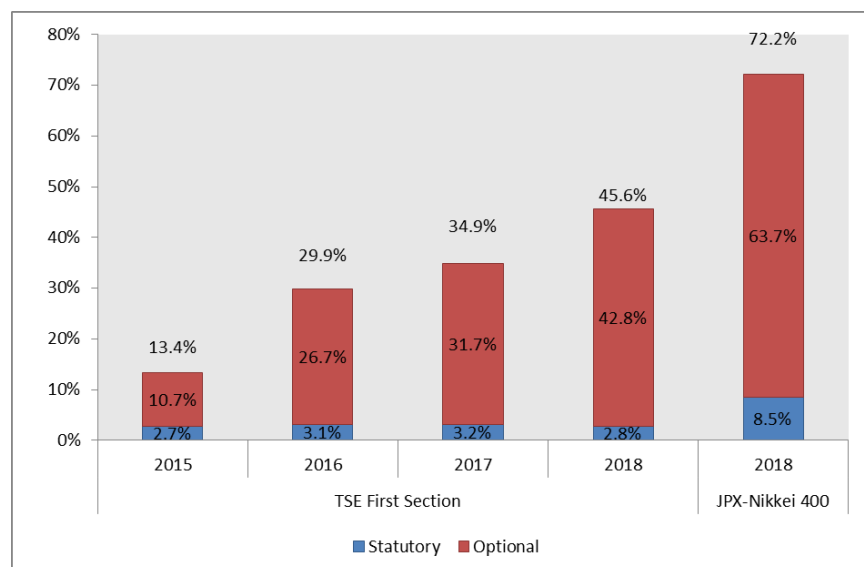
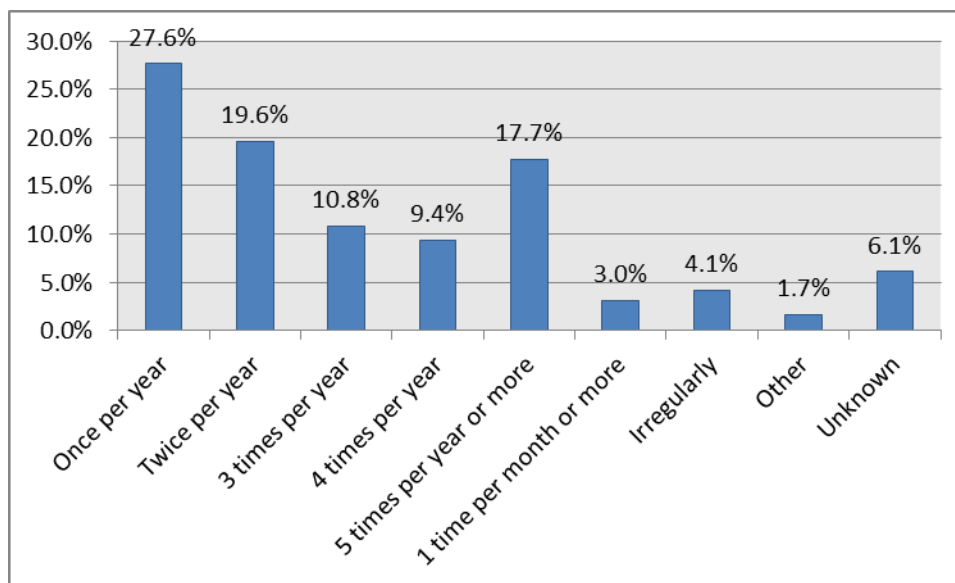
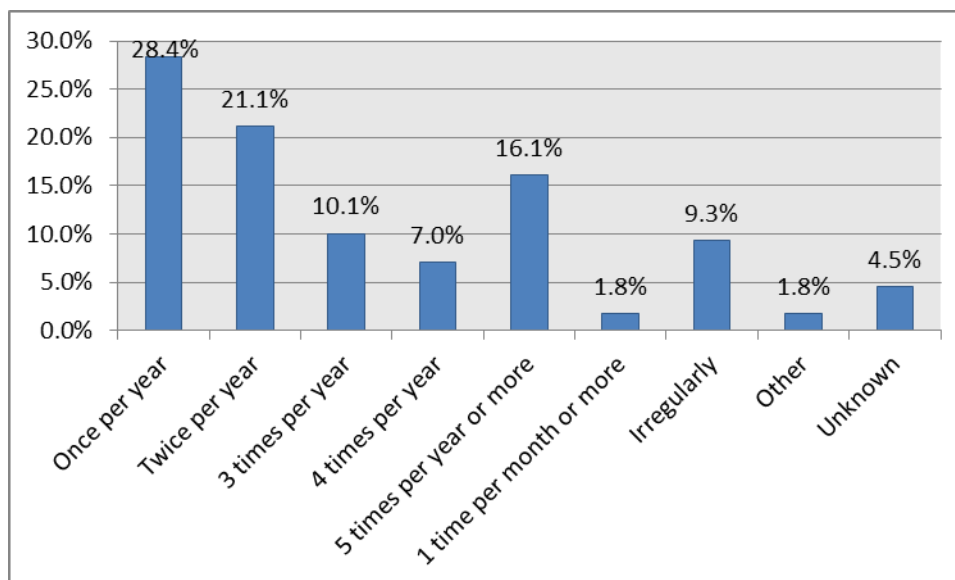


Chart 114 Number of Times Nomination or Remuneration Committee Held

■ Number of times Nomination Committee (including statutory) held



■ Number of times Remuneration Committee (including statutory) held



(Note) Optional response to a survey questionnaire (362 companies with Nomination Committee, 398 companies with Remuneration Committee)

Source: Created based on Ministry of Economy, Trade and Industry's "FY2017 Corporate Governance Questionnaire Survey"

4-12. Stance towards the diversity, etc. of the board (Supplementary Principle 4.11.1)

Principle 4.11 stipulates that “The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender and international experience, and appropriate size.” Meanwhile, Supplementary Principle 4.11.1 requires disclosure on “a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size.”

Under the Code revision, Principle 4.11 clarifies that “diversity” includes gender and international experience, and then states that a balance should be achieved between diversity and appropriate size by the board. As a result of this revision, the compliance rate with Principle 4.11 was 68.9% (1,806 companies), which is a decrease of 27.6 points from July 2017 (96.5%, 2,451 companies).

Supplementary Principle 4.11.1 requires disclosure on the current state of the board, and the compliance rate with this supplementary principle is 96.1% (2,519 companies), which is not a significant change companies to July 2017 (98.7%, 2,506 companies).

In terms of keyword related to the balance between knowledge, experience and skills and diversity of directors, 40.4% (1,018 companies) mentioned “specialism (specialized/expert)”. Specific specializations that were mentioned included “finance and accounting” (20.2%, 509 companies), “corporate officer, corporate management, or management experience” (12.3%, 311 companies), “global, international, or overseas” (11.5%, 289 companies), and “law” (3.3%, 82 companies). In addition, there were also companies that mentioned the original department, including “business” (36.6%, 921 companies), “administration” (14.4%, 363 companies), “sales and marketing” (9.5%, 239 companies), and “production and manufacturing” (6.4%, 162 companies).

The percentage of companies mentioning “women” and “foreigners (nationality)” as keywords related to demographic diversity in terms of “gender” and “international experience” as clarified through revision of the Code was 7.8% (196 companies) and 8.2% (207 companies), respectively. While this is an increase compared to the respective figures of 4.1% (92 companies) and 1.0% (23 companies) in the previous survey, it is still a low number. However, if we analyze the disclosures TSE First Section companies providing an explanation on Principle 4.11, approximately half of such companies are considering the appointment of a female director, and it is believed that diversity in terms of gender and international experience will advance going forward.

“Quota (articles of incorporation)” was mentioned as the main keyword related to the scale of the board of directors. 36.5% (920 companies) of companies complying with this principle mentioned the keywords “quota or articles of incorporation”, and among them, there are many companies that set the upper limit on the number of directors (quota) in the articles of incorporation. In addition, 28.2% (710 companies) mention “decision making”, 25.0% (629 companies) mention “oversight”, and 12.3% (309 companies) mention “discussion”. These companies describe how the current size of the board is appropriate for fulfilling the roles of “decision making” and “oversight”.

Looking at individual examples, [Example 1] describes the qualities, etc. required of inside directors, outside directors, full-time *kansayaku* and outside *kansayaku* while taking into consideration the nature of the company’s business. [Example 2] is an example of a company clearly stating that it has adopted a board in recognition of its own management issues. It is an example of the composition of the board from the perspective of the integration of business strategy and corporate governance.

Examples of descriptions related to diversity can be found in [Example 3], [Example 4], and [Example 5].

[Example 3] is a company that has already appointed women directors, and it describes the view that the perspectives of women are important for the company's business. [Example 4] is an example of a company that mentions the development of candidates and is positively considering the appointment of women. [Example 5] is an example of a company that appoints foreign directors in light of global expansion.

[Example 1]

In accordance with the above policy on nomination, the Company ensures diversity and a balance among the knowledge, experience and skills of the Board of Directors as a whole as follows. In addition, the Company sets the appropriate size of the Board of Directors in consideration of the simplification of the Board of Directors to accelerate decision-making for dealing with business expansion and other matters, and the balance of diverse personnel required to conduct the proper deliberations and supervision of execution, premised on the delegation of responsibility to appropriately placed Executive Officers.

Inside Directors are nominated with emphasis on their experience of the operation, including global operation, of R&D, marketing, sales, production and other divisions related to *Yoki-Monozukuri* and the operation of divisions related to corporate functions that support these divisions, as well as their understanding of the business environment in which the Company operates and the Company's strengths and issues for dealing with it, necessary for the appropriate planning and deliberation of business strategies.

Outside Directors are nominated with emphasis on diverse experience, expertise and high level of insight that cannot be obtained from Inside Directors alone in deliberations on business strategies, together with consideration for their independence. Examples include experience, including global experience, managing a company that provides products and services in a different field from the Company, and consulting or academic experience. In addition, the Company aims to have Outside Directors comprise approximately half of the Board of Directors to ensure its diversity and influence.

Full-time Kansayaku are nominated with emphasis on the balance of business experience of each person to date and the knowledge gained therefrom, experience working overseas, and qualities that can ensure independence from persons executing business. The nominees are selected from inside the Company from persons involved in corporate management of accounting and finance, operation of business, the supply chain from R&D to production and sales and persons with overseas and other business experience.

Outside Kansayaku are nominated with emphasis on factors necessary for auditing, including a high level of expertise, insight and abundance of experience relating to accounting and finance and laws and their high level of ethics as professionals, as well as by considering the legal and regulatory requirement for externality and independence. In addition, to increase the independence and neutrality of the Audit & Supervisory Board, a majority are Outside Kansayaku who meet the Standards for Independence. When nominating Kansayaku, the Company emphasizes experience, disposition, expertise and other characteristics necessary for deliberation, etc. of the business strategies.

Moreover, the Company recognizes that, in addition to knowledge, experience and ability, the diverse perspectives of people of various genders, races and nationalities and others contribute to the promotion of business, global expansion and proper supervision and auditing, and promotes the appointment of such diverse personnel as Directors, Kansayaku and Executive Officers.

(Excerpt)

(Chemicals)

[Example 2]

Our Articles of Incorporation require seven or fewer directors and four or fewer auditors.

Currently, our Board of Directors consists of six seats. We believe this size maintains the potential for meaningful deliberation while bringing together members with different backgrounds in terms of characteristics such as expertise and experience, for example directors who possess extensive knowledge of the Company's businesses as well as outside directors who can help enhance the Company's corporate governance by offering highly effective oversight of the executive team and advice concerning appropriate decision-making by the Board from an independent perspective.

All directors bring to the table the personal characteristics and diversity needed in order to address the management challenges facing the Company, including "growing existing businesses", "enhancing product strength", "expanding overseas businesses", and "establishing new business foundations", and we believe that the current structure of the Board, one-third of whose members are independent directors, allows us to ensure an additional level of independence and objectivity.

Our Board of Auditors consists of four seats, of which three are occupied by external auditors (and one of which is occupied by a woman). These auditors oversee the manner in which directors carry out their obligations and responsibilities from the independent standpoint.

(Food industry)

[Example 3]

(Excerpt)

We appoint one executive director who has overseas working experience. In addition, we appoint one female independent director. We would like to continue to promote women from outside and inside of the company so that our management and business can be checked from a women's perspective in light of the characteristics of our business that involves interiors and the living environment.

(Wholesale)

[Example 4]

(Excerpt)

While a female director has not been appointed at this time, we will consider diversity improvements in terms of gender in the future by improving the workplace environment for the development of director candidates, implementing working style reforms, and developing an environment that allows women to aim for management positions.

(Chemicals)

[Example 5]

The Board of Directors seeks to ensure the diversity of knowledge, experience, and qualification of the Board as a whole and to maintain the optimal members for the Board to efficiently and effectively fulfill its functions. Additionally, in fiscal 2018, to further strengthen the fundamental for our group's sustainable business activities in global, we appointed one (1) person who is a foreigner and are securing the diversity of the board including internationality. As for the A&SB member, we appointed one (1) person who has an appreciable extent of knowledge in finance and accounting, another (1) person who has legal knowledge.

(Electric appliances)

Chart 115 Keywords Related to the Stance Towards the Diversity of the board

Item	Number of companies	Applicable ratio	(Reference) Previous total (July 2016)
Companies complying with Supplementary Principle 4.11.1	2,519 companies	100%	-
■Knowledge, experience, skills, etc.			
Specialism (specialized/expert, etc.)	1,018 companies	40.4%	(Note 1) 25.2%
Finance and accounting	509 companies	20.2%	16.8%
Corporate officer, corporate management, etc.	311 companies	12.3%	16.0%
Global and international	289 companies	11.5%	4.3%
Law	82 companies	3.3%	3.1%
■Size			
Articles of incorporation and quota	920 companies	36.5%	34.9%
Decision making	710 companies	28.2%	28.7%
Oversight	629 companies	25.0%	25.3%
Discussion	309 companies	12.3%	12.3%
■Diversity			
Women	196 companies	7.8%	4.1%
Foreigners	207 companies	8.2%	1.0%

(Note 1) Although the total was for “Specialized/expert” in 2016, the total was for “Specialism” in 2018, which includes keywords such as expert.

4-13. Concurrent positions by directors and *kansayaku* (Supplementary Principle 4.11.2)

Supplementary Principle 4.11.2 stipulates that “Outside directors, outside *kansayaku*, and other directors and *kansayaku* should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and *kansayaku* also serve as directors, *kansayaku* or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.” In terms of concurrent positions by directors and *kansayaku*, because “significant concurrent positions” is something that needed to be stated on business reports up until now, the compliance rate with this principle is high at 99.9% (2,618 companies).

Because this is a matter that has already been stated on business reports, the disclosures of many companies in the CG Report refer to materials, with statements such as “for details on the status of concurrent positions by officers, please refer to the notice of the general shareholder meeting”. According to an analysis of keywords, 71.4% (1,868 companies) mentioned “general shareholder meeting” and 66.5% (1,740 companies) mentioned “notice of general shareholder meeting”. In addition, 15.7% (412 companies) clearly stated a website URL.

Furthermore, 24.4% (640 companies) mentioned “reasonable (reasonable scope, etc.)” concerning concurrent positions. 2.8% (73 companies) disclosed specific figures for the upper limits and guidelines for the number of

concurrent positions. Looking at the breakdown, 12 companies stated “3 companies (including the company concerned)”, 43 companies stated “4 companies”, 15 companies stated “5 companies”, and 5 companies stated “6 companies”. In addition, there were also companies that stated that another company’s offer shall be notified to the board or be approved by the board in advance for appointment of an officer. There was a company that clearly stated that “an attendance rate of at least 75% will be ensured.”

Looking at individual examples, [Example 1] is a case of a company setting specific upper limits on the number of concurrent positions in order to ensure sufficient time, etc. required to fulfill their respective roles and responsibilities as directors. As in [Example 2], there is also a case of a company that stated that the current state of concurrent positions was within a reasonable scope in consideration of the attendance rate for the board. Meanwhile, [Example 3] is an example of a company stating that an outside officer serving concurrently as an officer for another company is effective from the perspective of capability development.

