

TSE-Listed Companies White Paper on Corporate Governance 2017

Tokyo Stock Exchange, Inc.



JPX

TOKYO STOCK EXCHANGE

TSE-Listed Companies
White Paper on Corporate Governance
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Introduction

From the perspective of ensuring shareholder protection on par with international standards so that both domestic and foreign investors can participate in the market with confidence as well as enhancing corporate governance based thereon by illustrating corporate governance initiatives of all Tokyo Stock Exchange (hereinafter, “TSE”)-listed companies and progress therein, TSE has made a comprehensive analysis of the current state of their corporate governance based on data in reports on corporate governance disclosed by listed companies (hereinafter, the “CG Report”), and published the White Paper on Corporate Governance in every other year since 2007. This White Paper on Corporate Governance 2017 (hereinafter “this White Paper”) is the sixth publication in the series.

Up until now, TSE has taken various initiatives, such as urging listed companies to enhance corporate governance in 1999, formulating the Principles of Corporate Governance for Listed Companies in 2004, institutionalizing CG Reports in 2006, and introducing the independent directors/*kansayaku* system in 2009. In 2015, the Japan’s Corporate Governance Code (hereinafter “the Code”), which established fundamental principles for effective corporate governance at listed companies was formulated.

The format of the White Paper has been redesigned to incorporate new items such as the situation of the Company with Supervisory Committee that was introduced under the revised Companies Act in May 2015 and the status of response to the Code that was first applied from that year. In response to changes in the environment including the formulation of the Code, many listed companies and investors that conduct constructive dialogs with listed companies are engaged in earnest efforts to reform governance so that it goes beyond being a mere formality to something that is more substantial. We hope that this White Paper will provide the stakeholders involved in these efforts with an overview of the state of corporate governance efforts by listed companies in Japan that are beginning to undergo dramatic changes.

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

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White Paper on Corporate Governance 2017

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Part I

Structure of this Document

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

An analysis on the Code applied from June 2015 has been added from this survey. The Code established principles for contributing to the achievement of effective corporate governance, and it is composed of a total of 73 principles, consisting of 5 General Principles, 30 Principles, and 38 Supplementary Principles. It adopts “comply or explain” approach (either comply with a principle or, if not, explain the reasons why not to do so). In other words, the Code assumes that if a company finds specific principles (General Principles, Principles, and Supplementary Principles) inappropriate to comply with in view of their individual circumstances, they need not be complied with, provided that the company explains fully the reasons why it does not comply. Companies listed on TSE First Section and TSE Second Section have an obligation to disclose the status of the comply or explain approach for all 73 principles, and an analysis of these disclosures has been reflected in “Part I” and “Part II”.

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

The structure of “Part II” has been revised in the same manner as the chapter structure for the Code as follows: “1. Securing the Rights and Equal Treatment of Shareholders”, “2. Appropriate Cooperation with Stakeholders Other Than Shareholders”, “3. Ensuring Appropriate Information Disclosure and Transparency”, “4. Responsibilities of the Board”, “5. Dialogue with Shareholders”.

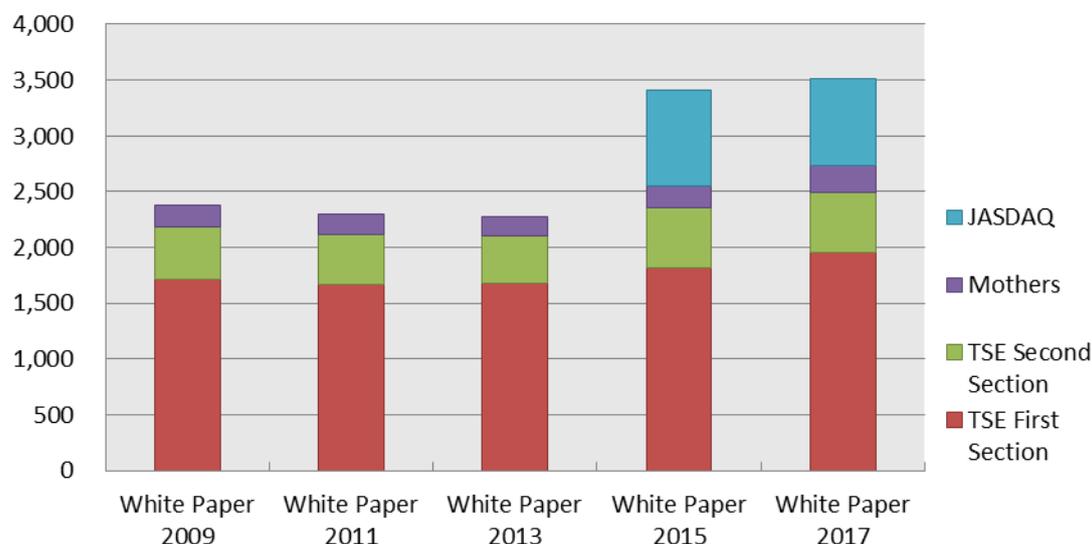
Scope of Analysis

This time, we analyzed data from the CG Reports of all domestic companies listed on the First Section, the Second Section, Mothers, and JASDAQ of TSE totaling 3,507 companies as of July 14, 2016. In terms of the Code, we analyzed the status of response 2,262 TSE First Section and TSE Second Section companies that had made disclosures on the response to the Code up to July 14, 2016.¹ Furthermore, we also looked at data from the previous surveys, and referred to changes in numbers, where appropriate.²

¹ For only “Part I 2 How listed companies have addressed the Corporate Governance Code”, the scope included 2,530 First Section and Second Section companies that had made disclosures on the response to the Code up to December 31, 2016.

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

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



White Paper Vol. (as of)	White Paper 2009 21-Aug-08	White Paper 2011 10-Sep-10	White Paper 2013 10-Sep-12	White Paper 2015 14-Jul-14	White Paper 2017 14-Jul-16
TSE First Section	1,717	1,669	1,680	1,814	1,956
TSE Second Section	466	443	419	545	539
Mothers	195	182	176	194	239
JASDAQ				861	773
Total	2,378	2,294	2,275	3,414	3,507

Methodology for Analysis

Upon submission of the CG Reports to TSE, XBRL files are automatically generated. Similarly to the previous analysis, TSE used data in XBRL files for numerical data classification and aggregation.³ To analyze the overall trends of topics in free-text description sections, TSE defined several keywords, as appropriate, and aggregated the number of responses containing such keywords in the descriptions. Furthermore, for disclosures based on each of the principles in the Code, typical and characteristic examples of such descriptions are also introduced in this White Paper.

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

1. Corporate attributes⁴

1-1. Listed exchange and market division

The numbers of TSE-listed companies by market division are as follows: 1,956 companies listed on TSE First Section, 539 companies on TSE Second Section, 239 companies on Mothers, and 773 companies on JASDAQ (Chart 2). Note that there are 305 companies (8.7%) that are cross-listed on other exchanges in Japan.

Chart 2 Number of Listed Companies (by Market Division)

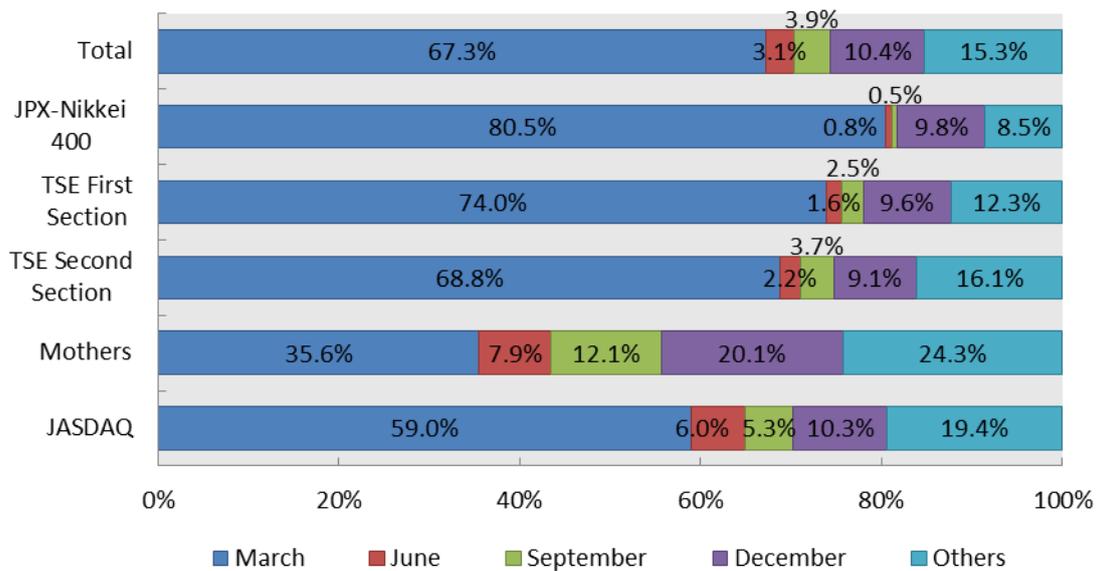
Market	Number of companies		Ratio
		Change from 2014	
Total	3,507	93	100.0%
JPX-Nikkei 400	400	--	11.4%
TSE First Section	1,956	142	55.8%
TSE Second Section	539	▲ 6	15.4%
Mothers	239	45	6.8%
JASDAQ	773	▲ 88	22.0%

1-2. Fiscal year-end

Chart 3 shows when a fiscal year of TSE-listed companies ends. The fiscal year of 67.3% of TSE-listed companies ends in March. As this percentage was 76.4% in 2006, it has decreased by 9.1 points over a period of ten years. If you look at each market division in terms of a percentage share of companies with a fiscal year ending in March, the share is large in TSE First Section (74.0%) and TSE Second Section (68.8%), while that of Mothers and JASDAQ is only 35.6% and 59.0% respectively, indicating dispersed fiscal years ending in December or September.

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

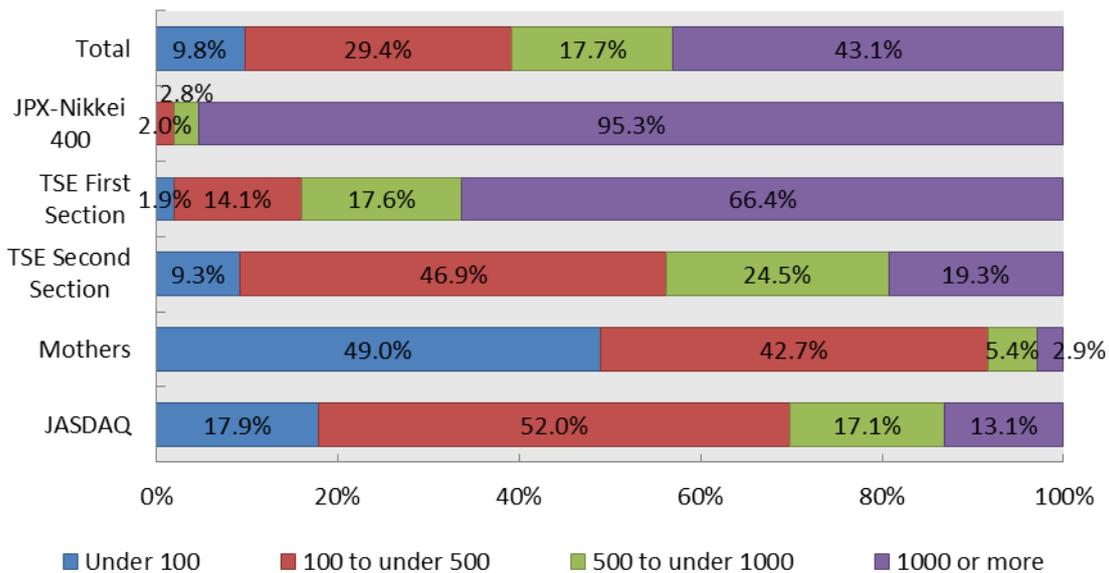
Chart 3 Fiscal Year End (by Market Division)



1-3. Number of employees

The distribution of the size of TSE-listed companies in terms of the number of employees (consolidated)⁵ is as shown in Chart 4. Companies with 1,000 or more employees (consolidated) accounted for 43.1% of the total. As the companies with 1,000 or more employees (consolidated) accounted for 66.4% of TSE First Section, this reflects the larger size of companies in this division than other markets.

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

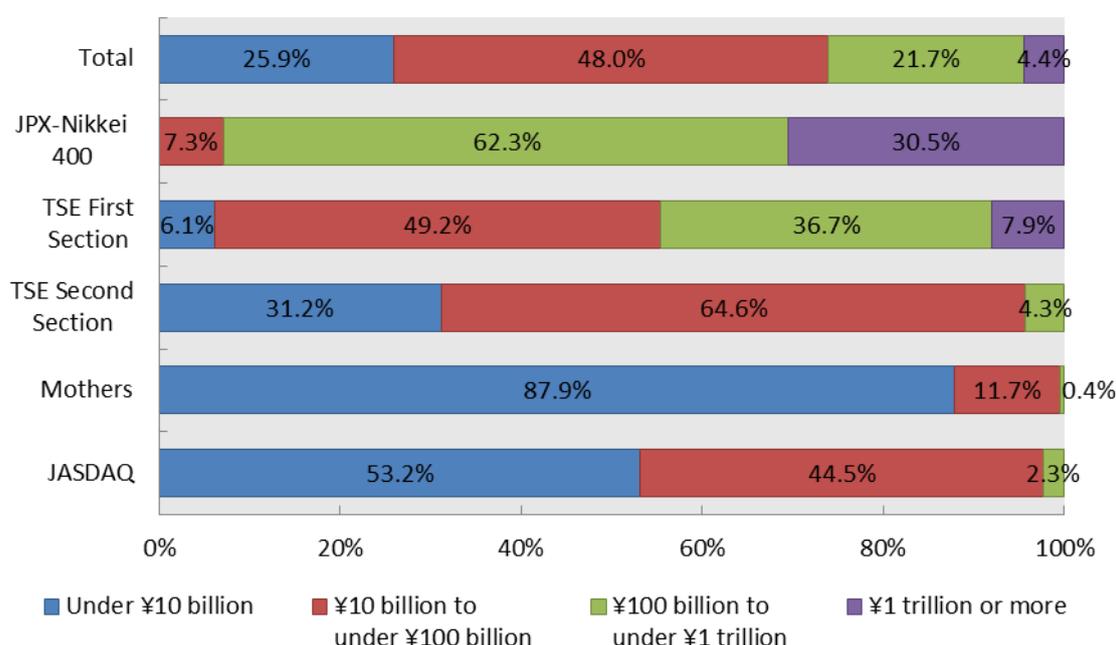


⁵ In the case of companies which do not prepare consolidated financial statements, we used unconsolidated numbers of employees.

1-4. Sales

The distribution of the size of TSE-listed companies in terms of consolidated sales is as shown in Chart 5. Companies with 10 billion yen to 100 billion yen in consolidated sales accounted for the largest share of 48.0%. Looking at the results by market division, the percentage of companies with high consolidated sales tends to be higher in the order of TSE First Section, TSE Second Section, JASDAQ, and Mothers. As for JPX-Nikkei 400 companies, companies with 100 billion yen or more in consolidated sales made up 92.8%, including those with 1 trillion or more which accounted for 30.5%.

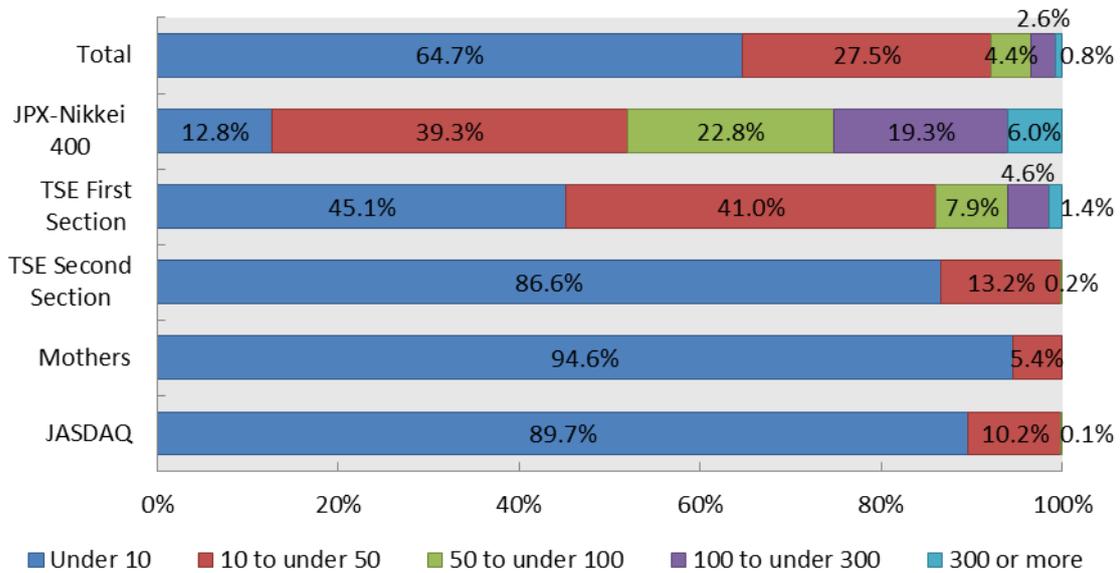
Chart 5 Consolidated Sales (by Market Division)



1-5. Number of consolidated subsidiaries

The numbers of consolidated subsidiaries of TSE-listed companies are as shown in Chart 6. Companies with less than 10 consolidated subsidiaries accounted for 64.7%. Looking at the results by market division, the percentage of companies with 10 or more consolidated subsidiaries tends to be higher in the order of TSE First Section, TSE Second Section, JASDAQ, and Mothers. As for JPX-Nikkei 400 companies, companies with 10 or more consolidated subsidiaries made up 87.2%.

Chart 6 Number of Consolidated Subsidiaries (by Market Division)



1-6. Foreign shareholding ratio

Chart 7 shows foreign shareholding ratios among TSE-listed companies by market division. The percentage share of companies with a higher foreign shareholding ratio is greater among those listed on TSE First Section, compared to other market divisions. Specifically, companies with 30% or more foreign shareholding constitute 14.6% of companies listed on TSE First Section, 2.2% of TSE Second Section companies, 2.9% of Mothers companies, and 2.7% of JASDAQ companies. Among JPX-Nikkei 400 companies, the category of 30% or more foreign shareholding is the largest, accounting for 42.8%, while the category of less than 10% foreign shareholding made up only 3.5%.

As for the relation with consolidated sales as shown in Chart 8, the larger the consolidated sales are, the higher percentage share is accounted for by companies with higher foreign shareholding ratio.

Chart 7 Foreign Shareholding Ratio (by Market Division)

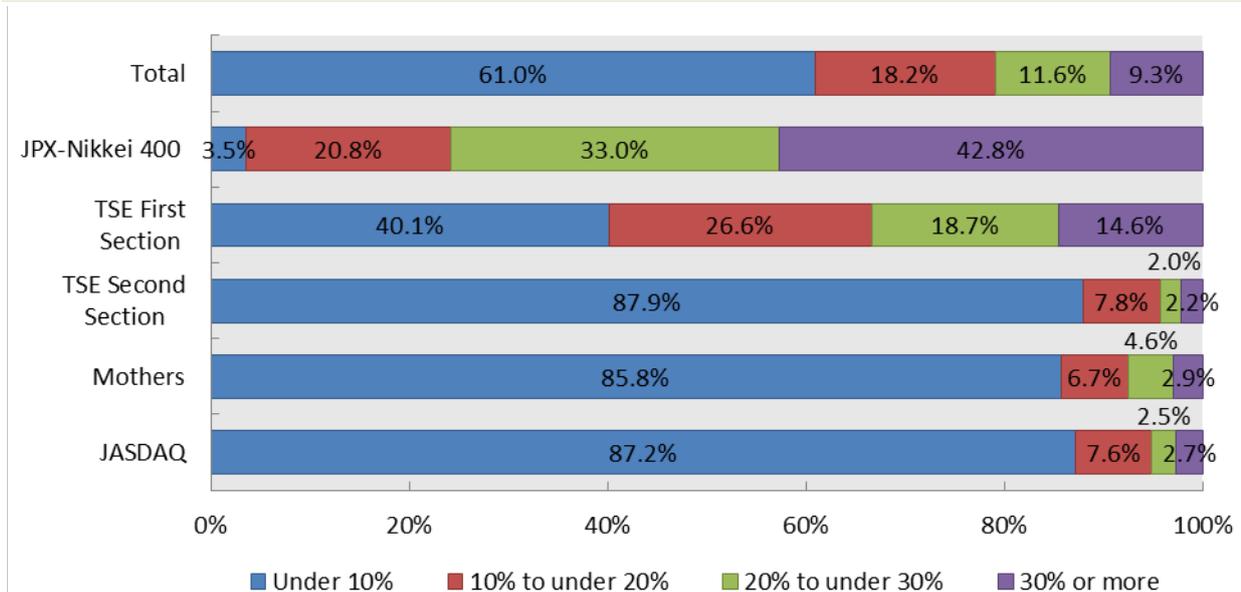
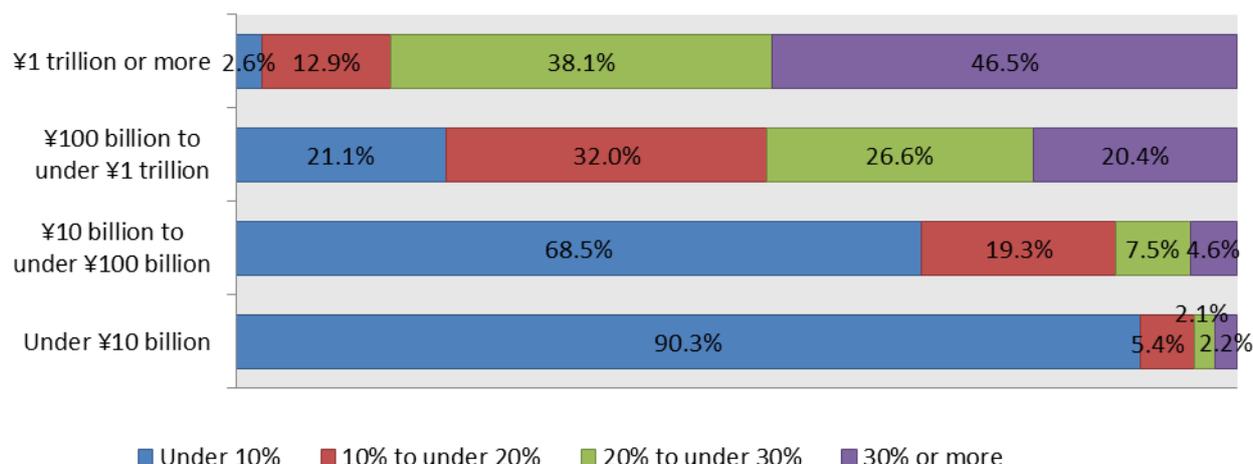


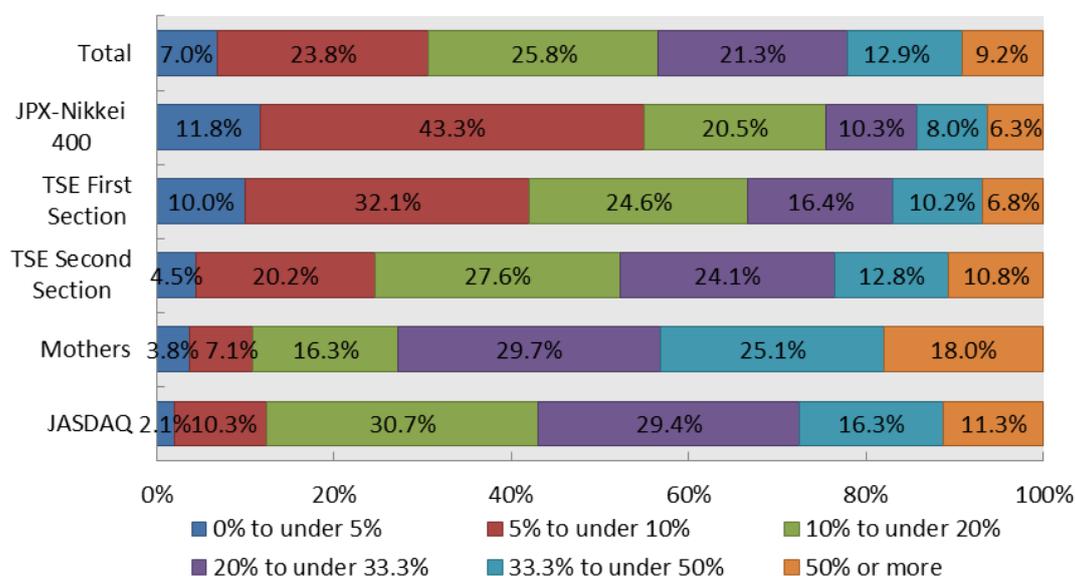
Chart 8 Foreign Shareholding Ratio (by Consolidated Sales)



1-7. Major shareholders⁶

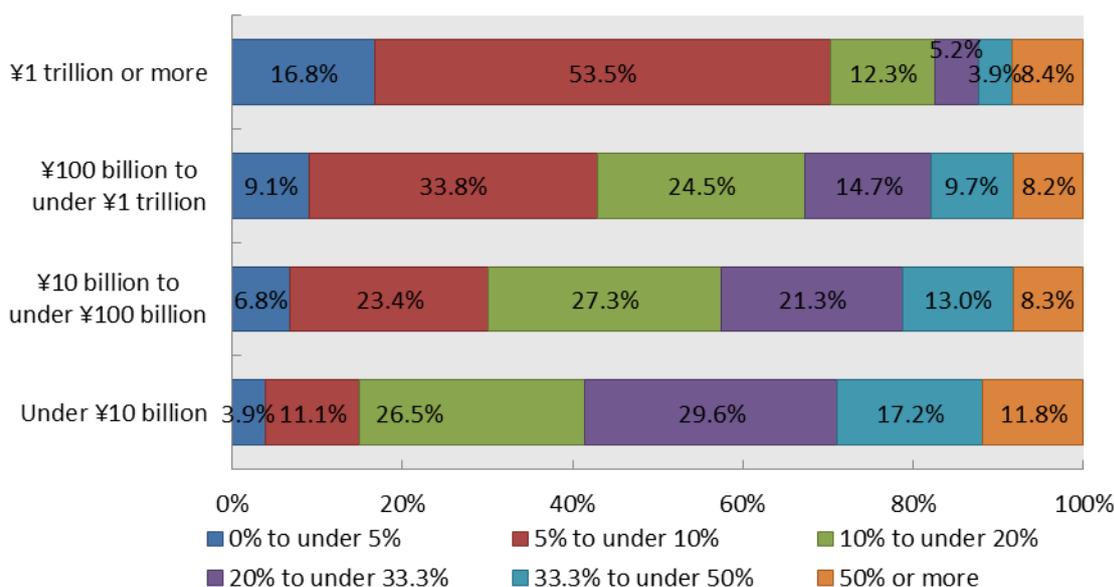
As for information on major shareholders, the CG Report requires companies to provide the names of the top ten shareholders, the number of shares held, and the shareholding ratio. Among major shareholders, Chart 9 shows shareholding ratios of the largest shareholder of TSE-listed companies. The shareholding ratios of the largest shareholder tend to get lower in the order of TSE First Section, TSE Second Section, JASDAQ, and Mothers. Among JPX-Nikkei 400 companies, there are more companies with low shareholding ratios of the largest shareholder than in TSE First Section. As for the relation with the consolidated sales as shown in Chart 10, the larger consolidated sales are, the lower shareholding ratios of the largest shareholder are. This indicates that there is a high degree of dispersion of shareholders among companies in TSE First Section and companies with high sales.

