



TSE-Listed Companies
White Paper of
Corporate Governance
2007

Tokyo Stock Exchange, Inc.



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March,2007
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Introduction

More than ever before, society demands that listed companies behave in a socially responsible manner with respect for the rights of shareholders and investors. They have been compelled to do so by recent company law reforms giving flexibility in corporate conducts, a climate of active M&A activity, and loss of confidence in disclosure in the wake of ongoing corporate scandals. Investors and other market participants increasingly expect listed companies to fulfill their disclosure obligations and to manage with high levels of integrity and efficiency.

The primary responsibility of stock exchanges is to ensure that all listed companies comply with the minimum qualification for the maintenance of their listings. Stock exchanges also bear a responsibility somewhat different than this requirement. They operate from positions that enable them to seek wide-scale comments on the expectations and behaviors of listed companies. The conclusions that stock exchanges reach through deliberation and discussion of these matters should be accepted and applied consistently, as a means of heightening the commitment of companies to the operations they are purported to implement. Thus, stock exchanges have the obligation to call for improvements based on their conclusions and to develop an environment for facilitating improvements by providing standards for necessary issues. The widespread application of better practices for listed companies is required more than ever in corporate governance.

The Tokyo Stock Exchange (the "Exchange" or "TSE") has been functioning, in its capacity as a market operator, to provide proactive support for improved corporate governance for listed companies. In response to increasing expectations of the market, the Exchange decided to require every listed company to prepare a report on corporate governance (the "Report"). Since reaching this decision in June 2006, the Exchange has disclosed the descriptions in the Reports via its homepage. In practice, the Exchange has developed a standardized format to ensure the consistency of the data. This format has been designed to enable listed companies to describe their activities for each theme related to corporate governance and to allow them to select relevant issues and attributes by checking applicable items with a principle focus on the corporate governance measures generally applied by individual listed companies.

This plan has been implemented as a way to provide investors with information in comparable forms. In keeping with these initiatives, the Exchange has decided to comprehensively analyze the present conditions of corporate governance of TSE-Listed Companies on the basis of data available in the Reports, with a view to clarifying the efforts of TSE-Listed Companies to implement and reinforce corporate governance from diversified perspectives.

The Exchange conducted a survey on the actual implementation of corporate governance of the TSE-Listed Companies by questionnaire (so far four surveys have been conducted, once on a bi-yearly basis). With only 60 to 70% of the targeted companies responding. Thus, the Exchange could not accurately understand the actual implementation of corporate governance by the TSE-Listed Companies. Hence, the analysis contained in the White Paper of Corporate Governance (the "White Paper") is the first attempt to analyze data of all TSE-Listed Companies in relation to corporate governance. The Exchange strongly expects that with this analysis both investors and listed companies can reaffirm their commitment to corporate governance and provide momentum behind the efforts to promote improved corporate gover-



nance.

The system introduced last year to make the Reports publicly available can be viewed as the Exchange's first step in fulfilling its obligation as a market operator to improve the environment for the corporate governance of listed companies. As the mechanisms for information disclosure for corporate governance improve and information becomes more comparable for investors, investors and others will be watching more closely than ever to ensure that listed companies are implementing corporate governance. Conversely, any listed company that has established a system for better corporate governance is likely to be highly evaluated by shareholders and investors. In this respect, listed companies are expected to take advantage of the Reports as an opportunity to present the corporate philosophies of their management, and to use the Reports as tools to fulfill public accountability. A balance must be attained between them.

Finally, we would like to acknowledge the great assistance rendered by the Japan Investors Relations and Investor Support, Inc. for the preparation of White Paper, particularly to extract data from the Reports and prepare attachment data.

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Analysis Targets

This analysis has utilized data contained in the Reports of all the domestic companies¹ listed on the Exchange (the "TSE-Listed Companies") as of the end of October 2006. Chart 1 shows the number of listed companies (classified by market section) included in the analysis.

Chart 1 Market Section

Market	Number of companies	%
TSE First Section	1687	71.6
TSE Second Section	495	21.0
TSE Mothers	174	7.4
Total	2356	100.0

Methodology for the Analysis

The format for the Report to be filed with the Exchange has been standardized using Excel. The data stored in Excel is converted into PDF files for public disclosure on the Exchange homepage. The Exchange used the data in Excel for its analysis of the Reports before converting the data into PDF.

This Paper has basically been structured by Chapter corresponding to topics in the Report, with necessary data extracted from such corresponding topical sections in the Report. Each piece of data has been classified by capital structure or corporate attributes, in order to present the characteristics of the data in an easily understandable manner. The data have been analyzed comparatively in the aggregation of data by attribute. Charts have been provided to show the overall trends of the TSE-Listed Companies, as well as to list the numbers relevant to two categories of TSE-Listed Companies, i.e., those with a corporate auditor system and those with a committee system.

The Exchange has decided to show the classification and aggregation of numerical data as percentages (first decimal place) by dividing the number of companies that responded to relevant items by the total number of companies in the category of the respondent companies on the basis of quantified data in the Report. The data on the directors and officers are based on numbers extracted from the Report and are expressed as numbers of persons (second decimal place).²

To analyze the overall trends with respect to the voluntary descriptive items apart from the selective basis items, the Exchange has defined several key terms with respect to the directions to be followed in corporate governance, and aggregated descriptions which contain any of such keywords by applying the above approach.

¹ As of the end of October 2006, those companies which have listed their foreign stock certificates, foreign stock depository receipts or preferred equity securities have been exempted from the requirement of the Listing Rules to file the Report. Therefore, they have not been included in the analysis. However, in accordance with the revisions of the rules taking put into effect on December 1, 2006 (revision of a part of security listing regulations in line with the improvement of the listing system on the basis of the listing system comprehensive improvement program), these companies (excluding companies with foreign stocks or foreign stock depository receipts listed on any principal market other than the Exchange) were required to submit the Report by the end of March.

² For "Reasons for Selecting Outside Directors," the ratio to the total number of outside directors is shown. For "Certification of Shareholders' Meeting Avoiding a Concentrated Date for Shareholders Meetings," the ratio to the total number of companies with a balance sheet date set for the end of March is shown. For "Description as to Strategies for Takeover Defense Measure," the ratio to the companies adopting strategies for takeover defense measures is shown.

Underlying Concept of Corporate Governance

Before the Report system commenced, in the context of the underlying concept of corporate governance, the Exchange required listed companies to describe both their basic policies for implementing corporate governance and the priority they placed on corporate governance in light of their current objectives and management issues in their earnings digests. Very few of the disclosures, however, addressed the importance of management surveillance or included any descriptions of the positioning of stakeholders, even the shareholders who play central a role in governance. As a result, shareholders and investors could not easily ascertain what their position was in the company. Hence, the Exchange has added several items³ in the Report to ensure that listed companies will affirm awareness of the purpose of corporate governance for the companies.

Analyzing the contents of the Report, 48.2% - almost half of the companies - describe "corporate value" as the fundamental policy in relation to the corporate efforts to implement corporate governance and as the purpose of corporate governance. As (consolidated) net sales or foreign shareholdings⁴ increase, the percentage tends to increase commensurately. Discussions on the adoption and implementation of strategies for takeover defense have been more active in recent years, and in this situation, the term "corporate value" has been widely used as an important keyword.

"Surveillance" or "supervision" is cited by 42.9% of all companies from the perspective of the management surveillance function, including 78.0% of companies with a committee system. "Execution" is mentioned by 44.5% of companies overall, including 81.4% of the companies with a committee system. Further improvement of surveillance in the execution of business is expected.

"Stakeholders"⁵ are cited by 56% - the majority of the companies - as an integral part of corporate value. In implementing corporate governance, the companies are aware that it will be essential to fulfill obligations to interested parties in the broad context of not only shareholders, but also employees, customers, business partners (including creditors) and consumers, as well as regions and communities. Good, long-standing relationships with these parties will be indispensable. This direction has been evidenced by more attention to corporate social responsibility, or CSR, with 26.4% of companies citing "social responsibility."⁶ The Reports can be characterized as corporate initiatives to establish fundamental company policies with an emphasis on activities in consideration of social responsibility.

In Japan, on the other hand, active discussions on corporate governance have been provoked by

³ These are items in the Report for which fundamental policies (rationale for the policies) on the initiatives on the corporate governance and the purpose of corporate governance are described concretely. In addition, companies are required to describe the positioning of their shareholders and other stakeholders (all the interested parties related to the companies, including shareholders, employees, consumers, etc.), their management surveillance function, and the concept of the group as a whole.

⁴ This means shares held by corporations founded under any foreign law or non-Japanese individual investors (in accordance with the definitions contained in the securities report) as the percentage of outstanding shares issued.

⁵ With respect to the item "stakeholders," any company using any one of the following keywords is included: "stakeholder," "employee," "region and community," "interested party," "customer," "creditor," "any parties involved in transaction," or "residents in the region."

⁶ With respect to the item "social responsibility," any company using any one of the following keywords is included: "CSR," "social responsibility," "responsibility for society," or "corporate ethics."

attempts to prevent corporate scandal. Given that 41.3% of companies mention "compliance with laws and regulations,"⁷ we know that many companies have focused their attention on compliance. This is evidence that the whole of society and all the people of the nation expect companies to consider social responsibility and shoulder the commitment to conduct business in compliance with laws and regulations.

In relation to these themes, 18.8% of the companies mention "internal control," an issue which has grown more important in the context of the Company Law or Financial Instruments and Exchange Law.

Amidst calls for more corporate accountability to inform the public of the management surveillance process, a higher ratio of companies, 68.8%, describe "transparency" as a central issue of corporate management as a whole. This implies that transparency has grown to be an important concept for management.

Chart 2 Underlying Concept of Corporate Governance

		Corporate value	Shareholders' value	Surveillance or supervision	Execution	Decision making	Internal control
		%	%	%	%	%	%
Total data		48.2	6.5	42.9	44.5	43.2	18.8
Management structure	Companies with a corporate auditor system	48.4	6.3	42.0	43.5	43.0	18.9
	Companies with a committee system	42.4	16.9	78.0	81.4	52.5	15.3

		Stakeholder	Social responsibility	Compliance	Transparency	Efficiency	Soundness
		%	%	%	%	%	%
Total data		56.0	26.4	41.3	68.8	19.0	21.3
Management structure	Companies with a corporate auditor system	56.2	26.3	41.5	68.6	19.0	21.7
	Companies with a committee system	49.2	28.8	32.2	78.0	20.3	6.8

⁷ With respect to the term "compliance with laws and regulations," any company using any one of the following key-words is included: "compliance with laws and regulations," "observance of laws and regulations" and "compliance."

Capital Structure, Corporate Attributes, and Other Fundamental Information

1. Capital Structure⁸

(1) Foreign shareholding ratio

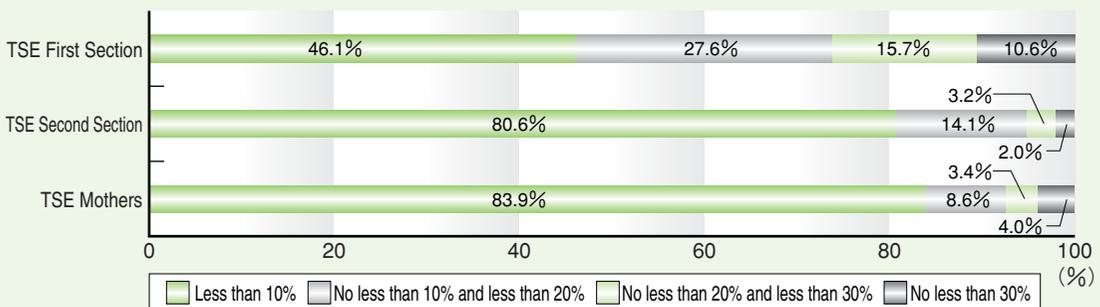
Chart 3 shows the classification by foreign shareholding ratio. 10.2% of companies with a foreign shareholding ratio of 30% or more adopt a committee system. The percentage of companies with a committee system tends to increase as this ratio gets higher.

Chart 3 Classification by Foreign Shareholding Ratio

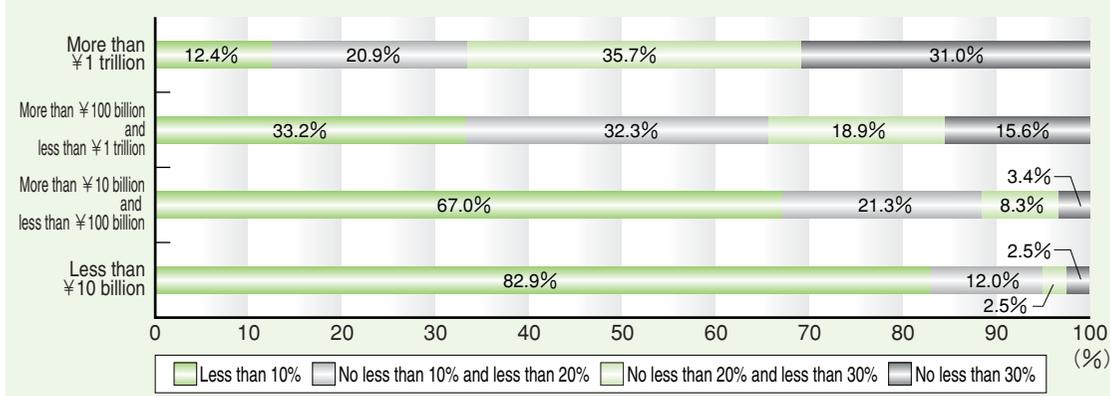
	Companies with a corporate auditor system		Companies with a committee system		Total
	Number of companies	%	Number of companies	%	Number of companies
Less than 10%	1308	98.9	14	1.1	1322
More than 10% to less than 20%	538	97.6	13	2.4	551
More than 20% to less than 30%	275	95.8	12	4.2	287
More than 30%	176	89.8	20	10.2	196
Total	2297	97.5	59	2.5	2356

In the context of market section, more companies with a high foreign shareholding ratio (10.6% with a foreign shareholding ratio of 30% or more) are listed on the First Section of the Exchange compared with on the Second Section and Mothers. In the context of (consolidated) net sales, Chart 5 reveals that the foreign shareholding ratio tends to be higher for companies with greater (consolidated) net sales, and accordingly for companies of larger size.

Chart 4 Classification by Foreign Shareholding Ratio (Market Section)



⁸ The Report basically requires the description of conditions existing as of the end of the immediately preceding fiscal year.

Chart 5 Classification by Foreign Shareholding Ratio ((Consolidated) Net Sales)


(2) Shareholding conditions of major shareholders⁹

Chart 6 shows the classification based on the shareholding conditions of major shareholders. Companies whose largest shareholder owns 50% or more of outstanding shares are more likely to adopt a committee system (8.2%). This is partly because certain group of companies in entirety has restructured themselves into companies adopting the committee system.

Chart 6 Classification based on the Shareholding Conditions of Major Shareholders

Percentage held by largest shareholder	Companies with a corporate auditor system		Companies with a committee system		All Number of companies
	Number of companies	%	Number of companies	%	
More than 0% and less than 5%	138	99.3	1	0.7	139
More than 5% and less than 10%	694	98.0	14	2.0	708
More than 10% and less than 20%	591	99.0	6	1.0	597
More than 20% and less than 33.33%	423	97.9	9	2.1	432
More than 33.33% and less than 50%	239	96.0	10	4.0	249
More than 50%	212	91.8	19	8.2	231
Overall	2297	97.5	59	2.5	2356

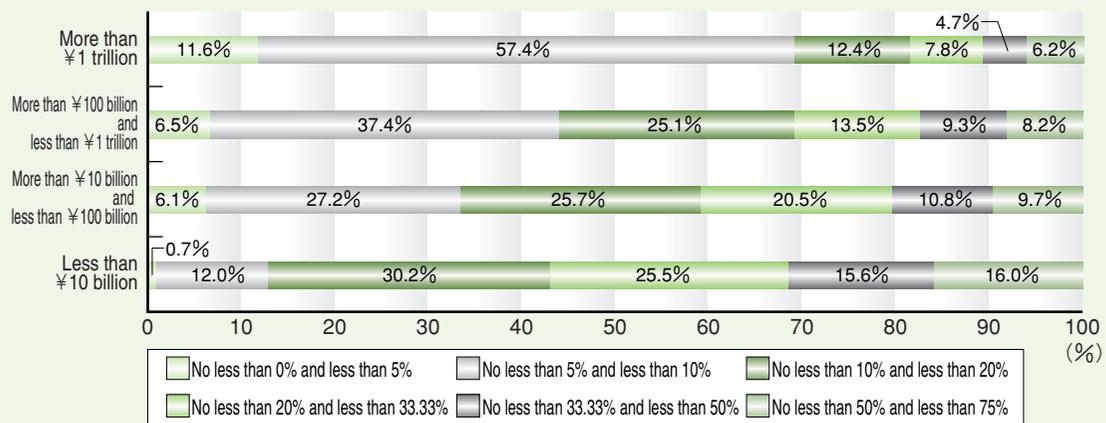
According to Chart 7, the percentage holdings of the largest shareholders of the companies listed on the First Section of the Exchange tend to be lower than the percentage shareholdings of the largest shareholders of companies listed on other sections. According to Chart 8, the percentage holdings of the largest shareholders of companies with greater (consolidated) net sales also tend to be lower.

⁹ For the Report, this corresponds to the item in a securities report for which the description of "major shareholders" is required based on the descriptions contained in the list of shareholders.

Chart 7 Classification based on the Shareholding conditions of Major Shareholders (Market Division)



Chart 8 Classification based on the Shareholding Conditions of Major Shareholders ((Consolidated) Net Sales)



2. Corporate Attributes¹⁰

(1) Listed exchange and market section

The number and percentage of companies listed on the Exchange are as discussed above (Chart 1). On the other hand, 865 companies, 36.7% of the total, have a dual listing on other domestic markets, as shown in Chart 9. All of the Mothers-listed companies have single listings, versus 80.6% and 54.4% of the companies listed on the Second Section and the First Section, respectively, have dual listings. Most of the companies with dual listings, 618 (26.2% of the total) of the TSE-Listed Companies, are listed on the First Section of the Osaka Securities Exchange. This is followed by the First Section of the Nagoya

¹⁰ The Report requires the description of conditions existing as of the end of the immediately preceding fiscal year.

Stock Exchange, with 237 companies (10.1% of the total).