[Example 1]

To ensure that they devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities, the Company’s directors are not permitted to serve as officers for more than four listed companies other than the Company as a general rule. The status of important concurrent positions by directors including those at other companies is disclosed in the business report and reference documents for the general shareholder meeting. Refer to our website for details. (.●●●)

(Construction)

[Example 2]

The status of concurrent positions by directors and auditors at other companies is disclosed in the business report stated in the convening notice for the general shareholder meeting and the annual securities report. The only officer serving a concurrent position at a listed company is Outside *Kansayaku* ●●●●, who serves at two companies. In addition, among officers serving a concurrent position at other companies, the board attendance rate for Outside Director ●●●● is 94.1% (only one absence), the board and *Kansayaku* Board attendance rate for Outside *Kansayaku* ●●●● is 100%, and the board attendance rate is 94.1% (only one absence) and *Kansayaku* Board attendance rate is 100% for Outside *Kansayaku* ●●●●. In consideration of the above, it is believed that the number of concurrent positions as officers for other companies served by the Company’s directors and *kansayaku* is within a reasonable scope (attendance rates, etc. based on the results for FY2017).

(Other products)

[Example 3]

As long as outside officers fulfill their duties for the Company, we believe that outside officers concurrently serving as officers for other companies can be effective from the perspective of capability development in terms of conducting oversight and audits from various viewpoints. While we have not set any specific upper limits on the number of companies where concurrent positions can be served, each outside director has concurrent positions within a scope deemed reasonable, and the details of the latest concurrent positions are stated in the business report contained in the Notice of the 33rd Ordinary General shareholder meeting (released May 25, 2018).

(Wholesale)

[Column 7] Concurrent positions by outside officers

Supplementary Principle 4.11.2 stipulates that “Outside directors, outside *kansayaku*, and other directors and *kansayaku* should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and *kansayaku* also serve as directors, *kansayaku* or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.” Accordingly, we attempted to assess the actual current state of concurrent positions held by outside directors and outside *kansayaku*. Chart 116 displays the current state of concurrent positions held by outside directors and outside *kansayaku* at all 3,512 listed companies (as of March 2019).

Chart 116 Concurrent Positions by Outside Directors And Outside *Kansayaku*

Number of concurrent positions	Number of people	composition ratio
7 companies	2 people	0.0%
6 companies	2 people	0.0%
5 companies	20 people	0.1%
4 companies	113 people	0.9%
3 companies	418 people	3.3%
2 companies	1,841 people	14.3%
1 company	10,453 people	81.4%
Total	12,849 people	100%

The total number of outside directors and outside *kansayaku* at all 3,512 listed companies is 12,849.⁶⁵ As is evident in Chart 116, the percentage of outside directors and outside *kansayaku* who serve at one company was overwhelmingly high (10,453 persons or 81.4%). This was followed by 1,841 people with concurrent positions at 2 companies (14.3%), 418 people with concurrent positions at 3 companies (3.3%), 113 people with concurrent positions at 4 companies (0.9%), 20 people with concurrent positions at 5 companies, and 2 people each with concurrent positions at 6 companies and 7 companies.

If we analyze the attributes of the 24 people with 5 or more concurrent positions, 18 are people originally from another company, three are certified public accountants, two are lawyers, and one is an academic. Among the people originally from another company, nine are active managers of a listed company, and because many of these are concurrent positions as directors at a group company, the number of concurrent positions is high. There were four people originally from a financial institution (three people originally from a bank and one person originally from a life insurance company).

It is believed that the larger the number of concurrent positions per outside officers, the more the time and effort required for appropriately fulfilling roles and responsibilities gets dispersed, which can be expressed as a decline in the board attendance rate as a result. Some listed companies limit the number of concurrent positions

⁶⁵Based on SPEEDA data as of March 2019. Individuals have been identified by name and date of birth and totaled.

by outside officers so that they concentrate as much as possible on activities at their own company so the experience and knowledge of these outside officers can be effectively used in management. Furthermore, some proxy advisory firms suggest opposing votes if a *shikkoyakuin* of a listed company will concurrently serve as a director or *kansayaku* at three companies or more, or if an officer of a listed company who is not a *shikkoyakuin* will serve as a director or *kansayaku* at six companies or more (however, with concurrent positions within their own group counting as one company).

In order to fulfill the roles expected of them, outside officers are required to not only attend the board (or *Kansayaku* Board), but also attend an optional nomination committee or remuneration committee, attend internal meetings besides the board (to understand the operation of business), participate in various internal events, and attend offsite meetings to discuss medium to long-term strategy. In addition, in terms of engagement with investors and shareholders, recently there have been some cases of holding large meetings and small meeting such as governance briefings as well as cases of direct engagement between outside directors and investors through individual meetings. In consideration of the above, it is believed that it is necessary to invest considerable time in one company to fulfill one's duty as an outside director or outside *kansayaku*, and it has been pointed out that the number of concurrent positions that can be held realistically is limited. As the role that is expected of outside officers grows going forward, the number of concurrent positions will likely continue to be a theme that attracts much attention.

4-14. Evaluation of the effectiveness of the board (Supplementary Principle 4.11.3)

Supplementary Principle 4.11.3 requires the board to analyze and evaluate its effectiveness as a whole, and to disclose a summary of the results. The evaluation of the effectiveness of the board assumes an ongoing process of regularly verifying not only the execution of duties by individual directors, but also whether the board is functioning properly as a whole, and taking appropriate measures based on the results such as improvements to problems and augmenting strengths to ensure that the roles and responsibilities of the board are effectively fulfilled.

Conducting evaluations on the effectiveness of the board is already a common practice in various countries such as the UK and the US, and it is necessary to conduct such evaluations and provide disclosures based on the Code, securities exchange regulations, etc. Among listed companies in Japan, there has been an increase in companies conducting evaluations on the effectiveness of the board since the introduction of the Code. 78.9% (2,067 companies) of TSE First Section and TSE Second Section companies have conducted evaluations on the effectiveness of the board, and because there are some companies that have conducted an evaluation for the third time since 2015, it can be said that such evaluations are becoming instilled as business practices among listed companies in Japan.

The contents of specific disclosures can be broadly divided into the evaluation process and an overview of evaluation results. 78.2% (1,616 companies) of the companies complying with Supplementary Principle 4.11.3 mentioned the evaluation process. The typical evaluation process consists of the distribution of questionnaire, etc. to directors and *kansayaku*, and holding deliberations on the effectiveness evaluation and future improvement measures, etc. based on the aggregated results. According to an analysis of keywords, the most common keyword related to the evaluation process was “questionnaire, survey form, etc.”, which was mentioned by 63.8% (1,319 companies). 9.7% (201 companies) mentioned “interviews and hearings, etc.”. There were also companies that confirmed effectiveness through exchanges of opinions, etc.

38.1% (787 companies) conducted self-assessments. Meanwhile, 13.4% (277 companies) mentioned the use (including consideration in the future) of external evaluation (third-party organizations, external evaluation organizations, lawyers, etc.), which is an increase from 5.9% (74 companies) in the previous survey. There were also cases of the creation, gathering, totaling, and analysis of questionnaires, etc., conducting hearings, and having third-party organizations participate in the board to directly observe the state of deliberation and conduct an evaluation of effectiveness. While the UK Corporate Governance Code stipulates that the effectiveness of the board should be regularly reviewed by an external evaluator, and that in particular, an evaluation of the board of FTSE 350 companies should be externally conducted at least every three years⁶⁶, the number of Japanese companies using external evaluations and clearly describing the use of them is still low, although the number is on the rise.

In addition, 36.5% (754 companies) mentioned the evaluation items. In terms of evaluation items, many companies mentioned the composition and roles of the board, operations status, status of discussions, and support structures for directors (training, information provision, etc.). Some companies also included “engagement with shareholders including IR and SR”, “status of board participation by individual directors”, “risk management and compliance”, and “response to ESG” as evaluation items. There were companies that

⁶⁶ The UK Corporate Governance Code (2018) provision 21

also mentioned “group governance” and “board culture” as evaluation items. In addition, there were multiple companies for which at least three years have elapsed since the introduction of evaluations on effectiveness of the board and that have included a “review on the response to challenges in the evaluation for the previous fiscal year or previous time” as an evaluation item.

80.5% (1,664 companies) made disclosures on the overview of evaluation results, as many companies stated that effectiveness had been ensured. 15.4% (319 companies) mentioned the status of response to challenges in the evaluation results for the previous year. 52.7% (1,090 companies) clearly stated challenges and the response policy for ensuring an even more effective board, which will lead to future initiatives. The main challenges that were pointed out include succession planning, risk management and compliance, and having deeper deliberations on mid to long-term strategies, and there were also many companies that viewed the quantity and quality of materials as a continued challenge from the previous year.

If we analyze individual cases, [Example 1] is an example of the evaluation process, evaluation items, overview of results, and issues and countermeasures all being mentioned. In relation to the effectiveness of the board, the main points are summarized for the evaluation process, evaluation items, and overview of results. [Example 2] is a case in which the evaluation on the effectiveness of the board is conducted from perspectives that include “insight into changes in the environment”, “deciding on priorities and setting goals”, and “information acquisition and risk management”. As described above, while most companies have created evaluation frameworks in a manner that is compliant with the Code, this is a case of using new approaches to evaluation as a means to improve the effectiveness of the board. [Example 3] is an example of using an external evaluation and disclosing the name of an external institution. The board uses an external advisor for the creation of self-evaluation questionnaires and the coordination of the self-evaluation of each director. In addition, [Example 4] is an example of an external evaluation body participating in the board and evaluating the effectiveness of the board based on the directly observed results.

[Example 5] and [Example 6] are cases of an overview of results in which the measures up until now and the policy for future issues are described. In [Example 5], the status of measures in the previous year related to the “remuneration system” and “succession plan” are described, and the measures for the current year are then explained. In [Example 6], the policy for measures during the current fiscal year are described regarding “working style reforms” and “strengthening governance on overseas subsidiaries”.

[Example 1]

The Company undertakes an evaluation of the Board of Directors every year in order to continually enhance the effectiveness of corporate governance. The evaluation of the fiscal year 2016 was undertaken by a third party. For the evaluation of the fiscal year 2017, the Company adopted a self-evaluation process as the basis of the evaluation in line with the evaluation theme of “Further enhancing the functions of the Board of Directors.” Director ●● and Audit & Supervisory Board Member ●●, who serve as Independent Director and Independent Audit & Supervisory Board Member, respectively, took the lead in formulating questions and analyzing and evaluating the results.

The outline and the results of the evaluation are as follows.

[Process]

1. The process and themes of the evaluation of the Board of Directors for the fiscal year 2017 were deliberated in the Governance, Nomination and Compensation Committee.
2. Questionnaires and interviews involving all Directors and Kansayaku were conducted.
3. The results of the interviews were compiled and deliberated together with future policies in the Governance, Nomination and Compensation Committee.
4. Based on the result of discussions in the Governance, Nomination and Compensation Committee, the Board of Directors analyzed and evaluated the findings and shared future policies.

[Questions]

The questions concerned the evaluation of measures undertaken in the fiscal year 2017; the composition, structure, operation, oversight and audit functions of the Board of Directors; the status of individual involvement; and further enhancement of the functions of the Board of Directors, among other matters.

[Evaluation Results and Future Priorities]

The Company’s hybrid model of corporate governance based on the Audit & Supervisory Board Member System has been functioning effectively as a governance system. Adequate information has been provided to Outside Directors and Outside Kansayaku. There has also been sufficient communication among Outside Directors and Outside Kansayaku, as well as communication with personnel involved in business execution.

- The Board of Directors was evaluated to be appropriate in terms of composition, operation, deliberation and other aspects. The Board of Directors has adequate systems for the exercise of decision making and oversight functions and these functions are being realized appropriately. Moreover, the Kansayaku have been fulfilling their roles in meetings of the Board of Directors based on self-evaluations by the Kansayaku.

- The evaluation highly commended measures implemented in the fiscal year 2017 (observation tours of business investees, etc.) as a result of the findings of the Board of Directors evaluation undertaken in the fiscal year 2016. Meanwhile, the evaluation identified the need to continue upgrading and expanding deliberation on strategies and other important matters.

- The evaluation proposed a number of measures to be undertaken going forward. From the standpoint of further enhancing the functions of the Board of Directors, a matter was continually discussed during the fiscal year 2017, these measures included upgrading and enhancing companywide and Group strategies and the monitoring of major business investees, revising agenda items, and enhancing and expanding feedback and follow up activities to enhance discussions. Other measures included enhancing communication in forums other than the Board of Directors meetings, and considering ways to involve the Outside Directors and Outside Kansayaku in the successor planning and selection process.

Based on the analysis and evaluations of the Governance, Nomination and Compensation Committee and the Board of Directors with respect to the issues highlighted by the evaluation results and the opinions and recommendations from Directors and Kansayaku, the Company will implement measures to further enhance the effectiveness of the Board of Directors.

(Wholesale)

[Example 2]

In recognition of the differences between the ideal roles and responsibilities of the Company's board of directors prescribed in the "●● Co., Ltd. Corporate Governance Policy" and the status of the Board of Directors from 2016 to 2017, the opinion of a third-party external advisor was received in continuation from last year and a questionnaire was created and implemented for the purpose of gaining an understanding on matters that should be considered going forward to improve the effectiveness of the board of directors. The questionnaire covered all directors and *kansayaku* and some *shikkoyakuin*, and was conducted from August to September 2017.

[Main categories of the questionnaire]

1) Insight into changes in the environment, 2) Deciding on priorities and setting goals, 3) Information acquisition and risk management, 4) Skills of directors, 5) Setting the roles of the board of directors/directors, 6) Organizational structure for the company, 7) Contents of agenda of the board of directors and time of discussions, 8) Information directors should acquire, 9) Diversity of members of the board of directors, and 10) Performance analysis of the board of directors

A review meeting formed mainly of directors was held to exchange opinions in November 2017 based on the results of the questionnaire that was conducted. As a result, the assessment was made the effectiveness of the Company's Board of Directors had been secured. In addition, it was recognized that the points for further improvement that were discussed during the previous fiscal year had all been improved based on the recent questionnaire results. We will continue to clarify the challenges at every Board of Directors and follow-up on these challenges in an ongoing manner as we work to maintain and improve the effectiveness of the Board of Directors.

(Pharmaceuticals)

[Example 3]

We recognize that for the ongoing improvement of our corporate value, it is important for the Board of Directors to fully exercise its functions and to strengthen its governance by ensuring the appropriateness of operations among other things, and since fiscal year 2015 we have implemented self-evaluations and have been working to improve the effectiveness of the Board of Directors.

Furthermore, in light of the Company accelerating the change of business model during the new mid-term management plan starting in fiscal 2018, the Company conducted a self-assessment of its Board of Directors for fiscal year 2017 with the help of an external consultant (see below). This was done from the perspective of seeking a proper corporate governance system suitable for the future of the Company.

(Note) ●● (hereinafter referred to as "●●") was used as the external consultant.

1. Assessment method

●● distributed a questionnaire (listed below) to all directors who belong to the Board of Directors as well as all auditors, and

analyzed the responses.●● individually interviewed all directors and all auditors based on their answers and compiled the results in a report. Based on said report, the board was able to understand its current status and areas to be improved, and then deliberated and assessed its future direction.

(1) Questionnaire

Subjects: All directors (9 individuals) and all auditors (5 individuals)

Method of response: anonymous replies (to all 65 questions)

Assessment Items:

<1> Role and functions of the Board of Directors

<2> Size and structure of the Board of Directors

<3> Operation status of the Board of Directors

<4> Structure and roles of Nomination & Remuneration Committee

<5> Operation status of Nomination & Remuneration Committee

<6> Support structure for outside directors

<7> Role and expectations of auditors

<8> Investor and shareholder relations

<9> Effectiveness evaluation of the corporate governance system and the Board of Directors of the Company

<10> Self-assessment

(2) Interviews

Subjects: All directors (9 individuals) and all auditors (5 individuals)

Method of response: Separate interview by ●●

(Excerpt)

(Information and communication)

[Example 4]

Continued from 2016, the Company performed the third evaluation by third-party organization of the Board of Directors from July to September 2017, in line with the transition to a company with three committees.

In light of the roles and responsibilities of the Board of Directors, an analysis/evaluation was performed for each of the items for evaluation, including the Board of Directors' composition and its operational status, agenda items, materials for deliberations, level of explanation for agendas, supporting system for Outside Directors, and the effectiveness of three committees' (nomination, audit and remuneration committees') activities.