Chart 9 Shareholding Ratio of the Largest Shareholder (by Market Division)



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

Chart 10 Shareholding Ratio of the Largest Shareholder (by Consolidated Sales)



1-8. Existence of controlling shareholder /parent company

Companies are required to state in their CG Reports whether or not they have any controlling shareholder⁷, and whether or not they have a parent company⁸. A controlling shareholder is a concept which includes a parent company and a major shareholder who holds the majority of voting rights of a listed company after combining the voting rights held for its own account and the voting rights held by a close relative, etc. Among TSE-listed companies, 627 companies have controlling shareholders, accounting for 17.9% of all listed companies. Out of them, 383 (10.9% of all listed companies) have parent companies, and 244 (7.0% of all) have controlling shareholders other than a parent company.⁹ 324 (84.6%) of companies with parent companies (9.2% of all) have listed parent companies(Chart 11).

In terms of market division, high percentages of TSE Second Section (15.2%) and JASDAQ (14.4%) companies have parent companies. The percentage of companies that have controlling shareholders other than a parent company is high for Mothers (23.8%) and JASDAQ (11.9%) companies (Chart 12). It is believed that this is due to the fact that in many cases individuals such as founders are the controlling shareholders for Mothers and JASDAQ companies. While the percentage of all listed companies with a controlling shareholder increased slightly with the addition of JASDAQ when TSE and Osaka Securities Exchange merged in 2013, it has mostly remained flat (Chart 11).

1,108 companies (31.6% of all listed companies) provided supplementary explanations regarding capital structure. A large part of these are descriptions regarding changes in large shareholders (784 companies), deduction of treasury shares (413 companies), and confirmation of large volume possession reports (364 companies).

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

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

⁹ Controlling shareholders other than parent companies are generally individuals such as owners.

Chart 11 Existence of Controlling Shareholder /Parent Company

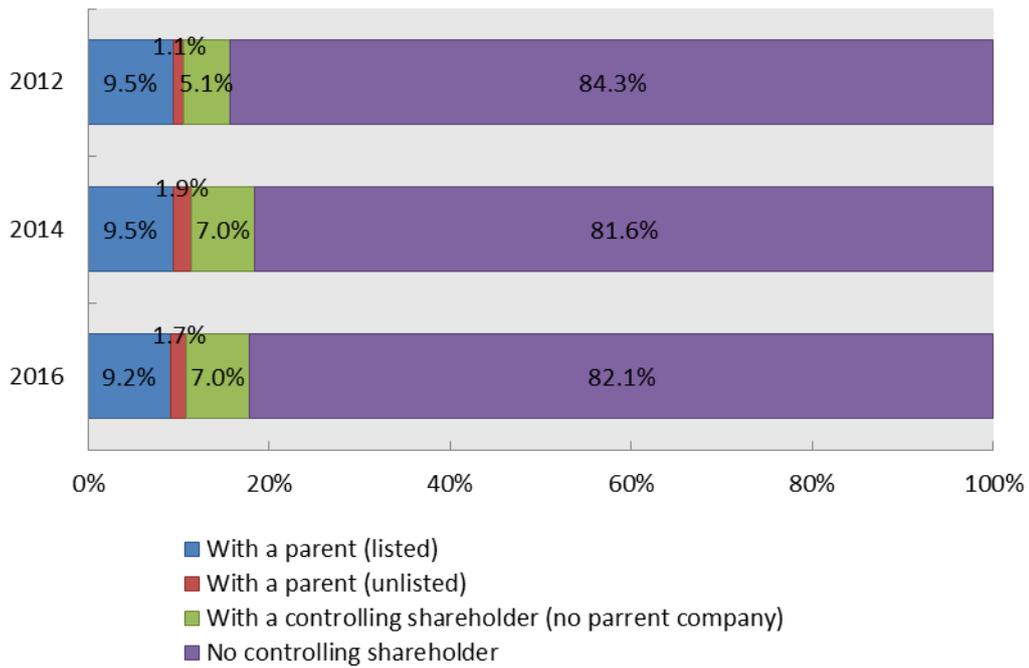
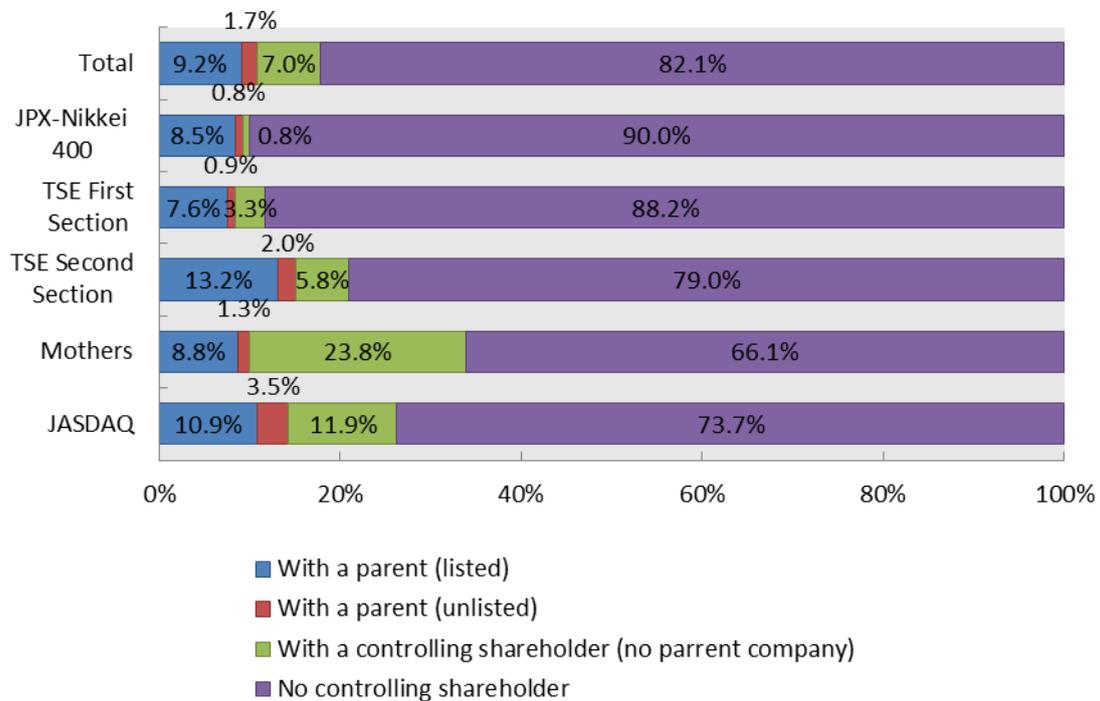


Chart 12 Existence of Controlling Shareholder /Parent Company (by Market Division)



2. How listed companies have addressed the Corporate Governance Code

The Code¹⁰ established principles for contributing to the achievement of effective corporate governance, and it is composed of a total of 73 principles, consisting of 5 General Principles, 30 Principles, and 38 Supplementary Principles. It adopts “comply or explain” approach (either comply with a principle or, if not, explain the reasons why not to do so). In other words, the Code assumes that if a company finds specific principles (General Principles, Principles, and Supplementary Principles) inappropriate to comply with in view of their individual circumstances, they need not be complied with, provided that the company explains fully the reasons why it does not comply. Companies listed on TSE First Section and TSE Second Section have an obligation to disclose the status of the comply or explain approach for all 73 principles in the CG Report. After the Code came into force, companies have disclosed their response to the Code.

As of December 31, 2016 after a round of listed companies have disclosed their efforts in response to the Code, TSE has totaled and released the status of response to the Code by 2,530 companies listed on TSE First Section and TSE Second Section. Chart 13 shows the overall response to the Code by TSE First Section and TSE Second Section. For TSE First Section and TSE Second Section total, 19.9% of companies have complied with all 73 principles. Looking at the remaining companies, 64.8% have complied with at least 90% of all principles, which means that such companies have explained the reasons of non-compliance with no more than 7 out of 73 principles. The average number of principles of non-compliance per TSE First Section or TSE Second Section company is 3.85, while the median value is 3.

In terms of market division, of the 2,002 TSE First Section companies, 24.2% of companies comply with all principles, and 65.0% of companies comply with at least 90% of all principles. On the other hand, of the 528 TSE Second Section companies, 3.6% of companies comply with all principles, and 63.8% of companies comply with at least 90% of all principles, which indicates that TSE First Section companies tend to comply with more principles than TSE Second Section companies. Among JPX-Nikkei 400 companies, the percentage of companies complying with all principles is 48.7%, which is significantly higher than TSE First Section and TSE Second Section total.

The results by market capitalization are as shown in Chart 14, and the general trend is that the larger companies comply with more principles.

In terms of the results by industry, the ratio of companies that complied with all principles was highest for banking (80.2%), followed by insurance (55.6%), air transportation (40.0%), and electric power & gas (39.1%)(Chart 15).

Note that companies listed on Mothers and JASDAQ are only required to comply or explain for the five General Principles of the Code. Among the 982 companies (227 Mothers companies and 755 JASDAQ companies) that made disclosures on the response to the Code by December 31, 2016, there were 3 companies (all JASDAQ companies) that stated the non-compliance with some General Principles.

¹⁰ Refer to the Japan Exchange Group website for the full text of the Code.
<http://www.jpx.co.jp/english/equities/listing/cg/index.html>

Chart 13 Code Compliance by Company (by Market Division)

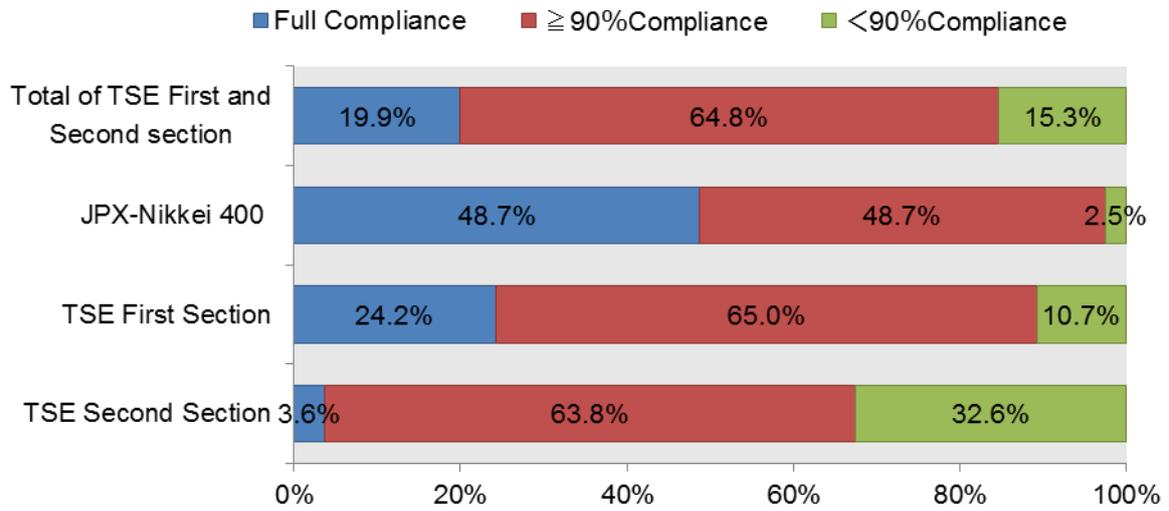


Chart 14 Code Compliance by Company (by Market Capitalization)

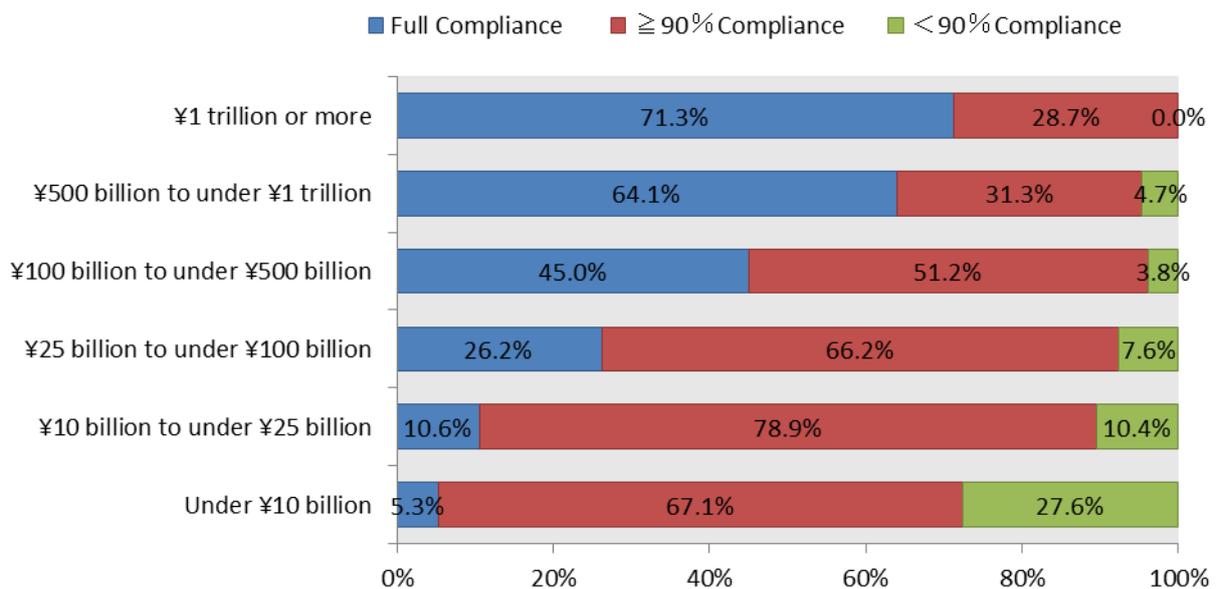
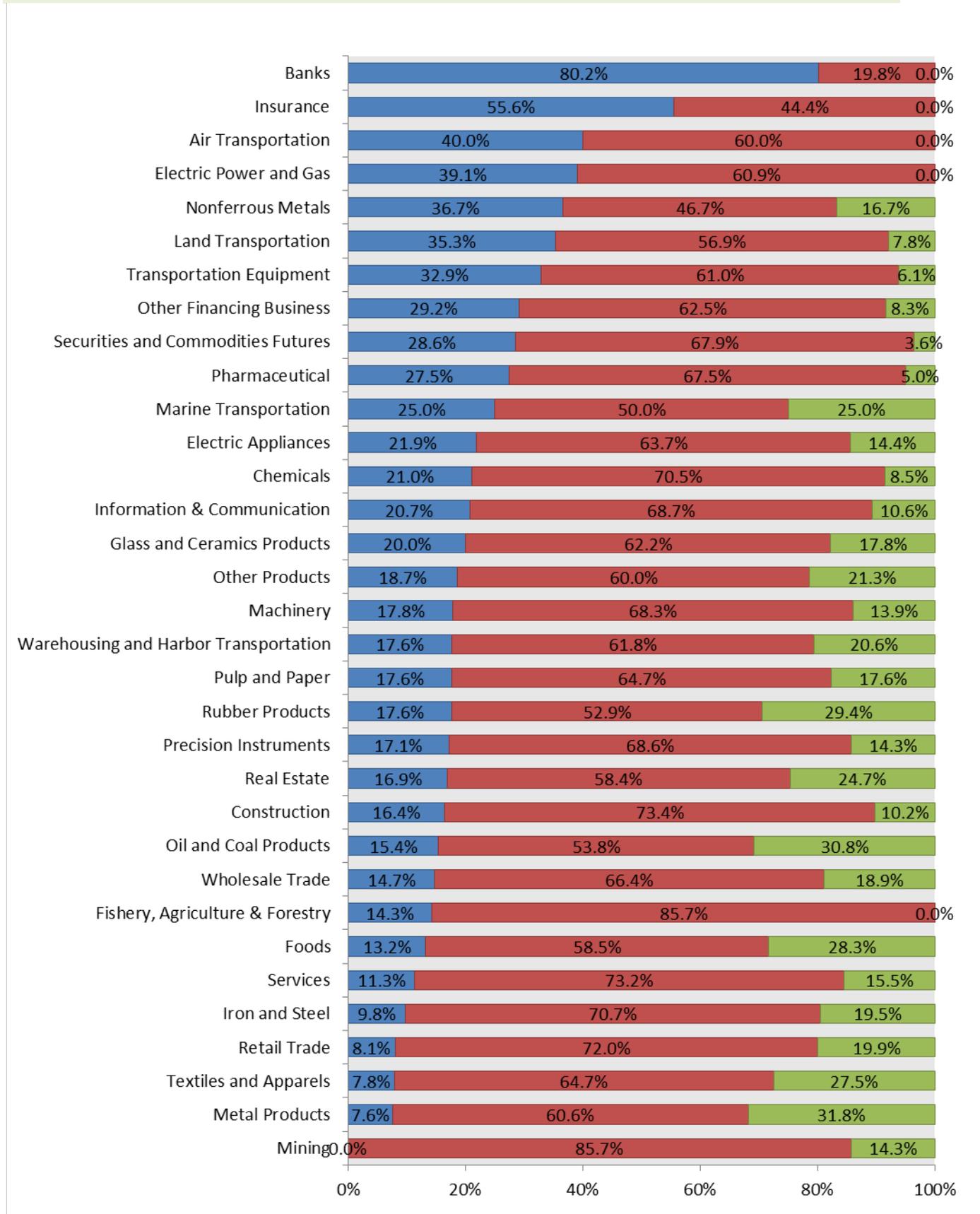


Chart 15 Code Compliance by Company (by Industry)

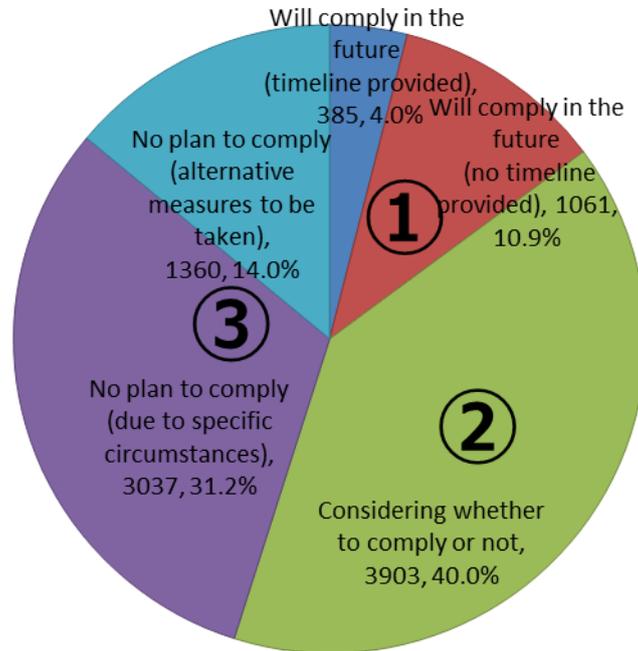


Looking at all the 2,530 TSE First Section and TSE Second Section companies that conducted disclosures on Code compliance as of December 31, 2016, there were a total of 9,746 cases of explanations of non-compliance.

The contents of these explanations can roughly be classified into the three categories of “(1) Will comply in the future”, “(2) Considering whether to comply”, and “(3) No plans to comply”, and the component ratio of each category is displayed in Chart 16.

In this analysis, the most common response was “(3) No plans to comply”, as 45.1% of all cases of explanations could be classified in this category. Of these responses, 31.2% consisted of explanations that there were no plans to comply with principles due to the unique circumstances of the company, and the remaining 14.0% consisted of explanations that the purpose of the principles would be achieved through alternative methods to measures indicated in the principles for the Code. The second most common response was “(2) Considering whether to comply”, as 40.0% of all could be classified in this category. The least common response was “(1) Will comply in the future”, as 14.8% of all could be classified in this category. Of these responses, only 4.0% clearly indicated a scheduled timing for compliance. While clearly indicating a scheduled timing for compliance is not a requirement, it is believed that doing so makes it easier to communicate to investors that the matter is being given specific consideration.

Chart 16 Categories of the Contents of Explanations



Part II

1. Securing the rights and equal treatment of shareholders

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

[General Principle 1]

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

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

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

TSE has requested listed companies to create an environment to facilitate the exercise of shareholders' voting rights in order to achieve effective corporate governance by securing shareholder rights and equal treatment of shareholders, through early notification of general shareholders meetings, scheduling of the meetings avoiding the peak day, exercise of voting rights by electronic means, the use of electronic voting platforms for institutional investors, and the English translation of convening notices^{11,12}.

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

1-1. Early dispatch of convening notice

60.7% of listed companies state that they dispatch convening notices for general shareholders meetings earlier.¹³ As for the timing of dispatching convening notices, 520 companies stated approximately 3 weeks prior to the general shareholders meeting, and 25 companies stated about 4 weeks in advance.

In terms of the results by market division, companies providing early notification accounted for 74.4% of companies listed on TSE First Section, showing a higher ratio compared with TSE Second Section (52.3%), Mothers (66.9%), and JASDAQ (30.0%). (Chart 17). As for JPX-Nikkei 400 companies, 87.0% of them dispatch the notices well in advance. This is 12.6 points higher than that of TSE First Section (74.4%). In addition, as shown in Chart 18, companies with higher consolidated sales are more likely to provide early notification, and the larger the company, the more likely it is to send out convening notices early. Another notable feature is, as shown in Chart 19, that companies with higher foreign shareholding ratios are more likely

¹¹ TSE "Request for Creating Environment to Facilitate Shareholders' Exercise of Voting Rights at General Shareholder Meetings" TSE Jo/Sa (listing company support) No. 255 (March 18, 2003).

¹² Rule 446 of Securities Listing Regulations, and Rule 437 of Enforcement Rules for Securities Listing Regulations.

¹³ In the CG Report, "early notification" is defined as the cases where companies dispatched convening notices of the most recent ordinary general meeting of shareholders 3 or more business days earlier than the statutory notification deadline.

to provide early notification.

Chart 17 Efforts for Encouraging Shareholders' Participation in General Meetings (by Market Division)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform for institutional investors	Preparation of convening notice, etc. in English
Total	60.7%	57.4%	33.1%	24.1%	26.6%
JPX-Nikkei 400	87.0%	66.3%	84.8%	80.0%	82.8%
TSE First Section	74.4%	59.3%	47.0%	37.9%	41.7%
TSE Second Section	52.3%	46.0%	10.9%	4.3%	5.6%
Mothers	66.9%	83.3%	49.8%	27.6%	26.4%
JASDAQ	30.0%	52.7%	8.3%	1.8%	3.2%

Chart 18 Efforts for Encouraging Shareholders' Participation in General Meetings (by Consolidated Sales)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform for institutional investors	Preparation of convening notice, etc. in English
Under ¥10 billion	45.2%	60.5%	22.4%	9.5%	9.4%
¥10 billion to under ¥100 billion	57.9%	54.5%	20.4%	12.4%	16.0%
¥100 billion to under ¥1 trillion	78.8%	57.4%	61.2%	53.4%	56.3%
¥1 trillion or more	93.5%	70.3%	96.8%	93.5%	97.4%

Chart 19 Efforts for Encouraging Shareholders' Participation in General Meetings (by Foreign Shareholding Ratio)

	Early dispatch of convening notice	Avoidance of peak day (companies with a fiscal year ending in March)	Exercise of voting rights by electronic means	Use of electronic voting platform for institutional investors	Preparation of convening notice, etc. in English
Under 10%	52.3%	55.5%	18.4%	8.1%	9.2%
10% to under 20%	68.9%	57.8%	44.1%	35.3%	38.1%
20% to under 30%	75.7%	59.5%	60.0%	53.1%	59.2%
30% or more	81.2%	66.5%	74.8%	70.8%	77.5%

The compliance rate¹⁴ with Supplementary Principle 1.2.2 that prescribes ensuring sufficient time for consideration of the agenda for general shareholders meetings and disclosure on the website in advance of sending the convening notice was 91.6% as of July 14, 2016.¹⁵

¹⁴ The Code adopts an approach of “comply or explain” (either comply with a principle or, if not, explain the reasons why not to do so). The “compliance rate” is the percentage of companies that have complied with each principle among the companies in the scope of calculation. The same applies below.

¹⁵ Calculated based on a population of 2,262 First Section and Second Section companies that had made disclosures on the status of response to the Code up to July 14, 2016. Hereinafter, the same applies for the compliance rate for each principle of the Code unless noted otherwise.

1-2. Avoidance of peak day

Companies with a fiscal year ending in March accounted for 67.3% of all TSE-listed companies (Chart 3), still showing a high ratio. Partly because shareholders' rights may be exercised only within 3 months from the record date¹⁶, most companies hold their annual general shareholders meetings around the end of June. Consequently, setting the annual general meeting on such a "peak day" - the date most other listed companies also hold annual general meetings - is considered to hinder shareholders' participation, and TSE has requested to make efforts to diversify the dates of annual general meetings.¹⁷

Out of all companies with a fiscal year ending in March, 57.4% scheduled such meetings on days other than the peak day.¹⁸ Note that the concentration rate for the peak days for companies with a fiscal year ending in March separately calculated and disclosed by TSE fell to 32.2% in June 2016.¹⁹ One of the reasons for avoiding the peak day is so that as many shareholders as possible can attend the meeting (479 companies, 13.7%). Moreover, there were also descriptions on holding general shareholders meetings on Saturdays or Sundays for shareholders' convenience. In relation to venues, there were descriptions on consideration to the convenience of access, such as the distance from stations.

Analyzing companies with a fiscal year ending in March by market division, companies avoiding the peak day accounted for 83.3% in Mothers, showing the higher ratio than those of TSE First Section (59.3%), TSE Second Section (46.0%) and JASDAQ (52.7%) (Chart 17). As for JPX-Nikkei 400 companies, 66.3% avoided the peak day. This is 7.0 points higher than TSE First Section. Looking at the relation with foreign shareholding ratios, the higher the ratio, the more likely the companies are to avoid the peak day (Chart 19). In addition, looking at the relation with consolidated sales, the higher the sales, the more likely the companies are to avoid the peak day (Chart 18). Note that the compliance rate with Supplementary Principle 1.2.3 that prescribes the appropriate determination of the schedule of the general shareholders meeting was 97.8%.

1-3. Exercise of voting rights by electronic means

The exercise of voting rights by electronic means has been permitted, subject to a resolution by the board.²⁰ Companies which have established infrastructure for the exercise of voting rights by electronic means account for 33.1% of TSE-listed companies. Despite an increase of 21.7% from the last survey, such infrastructure has not been fully instilled. Yet it can also be interpreted that development efforts are gradually going ahead led by large companies as mentioned below.

In analysis by market division, companies allowing the exercise of voting rights by electronic means accounted for 49.8% of Mothers and 47.0% of TSE First Section companies, which was high compared with TSE Second Section (10.9%) and JASDAQ (8.3%) companies (Chart 17). In case of JPX-Nikkei 400 companies, 84.8% allowed electronic voting rights exercise, marking a much higher ratio than that of TSE First Section (47.0%). Companies with higher consolidated sales (meaning larger companies) show a higher ratio of

¹⁶ Article 124, Paragraph 2 of the Companies Act.

¹⁷ Rule 446 of Securities Listing Regulations, and Rule 437-1 of Enforcement Rules for Securities Listing Regulations

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

¹⁹ Information on general shareholders meetings for companies with a fiscal year ending in March on the TSE website

<http://www.jpx.co.jp/english/listing/event-schedules/shareholders-mtg/index.html>

²⁰ Article 298, Paragraph 1, Item 4 and Paragraph 4 of the Companies Act.

adopting electronic voting (Chart 18). Furthermore, companies with higher foreign shareholding ratios are more likely to allow electronic voting rights exercise (Chart 19).

