

How Listed Companies Have Addressed Japan's Corporate Governance Code

(Status as of December 2016)

January 16, 2017
Tokyo Stock Exchange, Inc.

How Listed Companies Have Addressed the CG Code

- Japan's CG Code came into effect on June 1, 2015.
- As of December 31, 2016, 3,512 companies have submitted CG reports with a statement of "Comply or Explain" as per the Code (*).

Market Division	No. of companies	Change from July 2016	Scope of "Comply or Explain"
TSE 1st Section	2,002	+205	All 73 Principles { 5 General Principles ("GP") 30 Principles ("P") 38 Supplementary Principles ("SP")
TSE 2nd Section	528	+63	
Mothers	227	+30	Only 5 General Principles
JASDAQ	755	+50	
TOTAL	3,512	+348	

- We analyzed 2,530 companies listed on the TSE 1st & 2nd Sections as follows.

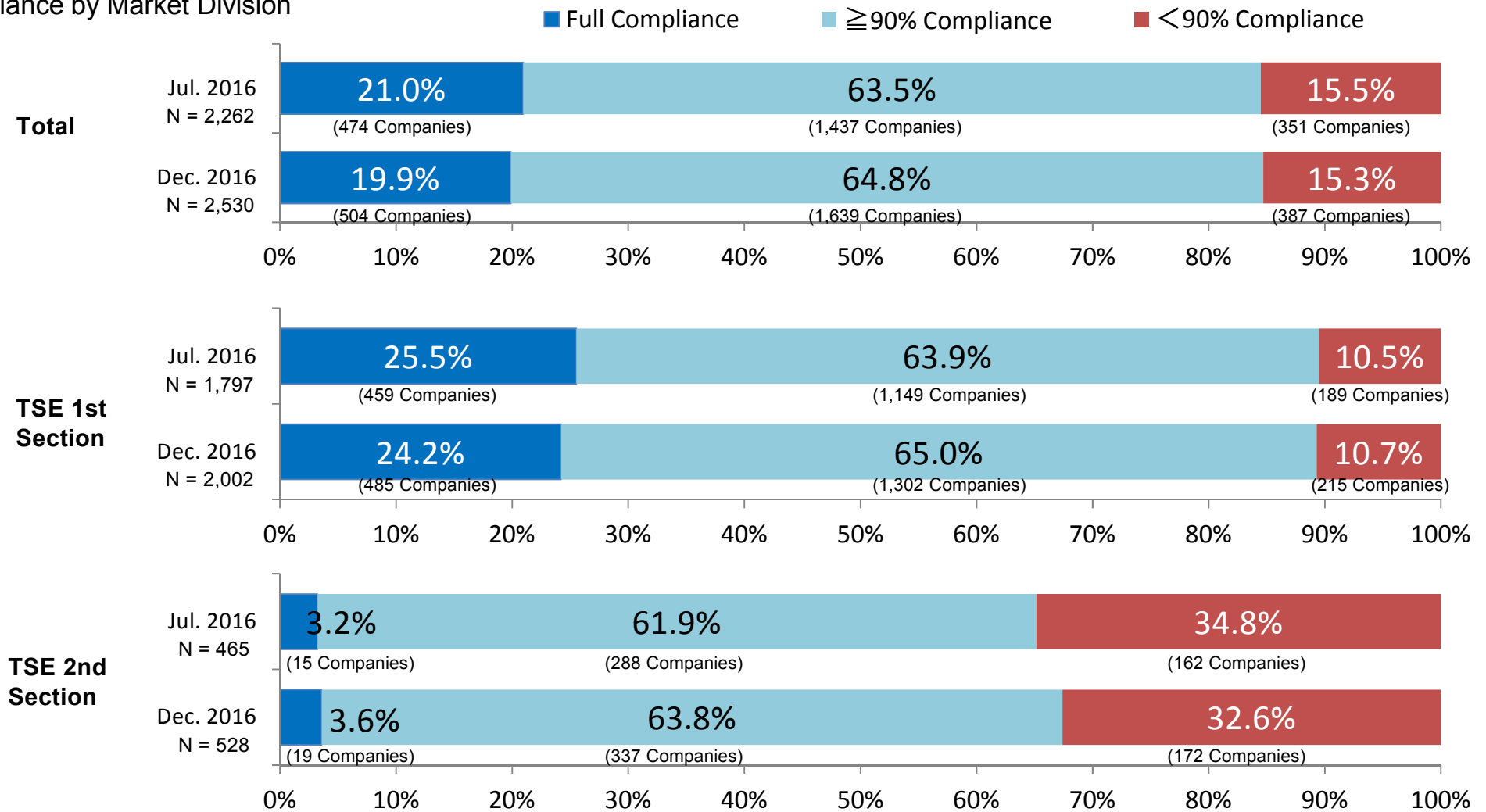
* Within all the TSE listed companies as of Dec. 31, 2016, 2 companies in JASDAQ have not yet disclosed how they addressed the CG Code.