Chart 9 Classification by Listed Exchange and Market Section

	TSE First Section		TSE Second Section		TSE Mothers		Total	
	Number of companies	%						
Single listing	918	54.4	399	80.6	174	100.0	1491	63.3
Dual listing	769	45.6	96	19.4	0	0.0	865	36.7
OSE First Section	617	36.6	1	0.2	0	0.0	618	26.2
OSE Second Section	2	0.1	47	9.5	0	0.0	49	2.1
OSE Hercules	2	0.1	2	0.4	0	0.0	4	0.2
NSE First Section	237	14.0	0	0.0	0	0.0	237	10.1
NSE Second Section	0	0.0	32	6.5	0	0.0	32	1.4
SSE	59	3.5	5	1.0	0	0.0	64	2.7
FSE	87	5.2	6	1.2	0	0.0	93	3.9
Jasdaq	4	0.2	7	1.4	0	0.0	11	0.5
Total of the companies listed on the TSE	1687	100.0	495	100.0	174	100.0	2356	100.0

(2) Balance sheet date

Chart 10 shows the classification based on balance sheet dates. The last day of March is set as the balance sheet date in 76.4% of the companies listed on the Exchange.

These companies account for 80.7% of the companies listed on the First Section of the Exchange and 74.3% of the companies listed on the Second Section of the Exchange. In contrast, only 41.4% of companies listed on Mothers close their accounts at the end of March. The Mothers-listed companies adopt diversified balance sheet dates, such as the end of December (14.9%) and end of September (10.9%).

Chart 10 Classification by Balance Sheet Date

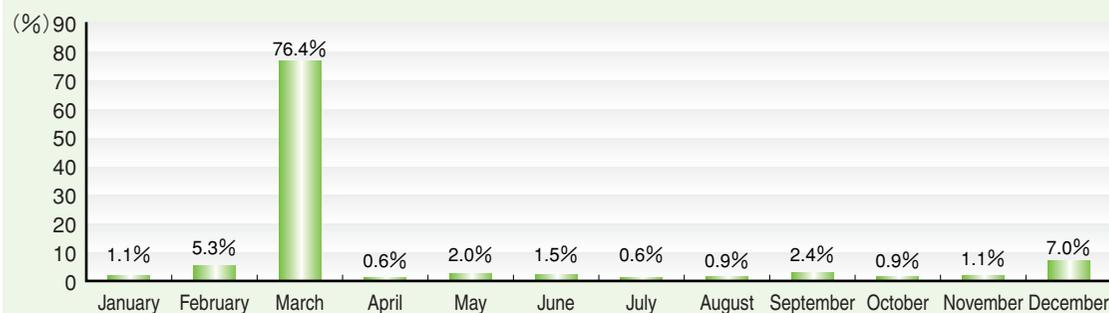
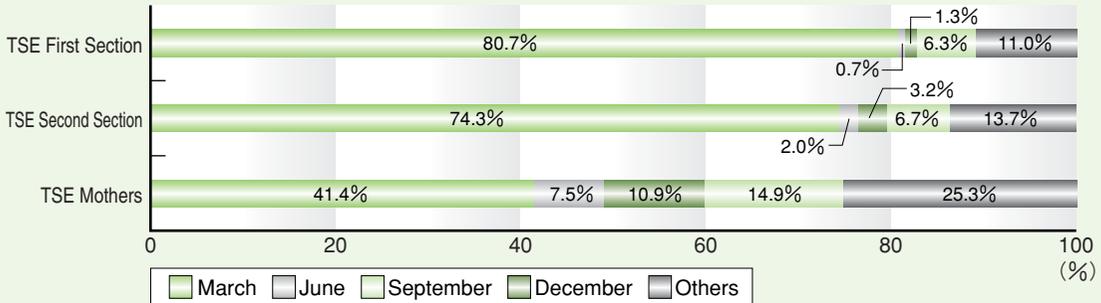


Chart 11 Classification by Balance Sheet Date (Market Section)



(3) Industry category

Chart 12 shows the classifications by industry category. The ratio of transfer to a committee system is higher in the pharmaceuticals, electrical appliances, and securities and commodity futures industries.

Chart 12 Classification by Industry Category

Category	Company with a corporate auditor system		Company with a committee system		Total
	Number of companies	%	Number of companies	%	Number of companies
Fishery, agriculture and forestry	6	100.0	0	0.0	6
Mining	6	100.0	0	0.0	6
Construction	132	99.2	1	0.8	133
Foods	105	100.0	0	0.0	105
Textiles and Apparel	62	100.0	0	0.0	62
Pulp and paper	18	100.0	0	0.0	18
Chemicals	148	98.7	2	1.3	150
Pharmaceuticals	35	87.5	5	12.5	40
Oil and coal products	14	100.0	0	0.0	14
Rubber products	17	100.0	0	0.0	17
Glass and ceramics	38	100.0	0	0.0	38
Steel products	41	95.3	2	4.7	43
Nonferrous metals	36	97.3	1	2.7	37
Metal products	54	98.2	1	1.8	55
Machinery	159	97.5	4	2.5	163
Electrical machinery	197	93.4	14	6.6	211
Transport equipment	80	98.8	1	1.2	81
Precision instruments	34	97.1	1	2.9	35
Other products	62	98.4	1	1.6	63
Electric power and gas	24	100.0	0	0.0	24
Land transport	39	97.5	1	2.5	40

Category	Company with a corporate auditor system		Company with a committee system		Total
	Number of companies	%	Number of companies	%	Number of companies
Marine transport	14	100.0	0	0.0	14
Air transport	6	100.0	0	0.0	6
Warehousing and harbor transport services	31	100.0	0	0.0	31
Communications	155	97.5	4	2.5	159
Wholesale	191	98.5	3	1.5	194
Retail	192	98.0	4	2.0	196
Banks	83	96.5	3	3.5	86
Securities and commodity futures	17	77.3	5	22.7	22
Insurance	8	88.9	1	11.1	9
Miscellaneous finance	39	95.1	2	4.9	41
Real estate	73	97.3	2	2.7	75
Services	181	99.5	1	0.5	182

(4) **Number of employees¹¹**

Chart 13 shows the classification by the number of employees. More of the larger companies tend to select the committee system. While 3.7% of companies employing 1,000 or more personnel adopt the committee system, only 1% of companies employing less than 1,000 personnel have restructured themselves into companies adopting the committee system.

Chart 13 Classification by (Consolidated) Number of Employees

Number of Employees	Company with a corporate auditor system		Company with a committee system		Total
	Number of companies	%	Number of companies	%	Number of companies
Less than 100	129	98.5	2	1.5	131
More than 100 and less than 500	478	99.2	4	0.8	482
More than 500 and less than 1000	454	98.7	6	1.3	460
More than 1000	1236	96.3	47	3.7	1283

(5) **Net sales¹²**

Chart 14 shows the classification by net sales.

¹¹ The Report requires companies preparing consolidated financial statements to make their descriptions on a consolidated basis.

¹² The Report requires companies preparing consolidated financial statements to make the descriptions on a consolidated basis using the annual net sales of the immediately preceding fiscal year as control.

Chart 14 Classification by (Consolidated) Net Sales

(Consolidated) net sales	Company with a corporate auditor system		Company with a committee system		Total
	Number of companies	%	Number of companies	%	Number of companies
Less than ¥10 billion	274	99.6	1	0.4	275
More than ¥10 billion and less than ¥100 billion	1249	98.3	22	1.7	1271
More than ¥100 billion and less than ¥1 trillion	653	95.9	28	4.1	681
More than ¥1 trillion	121	93.8	8	6.2	129

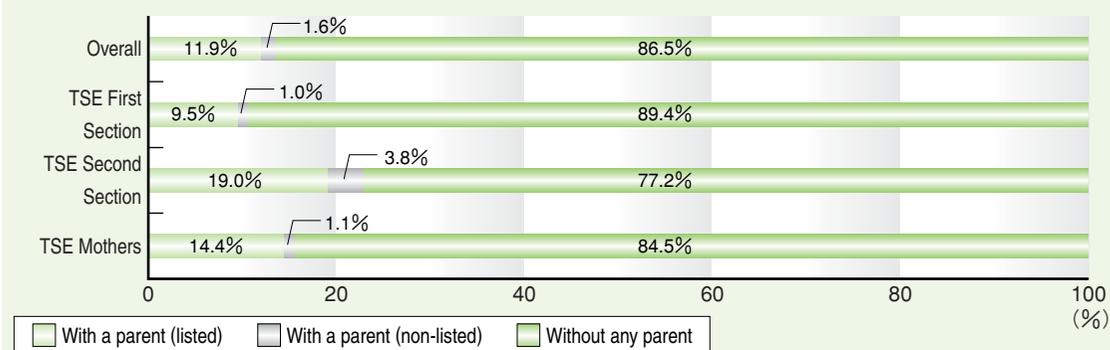
(6) Existence of parent company¹³

In total, 13.5% of TSE-Listed Companies have parent companies, of which 88.1% (11.9% of the total companies) are listed. The rationale for many parent listings may relate to the Criteria for the Examination of Listing of a Security set forth by the Exchange. These criteria include ¹⁴ the requirement for the listing of the stock certificates issued by their parent companies on a domestic exchange (or the requirement to assure implementation of disclosure similar to that for listed companies).

Only a small percentage of companies listed on the First Section of the Exchange, 10.6%, have parent companies. The percentages are higher for companies listed on the Second Section of the Exchange (22.8%) and Mothers (15.5%)

Looking at companies whose largest shareholder owns 50% or more of outstanding shares, 86.1% have parent companies and 13.9% do not. This indicates that there are relatively few controlling shareholders other than companies (generally individuals). Basically, out of the Mothers-listed companies whose largest shareholders hold 50% or more of outstanding shares, 55% do not have any parent. This is extremely high versus the corresponding figures for the First Section (6.1%) and Second Section (1.4%). With respect to start-ups or emerging companies that list on Mothers, individuals such as company founders are often the controlling shareholders.

Chart 15 Classification based on Existence of a Parent Company



¹³ This refers to the parent company defined in Article 8, Paragraph 3 of the Rules Concerning the Terms and Format Used in Financial Statements and the Methods for Preparing Financial Statements.

¹⁴ Section 1.(2)d(d) of Interpretation for Examination Criteria for Security Listings

(7) Number of consolidated subsidiaries

Chart 16 shows the classification based on the number of consolidated subsidiaries.

Chart 16 Classification based on the Number of Consolidated Subsidiaries

Number of consolidated subsidiaries	Company with a corporate auditor system		Company with a committee system		Total
	Number of companies	%	Number of companies	%	Number of companies
Less than 10	1361	98.2	25	1.8	1386
More than 10 and less than 50	757	97.6	19	2.4	776
More than 50 and less than 100	101	94.4	6	5.6	107
More than 100 and less than 300	63	91.3	6	8.7	69
More than 300	15	83.3	3	16.7	18

3 . Other Special Conditions with Potentially Significant Effects on Corporate Governance

The Report requires a voluntary description of other conditions as "Other Special Conditions with Potentially Significant Effects on Corporate Governance." The Guidelines for the "Corporate Governance Report,"¹⁵ (the "Guidelines for Report") require that companies describe (1) the concept and measures in relation to the independence from the parent if the company has a parent, and (2) the concept and measures for the independence of the subsidiary if the company has any listed subsidiary. Many companies with parents have made descriptions in relation to the above.

In fact, 76.5% of the companies with a parent have offered relevant descriptions on "parent companies" in this section, while 50.6% have offered descriptions on "independence". In addition, 22.6% of all of TSE-Listed Companies have referred to any keyword¹⁶ in relation to a corporate group.

¹⁵ Visit TSE homepage <http://www.tse.or.jp/rules/cg/index.html> (in Japanese) after April 2007

¹⁶ Keyword "in relation to a corporate group" includes: "listed subsidiary," "parent company," "corporate group," "associated company," "affiliated company," or "major shareholders."

Conditions of Corporate Governance

The Report has provided sections for describing the structure of the governing body and organizational management. Some of the sections provided call for descriptions of issues in relation to statutory auditors (in the case of companies with a corporate auditor system) and in relation to executive officers and various statutory committees (in the case of companies with a committee system), in addition to the descriptions required in the section for directors. As the decision-making process and supervision/auditing function for the execution of business may vary in companies with different organizational structures, the descriptions on the basis of such organizational structures are certain to provide useful information for investment decision-making from the perspective of checking corporate governance conditions.

1. Organizational structure

The organizational structures of the companies filing corporate governance report are shown in Chart 17. Only 2.5% of TSE-Listed Companies adopt a committee system. All of the others, 97.5%, adopt a corporate auditor system.

Chart 17 Organizational structure of TSE-Listed Companies

Organizational structure	TSE First Section		TSE Second Section		TSE Mothers		Total	
	Number of companies	%						
Companies with a corporate auditor system	1637	97.0	488	98.6	172	98.9	2297	97.5
Companies with a committee system	50	3.0	7	1.4	2	1.1	59	2.5
Overall	1687	100.0	495	100.0	174	100.0	2356	100.0

When compared on a section by section basis, slightly more companies listed on the TSE First Section have opted to adopt a committee system (3.0%). Companies with a larger (consolidated) number of employees (Chart 13), larger (consolidated) net sales (Chart 14), and a larger number of consolidated subsidiaries, (i.e., larger size companies) all tend to be more likely to adopt a committee system.

2. Directors and the Board of Directors

(1) Chairperson of Board of Director meetings

For the purpose of the Report, companies are required to indicate whether the capacity of chairperson at Board of Director meetings is provided for, and to indicate the attributes thereof by checking any relevant items from among the following: (1) president, (2) chairman (excluding cases where the chairman also holds office as president; the same applies hereinafter), (3) representative directors other than the chairman and president, (4) outside directors, or (5) other directors. All TSE-Listed Companies have established the capacity of the chairperson at their Board of Directors' meetings.

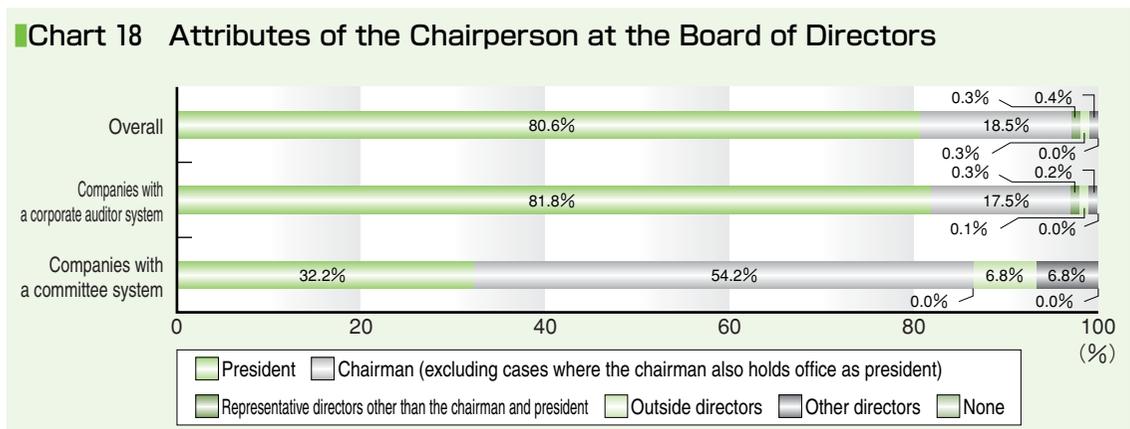
With respect to the attributes of the chairperson at Board of Director meetings, the percentage of companies where the president served in such capacity is the largest, accounting for 80.6% of all TSE-Listed Companies,

followed by 18.5% of chairman serving as the chairperson at Board of Director meetings. Either the president or chairman presides as the chairperson at the Board of Directors' meetings of almost all of the companies (99.1%).

In the analysis by market section, the president presides as the chairperson at Board of Directors meetings in 75.7% of the companies listed on the First Section of the Exchange (the chairman presides as chairperson in 23.1% of such companies), 91.7% (8.3%) of the companies listed on the Second Section, and 96.6% (2.3%) of the companies listed on Mothers.

As the (consolidated) number of employees, (consolidated) net sales, and number of consolidated subsidiaries grow, (i.e., as the company grows), the ratio of presidents presiding as chairpersons at Board of Directors' meetings tends to decrease and the ratio of the chairman presiding as chairperson increases.

Comparing Board of Director meeting chairperson attributes between companies with a corporate auditor system and companies with a committee system, the presidents and chairmen preside as chairperson in 81.8% and 17.5% of the companies with a corporate auditor system, respectively, and in 32.2% and 54.2% of the companies with a committee system, respectively. This means that in the case of companies with a committee system chairmen are more likely to preside over the meetings of the Board of Directors.



(2) Number of directors

The average number of directors per company for all TSE-Listed Companies is 8.99. Looking at each respective market, the number is 9.66 for the companies listed on the First Section of the Exchange versus 7.91 for those listed on the Second Section.

The companies with a larger (consolidated) number of employees, larger (consolidated) net sales, and a larger number of consolidated subsidiaries, (i.e., the larger companies) are clearly managed by a larger number of directors per company.

Chart 19 Number of Directors (Market Section)

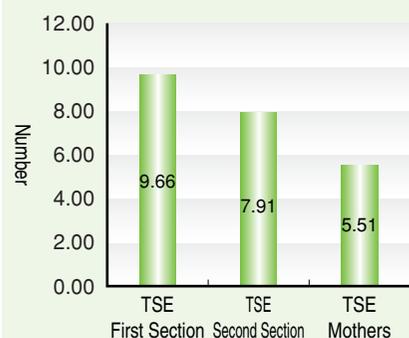


Chart 20 Number of Directors (Number of Consolidated Subsidiaries)

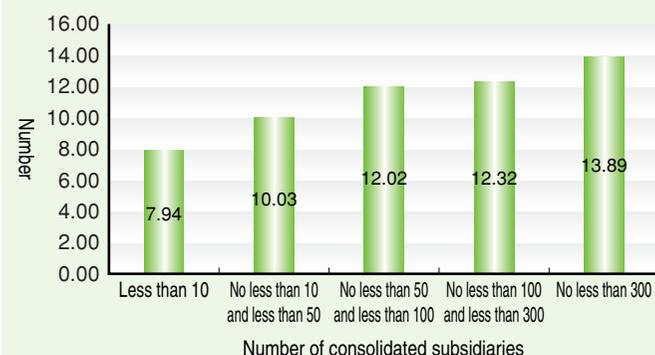


Chart 21 Number of Directors ((Consolidated) Number of Employees)

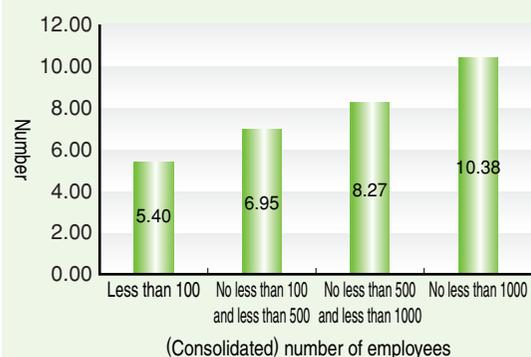
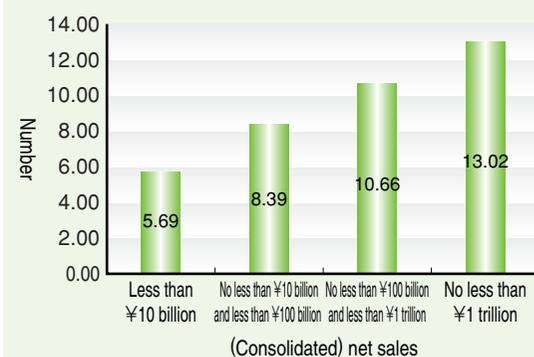


Chart 22 Number of Directors ((Consolidated) Net Sales)



With respect to classification by foreign shareholding ratio, as the shareholding ratio rises, the number of directors grows. This may be because larger companies have relatively larger foreign shareholding ratios. (See II 1.(1) "Foreign shareholding ratio.")