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

TSE has striven to foster an environment where institutional investors may exercise their rights easily, for example through the Electronic Voting Platform for Institutional Investors operated by ICJ.²¹ The CG Report requires listed companies to place a check mark in the box, if they use electronic voting platforms for institutional investors, such as those operated by ICJ, as an initiative toward raising participation in general shareholders meetings and facilitating voting rights exercise.

24.1% of all listed companies state that they use electronic voting platforms for institutional investors.

Looking at the use of electronic voting platforms in each market division, while the ratio in TSE First Section companies was 37.9%, which is higher than other market divisions, such as JASDAQ (1.8%), it was low in comparison to JPX-Nikkei 400 companies, where 80.0% of companies utilize electronic voting platforms (Chart 17). Companies with higher consolidated sales (meaning larger companies) show a higher ratio of utilization of electronic voting platforms (Chart 18). For example, 93.5% of companies with consolidated sales of 1 trillion yen or more utilize electronic voting platforms. In addition, the ratio of utilization is high for companies with high foreign shareholding ratios, reaching 70.8% for companies with a foreign shareholding ratio of 30% or more (Chart 19).

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

There has been an increase in foreign shareholdings in recent years, as according to the FY2015 Survey on Distribution of Shares released by stock exchanges nationwide in Japan, the ratio of shareholdings by foreigners including overseas institutional investors was 29.8%. Accordingly, in light of this increase in foreign shareholders, there are a growing number of companies that are making efforts towards improved convenience for foreigners through means such as preparing convening notices in English. The CG Report requires listed companies to enter a check mark in the box if they prepare convening notices of ordinary general shareholders meetings, etc. or summaries of such notices, etc. in English as an initiative toward raising participation in general shareholders meetings and facilitating voting rights exercise.

The ratio of companies that prepared convening notices, etc. (including their summaries) in English was 26.6%. By market division, this is 41.7% of TSE First Section companies, 5.6% of TSE Second Section companies, 26.4% of Mothers companies, and 3.2% of JASDAQ companies (Chart 17). JPX-Nikkei 400 companies showed a much higher ratio of 82.8% than that of TSE First Section (41.1 points higher). In addition, in terms of consolidated net sales that indicate company size, the larger the company, the higher the compliance rate, as 97.4% of companies with consolidated sales of 1 trillion yen or more prepare notices in English (Chart 18). Meanwhile, in terms of foreign shareholding ratios, preparation is most common for companies with a foreign shareholding ratio of 30% or more (77.5%), and the preparation rate decreases as this ratio decreases (Chart 19).

Note that the compliance rate with Supplementary Principle 1.2.4 that prescribes the creation of an

²¹ “ICJ” stands for Investor Communications Japan. For more details, please visit their website. <http://www.icj.co.jp/en/>

infrastructure allowing electronic voting (such as the use of an electronic voting platform), and the provision of English translations of the convening notices was the lowest among the compliance rate by principle (44.2%). In terms of the reason for non-compliance, the most common reason (over 80%) was that measures are not conducted because the current ratio of foreign investors is low, but that compliance would be considered in the future if this ratio increases.

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

In cases where companies make efforts for facilitating shareholders' active participation in general shareholders meetings and smooth exercise of voting rights in addition to the above-mentioned measures, they are supposed to provide supplementary explanations on such efforts. Specifically, these include posting convening notices on company websites, and measures taken in terms of the venue or scheduling. The Reporting Guidelines stipulate that in cases where the companies have implemented measures for energizing general shareholders meetings and smooth exercise of voting rights, such companies are supposed to provide a description on such measures.²²

In a review of the supplementary explanations in the CG Reports, we found that 33.3% of TSE-listed companies (1,166 companies) referred to the use of company websites, etc.²³ Descriptions related to visual presentation accounted for 11.7%. (411 companies).²⁴ Examples of efforts include arranging slides used in briefings for securities analysts and institutional investors so that they are easy to understand for individual shareholders rather than simply reading off the convening notice or relying on narration, and using a style of the chairperson giving an explanation to the shareholders at the venue in their own words, and the chairperson providing careful responses to questions.

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

1-7. Cross-shareholdings (Principle 1.4)

According to Principle 1.4, when companies have cross-shareholdings, it states that companies should (1) disclose their policy with respect to cross-shareholdings, (2) have the board of directors examine mid-to long-term economic rationale and future outlook of cross-shareholdings and provide an explanation on objective and rationale behind cross-shareholdings, and (3) establish and disclose standards in order to ensure appropriate action with respect to the voting rights as to their cross-shareholdings. This is a principle that institutional investors are highly interested in, and it was also discussed at the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code held by the FSA and TSE (third council held on November 24, 2015). Many investors expressed that it is difficult to provide a reasonable

²² Rule 446 of Securities Listing Regulations, and Rule 437-3 and 437-4 of Enforcement Rules for Securities Listing Regulations.

²³ Reference to "website" covers companies which mentioned either of the following keywords: "website" or "homepage".

²⁴ Reference to "visual" covers companies which mentioned either of the following keywords: "visual" or "PowerPoint".

explanation for cross-shareholdings from the perspective of asset efficiency excluding exceptional cases of strategic alliances, and that they should be sold. There have been apprehensive views towards the selling off of cross-shareholdings in business circles, though many believe that it is necessary to consider who will hold such shares over the mid to long-term after they are sold. In the Statement that was released by the Follow-up Council on October 20, 2015, it states: “While the level of cross-shareholdings is historically low compared to its peak level in the beginning of the 1990s, it is still at a certain level. While some financial institutions have already disclosed their policies on cross-shareholdings, we may need to review the overall situation, including the shift in the level of cross-shareholdings and actions by non-financial companies.”

The compliance rate with Supplementary Principle 1.4 is 95.4%, and the statements of the companies in compliance will be analyzed below.

First, the contents of disclosure on policies regarding cross-shareholdings can be broadly divided into cases in which it is assumed that cross-shareholdings will be held and cases in which it is assumed that there will be no cross-shareholdings. The first pattern applies for 89.9% (1,942 companies) of companies complying with this principle, while the second pattern applies for 10.1% (217 companies).

Types of disclosures for companies that do not assume cross-shareholdings include statements that there are currently no cross-shareholdings, such as “the company does not hold any listed shares for purposes other than the purpose of pure investment”, and pledges to not have cross-shareholdings as a general rule, such “we will not hold any shares for the purpose of cross-shareholdings”. In addition, there were companies that did not currently have any cross-shareholdings but that would consider holdings in the future. Furthermore, even for companies that would not have cross-shareholdings as a general rule, there were cases of exception handling being clearly stated through disclosures such as “holdings will be permitted if it is recognized that it would be meaningful from the perspective of business relationships, etc.”.

Among the statements on policies regarding cross-shareholdings, 16.8% (362 companies) contained the keywords such as “sell (dispose, etc.)” suggesting the intent to reduce cross-shareholdings in the future, which suggest that there are also companies that are considering sales or disposal as options as a result of dialogs with shareholders.

Analyzing the keywords stated in policies regarding cross-shareholdings from the perspective of the reason for cross-shareholdings, the most common reason among companies was “business relationships and sales policies, etc.”, as 69.7% (1,505 companies) confirmed the significance of holdings in consideration of business relationships, etc. It seems that currently many companies have cross-shareholdings with business partners, and these descriptions are in accordance with these conditions. In addition, there are many companies that consider cross-shareholdings from a mid to long-term perspective, as 49.2% (1,062 companies) had statements that included a mid to long-term perspective with phrases such as “mid to long-term business relationships” or “mid to long-term economic rationale”. In addition, 48.5% (1,047 companies) clearly indicated the perspective of “corporate value”. Note that for 4.8% (103 companies), there were clear statements of stakeholders other than business partners, and contributing to the region or local community, etc. as the reason for cross-shareholdings.

21.7% (468 companies) included the keyword “economic rationale” in policies regarding cross-shareholdings. While a few companies state the details of the economic rationale in consideration of risks

and returns, there were companies that conducted verification including efficiency benchmarks such as ROA and ROIC. In addition, various companies include keywords on market trends such as stock prices, or dividends. Moreover, 15.4% (332 companies) mentioned risk factors such as the risk of stock price fluctuations. Many companies were seen to determine the economic rationale in comprehensive consideration of multiple elements such as qualitative elements and quantitative elements, and 20.7% (446 companies) actually included the keyword “comprehensive consideration (or judgment)”.

Next, analyzing the contents disclosed in the standards for exercising voting rights on cross-shareholdings, the majority of companies clearly indicate that they actually exercise voting rights with statements such as “we exercise voting rights from the perspective of improving the company’s mid to long-term corporate value”. 65.0% (1,403 companies) included the keywords “corporate value” or “shareholder value” as standards for exercising voting rights. This suggests that many companies exercise voting rights from the perspective of corporate value or shareholder value. Companies that exercise voting rights from the perspective of corporate value can be classified into three types: companies that exercise voting rights based on their own corporate value, companies that exercise voting rights based on the corporate value of the company shares are held in, and companies that exercise voting rights based on both their own corporate value and the corporate value of the company shares are held in. Classifying the 1,403 companies including corporate value as a keyword, 9.2% (199 companies) mentioned their own corporate value, 22.6% (488 companies) mentioned the corporate value of the company shares are held in, and 18.2% (392 companies) mentioned their own corporate value and the corporate value of the company shares are held in, as a large number of companies mentioned both their own corporate value and the corporate value of the company shares are held in. 36.1% (780 companies) mentioned “mid to long-term”. Of these companies, the majority used the keyword of “mid to long-term corporate value (or shareholder value)”, suggesting that many companies have a stance of exercising voting rights on cross-shareholding from the perspective of mid to long-term corporate value.

There was also a minority of companies indicating separate specific proposals such as anti-takeover measures, retirement allowances, and measures on shareholder returns such as dividends; companies taking performance into consideration: and companies using institutional investors or a proxy advisory firm as a standard. 25.0% (540 companies) conduct comprehensive consideration or judgments based on these types of factors related to exercising voting rights. In addition, some companies mentioned response to proposals, etc. that would damage shareholder value or corporate value, and the keyword “damage” was included for 12.8% (267 companies). In terms of the specific response to such proposals, there were companies clearly stating that they would reject or carefully consider such proposals when exercising voting rights.

Looking at a specific example, among financial institutions in the banking and insurance industries, there are many companies that have put forward a basic policy of reducing cross-shareholdings, underpinned by factors such as long-standing needs to reduce cross-shareholdings that are risk assets in response to capital adequacy regulations, etc. In particular, all four of the mega banks in Japan have mentioned the sale or disposal of cross-shareholdings. In addition, 44.8% of regional banks, etc. (39 of 87 regional banks) mentioned the “region” or “local community” in reflection of their ties with the regional economy.

As an example of disclosure by a financial institution, [Example 1] clearly states a basic policy of reducing cross-shareholdings at the financial institution, and using the overall business return on risk-weighted assets (RORA) of the Group, based on the target values of return on equity (ROE), as methods for verifying the economic rationale. Furthermore, the results of the verification are also disclosed, and it is clearly stated that by company approximately 80 percent of business partners exceeded the target value, and that the approximately 20 percent that fell below the target value are aiming to improve profitability, but if they do not improve within a set period, selling will be considered. In addition, there are cases of declaring a basic policy of not having cross-shareholdings like in [Example 2], and cases of clearly stating a reduction amount like in [Example 3].

[Example 1]

■ Strategic shareholdings policy

The circumstances surrounding strategic shareholdings (note 1) have changed greatly in recent years due to, among other things, the tightening of international financial regulations and the introduction of the Corporate Governance Code in Japan

Based on these changes, the Company has adopted a basic policy that its Group banks (note 2), taking into account shareholding risk, capital efficiency and international financial regulations, shall reduce the amount of shares held for the purpose of strategic investment (note 3), following sufficient consultation with the relevant corporate business clients.

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

In fiscal year 2015, the Company reduced its strategic shareholdings by approximately 120 billion yen (simple combined revenue of Group banks, acquisition cost basis), and its ratio of equity holdings at acquisition price over Tier1 capital declined from 19.7% to 17.9% as of March 31, 2016. The Company aims to lower this to around 10% by the end of the next Medium-term Business Plan (March 31, 2021).

Note:

- (1) "Strategic shareholdings" refers to shares excluding trading investments (shares of subsidiaries and affiliates are not included). These are classified into three categories: 1. strategic investments, 2. business strategy and 3. revitalization support, with most falling under 1.
- (2) "Group banks" refers to The Bank of ●● and ●● Trust and Banking Corporation, consolidated subsidiaries of ●●.
- (3) "Shares held for the purpose of strategic investment" refers to shares held for the purpose of increasing the medium- to long-term economic profits of the Company and Group banks through maintaining and expanding comprehensive business relations with our corporate business clients.

■ Examination of significance and economic rationale of shareholdings

At each Group bank, all shares held for the purpose of strategic investment are being confirmed for their significance and economic rationale (risk-return) over the medium- to long-term from the perspectives of our corporate business clients' growth and earnings and the strengthening of business relations. Based on Principle 1-4 of the Corporate Governance Code, the most important strategic shareholdings (note 4) are examined by the Company's Board of Directors.

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

The validation results as of March 31, 2016 are scheduled to be updated around mid-August 2016.

The results of the March 31, 2015 validations are as follows.

- We confirmed the validity of the significance of these shareholdings as all of the validation targets were held with the aim of enhancing the medium- to long-term economic interests of the Company and Group banks. Regarding economic rationality, the overall business RORA of all of the verification targets as a whole exceeded the target value.
- By company, approximately 80 percent of business partners exceeded the target value (note 5). The approximately 20 percent that fell below the target value are aiming to improve profitability, but if they do not improve within a set period, we will consider selling.

Note:

- (4) The aggregate market value of validation targets held as of March 31, 2015 was approximately 3.8 trillion yen (book value: approximately 1.9 trillion yen), covering approximately 70 percent of the total market value of the (listed) equities held by Group banks for the purpose of strategic investment.
- (5) In the cases of listed shares outside the scope of validation as well, by company, approximately 80 percent of business partners exceeded the target value.

■ Standards with respect to the exercise of voting rights

In order to ensure the appropriate exercise of voting rights of shares held for the purpose of strategic investment, the Company and Group banks will make comprehensive decisions on every proposal for the agenda of a shareholders meeting after confirming the following two points:

- (1) Will it increase the medium- to long-term corporate value and lead to continuous growth of the relevant corporate business client?
- (2) Will it increase the medium- to long-term economic profits of the Company and Group banks?

The status of the exercise of voting rights of the most important strategic shareholdings will be reported to the Company's board. (Bank)

[Example 2]

□ Policy Regarding Cross-holdings of Shares of Other Listed Companies

- As a basic policy, unless we consider these holdings to be meaningful, the Company and our core subsidiaries will not hold the shares of other companies as cross-shareholdings. This reflects factors including the changes in the environment surrounding corporate governance code and the potential impact on our financial position associated with stock market volatility risk.
- We consider cross-shareholdings to be meaningful if they contribute to maintenance and improvement of the corporate value of issuers and the Group based on their growth potential, outlook, or revitalization perspectives or as a result of studies on present and future economic feasibility and profitability.
- We will regularly and continually examine whether shares held as cross-holdings are meaningful, and we will dispose of holdings we determine deficient in meaning with due regard to the impact on the market and other matters. We will continue to hold shares that we consider to be meaningful. (Bank)

[Example 3]

○ Basic policy on cross-shareholdings

The Company and ●● Bank have decreased cross-shareholdings since the bank merger in 2010 for the purpose of reducing shareholding risk. Going forward, we will reduce cross-shareholdings based on the following policy.

- (1) We will reduce cross-shareholdings after giving comprehensive consideration to matters including shareholding risk and capital efficiency, based on the premise of full dialogue with business partners.
- (2) We will hold limited shares if we deem that it would contribute to improvements in the medium to long-term corporate value of the Group or its investments, or that it is necessary for regional revitalization and local invigoration.
- (3) The necessity of cross-shareholdings will be regularly validated and decided on in consideration of factors such as the significance of holding, medium to long-term economic rationale, and the relationship with the regional economy for each individual issue.

*We will reduce cross-shareholdings by approximately 33 billion yen with the launch of ●● Bank through a merger from May 2010 to March 31, 2016. (Bank)

Next, we will introduce some examples for industrial companies. First, as an overall trend, there are cases of explanations of the significance of having cross-shareholdings in consideration of industry characteristics. For example, in [Example 4], it states “it is essential to build and strengthen long-term and stable relationships with business partners” in consideration of the characteristics of the milling industry, indicating the cross-shareholdings will be used when building trust relationships with business partners and achieving and continuing business through cross-shareholdings is believed to contribute to mid to long-term improvements in corporate value.

Next, we will introduce some examples of disclosures on the stance towards economic rationale and specific validation methods. Before the introduction of the Code, there was little practical know-how towards the concept of validation of the economic rationale for cross-shareholdings, and while looking at the contents of the Code it seems that in many companies they tended to be a black box, [Example 7] shows an example of a company clearly stating that the top priority is given to ROA. A stance of prioritizing asset efficiency is a stance that is also easy for shareholders and investors to understand. In [Example 5], there is an example of a company that sets a fixed rate of return on invested capital as its criteria, and validates the economic rationale based on the total of construction profits and dividends from shares. The validation process is also described in detail in [Example 6]. Specifically, it states that the economic rationale is validated based on factors that include the volume of transactions over the last five years and projected transaction in the future with the company invested in, and the business performance, degree of social contribution, dividends, and stock price over the last five years of the company invested in. Clearly stating the specific stance, process, and judgment criteria towards economic rationale can be considered as the first step in dialogs to gain the understanding of shareholders and investors.

In addition, [Example 7] is a characteristic example for the exercise of voting rights. The company clearly

states its specific response towards the exercise of voting rights, stating “for example, if the merits of holdings are smaller than the costs of holdings, the Company may propose an increase in dividends, and if a loss is recorded for three consecutive fiscal years, the Company may vote against the appointment of directors.” In addition, [Example 8] indicates the company uses the policies for the exercise of voting rights of proxy advisory firms as a reference point. While there are concerns that many companies may exercise voting rights in a manner that is indulgent towards the management of the company invested as cross-shareholdings are based on maintaining business relationships, using the stance of a third party such as institutional investors towards the exercise of voting rights could be one means of ensuring objectivity. In such a case, stakeholders will expect to not only formally rely on third-party standards, but to actively validate suitability based on those standards.

[Example 4]

The Company’s business foundation is flour-milling and, in the food industry which demands food safety and reliability, the stable supply of wheat flour and other products are the Company’s important missions. To this end, it is essential to build and strengthen long-term and stable relationships with business partners in the course of production and sales.

The Company will hold shares of other listed companies as so-called cross-shareholdings if holding such shares promotes mid- to long-term increases in the Group’s corporate value, through building relationships of trust and conducting and maintaining transactions with such business partners. For instance, the Company will hold shares as a cross-shareholding, if holding shares will contribute to mid- to long-term increases of corporate value and be reasonable in terms of smoothing and solidifying business alliances and joint business, and structuring and strengthening long-term and stable business transactions. (Foods)

[Example 5]

- Policy regarding cross-holdings of shares of other listed companies

The Company’s policy towards cross-shareholdings is to verify the risks and returns of transactions with business partners that the Company holds shares of, annually at the board, and then sell off shares unworthy of holding.

Unworthy of holding refers to a case in which the total of construction profits gained from a business partner in the past or likely to be gained in the future and share dividends does not exceed or cannot be expected to exceed the Company’s prescribed rate of return on invested capital for a certain period of time, and it is deemed that such shareholdings would not contribute to the maintenance and improvement of the Group’s corporate value.

In addition, we have a policy of holding shares that we consider to be meaningful.

- Standards for the exercise of voting rights related to cross-shareholdings

When exercising voting rights related to shares held, the Company will make a comprehensive judgment on approval or disapproval while referring to the stewardship code issued by each financial institution for each agenda item. If it is deemed that it is not possible to approve a resolution proposed by a company, the Company may consider whether to sell the shares. (Construction)

[Example 6]

(Omitted) With regard to shares held as of March 31, 2016, the Outside Officers Advisory Committee classified them into those with a book value of 50 million yen or above and those with a book value of less than 50 million yen, and made an evaluation of each of the category. For shares with a book value of 50 million yen or above, the Outside Officers Advisory Committee received written reports on the following matters:

- 1) the volume of transactions in the most recent five years between the Company and a company whose shares the Company holds (hereinafter the “Shareholding Company”), the estimated volume of future transactions, etc., as information for measuring the impact on the Company;
- 2) business performance, degree of contribution to the society, dividends and changes in the share price in the most recent five years, as information of the Shareholding Company itself; and
- 3) the details of the resolutions of the general meeting of shareholders of the Shareholding Company.

With regard to shares with a book value of less than 50 million yen, the Outside Officers Advisory Committee received explanations on the transactional relationship with the Shareholding Company from executive officers in charge of departments which have business relationships with the Shareholding Company, and made decisions on the rationality of the shareholdings by comprehensively taking into account the aforementioned factors. (Omitted) (Construction)

[Example 7]

(1) Policy regarding cross-shareholdings

The Company regards ROA as a particularly important benchmark from the perspective of constantly seeking to maintain an appropriate level of assets and actively implement measures to improve asset efficiency. The Company regularly determines its policy for holding shares once a year at the board by conducting a qualitative and quantitative analysis on benefits of holding shares in consideration of the cost of holdings from a perspective that prioritizes the ROA of listed shares that are held while taking into comprehensive consideration factors such as the state of transactions and future potential with the company shares are held in.

(2) Exercising voting rights related to cross-shareholdings

When exercising voting rights related to shareholdings, while the judgment criteria for each resolution measure will differ depending on the event, the Company will exercise voting rights based on a comprehensive judgment that takes into consideration the merits and costs of holding. While it depends on a comprehensive judgment, for example, if the merits of holdings are smaller than the costs of holdings, the Company may propose an increase in dividends, and if a loss is recorded for three consecutive fiscal years, the Company may vote against the appointment of directors. (Pulp & paper)

[Example 8]

The criteria for exercising voting rights on cross-shareholdings is to take into consideration the policies of proxy advisory firms (ISS and Glass Lewis) while making a comprehensive judgment on whether a resolution measure matches with the policy regarding cross-shareholdings. (Information and communication)

Chart 20 Keywords in Policies Related to Cross-Shareholdings

Item	Number of companies	Applicable ratio
Companies complying with Principle 1.4	2,159 companies	100%
■Holding policy		
Descriptions assuming holding	1,942 companies	89.9%
Descriptions not assuming holding	217 companies	10.1%
■Sale or disposal	362 companies	16.8%
■Reason for holding		
Keywords related to transactions (transactions, sales, etc.)	1,505 companies	69.7%
Mid to long-term	1,062 companies	49.2%
Corporate value	1,047 companies	48.5%
Economic rationale	468 companies	21.7%
Comprehensive consideration/judgment	446 companies	20.7%
Keywords related to strategy (business strategy, etc.)	410 companies	19.0%
Risk	332 companies	15.4%
Region, etc. (region/local community)	103 companies	4.8%
Stock price, market trends, etc.	124 companies	5.7%
Dividends	64 companies	3.0%

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

Item	Number of companies	Applicable ratio
Companies complying with Principle 1.4	2,159 companies	100%
■ Corporate value, etc.		
Corporate value or shareholder value	1,403 companies	65.0%
Corporate value of the company shares are held in	488 companies	22.6%
Corporate value of own company and the company shares are held in	392 companies	18.2%
Corporate value of own company	199 companies	9.2%
Mid to long-term	780 companies	36.1%
■ Purpose of holding, etc.		
Keywords related to transactions (transactions, sales, etc.)	239 companies	11.6%
Keywords related to strategy (business strategy, etc.)	105 companies	4.9%
Purpose of holding	153 companies	7.1%
Returns to shareholders (dividends, etc.)	84 companies	3.9%
■ Judgment, etc.		
Comprehensive consideration/judgment	540 companies	25.0%
Damage (corporate value, shareholder value, etc.)	276 companies	12.8%
Careful consideration or rejection	92 companies	4.3%

[Column 1] About cross-shareholdings

Principle 1.4 of the Code calls for examination of the economic rationale of so-called cross-shareholdings. Shareholders and investors also have a high level of interest towards cross-shareholdings. In addition to some institutional investors that demand the articles of incorporation to include a clearly stated policy of selling off cross-shareholdings in shareholder proposals, etc., there has also been an increase in individual investors that ask questions at the general meeting of shareholders on cross-shareholdings.

In response to these types of changes in the external environment, some listed companies have begun to revise their policies towards cross-shareholdings. According to a questionnaire survey²⁵ by the National Kabukon Association, among the 1,729 companies that responded to the questionnaire, 17.7% had a policy of selling off cross-shareholdings in part or full, while 27.3% were considering selling off cross-shareholdings. This suggests that about half of companies are selling off or considering the selling off of cross-shareholdings.

In fact, in recent years listed companies have made disclosures such as selling off cross-shareholdings and use the funds for future investments or disposing of cross-shareholdings, and use the sales proceeds to buyback its own shares. Background factors behind the review of cross-shareholdings by listed companies include uncertainties to the events leading to or reasons for holdings, cross-holdings for business partners in the past in

²⁵ FY2016 National Survey Report of the National Kabukon Association

which only the shares remain as there are no longer any transactions due to changes in the business environment, or cross-holdings that had little value in the past now accounting for a large percentage of the financial statements due to skyrocketing share prices, causing companies to have cross-shareholdings for which it is difficult to explain the significance of the holdings to shareholders and investors.

One listed company classifies cross-shareholdings based on economic rationality into “shares for continual holding” that can contribute to improvements in corporate value and “shares that are candidates for sale” for which the purpose of holding and quantitative economic benefits are unclear, and expresses the intent to sell the latter as appropriate based on the market environment.

One reference point for changes in cross-shareholdings is the number of issues of investment securities held for purposes other than pure investment, which is disclosed in annual securities report. Chart 22 displays the year-over-year change in the number of issues of such stocks held by 100 major companies (TOPIX 100). There has been a decrease in the number of issues, particularly for financial institutions, as the number of issues has decreased for 73 of 100 companies. In addition, Chart 23 displays changes in the total number of issues of such stocks held by industrial companies excluding finance (87 companies) over the past five years. You can see that while cross-shareholdings were on the decline before the enforcement of the Code, there has been even a further reduction triggered by the adoption of the Code.