The evaluation was performed using a methodology whereby the third-party organization prepared a report containing summaries and analyses of the results of "individual interviews" and "direct observation of the Board of Directors through attendance at its meetings" (see Note) and the Board of Directors carried out deliberations on the evaluation based on the report.

(Note)

"Individual interviews"

The third-party organization conducted individual interviews in which all Directors (both Internal and Outside) were inquired about their views and awareness of issues in response to various questions concerning the Board of Directors.

"Direct observation of the Board of Directors through attendance at its meetings"

The third-party organization was present at the meetings of the Board of Directors and directly observed the actual discussions

held.

(Excerpt)

(Retail)

[Example 5]

(Excerpt)

■Overview of result

The overall evaluation of factors including the increase in the number of external directors and the start of the next-generation manager development program was high and the Board of Directors was judged to be sufficiently functional.

Issues that were identified included the low portion of total officer compensation accounted for by variable medium-to-long-term incentives as well as the fact that the next-generation manager development program, which is aimed at discovering and cultivating manager successors over the medium-to-long term, was not yet completed.

[Initiatives in the Previous Fiscal Year]

In light of the upcoming conclusion of the first period to which medium-to-long-term incentives are performance-linked in the fiscal year 2018, opportunities were arranged for the Board of Directors to discuss officer compensation, which is an important element of corporate governance initiatives. Once again finding that the portion of total officer compensation accounted for by variable compensation was low in comparison to other Japanese companies, the Board of Directors examined instances of companies utilizing pre-financial information, such as that related to environmental, social, and governance (ESG) factors, for evaluations index for performance-linked compensation. The factors to be examined when developing future officer compensation systems were identified through this process.

With regard to succession plans, the next-generation manager development program was launched in the fiscal year 2017, to bestow upon participants the knowledge and understanding required of managers.

Individuals that completed the initial development phase in the first iteration of the program have been undergoing relocations in their second year of the program. By assigning these individuals to highly demanding divisions and positions with wide-ranging responsibilities, the Company aims to enable them to continue growing through practical application of their skills.

[Initiatives in This Fiscal Year]

With regard to the ongoing issues related to officer compensation, looking at the next period of medium-to-long-term incentives for performance linkage, based on investigations of industry trends and the compensation systems of other domestic companies, the Company will develop officer compensation systems that are better linked to improvements in medium-to-long-term corporate value. Measures to be adopted include the expansion of the portion of total compensation accounting for variable compensation as well as the utilization of ESG-related pre-financial information associated with sustainable management alongside conventional evaluation indicators.

In addition, the Board of Directors will discuss succession plans, including the overall plan for the next-generation manager development program, and systems for promoting ongoing development including the positioning and promotion of applicants after the program. The possibility of holding regular forums to allow program applicants to speak with the Board of Directors and creating opportunities and frameworks for ongoing monitoring will be examined.

Going forward, the Company will keep enhancing its corporate governance systems to further improve the effectiveness of the

Board of Directors.

(Retail)

[Example 6]

(Excerpt)

With regard to matters identified as issues by the analysis and evaluation of the effectiveness conducted in the previous fiscal year, the Company has been improving those matters in order of precedence. The Company has continuously reviewed the roles of each meeting structure from the perspective of clarifying separation of the roles of management supervision and business execution. In this fiscal year, the Company further improved the method of operating the Risk Management Committee and meeting structures related to compliance. In addition, the Company took more time for discussions on the development and management of the management infrastructure that contributes to the improvement of corporate value in the future and introduced a new mission-critical IT system and a new personnel system. Furthermore, the Company held an opinion exchange meeting attended by only Outside Directors and Outside Kansayaku, designed to effectively reflect the neutral and objective advice of outside officers in the Company's management, and fed back the results to the management.

The Company will continue to reexamine the roles of the Board of Directors concerning the formulation and supervision of medium- and long-term plans, with the aim of further strengthening the supervisory function of the Board of Directors. In addition, the Company will take more time for discussions on "work-style reforms", development of human resources, reinforcement of corporate governance of the Group's overseas affiliates, and review the risk management system of the Group.

In order to further enhance and strengthen corporate governance, the Company will address the management issues identified through this year's effectiveness analysis and evaluation in order of priority, and continuously examine measures to improve the effectiveness of the Board of Directors.

(Construction)

Chart 117 Keywords Related to Evaluations on the Effectiveness of the Board

Item	Number of companies	Applicable ratio	(Reference) Previous total July 2016
Companies complying with Supplementary Principle 4.11.3	2,067 companies	100%	
■Evaluation process			
Mention evaluation process	1,616 companies	78.2%	72.0%
Questionnaires, etc. (surveys, etc.)	1,319 companies	63.8%	41.5%
Self-evaluation	787 companies	38.1%	36.3%
Hearings, etc. (interviews, hearings, etc.)	201 companies	9.7%	11.2%
Exchange of opinions	244 companies	11.8%	8.1%
External evaluation, etc. (third party institutions, lawyers, etc.)	277 companies	13.4%	5.9%
■Evaluation items			
Mention evaluation items	754 companies	36.5%	29.7%
Functions	1,210 companies	58.5%	26.3%
Roles, duties, etc. (responsibilities)	995 companies	48.1%	22.8%
Deliberations	819 companies	39.6%	15.2%
Functions	911 companies	44.1%	14.5%
Roles, duties, etc. (responsibilities)	169 companies	8.2%	11.5%
■Overview of evaluation result			
Mention overview of evaluation results	1,664 companies	80.5%	72.8%
Mention response in the previous fiscal year	319 companies	15.4%	-
Mention issues, response	1,090 companies	52.7%	39.6%

4-15. Training policies (Supplementary Principle 4.14.2)

Principle 4.14 states that “directors and *kansayaku* should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills” and that listed companies “should provide and arrange training opportunities suitable to each director and *kansayaku* along with financial support for associated expenses”. Furthermore, Principle 4.14.2 states that “companies should disclose their training policy for directors and *kansayaku*”.

Although there had been no provisions on officer training in exchange regulations, etc. or requirements for disclosures in the CG Report, etc. until the application of the Code, the compliance rate for Supplementary Principle 4.14.2 is high at 98.1% (2,570 companies) because practices such as the provision of various forms of training including compliance training for newly-appointed officers and opportunities for company briefings for outside officers had already been instilled at many companies.

A typical description for many companies would be something like “in order to acquire and update necessary

knowledge and skills, directors and *kansayaku* will endeavor to study through means such as external seminars”. In terms of the training methods, 72.7% (1,868 companies) clearly mentioned “external seminars/trainings, etc.”, and there were also cases of clearly indicating the organizers of specific seminars. In addition, some companies also mentioned the provision of books, e-learning, etc. Moreover, there are many companies that state that the company covers expenses, and 35.8% (920 companies) mention expenses.

In addition, there were also companies that change the contents of training depending on the attributes of officers (inside, outside, etc.). Such companies have disclosures stating that opportunities were provided to newly appointed inside officers to learn basic knowledge as directors and to newly appointed outside officers to deepen their understanding of the company through means such as factory tours.

Looking at keywords related to the contents of training, “finance and accounting” was the most commonly used keyword (31.8%, or 816 companies). 21.5% (552 companies) mentioned “Companies Act (laws, regulations, etc.)”, 19.6% (504 companies) mentioned “corporate governance”, and 13.0% (335 companies) mentioned “compliance”. Other keywords include “economy”, “leadership”, “internal control”, and “risk management”. In relation to outside officers, some companies stated that they provided explanation on the company’s “organization” and “industry trends” along with observation, etc. of plants and offices.

Looking at individual examples, [Example 1] is a case in which the training policy is described based on the categories of “inside directors”, “inside *kansayaku*”, and “outside directors and outside *kansayaku*”. The respective training policies at the time of assuming office and after assuming office are described. [Example 2] describes a case in which a company provides outside directors with opportunities for an improved understanding of management through visits to overseas subsidiaries, plants, farms, etc. in addition to explanations on an overview of management, and a training program related to a successor development plan is provided. [Example 3] is example that describes the actual training. It describes the contents of business briefings for newly-appointed officers and details on recent opportunities for gaining knowledge through field surveys after appointment as the “provision of opportunities to gain knowledge related to business, etc. to outside officers”. [Example 4] mentions training at external organizations and the use of e-learning provided by the Tokyo Stock Exchange as training when officers are appointed.

[Example 1]

Internal directors attend external seminars on finance, accounting and compliance at the time of appointment, and based on their level of knowledge and experience, continue to attend external seminars and trainings after their appointment and receive private coaching when necessary. The Company provides necessary support for this self-improvement. Furthermore, group training for directors and Audit and Supervisory Board Members, along with lectures and exchanges of opinions with external instructors are periodically carried out to provide information and knowledge required by directors to fulfill their roles.

Internal Audit and Supervisory Board Members, upon appointment, take external seminars on accounting and finance should they have no experience in working at the accounting or finance divisions. Also, after appointment, depending on their level of knowledge and experience, they participate in seminars on various topics, including auditing methods, CSR, risk management and compliance. The Company provides the necessary support for internal Audit and Supervisory Board Members to carry out this self-improvement.

At the time of appointment, Outside Directors and Outside Audit and Supervisory Board Members are provided with explanations

of the Group's operations to deepen their understanding of the Group and the airline industry. After their appointment, they are given the opportunity to tour sites and facilities, including airports, aircraft maintenance, flight operations and passenger cabins. In addition, ongoing training is being implemented, covering topics such as basic knowledge on the airline industry, and explanations of business operations at major subsidiaries.

(Air transportation)

[Example 2]

The Company's policy is that Directors receive training on the roles and responsibilities of Directors on becoming Directors. The secretariat of the Board of Directors explains the management status and the corporate governance structure to external directors when they take up office, and also provides them with opportunities to visit overseas subsidiaries, plants, farms and other business premises and to deepen their understanding of the Company's management after they take up office.

In FY2016, the Company began providing training to all officers as part of planning for the development of successors. The training focuses on the roles and responsibilities and management knowledge required of senior managers, and helpful approaches and frameworks for the formulation and execution of strategies.

The Company encourages Directors and Executive Officers to participate in outside seminars and external organizations, and the cost of this is borne by the Company in accordance with internal regulations based upon requests by Directors, Executive Officers, etc.

(Food industry)

[Example 3]

The Company sets out its policies regarding the training of directors as follows in Article • (Policies Regarding Training of Directors) of the "Basic Policy on Corporate Governance":

- The Company shall collect and provide information regarding economic conditions, industry movement, compliance with laws, corporate governance, finance & accounting, and any other matters, which is required by directors in order to perform their roles and functions, and it shall thereby support directors' execution of duties.
- In a timely manner after assuming office, external directors of the Company shall receive explanations from governing sections or responsible officers, etc., and acquire a sufficient understanding regarding such matters as the management strategy of the Company's group, management plan, status of various business, management environment, and management issues, in order to perform their roles and functions.

In addition, the "Policy on Training of Directors and Other Officers" was established in February 2016. The Company will clarify systematically the training and orientation sessions as well as other training programs the Company had hitherto offered, and summarize as necessary and report to the Board of Directors on the status of implementation for training programs. Implementation status for the fiscal year 2017 is as follows.

1. Providing opportunities to external officers to acquire knowledge on business, etc.

- Conducting business briefings for mainly newly-appointed external officers: Each of the managerial departments and the planning departments of main businesses conduct briefings each year for newly-appointed external officers on the details of business and issues, among other matters. A total 22 sessions were held over eight days, with each session lasting about an hour to two hours and covering such themes as management and business in general, as well as themes that are of much interest to

external directors and external auditors or themes that are specialized and unfamiliar to them such as international finance regulations, risk appetite/framework, system development process, internal rating systems and provisions/write-offs, IR strategies and advertising strategies, in an effort to increase the quality of the business briefings.

- Advance briefing on matters to be deliberated by the Board of Directors at the External Officers Liaison Meetings
- Attendance at the General Managers Meeting held at the beginning of the fiscal year
- Joining in at the “Officers Hearings,” “General Managers Hearings,” “Hearings with General Managers of overseas offices of ●●” and “Hearings with the Presidents of other Group companies” which are held as interviews with the *kansayaku* and Audit Committee members
- Onsite surveys of the major branches of ●● and experience of operations of terminals connected to hosting servers, etc.

2. Various training and seminars for mainly internal officers

- Training programs for understanding finance-related laws/regulations and market trends: Aimed to deepen the understanding of topics of various laws/regulations relating to the finance industry, and the external environment including the market environment that could impact management
- Training programs for reinforcing management capabilities through an understanding of the management issues of the Group: Aimed to deepen the understanding of the management issues facing the Group and the direction of its business strategies, while at the same time reinforcing management capabilities by discussing various recommendations towards the resolution of such issues
- Compliance training programs: Conducting High-level US Compliance training programs and compliance training programs for officers
- Corporate governance training programs: Materials that would be useful to the officers of the Company are selected and utilized including materials from seminars and workshops conducted by the Stock Transfer Agency Business Advisory Department for its customers, materials distributed to customers, and research papers contributed to professional journals, etc.
- Human rights training programs: Trainings on the adequate operation of SNS
(Banking industry)

[Example 4]

The Company endeavors to offer the following opportunities to learn and update knowledge so the directors and *kansayaku* have a deeper understanding of their roles and responsibilities. (1) Training at external organizations when directors assume their posts
(2) Introductory training for understanding of the company when outside directors assume their posts
(3) Participation on TSE e-learning when directors and *kansayaku* assume their posts
(4) Training by an external attorney related to governance and compliance once a year for inside officers (directors, outside directors, *kansayaku*, and *shikkoyakuin*)
(5) Participation in seminars by the Japan Audit & Supervisory Board Members Association, etc. by *kansayaku*
(Other products)

Chart 118 Keywords Related to Officer Training

Item	Number of companies	Applicable ratio	(Reference) Previous total July 2016
Companies complying with Supplementary Principle 4.14.2	2,570 companies	100%	
Expenses	920 companies	35.8%	34.8%
Seminars and training (including external lecturers, etc.)	1,868 companies	72.7%	26.9%
Finance and accounting	816 companies	31.8%	31.0%
Organizations	585 companies	22.8%	22.5%
Companies Act, laws, regulations, etc.	552 companies	21.5%	20.9%
Corporate governance	504 companies	19.6%	16.4%
Compliance	335 companies	13.0%	12.7%

4-16. Independent Directors/*Kansayaku***(1) Appointment of independent officers**

Listed companies have an obligation to secure at least one independent officer for the purpose of protecting general shareholders. An independent officer refers to an outside director or outside *kansayaku* who is unlikely to have conflicts of interest with general investors. This is prescribed as a “matter for compliance” to ensure effective governance under Code of Corporate Conduct (Chapter 4, Section 4) in the Listing Regulations of TSE.⁶⁷ As of the period included in this survey, all 3,594 companies listed on TSE secured at least one independent officer.

Listed companies have an obligation to designate at least one outside officer as an independent officer, submit an “independent officer notification” as stipulated by TSE that describes the independent officer, and also state the number of independent officer in the CG Report.

Chart 119 shows the distribution of the number of independent officer. Only 339 companies (9.4%) have secured only 1 independent officer, and 3,253 companies (90.5%) have at least 2 independent officers. The aggregate number of persons notified as independent officer is 12,171 persons, and the average number of independent officers secured per listed company is 3.39 persons. In terms of the trend over time, the number of companies with three or fewer independent officers is decreasing, while the number of companies with four or more independent officers is increasing.

Chart 120 shows the number of independent officers by market division. The average number is the highest for TSE First Section, where the average number is 3.91 persons, followed by Mothers (3.15 persons), TSE Second Section (2.87 persons), and JASDAQ companies (2.34 persons). JPX-Nikkei 400 companies notified of, on average, 4.93 independent officers, which is approximately 1 person more than TSE First Section (3.91

⁶⁷Rule 436-2 of the Securities Listing Regulations.

persons).

Notifications as seen by foreign shareholding ratio show the highest average number of 4.61 persons for the “30% or more” category. The lower the ratio, the less the number of persons companies notified of (Chart 121).