Compliance with the Code

- As of January 2017, 2,530 companies listed on the TSE 1st & 2nd Sections have disclosed their responses to the Code (+268 companies from Jul. 2016)
- Compliance/Explanation ratios are as follows: (Change from Jul. 2016)

● Companies which have complied with all 73 principles		<u>19.9 % (504 companies)</u>	-1.0pt
● Companies which explained reasons for non-compliance with some principles		<u>80.1 % (2,026 companies)</u>	+1.0pt
Number of principles companies complied with	90% or more	<u>64.8 % (1,639 companies)</u>	+1.3pt
	Less than 90%	<u>15.3 % (387 companies)</u>	-0.2pt

Compliance by Market Division



Compliance / Explanation by Principles of the Code

➤ Among 73 principles,

- Principles with which all companies have complied 3 principles
 - Principled with which some companies provided explanations for non-compliance 70 principles
- (Change from Jul. 2016)
- 1 principle
- +1 principle
- +1 principles
- ±0 principle
- Compliance rate 90% or more 58 principles
- Less than 90% 12 principles

Principles all companies have complied with

Principles ≥90% of companies have complied with

Principles <90% of companies have complied with

No.	Principles	Compliance	Explanation	Compliance Rate	Change from Jul. 2016
Chapter 1					
1	GP1	2529	1	99.96%	+0.0pt
2	P1-1	2527	3	99.88%	-0.0pt
3	SP1-1-1	2506	24	99.05%	+0.2pt
4	SP1-1-2	2529	1	99.96%	+0.0pt
5	SP1-1-3	2527	3	99.88%	+0.0pt
6	P1-2	2456	74	97.08%	+0.6pt
7	SP1-2-1	2523	7	99.72%	-0.0pt
8	SP1-2-2	2335	195	92.29%	+0.6pt
9	SP1-2-3	2480	50	98.02%	+0.1pt
10	SP1-2-4	1069	1461	42.25%	-2.0pt
11	SP1-2-5	2342	188	92.57%	-0.3pt
12	P1-3	2450	80	96.84%	-0.1pt
13	P1-4	2430	100	96.05%	+0.6pt
14	P1-5	2507	23	99.09%	-0.0pt
15	SP1-5-1	2528	2	99.92%	+0.0pt
16	P1-6	2529	1	99.96%	+0.0pt
17	P1-7	2519	11	99.57%	+0.1pt
Chapter 2					
18	GP2	2529	1	99.96%	-0.0pt
19	P2-1	2530	0	100.00%	±0.0pt
20	P2-2	2524	6	99.76%	+0.0pt
21	SP2-2-1	2492	38	98.50%	-0.0pt
22	P2-3	2522	8	99.68%	-0.1pt
23	SP2-3-1	2520	10	99.60%	-0.0pt
24	P2-4	2517	13	99.49%	+0.1pt
25	P2-5	2513	17	99.33%	-0.0pt
26	SP2-5-1	2420	110	95.65%	-0.1pt