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

Top 20 Companies that Increased the Number of Issues of Cross-Shareholdings

Companies (Industry)	Number of issues		Difference	Reduction rate
	2015	2016		
Company A (Bank)	2,955	2,836	-119	-4%
Company B (Bank)	2,549	2,476	-73	-3%
Company C (Insurance)	2,147	2,083	-64	-3%
Company D (Insurance)	2,074	2,012	-62	-3%
Company E (Bank)	1,038	980	-58	-6%
Company F (Insurance)	1,680	1,625	-55	-3%
Company G (Bank)	2,280	2,231	-49	-2%
Company H (Electric Appliances)	375	332	-43	-11%
Company I (Wholesale Trade)	591	548	-43	-7%
Company J (Electric Appliances)	314	279	-35	-11%
Company K (Wholesale Trade)	333	299	-34	-10%
Company L (Transportation Equipment)	91	63	-28	-31%
Company M (Bank)	1,462	1,434	-28	-2%
Company N (Chemicals)	126	104	-22	-17%
Company O (Iron & Steel)	430	408	-22	-5%
Company P (Chemicals)	56	35	-21	-38%
Company Q (Wholesale Trade)	363	343	-20	-6%
Company R (Wholesale Trade)	384	364	-20	-5%
Company S (Machinery)	51	35	-16	-31%
Company T (Information & Communication)	20	6	-14	-70%

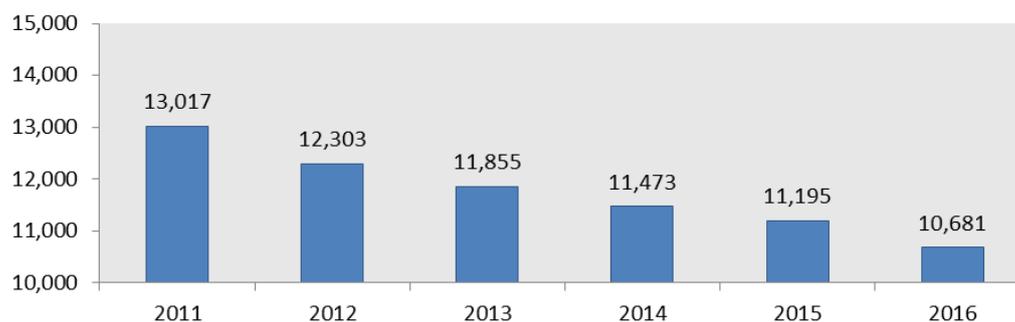
Comparison to the Previous Year

Comparison	Number of issues
Increase	10
Unchanged	15
Decrease	73
Data unavailable	2
Total	100

10 Companies that Increased the Number of Issues

Companies (Industry)	Number of issues	Increase
Company A' (Nonferrous Metals)	107	1
Company B' (Electric Appliances)	71	1
Company C' (Land Transportation)	65	1
Company D' (Land Transportation)	37	1
Company E' (Information & Communication)	7	1
Company F' (Electric Appliances)	22	2
Company G' (Other Products)	37	2
Company H' (Foods)	105	3
Company I' (Real Estate)	197	7
Company J' (Information & Communication)	90	23

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



	March-11	March-12	March-13	March-14	March-15	March-16
Total number of issues (by 87 companies excl. financial companies)	13,017	12,303	11,855	11,473	11,195	10,681
Average number of issues held	150	141	136	132	129	123
Reduction rate	-	-5%	-4%	-3%	-2%	-5%

Some people point out that the short-term selling off of cross-shareholdings in response to moves to reduce cross-shareholdings triggered by the Code has run its course. However, as long as companies continue to hold cross-shareholdings with little significance, it is believed that investors will demand for the reduction of cross-shareholdings through constructive dialogs in the future.

The move towards a decrease in cross-shareholdings that was mainly pursued by financial institutions is beginning to spread throughout all listed companies. It is believed that it will become even more important to explain the significance of cross-shareholdings carefully to shareholders and investors.

1-8. Matters concerning anti-takeover measures

The CG Report requires companies to indicate whether any anti-takeover measures²⁶ have been adopted²⁷. Companies which adopted such measures are required to describe objectives of the adoption and an overview of the scheme.

While the number of companies that put anti-takeover measures in place keeps falling over the years, such measures may have a large impact on the rights of shareholders, and have the potential to be abused to serve the interests of officers. In this respect, the CG Report requires companies with such measures to provide explanations including the rationality of such adoption.

(1) Number of companies with anti-takeover measures

TSE has stipulated matters for compliance for the adoption of anti-takeover measures as matters that should be observed in corporate codes of conduct²⁸, while Principle 1.5 stipulates that the necessity and rationale of the adoption or implementation of anti-takeover measures should be carefully examined, that the appropriate procedures should be ensured, and that sufficient explanations should be provided to shareholders.

According to the CG Reports, companies which adopted anti-takeover measures accounted for 12.9% of TSE-listed companies, or 451 companies. Since the start of the survey for this White Paper in 2006, while the number of companies with anti-takeover measures increased from 132 in 2006 to 461 in 2008, subsequently this number has gradually decreased.

The adoption ratios by market division were as follows: 18.4% in TSE First Section, 9.3% in TSE Second Section, 2.1% in Mothers, and 4.8% in JASDAQ (Chart 24). The adoption ratio for JPX-Nikkei 400 companies was 16.8%, which was lower than for TSE First Section. In relation to company size, generally, larger companies are more likely to have introduced anti-takeover measures (in terms of the relation with consolidated sales; see Chart 25), although a decreasing tendency was seen in “1 trillion yen or more” category. Furthermore, there has also been a significant decrease since the last survey in the 1 trillion yen or more category.

As for the relation with foreign shareholding ratios, while the percentage of companies that have introduced anti-takeover measure tends to increase as the foreign shareholding ratio increases, there is a decreasing tendency when the foreign shareholding ratio is 30% or more (Chart 26).

²⁶ “Anti-takeover measure” refers to a measure which a listed company adopts prior to the commencement of a takeover by a person who is not desirable to the management, out of measures to make it difficult to realize the acquisition of the listed company (meaning an act to acquire as many shares as necessary to exercise influence on the company) by issuing new stocks or new share subscription rights mainly for the purpose other than fundraising and other business reasons.

²⁷ “Adoption” here refers to an act where a company made decision on specific details of anti-takeover measures, such as a resolution on issuance of new stocks or new share subscription rights for takeover defense.

²⁸ Rule 440 of Securities Listing Regulations.

In relation to the shareholding ratio of the largest shareholder, the overall trend is that companies with lower shareholding ratios are more likely to have adopted such measures. While the adoption ratio was highest for the shareholding range from 5% to less than 10% in surveys up until now, the adoption ratio was highest for the category less than 5% in this survey (Chart 27).

As for the relation with parent companies, one company which has a parent company has adopted anti-takeover measures.²⁹ In addition, the number of companies which have controlling shareholders that have adopted anti-takeover measures decreased from six companies in the previous survey to one company in this survey.

As to the industrial sectors, the rate of adoption is high among chemicals (11.8%), machinery (10.6%), and electrical equipment (8.6%). On the other hand, there has been no adoption among companies in the financial, insurance, banking, air transportation, and electric power & gas, while the rate of adoption is low among the maritime transport (0.2%) and petroleum and coal products (0.2%) sectors.

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

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

The compliance rate with Principle 1.5 that stipulates ensuring appropriate procedures and providing sufficient explanations to shareholders for so-called anti-takeover measures was 99.1%.

²⁹ As the background for the adoption of the measures it is explained that a sufficient understanding of the know-how accumulated over many years and the abundant track record and trust relationships built up with business partners and stakeholders is essential for management, and that it will not be possible to make appropriate judgments regarding corporate value without a sufficient understanding of these factors.

Chart 24 Adoption of Anti-Takeover Measures (by Market Division)

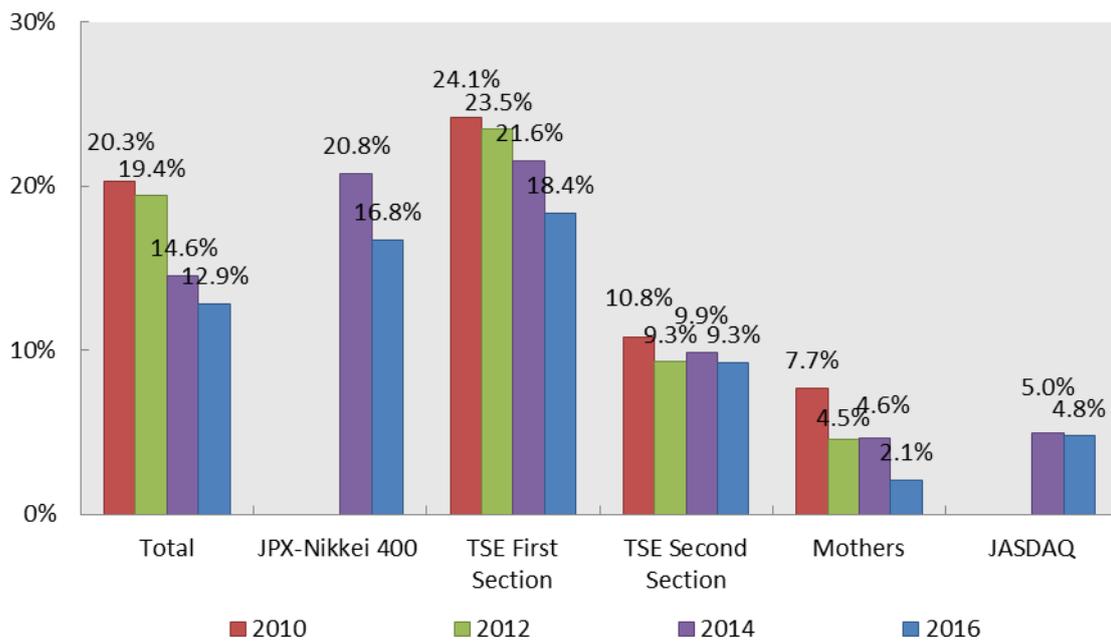


Chart 25 Adoption of Anti-Takeover Measures (by Consolidated Sales)

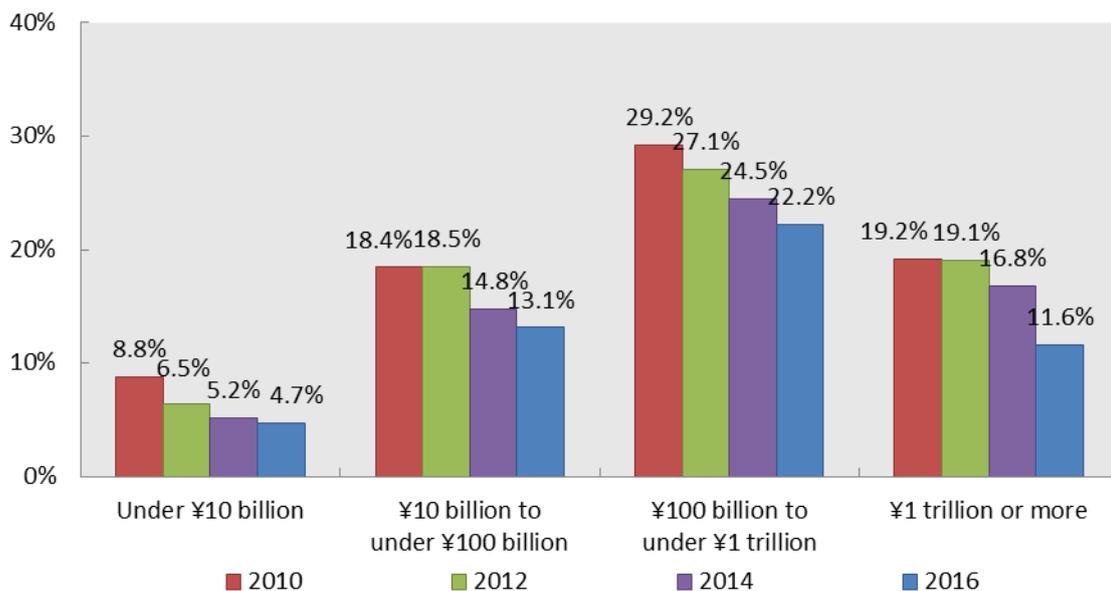


Chart 26 Adoption of Anti-Takeover Measures (by Foreign Shareholding Ratio)

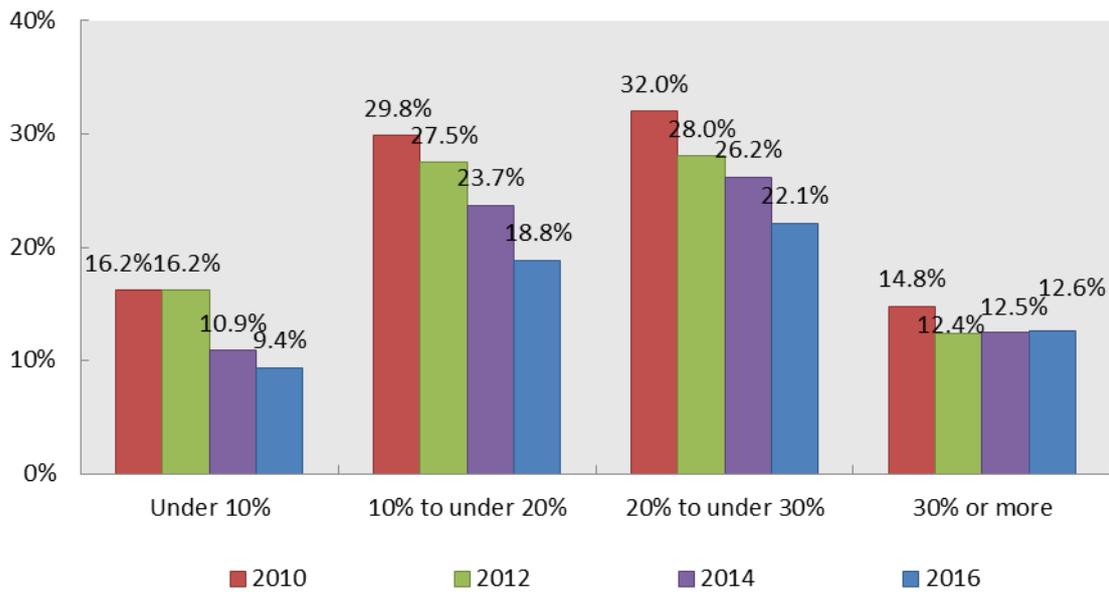
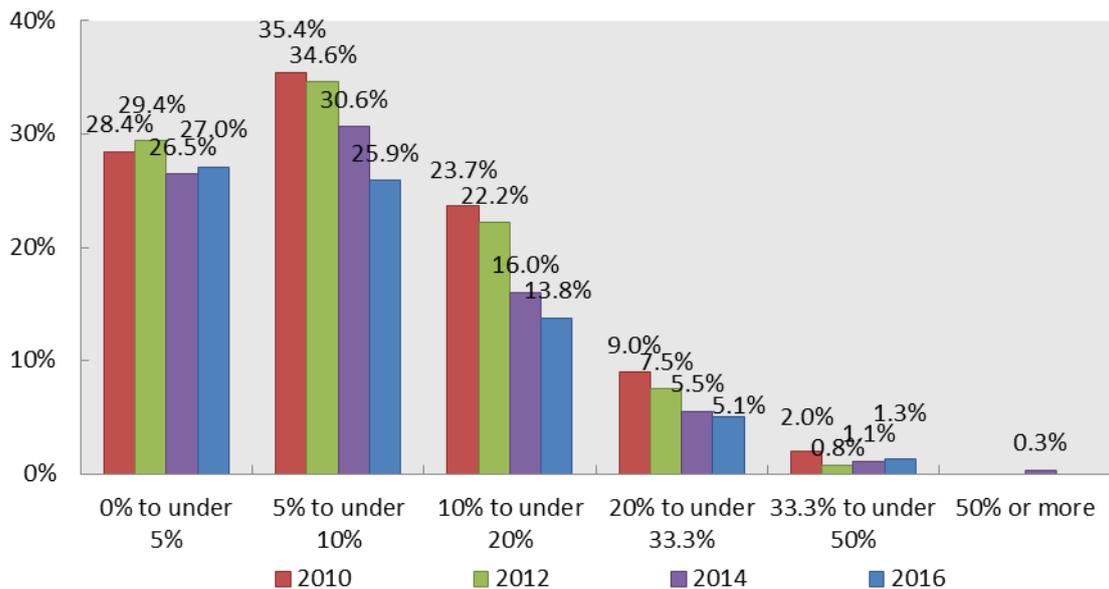


Chart 27 Adoption of Anti-Takeover Measures (By Shareholding Ratio of the Largest Shareholder)



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

Chart 28 displays a comparison of the corporate governance structure of companies that have adopted anti-takeover measures, and companies without anti-takeover measures. For companies with anti-takeover measures, it is believed that the role of independent directors as advocates for minority shareholders is more important. The ratio of companies that have appointed independent directors is higher in companies with anti-takeover measures. It is believed that this is due to the fact that in relation to company size, generally, larger companies are more likely to introduce anti-takeover measures, and the appointment of independent directors has also particularly advanced among larger companies.

Chart 28 Adoption of Anti-Takeover Measures and Board Independence

	Average number of directors	Average number of independent directors	Ratio of companies appointing at least 1 independent directors	Ratio of companies appointing 2 or more independent directors	Ratio of companies appointing more than 1/3 independent directors
Companies adopting takeover defense measures	9.16	2.12	96.2%	75.2%	21.5%
Companies not adopting takeover defense measures	8.12	1.94	87.8%	58.3%	19.1%

1-9. Related party transactions (Principle 1.7)

Principle 1.7 stipulates that when a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the common interests of its shareholders, it should establish procedures for preventing conflicts of interests, disclose the framework of these procedures, and then conduct monitoring based on these procedures. Because certain disclosures regarding related party transactions are required under the Companies Act and the Financial Instruments and Exchange Act, many companies have already developed frameworks for prior approval, etc. of related party transactions at the board. The CG Reports have also required disclosures for guidelines on measures to protect minority shareholders in conducting transactions with controlling shareholders up until now. Due to these factors, the compliance rate for this principle is high at 99.5%.

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

In terms of procedures, many companies include the approval of related party transactions by the board in the Board Rules, etc. as the minimum response required by the Companies Act, etc. If we analyze keywords used, 88.1% (1,983 companies) mention the “board”. The next most common keyword is “resolution or approval” which is mentioned by 81.5% (1,834 companies). In addition, 47.4% (1,067 companies) mentioned “report” and 31.3% of companies (705 companies) mentioned “laws and regulations and the Companies Act”. This suggests that many companies have established structures that require approval from or a resolution by the board, or status reports as the procedure for related party transactions in the past based on laws and regulations including the Companies Act. In addition, 53.2% (1,197 companies) mention “rules and regulations, etc.”, which means that the majority of companies have also clearly stated that the structures mentioned above have been documented in internal regulations, etc. Note that 16.8% (377 companies) mention “surveys”, indicating that the status of related party transactions is regularly monitored through questionnaires, survey forms, etc.

19.7% (444 companies) had disclosures that mentioned “transaction conditions”. The majority of these cases are disclosures on procedures consisting of confirming the suitability, etc. of transaction conditions. Only 4% (90 companies) mention that they refer to something such as the market price when considering transaction conditions.

If we analyze individual cases, there are examples of detailed disclosures on the specific process for related party transactions. For example, the specific process for related party transactions is clearly stated in [Example 1]. The basic policies and structures are mentioned, and in relation to these structures, there are detailed

disclosures on each process that includes the identification of transactions, the approval of new transactions, the management of existing transactions, and a check by corporate auditors. This can be considered a distinctive case as there are many companies that only mention “require a resolution of the board” as a disclosure based on Principle 1.7.

There are also some companies that clearly state that they have set a process for confirmation of the suitability of transactions by outside officers and external experts in approval procedures for related party transactions, and established structures to ensure that the interests of general shareholders are not damaged by related party transactions. For example, in [Example 2], the reasonableness of transactions and the appropriateness of procedures are validated through a third party committee composed of outside directors, etc., and a legal check is conducted by legal counsel for resolutions by the board. In addition, as indicated in [Example 3], there are companies that clearly stated that they confirm the opinions of outside directors, legal counsel, etc.

[Example 4] describes a listed subsidiary that has a listed parent company and for which sales to the parent account for a high percentage of own sales states process for determining the transaction price to ensure transparency in parent-subsiary transactions.

[Example 1]

[Principle 1.7]

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

[Basic policy on the implementation of related party transactions]

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

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

[Structure to ensure the appropriateness of related party transactions]

a. Assessment of transactions

Whether a business partner constitutes a related party will be determined by the Finance Department when each department submits an application to register a new business partner, and if a business partner constitutes a related party, the Finance Department will assess and manage all transactions with that business partner.

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

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

b. Approval of new transactions

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

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

c. Management of existing transactions

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

d. Check by corporate auditors

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

Existing ongoing transactions will be checked through reports regularly received from the Finance Department. (Food products)

[Example 2]

(Omitted)

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

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

[Example 3]

When conducting transactions with officers and major shareholders (“related party transactions”), the Company will deliberate the necessity of the transactions, details of the transactions, and suitability of the conditions and conduct resolution at the board after conducting hearings on the opinions of outside directors and legal counsel or other third parties if necessary. (Service industry)

[Example 4]

The Company will gain the approval of the board based on the Board Rules when conducting transactions involving conflicts of interest with directors.

In addition, for transactions with ●●●●● Co., Ltd. that is the Company’s major shareholder, the price will be determined in consideration of the market price and total cost after a desired price has been presented and negotiations equivalent to those in standard transactions are conducted. The price will be determined by the Price Determination Committee that is chaired by a responsible officer that has been delegated authority based on the Approval Authority Regulations.

In addition, fiscal year sales price revisions will be determined while securing transparency through a Sales Price Revision Policy Committee that is chaired by a responsible officer that has been delegated authority based on the Approval Authority Regulations. (Transportation equipment)

Chart 29 Related Party Transaction Keywords

Item	Number of companies	Applicable ratio
Companies complying with Principle 1.7	2,250 companies	100%
■ Related to procedures		
Board	1,983 companies	88.1%
Resolution or approval	1,834 companies	81.5%
Rules (Board Rules) and regulations, etc.	1,197 companies	53.2%
Reports	1,067 companies	47.4%
Laws and regulations and the Companies Act	705 companies	31.3%
Surveys (questionnaires, survey forms, etc.)	377 companies	16.8%
Outside directors, corporate auditors, legal counsel	383 companies	17.0%
■ Related to transaction conditions		
Transaction conditions	444 companies	19.7%
Market price	90 companies	4.0%

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

The CG Report requires listed companies with a controlling shareholder to provide concrete description on

matters such as (1) policies on internal frameworks and systems, (2) the internal decision-making process, and (3) the use of external agencies, with the aim of preventing the company itself and, eventually, minority shareholder interests from being undermined by transactions or other activities which are made to favor such controlling shareholder.

As for criteria of transactions with controlling shareholders subject to the guidelines, in principle it is desirable to consider all transactions with controlling shareholders. Yet as it is assumed that the level of influence may differ by size and structure of companies, in effect to limit to transactions of a size which may affect the minority shareholders to a certain extent, it is considered that each company may establish specific criteria which they find appropriate.

Among TSE-listed companies, 627 companies or 17.9% have controlling shareholders. Of these companies, 383 companies (equivalent to 10.9%) have parent companies, and 244 companies (equivalent to 7.0%) have controlling shareholders that are not parent companies (see Chart 11).

Looking at the contents of descriptions for (1) policies on internal frameworks and systems, there are many cases of clearly indicating conditions that are equivalent to general transactions, and that accordingly the interests of minority shareholders will not be damaged. These include statements that transactions will not be conducted with the controlling shareholders as a general rule. In addition, there are also cases in which specific transaction details are stated, for example, while real estate lease transactions are conducted with controlling shareholders, care is taken so that the transactions are conducted based on standard transaction conditions in consideration of existing lessees and market prices in the neighborhood.

(2) In terms of the internal decision-making process, there were many descriptions of decision-making by the board. In terms of more specific descriptions, there were many descriptions on decisions made by the board through the appointment of outside directors independent from controlling shareholders in order to ensure independent management decisions by the listed companies themselves.

More detailed descriptions include those on the establishment of regulations related to sales and purchases with controlling shareholders so that transaction conditions are not more favorable than those for general transactions, an internal decision-making process in which decisions are made based on a resolution of the board regardless of the transaction amount, validation of the appropriateness of the transaction by the Kansayaku board, and performance of duties in consideration of the interests of minority shareholders.

While there were not many descriptions regarding (3) the use of external agencies, the majority of descriptions were on requirements for seeking the opinion of accounting auditors, lawyers, tax accountants, etc. on the appropriateness of the transaction as necessary.

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

The CG Report contains a section titled “Other special circumstances which may have material impact on corporate governance” that requires listed companies which have a parent company and/or listed subsidiaries to describe their stance (policies) on corporate governance based on such a fact and relations. In addition, if there are other matters which may have a material impact on corporate governance in consideration of individual circumstances of each company, they should be described. In this survey, 825 companies explained their special circumstances.

Matters that would be preferable to state for this item include: (1) in case where a company has a parent company - views on, and measures and policies for, maintaining independence from the parent company; (2) in case where a company has a listed subsidiary - views on, and measures and policies for, maintaining independence of the listed subsidiary.

As for (1), 206 companies referred to the independence from their parent companies. Specifically, they explained how they maintain their independence from the parent companies by explaining such examples as concrete business execution based on independent decision-making centered around the board including independent directors rather than business execution based on instruction and approval by the parent company. These included cases in which independent business activities were conducted while sharing internal control within group management, for example by sharing internal control policies such as those on compliance and risk management with the parent company while conducting independent business activities and ensuring the independence of management.

As for (2), 72 companies referred to respecting the independence and autonomy of listed subsidiaries. On the other hand, there were descriptions of requiring advance consultation and reports only for matters necessary for appropriate and smooth group management and matters that require management, etc. based on laws and regulations. In the same manner as for (1), the stance is to respect the independence of business activities while requiring listed subsidiaries to conduct internal control activities as required by laws and regulations.

2. Appropriate cooperation with stakeholders other than shareholders

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

[General Principle 2]

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

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

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

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

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

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

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

66.1% of TSE-listed companies stated in the CG Report that they have provisions on respect for the positions of stakeholders in their internal regulations, etc. By market division, TSE First Section leads other divisions with 76.4%, followed by TSE Second Section (59.2%), Mothers (51.9%) and JASDAQ (49.3%) (Chart 30). Among JPX-Nikkei 400 companies, 88.3% reported that they have such provisions. As for the relation with consolidated sales, companies that are large are more likely to have such provisions (Chart 31).

2,311 companies provided supplementary explanations on provisions in internal regulations. The stakeholders that were mentioned in the supplementary explanations included shareholders (670 companies), employees (803 companies), business partners (357 companies), local communities (246 companies), and consumers and customers (382 companies). There were also reference to suppliers (16 companies) and banks

(22 companies). Companies stated respect for position (220 companies), contribution to society (60 companies), trust (358 companies), expectations (89 companies), and ethics (487 companies), among other purposes. In terms of the details stated, there were many descriptions on the contents prescribed in the business principle, action guidelines, etc. in order to live up to the trust and expectations of stakeholders.

Chart 30 Measures to Ensure Due Respect for Stakeholders (by Market Division)

	Stipulations on respecting the position of stakeholders in internal regulations, etc.	Implementation of environmental conservation activities and CSR activities	Formulation of policies, etc. concerning the provision of information to stakeholders
Total	66.1%	65.9%	52.6%
JPX-Nikkei 400	88.3%	94.0%	73.5%
TSE First Section	76.4%	80.1%	60.3%
TSE Second Section	59.2%	61.6%	36.5%
Mothers	51.9%	31.4%	74.5%
JASDAQ	49.3%	43.6%	37.4%

Chart 31 Measures to Ensure Due Respect for Stakeholders (by Consolidated Sales)

	Stipulations on respecting the position of stakeholders in internal regulations, etc.	Implementation of environmental conservation activities and CSR activities	Formulation of policies, etc. concerning the provision of information to stakeholders
Under ¥10 billion	47.4%	37.4%	47.3%
¥10 billion to under ¥100 billion	66.1%	66.7%	48.0%
¥100 billion to under ¥1 trillion	82.5%	91.4%	61.8%
¥1 trillion or more	94.8%	98.7%	87.7%

2-2. Environmental Preservation Activities and CSR Activities

65.9% of TSE-listed companies stated in the CG Report that they carry out environmental preservation activities, CSR activities, etc. In terms of market division, TSE First Section accounted for the largest share with 80.1%, followed by TSE Second Section (61.6%), JASDAQ (43.6%) and Mothers (31.4%). Among JPX-Nikkei 400 companies, 94.0% implement such activities. This is 13.9 points higher than TSE First Section (80.1%). In addition, the implementation rate tends to get higher the higher consolidated sales are. While the implementation rate is 37.4% for companies with consolidated sales less than 10 billion yen, when consolidated sales reach 1 trillion yen or more, the implementation rate becomes 98.7%, there is a big gap between them.