Out of all independent officers, 7,338 persons (60.3% of all independent officers) are outside directors, and 4,833 persons (39.7%) are outside *kansayaku* (Chart 122). In the previous survey, 6,141 persons (56.1% of all independent officers) were outside directors, and 4,808 persons (43.9%) were outside *kansayaku*, which demonstrates that the ratio of outside directors to all independent officers is increasing.

Chart 119 Number of Independent Officers

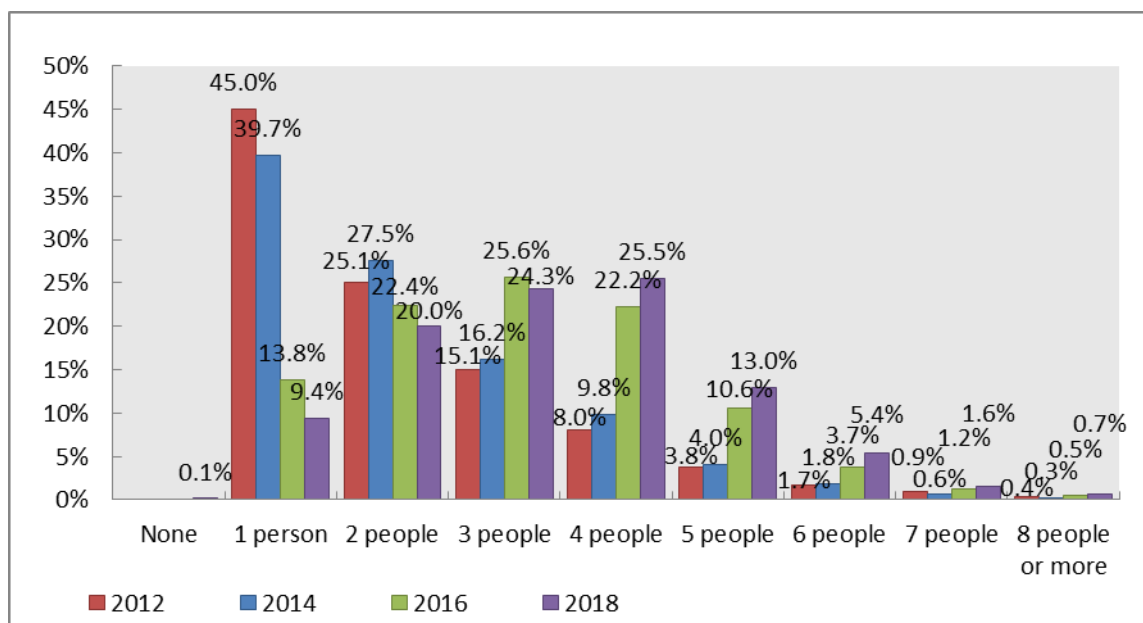


Chart 120 Average Number of Independent Officers (by Market Division)

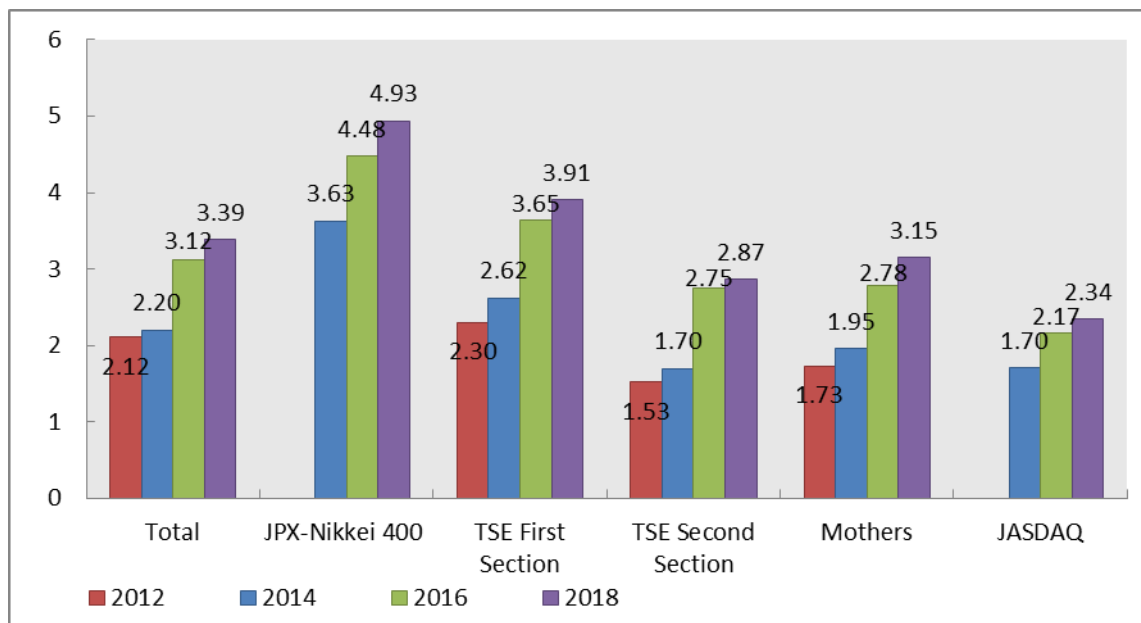


Chart 121 Average Number of Independent Officers (by Foreign Shareholding Ratio)

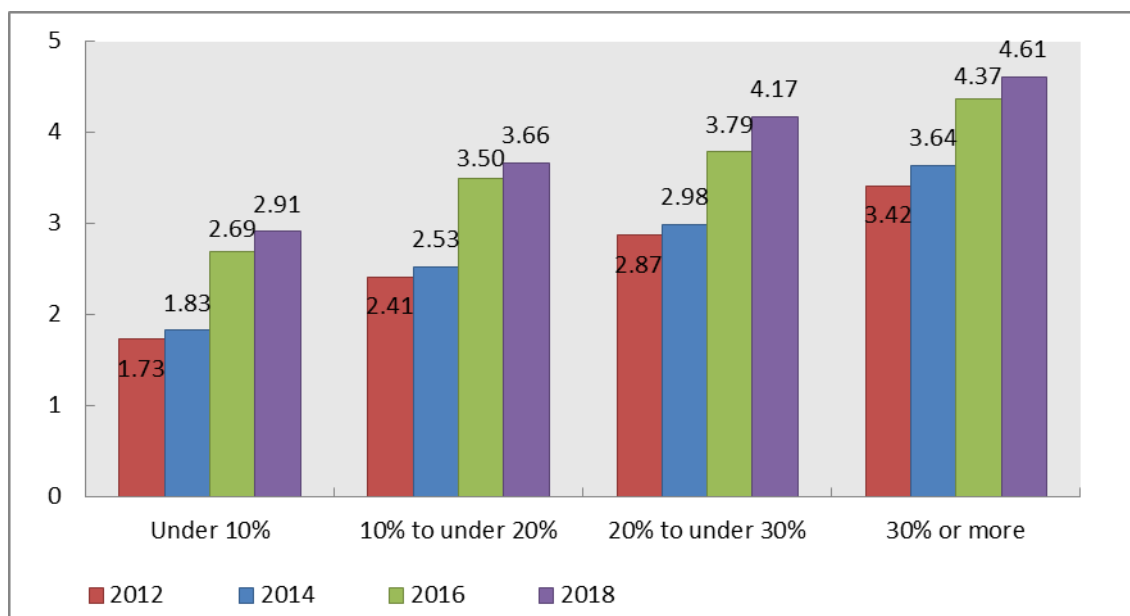
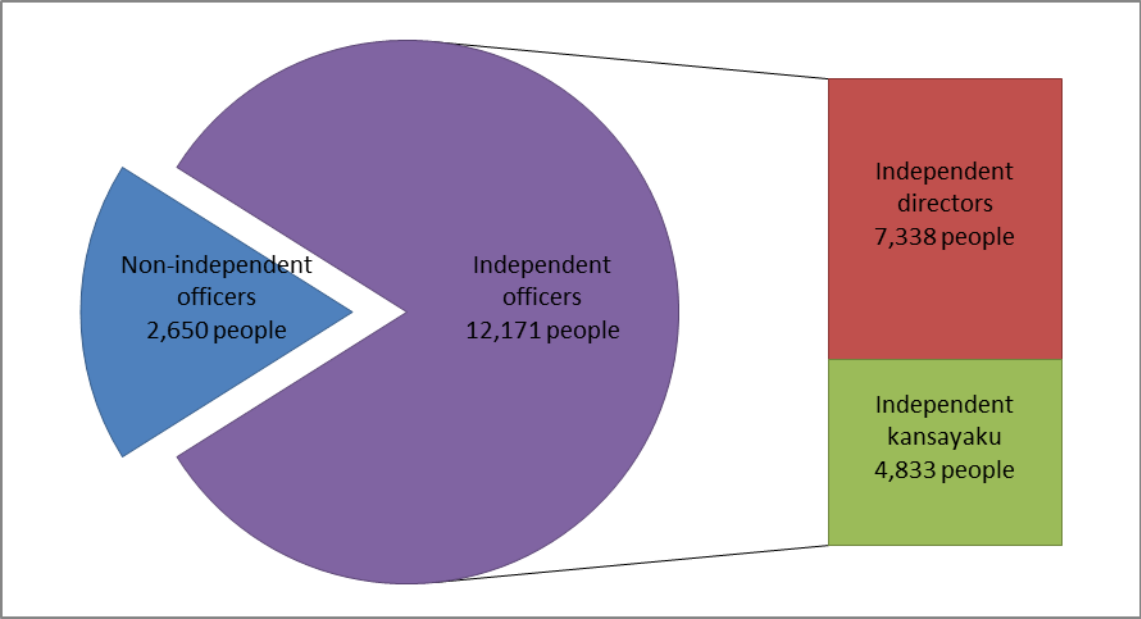


Chart 122 Ratio of Independent Officers

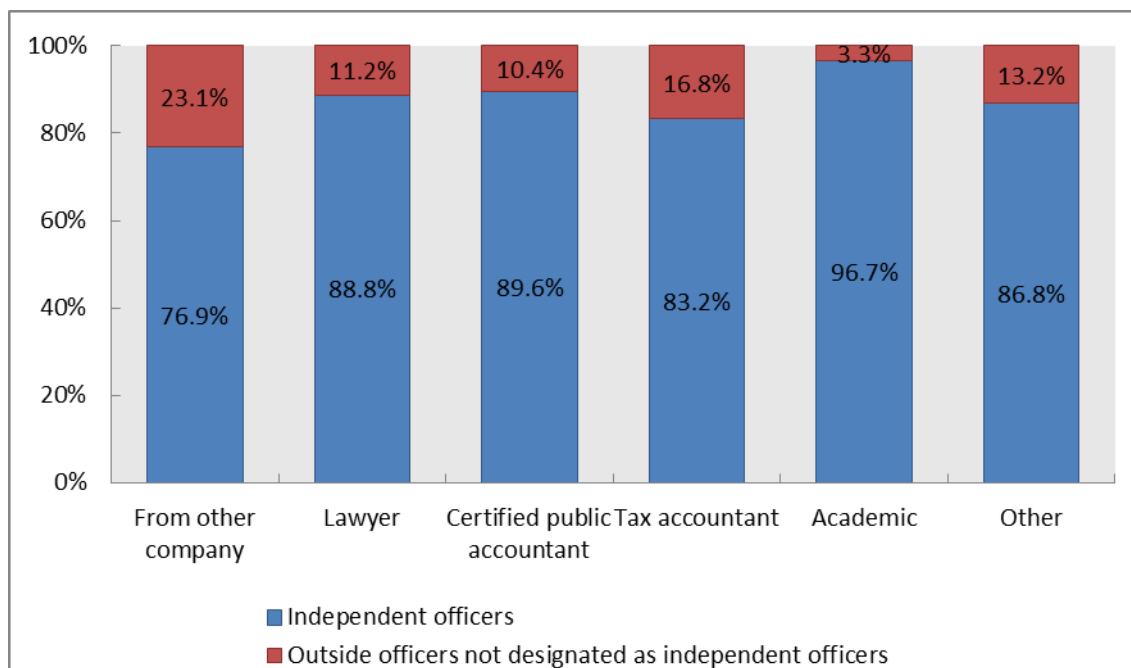


(2) Attributes of independent officers

Chart 123 displays the ratio of independent officers to all outside officers for each attribute.⁶⁸ The ratio was lowest for persons from other companies (76.9%), which was followed by tax accountant (83.2%). This is believed to be the effect of the presence of parties who are in conflict or could be in conflict with independence standards among outside officers, such as business-executing employees of major business partner or accounting professionals, etc. that acquire high amount of financial compensation other than officer remuneration from listed companies.

⁶⁸ Refers to outside directors and outside *kansayaku*

Chart 123 Ratio of Independent Officers to All Outside Officers (by Attribute)



(3) Relation between independent officers and company

The Guidelines for the Listing Management of TSE prescribe the factors for judgments on the risk of conflicts of interest with general shareholders by TSE (independence criteria) as follows. The independence judgment criteria are items regarding the relationship with the company in the CG Report. Chart 124 displays those items. Note that the two items “I Non-executive director” and “m *Kansayaku* of parent company” are unique items for outside *kansayaku*.

Furthermore, it is necessary to select whether “currently/recently” or “the past” apply for the individual or a close relative.

Chart 124 Independence Criteria

	Graph items	Item description
a	Listed company	Person executing business of a listed company or its subsidiaries
b	Parent company	Person executing business or non-executive director of parent company of a listed company
c	Sister company	Business executor of sister company of a listed company
d	Party whose major business partner is a listed company	Party whose major business partner is a listed company or person executing its business
e	Major business partner with a listed company	Major business partner with a listed company or person executing its business
f	Consultant, etc.	Consultant, accounting professional, or legal professional that receive large sums of money or other assets other than officer remunerations from a listed company
g	Major shareholder	Major shareholder of a listed company (if the major shareholder is a corporation, a person executing business of that corporation)
h	Other business partner	Person executing business of business partner (for which d, e, and f do not apply) of a listed company
i	Mutual assumption of office	Person executing business of partner where an outsider officer has mutually assumed office
j	Recipient of donations	Person executing business of recipient of donations from a listed company
k	Other	
I	Non-executive director (Unique item for outside <i>kansayaku</i>)	Person executing business or accounting advisor of a listed company or its subsidiaries
m	<i>Kansayaku</i> of parent company (Unique item for outside <i>kansayaku</i>)	<i>Kansayaku</i> of parent company of a listed company

Chart 125 shows the relation between independent officers and company. The most common selection was “not applicable” (63.5%) as none of the selections applied, which is an increase compared to the previous survey (61.7%). In terms of the relation between independent officers and company, the most common response selected was “other business partner”, with a remarkably high percentage of 21.3%. In addition to “other business partner”, a high percentage of companies also selected “other” (7.5%) and “major business partner with a listed company” (3.5%), but this is low compared to “other business partner”.

Furthermore, Chart 126 shows the results for companies that selected the individual (currently/recently), the individual (past), close relative (currently/recently), or close relative (past) as the relation for independent officer.

Looking at the selection “other business partner” that a remarkably high percentage of companies selected, individual (past) accounted for the majority (60.6%). Among the items for the relationship with the company, the ratio was highest for “other” (97.5%) for individual (currently/recently). Meanwhile, items for which the ratio has high for individual (past) are items in which the individual (currently/recently) is in conflict with the independence requirements of the Companies Act and independence criteria.