On the other hand, the number of directors tends to be larger as the shareholding ratio by the largest shareholder decreases. This may be because the shareholding by the top shareholder decreases when the company grows. (See II 1.(2) "Shareholding conditions of major shareholders.")

(3) Election of outside directors

(a) Election of outside directors and numbers elected

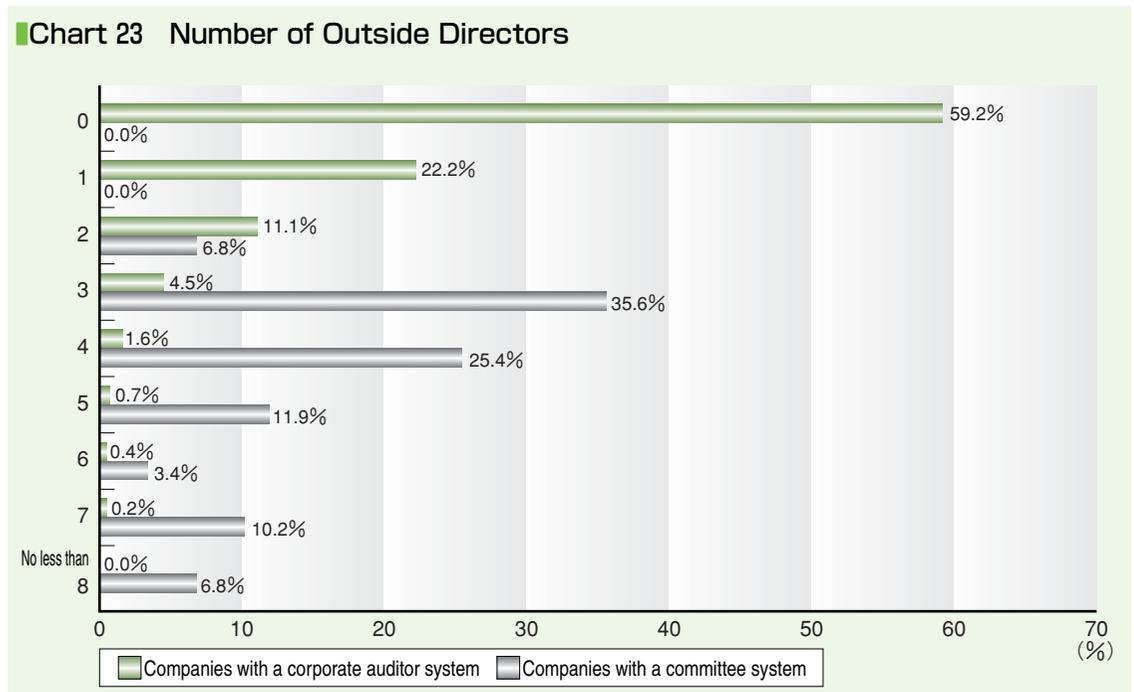
(i) Overview

In total, 42.3% of TSE-Listed Companies elect outside directors (57.7% do not elect any outside directors). These companies account for 40.8% of the companies adopting the corporate auditor system

(59.2% do not). (The Company Law requires any company with a committee system to appoint outside directors (Article 400, Paragraph 3 of the Company Law).)

The average number of outside directors per company listed on the Exchange is 0.81 (1.91 of companies that elect outside directors). The average number for companies adopting the corporate auditor system is 0.72 per company (1.76 of companies that elect outside directors), while that for companies adopting the committee system is 4.37.

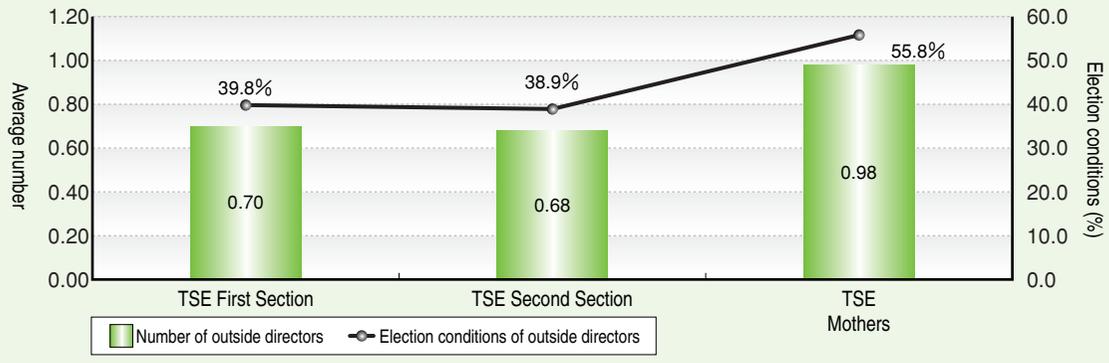
Chart 23 indicates the number of outside directors elected by companies adopting the corporate auditor system and those adopting the committee system. In total, 18.5% of companies with a corporate auditor system (45.5% of companies that have adopted the corporate auditor system and elected outside directors) have elected more than two outside directors.



(ii) Relationship with market section

When looking at individual market sections, 41.6% of companies listed on the TSE First Section have elected outside directors (39.8% of companies with a corporate auditor system), and the average number per company is 0.81 (0.70). On the other hand, 56.3% of companies listed on Mothers (55.8% of companies with a corporate auditor system) have elected outside directors, and the average number is 1.03 (0.98). Those listed on Mothers tend to elect more outside directors.

Chart 24 Election of Outside Directors and Numbers Elected (Company with a Corporate Auditor System; Market Section)

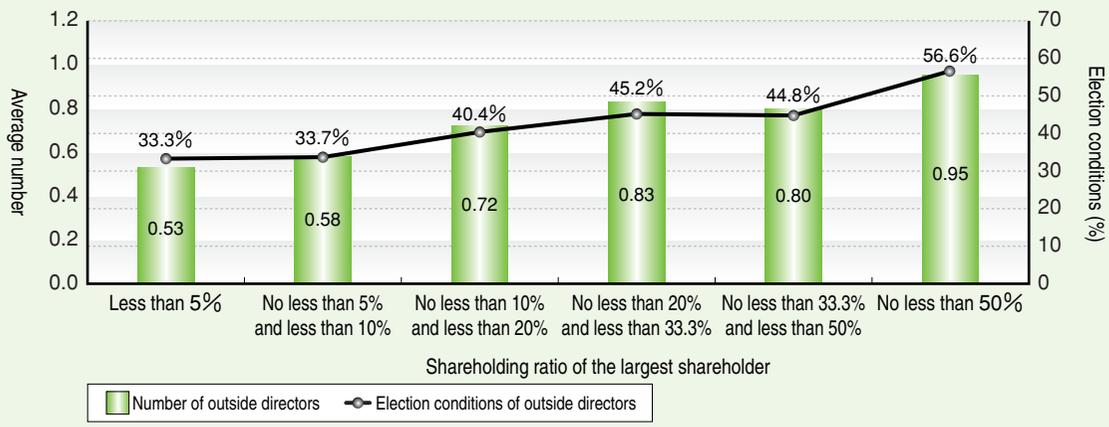


(iii) Relationship with the shareholding ratio of the largest shareholder

In analyzing the relationship between shareholding ratio of the largest shareholders and the election of outside directors (and numbers elected) among companies with a corporate auditor system, we were interested to note that the ratio of companies electing outside directors decreases and the number of outside directors decreases as the shareholding ratio of the largest shareholder decreases (Chart 25). This is contrary to the situation where, as noted above ((2) Number of directors), the number of directors increases as the shareholding ratio of the largest shareholder decreases.

However, as the shareholding ratio of the largest shareholder rises, the percentage of outside directors who are from a parent or affiliate tends to rise in parallel. These outside directors may have contributed to the higher ratio of companies electing outside directors and the higher number of outside directors.

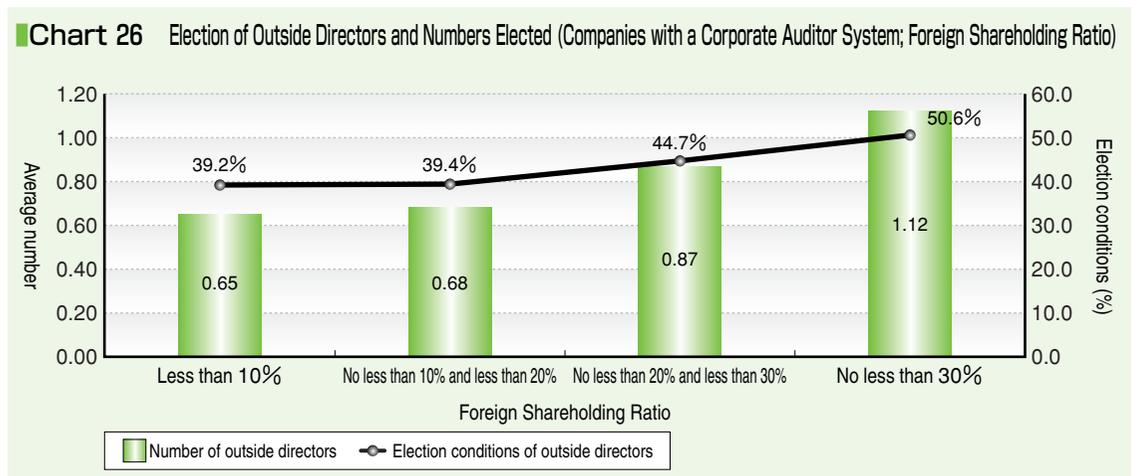
Chart 25 Election of Outside Directors and Numbers Elected (Companies with a Corporate Auditor System; Shareholding Ratio of the Largest Shareholder)



(iv) Relationship with the company size

When analyzing the relationship between the company size and the election of outside directors (and numbers elected) among companies with a corporate auditor system, we note that larger companies do not always elect more outside directors. In particular, in the context of the (consolidated) number of employees, companies with less than 100 employees account for the largest portion of the companies electing outside directors (51.9% of companies with a corporate auditor system).

On the contrary, according to our analysis of the relationship between the foreign shareholding ratio and the election of outside directors at companies with a corporate auditor system, the percentage of companies that elect outside directors and the number of outside directors per company clearly tend to increase as the foreign shareholding ratio increases (50.6% of the companies which have adopted the corporate auditor system and are substantially foreign-owned (30% or more of outstanding shares held by foreigners) have elected outside directors, and 1.12 outside directors are in office per company).



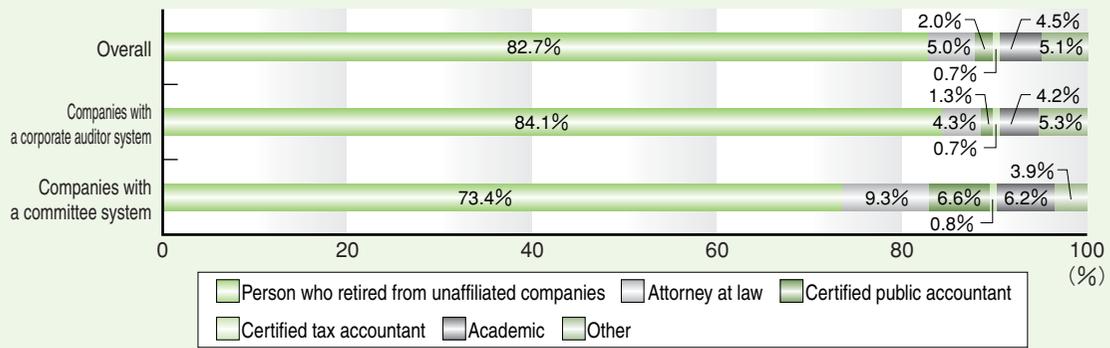
(b) Attributes of outside directors

The Report requires companies to indicate the attributes of individual outside directors by checking one relevant item from among the following: "persons who are from other companies"¹⁷, "attorney at law," "certified public accountant," "academic," or "other."

For this item, "persons who are from other companies" account for 82.7% of all the outside directors of TSE-Listed Companies. The ratio of "persons who are from other companies" for companies with a committee system is 73.4% lower than that for companies with a corporate auditor system, and the ratio of "attorneys at law (9.3%)" and "certified public accountants (6.6%)" at the former companies is relatively high.

¹⁷ "Persons who are from other companies" is any person who has currently been working for another company or has worked for another company in the past.

Chart 27 Attributes of Outside Directors



(c) Relationship between an outside director and the company

The Report requires detailed disclosure of the relationship between an outside director and the company. Before the implementation of this Report system, the Exchange required listed companies to make qualitative disclosures of the relationships in their earnings digests by describing human relationships, capital relationships, business relationships, etc. Now that we provide the following items in a checklist form (several different responses possible), and users of this Report can easily understand the outside director's independence from the company by confirming the director's relationships with the company at a quick glance (far more rapidly than would be possible with the use of statutory documents). (The following definition applies to "relationships between outside auditors and the company" in 3.(4) below.)

The outside director

- a . Is from a parent;
- b . Is from an affiliated company ¹⁸;
- c . Is a major shareholder ¹⁹;
- d . Is also an outside director or outside auditor of another company;
- e . Is also an executive director or executive officer of another company ²⁰;
- f . Is an executive director, a spouse, a relative within the third degree, or similar person associated with an executive officer of the company or a special related entity ²¹ of the company;

¹⁸ The term "another affiliated company" is as defined in Article 8, Paragraph 16, Item 4 of the Rules on Financial Statements, etc.

¹⁹ The term "major shareholder" describes any shareholder who holds 10% or more of the outstanding shares issued (excluding treasury shares). This includes an outside director working for a company which is a major shareholder.

²⁰ The term "executive officer" includes employees who execute the business or any persons or employees who execute the business defined in Article 598, Paragraph 1 of the Company Law (pursuant to Article 124, Item 1 or Item 3 of the Enforcement Regulations for the Company Law), in addition to executive officers.

²¹ A "special related entity" is the person as defined in Article 2, Paragraph 3, Item 18 of the Company Law.

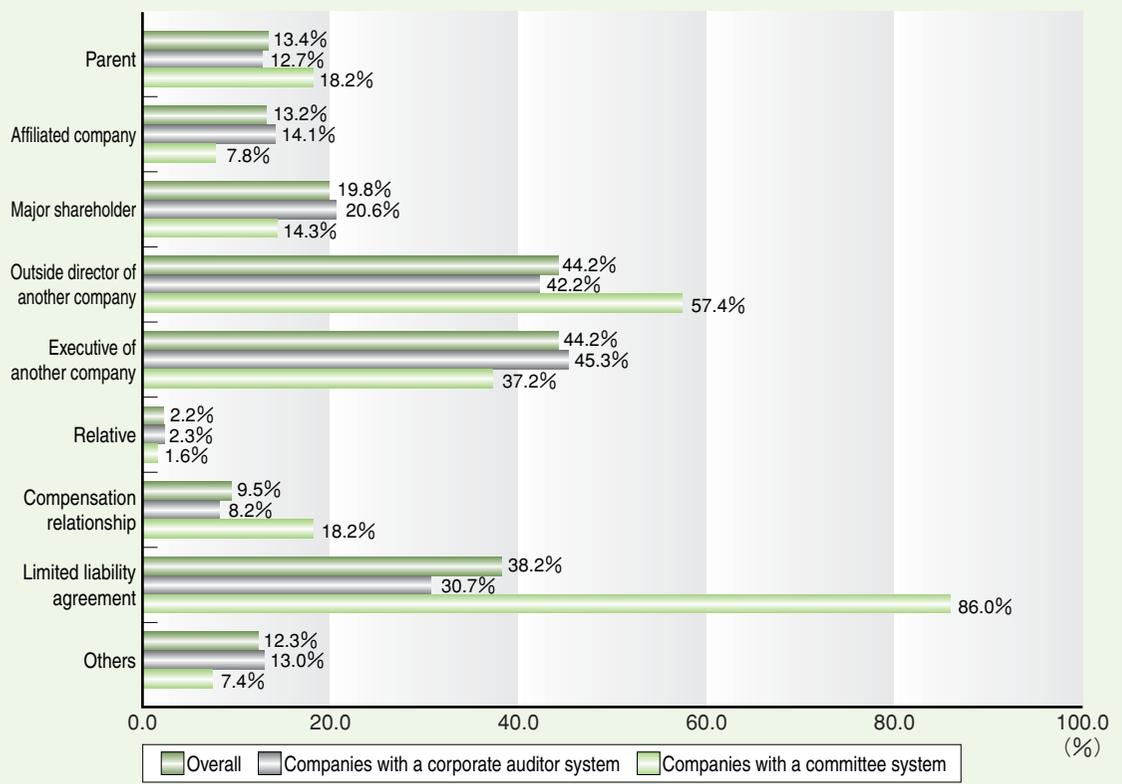
- g . Has received compensation, etc.²² as an officer from the parent of the company or a subsidiary of the parent;
- h . Has entered into a limited liability agreement²³ with the company; or
- i . Other

(i) Overview

Chart 28 shows the percentage of outside directors of TSE-Listed Companies who meet such respective items (as respondents are allowed to select several answers, one outside director may meet several items).

According to this data, 44.2% of outside directors of TSE-Listed Companies are posted as outside directors or outside auditors of other companies or as executive directors or executive officers of other companies.

Chart 28 Relationship between an outside director and the company



²² "Compensation, etc." refers to any compensation, bonus, or other interest in assets received from a joint stock company as a consideration in exchange for the execution of business.

²³ The term "limited liability agreement" means that a certain limit of the liability of an outside director is determined by virtue of the agreement between the company and an outside director in accordance with the Articles of Incorporation (i.e., the agreement prescribed in Article 427, Paragraph 1 of the Company Law).