No.	Principles	Compliance	Explanation	Compliance Rate	Change from Jul. 2016
Chapter 3					
27	GP3	2527	3	99.88%	+0.0pt
28	P3-1	2185	345	86.36%	+0.5pt
29	SP3-1-1	2514	16	99.37%	+0.4pt
30	SP3-1-2	1770	760	69.96%	-1.9pt
31	P3-2	2524	6	99.76%	+0.1pt
32	SP3-2-1	2423	107	95.77%	+0.5pt
33	SP3-2-2	2509	21	99.17%	+0.1pt
Chapter 4					
34	GP4	2526	4	99.84%	+0.1pt
35	P4-1	2502	28	98.89%	+0.3pt
36	SP4-1-1	2516	14	99.45%	-0.0pt
37	SP4-1-2	2157	373	85.26%	-1.1pt
38	SP4-1-3	2153	377	85.10%	-1.1pt
39	P4-2	2243	287	88.66%	-0.4pt
40	SP4-2-1	1735	795	68.58%	-1.6pt
41	P4-3	2506	24	99.05%	-0.0pt
42	SP4-3-1	2473	57	97.75%	+0.0pt
43	SP4-3-2	2525	5	99.80%	-0.0pt
44	P4-4	2530	0	100.00%	±0.0pt
45	SP4-4-1	2505	25	99.01%	+0.2pt
46	P4-5	2529	1	99.96%	+0.0pt
47	P4-6	2502	28	98.89%	-0.0pt
48	P4-7	2472	58	97.71%	+0.1pt
49	P4-8	2010	520	79.45%	+0.6pt
50	SP4-8-1	2217	313	87.63%	+0.3pt
51	SP4-8-2	2156	374	85.22%	+0.0pt
52	P4-9	2410	120	95.26%	+0.3pt

No.	Principles	Compliance	Explanation	Compliance Rate	Change from Jul. 2016
53	P4-10	2380	150	94.07%	+0.3pt
54	SP4-10-1	1881	649	74.35%	-0.5pt
55	P4-11	2382	148	94.15%	+0.6pt
56	SP4-11-1	2486	44	98.26%	-0.3pt
57	SP4-11-2	2528	2	99.92%	+0.1pt
58	SP4-11-3	1398	1132	55.26%	+0.2pt
59	P4-12	2528	2	99.92%	+0.1pt
60	SP4-12-1	2493	37	98.54%	-0.0pt
61	P4-13	2528	2	99.92%	+0.1pt
62	SP4-13-1	2530	0	100.00%	±0.0pt
63	SP4-13-2	2529	1	99.96%	+0.0pt
64	SP4-13-3	2526	4	99.84%	-0.1pt
65	P4-14	2495	35	98.62%	+0.2pt
66	SP4-14-1	2505	25	99.01%	-0.0pt
67	SP4-14-2	2457	73	97.11%	-0.4pt
Chapter 5					
68	GP5	2526	4	99.84%	+0.0pt
69	P5-1	2492	38	98.50%	-0.1pt
70	SP5-1-1	2524	6	99.76%	+0.0pt
71	SP5-1-2	2490	40	98.42%	+0.0pt
72	SP5-1-3	2521	9	99.64%	-0.0pt
73	P5-2	2273	257	89.84%	-0.3pt

(Reference)

Average Compliance Rate by the layer of the Code Principles

Layers	Average Compliance Rate	Change from Jul. 2016
GP (General Principles)	99.90%	+0.0pt
P (Principles)	96.86%	+0.1pt
SP (Supplementary Principles)	92.36%	-0.2pt

Principles with Higher Explanation Rates

Principles that more than 20% of all companies chose to supply “explanations”