Chart 125 Relation Between Independent Officers and Company

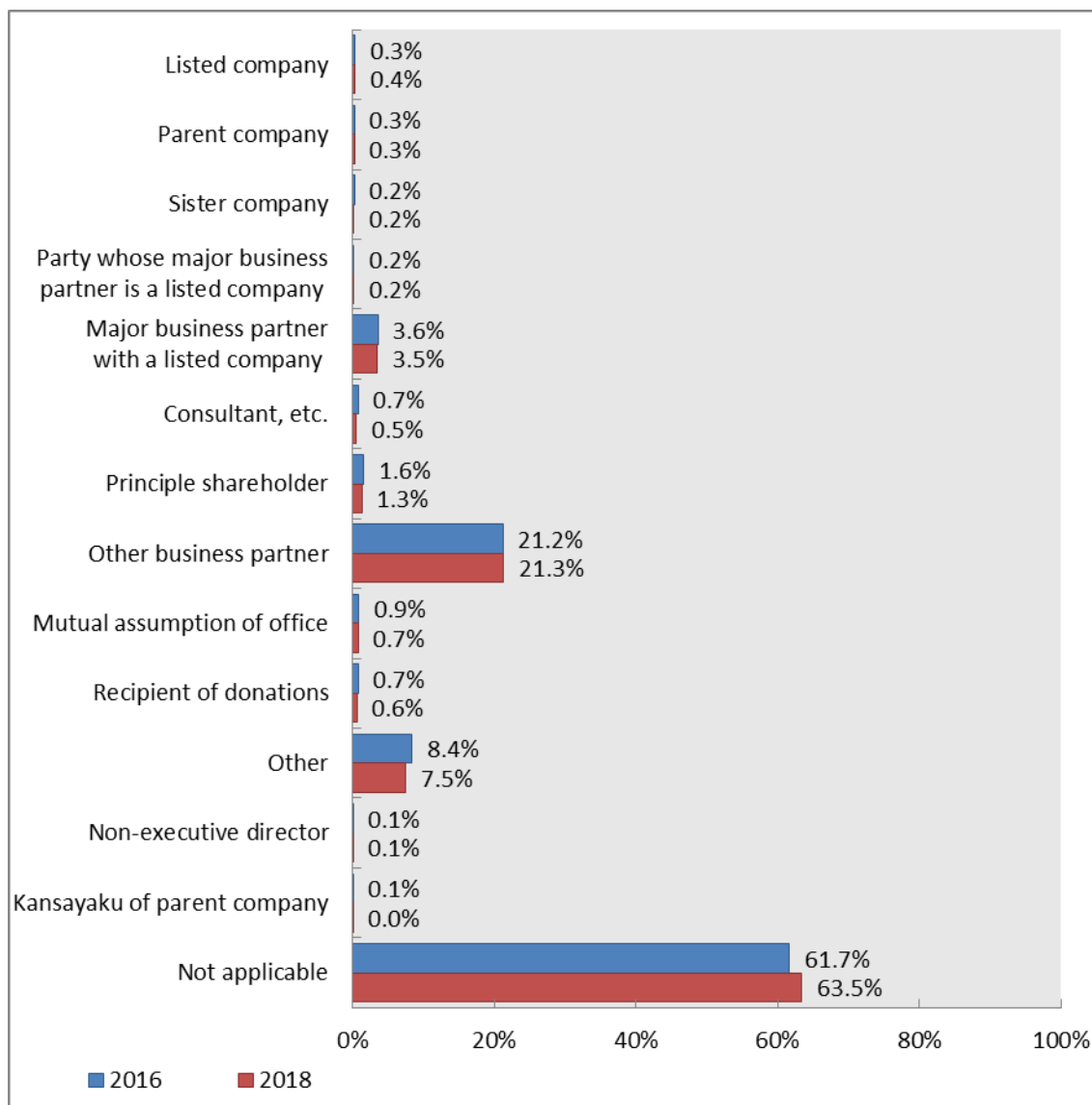
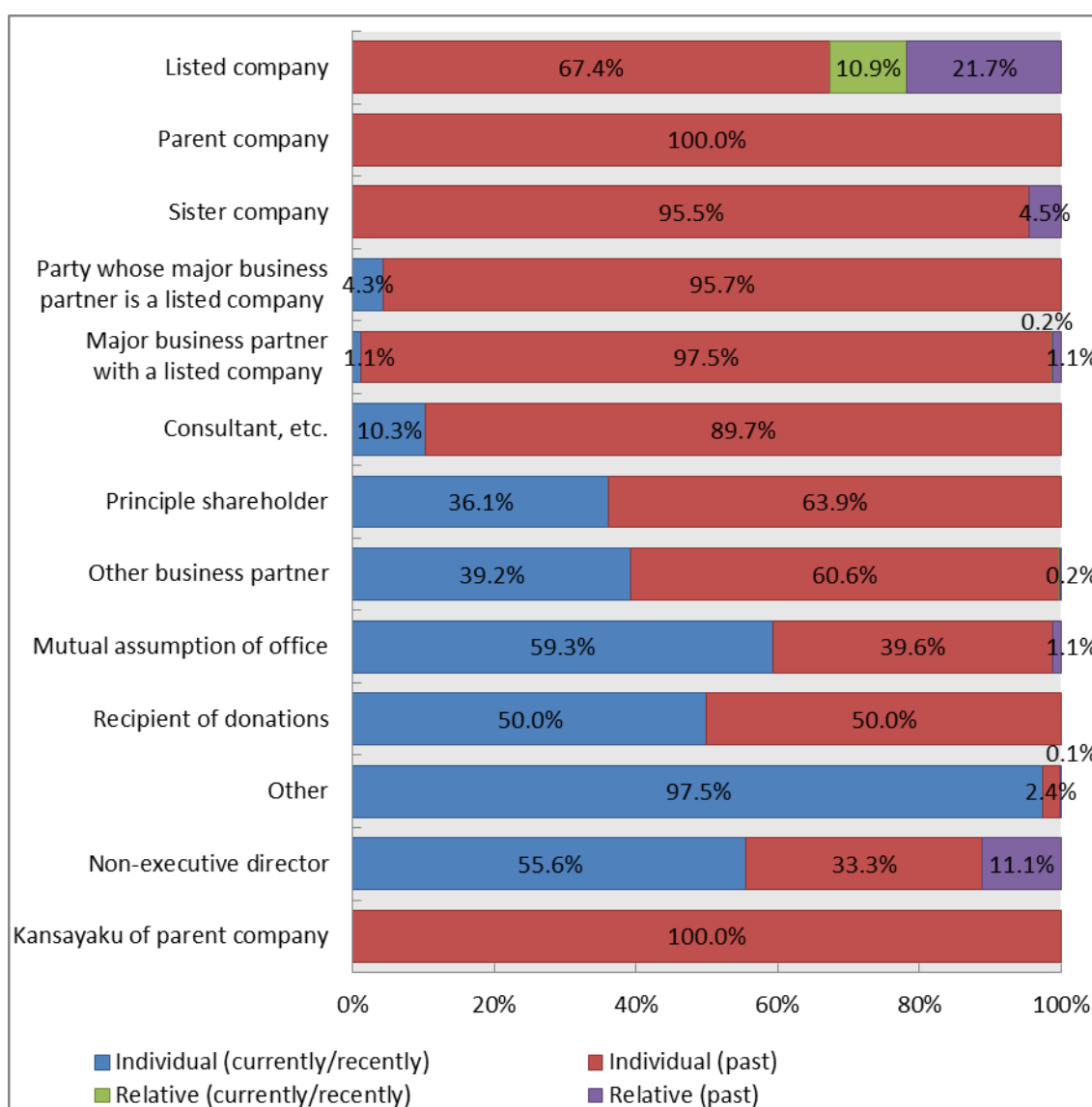


Chart 126 Relation Between Independent Officers and Company (Individual/Close Relative)



(4) Description of reason for appointment of independent officers

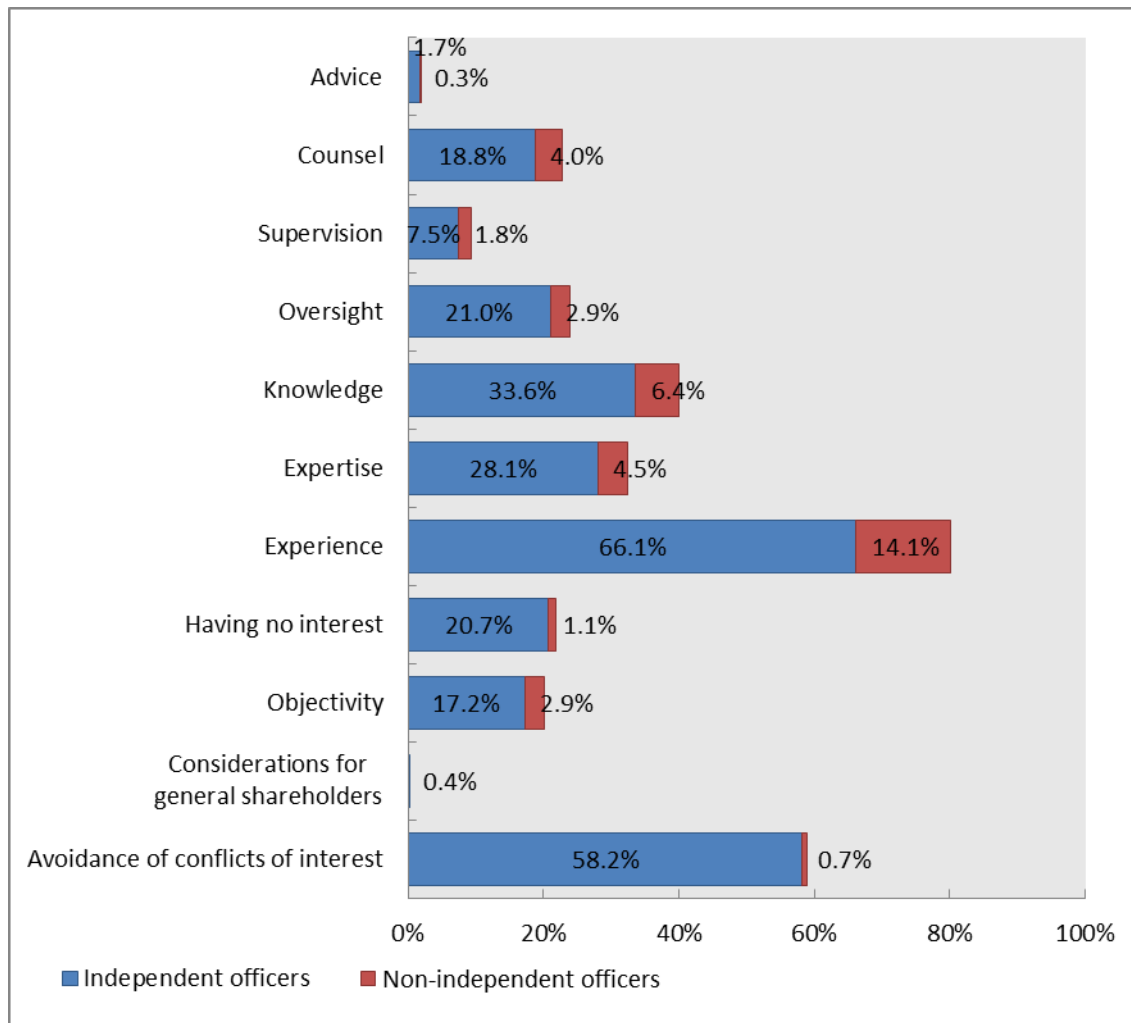
The CG Report requires companies to describe reasons for appointment of outside directors or outside *kansayaku*, and if they are designated as an independent director or independent *kansayaku*, companies are required to provide reasons for such designation. First, in terms of keywords that frequently occur when describing all outside officers, explanations such as experience (80.2%), knowledge (40.0%), and expertise (32.5%) are seen often, which highlighted the person's attributes, character, and experience. Companies also frequently mentioned avoidance of conflicts of interest (59.0%), having no interests (21.8%), and objectivity (20.2%) as they showed intent to secure neutrality (Chart 127).

Meanwhile, in terms of keywords on the expected functions of outside officers, there were descriptions on providing oversight (23.9%) and supervision (9.3%) in a monitoring role, and counsel (22.8%) in an advisory role (Chart 127).

Furthermore, if we analyze keywords used based on whether an independent officer or not, differences could be seen between independent officers and non-independent officers in reasons related to neutrality such as

avoidance of conflicts of interest (58.2% for independent officers, 0.7% for non-independent officers), having no interest (20.7% for independent officers, 1.1% for non-independent officers), and objectivity (17.2% for independent officers, 2.9% for non-independent officers). This suggests that a reason for the designation of independent officers is to ensure neutrality.

Chart 127 Analysis of Reasons for Appointment of Outside Officers and Independent Officers



4-17. Support system for outside officers

(1) Overview

The CG Report requires listed companies describe sections and personnel responsible for supporting outside directors and outside *kansayaku* (and whether there are dedicated personnel) and the details of this support if applicable, as well as an overview of the information communication system for outside directors and outside *kansayaku*.

Looking at details of descriptions, many companies stated that the Secretariat of the Board is responsible for supporting outside directors while the Secretariat of the *Kansayaku* Board is responsible for supporting *kansayaku*, that materials related to agendas of the board are sent in advance, and that supplementary

explanations are conducted by the secretariat as necessary.

Descriptions regarding outside directors included providing the opportunities to understand the situation through visits to business sites, as well as contact with site managers, etc. Furthermore some companies stated that outside directors are entitled to seek the opinion of external experts, such as lawyers, certified public accountant, consultants, etc., at the expenses of company when needed. In addition, there were descriptions of meetings other than the board and the setting of meetings with full-time *kansayaku* for the provision of information through means such as attendance by outside *kansayaku* at meetings, etc. for considering the status of business and meetings with full-time *kansayaku* familiar with internal circumstances.

Moreover, there were descriptions of the establishment of dedicated liaison meetings such as an “outside officers liaison meeting” as a forum for advance explanations of board agendas, information provision, and information exchange with outside officers.

Furthermore, because outside directors also include foreigners, some companies also described support for foreigner outside directors such as the preparation of English versions of board materials that are distributed to the applicable directors in advance, and making sure to offer simultaneous interpreting when applicable directors attend the board, the general shareholder meeting, etc.

Regarding actual means of support, “distribution of information, communication, and cooperation related to information” were mentioned by 60.2%, and “prior distribution of and/or briefing on board materials” were mentioned by 60.7% of the companies⁶⁹.

(2) Support system, etc. for audits

① Existence of directors and employees that provide assistance for Audit Committee and Supervisory Committee duties

The CG Report requires a description of an overview of directors and employees that provide assistance for Audit Committee and Supervisory Committee duties.

Looking at the descriptions for Companies with Three Committees, the majority of companies have descriptions such as the establishment of an audit committee office as an organization to assist the duties of the Audit Committee, and the assignment of dedicated employees to provide assistance for Audit Committee. There were many descriptions that with respect to such employees, hiring, transfers, personnel evaluations, and disciplinary action are conducted with the consent of the Audit Committee. In addition, there were also descriptions of the establishment of an organization to provide assistance for Audit Committee duties and the assignment of dedicated personnel when the Audit Committee makes a request for the assignment of employees to assist with its duties.

Looking at the descriptions for Companies with Supervisory Committee, in the same manner as Audit Committees at Companies with Three Committees, the majority of companies have descriptions such as the establishment of a supervisory committee office as an organization to assist the duties of the Supervisory Committee, and the assignment of dedicated employees. There were also many descriptions that with respect to

⁶⁹ Reference to “distribution of information, communication, and cooperation related to information” covers companies which mentioned either “information”, “distribution”, “communication” or “cooperation”. Reference to “prior distribution of and/or briefing on reference materials” covers companies which mentioned either “prior”, “distribution” or “briefing”.

such employees, hiring, transfers, personnel evaluations, and disciplinary action are conducted with the consent of the Supervisory Committee. In addition, some companies also stated that personnel that have received the mandate required for audit work from the Supervisory Committee would not be subject to command from the business execution line regarding such mandates. There were also descriptions stating that while there were no dedicated employees for providing assistance for Supervisory Committee duties, as necessary the internal audit office would provide assistance for Supervisory Committee duties and prioritize tasks related to the Supervisory Committee.

② Efforts for reinforcement of *kansayaku*'s functions

In the Overview of the Current Corporate Governance System in the CG Report, listed companies are also required to describe the state of securing personnel and systems to support audits by *kansayaku*, the state of appointing outside *kansayaku* who are highly independent, and the state of appointing *kansayaku* with knowledge of finance and accounting as efforts for the reinforcement of functions of *kansayaku*⁷⁰.

Regarding the state of securing personnel and systems to support audits by *kansayaku*, of the 2,635 Companies with *Kansayaku* Board, 304 companies (11.5%) mentioned the establishment of a “*Kansayaku* Office” or “Secretariat of the *Kansayaku* Board”. In addition, there were descriptions stating that only *kansayaku* have the authority to issue orders to the executives and employees of the *Kansayaku* Office, that the independence of such executives and employees from directors was ensured, and that the advance consent of full-time *kansayaku* was required for personnel changes, personnel evaluations, etc. involving these personnel.