2,306 companies provided supplementary explanations concerning environmental preservation and CSR activities. Of these, 722 companies reported that they obtained ISO14000 or ISO14001 certification, which are international standards for establishing an environment management system (compared to 437 companies in the previous survey), while 331 companies published environment or CSR reports (compared to 237 companies in

the previous survey), which is an increase from the previous survey. There were also many companies providing explanations that emphasized initiatives aimed at tackling environmental issues such as the establishment of a CSR committee (56 companies), global warming countermeasures (116 companies), and CO₂ emission figures (60 companies). Furthermore, there were statements on direct actions such as support in response to the 2011 Great East Japan Earthquake (47 companies), support in response to the 2016 Kumamoto Earthquake (16 companies), and volunteer activities (93 companies), as well as statements on disaster prevention and contingency measures (89 companies), power saving/energy saving (240 companies), solar power generation (64 companies), recycling (187 companies), and reducing use of natural resources (107 companies).

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

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

1,844 or 52.6% of TSE-listed companies stated in the CG Report that they developed policies, etc. for providing information to stakeholders. In terms of market division, Mothers led other divisions with 74.5%, followed by TSE First Section (60.3%), JASDAQ (37.4%), and TSE Second Section (36.5%) (Chart 30). In case of JPX-Nikkei 400 companies, those with such policies accounted for 73.5%, which is higher than TSE First Section (60.3%). In relation to consolidated sales, there is a tendency toward a higher likelihood of such policies with larger size.

1,841 companies provided supplementary explanation regarding providing information to stakeholders. Many of them mentioned disclosing information to shareholders and investors in accordance with the Financial Instruments and Exchange Act and the regulations stipulated by TSE, working towards timely and proactive information disclosure, and there were also cases of descriptions of a website URL or the disclosure policy being released on the website.

2-4. Descriptions regarding the visualization of women's active participation in the capital market

TSE revised the Reporting Guidelines for the CG Report (effective on April 18, 2013) concerning disclosure of the state of women's active participation, and made the current state of efforts to promote women to officer positions an optional item for stating in the section "Measures to Ensure Due Respect for Stakeholders".

In terms of the details stated, there were 721 companies (20.6% overall) that mentioned keywords such as "women", "gender", and "gender difference"³⁰, which is a significant increase from the previous survey (201 companies or 5.9% of all) (Chart 32). By market division, such keywords were used by 28.1% of companies listed on TSE First Section, 10.8% in TSE Second Section, 7.5% in Mothers, and 12.3% in JASDAQ. As for JPX-Nikkei 400 companies, 48.5% of them referred to women's active participation. In relation with the number of employees (consolidated) and consolidated sales, the larger the number or sales, the more likely companies are to describe the state of women's active participation (Charts 33 and 34).

In order for women to play active roles in corporations, it is necessary to develop environments for

³⁰ It includes companies which mentioned one of the following keywords: "women", "gender", "gender difference" and "diversity".

supporting child care or nursing care, for example, through the development of reduced work hours for child care systems, flextime systems, and child care leave. As corporate efforts for improving the environment, 439 companies (12.5%) provided explanations using such keywords³¹ as “work-life balance”, “child rearing”, or “(maternal/childcare) leave”, which is an increase from the previous survey of 332 companies (9.7%). Looking at each market division, the ratio was 18.4% in TSE First Section, 5.2% in TSE Second Section, 1.3% in Mothers, and 6.3% in JASDAQ. As for JPX-Nikkei 400 companies, 33.8% of them, which is again almost twice as many compared to those in TSE First Section, referred to women’s active participation. Furthermore, in relation with the number of employees (consolidated) and (consolidated) sales, similarly to explanations on women’s active participation, the larger the number or sales, the more likely companies are to refer to the state of women’s active participation.

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

Note that the compliance rate was 99.4% for Principle 2.4 that stipulates that companies should promote diversity of personnel, including the active participation of women, to ensure the sustainable growth of companies.

Chart 32 “Visualization” of Women’s Active Participation (by Market Division)

	State of woman's active participation	Change from 2014	Improving the Environment for Women's Active Participation	Change from 2014
Total	20.6%	+ 14.7%	12.5%	+ 2.8%
JPX-Nikkei 400	48.5%	+ 29.8%	33.8%	+ 6.8%
TSE First Section	28.1%	+ 19.5%	18.4%	+ 4.1%
TSE Second Section	10.8%	+ 8.9%	5.2%	+ 1.5%
Mothers	7.5%	+ 4.4%	1.3%	-0.3%
JASDAQ	12.3%	+ 6.7%	6.3%	-1.4%

Chart 33 “Visualization” of Women’s Active Participation (By Number of Employees (Consolidated))

	State of woman's active participation	Change from 2014	Improving the Environment for Women's Active Participation	Change from 2014
Under 100	9.6%	+ 8.6%	2.9%	+ 0.6%
100 to Under 500	10.6%	+ 7.7%	6.2%	+ 1.0%
500 to Under 1000	17.8%	+ 14.6%	9.6%	+ 3.2%
1000 or more	31.0%	+ 20.9%	20.2%	+ 4.5%

³¹ We counted descriptions which include one of the following keywords: “diverse human resources”, “equal treatment”, “work-life balance”, “child rearing”, “child raising” or “(maternal/childcare) leave”.

Chart 34 “Visualization” of Women’s Active Participation (by Consolidated Sales)

	State of woman's active participation	Change from 2014	Improving the Environment for Women's Active Participation	Change from 2014
Under ¥10 billion	10.5%	+ 7.3%	5.1%	+ 0.8%
¥10 billion to under ¥100 billion	17.6%	+ 14.2%	10.3%	+ 2.9%
¥100 billion to under ¥1 trillion	30.5%	+ 21.3%	20.1%	+ 4.8%
¥1 trillion or more	63.2%	+ 29.0%	42.6%	+ 2.0%

[Column 2] Appointment of female corporate officers

The Japanese government believes that promotion of the active participation of women is essential for the sustainable growth of Japan, and that the involvement of women in decision making in business will lead to diverse values being reflected in business management and increase of corporate value, and accordingly the Japanese government is engaged in various initiatives to promote the active participation of women. The Headquarters for the Promotion of Gender Equality of the Cabinet Office set the target of “raising the percentage of women in leading positions in various fields to at least 30 percent by the year 2020” in June 2003 for promoting the creation of a gender-equal society. Furthermore, with the establishment of the Act of Promotion of Women’s Participation and Advancement in the Workplace in August 2015 that made it obligatory to formulate an action plan for the hiring, promotion, and capacity development of women, efforts towards the achievement of a gender-equal society became mandatory.

As part of such efforts to promote the active participation of women, the Gender Equality Bureau Cabinet Office within the Cabinet Office newly established the Women Officer Information Site³² within the website of the Gender Equality Bureau in September 2016. This site was established in consideration of efforts to enhance information provision including the visualization of information related to female corporate officers, and it also introduces links that highlight companies that allow women to actively participate in the capital markets. These features also include an introduction of the “Nadeshiko Brand” that is jointly released by TSE and the Ministry of Economy, Trade and Industry.

This website contains a list of the number and percentage of female corporate officers by industry for approximately 3,600 listed companies³³, and according to this list, the percentage of female corporate officers is highest for the insurance industry. The average number of corporate officers for this industry is 14.1 men and 1.45 women, while the average percentage of female corporate officers is 7.8%. The next highest is the air transportation industry, where there are 0.80 women compared to 12.6 men, and the average percentage of female corporate officers is 6.1%. The lowest is for the mining industry, where there are 0.14 women compared to 13.3 men, and the average percentage of female corporate officers is 0.7%.

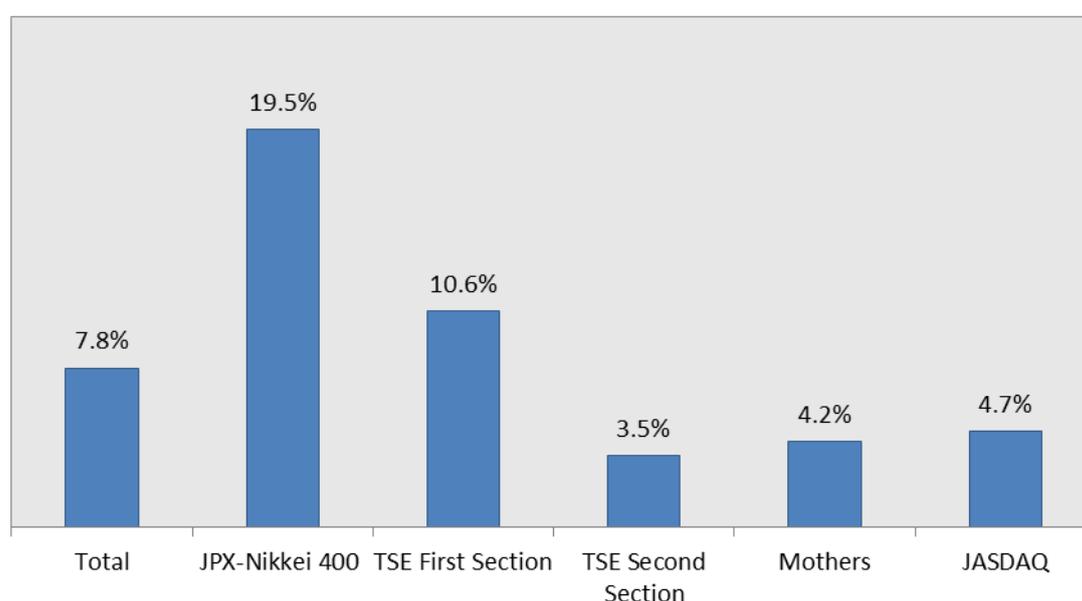
³² <http://www.gender.go.jp/policy/mieruka/company/yakuin.html> (only available in Japanese)

³³ Information contained in annual securities reports posted to EDINET (<http://disclosure.edinet-fsa.go.jp/EKW0EZ1001.html?lgKbn=1&dflg=0&iflg=0>); companies with a fiscal year ending from September 2015 to August 2016 that were granted a securities code (excluding foreign companies).

Furthermore, in the CG Report, the current state of efforts to promote women to corporate officer positions can optionally be stated in supplementary explanations disclosed in “Other” in “3. Measures to Ensure Due Respect for Stakeholders”. In this section, out of 3,507 listed companies, 272 companies³⁴(7.8%) disclose that they have promoted women to corporate officer positions (directors, corporate auditors, *shikkoyaku*³⁵, or *shikkoyakuin*³⁶ of the company or its subsidiaries) (Chart 35).

In terms of market division, 10.6% of companies in TSE First Section (207 companies) stated that they had promoted women to corporate officer positions, which was the highest number. This was followed by 4.7% for JASDAQ (36 companies), 4.2% for Mothers (10 companies), and 3.5% for TSE Second Section (19 companies). In case of JPX-Nikkei 400 companies, 19.5% (78 companies) had promoted women to corporate officer positions, marking a much higher ratio than that of TSE First Section (10.6%).

Chart 35 Appointment of Female Corporate Officers (by Market Division)



In terms of the results by industry, the promotion rate was highest for the insurance at 50.0% (promotion by 6 of 12 companies in the insurance industry), followed by electric power & gas at 30.4% (7 of 23 companies) (Chart 36).

Next, looking at results by consolidated sales, the ratio of companies that stated that they had promoted women to corporate officer positions tends to increase as consolidated sales increase. Among companies with consolidated sales of 1 trillion yen or more, 31.6% stated that they had promoted women to corporate officer positions (Chart 37).

³⁴ 3. Applies for companies that stated that they have promoted women to officer positions in supplementary explanations disclosed in “Other” in “3. Measures to Ensure Due Respect for Stakeholders”, and does not include companies that may have actually promoted women to officer positions if there is no such statement in this section,

³⁵ *Shikkoyaku*: According to the Companies Act, Companies with Three Committees (Nomination, Audit and Remuneration) must appoint one or more *shikkoyaku* from directors or non-directors by a resolution of the board and delegate business administration to *shikkoyaku*. Also, authority to make certain kinds of business decisions may be delegated to *shikkoyaku*.

³⁶ *Shikkoyakuin*: There are cases where a Company with Kansayaku Board or a Company with Supervisory Committee creates positions with the title of “*shikkoyakuin*” for persons who are delegated by the board a certain range of discretion regarding business administration. Unlike *shikkoyaku* in Companies with Three Committees (Nomination, Audit and Remuneration), *shikkoyakuin* is not a statutory position.

Chart 36 Appointment of Female Corporate Officers (by Industry)

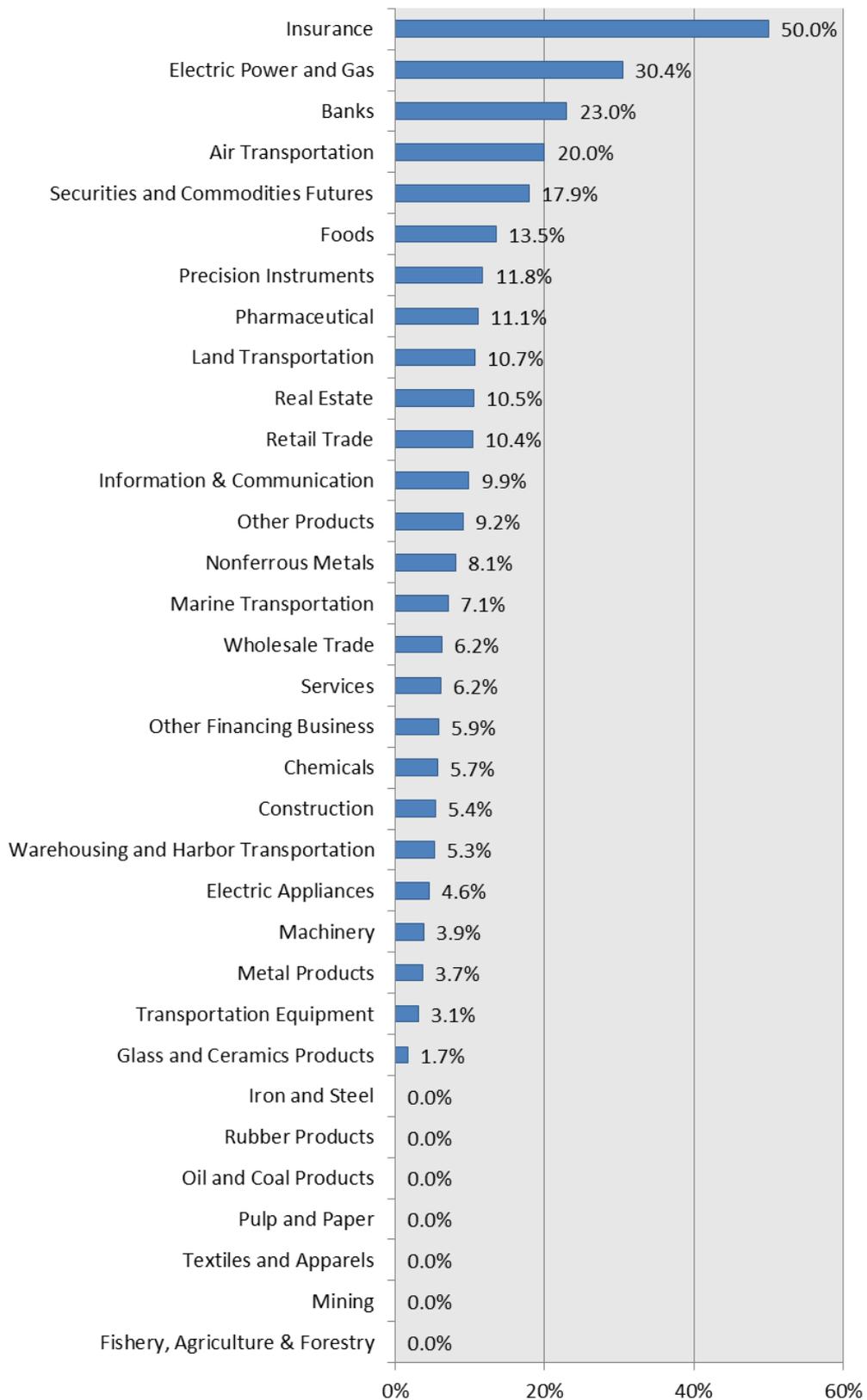
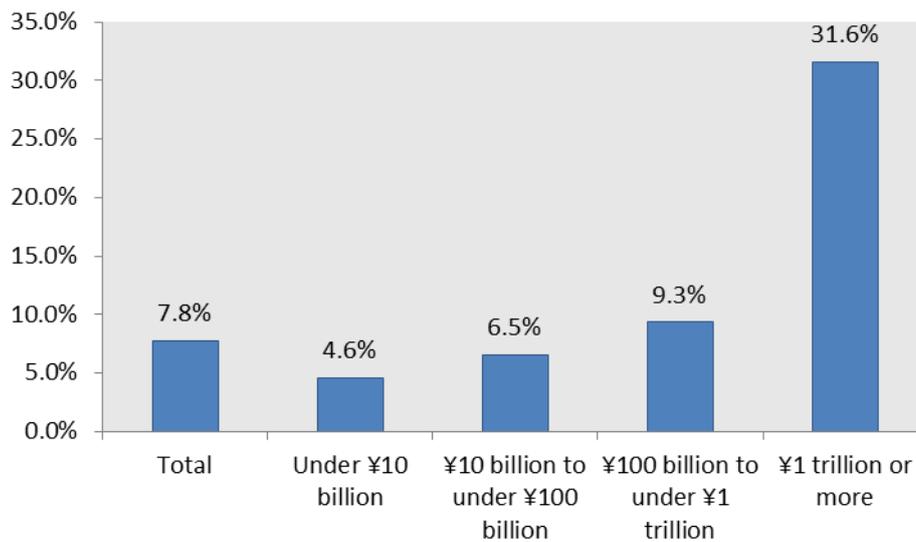


Chart 37 Appointment of Female Corporate Officers (by Consolidated Sales)



In terms of disclosures stated regarding the promotion of women to officers, the majority of companies stated the number of female corporate officers at the company or the entire corporate group. Companies that did not state that they have promoted women to officer positions had disclosures regarding policies such as a policy to promote women to officers once they develop the required skills and a policy to develop women managers, or disclosures regarding ratios such as the women employee ratio or women management position ratio.

3. Ensuring appropriate information disclosure and transparency

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

[General Principle 3]

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

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

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

This chapter will cover the contents of disclosures based on Principle 3.1 “Full Disclosure” for which disclosures are required in the CG Report. In addition to an analysis of the items that disclosure has been required in the CG Report up until now, we will introduce the details of disclosures for the selection of and evaluation criteria for external accounting auditor candidate in a column and analyze the trends among listed companies that disclose the CG Report in English.

3-1. Full disclosure (Principle 3.1)

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

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

Because there are many companies that already have disclosures on these matters through various disclosure materials and forms of media that include annual securities reports, convening notices for the general meeting of shareholders, the CG Reports, and corporate websites, a distinctive feature for these matters is that in many cases descriptions tell readers to refer to the materials that have already been disclosed. However, particularly for (v), while the reasons for selection of outside director and outside *kansayaku* candidates have been stated in

reference documents for the general meeting of shareholders, as there are cases of reasons not being stated for the selection of inside officers³⁷, the compliance rate is 85.9% (1,943 companies), falling below 90%. The contents of the disclosures for (i) through (v) for companies in compliance with Principle 3.1 will be analyzed below.

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

Many companies already have disclosures on company objectives (e.g., business principles), business strategies and business plans in other forms of media, and accordingly disclosures such as “the company objectives (e.g., business principles), business plans and mid-term management plans are stated on our website” are common. If we analyze keywords used, 72.8% of companies (1,414 companies) include a keyword such as “website”, and 51.8% of companies (1,007 companies) state a specific URL. Other references included are summary of financial statements (11.0% or 214 companies), explanatory materials for the financial results (4.5% or 87 companies), business reports (3.1% or 61 companies), and convening notices (1.9% or 36 companies).

In terms of specific examples, there are many cases of descriptions on only the name of the reference documents or the URL. While such descriptions could reduce the disclosure burden for listed companies, it has also been pointed out that from the perspective of the user of the information, information can be hard to find if there is nothing but references.

On the other hand, there are cases such as displayed in [Example 1], in which an overview is described in the CG Report, and the details are stated on the website.

³⁷ Examples of explanations for these companies is that while there are currently no disclosures for (v), there are cases of companies that have pledged to state the selection reason for all officer candidates in the reference documents for the regular general meeting of shareholders for the next year.

[Example 1]

■ Corporate philosophy

The Company's Group Philosophy is to be an "Earth Food Creator" built on the spirit of our founder.

The term "Earth Food Creator" clearly expresses our will and all-pervasive philosophy of ●●●● Group explores various possibilities for food and creates dream-inspiring delicious tastes. We contribute to society and the earth by gratifying people everywhere with pleasures and delights food can provide.

The spirit of the founder is expressed in the four phrases of "Peace will come to the world when there is enough food", "Create foods to serve society", "Eat wisely for beauty and health", and "Food related jobs are sacred profession" propounded by founder Momofuku Ando is the foundation of the enduring value system that gives direction to the Nissin Foods Group.

Peace will come to the world when there is enough food. Food is the most important pillar supporting human life. The business operations of the Group originated from this basic human principle.

Create foods to serve society. A spirit of creativity is the most important thing of all for a company. We are creating a new food culture and providing people all over the world with happiness and inspiration.

Eat wisely for beauty and health. The Group pursues food functionality and advocates a wise diet.

Food related jobs are a sacred profession. It is the mission of the Group to provide the world with safe, delicious, and healthy food.

■ Business principles and business plans

(1) Medium-term management policy

Based on the spirit of our founder set forth in the four phrases of "Peace will come to the world when there is enough food", "Create foods to serve society", "Eat wisely for beauty and health", and "Food related jobs are sacred profession", the Company pursues the creation of food around the world.

We go about our work in a creative and unique manner every day, and provide enjoyment of food for a global audience, in order to make people all over the world happy in order to realize our Group Philosophy, "Earth Food Creator". The five-year Medium-Term Business Plan from FY2016 (hereinafter, the "Medium-Term Business Plan") sets numerical targets that focus on strengthening earnings power in the core business and value in capital markets, with establishing a reputation as a global company as a requirement.

(2) Overall strategy

The Company will implement the following five strategies in pursuit of business profitability in order to achieve the numerical targets in the Medium-Term Business Plan.

(A) Promoting global branding

In order to increase profitability overseas, the Company will accelerate the roll-out of high-added value products that make the most of its strengths overseas in an aim for 1.5 times sales units overseas and improved profitability. The Company will approach clearly defined target markets (young generation enjoying a certain level of living standard) with initiatives including design, flavor, and promotions with the aim of expanding more efficiently and effectively in these markets.

(B) Focusing on priority overseas locations

From the perspective of the attractiveness of the markets (size and potential of markets for instant noodles) and the Company's chances of winning (strength of business base and potential for short to medium-term expansion of the market for high-added value cup-type noodles), the Company has set BRICs (Brazil, Russia, India, and China) as a focus area in which it will achieve certain profit growth. In China, the Company will further expand its sales area in the growing market for highly-profitable cup noodle products. In India, in addition to the growth of bag-type noodle products in urban areas, the Company will strengthen sales of cup noodle products to the rapidly growing population of middle-income earners. In Brazil and Russia, the Company will leverage its strong top share position in an effort to expand the high value-added cup noodle market, and gain further market share and profits.

(C) Laying stronger foundations for our domestic profit base

In an effort to establish a business model that will not be affected by population decline and changes in the population and consumer demographics, the Company will further develop the domestic market with a focus on marketing, invest in more sophisticated plants to improve food safety and production efficiency, and solidify the earnings base for the domestic instant noodles business with the aim of creating brands to last 100 years.

(D) Establishing a second pillar that generates revenue and profits

The Company will strengthen efforts in Japan and overseas in order to grow the confectionery and cereal business as a secondary revenue source. As well as further growing the brands of each company, we will strengthen cooperation through technical synergy, expand overseas operations, and utilize M&As, with the aim of increasing sales to 100 billion yen, including partners accounted for by the equity method. In addition, in the chilled and frozen food business and beverage business, the Company will aim for further profit growth domestically by building on effort to establish brands throughout the previous medium-term period.

(E) Developing and strengthening human resources for global management

We have strengthened platform through active investments up until now, and established a support structure for growth. Going forward, the company will implement human resources development measures within the Group including the selection-based in-house university program, promotion of diversity, and overseas trainee schemes, promote external human resources with the aim of increasing management resources, and accelerate global management.

The specific details of the efforts are stated on the Company's official corporate website.

https://www.●●●●.com/jp/ir/management/business_plan

(Food products)

Chart 38 Keywords Related to Disclosures on Company Objectives (e.g., Business Principles), business strategies and Business Plans

Item	Number of companies	Applicable ratio
Companies complying with Principle 3.1	1,943 companies	100%
Website, etc. (HP, website)	1,414 companies	72.8%
Individual URL stated (http://~)	1,007 companies	51.8%
Summary of financial statements	214 companies	11.0%
Financial results briefing	185 companies	9.5%
Explanatory materials for the financial results	87 companies	4.5%
Business report	61 companies	3.1%
Convening notice	36 companies	1.9%

(2) Basic Views and Guidelines on Corporate Governance

(i) Disclosure based on Principle 3.1 (ii)

Because disclosures similar to this item were already required under “Basic Views” in the CG Report (described below) and annual securities reports, there are many companies that clearly indicate the reference destination through a statement such as “basic views towards corporate governance are stated in the CG Report and annual securities reports”. According to an analysis of keywords, 50.0% of companies (971 companies) mentioned “corporate governance report (including the CG report)”, 20.8% of companies (404 companies) mentioned “website, etc.”, 10.9% of companies (212 companies) mentioned “annual securities report”, and 15.2% of companies (296 companies) mentioned a reference URL.

As a specific example, in [Example 2] the company’s basic policy is listed in keywords. In [Example 3], corporate governance guidelines that have been summarized in consideration of the Code are referenced.

[Example 2]

The Company does not necessarily focus on quantitative pursuit as the gauge for development, as it uses the maximization of profit and the maximization of the satisfaction of users, consumers, and shareholders as its criteria. Accordingly, the following keywords can express the Company's basic policies.

Creating a prosperous society both physically and spiritually

Provision of high-added value products and services

Maximization of profits

Focus on creativity

Fostering self-development and autonomy of employees

Flexible and responsive management

Responding to globalization

Since our foundation in 1934, the business principles we are rooted in, our technologies, knowledge, and know-how related to development, production, and sales that have been accumulated over many years, cooperative relationships with business partners, marketing and networks, and the deep understanding and attainments in the health care business and plastic products business that are the Company's core business are becoming even more important in future management.

Under the current drastically changing social conditions, the Company will continue to seek solid management foundations and systems capable of responding to any changes. In addition, the Company will pursue more concentrated and efficient management in each of its businesses to further boost efforts to supply highly creative products and services and strongly establish individuality that will differentiate the Company from its competitors. Meanwhile, in order to leverage our advantages in terms of costs, the Company will initiate full-scale reforms that take into consideration system changes while making efforts towards day-to-day improvements.

In the management of Group companies, the Company will continue to achieve its globalization strategy as it aims for the entire Group to function organically. The accumulated efforts of the Company and the Group since foundation are the source of current corporate value, and by working to expand corporate value through such efforts, the Company would like to make trust relationships with stakeholders including business partners and employees stronger, and contribute to improvements in corporate value and by extension the joint interests of shareholders over the medium to long term.