(ii) Outside directors from a parent or affiliated company

In total, 13.4% of outside directors of all TSE-Listed Companies are from a parent, while 13.2% are from "another affiliated company." When an outside director is, or works for, a major shareholder of the company, the percentage is 19.8%.

With respect to companies having only a parent, Chart 29 shows the number of outside directors per company (and the percentage of outside directors among all directors of the company with a parent) and the number of outside directors from a parent per company (and the percentage of such outside directors among all of the outside directors of the company with a parent).

The Chart indicates that 65.7%, or almost two-thirds, of outside directors of TSE-Listed Companies with a parent are from the parent (58.0% in the case of the companies with a committee system and 67.8% in the case of the companies with a corporate auditor system).

Chart 29 Relationship Between a Company with a Parent and an Outside Director of That Company

	Number of listed companies with a parent	Number of outside directors, per company	Number of outside directors from a parent, per company
Companies with a committee system	22 (37.3% of listed companies)	3.68 (46.3% of directors)	2.14 (58.0% of outside directors)
Companies with a corporate auditor system	296 (12.9% of listed companies)	1.04 (12.4% of directors)	0.70 (67.8% of outside directors)
Overall	318 (13.5% of listed companies)	1.22 (14.6% of directors)	0.80 (65.7% of outside directors)

Meanwhile, 45.1% of the outside directors of TSE-Listed Companies with a parent receive compensation as an officer from the parent or from a subsidiary of the parent (58.0% and 41.7% for companies with a committee system and corporate auditor system, respectively).

(iii) Limited liability agreement

In total, 38.2% of the outside directors of TSE-Listed Companies have entered into a limited liability agreement. As many as 86.0% of outside directors of companies with a committee system have entered into such an agreement, versus only 30.7% of the outside directors of companies with a corporate auditor system.

One of the reasons would be that the election of outside directors is mandatory for companies that adopt the committee system (Article 400, Paragraph 3 of the Company Law), then these companies often enter into an agreement to solicit a relevant person to assume office as an outside director. In addition, if any company wishes to enter into any limited liability agreement with an outside officer or the like, the company has to incorporate relevant provisions in the Articles of Incorporation (Article 427, Paragraph 1 of the Company Law; Article 266, Paragraph 19 of the old Commercial Law). In this context, when companies decided to adopt the committee system under the old Commercial Law (a law which required companies to incorporate the provisions for adopting the committee system into their Articles of Incorporation (Article 1-2, Paragraph 3 of the old Audit

Special Law)), many seemed to incorporate provisions related to limited liability agreement into their Articles of Incorporation at the same time. (companies that chose not to adopt the committee system were not required to incorporate any provisions into the Article of Incorporation under the old Commercial Code).

(d) Reasons for electing such outside directors

The Report requires any company electing an outside director to describe its reasons for doing so.

The Guidelines for Report provide that the reasons for electing an outside director should include the outside director's expertise and relevance to the business of the company. Examples of such expertise include assignment to a special role such as legal advisor, certified public accountant, or similar function, or abundant knowledge of the business. With respect to the relevance to the business, many companies indicated that the outside director is from a parent, is a major shareholder, or is an officer of an entity under partnership.

According to investigation by keyword search, 14.5% of the outside directors of TSE-Listed Companies cited independence ²⁴ (11.2% of the companies with a committee system and 18.9% of the companies with a corporate auditor system).

Furthermore, 28.5% of the outside directors of TSE-Listed Companies cited some expertise ²⁵ (42.6% of the companies with a committee system and 34.1% of the companies with a corporate auditor system).

(4) Reasons for not electing outside directors

If companies with a corporate auditor system have chosen not to elect outside directors, the Report requires them to give their reasons for implementing their current systems. The majority of such companies stated that the governance implemented by outside auditors or their Board of Directors has functioned well enough.

Among the companies with a corporate auditor system, 73.3% of those that have chosen not to elect outside directors include the keywords "outside auditor" in their descriptions. This implies that many cited a management surveillance system by outside auditors for the reason for not electing outside directors. However, a fair amount of companies with a corporate auditor system have elected outside directors. In order to be sufficiently publicly accountable, companies not electing outside directors are encouraged to improve the descriptions as to how the governance by outside auditors has functioned. These descriptions will help the users of the Report realize that these companies do not elect outside directors. They will also help them understand how these companies differ from the companies that have chosen to elect outside directors.

3. Statutory Auditor and Board of Statutory Auditors —

(1) Existence of the Board of Statutory Auditors

A company filling out the Report must also indicate whether or not it has a Board of Statutory Auditors. Prior to the enforcement of the Company Law, only large companies ²⁶ were permitted to form

²⁴ With respect to "independence" any company using any one of the following keywords is included: "independent," "objective," or "neutrality."

²⁵ With respect to "expertise" any company using any one of the following keywords is included: "specialty," "knowledge," or "insight."

a Board of Directors (Article 18-2 of the old Audit Special Law). Under the Company Law, companies with a corporate auditor system other than large companies are also allowed to form a Board of Directors at their discretion (Article 328, Paragraph 1). However, the formation of a Board of Statutory Auditors is still voluntary even for listed companies (except for large companies), and the Exchange has not prescribed the formation of a Board of Statutory Auditors as a listing criterion. Therefore, some, albeit few, TSE-Listed Companies have chosen not to form a Board of Statutory Auditors.

In this respect, 52 TSE- Listed Companies (2.2%) have not formed a Board of Statutory Auditors. According to market section, 41 Mothers-Listed companies (23.6% of the Mothers-listed companies) have not formed a Board of Statutory Auditors, versus 9 listed on the TSE Second Section (1.8%) and 2 listed on the TSE First Section (0.1%).

The Company Law requires companies forming a Board of Statutory Auditors to (1) elect 3 or more statutory auditors (Article 335, Paragraph 3 of the Company Law), (2) assure that no less than half of statutory auditors are outside auditors (the same paragraph), and (3) elect full-time statutory auditors (Article 90, Paragraph 2 of the Company Law).

Meanwhile, the Exchange now requests that companies other than large companies "reinforce the auditing function by electing outside auditors" in order to ensure the protection of investors and confidence in the securities market.²⁷

When we analyze how these requirements are fulfilled at companies without a Board of Directors in this context (see Chart 31), we find that 44.2% (23) of such companies have elected three or more statu-

Chart 30 Number of Companies without a Board of Statutory Auditors (Market Section)

	Number of companies	Percentage by market section
TSE First Section	2	0.1%
TSE Second Section	9	1.8%
TSE Mothers	41	23.6%
Total	52	2.2%

Chart 31 Number of Statutory Auditors (Companies without a Board of Statutory Auditors)

	Number of companies	%
2	29	55.8
3	21	40.4
4	2	3.8

Chart 32 Number of Outside auditors (Companies without a Board of Statutory Auditors)

	Number of companies	%
0	2	3.8
1	18	34.6
2	20	38.5
3	10	19.2
4	2	3.8

Chart 33 Ratio of Outside auditors (Companies without a Board of Statutory Auditors)

	Number of companies	%
Less than 50%	6	11.5
No less than 50%	46	88.5

²⁶ "Large companies" are companies with a share capital of ¥500 million or more or liability of ¥20 billion or more (Article 2, Item 6 of the Company Law; Article 1-2, Paragraph 1 of the old Audit Special Law).

²⁷ No. 17 "Requests in line with the Enforcement of the Revised Commercial Code."

tory auditors. Chart 32 shows the number of outside auditors. Outside auditors account for no less than half of statutory auditors in 88.5% (46) of these companies without a Board of Directors. Among the companies without a Board of Statutory Auditors, 34.6% (18) have elected three or more statutory and no less than half of those statutory auditors are outside auditors. Even a relatively large number of companies without a Board of Statutory Auditors have fulfilled these requirements.

(2) Number of statutory auditors and outside auditors

For all TSE-Listed Companies with a corporate auditor system (2297 companies), the average number of statutory auditors per company is 3.80. Of these, an average of 2.46 are outside auditors (64.8% of statutory auditors)

Chart 34 Number of Statutory Auditors and Outside Auditors (Companies with a corporate auditor system)

	Statutory auditors	Outside auditors
Average number per company	3.80	2.46

Chart 35 Number of Statutory Auditors and Outside Auditors (Companies with a corporate auditor system; Market Section)



The average numbers of statutory auditors are 3.96 (outside auditors: 2.48) for the TSE First Section, 3.53 (2.42) for the TSE Second Market, and 3.03 (2.48) for Mothers.

In connection with the relationship with the company size, the number of statutory auditors tends to be larger as the (consolidated) number of employees, (consolidated) net sales, or the number of consolidated subsidiaries grows. However, this is not the case for outside auditors.

A similar trend applies to directors. That is, the number of directors increases as the company size grows. The same, however, is not clearly seen with regards to the number of outside directors at companies with a corporate auditor system.

Chart 36 Number of Statutory Auditors and Outside Auditors (Companies with a corporate auditor system; (Consolidated) Number of Employees)

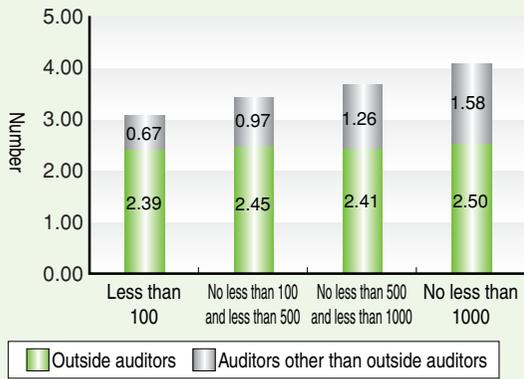


Chart 37 Number of Statutory Auditors and Outside Auditors (Companies with a corporate auditor system; (Consolidated) Net Sales)

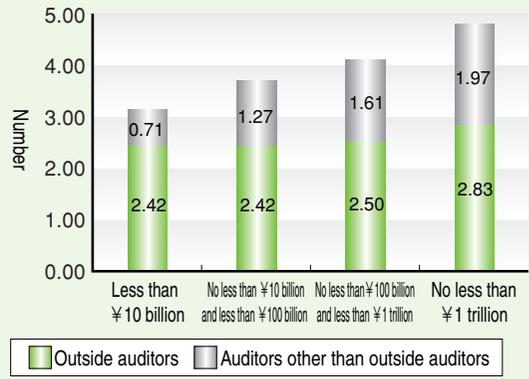
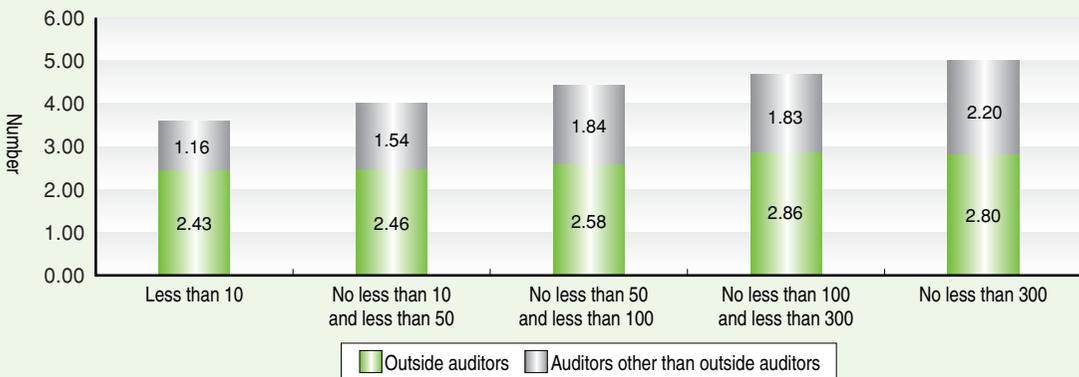
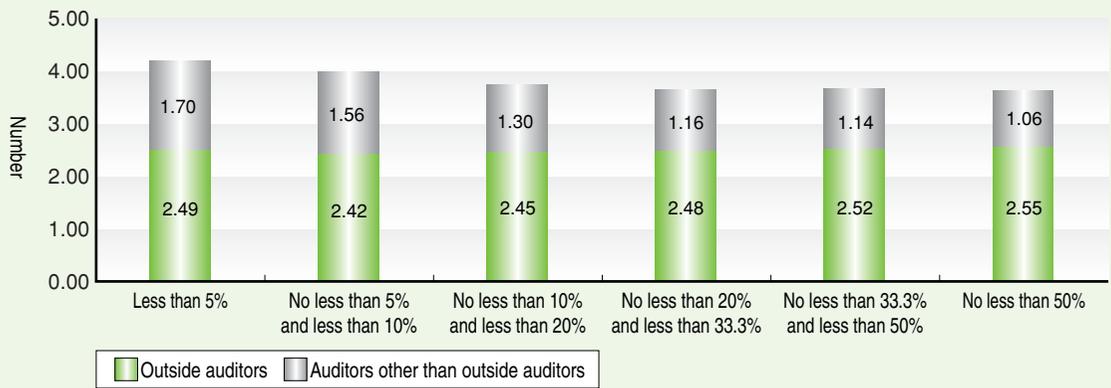


Chart 38 Number of Statutory Auditors and Outside Auditors (Companies with a corporate auditor system; Number of Consolidated Subsidiaries)



With respect to the shareholding conditions of major shareholders, as the shareholding ratio of the largest shareholder decreases, the number of statutory auditors tends to increase (on the other hand, this tendency does not apply to outside auditors). This is because the company size grows as the shareholding ratio of the largest shareholder decreases (II 1.(2) Shareholding conditions of major shareholders above).

Chart 39 Number of Statutory Auditors and Outside Auditors
(Companies with a Board of Statutory Auditors; Shareholding Ratio of the Largest Shareholder)



Our analysis based on the foreign shareholding ratio identified some correlation between the foreign shareholding ratio and number of outside directors, but no correlation with the number of statutory auditors or outside auditors.

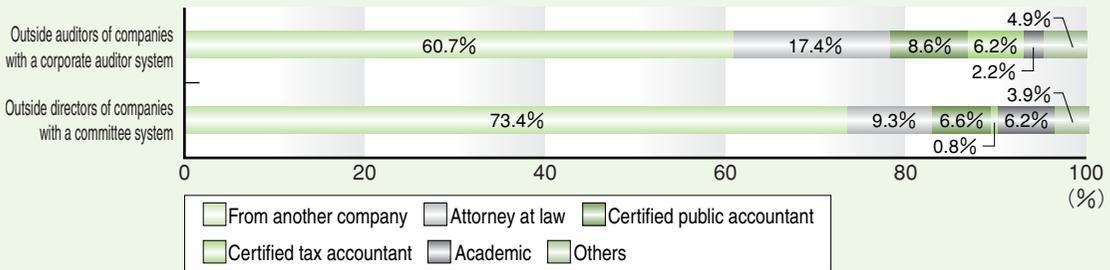
(3) Attributes of outside auditors

Like the attribute of the outside directors (III 2.(3)(b) "Attributes of Outside Directors" above), the Report requires companies to describe attributes of each outside auditors by checking one relevant item from among the following: "persons who are from other companies," "attorney at law," "certified public accountant," "Certified Tax Accountant," "academic," or "other."

With respect to TSE-Listed Companies with a corporate auditor system, 60.7% of outside auditors "who are from other companies." These are followed, in descending order of frequency, by attorneys at law (17.4%), public certified accountants (8.6%), certified tax accountants (6.2%), and academics (2.2%).

Outside auditors of companies with a corporate auditor system perform functions relatively similar to those of outside directors of companies that adopt the committee system. When comparing the attributes of the former with those of the latter, we find that outside auditors "who are from other companies" are less frequent, on a percentage basis, than "attorneys at law," "certified public accountants," and "certified tax accountants." While the primary responsibility of outside auditors is to audit the execution of business by directors as statutory auditors (Article 381, Paragraph 1 of the Company Law), outside directors of the companies with a committee system must engage in the decision-making or supervision of the execution of business by the directors as directors (Article 362, Paragraph 1 of the Company Law), in addition to the audit of the execution of business as members of the audit committee (Article 404, Paragraph 2, Item 1 of the Company Law). In light of this, outside directors are generally required deeper and more versatile skills in corporate management.

Chart 40 Attributes of Outside auditors



(4) Relationship between outside auditors and the company

For the purpose of the Report, with respect to the relationship with each outside auditor, each company was required to select the relevant items by checking the same items as those applicable to the relationship between outside directors and the company (several different responses possible). (See III 2.(3)(c) "Relationship between outside directors and the company" above.)

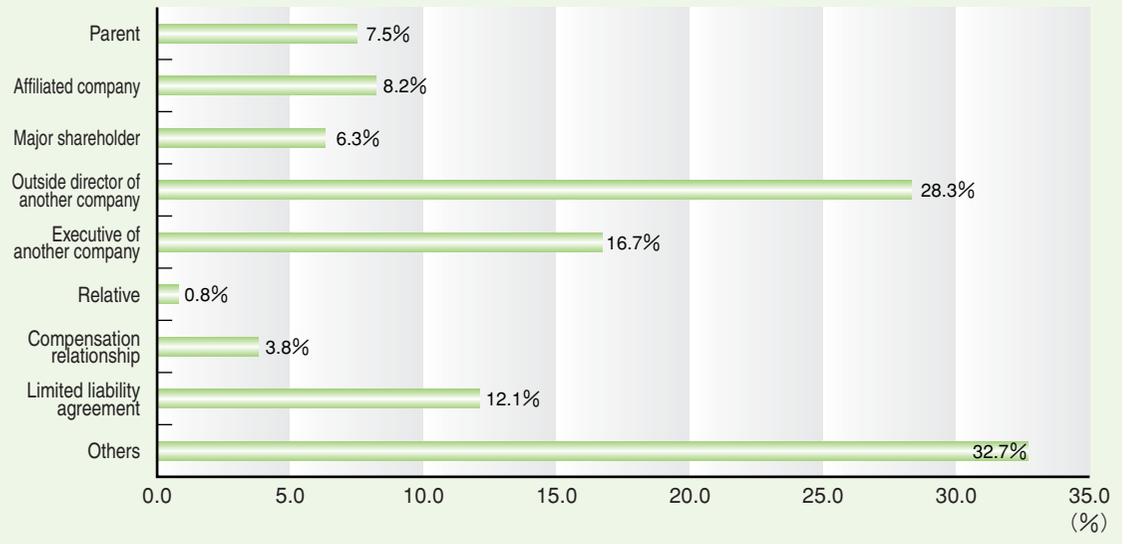
(i) Overview

Chart 41 shows several different descriptions of outside auditor relationships with TSE-Listed Companies, and the percentage of auditors who fall under each respective description (multiple answers were allowed, hence one outside auditor might fall under several categories).