In addition, there were descriptions of matters such as the appointment of highly-independent *kansayaku* and strengthening cooperation among the board, accounting auditors, and internal audit department. Additionally, the contents of the descriptions of *kansayaku* audits covered not only legality audits, but also validity audits.

③ Cooperation among the Audit Committee, Supervisory Committee, or *Kansayaku* Board and accounting auditors and internal audit departments

The CG Report requires companies to describe existing cooperation among their Audit Committee, Supervisory Committee, or *Kansayaku* Board and accounting auditors and internal audit departments. Chart 128 shows the ratio of companies that mentioned the keywords “audit planning”⁷¹, “cooperation/meeting”⁷², and “report”⁷³. The ratio of companies that mentioned “audit planning” is higher for Audit Committees than for *Kansayaku* Boards or Supervisory Committees.

Looking at details of descriptions, the majority of companies stated that they held regular gatherings for exchanging opinions and information. Specific descriptions include attendance at site audits by accounting

⁷⁰ Companies, however, may just make reference to their explanations rendered in other sections (e.g. “Support System for Outside Directors and Outside *Kansayaku*”, “Reasons for Appointing Outside *Kansayaku*”, etc.), if any.

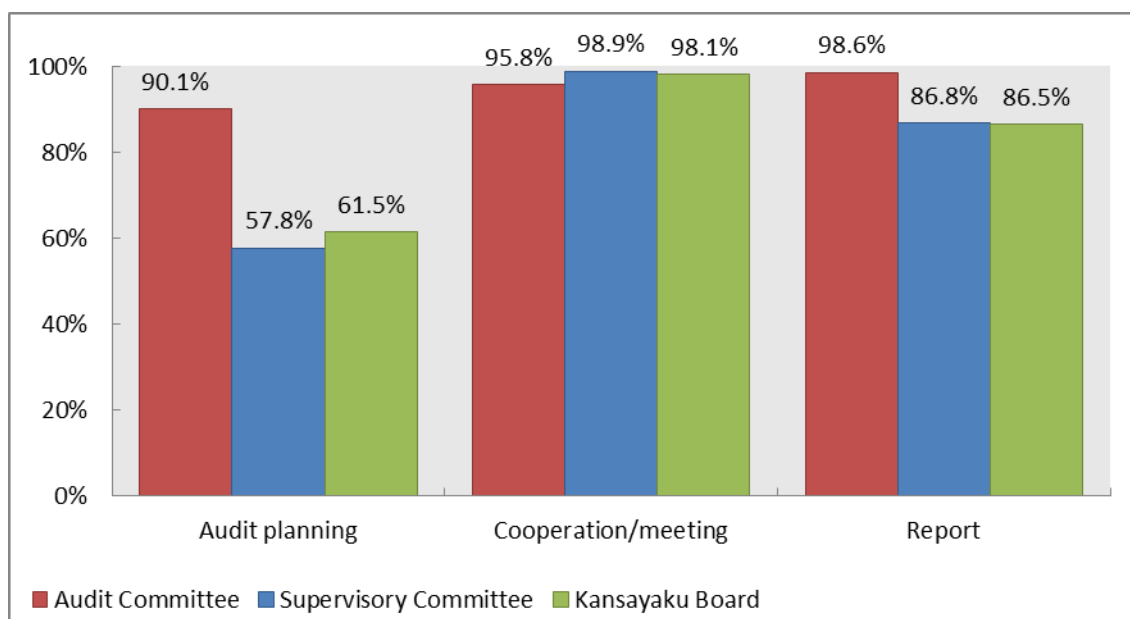
⁷¹ Reference to “audit planning” covers companies which mentioned one of the following keywords: “plan”, “policy” or “regulation”.

⁷² Reference to “cooperation/meeting” covers companies which mentioned one of the following keywords: “cooperation”, “gathering”, “regular”, “exchange”, “consultation” or “meeting”.

⁷³ Reference to “report” covers companies which mentioned one of the following keywords: “report”, “result”, “explanation”, “verification” or “control”.

auditors and audit reviews, and receiving reports on audit plans, the focus of audits, progress of audits, internal control systems, risk management, etc. In addition, there were cases of stating the number of times opinions were exchanged with accounting auditors.

Chart 128 Cooperation among *Kansayaku*, Accounting Auditors, and Internal Audit Departments



4-18. *Shikkoyaku*

Among TSE-listed Companies with Three Committees, the average number of *shikkoyaku* per company was 11.79 persons.

The average number of *shikkoyaku* with representative authority was 1.99 persons per company, accounting for 16.8% of all *shikkoyaku*.

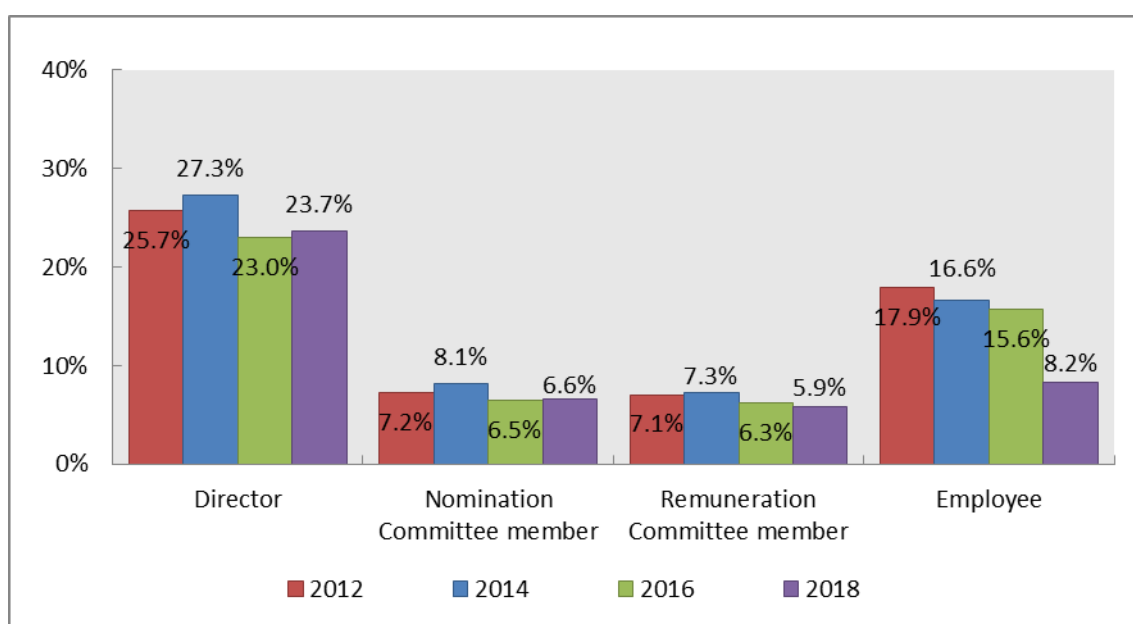
Shikkoyaku may concurrently assume the position of director⁷⁴, and 23.7% of *shikkoyaku* concurrently assume directors. Furthermore, 6.6% of *shikkoyaku* concurrently assume the position as Nomination Committee members, and 5.9% as Remuneration Committee members, both in the capacity of directors. As for Audit Committees, *shikkoyaku* are prohibited to concurrently assume the position as the committee members⁷⁵.

8.2% of *shikkoyaku* also hold positions as employees (Chart 129).

⁷⁴ Article 402, Paragraph 6 of the Companies Act.

⁷⁵ Article 400, Paragraph 4 of the Companies Act.

Chart 129 Positions Held Concurrently by *Shikkoyaku*



4-19. Status of people retired from the position of representative director, president, etc.

A new section for stating the “status of people retired from the position of representative director, president, etc.” has been established for CG Reports submitted after January 2018. This is a disclosure system established in an effort to improve the transparency of governance in light of the fact that it is customary for listed companies in Japan to assign a resigning president, etc. as an advisory positions, such as *Sodanyaku*, *Komon*, etc. Specifically, if a person resigning from the position of representative director, president, etc. is continually appointed as *Sodanyaku*, *Komon*, etc., it is necessary to state their name, title and position, and details of their work.

This analysis covers data from the CG Reports as of July 13, 2018, for all 3,175 companies that updated the governance reports as of that date.

In terms of market division, the percentage of listed companies that made disclosures concerning *Sodanyaku*, *Komon*, etc. was 46.6% for TSE First Section, 27.2% for TSE Second Section, 2.5% for Mothers, and 16.3% for JASDAQ. Of which, the percentage of listed companies with *Sodanyaku*, *Komon*, etc. was 55.5% for TSE First Section, 45.2% for TSE Second Section, 40.0% for Mothers, and 50.5% for JASDAQ (Chart 130).

Chart 130 Disclosure Status of *Sodanyaku*, *Komon*, etc. by Market Division, etc.

Scope of total	Number of companies	There are disclosures on <i>Sodanyaku</i> , <i>Komon</i> , etc.		1 person or more	
		Number of companies	Ratio	Number of companies	Ratio
TSE First Section	1,904	887	46.6%	492	55.5%
TSE Second Section	463	126	27.2%	57	45.2%
Mothers	200	5	2.5%	2	40.0%
JASDAQ	608	99	16.3%	50	50.5%
Total listed companies	3,175	1,117	35.2%	601	53.8%
JPX-Nikkei 400	379	264	69.7%	175	66.3%

For the 601 companies with one or more *Sodanyaku, Komon*, etc., the total number of *Sodanyaku, Komon*, etc. is 947. The number of years elapsing since resignation from president, etc. is shown in the chart below (Chart 131), and less than 1 year is the most common response (196 people), followed by less than 2 years (77 people) and less than 3 years (70 people). There are also some people for which 20 years or more or even 30 years or more elapsed after resigning as president, etc. While the term of office is generally 1 year, there are also cases of stipulating the term as every 2 years, a limit on the number of years, or the retirement age limit, as well as cases in which there is no term limit. There 42 people with a lifetime term, as well as 20 people with “no term limit”, “no term limit set”, or “no period set”.

Looking at the status for full-time or non-full-time and the presence of remuneration, 198 people are full-time, 713 people are non-full-time, 715 people have remuneration, and 205 people do not have remuneration. Looking at the relationship between these factors, non-full-time with remuneration was the most common response (520 people) followed by full-time with remuneration (188 people), non-full-time without remuneration (182 people), and full-time without remuneration (2 people) (Chart 132).

Chart 131 Distribution of Number of People by Years from Date of Resignation

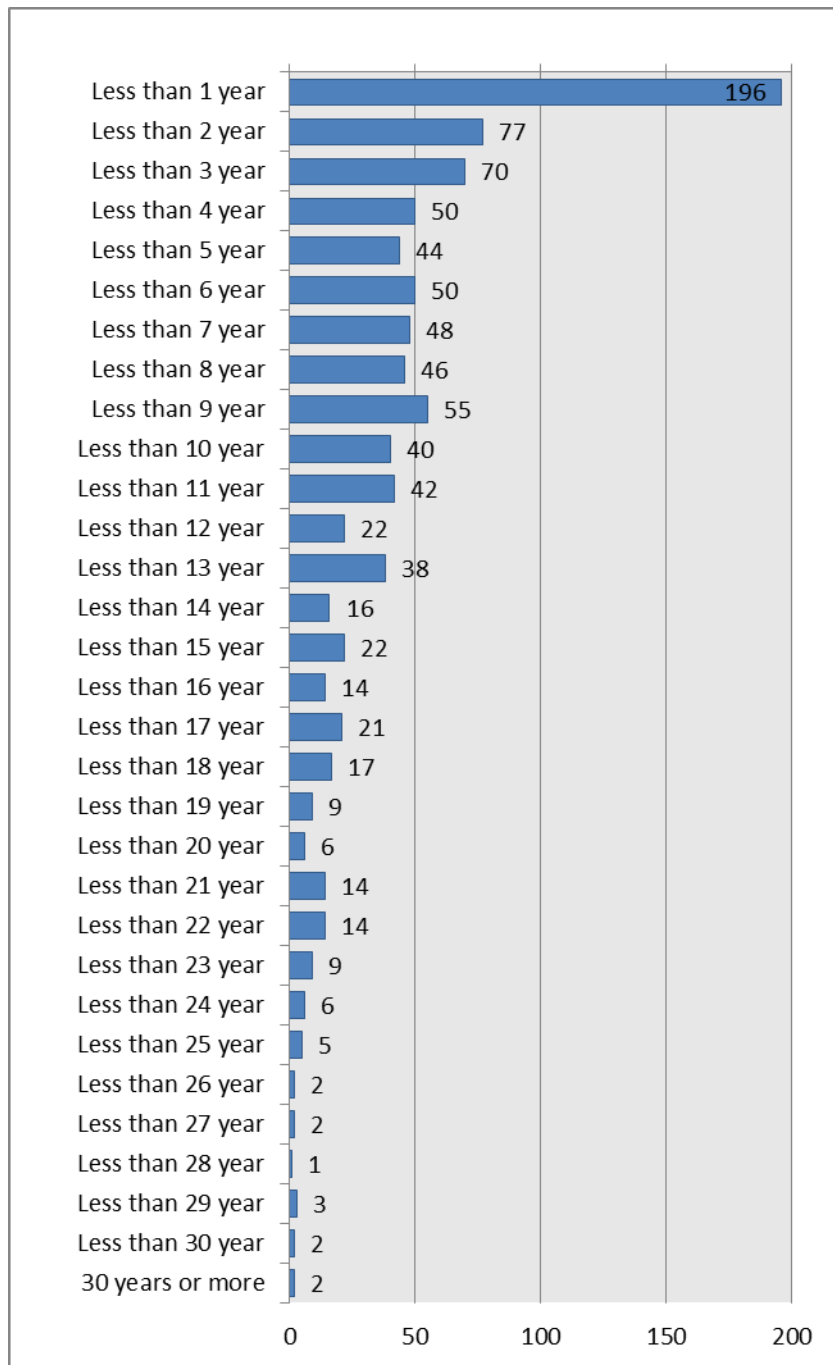


Chart 132 Status of Employment and Remuneration for *Sodanyaku*, *Komon*, etc.

Category	With remuneration	Without remuneration	Not stated (remuneration)	Total
Full-time	188	2	8	198
Non-full-time	520	182	11	713
No work	2	21	-	23
Not stated (work)	5		8	13
Total	715	205	27	947

In terms of the work conducted by *Sodanyaku*, *Komon*, etc., among the 935 people for which there are disclosures, many people are providing advice, etc. (409 people). In addition, matters believed to be related to external activities that were mentioned included industry organizations (124 people), the business world (112 people), social contribution (147 people), external activities (64 people), maintaining relationships with business partners (38 people), and maintaining activities (21 people). At the same time, there were also disclosures clearly stating non-involvement in management (187 people).

[Column 8] Titles, appointments, and remuneration for *Sodanyaku*, *Komon*, etc. as seen from examples

[Titles]

In terms of titles used, among all 947 people mentioned, *Komon* (468 people) and *Sodanyaku* (376 people) accounted for the majority. Honorary *Komon* (145 people), special *Komon* (142 people), supreme *Komon*, etc. are included in *Komon*, and honorary *Sodanyaku* (14 people), special *Sodanyaku*, supreme *Sodanyaku* are included in *Sodanyaku*. This is followed by chairman (68 people; including 49 people who are an honorary chairman). Other titles that were used by a minority included senior advisor, senior chairman, senior fellow, founder, friend of the firm, director, councilor, chief engineer, and honorary guest.

[Decision process for appointments]

Among the disclosing companies, 812 companies described an approach or policy besides the presence of *Sodanyaku*, *Komon*, etc. Among these companies, there were many cases in which the role of the *Sodanyaku*, *Komon*, etc. was clarified and a statement was made to the effect that they were not involved in management, such as “they have no authorities that would have an effect on management decisions at the company”, “advice is sought from the person, and they have no involvement in management decisions”, “they are not involved with management decisions”, or “they do not attend meetings such as the executive committee”.

There were approximately 300 companies that made specific description regarding the decision process to some extent. Disclosures are mainly on the process for deciding on appointment and delegation, and while the majority of such decisions are based on a resolution of the board, there were also many companies that better ensure transparency and objectivity by going through deliberations, reports, etc. at meeting structures such as a nomination committee (statutory/optional), governance committee, or other meeting structures including outside directors. In addition, there were also examples of companies that handle matters such as the term of office, retirement age, reappointment limits, remuneration, treatment, etc. based on company bylaws and regulations, though there were a few cases of disclosures of specific standards for the retirement age, term of office, etc.