As our basic view towards corporate governance, we aim for all employees to work together and take to heart our corporate position and mission in society and improve business activities so that the trust of shareholders, consumers, and business partners is not damaged.

Accordingly, the Company aims to contribute to society and improve corporate value by complying with laws and regulations in good faith, maximizing the profits of shareholders, and acting in a socially responsible manner.

In addition, the Company will also work to improve the transparency of management and increase the speed of decision making in the Board of Executive Officers, the board, and the management committee that is participated in by executives.

Note that two outside directors have been appointed to the Supervisory Committee to maintain the independence of audits as a structure that can objectively audit and monitor the performance of duties and decision making by directors, and also strengthen corporate governance by making internal control effective. (Rubber products)

[Example 3]

1. The Company's basic stance towards corporate governance is as follows.

(1) Corporate governance policy

The Group's mission is co-existence, mutual growth and mutual creation with society in Asia and worldwide. Consequently, to realize our core philosophy, we are dedicated to generating stable profits by pursuing efficiency, while ensuring soundness and transparency. As a result, we look to achieve sustainable, steady growth together with consumers, society and other stakeholders.

(2) Corporate governance structure

The activities of the Group are overseen by the Audit & Supervisory Board. With legal oversight from its members as the basis for corporate governance, we invite multiple external directors to sit on our board, to reinforce our monitoring and advisory functions. By clarifying responsibilities and delegating authority under a system of supervisory and responsible *shikkoyakuin* in charge of specific operations, we have created a system for the proactive and expeditious execution of operations.

2. The Company's basic policy toward corporate governance is explained in descriptions corresponding to each general principle for each heading in the Corporate Governance Guidelines that are disclosed through the Company's website (http://www.●●●●.co.jp/ir/src/g_guideline.pdf). (Chemicals)

Chart 39 Keywords in Basic Views and Guidelines on Corporate Governance

Item	Number of companies	Applicable ratio
Companies complying with Principle 3.1	1,943 companies	100%
Governance report, etc. (the CG Report, etc.)	971 companies	50.0%
Website, etc. (HP, website)	404 companies	20.8%
Individual URL stated (http://~)	296 companies	15.2%
Annual Securities report	212 companies	10.9%

As in [Example 3], quite a few companies have formulated their own corporate governance guidelines, etc. Among the 2,262 TSE First Section and TSE Second Section companies that disclosed the status of the response to the Code as of July 14, 2016, 13.9% (314 companies) stated that they had formulated corporate governance guidelines, corporate governance policies, etc. in the CG Report³⁸ (Chart 40). Those are 16.1% (290 companies) of TSE First Section, 5.2% (24 companies) of TSE Second Section, and 21.9% (81 companies) of JPX-Nikkei 400 companies.

While in many cases the actual guidelines are only disclosed on the URLs referenced in the CG Reports, there are also cases such as in [Example 4] in which each of principles of the Code are referred to.

[Example 4]

(abbreviated).

I. Appropriate Cooperation with Stakeholders (General Principle 2, 3.1 (ii))

The Company's corporate value consists of not only financial value, but is rather the sum of social value that is closely related to this, and as such it will appropriately cooperate with stakeholders that include customers, business partners, society, employees, and shareholders based on its vision. The board and the management (executive directors and *shikkoyakuin*) will display leadership that prioritizes compliance and aims at the creation of a corporate culture that respects and works together with all stakeholders.

II. Securing the Rights and Equal Treatment of Shareholders (General Principle 1, 3.(ii))

In order to fully secure shareholder rights, the Company will respond to laws and regulations appropriately, and give adequate consideration to minority shareholders and foreign shareholders as it develops an environment in which shareholders can exercise their rights appropriately.

III. Ensuring Appropriate Information Disclosure and Transparency (General Principle 3, 3.1(ii))

The Company's management will work towards well-balanced, easy-to-understand, and highly useful information provision in order to provide proactive and clear explanations on not only financial information, but also non-financial information, such as business strategies and business issues, risk, and governance.

IV. Dialogue with Shareholders (General Principle 5, 3.1 (ii))

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, the executive team (directors with specific titles and above) including the representative director will engage in constructive dialogue with shareholders (engagement) through various investor relations activities and shareholder relations activities.

V. Responsibilities of the board (General Principle 4, 3.1 (ii))

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

- Setting and implementing the broad direction of corporate strategy, including the long-term vision and medium-term management policy
- Developing internal control systems and risk management systems in order to appropriately support risk taking by management

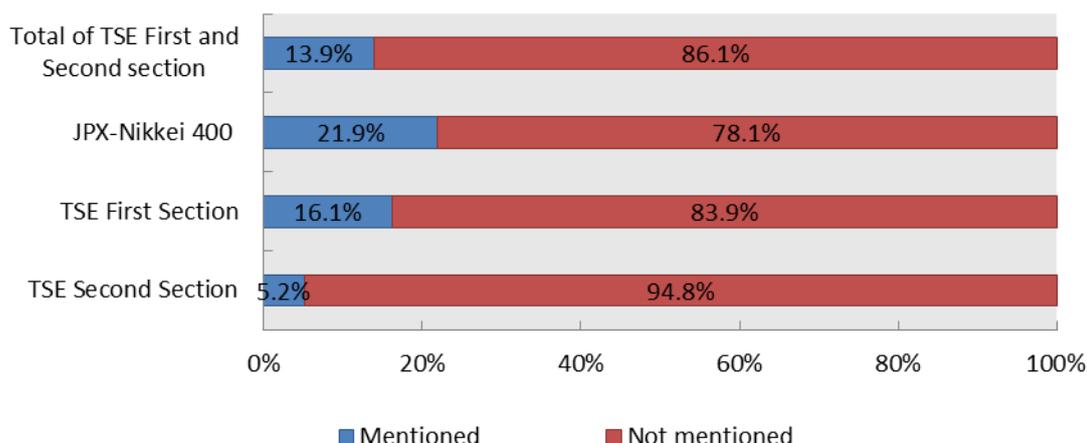
In addition, as a Company with a *Kansayaku* Board, the Company will take advantage of the benefits of the *kansayaku* system that include its independence single-authority framework, and full-time *kansayaku*, while the *Kansayaku* Board that is composed of a majority of independent outside *kansayaku* conducts audits on the execution of duties by directors. In addition, the Company has voluntarily established a Nomination Committee and Remuneration Committee composed of a majority of independent outside directors, and based on this structure independent outside director will appropriately monitor management with a high degree of effectiveness.

(abbreviated).

(Food industry)

³⁸ The total here includes not only companies that have mentioned the disclosure of corporate governance guidelines, etc. as disclosures based on Principle 1.3 (ii), but also companies that mention guidelines, etc. in other areas of the CG Report.

Chart 40 Disclosures Regarding Formulation of Corporate Governance Guidelines, etc.



(ii) Basic Views on Corporate Governance

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

According to the Code, the achievement of effective corporate governance contributes to the sustainable growth of companies and the creation of mid to long-term corporate value. Looking at the disclosures for this section, mention is made of “mid to long-term”, “sustainable”, and “growth” by 26.9%, 46.9%, and 30.4% of listed companies, respectively (Chart 41). As a high percentage of listed companies (73.4%, 71.3%, 65.3%, respectively) mentioned the keywords of “transparency”, “stakeholders”³⁹, and “corporate value” that were keywords for this item in the previous survey, this suggests that transparency in the decision making process, positive relationships with not only shareholders but all stakeholders including employees, customers, business partners and local communities, and the creation of the corporate value through appropriate business activities have been broadly instilled as elements of basic views towards corporate governance. Looking at the specific disclosures, many companies had descriptions such as “our basic principles of corporate governance are to enhance the efficiency and transparency of corporate management, and to create the corporate value” and “establish good relationships with stakeholders”.

Regarding the management monitoring function, companies which referred to “monitoring” or “supervision” accounted for 38.5%. In addition, while the ratio was 37.9% in a Company with *Kansayaku* Board and the ratio was 37.5% in a Company with a Supervisory Committee, the ratio in a Company with Three Committees (Nomination, Audit and Remuneration) was quite high 72.9%, and a Company with Three Committees is characterized by the focus on the oversight function over board of directors. While companies which referred to “execution” accounted for 33.0% of all companies, 32.9% of Companies with *Kansayaku*

³⁹ Reference to “stakeholders” covers companies which mentioned one of the following keywords: “stakeholders”, “employees”, “local community”, “interested parties”, “customers”, “consumers”, “creditors”, “business partners” and “local residents”.

Board, and 29.7% of Companies with a Supervisory Committee, a high percentage of Companies with Three Committees referred to “execution” (70.0%). A definite separation between business execution and supervision is a distinctive feature of Companies with Three Committees, and thus the higher percentage reflects the fact that many of them mentioned it in their descriptions.

The trend of companies focusing on corporate social responsibility has continued, and in this survey 24.8% of listed companies referred to “social responsibility”.⁴⁰ It is worth noting that a continued trend of an emphasis on business activities in consideration of social responsibility as the basic policy of the companies, and the disclosure of these activities. Partly because discussions on corporate governance have been provoked by efforts for prevention of corporate scandals, “legal compliance”⁴¹ and “internal control” were mentioned by 35.4% and 16.7%, respectively, of the companies from the viewpoint of soundness of management.

Chart 41 Basic Views on Corporate Governance

		Medium to long-term	Sustainable	Growth	Corporate value	Shareholder value	Shareholder
		Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
Total		26.9%	46.9%	30.4%	65.3%	5.2%	67.9%
Organizational Form	Companies with Kansayaku Board	26.7%	47.5%	30.8%	64.6%	5.3%	67.3%
	Companies with a Supervisory Committee	26.4%	43.6%	28.7%	67.8%	5.0%	70.2%
	Companies with Three Committees	37.1%	52.9%	30.0%	71.4%	5.7%	72.9%

		Investor	Monitoring/Supervision	Execution	Decision making	Internal control	Stakeholders
		Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
Total		11.0%	38.5%	33.0%	41.2%	16.7%	71.3%
Organizational Form	Companies with Kansayaku Board	11.5%	37.9%	32.9%	41.6%	17.5%	71.8%
	Companies with a Supervisory Committee	9.3%	37.5%	29.7%	38.5%	13.8%	69.2%
	Companies with Three Committees	8.6%	72.9%	70.0%	50.0%	11.4%	71.4%

		Social responsibility	Legal compliance	Transparency	Efficiency	Soundness
		Ratio	Ratio	Ratio	Ratio	Ratio
Total		24.8%	35.4%	73.4%	19.7%	25.7%
Organizational Form	Companies with Kansayaku Board	25.2%	36.8%	72.9%	19.3%	25.8%
	Companies with a Supervisory Committee	24.0%	30.8%	75.0%	21.2%	26.4%
	Companies with Three Committees	18.6%	20.0%	78.6%	20.0%	14.3%

(3) Policies and procedures for deciding on remuneration

(i) Disclosure based on Principle 3.1 (iii)

Principle 3.1 (iii) requires the disclosure of the policies and procedures for determining the remuneration of the senior management and directors by the board of directors. As there are many companies that already had disclosures on the basic policy for the remuneration of officers in the CG Report and annual securities report, 20.4% of companies (397 companies) included the keyword “corporate governance report”, etc. and 9.0% of companies (176 companies) included the keyword “annual securities report”. Compared to other items (Principle 3.1 (i) and Principle 3.1 (ii)), only a few companies refer to other disclosure materials. Perhaps this is because this item is not covered by existing disclosures for most companies, as it is necessary to disclose both the policies and procedures for the remuneration of officers.

⁴⁰ Reference to “social responsibility” covers companies which mentioned one of the following keywords: “CSR”, “social responsibility” and “corporate ethics”.

⁴¹ Reference to “legal compliance” covers companies which mentioned one of the following keywords: “legal compliance”, “compliance with laws and regulations” and “compliance”.

The majority of companies mentioned “performance”, or 51.0% of companies (991 companies). This suggests that most companies decide on the remuneration of officers considering their performance. In addition, 44.9% of companies (873 companies) mentioned “general meeting of shareholders”. There were mentions of cases of the limits for total remuneration decided on by the general meeting of shareholders. In addition, 27.8% of companies (541 companies) mentioned “outside directors”. There were cases of the opinions of outside directors being incorporated in the remuneration decision process and cases of a separate remuneration limit for outside directors from inside officers.

In terms of the policies for deciding on the remuneration of officers, many companies had separate disclosures on fixed remuneration (basic remuneration) and bonuses, and performance-based remuneration. There were many companies that clearly stated that fixed remuneration (basic remuneration) was set in consideration of roles and responsibilities. In terms of the elements of fixed remuneration (basic remuneration), 19.7% (382 companies) included the keywords “responsibilities/duties”, and 16.5% (321 companies) included the keywords “roles/rank”. In terms of elements of performance-based remuneration, “performance” as described above was most frequently mentioned, and there were also companies that mentioned “sales”, “profits (operating profit, ordinary profit, net profit)”, “ROE/ROA” and “dividends”. In addition, there were also companies that mentioned they referred to “standard levels” and “data provided from external institutions”. There were also several companies that mentioned keywords related to incentive-based remuneration or stock-based remuneration, stock options, and stock-based remuneration including trusts. There was only one company that mentioned the Restricted Stock Unit. 8.5% of companies (165 companies) stated that they conduct “comprehensive consideration or judgments” on multiple factors.

In terms of the procedures for deciding on the remuneration of officers, as described above, a little under half of companies mentioned “general meeting of shareholders” (44.9% or 873 companies). 13.6% (265 companies) mentioned a “remuneration committee, etc.”. It seems that there are many companies that used the adoption of the Code as an opportunity to newly establish optional advisory bodies in order to ensure the transparency of the process for deciding on the remuneration of officers (refer to “4-11 Committee, Etc, (2) Remuneration Committee”).

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

Chart 42 Keywords Related to Policies for Determining the Remuneration of Officers

Item	Number of companies	Applicable ratio
Companies complying with Principle 3.1	1,943 companies	100%
Performance	991 companies	51.0%
Outside director	541 companies	27.8%
Bonus	403 companies	20.7%
Basic/fixed	390 companies	20.7%
Responsibilities/duties	382 companies	19.7%
Consultation	358 companies	18.4%
Roles/rank	321 companies	16.5%
Corporate performance	195 companies	10.0%
Profits	167 companies	8.6%
Comprehensive consideration or judgments	165 companies	8.5%
Performance-based remuneration	153 companies	7.9%
Stock remuneration	147 companies	7.6%
Stock options	122 companies	6.3%

Chart 43 Keywords Related to Procedures for Determining the Remuneration of Officers

Item	Number of companies	Applicable ratio
Companies complying with Principle 3.1	1,943 companies	100%
General meeting of shareholders	873 companies	44.9%
Outside director	541 companies	27.8%
Remuneration committee, etc	265 companies	13.6%

[Example 5]

1. Remuneration of directors (excluding directors who are members of the Supervisory Committee)

The Company will decide on the remuneration of directors (excluding directors who are members of the Supervisory Committee) based on the following policies and procedures.

(1) Policies for deciding on remuneration

The remuneration of directors (including the chairman of the board, president, and representative director who constitute senior management) is composed of a. basic remuneration (fixed), b. performance-based monetary remuneration (bonus), and c. performance-based stock remuneration in order to reflect corporate performance and better clarify the correlation with shareholder value.

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

a. The basic remuneration (fixed) of directors will be an appropriate amount in light of their rank, duties etc.

b. The performance-based monetary remuneration (bonus) of directors will be determined based on the degree of attainment, etc. of consolidated results (operating profit, net profit, etc.).

c. For the performance-based stock remuneration of directors, a share delivery trust framework will be used to deliver the Company's share and provide money based on share delivery points that are granted in accordance with the degree of attainment of consolidated results (net profit, ROE, etc.).

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

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

(2) Procedures for deciding on remuneration

When deciding on the remuneration of directors, a Nomination and Remuneration Advisory Committee (with an independent outside director serving as the chairperson) composed of all independent outside directors and the president will be established to hold deliberations in order to ensure transparency and objectivity in the decision making process, and then a specific decision will be made by the board of directors based on the findings this committee. The basic remuneration (fixed) and performance-based monetary remuneration (bonus) of directors will be within the total amount of remuneration for directors other than members of the Supervisory Committee that has been approved by the general meeting of shareholders.

(Omitted) (Construction industry)

[Example 6]

(3) Policies and procedures of the board of directors in determining the remuneration of the senior management and directors

The Company views the remuneration of directors as an incentive for the achievement of sustainable growth in accordance with the Company's business principles and improvements in medium to long-term corporate value.

The remuneration of executive directors is composed of basic remuneration that is a monthly fixed amount and bonuses that are linked to the results of single fiscal year.

Basic remuneration is prescribed in a director remuneration table in accordance with the position in reference to factors such as industry standards and the results of surveys by external research institutes and a remuneration proposal in accordance with the role and responsibility of each director is calculated within the range of the correspondent table. In addition, part of basic remuneration includes stock-based remuneration in which contributions to a shareholding association are applied to the acquisition of the shares of the Company. The Company views stock-based remuneration as an incentive for the achievement of long to medium-term growth and improvement in corporate value.

For bonuses, first a total amount proposal is calculated, and then a distribution proposal to each executive director is calculated. The bonus total amount proposal is calculated in comprehensive consideration of single fiscal year results, particularly consolidated operating cash flows and consolidated ROE, in addition to the degree of achievement of initially planned consolidated ordinary income. The distribution to each executive director is set so that the bonus factor (ratio of bonus to the total basic remuneration and bonus) gets higher as the rank in the director remuneration table gets higher in an aim to further strengthen the level of commitment to the single fiscal year management targets. Note that a bonus will not be provided as a general rule if consolidated ordinary income falls a certain level below the initial results projections.

For directors who do not conduct executive duties, a bonus is not paid, as only basic remuneration based on their individual roles and responsibilities is provided.

As the separate procedures when deciding on remuneration for directors who are not members of the Supervisory Committee, the policies above will be followed and remuneration will be decided on based on a vote by the board within the limit prescribed with the approval of the general meeting of shareholders. Such decisions must pass deliberations by the Nomination and Remuneration Committee.

As the separate procedures when deciding on remuneration for directors who are members of the Supervisory Committee, the policies above will be followed and remuneration will be decided on based on a vote by the Supervisory Committee within the limit prescribed with the approval of the general meeting of shareholders.

In addition to the above, the Nomination and Remuneration Committee will verify the appropriateness of and present improvement proposals, etc. for policies, remuneration composition, remuneration tables, and calculation rules related to the remuneration of directors. (Retail)

(ii) Disclosure of individual director remuneration

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

The percentage of companies who do not disclose the remuneration of individual directors in the CG Reports for Companies with *Kansayaku* Board and Companies with a Supervisory Committee is 92.0% and 93.6% respectively, while the percentage of these companies that make full disclosure of such information on all directors is only 0.1% and 0.2%, respectively (Charts 44 and 45). In addition, while 7.9% and 6.3% of these companies disclose information on selected directors, the majority of these companies are those that disclose separate information on officers who receive 100 million yen or more.

Looking at Companies with Three Committees, the percentage of companies who do not disclose the remuneration of individual directors is 75.7% for directors and 67.1% for *shikkoyaku*, while the percentage of such companies that make full disclosure of such information for all members is 1.4% for directors and 1.4% for *shikkoyaku*, which is higher compared to the two types of organizations above (Chart 46).

With regard to supplementary explanation related to director remuneration, 3,456 companies or 98.6% provided such a description. As for officer remuneration, since it is mandatory to provide such description in annual securities reports, there were many instances of companies providing similar content.

Chart 44 Disclosure of Director Remuneration (Companies with *Kansayaku* Board)

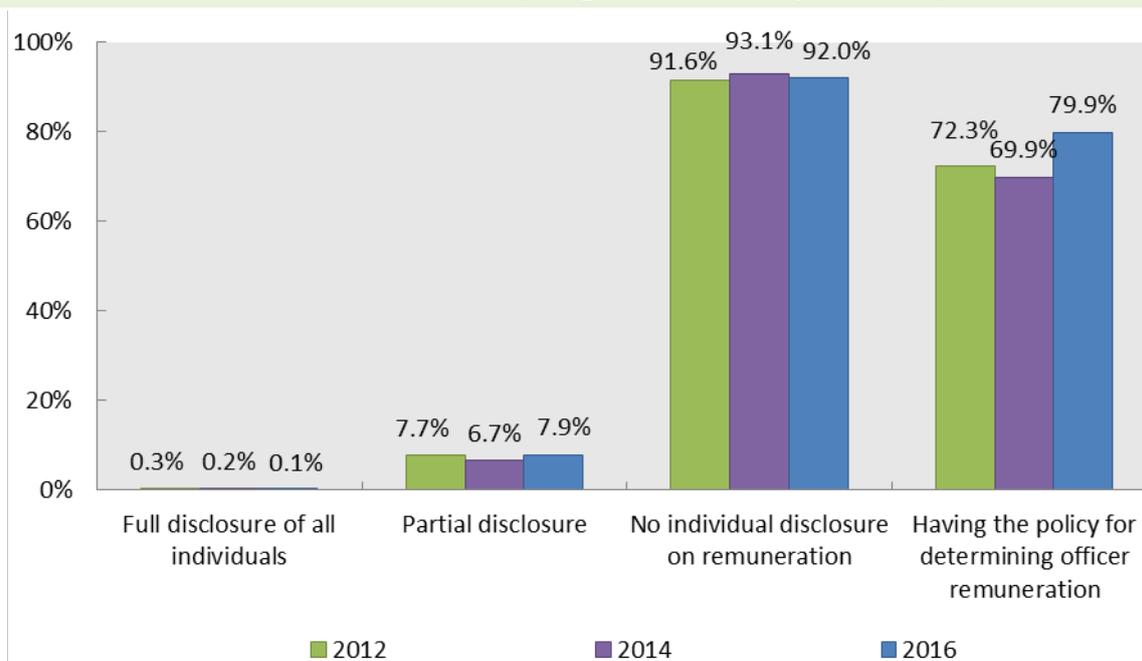


Chart 45 Disclosure of Director Remuneration (Companies with a Supervisory Committee)

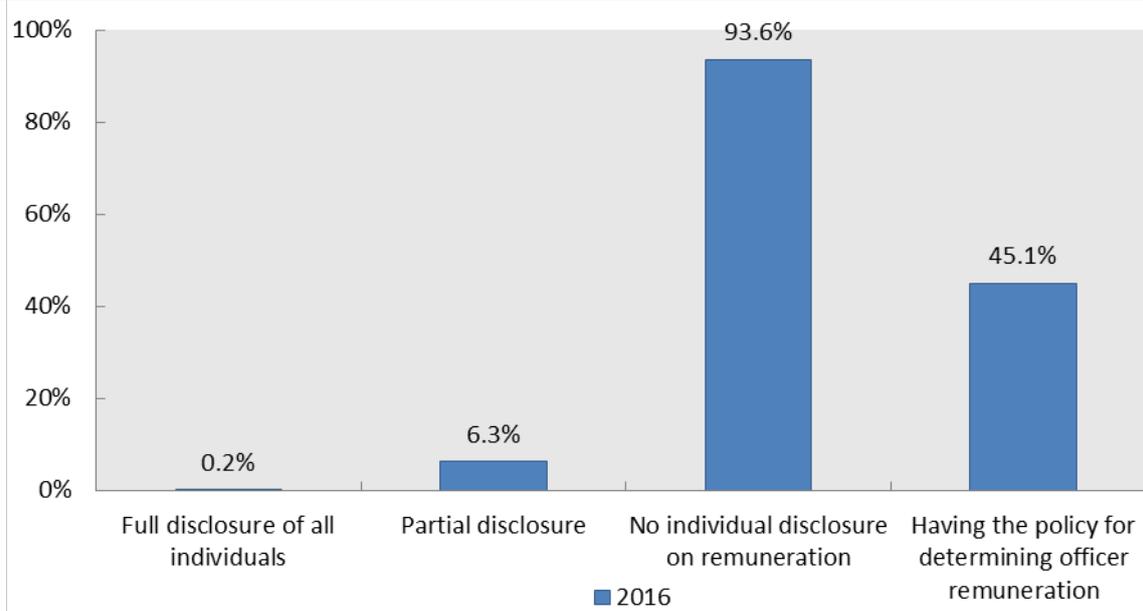
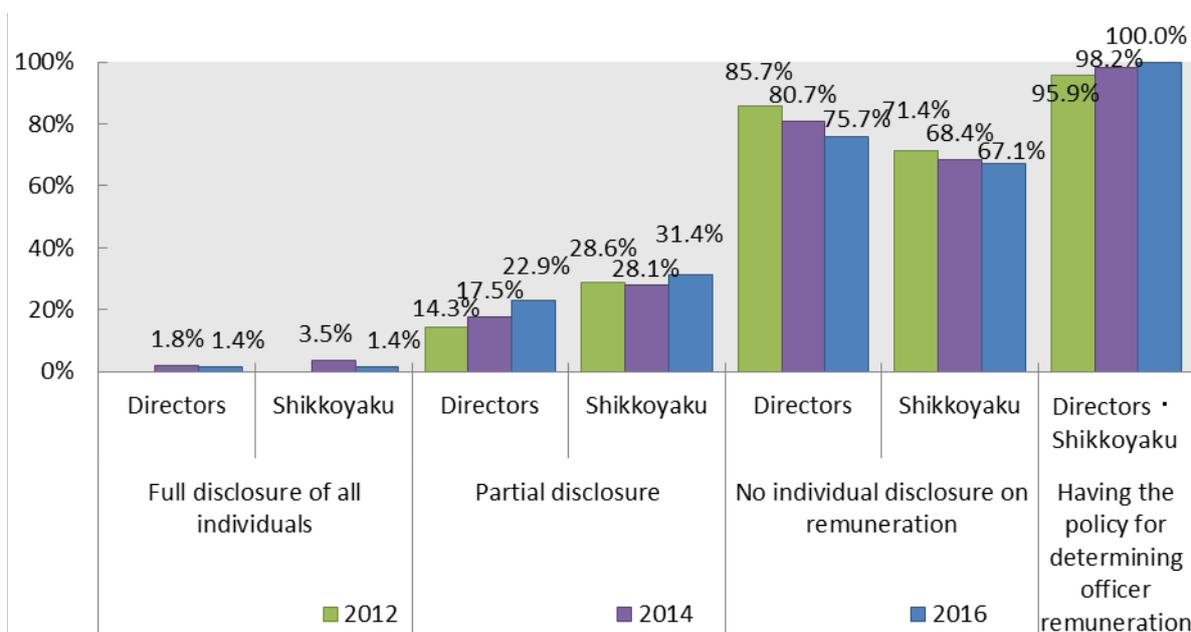


Chart 46 Disclosure of Director/Shikkoyaku Remuneration (Companies with Three Committees)



(iii) Policy for determining remuneration amounts and calculation method

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

In the CG Report, the percentage of companies which reported that a policy on director remuneration

amounts, etc. and its calculation method are in place accounted for 79.9% of companies with *Kansayaku* Board, 45.1% of companies with Supervisory Committee, and 100.0% of companies with Three Committees, as the percentage of companies with a decision policy was less than the majority for only companies with Supervisory Committee (Chart 44 to 46).

Analyzing the contents of descriptions by companies with a decision policy in this section⁴², of the 2,593 companies with a decision policy, the majority of companies mentioned “performance” (65.6% or 1,700 companies), which suggests that consideration is given to performance in deciding on officer remuneration in the same manner as descriptions based on Principle 3.1 (iii). 10.1% (261 companies) mentioned “performance-based remuneration”, 11.9% (308 companies) mentioned “stock remuneration”, and 9.9% (257 companies) mentioned “stock options”. In terms of the decision process, 82.7% (2,145 companies) mentioned “general meeting of shareholders”, 31.4% (814 companies) mentioned “outside directors”, and 15.0% (389 companies) mentioned “remuneration committee, etc.”.