When comparing with the relationships of outside directors, the percentage of outside auditors is lower for every item except "Others." This is because attorneys at law and certified public accountants, persons outside of the category of "who are from other companies," are each more frequent in outside auditors than outside directors on a percentage basis.

In total, 28.3% of the outside directors of TSE-Listed Companies are also outside directors or outside auditors of other companies, while 16.7% serve as the executive directors or executive officers of other companies.

Chart 41 Relationship between Outside auditors and the Company



(ii) From parent or affiliated company

In total, 7.5% of outside auditors of companies with a corporate auditor system are from a parent, while 8.2% are from "other affiliated companies." The percentage for outside auditors who work for major shareholders or are major shareholders themselves is 6.3%.

With respect to only companies that adopt the corporate auditor system and have a parent, Chart 42 shows the number of outside auditors per company (the percentage of statutory auditors of companies with a parent) and the number of outside auditors from a parent per company (the percentage of outside auditors of companies with a parent).

This Chart reveals that 54.9% (i.e., the majority) of outside auditors of companies with a corporate auditor system are from a parent.

As noted above, almost two-thirds of outside directors of companies with a parent are from the parent. Both outside directors and outside auditors from a parent account for half or more of those of companies with a parent.

Chart 42 Outside auditors of Companies Having a Parent with the Company

	Number of companies with a parent	Number of outside auditors, per company	Number of outside auditors from a parent, per company
Companies with a corporate auditor system	296 (12.9% of the listed companies)	2.59 (69.4% of the statutory auditors)	1.42 (54.9% of outside auditors)

In total, 41.7% of the outside auditors of the companies which adopt the auditor system and have a parent receive remuneration as officers and other interest in assets from the parent or a subsidiary of the parent.

(iii) Limited liability agreement

In total, 12.1% of outside auditors have entered into limited liability agreements with the company. In contrast, 38.2% of outside directors have concluded such agreements (of whom 30.7% are outside directors of companies with a corporate auditor system). This finding can be attributed to a restriction in the old Commercial Code which permits only outside directors to conclude such contracts. The conclusion of such contracts with outside auditors was permitted for the first time under the Company Law (see Article 266, Paragraph 19 of the Old Commercial Code; Article 427 of the Company Law).

4. Partnership in Audit

(1) Partnership between statutory auditors (audit committees) and accounting auditors

The Report requires descriptive explanations of any partnerships between the statutory auditors of companies with a corporate auditor (audit committee in the case of companies with a committee system) and public accounting auditors. If these auditors have meetings, for example, relevant companies are expected to describe the frequency and contents of the meetings. Many companies in fact described the frequency and contents of such meetings.

With respect to keywords, 48.3% of TSE-Listed Companies mention keywords²⁸ related to audit planning, 90.0% mention keywords²⁹ related to partnerships, 68.4% mention key words³⁰ related to reporting, and 36.6% mention keywords related to all of the aforesaid topics.

(2) Partnership between statutory auditors (audit committees) and internal audit departments

The Report requires descriptive explanations of the partnerships of statutory auditors of companies (audit committees in the case of the companies with a committee system) with internal audit departments.³¹ As in the section for explanations on partnerships with accounting auditors, companies should describe the frequency and contents of any meetings held between statutory auditors and the internal audit department. While some companies describe the frequency and contents of such meetings, the

²⁸ With respect to "audit planning," any company using any one of the following key words is included: "planning," "policy," or "regulations."

²⁹ With respect to "partnership," any company using any one of the following key words is included: "partnership," "discussion," "regular," "exchange," "consultation," "meeting," or "conference."

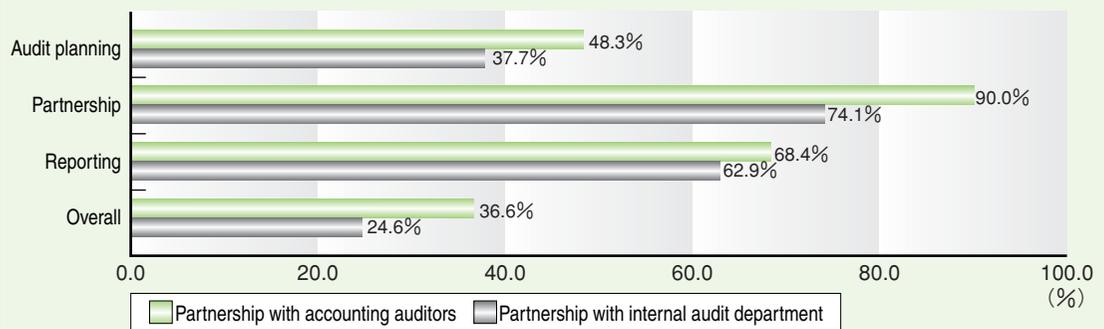
³⁰ With respect to "reporting," any company using any one of the following key words is included: "reporting," "results," "explanation," "verification," or "control."

³¹ "Internal audit department" generally refers to a department independent from administration or a business department, which makes comprehensive and objective assessments of the adequacy of the internal management system within the organization and provides recommendations for issues pointed out to be in need of improvement, or implements follow-up auditing.

information given is sparser overall than that given in the section on partnerships with accounting auditors.

This trend may be represented by their reference to keywords. When analyzing companies describing key words related to "audit planning," "partnership," and "reporting," in total, 37.7% of TSE-Listed Companies mention keywords related to audit planning, 74.1% mention keywords related to partnership, 62.9% mention keywords related to reporting, and 24.6% mention keywords related to all of the above. However, these percentages are lower than the corresponding percentages on partnerships with accounting auditors in (1) above.

Chart 43 Partnerships with Accounting Auditors and Internal Audit Departments



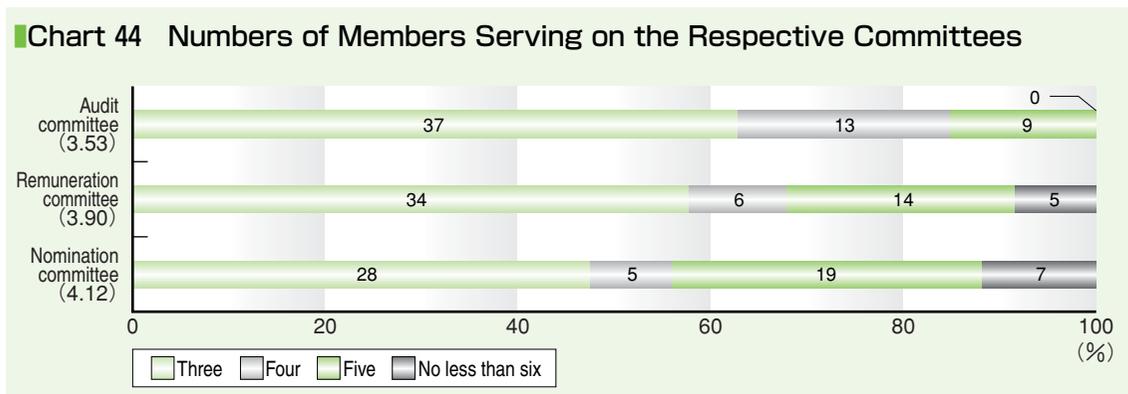
5. Committees and Executive Officers

Companies that adopt the committee system are required to form three committees: a nomination committee, a remuneration committee, and an audit committee (Article 1, Item 12 of the Company Law). Each of these committees must be comprised of three or more members, of whom outside directors must make up the majority (Article 400, Paragraph 1 and Paragraph 3 of the Company Law). Moreover, companies that adopt the committee system may implement a mechanism by which the decision making function of the Board of Directors is substantially delegated to executive officers elected by the Board members (Article 416, Paragraph 4 of the Company Law). The Report requires companies that choose to adopt the committee system to describe the conditions of executive officers, for example whether they are concurrently assuming the office of directors or performing the role of employee, in addition to the compositions of their respective committees, with a view to representing the current conditions of the characteristics inherent in companies adopting the committee system. The following elaborates on the current conditions and tendencies of the mechanisms specific to companies adopting the committee system.

(1) **Respective committees³²**

(a) **Number of members of respective committees**

Chart 44 shows the number of members for respective committees. Three to five members of a committee make up a majority of such companies. The nomination committee has the largest average number of members (4.12), followed by the remuneration committee (by 3.90), and then the audit committee (3.53). Overall, the number of companies with three directors serving on each of the committees is the largest.



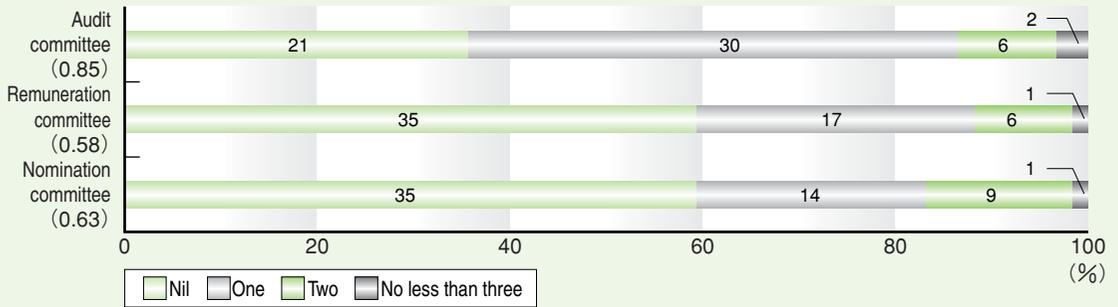
(b) **Ratio of full-time members**

The audit committee has the largest ratio of full-time members among the respective committees, at 24.0%. The percentages for the other committees are relatively low, at 15.2% for the nomination committee and 14.8% for the remuneration committee.

Unlike the companies adopting the corporate auditor system, the companies adopting the committee system are not necessarily required to elect any full-time members. In particular with respect to the audit committee, the number of the companies which have elected one or more full-time members is the largest. The average number for the audit committee, 0.85, is relatively higher than the averages for the nomination committee and remuneration committee (0.63 and 0.58, respectively). Among these three committees, the audit committee is expected to hold meetings the most frequently and to require a smooth information communication approach in order to attain close partnerships with auditing auditors and internal audit departments. In practice, there seems to be a growing need for directors serving as "full-time statutory auditors" to monitor the execution of business on a routine basis.

³² Respective committees refer to the audit committee, remuneration committee, and nomination committee to be determined at a company adopting the committee system. For the purpose of the composition of the committee, descriptions for each of the standing members (a standing member is defined, for the purpose of this Report, as a person who is in principle exclusively engaged in the business relating to the respective committee during business hours without having any other standing role), inside directors, and outside directors.

Chart 45 Number of Full-Time Members of Respective Committees



(c) Composition of directors in respective committees

Article 400 of the Company Law requires the majority of the members of respective committees to be outside directors. Chart 46 shows the composition of outside directors and inside directors who serve on the respective committees for all TSE-Listed Companies. The percentages of outside directors at the respective committees are 78.8% (21.2% for corporate directors) for the audit committee, 68.3% (31.7%) for the nomination committee, and 70.9% (29.1%) for the remuneration committee. This is partly because the audit committee is required to be more independent from the company. For that purpose, none of the audit committee members can be executive officers or employees of the corporate or executive directors, executive officers or employees of a subsidiary (Article 400, Paragraph 4 of the Company Law).

This is clear from the number of inside directors (Chart 47) and the number of outside directors (Chart 48) at the respective committees. In total, 35.6% (21) of the companies have no inside directors at the audit committee.

Chart 46 Composition of Inside Directors and Outside Directors at the Respective Committees, and the Average Number per Company

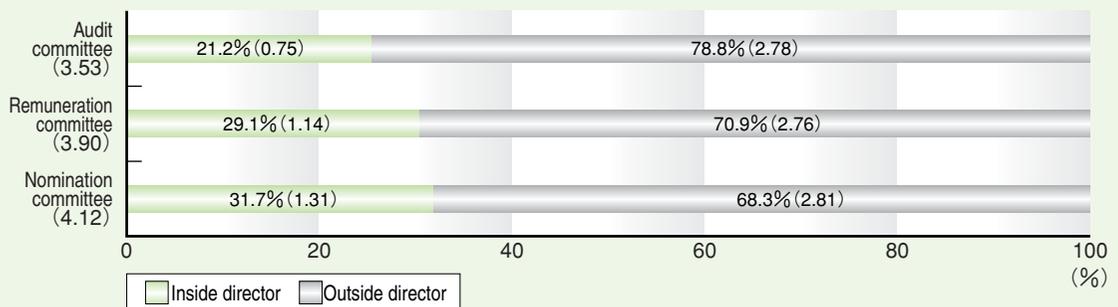


Chart 47 Number of Inside Directors at the Respective Committees

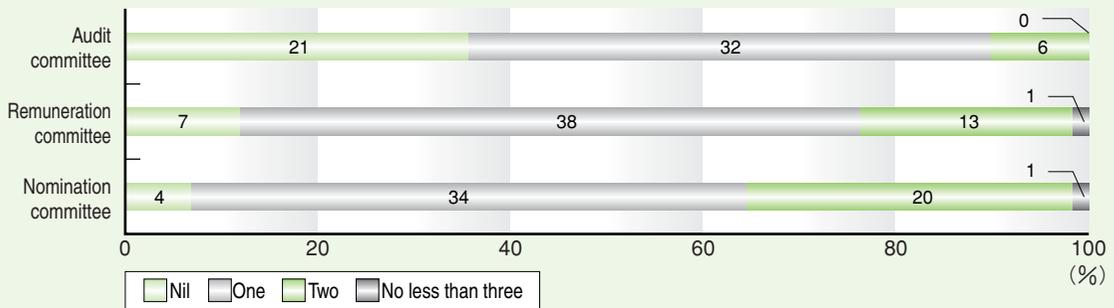
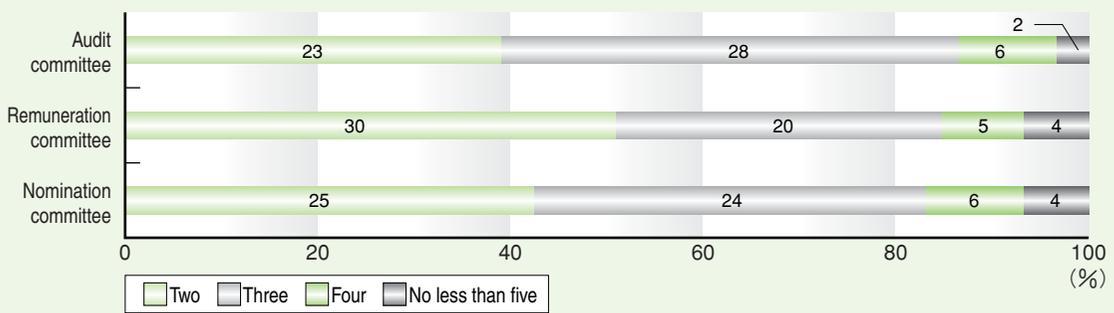
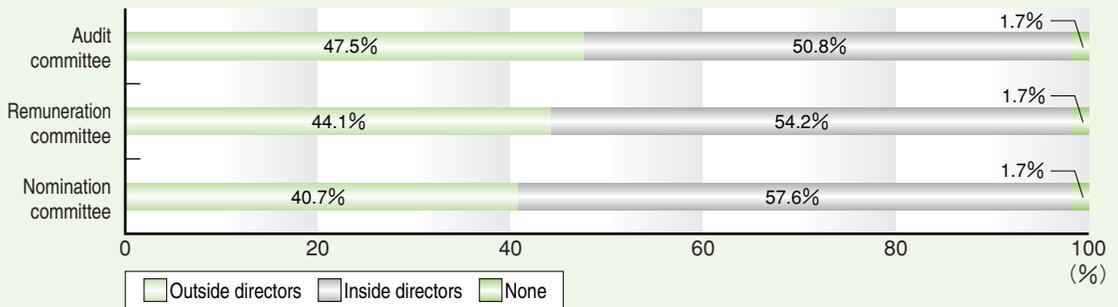


Chart 48 Number of Outside Directors at the Respective Committees



Next we look at the attributes³³ of the chairmen of the respective committees. The role of the chairman has been fulfilled by inside directors for the majority of audit committees, remuneration committees, and nomination committees. With respect to the role of the chairman fulfilled by outside directors, the audit committee sees the largest percentage of the committees (47.5%), followed by the remuneration committee (44.1%) and the nomination committee (40.7%).

³³ For the purpose of this Report, companies are required to select relevant attributes by checking any of following items: "inside director," "outside director" or "n/a."

Chart 49 Attributes of the Chairman of the Respective Committees

(2) Executive officers

Companies with a committee system are required to appoint one or more executive officers (Article 402, Paragraph 1 of the Company Law), and the Board of Directors may substantially delegate the decision on the business execution to executive officers (Article 416, Paragraph 4 of the Company Law). The executive officers so delegated are required to fulfill the execution of businesses (Article 418, Item 2 of the Company Law).

The average number of executive officers for all TSE-Listed Companies is 12.85 per company. In total, 15.0% of the executive officers have representative rights, which means that an average of 1.93 executive officers per company have representative rights.

Executive officers are permitted to hold the office of director (Article 402, Paragraph 6 of the Company Law), and about one-fourth (25.3%) of executive officers concurrently hold offices as directors. In total, 7.8% of executive officers have assumed postings as directors and nomination committee members concurrently, while 7.0% have assumed postings as directors and remuneration committee members. An audit committee member is not permitted to serve as an executive officer (Article 400, Paragraph 4 of the Company Law).

As shown in Chart 50, 30.5% of executive officers also hold positions as employees.

Chart 50 Other Positions Held by Executive Officers

6 . Items in Relation to Respective Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration³⁴

The Report requires companies to describe practical approaches and functions with respect to the execution of business, audits, and supervisory functions. In addition to fulfilling the requirement for establishing a Board of Directors (or a Board of Statutory Auditors or committees in the case of companies which adopt the committee system), a substantial number of companies have also striven to implement processes to reinforce or substitute such function according to the actual conditions of their operations. We should favorably evaluate the approaches designed to improve the effectiveness of corporate governance, even those adopted according to the actual conditions of the respective companies. Therefore, this White Paper of Corporate Governance introduces the trends and present conditions of processes centering on non-statutory decision-making processes and audit approaches developed by companies voluntarily on the basis of the descriptions in the Report.

In the case of companies with a corporate auditor system, many described some governing body other than the Board of Directors, such as a management meeting. In total, 42.8% of the companies referred to a management meeting and 13.8% referred to a meeting of managing directors. The percentage of companies that hold these meetings grow as the companies grow. Some of the actions initiated through these meetings are proposed to the Board of Directors. Meetings that initiate such actions are presumably organized to implement the smooth execution of businesses.