[Decision process for remuneration]

On the other hand, there are fewer disclosures on the decision process for remuneration compared to appointments described above. Descriptions on the remuneration decision process included decisions based on a resolution by the board, deliberations, reports, etc. at a remuneration committee, decisions by the president, and decisions based on company bylaws. Only 20 companies disclosed specific remuneration amounts. The amounts ranged from several million to tens of million yen per year, which suggests that there are significant differences in the amount depending on the role fulfilled. There were cases of companies that indicated the total amount and companies that indicate an upper limit or fixed remuneration amount by the role.

[Disclosures relating to the abolishment of the system]

Approximately 50 companies used the keyword “abolishment”, and there were companies stating that they will abolish or had already abolished the “*Sodanyaku* and *Komon* system”, “*Sodanyaku* system” or “*Komon* system”. In relation to abolishment, there cases of continuing duties until the expiration of the term of office for

people appointed before the abolishment of the system and cases of the introduction a new system (for *Sodanyaku* and *Komon*) with revised roles and definitions. In addition, there were cases in which the system had been abolished at the parent company but still existed at subsidiaries and cases of defining, introducing, and implementing a system under titles other than *Sodanyaku* and *Komon*.

4-20. Basic views on internal control system and the progress of system development

Under the Companies Act, large companies⁷⁶, Companies with Supervisory Committee⁷⁷, and Companies with Three Committees⁷⁸ are required to develop a system necessary to ensure the properness of operations of a company and operations of group of enterprises consisting of said company and its subsidiaries (a so-called internal control system) and disclose the details in the CG Report. TSE also requires companies to describe their approach and basic policies from the perspective of ensuring the appropriate fulfillment of operations⁷⁹, including how a company can manage organizations to attain management strategies or business objectives, and how a company can comply with laws, regulations, and the articles of incorporation.

With respect to the basic views on internal control systems and the development of the systems themselves described in the CG Report, many companies provided descriptions according to the items prescribed in the Companies Act and the Ordinance for Enforcement of the Companies Act⁸⁰.

Specifically, 34.9% of TSE-listed companies referred to the term “the Companies Act”⁸¹. In total, 83.7% of the companies referred to “risk management” and more companies, reaching 96.2%, referred to “legal compliance”⁸². Refer to Chart 133 for the trends by market division.

As for “systems related to the retention and management of information pertaining to the execution of the duties of a director/*shikkoyaku*”⁸³, many companies mentioned appropriate storage and management in accordance with their documentation rules.

Concerning “rules and other systems related to management of the risk of loss”⁸⁴, many companies reported that rules on risk management have been adopted. Specific descriptions include establishment of individual rules addressing each specific risk, and the establishment of an organization to supervise risk information and respond to risk, including the establishment of a risk management committee.

Companies provide a wide variety of descriptions regarding a “systems to ensure that the execution of the duties of a director/*shikkoyaku* is performed efficiently”⁸⁵, and generally, such descriptions focused on management systems taking corporate governance into account, and management procedures with management cycle in mind.

Regarding a “systems to ensure that the execution of the duties of an employee complies with laws and regulations and the articles of incorporation”⁸⁶, many companies mentioned the formulation of guidelines

⁷⁶ Article 362, Paragraph 4, Item 6 and Paragraph 5 of the Companies Act.

⁷⁷ Article 399, Paragraph 13, Item 1(c) and Paragraph 2 of the Companies Act.

⁷⁸ Article 416, Paragraph 1, Item 1(e) and Paragraph 2 of the Companies Act.

⁷⁹ In addition, the CG Report requires companies to describe the state of compliance system, risk management system, and information management system.

⁸⁰ Article 100, Article 110-4, and Article 112 of the Ordinance for Enforcement of the Companies Act.

⁸¹ Although not directly referred to the Companies Act, the large majority of companies described their basic views in accordance with the provisions of the Companies Act.

⁸² Reference to “legal compliance” covers companies which mentioned one of the following keywords: “legal compliance”, “compliance with laws and regulations” and “compliance”.

⁸³ Article 100, Paragraph 1, Item 1; Article 110-4, Paragraph 2, Item 1; and Article 112, Paragraph 2, Item 1 of the Ordinance for Enforcement of the Companies Act.

⁸⁴ Article 100, Paragraph 1, Item 2; Article 110-4, Paragraph 2, Item 2 and Article 112, Paragraph 2, Item 2 of the Ordinance for Enforcement of the Companies Act.

⁸⁵ Article 100, Paragraph 1, Item 3; Article 110-4, Paragraph 2, Item 1 and Item 3; and Article 112, Paragraph 2, Item 3 of the Ordinance for Enforcement of the Companies Act.

⁸⁶ Article 100, Paragraph 1, Item 4; Article 110-4, Paragraph 2, Item 1 and Item 4; and Article 112, Paragraph 2,

including codes of conduct and compliance rules. To enhance effectiveness of such rules, some companies further referred to the establishment of responsible committees and implementation of related training, as well as consultation services for employees and whistleblowing programs. Furthermore, some described that internal audit office or the like conducts internal audits to judge effectiveness of the subject system and provide feedback to management. In that connection, some made reference to the roles of *kansayaku* and outside directors, and outside lawyers' check of legal compliance as well as compliance with the articles of incorporation.

Regarding a “systems to ensure the propriety of business activities in a group of enterprises comprised of the relevant stock company and any Parent Company or Subsidiary Companies thereof”⁸⁷, while being generally the same as descriptions concerning the headquarters, the descriptions include the establishment of affiliated company management rule or compliance departments responsible for managing affiliated companies, internal control systems overseeing subsidiaries and overseas business, and consultative meetings of *kansayaku* across the group. With respect to control over subsidiaries, two different policy directions are observed: some expressed that it is necessary to strengthen control over their subsidiaries and appoint outside directors and outside *kansayaku* of such subsidiaries from the parent company; and others emphasized the independence of subsidiaries from parent companies.

As for “matters related to the employee if *kansayaku* has requested that an employee be appointed to assist with the duties of *kansayaku*”⁸⁸ and “matters related to the independence of the employee under the preceding item from the directors”⁸⁹, descriptions were generally in line with the Companies Act. Many companies made due consideration of their independence in terms of appointment and discharge, performance evaluation, and personnel transfer. Similar explanations were made concerning supervisory committee members of the Companies with Supervisory Committee and audit committee members of the Companies with Three Committees⁹⁰.

In relation to “system for the directors, *shikkoyaku* and the employees to report to the company auditor, and other systems related to reporting to *kansayaku*/Supervisory Committee/Audit Committee”⁹¹ and “other systems to ensure that audits by *kansayaku*/Supervisory Committee/Audit Committee are performed effectively”⁹², companies referred to rules concerning *kansayaku*'s authorities to participate in certain significant meetings, and authorities to review material documents. In addition, there was a case of allowing employees to report directly to *kansayaku*.

Item 4 of the Ordinance for Enforcement of the Companies Act.

⁸⁷ Article 100, Paragraph 1, Item 5; Article 110-4, Paragraph 2, Item 1 and Item 5; and Article 112, Paragraph 2, Item 5 of the Ordinance for Enforcement of the Companies Act.

⁸⁸ Article 100, Paragraph 3, Item 1; Article 110-4, Paragraph 2, Item 1 and Item 7; and Article 112, Paragraph 1, Item 7 of the Ordinance for Enforcement of the Companies Act.

⁸⁹ Article 100, Paragraph 3, Item 2 of the Ordinance for Enforcement of the Companies Act.

⁹⁰ Article 110-4, Paragraph 2, Item 1 and Item 2 and Article 112, Paragraph 1, Item 1 and Item 2 of the Ordinance for Enforcement of the Companies Act.

⁹¹ Article 100, Paragraph 3, Item 4; Article 110-4, Paragraph 2, Item 1 and Item 4; and Article 112, Paragraph 1, Item 4 of the Ordinance for Enforcement of the Companies Act.

⁹² Article 100, Paragraph 3, Item 7; Article 110-4, Paragraph 2, Item 1 and Item 7; and Article 112, Paragraph 1, Item 7 of the Ordinance for Enforcement of the Companies Act.

Chart 133 Basic Views on and State of Internal Control System

		Companies Act	Risk management	Legal compliance	Information management	Ethics	Decision making
		Applicable ratio	Applicable ratio	Applicable ratio	Applicable ratio	Applicable ratio	Applicable ratio
All data		34.9%	83.7%	96.2%	20.1%	55.0%	68.8%
Form of organization	Companies with Kansayaku Board	35.2%	84.1%	96.4%	20.1%	55.6%	70.1%
	Companies with Supervisory Committee	32.9%	82.5%	96.2%	19.8%	53.7%	66.9%
	Companies with Three Committees	47.9%	83.1%	90.1%	21.1%	46.5%	46.5%
Market division	JPX-Nikkei 400	41.1%	83.0%	96.7%	28.3%	63.7%	67.9%
	TSE First Section	37.0%	84.3%	96.9%	22.5%	57.6%	70.2%
	TSE Second Section	31.9%	82.4%	96.3%	16.4%	53.0%	66.7%
	Mothers	29.3%	85.5%	94.5%	16.4%	46.1%	70.3%
	JASDAQ	32.9%	82.2%	94.8%	16.7%	52.0%	65.8%

4-21. Matters concerning development of systems for excluding anti-social forces

The CG Report requires listed companies to describe their approaches to prevent involvement of anti-social forces in business activities or damages caused by such forces; and status of creating an environment for the above prevention, including establishment of a code of ethics, code of conduct, internal regulations, etc. as well as a corporate structure which enables a company-wide response.

Concerning approaches to exclude anti-social forces, companies generally described that they have no relationship with such anti-social forces as corporate extortionists or organized crime syndicates, and stand firmly against them, and 2,400 companies mentioned cooperation with police agencies concerning systems for excluding anti-social forces⁹³. In addition to police agencies, a number of companies referred to the exchange of information with organizations against such special crimes (i.e., crimes against corporations) and consultation with corporate lawyers. Furthermore, development of basic policies and manuals, implementation of employee trainings, and appointment of responsible persons were also mentioned.

⁹³ This figure represents an aggregated total of the companies which mentioned it specifically in this section. There are some other companies, which referred to it in other sections such as “I. Basic Views on Corporate Governance” together with their approaches toward compliance, legal compliance, etc.

5. Dialogue with shareholders

As described below, Chapter 5 of the Code requires the realization of constructive dialogue between shareholders and listed companies.

[General Principle 5]

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.

During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

Meanwhile, up until now the CG Report has required descriptions related to the state of IR activities including the creation and release of a disclosure policy, holding regular briefings for investors, releasing IR materials over a company website, and the establishment of departments (or personnel) related to IR.

In this White Paper, we will analyze such descriptions, as well as the contents of disclosures on policies towards constructive dialogue with shareholders as required under Principle 5.1 of the Code.

5-1. Policy for constructive dialogue with shareholders (Principle 5.1)

Principle 5.1 requires the disclosure of policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders. In addition, Supplementary Principle 5.1.2 stipulates “(i) appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, (ii) measures to ensure positive cooperation between internal departments, (iii) measures to promote opportunities for dialogue aside from individual meetings, (iv) measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board, and (v) measures to control insider information when engaging in dialogue”. As these are efforts that many companies have conducted as part of IR/SR structure development up until now, the compliance rate for this principle is 99.1% (2,597 companies), indicating that almost all companies are in compliance with this principle.

Looking at the contents of descriptions for each item, for “(i) appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place”, a remarkable number of companies mention the appointment of an officer, etc. responsible for IR. The keyword “director responsible for IR/officer responsible for IR” was mentioned by 18.8% (489 companies) of the complying companies. In addition, some companies (14.7%, 382 companies) mentioned “responsible” as a keyword. Some companies also mentioned the specific position such as the manager of the administrative headquarters or CFO as the person responsible for IR. There were also descriptions stating the president was responsible for

oversight. In terms of “(ii) measures to ensure positive cooperation between internal departments”, a remarkable number of companies stated that information was shared with internal departments, centering around the departments responsible for IR. The keyword “sharing (information, etc.)” was mentioned by 26.3% (684 companies). In terms of “(iii) measures to promote opportunities for dialogue aside from individual meetings”, many companies mentioned “(results) briefings” and the “general shareholder meeting”. 59.7% (1,550 companies) mentioned “briefings”, and 19.5% (506 companies) mentioned “general shareholder meeting”. In terms of “(iv) measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board”, it seems that many companies establish opportunities for feedback as necessary rather than regularly. While 24.6% (640 companies) mentioned “as necessary”, 15.9% (413 companies) mentioned “regularly”. In terms of “(v) measures to control insider information when engaging in dialogue”, many companies mention the development and implementation of internal regulations, etc. The keyword “regulations, etc. (rules, regulations)” was mentioned by 39.7% (1,030 companies). 11.9% (310 companies) mentioned a silent period.

[Example 1] is an example in which the basic stance towards dialogue is described, and the five viewpoints required under Supplementary Principle 5.1.2 are clearly described. The basic policies and separate measures as described in an easy-to-understand manner. [Example 2] is an example that includes a statement regarding endeavoring to gain an understanding of shareholder composition as stated in Supplementary Principle 5.1.3 in the basic policies towards dialogue. [Example 3] is an example that clearly states that feedback is provided through means including results briefings to officers, and it also clearly describes the establishment of a silent period for dialogue.

[Example 1]

The Company deems it important to engage in dialogue with shareholders and investors in the interests of sustainable growth and to raise mid to long-term corporate value. Dialogue deepens the understanding of 's corporate policy, business plans and business strategy, enhances management transparency, and promotes revitalization. By providing shareholders with financial information in an easy-to-understand way in a timely, impartial, accurate, and ongoing manner, the Company endeavor to eliminate the "information gap" as much as possible, and earn trust/appropriate evaluations.

- Policy to promote constructive dialogue with shareholders

(1) Designated management team responsible for control

Chief Financial Officer (CFO) is appointed as designated executive responsible for Investor Relations (IR) control (IR Control Manager)

(2) Policy to promote organic cooperation

The Chief Financial Officer and IR Control Personnel cooperate with in-house departments and stakeholders to achieve constructive dialogue.

(3) Dialogue methods other than interviews with individual

In addition to two results briefing session held each year (interim and final), smaller periodic gatherings are held and attended by the CEO and the CFO to promote understanding.

(4) Policy of appropriate and effective feedback for the executive management team and the Board of Directors in response to opinions/concerns of shareholders

The Chief Financial Officer and IR Control Personnel provide feedback of shareholder opinions gained through dialogues with executive management and the Board of Directors as required, and endeavor to share an awareness of challenges.

(5) Policy to control insider information during dialogue

The Chief Financial Officer and IR Control Personnel shall prevent external leaks of insider information by coordinating with the Information Control Manager to thoroughly control information.

(Service industry)

[Example 2]

(Excerpt)

(6) Other activities

The Company performs investigations and other activities in order to identify effective shareholders in addition to registered shareholders. The purpose is to know all shareholders, both registered and effective shareholders, who make investment decisions and voting decisions. Dialogue with these effective shareholders is one of the Company's priorities.

(Electric appliances)

[Example 3]

At the Company, the Investor Relations Division consisting of the President's Office and General Affairs Division PR Group works together with Business Strategies Planning Division, Finance Division, and General Affairs Division Legal Group to engage with stakeholders including shareholders.

In addition to the timely and appropriate disclosure of financial statements, annual securities reports, securities exchange disclosure documents, and important information, etc. to shareholders and investors, the Company is engaged in IR activities that include the release of various information on the Group's management policies, business activities, compliance activities, and social contribution activities through its website as it works to enhance the soundness of management by ensuring the transparency of corporate activities.

In addition, results briefings by the representative director and president and officers responsible for finance for analysts and institutional investors are conducted twice every year, and the results briefing materials are released through our website. In addition, individual briefings and interviews are held as appropriate with analysts, institutional investors, and individual investors.

The results of these results briefings and individual briefings are reported the executive committee (with independent directors also serving as members), and efforts are made to share information with directors and *kansayaku*.