Principles	Content	No. of Companies Complying	No. of Companies Explaining	Explanation Rate	Change from Jul. 2016
SP 1-2-4	Electronic voting / English AGM notices	1,069	1,461	57.7%	+2.0pt
SP 4-11-3	Board evaluation and disclosure of summary	1,398	1,132	44.7%	-0.2pt
SP 4-2-1	Remuneration reflecting mid-to-long term growth	1,735	795	31.4%	+1.6pt
SP 3-1-2	Provision of English language disclosures	1,770	760	30.0%	+1.9pt
SP 4-10-1	Involvement and advice from independent directors on remuneration / nomination	1,881	649	25.7%	+0.5pt
P 4-8	Two or more independent directors	2,010	520	20.6%	-0.6pt

Contents of Explanations

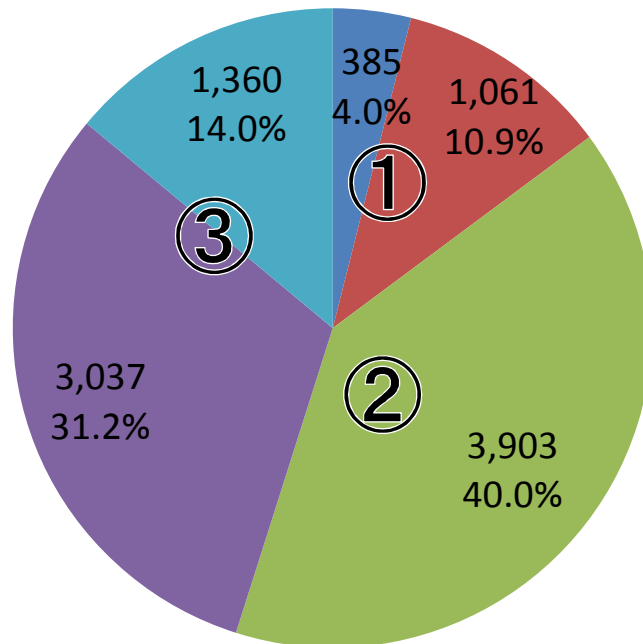
➤ For 70 Principles, 2,026 companies have supplied a total of 9,746 “Explanations” (+1,107 from Jul. 2016)

Breakdown of Reasons for Non-compliance:

(Change from Jul. 2016)

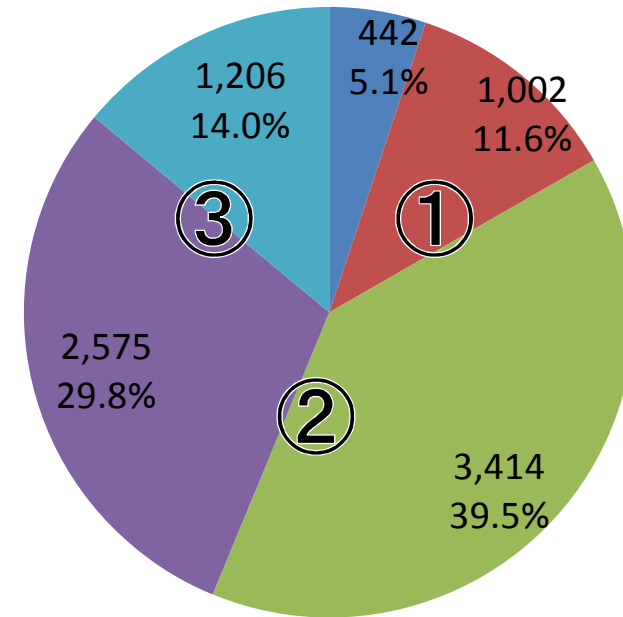
1. Indicating their intention to comply in the future	<u>14.8%</u>	-1.9pt
2. Stating that they have yet to decide whether to comply or not	<u>40.0%</u>	+0.5pt
3. Having no plan to comply due to company-specific reasons	<u>45.1%</u>	+1.3pt

December 2016



N = 9,746

(Reference) July 2016



N = 8,639

(Legend)

- Will comply in the future (timeline provided)
- Will comply in the future (no timeline provided)
- Considering whether to comply or not
- No plan to comply (due to specific circumstances)
- No plan to comply (alternative measures to be taken)