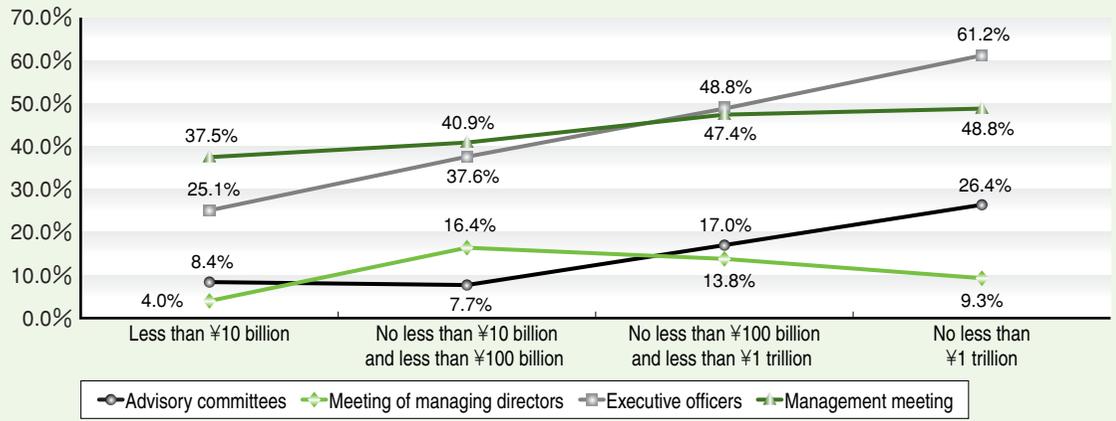
In total, 40.7% of the companies made descriptions on the implementation of the executive officer system as a means to enhance the promptness of management-related decision-making and the efficiency of business execution as they grow. The tendency to make descriptions on the executive officer system is more conspicuous for the larger companies. While executive officers do not legally compose an executive body of a company, many companies clearly stated that they have downsized the Board of Directors with the number of directors reduced, and made the distinction between the decision-making function fulfilled by the Board of Directors and the business execution functions of executive officers.

In addition, 11.5% of the companies made descriptions on an advisory committee³⁵ comprised of third party members. Some organs have been formed with outside academics or management specialists in order to evaluate or provide advice on the management of the company overall. Many of the companies have developed various decision-making processes to satisfy the requirements for improved transparency and soundness of management.

³⁴ The Report provides a section in which companies may make voluntary qualitative descriptions bearing in mind that such descriptions should focus on a decision-making process. In the case of companies with a corporate auditor system, for example, a company which has adopted a process to reinforce the functions of business execution or supervision functions is required describe the actual nature of such process.

³⁵ With respect to "advisory committee," any company using any one of the following key words is included: "advisory," "advice," or "meeting."

Chart 51 Items Relating to Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration ((Consolidated) Net Sales)



IV Incentives and Remuneration

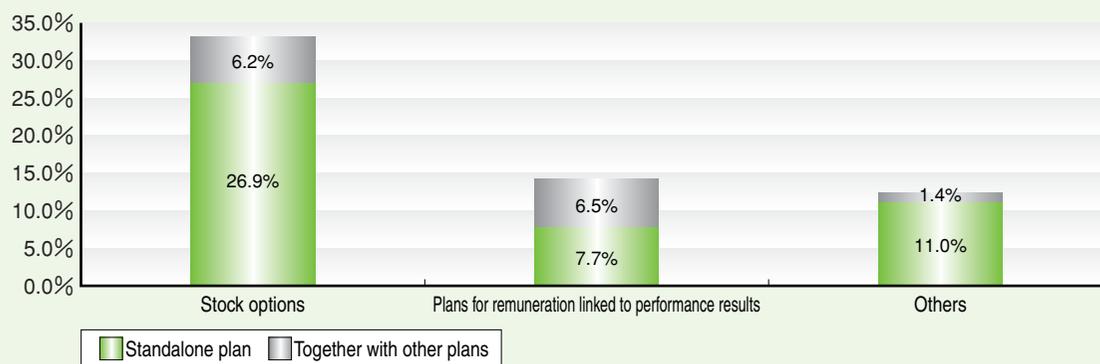
1. Implementation of Plans for the Granting of Incentives

The Report requires the disclosure of information on plans for the granting of incentives to directors. As information on incentives offered to directors relates to the surveillance and supervision of the company's management, such information naturally has a significant weight from the perspective of corporate governance. If plans are implemented, companies are required to select one of the following: "implementation of stock option plan," "implementation of plans for remuneration linked to performance results," or "other" (multiple responses accepted). If no plans are implemented, companies are required to select "not implementing."

(1) Overview of the granting of incentives

In total, 52.5% of TSE-Listed Companies have implemented some plans for incentives. Of these, 33.1% have implemented stock option plans, 14.1% have implemented plans for incentives linked to performance results, and 12.4% have adopted other plans.

Chart 52 Implementation of Plans for the Granting of Incentives



(2) Introduction of stock option plans

Looking at each market section, 79.9% of the companies listed on Mothers have implemented a stock option plan for each market section, which is outstandingly higher compared with companies listed on the TSE First Section (30.9%) and those listed on the TSE Second Section (24.0%).

When assessed on the basis of the (consolidated) number of employees or (consolidated) net sales, more of the smaller companies have implemented stock option plans.

On the other hand, companies with more consolidated subsidiaries implement more stock option plans. In addition, companies with a higher foreign shareholding ratio also tend to implement more stock option plans.

Chart 53 Implementation of Plans for the Granting of Incentives (Market Section)

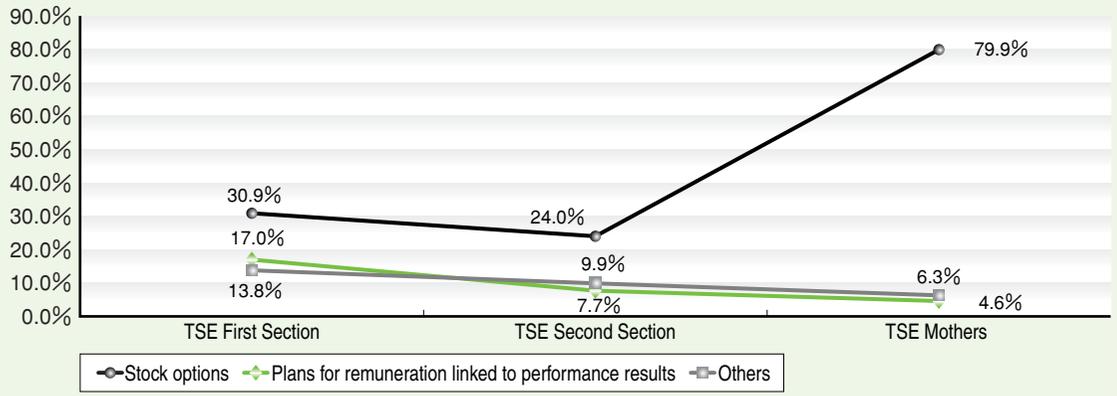


Chart 54 Implementation of Plans for the Granting of Incentives ((Consolidated) Number of Employees)

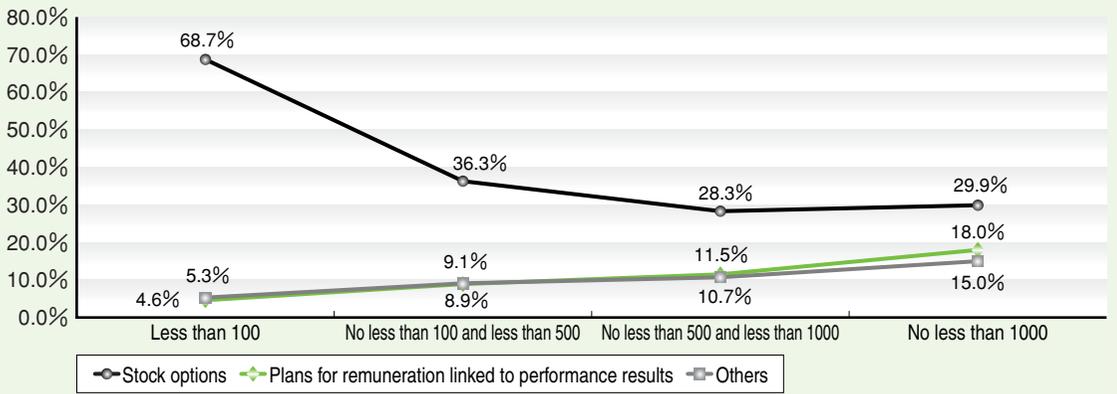


Chart 55 Implementation of Plans for the Granting of Incentives ((Consolidated) Net Sales)

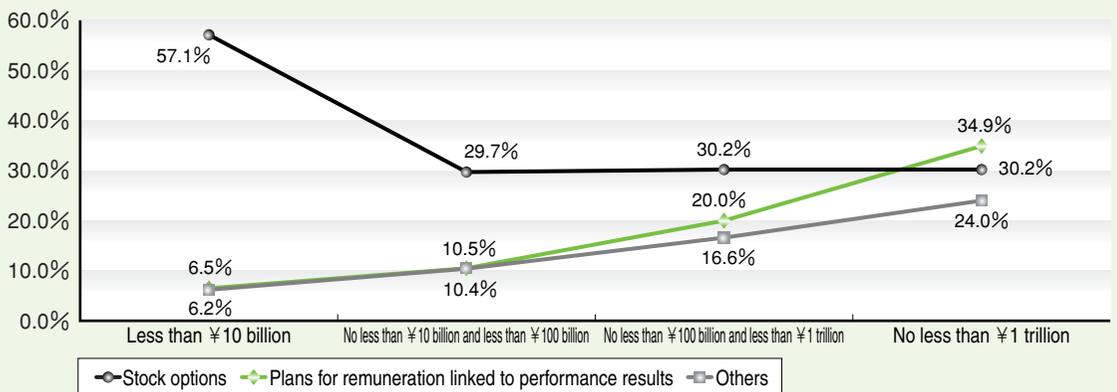


Chart 56 Implementation of Plans for the Granting of Incentives (Number of Consolidated Subsidiaries)

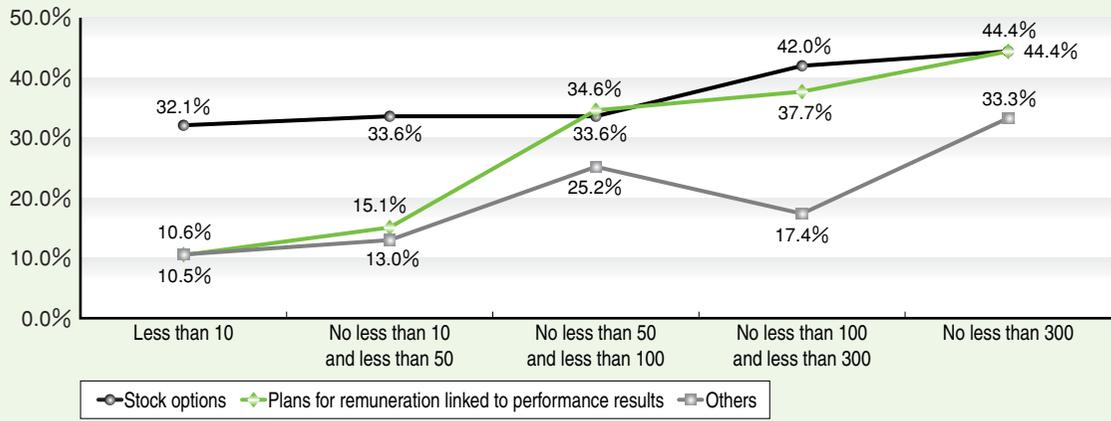
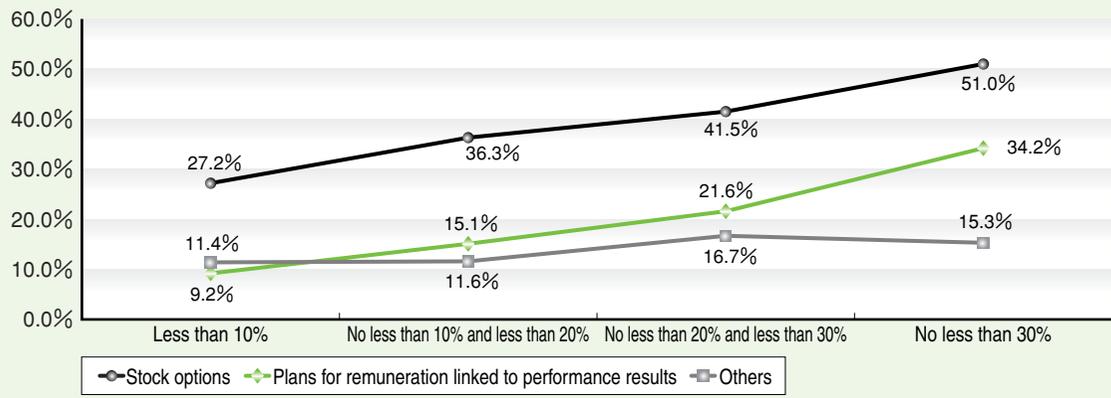


Chart 57 Implementation of Plans for the Granting of Incentives (Foreign Shareholding Ratio)



(3) Implementation of plans for remuneration linked to performance results

17.0% of the companies listed on the TSE First Section have implemented plans for remuneration linked to performance results. This is higher than the rates among companies listed with the TSE Second Section (7.7%) and Mothers (4.6%).

In the context of the size of company, more companies with larger (consolidated) numbers of employees, larger (consolidated) net sales, and larger numbers of consolidated subsidiaries have implemented plans for performance-linked remuneration. With respect to the foreign shareholding ratio, the implementation of performance-linked remuneration plans rises in parallel with the ratio.

(4) Other

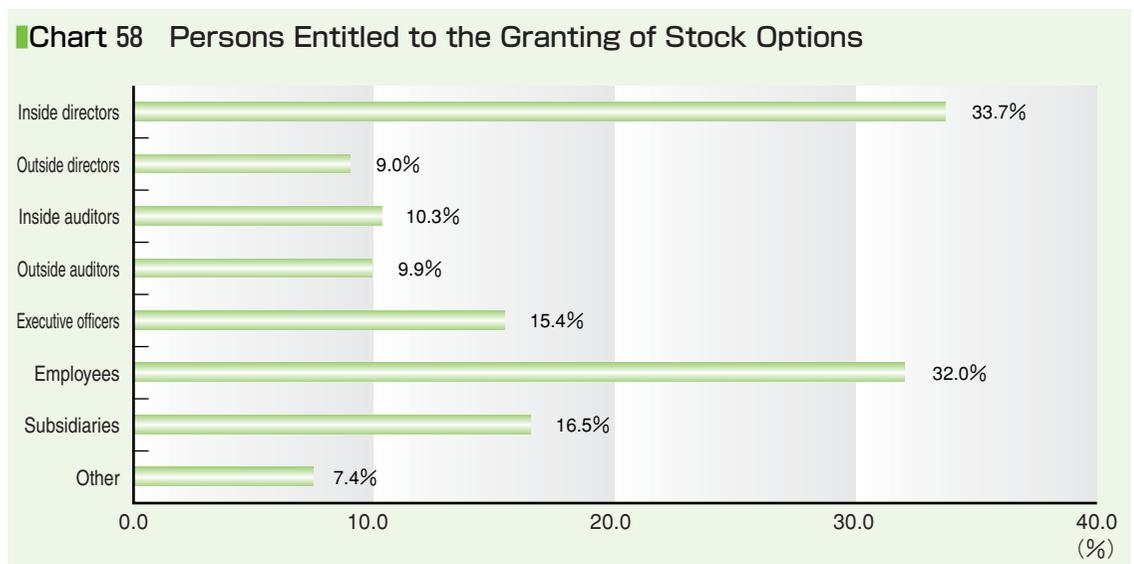
Many of the companies which selected "Other" for incentive plans state that they would consider performance results or degrees of contribution in determining compensations or bonuses for directors and officers. In fact, of 293 companies which selected "Other," 89.8% (263 companies) supplemented their descriptions of the plans with descriptions of "compensation" or "bonuses."

Also, 8.9% (26) of the companies selecting "Other" mentioned "stock ownership plans (for officers or employees)" as supplemental information.

(5) Persons entitled to the granting of stock options

The Report requires companies which grant stock options to indicate the persons entitled to such plans by checking the relevant items from among the following: "inside directors," "outside directors," "inside auditors," "outside auditors," "executive officers," "employees," "subsidiaries," or "other" (multiple responses possible).

Chart 58 shows the percentages of TSE-Listed Companies that grant stock to options persons in specific posts. Inside directors and employees are often entitled to receive stock option grants (33.7% and 32.0%, respectively). In total, 9.0% of all TSE-Listed Companies have granted stock options to outside directors. However, when looking at only the companies that elect outside directors, the percentage is 20.4%.



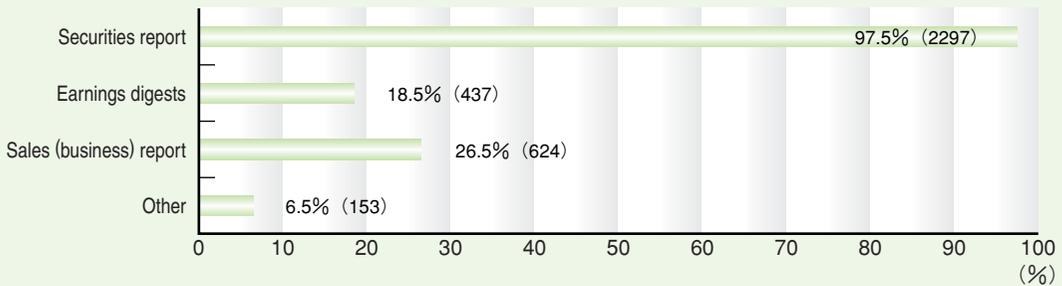
2. Disclosure of Compensations for Directors

(1) Tools for disclosure

The Report requires companies to select the tools for the purpose of disclosing compensations for directors by selecting the relevant items from among the following: "securities report," "earnings digests," "sales (business) report," or "other" (multiple responses possible).

As shown in Chart 59, 97.5% of all TSE-Listed Companies selected "securities report."