A Disclosure Policy has been prescribed for engagement with shareholders, and it has been released on our website.

For the management of insider information, the Rules on Insider Trading Regulations have been established, education is provided to all employees, and efforts are made to thoroughly enforce information management. In addition, a period of a few weeks until the results announcement has been established as a silent period during which engagement with shareholders and investors, etc. is restricted.

(Construction)

Chart 134 Keywords Related to Policy for Constructive Dialogue with Shareholders Under Supplementary Principle 5.1.2

Item	Number of companies	Applicable ratio	(Reference) Previous total July 2016
Companies complying with Principle 5.1	2,597 companies	100%	-
■Appointing a member of the management or a director who is responsible for overseeing constructive dialogue			
Director/officer responsible for IR	489 companies	18.8%	-
Person responsible for IR	382 companies	14.7%	-
■Measures to ensure positive cooperation between internal departments			
Sharing (information, etc.)	684 companies	26.3%	14.5%
■Opportunities for dialogue aside from individual meetings			
Briefing (financial results briefing, etc.)	1,550 companies	59.7%	55.2%
General shareholder meeting	506 companies	19.5%	16.3%
■Measures to relay shareholder views and concerns to the board, etc.			
As necessary	640 companies	24.6%	16.6%
Regularly	413 companies	15.9%	5.9%
■Measures to control insider information			
Regulations, etc. (rules, regulations)	1,030 companies	39.7%	37.6%
Silent	310 companies	11.9%	12.0%

5-2. Preparation and publication of disclosure policies

1,344 companies (37.4% of all) indicated that they prepared and published disclosure policies as part of IR activities.

In terms of market divisions, the preparation and publication was most common among Mothers companies (63.3%), followed by TSE First Section (44.2%), TSE Second Section (20.7%), and JASDAQ (20.4%). As for JPX-Nikkei 400 companies, 60.9% prepared and published disclosure policies, which is 16.7 points higher than TSE First Section (Chart 135). Looking at the relation with foreign shareholding ratios, the higher the ratio, the more likely the companies are to prepare and publish disclosure policies (Chart 136).

Looking at the descriptions, there were many companies that described their stance including constructive dialogue with shareholders and investors, timely, appropriate, and fair information disclosure, and mutual communication, as well as descriptions on the development of regulations including compliance with the Companies Act, the Financial Instruments and Exchange Act, various laws and regulations, and the regulations

of TSE; the prompt disclosure of information; and posting information on corporate websites. There were also companies that clearly described the establishment of a silent period on the release date of financial results during which no comments regarding the financial results or responses to inquiries would be made in order to prevent the leakage of information that could affect the stock price.

In addition, in response to the introduction of the Fair Disclosure Rule, there were also companies that stated they revised the disclosure policy and prohibited the preferential disclosure of non-disclosed material information and companies describing an awareness of fair disclosure through efforts to disclose information deemed to be useful even if it was not information subject to related laws or regulations or the Timely Disclosure Rules.

Chart 135 Investor Relations (IR) Activities (by Market Division)

	Prepare and publish disclosure policies	Hold for individual investors	Hold for analysts and institutional investors	Hold for overseas investors	Post on website	Establishment of department responsible for IR
Total	37.4%	36.0%	73.6%	17.4%	98.2%	91.2%
JPX-Nikkei 400	60.9%	53.6%	99.5%	62.2%	99.2%	99.0%
TSE First Section	44.2%	40.8%	85.3%	23.3%	99.2%	94.8%
TSE Second Section	20.7%	17.8%	36.6%	4.1%	95.5%	79.8%
Mothers	63.3%	71.9%	96.9%	34.4%	99.2%	96.9%
JASDAQ	20.4%	22.4%	57.9%	3.7%	96.8%	86.7%

Chart 136 Investor Relations (IR) Activities (by Foreign Shareholding Ratio)

	Prepare and publish disclosure policies	Hold for individual investors	Hold for analysts and institutional investors	Hold for overseas investors	Post on website	Establishment of department responsible for IR
Under 10%	31.1%	32.0%	62.1%	8.0%	97.7%	87.8%
10% to under 20%	37.1%	38.1%	84.6%	16.9%	98.6%	95.4%
20% to under 30%	50.6%	41.4%	92.7%	33.4%	99.0%	95.6%
30% or more	58.4%	48.5%	94.6%	52.5%	99.2%	96.5%
Total	37.4%	36.0%	73.6%	17.4%	98.2%	91.2%

5-3. Regular investor briefings

Investor briefings or seminars are an important means for establishing direct contact between listed companies and investors. TSE has required companies listed on Mothers to hold informational sessions on investment twice or more in every year⁹⁴, and thereby contributed to improving their communications with investors.

⁹⁴Rule 421-2 of the Securities Listing Regulations.

(1) For individual investors

Companies which hold regular informational sessions⁹⁵ for individual investors accounted for 36.0% of TSE-listed companies. In 11.7% of these companies, company representatives make presentation.

In terms of market divisions, holding regular informational sessions was most common among Mothers companies (71.9%), followed by TSE First Section companies (40.8%), JASDAQ companies (22.4%), and TSE Second Section companies (17.8%). As for JPX-Nikkei 400 companies, 53.6% held regular informational sessions, which is 12.8 points higher than TSE First Section (Chart 135).

Supplementary explanations were provided by 1,293 companies, and many companies stated that they were conducted regularly. There were also companies that described when informational sessions are held, the number of times they are held, and the venue. In addition, some companies mentioned that they participated in briefing events for individual investor sponsored by securities exchanges or the Securities Analysts Association of Japan. Some companies mentioned that they posted the materials for such briefings on their website in order to disclose information to individual investors that did not participate in briefings from the perspective of fairness. Furthermore, there were companies that described the representative director and president using slides at briefings to provide their own explanations, and the representative director and president providing their own response to questions.

(2) For analysts and institutional investors

Companies which hold regular informational sessions for analysts and institutional investors accounted for 73.6% of TSE-listed companies, and in 18.7% of these companies CEOs make presentations

In analysis by market division, the ratio of companies which hold briefings for analysts and institutional investors is more than 80% for Mothers (96.9%) and TSE First Section (85.3%), which is higher than JASDAQ (57.9%) and TSE Second Section (36.6%). Among JPX-Nikkei 400 companies, nearly all of them (99.5%) hold regular briefings (Chart 135).

2,644 companies provided supplementary explanations. 96 companies mentioned holding informational sessions following the release of financial results and second quarter financial results, and posting the materials for informational sessions on their website. There were also companies that mentioned the timing, location, and number of participants in informational sessions. In addition, there were companies that conducted job site and factory tours, small meetings, and teleconferences.

(3) For foreign investors

Companies which hold regular informational sessions for foreign investors accounted for 17.4% of TSE-listed companies. In 12.3% of these companies, company representatives make presentations.

In analysis by market division, Mothers shows the highest ratio of 34.4%, followed by TSE First Section at 23.3%, TSE Second Section at 4.1%, and JASDAQ at 3.7%. As for JPX-Nikkei 400 companies, 62.2% hold briefings for foreign investors, showing 38.9 points higher than TSE First Section (Chart 135). As for the relation with foreign shareholding ratios, the percentage of companies that hold informational sessions is higher

⁹⁵ “Regular informational sessions” refer to the case where a company holds informational sessions with certain frequency throughout a year (at least once a year).

as the foreign shareholding ratio increases. For companies with a foreign shareholding ratio of 30% or more, 52.5% hold briefings (Chart 136).

624 companies provided supplementary explanations. Many companies stated that executives go abroad to speak at such briefings or individual meetings. Destinations are mainly the US and Europe, but some companies reported that they also held such sessions in Asian countries such as Hong Kong and Singapore. There were also cases of companies mentioning the number of times informational sessions and meetings with investors were held, participation in conferences for overseas institutional investors hosted by securities firms, distributing information with English translations over the website, and arranging visits to overseas factories. Among companies that did not hold informational sessions for overseas investors, there were companies that mentioned it as an issue for future consideration.

5-4. Posting on the company website

The disclosure of IR materials⁹⁶ via company websites is already generally known as a tool for providing information to investors and market participants. The CG Report requires companies to state whether they post IR materials on their own websites and to explain the types of information they post on company websites and their URLs as supplemental explanations on IR activities, if they do post such data.

TSE-listed companies which post IR information on company websites reached 98.2%, and accordingly, this is already considered to be a generally used method (Chart 135).

In terms of the types of IR materials posted on company websites, the majority of companies mention financial results information and other timely disclosure materials, etc. A high percentage of companies mentioned keywords related to financial results, as 56.2% mentioned “earnings reports”, 49.1% mentioned “annual securities reports”, and 18.4% mentioned “convening notice”. There were also descriptions containing instances of corporate governance information, integrated reports, CSR reports, environment reports, intellectual property reports, fact books, and sustainability reports. 177 companies also posted videos.

5-5. Department (or person) responsible for IR

In total, 91.2% of TSE-listed companies mentioned that they have a department responsible for IR activities (including responsible persons). In terms of market division, 96.9% of Mothers-listed companies have such a department. This is only slightly higher than that of TSE First Section at 94.8%, TSE Second Section at 79.8%, and JASDAQ at 86.7%. Furthermore, 99.0% of JPX-Nikkei 400 companies have such a department (Chart 135).

Among the companies which have a department responsible for IR, while the majority have a department solely for the purpose of investor relations, some companies stated that the (management) planning, PR, or financial accounting department had IR functions or operations.

⁹⁶ “IR materials” refer to paper-based documents or electronic files prepared by a company for the purpose of enabling investors, etc. (investors, security analysts, business partners or shareholders) to appropriately understand and evaluate the company’s situations.

[Column 9] Trends related to the cost of capital

One of the main points of the revised Code is management with an awareness of the “cost of capital”, and there seems to be growing interest toward the cost of capital among listed companies. The approach of the cost of capital was added to two principles as a result of the revision of the Code. Specifically, Principle 5.2 requires companies to accurately identify their own cost of capital when setting targets for profitability and capital efficiency. In addition, Principle 1.4 requires companies to examine cross-shareholding from the perspective of the cost of capital when assessing whether or not to hold cross-shareholding.

In the Follow-up Council proposal for the revision of the Code, it was pointed out that many companies are not making management decisions decisively in response to changes in the business environment. For example, it has been pointed out that the reviewing of business portfolios is not necessarily sufficient at Japanese companies, it is believed that behind this background there is an awareness that management still does not adequately recognize a company’s cost of capital.

Furthermore, in regards to cross-shareholdings, while it is believed that there are many cases assuming long-term holding, it has been pointed out this also results in the immobilization of capital entrusted from shareholders and creditors, and that this is inefficient in terms of capital management from the perspective of the cost of capital when capital that is immobilized in the form of cross-shareholdings does not generate value that exceeds the cost of capital.

The cost of capital is generally thought of as the cost for the procurement of funds that appropriately incorporates the risks of one’s own business and the profit rate expected by the provider of such funds. Although this can be expressed through the phrase “cost of capital”, the concept can also be roughly divided into the “weighted average cost of capital (WACC)” and the “cost of shareholders’ capital”, and these terms can then be used depending on the situation. The weighted average cost of capital is the weighted average cost of capital procurement, and is calculated by taking a weighted average of a given company’s cost of debt and cost of shareholders’ capital based on the amount of interest-bearing debt and market capitalization respectively. Although the cost of debt is easy to recognize because it is an accounting expense and a concrete outflow of cash, it is necessary to estimate the cost of shareholders’ capital because it is the conceptual costs of the return shareholders expect from a company. Because it is necessary to make an estimate depending on the circumstances of each listed company and the calculation methods and parameters differs for each institutional investors, investment bank, accounting firm, etc., it is not possible to calculate a single unambiguous figure, which is a factor that has hindered the understanding of managers toward the cost of shareholders’ capital.

Methods to estimate the cost of shareholders’ capital can be roughly divided into two methods for practical purposes. One is the capital asset pricing model (CAPM). The other is the approach of calculating backwards from the stock price and earnings per share. The CAPM is a method in which a discount rate is calculated for the stock valuation at the time of an M&A, etc., and is used in practice by many investment banks, accounting firms, etc. The formula for CAPM is “the cost of shareholders’ capital = $\beta \times$ market risk premium + risk free rate”, and the cost of shareholders’ capital is determined by the levels that used for each parameter (β (sensitivity of the stock price of a given listed company compared to the market average), market risk premium (market average expected return), and risk free rate).

Another method is calculating the cost of shareholders’ capital from the stock yield, obtained by dividing

earnings per share by the stock price. For example, if earnings per share is 100 yen and the stock price is 2,000 yen, the PER would be 20 times and the stock yield would be the inverse of that, or 5%. Assuming that the risk free rate is 0.1%, the cost of shareholders' capital would be 4.9%. This is an approach from the perspective of an institutional investor, and some institutional investors estimate the decline in the cost of shareholders' capital of a company invested as an achievement as a result of engagement by their own company. While there is also the method of direct questionnaires with shareholders in addition to these two approaches above, this method is not commonly used due to the practical issues of costs.

There is also the method of combining these techniques. For example, there are some investment banks, etc. that use CAPM when calculating the cost of shareholders' capital for individual companies, but use the stock yield for TOPIX to calculate the market risk premium that is one of the assumptions of the CAPM. Because it is not possible to calculate a single unambiguous figure due to the nature of the cost of shareholders' capital, there are many cases of companies defining their own approach (for example, assuming a cost of shareholders' capital of 6% during the medium-term management plan) after taking into consideration various estimation methods.

It is important to actually utilize the cost of shareholders' capital that has been estimated in this manner in management. A concrete example would be taking into consideration the cost of capital when setting a hurdle rate used at the time of new business investments (capital expenditure) and revisions to the business portfolio. Although some listed companies release their own cost of capital in medium-term management plans, etc. for use in engagement with shareholders, such cases are very limited. According to a survey⁹⁷ (FY2017) by the Life Insurance Association of Japan, while 32.8% of institutional investors mentioned the cost of capital as an important management indicator, only 0.5% of listed companies released their cost of capital through means such as medium-term management plans. Furthermore, there are very few companies that indicate their actual cost of capital when explaining initiatives in relation to Principle 5.2 in the CG Report. An example of such a disclosure is as follows: "The Company's cost of capital for the FYE March 2018 was ●.●% calculated based on the weighted average cost of capital. The medium to long-term benchmark of ROE was ●.●%. Going forward, the Company will continue to work to improve profits in an aim to generate high added value that exceeds the cost of capital and improve corporate value."

It is hoped that the recent revision of the Code is used as an opportunity to really spread management with an awareness of the cost of capital at listed companies and that there are changes in the approach to engagement with shareholders.

⁹⁷ FY2017 Life Insurance Association of Japan, "Efforts to Improve Stock Value"

Prospective Challenges – Concluding Remarks

This is the second edition of the White Paper on Corporate Governance since the application of the Corporate Governance Code (below, the “Code”) in 2015. This Report summarizes a careful analysis on the status of response by listed companies to the Code and the status of progress since the previous survey, including changes to the contents of disclosures. In addition, because the Code was revised in June 2018, it also includes the status of response by listed companies to the revised and newly established principles as of the end of December 2018.

The revisions to the Code were made with the aim of advancing corporate governance reform efforts from “form” to “substance”. Measures in terms of the form can be clarified through totals such as the ones introduced in this White Paper, and in fact, it can be said that steady progress is being made by Japanese companies to enhance corporate governance in this sense. On the one hand, for listed companies to achieve reforms in “substance” that can lead to sustainable growth and improvements in medium to long-term corporate value, it is essential for listed companies to work to improve governance through voluntary efforts and strengthen governance through engagement with investors.

This White Paper shows actual examples of disclosures and an analysis of keywords in disclosures in addition to statistical data, and we hope that this information can serve as cues and materials for dialogue between listed companies and shareholders and investors, as well as a reference point for listed companies when they consider their own efforts.

In an effort to improve the medium to long-term corporate value of listed companies and improve the appeal of the Japanese market to investors going forward, the Tokyo Stock Exchange will actively work in an ongoing manner to improve the effectiveness of corporate governance and develop an environment which facilitates constructive engagement between listed companies and investors. It would be a great pleasure if this White Paper could in some way be helpful for listed companies and stakeholders including investors in enhancing corporate governance and contribute to the advancement of corporate governance in Japan.