Note that there were 352 companies that stated that the remuneration of outside directors was not performance-based remuneration but fixed remuneration. In terms of the details of disclosures, many companies stated that only basic remuneration is provided to outside directors and no bonuses are provided as their position is independent from business operation.

(4) Nomination policies and procedures

In contrast to policies for deciding on officer remuneration, etc. in the previous item, because disclosures on the basic policies for the nomination of officers, etc. were not required in the CG Report or existing disclosure documents, etc., only a few companies referred to the CG Report or annual securities reports, etc. in this case. In terms of keywords, 4.6% (89 companies) mentioned “corporate governance report”, and 2.4% (47 companies) mentioned “annual securities reports”.

There is a remarkable number of keywords related to personal qualities regarding policies for officer nomination. If we analyze keywords used, 54.8% (1,064 companies) mentioned “experience”, 39.4% (765 companies) mentioned “abilities”, 36.9% (716 companies) mentioned “knowledge”, 31.1% (605 companies) mentioned “insight”, and 27.1% (527 companies) mentioned “character”. Keywords related to the expertise of candidates were also seen, such as “finance and accounting”, “law”, “corporate management (corporate manager, etc.)”, and “risk management”.

Analyzing the keywords related to procedures for officer nomination, many companies clearly stated that a decision is made by the board in order for a resolution to be made by the general meeting of shareholders. In terms of keywords, 18.9% (367 companies) included “general meeting of shareholders”, and 80.6% (1,566 companies) included “board”. There were also cases of companies that clearly stated that they respected the opinions and advice of outside directors, etc. in order to ensure the transparency, etc. of the nomination process. There were also cases of companies clearly stating the involvement of an optional nomination committee, etc., as 14.3% (277 companies) included the keyword “nomination committee, etc.”. This is due in part to the fact that there has been an increase in the establishment of new and optional nomination advisory bodies with the

⁴² While 2,262 TSE First Section and TSE Second Section companies are in the scope of analysis for disclosures based on Principle 3.1 (iii), the scope of analysis for this item consists of 2,593 of all listed companies that have a decision policy for remuneration, meaning that the population differs.

adoption of the Code (refer to “4-11 Committee, Etc, (1) Nomination Committee”).

83.9% (1,631 companies) mentioned “*kansayaku*” and “members of the supervisory committee”, as many companies clearly stated required qualities and a nomination process for *kansayaku* and members of the supervisory committee were separate from those for directors.

Looking at individual examples, there are some specific descriptions for the nomination procedures, selection criteria, and the stance towards composition for each directors and *kansayaku*, respectively, in

[Example 7]

[Qualifications of directors and nomination procedures]

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

(Selection criteria for the board)

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

(Stance towards the composition of the board)

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

[Qualifications of *kansayaku* and nomination procedures]

The selection of candidates for *kansayaku* will be decided on by the Board, in consideration of the selection criteria and stance towards the composition of the board, after discussion by the Nomination Advisory Committee and approval by the *Kansayaku* Board.

(Selection criteria for the board)

1. Have outstanding character and insight and abundant experience, as well as high ethical standards
2. Have a companywide perspective and excellent objective monitoring abilities
3. Have excellent foresight and insight
4. Able to accurately understand the trends of the times, management environment, and market changes
5. Have strong desire to work towards self-improvement
6. Able to actively voice their opinion from a companywide perspective

(Stance towards the composition of the board)

1. The *Kansayaku* Board is composed of a majority of outside *kansayaku*, and at least one independent officer as prescribed by a securities exchange will be designated in order to secure the independence of the *Kansayaku* Board.
2. Experts in areas such as finance and accounting, legal, and management will be appointed as outside *kansayaku*.
3. Candidates with abundant experience at the Company will be appointed as full-time *kansayaku*, including at least one candidate that has considerable familiarity with finance and accounting. (Construction industry)

Chart 47 Keywords Related to Policies for Officer Nomination

Item	Number of companies	Applicable ratio
Companies complying with Principle 3.1	1,943 companies	100%
Experience	1,064 companies	54.8%
Abilities	765 companies	39.4%
Knowledge	716 companies	36.9%
Character	527 companies	27.1%
Finance and accounting	443 companies	22.8%
Corporate management, corporate manager, etc.	340 companies	17.5%
Balance	324 companies	16.7%
Comprehensive consideration/judgment	274 companies	14.1%
Laws, legal, etc.	240 companies	12.4%
Diversity	167 companies	8.6%
Risk	117 companies	6.0%

Chart 48 Keywords Related to Procedures for Officer Nomination

Item	Number of companies	Applicable ratio
Companies complying with Principle 3.1	1,943 companies	100%
<i>Kansayaku</i> , members of the Supervisory Committee, etc.	1,631 companies	83.9%
Board	1,566 companies	80.6%
Outside director	792 companies	40.8%
General meeting of shareholders	367 companies	18.9%
Nomination Committee, etc.	277 companies	14.3%

(5) Explanations with respect to the individual appointments and nominations

This item requires an explanation of the individual reasons for the individual appointments and nominations of officers. While it is already necessary to state the reasons for appointment of outside officers on the convening notice under the Companies Act, this item differs from practices up until now in that an explanation is also required for the appointments of inside officers. Many companies respond by stating the reasons on the convening notice for the general meeting of shareholders, and a general example would be something like “the reasons for the nomination of candidates for directors and *kansayaku* are stated in the convening notice for the general meeting of shareholders”. For this reason, companies mentioned keywords such as “general meeting of shareholders” (89.2% or 1,733 companies), “convening notice” (83.6% or 1,625 companies), and “annual securities reports” (27.0% or 524 companies). In addition, there were cases of companies directly stating the reasons for appointment of officers, etc. in the CG Report like in [Example 8].

[Example 8]

The reasons for the appointment of individual candidates are stated in the notice of convocation of the general meeting of shareholders. The reasons for the appointment of the Company's directors as of April 15, 2016 are as follows.

Mr. A (reappointment)

Since his appointment to the position of President in April 2014, Mr. A has demonstrated strong leadership by managing the Company with rapid, decisive decision-making in line with its medium- and long-term management posture based on the perspective of all stakeholders and in keeping with the newly formulated Group Philosophy and Group Vision. In addition to implementing radical reforms that go beyond the existing paradigm, identifying new challenges, and working to reform existing businesses, he launched an intensive drive to develop the group's businesses overseas. Based on this proven track record, he has been put forward as a candidate for continued service on the board.

Mr. B (reappointment)

Having guided the Company as its President for 20 years, Mr. B brings a wealth of experience as well as a proven track record to the table. In his current position as Chairman and Director, he fulfills a range of roles as appropriate, including strengthening the foundation of the Group's management in areas such as governance, deciding important issues, and overseeing execution of business operations. In addition, he has worked tirelessly to revitalize the local communities in which the Company does business by orchestrating its community service activities over many years. Based on this proven track record, he has been put forward as a candidate for continued service on the board.

Mr. C (reappointment)

Mr. C, who is involved in an extensive range of operations related to the Company's core vending machine business, brings a wealth of experience and a proven track record to the table. Currently, as the Director in charge of business reforms, he is playing a central role in implementing a radical reform of the vending machine business's fixed cost structure in an effort to achieve the goals set forth in the mid-term business plan. In addition, as the Director in charge of public relations, he is working hard to facilitate the robust development of the entire soft drink beverage industry. Based on this proven track record, he has been put forward as a candidate for continued service on the board.

Mr. D (reappointment)

Mr. D, who is involved in an extensive range of operations that span the entire soft drink beverage business, from product development, production procurement, and marketing to sales activities in the vending machine and distribution channels, brings a wealth of experience and a proven track record to the table. Currently, in addition to leading the Company's sales teams as the manager of the Sales Administration Division and pursuing initiatives to improve profitability, he is working hard to strengthen relationships with key business partners. Based on this proven track record, he has been put forward as a candidate for continued service on the board.

Mr. E (reappointment/outside)

Mr. E has extensive experience and an advanced level of specialized knowledge as an attorney, and he has served the Company for 13 years as an Outside Corporate Auditor and for 2 years as an Outside Director. Based on that experience, and due to his ability to further strengthen the oversight function of the board by offering advice and suggestions as to the Company's management from an independent perspective, he has been put forward as a candidate for continued service as an Outside Director on the board.

*Mr. F has been designated as an Independent Outside Director in accordance with the regulations of the Tokyo Stock Exchange and notification has been made to the exchange accordingly.

Mr. F (newly appointed/outside)

Mr. F has a wealth of knowledge and experience in the food industry. Based on his auditing experience in areas such as business development through overseas M&As and overseas subsidiaries, and due to his ability to strengthen the oversight function of the board by offering advice and suggestions from an independent perspective concerning such issues as accelerated development of the Company's business overseas and expanding its business domain, he has been put forward as a candidate for service as an Outside Director on the board.

*Mr. F has been designated as an Independent Outside Director in accordance with the regulations of the Tokyo Stock Exchange and notification has been made to the exchange accordingly. (Food industry)

[Column 3] Selection and evaluation criteria for external auditor candidates

Principle 3.2 of the Code stipulates “External auditors and companies should recognize the responsibility that accounting auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.”

In addition, Principle 3.2.1 (i) of the Code stipulates that the board should “Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors”. The compliance rate with Principle 3.2.1 (i) is high at 95.3%, as many companies are establishing such standards. Although this principle calls for the establishment of standards, it does not require for these standards to be disclosed. Nonetheless, such standards are disclosed by some companies.

The details of disclosures of three companies that disclose the selection and evaluation criteria for external auditor candidates in the item “Matters on Functions of Business Execution, Auditing, Oversight, Nomination, and Remuneration Decisions (Overview of Current Corporate Governance System)” in the CG Report are introduced below.

Company A describes both of the following:

1. External auditor candidate selection criteria
2. External auditor evaluation criteria

In 1. selection criteria, the nomination policy and grounds for disqualification are described. The nomination policy includes the abilities and objectivity, etc. of the external auditor, and the quality control standards of the audit firm the external auditor belongs to. In grounds for disqualification, it is clearly stated that relationships with anti-social forces is grounds for disqualification.

In 2. evaluation criteria, the evaluation criteria and policy for dismissal or refusal of reappointment are described. In terms of the evaluation criteria, the opinion of the executive department is also part of the evaluation criteria. The policy for dismissal or refusal of reappointment stipulates cases in which the *Kansayaku* Board or board deem that there are problems in the performance of duties by accounting auditor, or it is deemed that the items stipulated in each item of Article 340, Paragraph 1 of the Companies Act apply for the accounting auditor.⁴³

⁴³ Article 340, Paragraph 1 of the Companies Act stipulates: “(1) The company auditor may dismiss an accounting auditor if that accounting auditor: (i) has breached his or her obligation in the course of his/her duties, or neglected his/her duties; (ii) has engaged in misconduct inappropriate for an accounting auditor; or (iii) has difficulty in, or is unable to cope with the execution of his/her duties due to mental or physical disability.”

(Company A's selection and evaluation criteria for external auditor candidates)

1. External auditor candidate selection criteria

Candidates for external auditor at the Company will be nominated based on the following nomination policy by each *kansayaku*, and selected based on an approval resolution by the *Kansayaku* Board.

(1) Nomination policy

1. The candidate is able to carry out the mandate of shareholders, and appropriately fulfill their responsibility as an accounting auditor.
2. The candidate is able to understand the nature of the Company's business, conduct audits from a neutral and objective perspective, and be expected to contribute to ensuring the sound management of the Company.
3. The candidate recognizes the importance of cooperation with *kansayaku* audits, and is able to appropriately communicate with the *kansayaku*.
4. The candidate is an audit firm that is registered to the registration system for listed company audit firms stipulated by the Japanese Institute of Certified Public Accountants and that fulfills the quality control standards for audits stipulated by the Business Accounting Council.
5. The grounds for disqualification stipulated in (2) do not apply for the candidate.

(2) Grounds for disqualification

1. Party deemed to have a relationship with anti-social forces
2. Party for which the grounds for disqualification stipulated in Article 337, Paragraph 3 of the Companies Act
3. Party that has conflicts of interest that could have an impact on the execution of duties by the accounting auditor

2. External auditor evaluation criteria

At the evaluation of the external auditor at the Company will be conducted by the *Kansayaku* Board based on the following evaluation criteria, and reappointment will be considered in accordance with the policy for dismissal or refusal of reappointment.

(1) Evaluation criteria

1. Status and quality control structure of the external auditor
 - Overview of the audit firm
 - Suitability of matters related to eligibility
 - Suitability of audit quality, management structure, etc.
2. Audit methods of the external auditor
 - Suitability of audit plans
 - Suitability of audit implementation process
3. Audit results of the external auditor
 - Suitability of audit results report
4. Opinion of the executive department

(2) Policy for dismissal or refusal of reappointment

1. If the *Kansayaku* Board deems that it is necessary to dismiss or refuse the reappointment of the accounting auditor due to factors such as problems in the performance of duties by the accounting auditor, the *Kansayaku* Board will decide on a proposal regarding the dismissal or refusal of reappointment of the accounting auditor for submission to the general meeting of shareholders.

2. The accounting auditor will be dismissed based on the agreement of all *kansayaku* if the *Kansayaku* Board finds that the items stipulated in Article 304, Paragraph 1 of the Companies Act apply for the accounting auditor. In that case, a *kansayaku* selected by the *Kansayaku* Board will report on the dismissal of the accounting auditor and the reason for dismissal at the first general meeting of shareholders convened after the dismissal.
3. If the board deems that it is necessary to dismiss or refuse the reappointment of the accounting auditor due to factors such as problems in the performance of duties by the accounting auditor, the board will request the *Kansayaku* Board to propose the dismissal or refusal of reappointment of the accounting auditor to a general meeting of shareholders and decide on a proposal to the general meeting of shareholders after the *Kansayaku* Board makes a judgment on the suitability of the proposal.

Company B is a company that is pursuing globalization, and it states that “a conditane should have a cooperation structure with an overseas audit firm partner” for the selection of an external auditor candidate. The evaluation criteria are “the quality, professionalism, and independence of proposals and advice aimed at problem resolution, prompt financial closing, and improvements in audit efficiency”.

(Company B’s selection and evaluation criteria for external auditor candidates)

For the selection, reappointment, and dismissal of the accounting auditor, the *Kansayaku* Board first collects information from the Company’s financial and the accounting department, the internal control department, and the accounting auditor, and appropriately evaluates and decides on the candidate from among multiple audit firms based on the evaluation criteria established by the *Kansayaku* Board, and in consideration of a cooperation structure with an overseas audit firm partner, and the quality, professionalism, and independence of proposals and advice aimed at problem resolution, prompt financial closing, and improvements in audit efficiency. As a result, the *Kansayaku* Board deemed the audit methods and results of the current accounting auditor to be satisfactory, the reappointment of the current accounting auditor was resolved at the *Kansayaku* Board held in January, and a report was made at the board held in February.

At Company C, the representative director and director responsible for finance exchange opinions with the external auditor to evaluate the appropriateness of the audit quality and remuneration levels for the accounting auditor and confirm the independence and expertise of the accounting auditor.

(Company C’s selection and evaluation criteria for external auditor candidates)

The Company receives accounting audits from XX LLC that is an audit firm based on the Companies Act and the Financial Instruments and Exchange Act. In order to ensure that the accounting auditor is capable of independent and high-quality audits, the Company ensures that there is sufficient time for audits and establishes regular opportunities for exchanging opinions with the Company’s representative directors. In addition, the director responsible for finance will consult with the accounting auditor and work to deepen mutual awareness and understanding as appropriate. Furthermore, the Company will establish regular opportunities for the accounting auditor and *Kansayaku* Board or internal audit office to exchange opinions and hold consultations.

The Company’s *Kansayaku* Board receives reports on the details of activities by the accounting auditor every fiscal year, and exchanges opinions with the representative director and director responsible for finance to evaluate the appropriateness of

the audit quality and remuneration levels for the accounting auditor and confirm the independence and expertise of the accounting auditor.

The Japan Corporate Auditors Association released the “Practical Guidance for *Kansayaku* on the Establishment of Evaluation and Selection Criteria for the Accounting Auditor” in November 2015 that indicates detailed points that should be considered when evaluating and selecting the accounting auditor to ensure appropriate audits.

[Column 4] Status of disclosure of English versions of the Corporate Governance report

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

Supplementary Principle 3.1.2 of the Code stipulates that “Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.” Accordingly, disclosure of the CG Report in the English language is desirable, particularly for companies with a high percentage of foreign shareholders. The compliance rate with Principle 3.1.2 is 71.8%, which is comparatively low. In terms of the reason for not complying, the most common reason (nearly 90%) was that English versions of the CG Report are not prepared because the current ratio of foreign investors is low, but that compliance would be considered in the future if this ratio increases.

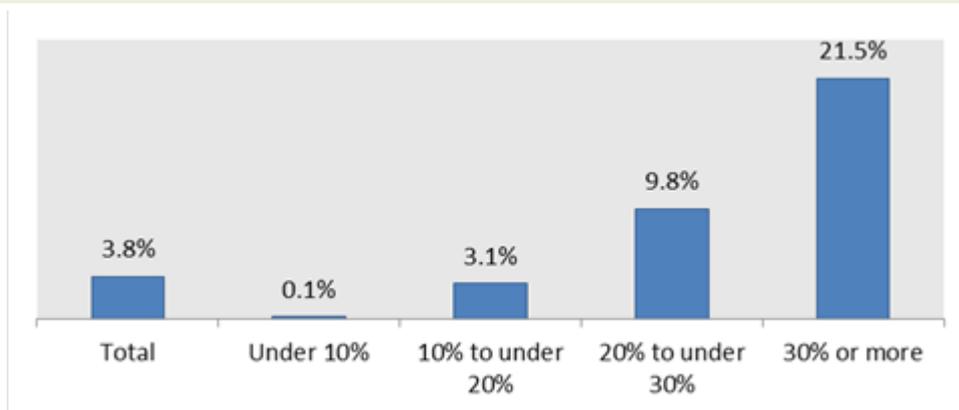
TSE encourages listed companies to communicate corporate information in English and to strengthen communication with overseas investors, etc. If an English version of the CG Report (A partial translation is acceptable.) has been prepared, TSE encourages companies to register them to the TSE Company Announcements Service in English through TDnet. Through registration to this service, the English version of the CG Report is distributed to various information vendors that are used by overseas investors, and posted to the website of the Japan Exchange Group. A list and the CG Reports of companies that have released an English version of the CG Report through this service up until now is posted on the following website of the Japan Exchange Group.⁴⁴

As of December 26, 2016, 133 companies had prepared English versions of the CG Report.

In terms of market division, all 133 companies are TSE First Section companies. Furthermore, as 94 of these companies, or 70.7%, are JPX-Nikkei 400 companies, such companies accounted for an extremely high percentage of English report creators.

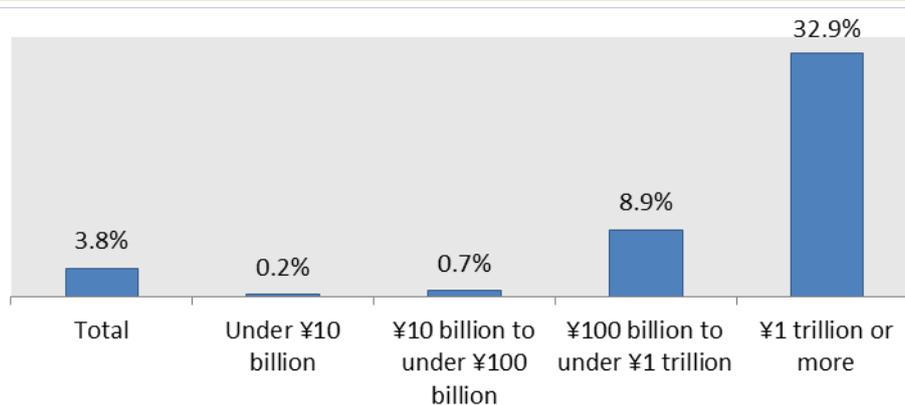
⁴⁴ <http://www.jpx.co.jp/english/equities/listing/cg/01.html>

Chart 49 Corporate Governance Report English Version Posting Ratio (by Foreign Shareholding Ratio)



Next, the results by foreign shareholding ratio is as shown in Chart 49. While the English version posting ratio is low overall, the posting ratio seems to increase as the foreign shareholding ratio increases. For companies with a foreign shareholding ratio of 30% or more, 21.5% of companies have posted an English version.

Chart 50 Corporate Governance Report English Version Posting Ratio (by Consolidated Sales)



The results by consolidated sales are shown in Chart 50. The posting ratio also seems to increase here as consolidated sales increase. For companies with consolidated sales of 1 trillion yen or more, 32.9% of companies have posted an English version.

In light of the above, in terms of market division, all companies posting English versions of the CG Report are TSE First Section companies, among which an extremely high percentage are JPX-Nikkei 400 companies. They are almost exclusively companies with a high foreign shareholding ratio that are also large in terms of consolidated sales.

However, when looking at all 3,507 listed companies, only 3.8% (133 companies) have posted an English version. There is quite a gap when this figure is compared with the 26.6% of all listed companies that prepare and post English versions of the convening notice. While this may be due in part to the foreign shareholding ratios of individual companies, it would be preferable to capture even more foreign investors through proactive information disclosure on corporate governance which can be considered as highly useful for overseas investors.

4. Responsibilities of the board

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

[General Principle 4]

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

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

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

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

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

4-1. Organizational form

Looking at the organizational forms of companies, 2,800 companies (79.8%) are Companies with *Kansayaku* Board, which is a high percentage (Chart 51). This is followed by Companies with Supervisory Committee, an organizational form newly established with the revision of the Companies Act in 2015 (637 companies, 18.2%). 70 companies (2.0%) selected the Companies with Three Committees organizational form.

In terms of market division, Companies with *Kansayaku* Board accounted for the highest percentage in each market division, followed by Companies with Supervisory Committee and Companies with Three Committees, which is also the same for each market division. However, for JPX-Nikkei 400 companies, the percentage of companies that are Companies with Three Committees is higher (7.5%) compared to other market divisions. There is a slightly high number of Companies with Supervisory Committee in TSE Second Section.

As for the relation with foreign shareholding ratios, the percentage of companies that are Companies with Three Committees is higher as the foreign shareholding ratio increases (Chart 52).

Chart 51 Organizational Form (by Market Division)

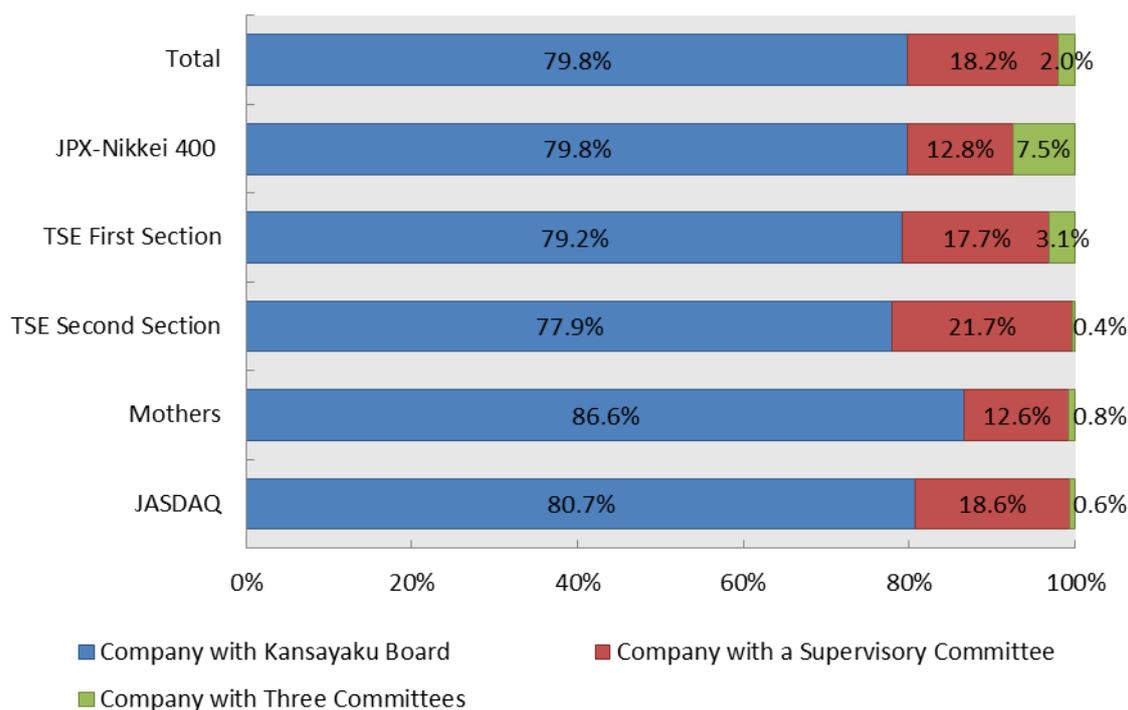
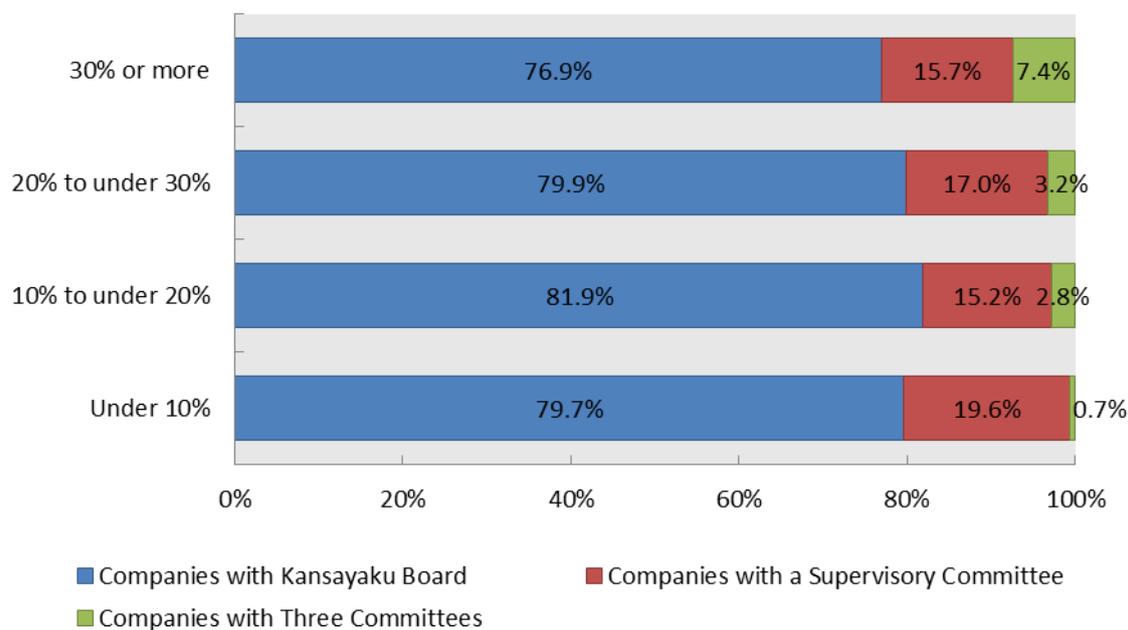


Chart 52 Organizational Form (by Foreign Shareholding Ratio)



4-2. Overview of current corporate governance system

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

business execution, the oversight function, etc.

Among Companies with *Kansayaku* Board (2,800 companies), 48.5% (1,359 companies) and 7.5% (210 companies) respectively mentioned management meetings and the board of executive officers as important decision-making organs other than the board. They seem to be positioned at the stage prior to discussions at the board meetings. In addition, 51.7% (1,448 companies) stated that they introduced a *shikkoyakuin* system in order to promote the separation of the supervision and executive functions. 22.6% (634 companies) established an internal control-related committee such as a compliance or risk management committee.