Chart 59 Tools for Disclosing Compensations to Directors



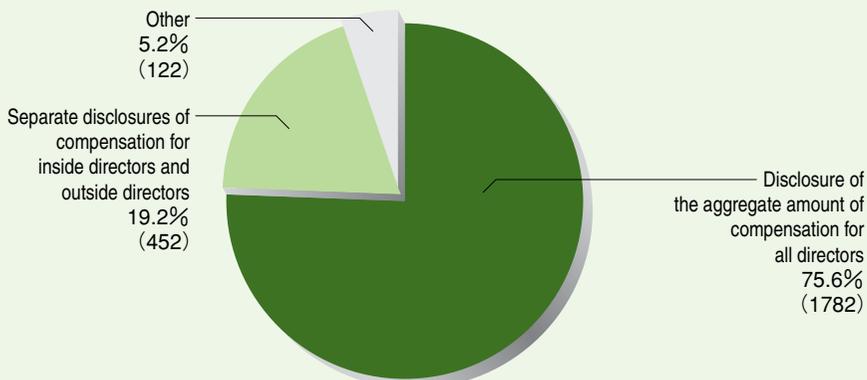
(2) Contents of disclosures

The Report requires companies to select the relevant items from among the following: "disclosure of the total amount of compensation for all directors," "separate disclosures of the total amounts of compensation for inside directors and outside directors," or "other." The companies that disclose their compensations for individual directors separately (including disclosures of only individual directors of higher compensations) are required to select "other" and add supplemental information.

Chart 60 reveals that 75.6% of all TSE-Listed Companies have disclosed only the aggregate amount of compensation paid out to all directors, while 19.2% have disclosed their compensation for inside directors and outside directors separately.

Seven of the TSE-Listed Companies that have selected "other" disclose compensations individually in supplemental information.

Chart 60 Disclosures in Relation to Compensations for Directors



V Implementation of Measures for Shareholders and Other Interested Parties

1. Arrangements for Making General Shareholders' Meetings More Active and Making Voting Rights Exercised More Smoothly

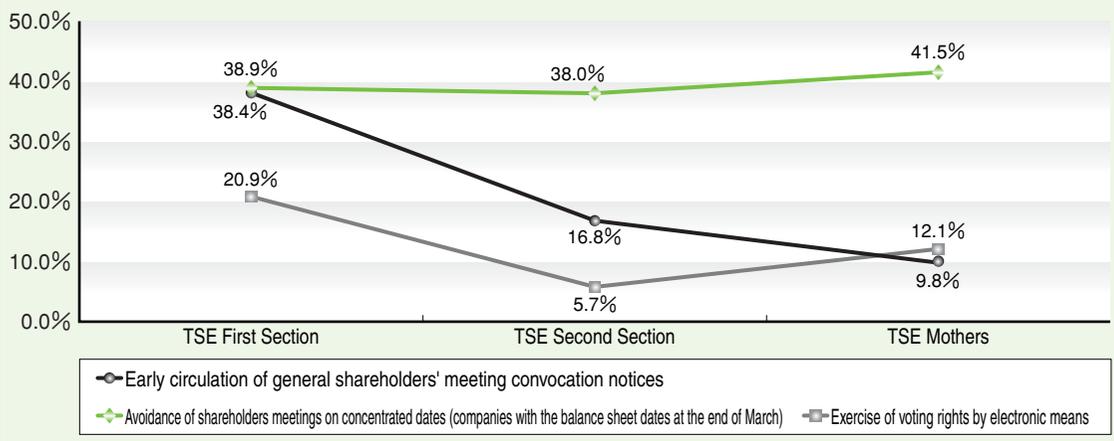
The fundamental concept of the joint stock company system is that shareholders proactively exercise their rights pertaining to proposals submitted at general meetings of shareholders. The Exchange has long endeavored to encourage every listed company to improve the environment for promoting the exercise of voting rights by shareholders at general meetings of shareholders.³⁶

The improvement of environments for the exercise of voting rights by shareholders is recognized to have an important meaning for the purpose of effective implementation of corporate governance. More substantial communication between listed companies and investors has been sought, especially in recent years. The section related to this item in the Report is designed to represent the development of environments in which shareholders willingly participate in general meetings of shareholders and in which shareholders properly exercise their voting rights. Another objective of this section is to assess how individual listed companies have routinely carried out communications with shareholders or investors or have fairly and easily made information available to shareholders and investors.

(1) Early circulation of general shareholders' meeting convocation notices

The data contained in the Report reveals that 31.7% of all TSE-Listed Companies have sent out convocation notices of general shareholders' meetings well in advance of the meetings.³⁷

Chart 61 Measures to Make General Shareholders' Meetings More Active (Market Section)

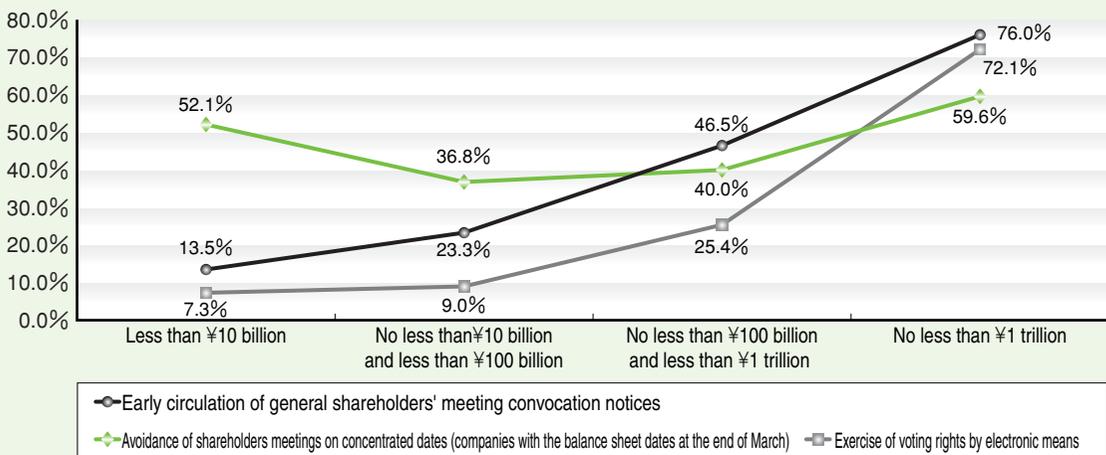


³⁶ TSE No. 255 "Request for Improvement of Environments for the Promotion of the Exercise of Voting Rights by Shareholders at General Meetings of Shareholders"

³⁷ A send-out qualifies as "early" when convocation notices for any of the most recent general meetings of shareholders are sent out at least three days in advance of the statutory date.

Looking at each market section, 38.4% of the companies listed on the TSE First Section have sent out these notices early. This is rather high compared with the percentages for the companies listed on the Second Section (16.8%) and Mothers (9.8%). More companies with larger (consolidated) numbers of employees, (consolidated) net sales, and numbers of consolidated subsidiaries have sent out these notices early.

Chart 62 Measures to Make General Shareholders' Meetings More Active ((Consolidated) Net Sales)



(2) Avoidance of concentrated dates

In total, 76.4% of TSE-Listed Companies set the end of March every year as the balance sheet date. As the date of record is effective for three months (Article 124, Paragraph of the Company Law), many of the general meetings of shareholders tend to be held on the same date at the end of June. Some have argued that this concentration of meetings on the same date hinders the participation of shareholders in relevant general shareholders' meetings. In light of this, the Exchange has encouraged the diversification of dates of shareholders' meetings.³⁸

In total, 40.5% of the companies with balance sheet dates at the end of March have avoided the concentrated date.³⁹ For individual market sections, 41.5% of the Mothers-listed companies have avoided concentrated dates. This is slightly higher than the 38.9% and 38.0% figures reported for the companies listed on the TSE First Section and TSE Second Section, respectively. On the other hand, the avoidance of concentrated dates does not seem to be correlated with the sizes of companies with balance sheet dates at the end of March in terms of the (consolidated) number of employees, (consolidated) net sales, or the number of consolidated subsidiaries. We venture to conclude, however, that relatively larger companies

³⁸ See Note 36 above.

³⁹ The concentrated date is a date when a great number of companies hold their regular general meetings of shareholders (throughout one year), determined based on the most recent dates for shareholders meetings.

and smaller companies have tried to avoid the concentrated date the dates for their regular general shareholders' meetings.

(3) Exercise of voting rights by electronic means

The exercise of voting rights by electronic means has been permitted since the revision of the Commercial Code in 2001, subject to the resolution by the Board of Directors (Article 1, Paragraph 1, Item 4 and Paragraph 4 of the Company Law; Article 239-3 of the old Commercial Code). Meanwhile, the Exchange has striven to improve environments where institutional investors may accurately exercise their rights via ICJ,⁴⁰ the company which operates a platform for the exercise of voting rights by institutional investors.

The Report indicates that 17.0% of TSE-Listed Companies have developed mechanisms to enable shareholders to exercise their voting rights via electronic means. In this respect, the environment for that purpose appears to be improving, but only gradually, and mainly in the larger companies, as noted below.

For individual market sections, 20.9% of companies listed on the TSE First Section have permitted the exercise of voting rights by electronic means. This is a larger percentage than the 5.7% and 12.1% of similarly responding companies listed on the TSE Second Section and Mothers, respectively. Companies with larger (consolidated) numbers of employees, (consolidated) net sales, and numbers of consolidated subsidiaries (i.e., larger companies) clearly permit the electronic exercise of voting rights at higher frequency. For example, 32.8% (266) of companies with ¥100 billion of (consolidated) net sales (810 companies, or 34.4% of TSE-Listed Companies) permit the electronic exercise of voting rights.

(4) Others

If there are any arrangements for more active participation of shareholders in the general meetings of shareholders and smooth exercise of voting rights other than those mentioned above, relevant companies are required to check the item "Other" and add necessary supplemental information. In practice, the Guidelines for Report refer to companies that implement measures such as the posting of convocation notices on homepages or the preparation of convocation notices in English. The Exchange has suggested various methods for disseminating the contents of convocation notices to investors and encouraged listed companies to implement those methods.⁴¹

When reviewing the Report for supplemental information in this respect, 12.8% of TSE-Listed Companies have relied on the use of a homepage, etc.⁴² Moreover, 7.0% have made descriptions with visual materials,⁴³ while 7.1% refer to the preparation of materials in English.

Comparing companies which have used visual materials or English documents by market section, (consolidated) net sales, (consolidated) number of employees, and number of consolidated subsidiaries, the percentage of the TSE First Section listed companies is higher, and the percentage clearly tends to be higher in larger companies.

⁴⁰ ICJ stands for Investors Communications Japan. As of March 23, 2007, 200 listed companies expressed their intention to participate in the ICJ platforms. For details, please visit its website (<http://www.icj-co.com>).

⁴¹ See Note 36 above.

⁴² With respect to "homepage," any company using any one of the following keywords is included: "homepage," "web-site," "HP," or "www."

⁴³ With respect to "visual," any company using either "visual" or "PowerPoint" as keywords is included.

Chart 63 Other Measures to Make General Shareholders' Meetings More Active (Market Section)

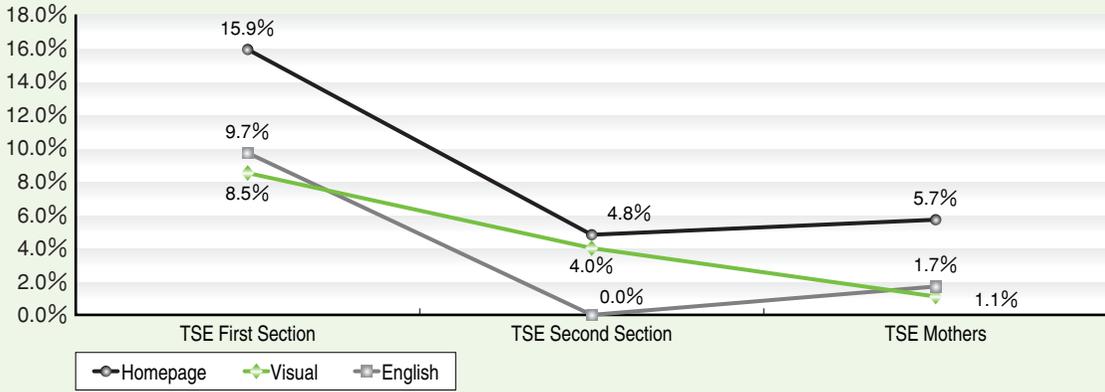
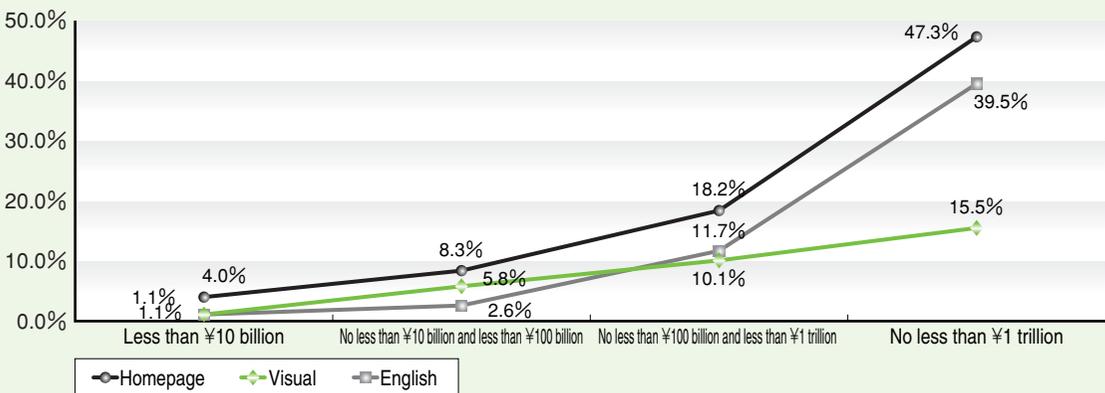


Chart 64 Other Measures to Make General Shareholders' Meetings More Active ((Consolidated) Net Sales)



2. IR Activities

In addition to efforts promoting more active participation in shareholders' meetings and the facilitated exercise of voting rights, emphasis should be placed on dialogue with the market through IR activities.

Amidst rapid changes in the environment surrounding companies in recent years, corporate management faces an unprecedented need to find more appropriate methods for helping their shareholders and investors understand their actual corporate conditions, as well as to fulfill their public responsibility of explaining management decision-making processes. We assert that activities to enhance this public accountability form an integral part of any plan to promote corporate governance.

"IR activities" is a simple phrase, but individual companies have applied a variety of approaches for that purpose. In order to capture the overall trends through the Report, we have set forth the following items to enable companies to respond with a focus on contact with investors: "regular seminars for indi-

vidual investors," "regular road show seminars for analysts and institutional investors," "regular road show seminars for overseas analysts," "the posting of IR data on the company homepage," and "the formation of a department (or responsible person) responsible for IR activities."

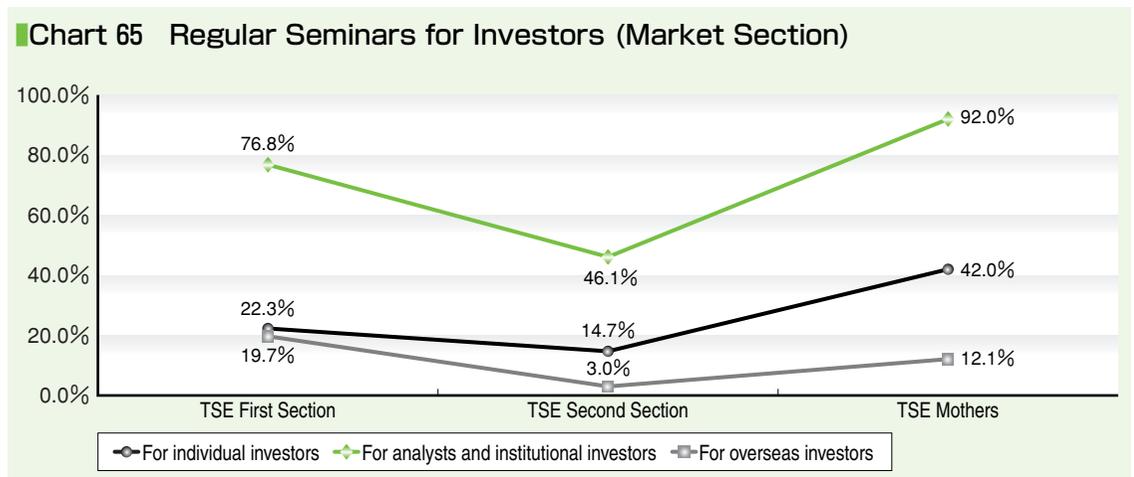
(1) Regular seminars

Seminars are an important means for establishing contact between listed companies and investors. The Exchange has required applicants for initial listings on Mothers to file with the Exchange a document asserting that the applicants will hold seminars on investment at least twice a year for three years subsequent to the listing (Article 3, Paragraph 2, Item 10 of the Regulations for Listing of a Security) and have thereby improved their communications with investors.

In total, 22.2% of TSE-Listed companies have held regular seminars for individual investors.⁴⁴ Of these companies, 75.5% mention that a representative attends the seminars as a speaker (16.8% of all TSE-Listed companies).

In total, 71.5% of TSE-Listed companies have held regular road show seminars for institutional investors, and 94.1% of these seminars have been attended by representative directors (67.3% of all TSE-Listed companies).

On a section by section basis (Chart 65), we find that the requirement to hold seminars for individual investors at the initial listing application has prompted higher percentages of TSE Mothers listed companies to hold seminars (42.0% have held regular seminars for individual investors and 92.0% have held road show seminars for analysts and institutional investors) compared with companies listed on the TSE First Section (22.3% and 76.8%, respectively) and the Second Section (14.7% and 46.1%, respectively).



⁴⁴ "Regular seminars" refer to the case where seminars are held annually at a certain frequency (they are expected to be held once or more in a year).

When focusing only on companies listed on the First Section of the Exchange, companies with larger (consolidated) numbers of employees, (consolidated) net sales, and numbers of consolidated subsidiaries are more likely to hold regular seminars for individual investors and institutional investors.

On the other hand, 15.6% of all TSE-Listed companies have periodically held seminars for overseas investors, and 83.7% of those seminars have been attended by the representative directors of the companies (13.1% of TSE-Listed companies).

On a section by section basis, the TSE First Section has the largest percentage (19.7%) of companies that hold regular seminars, followed by TSE Mothers (12.1%) and TSE Second Section (3.0%). When analyzed based on the foreign shareholding ratio, companies with higher ratios are more likely to hold regular seminars for overseas investors.

When focusing only on companies listed on the First Section, companies with larger (consolidated) numbers of employees, (consolidated), net sales, and numbers of consolidated subsidiaries are more likely to hold regular seminars for overseas investors.

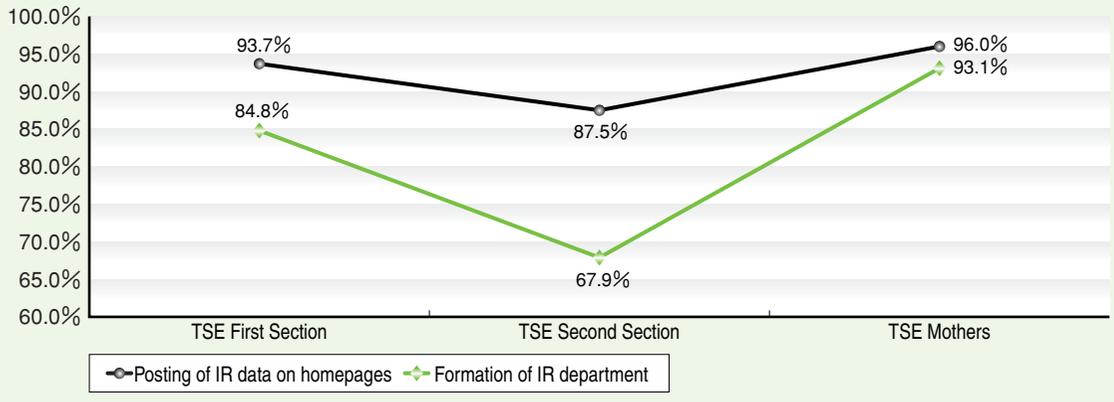
(2) Posting on homepage

The disclosure of IR data⁴⁵ via company homepages is a very convenient and useful tool for providing information to investors and market participants. As such, the Report requires companies to state whether they post IR data on their own homepages and to explain the types of information for investors they post on their URLs or homepages as supplemental explanations on IR activities, if they do post such data (e.g., information on earnings results, timely disclosure materials other than earnings results, securities reports or semi-annual reports, materials relating to seminars, conditions of corporate governance, convocation notices of general meetings of shareholders, etc.).

A very high rate (92.6%) of TSE-Listed companies have posted IR data on their own homepages. They clearly have striven to improve their activities using any channel easily and widely available to general investors. As Chart 66 reveals, the use of homepages is even higher for companies listed on Mothers (96.0%) and the First Section (93.7%).

With respect to the contents of IR data posted on homepages, 23.4% of TSE-Listed companies have presented "earnings results" in their supplemental explanations while 32.1%, 5.1%, and 6.4% have presented "securities reports," "public announcement of performance results," and "convocation notices," respectively.

⁴⁵ "IR data" refers to any documents or electromagnetic data prepared or compiled by a company for the purpose of contributing to the appropriate understanding and assessment of the present conditions of the company by investors, etc. (investors, financial analysts, parties involved in transactions with the company or shareholders).

Chart 66 Posting of IR Data on Homepages and Formation of IR Department (Market Section)

(3) Department responsible for IR (responsible person)

In total, 81.8% of TSE-Listed companies mentioned that they have formed a department responsible for IR activities (and have assigned a responsible person).⁴⁶ In terms of market sections, 93.1% of Mothers-listed companies have formed such a department. This is a rather high ratio compared with the corresponding ratios on the TSE First Section (84.8%) and the TSE Second Section (67.9%).

3 . Efforts to Respect Positions of Stakeholders

The role of corporate governance is expected to create corporate value, create jobs, and promote the maintenance of sound corporate management through stable relationships established between companies and stakeholders. For the purpose of the Report, the Exchange addressed issues to be tackled by listed companies as they strive to establish stable relationships with stakeholders other than shareholders. In this regard, the Exchange has presented the following keyword themes focused on the development of corporate culture and the improvement of internal systems for respecting the positions of stakeholders: "Rules on Respect for the Positions of Stakeholders under Internal Regulations," "Environmental Preservation Activities and CSR Activities," and the "Development of Policies in Relation to the Provision of Information to Stakeholders."

In total, 52.6% of all TSE-Listed companies have commented that they have implemented "Rules on Respect for the Positions of Stakeholders under Internal Regulations," 63.5% have implemented "Environmental Preservation Activities and CSR Activities," and 37.9% have developed "Policies in

⁴⁶ These companies have designated a department responsible for IR activities, a director responsible for IR activities (the person responsible for the surveillance of IR activities of the listed company), and a person responsible for IR-related communications.

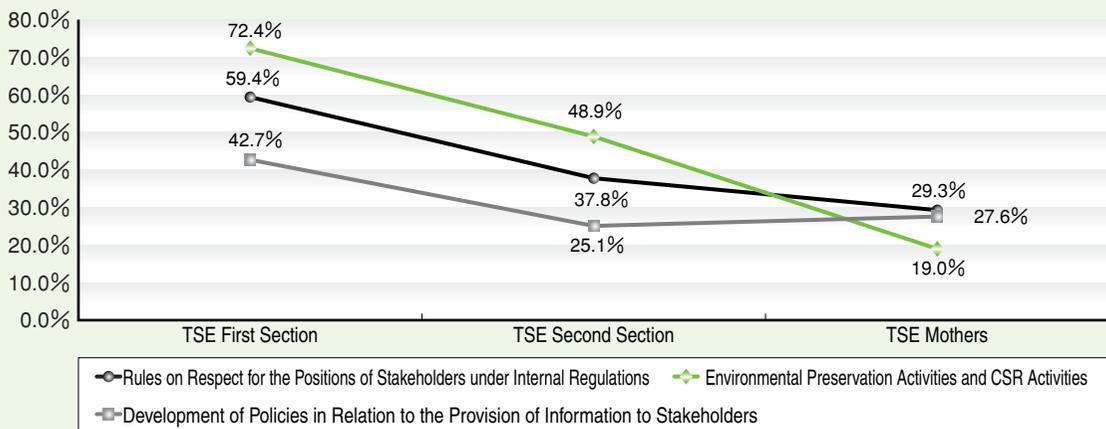
Relation to the Provision of Information to Stakeholders."

On a section by section basis, a high percentage of companies listed on the TSE First Section have implemented all three measures (see Chart 67). Measures in consideration of stakeholders have apparently been widely undertaken by the companies listed on the First Section. For example, 72.4% of companies listed on the TSE First Section have implemented environmental preservation activities or CSR activities, while only 19.0% of Mothers-listed companies have taken the same actions.

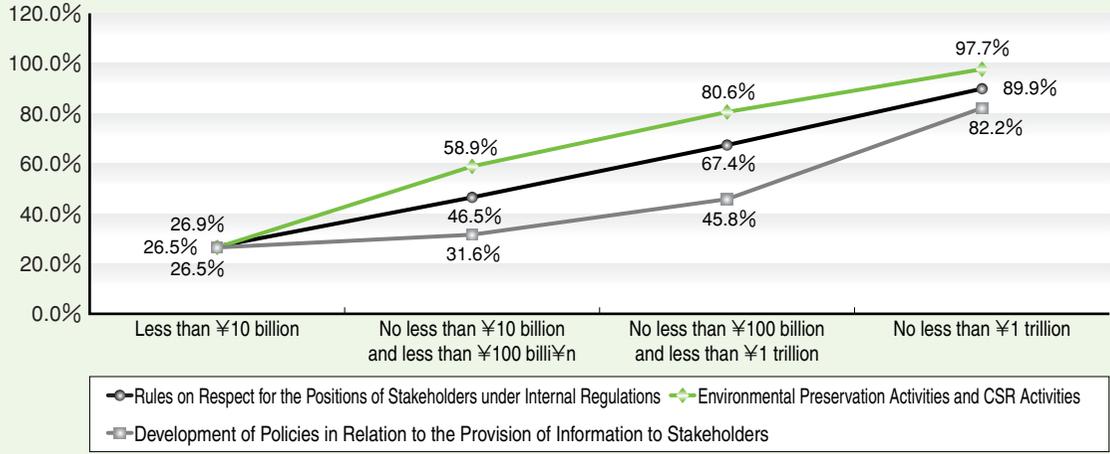
Companies with larger (consolidated) numbers of employees, (consolidated) net sales, and numbers of consolidated subsidiaries are more likely to implement such measures. This implies that the larger companies are more proactive in their efforts (see Chart 68 for the relationship with (consolidated) net sales).

Efforts to respect the position of stakeholders represent the commitment of a company as a member of society to behave in a manner responsible for stakeholders. These efforts can be viewed as more proactive activities when compared with activities performed to comply with laws and regulations. An environment in which companies are encouraged to proactively carry out activities for the preservation of the environment and to contribute to their communities beyond the scope of their businesses is very likely to be developed.

Chart 67 Efforts for Respecting the Position of Stakeholders (Market Section)



■ Chart 68 Efforts for Respecting the Position of Stakeholders ((Consolidated) Net Sales)



VI Basic Policy of Internal Control Systems and the Progress of System Development

The development of systems to ensure appropriate governance has recently been growing in importance, and companies are thus required to develop internal control systems for the implementation of sound management. Under the Company Law enforced from May 2006, large companies (Article 362, Paragraph 4, Item 6 and Paragraph 5 of the Law) or companies adopting a committee system (Article 416, Paragraph 1, Item 1 (v) and Paragraph 2 of the Law) are required to develop a "system to ensure appropriate company management" (a so-called internal control system).

In light of this situation, recognizing that companies need to inform general investors of the basic policy characterizing their internal control systems, the Exchange requires listed companies to describe relevant items in the Report. The Exchange also requires companies to describe the concepts (basic policies) they implement to ensure the appropriate fulfillment of operations. These concepts should illustrate how a company can manage organizations to attain management strategies or business purposes, and how a company can comply with laws, regulations, and its articles of incorporation.⁴⁷

With respect to the basic concept of internal control systems and the development of the systems themselves, many companies have made descriptions according to the items prescribed in the Company Law and Enforcement Regulations for the Company Law (Articles 100 and 112).

A rather high percentage of companies referred to internal control systems for their company groups. Specifically, 27.6% of all TSE-Listed companies offered descriptions in the context of the Company Law.⁴⁸ In total, 67.7% of the companies referred to "risk management" while a higher percentage, 87.1%, referred to "compliance with laws and regulations."⁴⁹

The internal control systems introduced by companies to meet the requirements of the Company Law are systems to monitor management and other systems within the companies in terms of the development of a system to ensure the appropriate business of the companies. Discussions on internal control systems have been proceeding concurrently as a premise for the reliability of financial reporting. Separately, listed companies will be required to file internal control system reports with assessments of the effectiveness of internal control related to the financial reporting expected to be mandatory under the Financial Instruments and Exchange Law (Article 24-4-4 of the Law). In time, listed companies will have to develop internal control systems which incorporate all of the legal requirements.

⁴⁷ In addition to these, the Exchange requires descriptions on compliance systems, risk management, systems and information management systems as items relevant to the development of internal control systems.

⁴⁸ Although they do not refer to the Company Law itself, a large majority of companies describe basic policies in accordance with the Company Law.

⁴⁹ With respect to the "compliance with laws and regulations," any company using any one of the following keywords is included: "compliance with laws and regulations," "observance of laws and regulations," and "compliance."

■ Chart 69 Basic Policy of Internal Control Systems and the Progress of System Development

		Company Law	Risk management	Compliance	Information management	Ethics	Decision making
		%	%	%	%	%	%
All the data		27.6	67.7	87.1	20.0	46.9	45.2
Organizational structure	Company with a corporate auditor system	27.5	67.5	87.2	20.1	47.1	45.4
	Company with a committee system	30.5	72.9	84.7	16.9	39.0	37.3
Market section	TSE First Section	30.1	70.7	89.4	21.6	50.4	47.2
	TSE Second Section	22.0	62.2	82.0	16.6	40.8	39.0
	TSE Mothers	19.5	53.4	79.3	14.4	30.5	43.1

VII Items Relating to Takeover Defense Measures

Any company that implements⁵¹ takeover defense measures⁵⁰ is required to give an overview of the scheme in the Report and describe the reasons for introducing it. Many companies have been concerned about hostile takeovers and a growing number are now introducing takeover defense measures. These types of measures have a large impact on the rights of shareholders and investors, and they have the potential to be abused to serve the interests of directors or officers. In this respect, the Report requires companies implementing these measures to describe both the schemes and propriety of the scheme structures.

In total, 5.6% (131) of companies listed on the Exchange state that they have implemented such measures. (For the purpose of the aggregation of companies implementing the measure, relevant companies are limited to those which state the nature of the scheme clearly (e.g., an advance warning type scheme or trust type scheme)). Looking at each market section, 6.9% of the companies listed on the First Section of the Exchange have implemented measure, versus 2.4% and 1.1% of the companies listed on the Second Section and Mothers, respectively (Chart 70).

In the context of the size of companies, the larger companies are more likely to introduce takeover defense measures (see Chart 71 in the context of (consolidated) net sales).

According to the breakdown of schemes by type, 8.4% of companies (11 companies) have introduced a trust type rights plan. Almost all of the other schemes introduced have been advance warning type schemes.

Searching keywords selected by the companies in relation to the scheme for the purpose of Report, 51.9% of the companies (68 companies) give descriptions relating to an independent committee or outside directors,⁵² while 68.7% (90 companies) refer to the general meeting of shareholders.

The existence of a parent had a large impact, given that a parent will naturally minimize the risk of a hostile takeover. As it turned out, only one company with a parent indicates that it has introduced takeover defense measures. In contrast, 6.4% of companies without a parent indicate that they have introduced anti-takeover schemes of one sort or another.

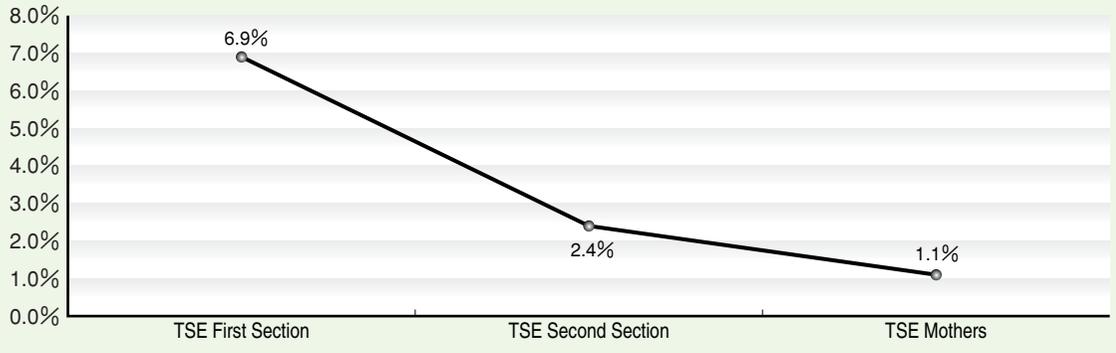
On an industry by industry basis, companies in the steel sector are most likely to introduce takeover defense measures (18.6% or 8 companies). These companies have probably been influenced by the global realignment of the sector.

⁵¹ "Introduction" means a resolution to determine actual contents of a scheme, including a resolution to issue new shares or new share reservation rights.

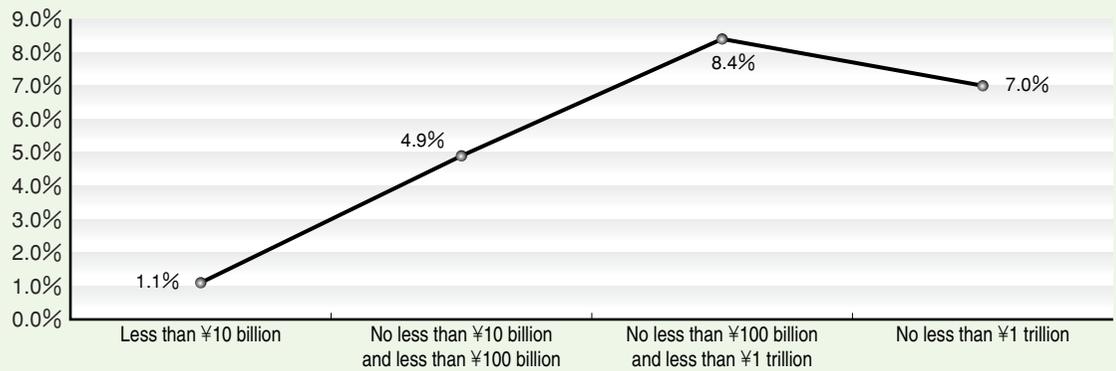
⁵⁰ "Scheme for fending off an unwanted takeover attempt" means any scheme introduced by a listed company, before any unwanted takeover attempt has actually been initiated against that company, to fend off any attempt by a third party to acquire the company (attempt to acquire a sufficient number of shares to have a significant influence on the company), through the issuance of new shares or new share reservation rights. Any issuance of new shares or new share reservation rights principally for business purposes such as fundraising shall not be regarded as an anti-takeover scheme.

⁵² With respect to the descriptions on independent committees or outside directors, any company using any one of the following key words is included: "independent committee," "special committee," and "outside."

■ Chart 70 Introduction of Takeover Defense Measures (Market Section)



■ Chart 71 Introduction of Takeover Defense Measures ((Consolidated) Net Sales)



■ Prospective Challenges – Concluding Remarks

The Exchange has striven to make an objective, diversified, and comprehensive analysis of corporate governance implemented by listed companies as described in this White Paper of Corporate Governance. We should emphasize, however, that the data used for our analysis were based almost entirely on the data collected from the Report at the end of October 2006. We did not make any comparisons with corporate governance information contained in statutory disclosure documents and we did not conduct any time series analyses. Comparisons and time series analysis would enable a more in-depth analysis of corporate governance of listed companies in Japan.

The Exchange continuously discusses corporate governance as a part of its comprehensive program to improve the listing system. In addition to discussions by the Exchange, the corporate governance has widely and proactively been deliberated at government agencies and in academic circles. This implies that corporate governance is not to be established universally, but should be adjusted according to changes in situations. In this respect, market operators have the obligation to develop an environment in which shareholders and investors are always able to easily confirm the conditions of corporate governance. Measures to make the Report available to the public are essential in this regard. The Exchange plans to update its homepage by adding a function to enable comparative searches of the data from the Report in April 2007. The availability of comparable data on corporate governance is expected to lead to amazing improvements in the near future. Investors will certainly have access to more useful investment information.

In a bid to make good practices of corporate governance accepted generally and adequately, it will be essential to improve the framework surrounding corporate governance. Moreover, there is no question that shareholders, investors, and other parties related to listed companies (including managements) will contribute to the actual implementation of corporate governance practices. The Exchange will be deeply gratified if this White Paper assists these related parties as they strive to implement genuine corporate governance structures in their organizations and contribute to the development of corporate governance as a whole in Japan.



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