For Companies with Supervisory Committee (637 companies), 44.1% (281 companies) introduced management meetings, 6.6% (42 companies) introduced a board of executive officers, and 46.6% (297 companies) introduced a *shikkoyakuin* system, which can be considered low in comparison to Companies with *Kansayaku* Board. 21.4% (136 companies) established an internal control-related committee such as a compliance or risk management committee, which is nearly the same as for Companies with *Kansayaku* Board.

Looking at Companies with Three Committees (70 companies), 44.3% (31 companies) introduced management meetings and 1.4% (1 company) introduced board of executive officers. For Companies with Three Committees, there is a statutory *shikkoyaku* system, and 18.6% (13 companies) mentioned the *shikkoyakuin* system. 17.1% (12 companies) established an internal control-related committee such as a compliance or risk management committee.

With regard to auditing by *kansayaku* at Companies with *Kansayaku* Board, 12.6% (353 companies) mentioned “audit system”, and disclosed matters such as the numbers of internal and outside directors, and full-time *kansayaku*. In addition, 18.0% (505 companies) mentioned “audit policy”, and 6.9% (193 companies) mentioned “audit standard”, and there were many companies that mentioned that audits were conducted based on corporate audit standards. In addition, some companies referred to the frequency of *Kansayaku* Board meetings and the activities of individual *kansayaku* such as attendance at important meetings, document review, and visits to subsidiaries for auditing. In addition, there were companies that mentioned the establishment of a *Kansayaku* Office in an effort to improve the completeness and effectiveness of *kansayaku* operations. In relation to the audit policies and audit standards, there were companies that mentioned that audits were conducted based on audit policies and audit standards.

In relation to audits by the Supervisory Committee at Companies with Supervisory Committee, 8.5% (54 companies) mentioned “audit system”, 14.3% (91 companies) mentioned “audit policy”, and 2.5% (16 companies) mentioned “audit standard”.

In relation to audits by the Audit Committee at Companies with Three Committees, 15.7% (11 companies) mentioned “audit system”, 15.7% (11 companies) mentioned “audit policy”, and 7.1% (5 companies) mentioned “audit standard”.

In terms of the audit system for Companies with Supervisory Committee and Companies with Three Committees, there are many disclosures on the makeup of the Supervisory Committee or Audit Committee including outside directors and the number of outside directors, and there were also descriptions of audits on the status of business execution by directors, including attendance at important meetings such as the board based on the audit policies and audit standards stipulated by the Supervisory Committee/Audit Committee by

each committee member. In addition, there were many companies that mentioned the assignment of full-time staff in a supervisory committee office in order to strengthen the audit function.

4-3. Reasons for adoption of current corporate governance system

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

(1) Companies with *Kansayaku* Board

The Report requires Companies with *Kansayaku* Board (2,651 companies) that appointed outside directors to explain reasons for adopting such a structure in the context of their current situations. In addition, it is necessary to describe such matters as roles and functions of outside directors. There were many disclosures that described the roles and functions of outside directors as oversight of business execution by directors and the provision of advice to ensure the appropriateness of decision-making from a position independent from the management team.

Companies with *Kansayaku* Board that do not have outside directors are also required to explain reasons for adopting such a governance structure in the context of their current situations. For listed companies that are large companies under Article 2, Paragraph 6 of the Companies Act, it is necessary to state the reason why it would not be appropriate to have outside directors. There are 149 Companies with *Kansayaku* Board that do not have outside directors, which is 4.3% of all companies and 5.3% of Companies with *Kansayaku* Board.

Keywords such as *kansayaku* (128 companies), outside *kansayaku* (111 companies), oversight (74 companies), and size (32 companies) were common in the disclosures for such companies that do not have outside directors. In relation to these keywords, while only the presence of at least two outside *kansayaku* cannot serve as a sufficient reason for not having outside directors that requires disclosure in the reference documents for the general meeting of shareholders under the Companies Act, the majority of companies (89 companies) stated that the corporate governance function was sufficiently fulfilled by the *Kansayaku* Board centered around outside *kansayaku* as the specific description in the CG Report.

Other reasons that were seen were that the current board of directors was efficient and enabled prompt decision making in consideration of the size of the company, the mutual check function of the board was sufficient, and committees related to internal control such as a compliance or risk management committee had been strengthened. Another reason offered is that the appointment of outsider directors without deep industry knowledge or sufficient knowledge of management could result in decision making not suitable for the actual situation, causing a deterioration in the function of the board and wasteful costs.

(2) Companies with Supervisory Committee

As specific reasons for adopting the form of Company with Supervisory Committee, the Reporting Guidelines provide the following examples: comparative advantage over a Company with *Kansayaku* Board in terms of speeding up the decision-making process, increasing the transparency of management and gaining

support from foreign investors, overviews of measures being considered to enhance governance functions, and the roles and functions of outside directors.

In analysis of reasons why Companies with Supervisory Committee (637 companies) adopted this form based on keywords, many companies mention the strengthening of the oversight function with outside directors (67.4% (429 companies) mentioned “outside”). On the other hand, there were comparatively few Companies with Supervisory Committee than Companies with Tree Committees that mentioned matters such as speeding up the decision-making process (48.4% (308 companies) mentioned “decision”), speeding up business execution with delegation of authority (10.8% (69 companies) mentioned “authority”), clear separation of oversight and business execution (9.1% (58 companies) mentioned “separation”), and strengthening of the execution function (3.8% (24 companies) mentioned “execution function”).

(3) Companies with Three Committees

As specific reasons for adopting the form of Company with Three Committees, the Reporting Guidelines provide examples in the same manner as for Companies with Supervisory Committee as described above.

In analysis of reasons why Companies with Three Committees (70 companies) adopted this form based on keywords, the percentage of companies mentioning the separation of oversight and business execution was higher compared to Companies with Supervisory Committee described above. Reasons that were commonly mentioned by companies include speeding up the decision-making process (67.1% (47 companies) mentioned “decision”), the strengthening of the oversight function with outside directors (65.7% (46 companies) mentioned “outside”), clear separation of oversight and business execution (64.3% (45 companies) mentioned “separation”), speeding up business execution with delegation of authority (31.4% (22 companies) mentioned “authority”), and strengthening of the execution function (21.4% (15 companies) mentioned “execution function”).

4-4. Directors and the board

(1) Term of directorships in the articles of incorporation

Article 332, Paragraph 1 of the Companies Act stipulates that the term of directorships at a Company with *Kansayaku* Board shall, in principle, continue within two years from the time of their election. However, it also provides for the shortening the term of directorships by the articles of incorporation or by a resolution of a general meeting of shareholders.⁴⁵ Furthermore, Article 459 of the Companies Act stipulates that in cases such as specifying the term of directorships to be one year, the company’s articles of incorporation may provide that the board may decide on matters such as surplus dividend. It is thought that specifying the term of directorships as one year will enhance the authority of the board and work to the benefit of the company. It will also bring a sense of tension to directors and, through this, contribute to better corporate governance.

Among TSE-listed Companies with a *Kansayaku* Board, the majority (65.8%) of the companies specifies

⁴⁵ Note that in the case of a Company with Supervisory Committee, the term of directors who are members of the Supervisory Committee is two years (no shortening of the term), while the term is one year for other directors (can be shortened by articles of incorporation or by the resolution of a general shareholders meeting) (Article 332, Paragraph 3 and 4 of the Companies Act). For Companies with Three Committees, the term of directors must be one year from the time of their election (Article 332, Paragraph 6 of the Companies Act).

their terms of directorships at one year (Chart 53). The percentage of such companies in each market division is 73.2% in TSE First Section, 61.2% in TSE Second Section, 44.1% in Mothers, and 56.9% in JASDAQ. Out of JPX-Nikkei 400 companies, companies which specify their terms of directorships at one year accounted for 78.8%, 5.6 points higher than that of TSE First Section. In terms of consolidated sales, the top share of 80.0% comes from the 1 trillion yen or more category. Going down the consolidated sales category, there are a declining percentage of companies whose directorships are specified at one year (Chart 54). In terms of foreign shareholding ratio, the ratio is high for the 30% or more category and 20% to less than 30% category (74.5% and 76.2%, respectively), showing a decreasing proportion of companies with a lower percentage of foreign shareholdings (Chart 55).

Chart 53 Term of Directorships in the Articles of Incorporation (by Market Division)

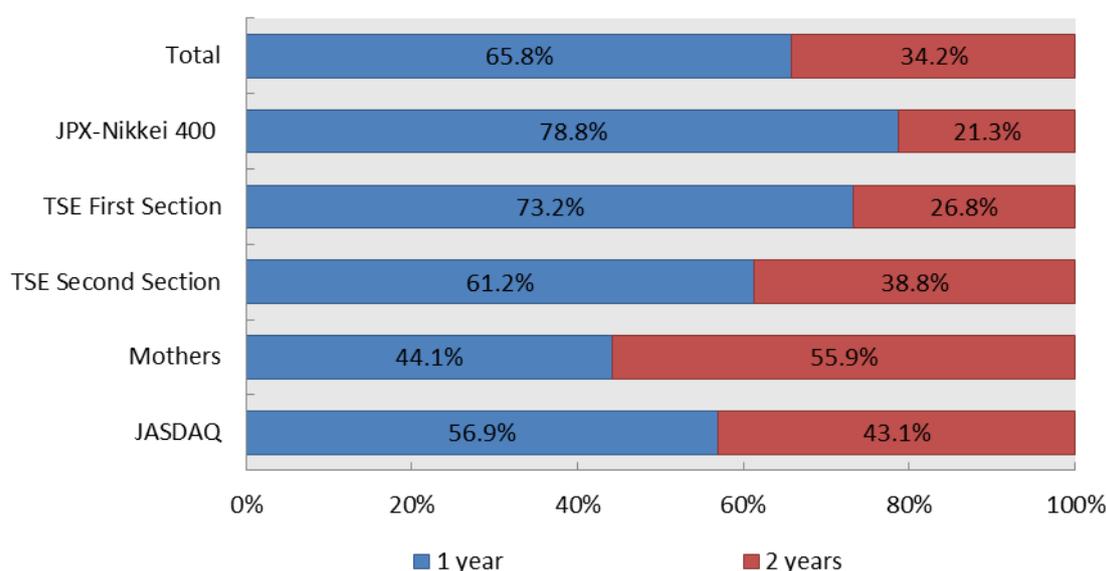


Chart 54 Term of Directorships in the Articles of Incorporation (by Consolidated Sales)

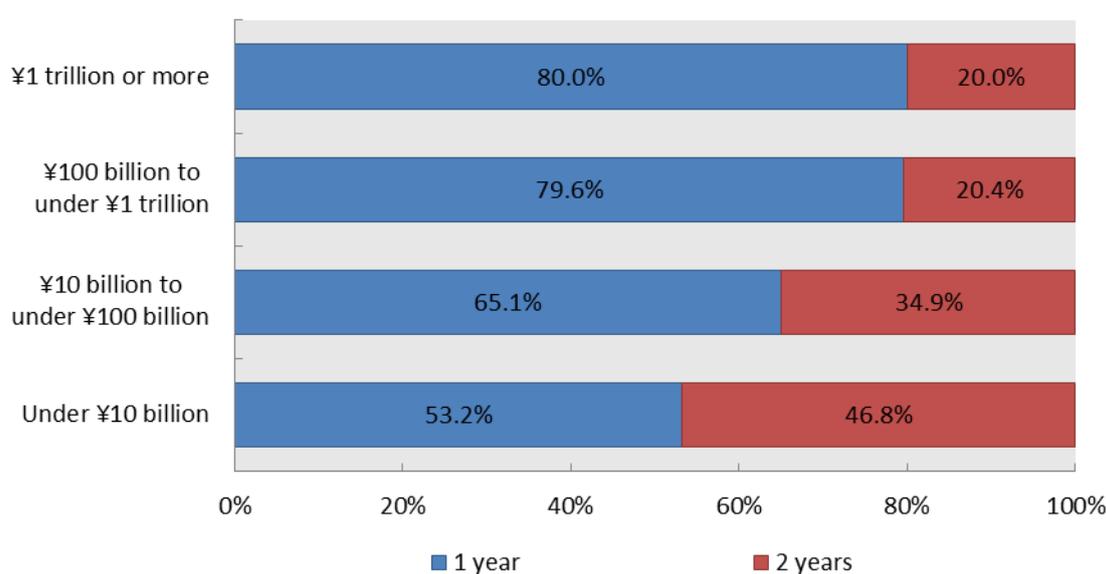
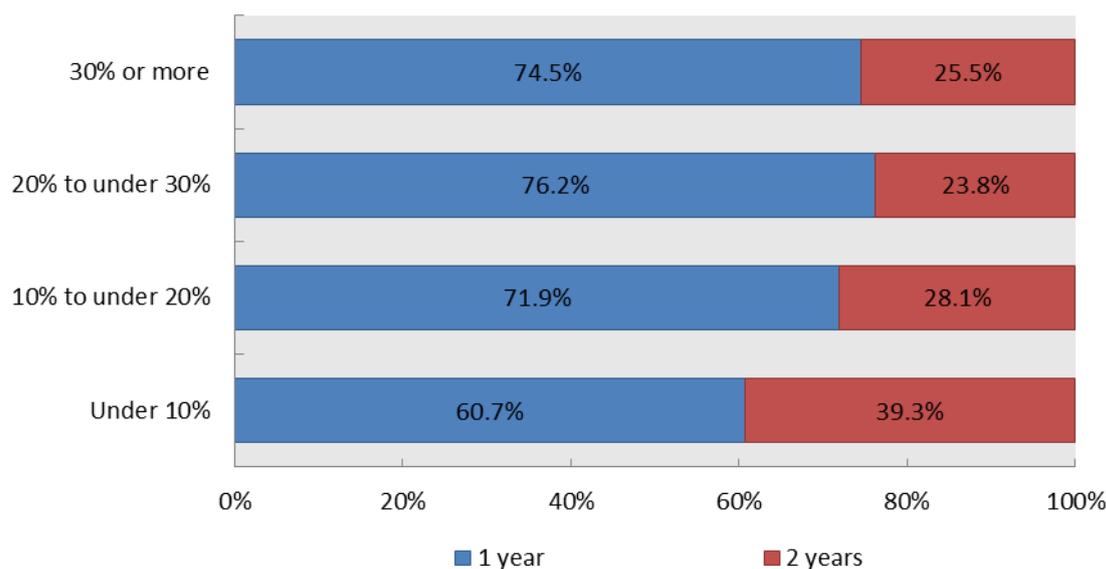


Chart 55 Term of Directorships in the Articles of Incorporation (by Foreign Shareholding Ratio)



(2) Chairperson of the Board

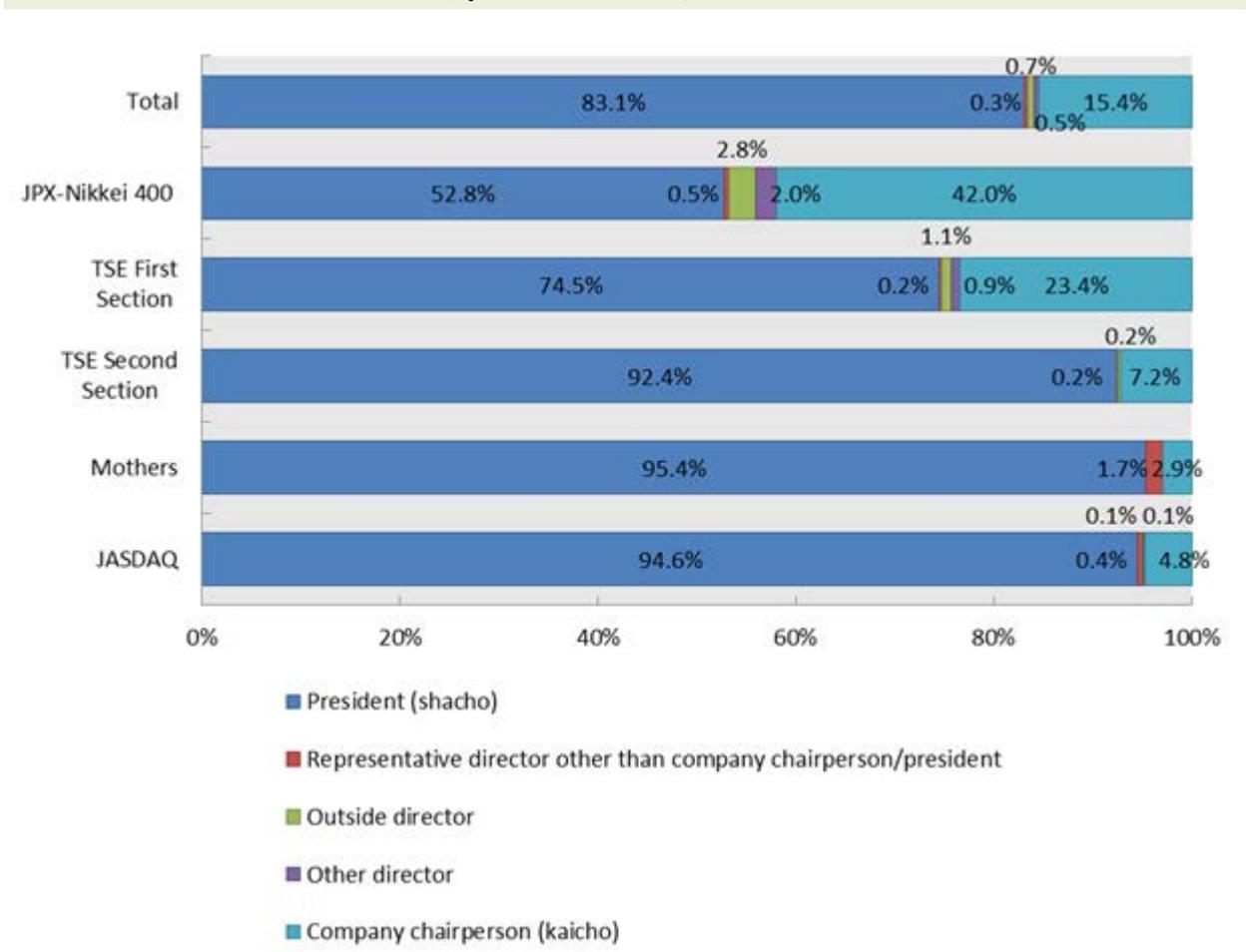
Concerning chairperson of the board, the Report requires each company to inform whether or not a chairperson exists, and an attribute of the chairperson, if any, by choosing one of the following: (1) president (*shacho*), (2) company chairperson⁴⁶ (*kaicho*), (3) representative director other than company chairperson/president, (4) outside director, (5) other director, or (6) not applicable.

First in terms of the presence of a chairperson, all TSE-listed companies have a chairperson of the board.

As for attributes of the chairperson of the board, the overall trend is that the board is chaired by president in 83.1% of TSE-listed companies, followed by the company chairperson, accounting for 15.4%. Either president or the company chairperson chairs the board in 98.5% or almost all of the listed companies. In addition, as companies get bigger, the percentage of companies chaired by the company chairperson tends to increase. Out of JPX-Nikkei 400 companies, the percentage of companies chaired by an outside director is 2.8%, which is higher than other types of companies (Chart 56).

⁴⁶ Excluding a person who concurrently assumes the position of president

Chart 56 Attributes of Board Chair (by Market Division)



(3) Number of Directors

In this survey, the overall average number of directors per TSE-listed company was 8.25 persons. While a downward trend has continued since 2008, it has increased from this survey.

It is believed that this is a result of moves by listed companies to actively use outside directors following the revision of the Companies Act and the introduction of the Code in 2015.

At Companies with a *Kansayaku* Board, the average number of directors has increased from 7.48 persons (2014) to 7.96 persons (2016). Looking at the breakdown, the average number of outside directors has increased from 1.04 persons (2014) to 1.90 persons (2016) and the average number of independent directors has increased from 0.63 persons (2014) to 1.76 persons (2016).

In addition, it is believed that this is due in part to the fact that there were many companies that transferred from Companies with *Kansayaku* Board to Companies with Supervisory Committee, causing *kansayaku* to become directors as members of the Supervisory Committee

Looking at the results by market division, there has been an increase for each market division, as the average number of directors per company was 9.29 persons for TSE First Section, 7.73 persons for TSE Second Section, 5.86 persons for Mothers, and 6.74 persons for JASDAQ (Chart 57). In addition, looking at results by consolidated sales, the number of directors tends to increase with the size of the company (Chart 58).

Chart 57 Number of Directors (by Market Division)

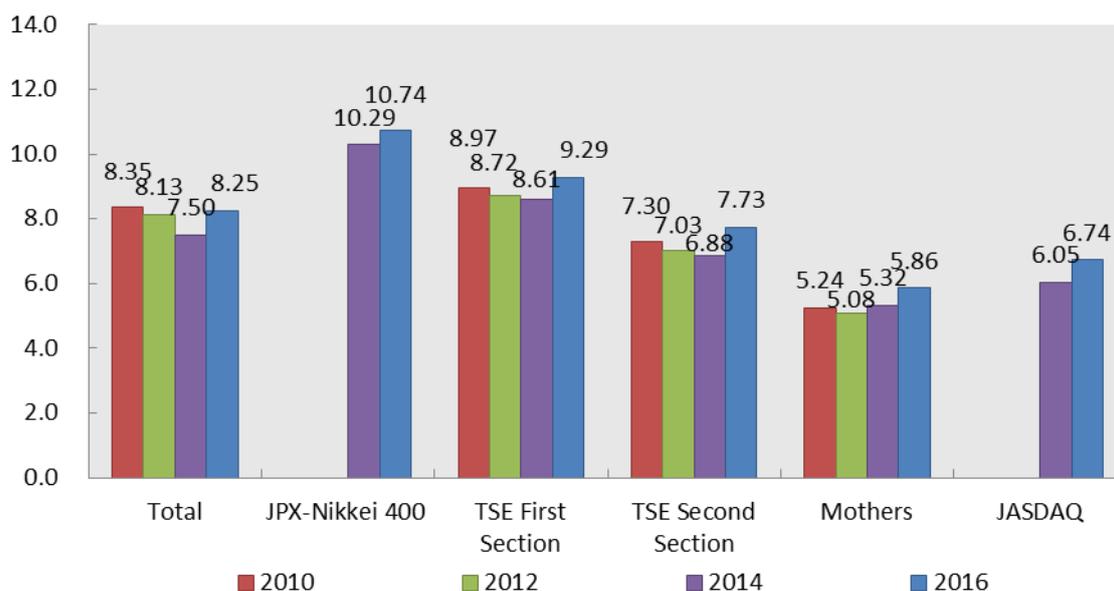
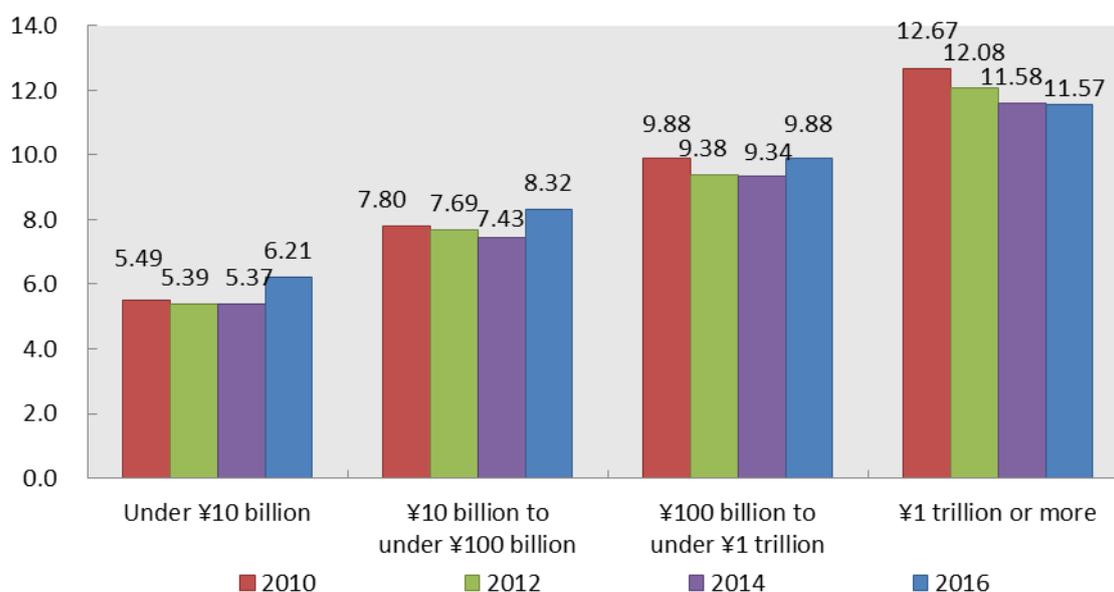


Chart 58 Number of Directors (by Consolidated Sales)



4-5. Implementation of initiatives to offer incentives

The CG Report requires disclosure of the state of implementation of initiatives to offer incentives to directors. This is because it is believed that providing incentives linked to the improvement of mid to long-term corporate value and aligning the interests of the management and general shareholders enables the development of an environment in which the board supports appropriate risk taking by members of the management team.

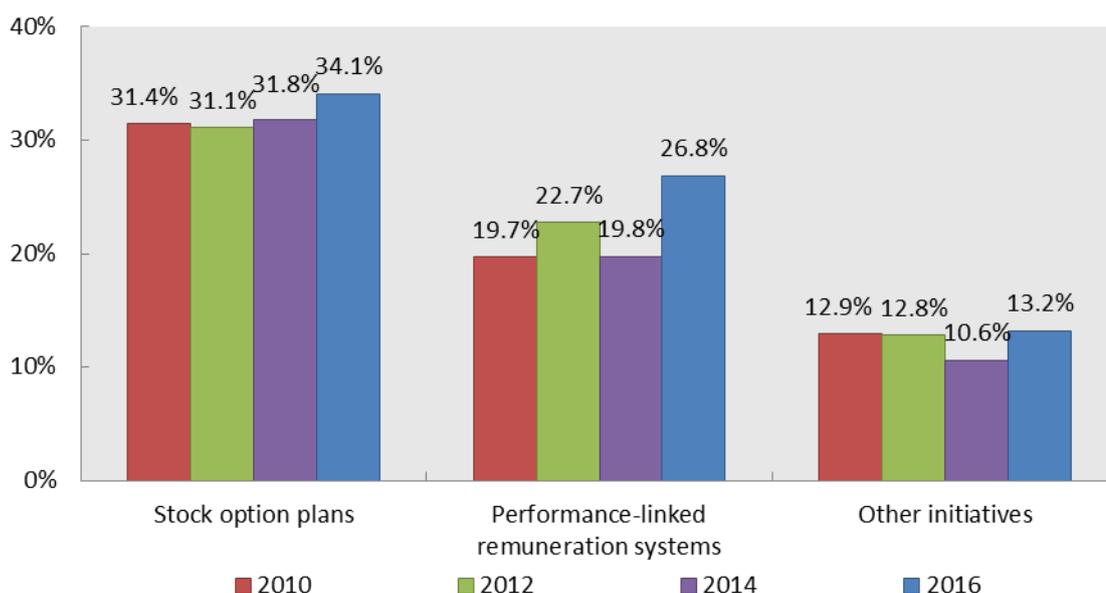
Specifically, companies that introduced a stock option plan, introduced a performance-linked remuneration system, or conducted other measures related to incentives are required to provide supplementary explanations on the details.

(1) Overview of incentives

Companies which implemented certain initiatives to offer incentives accounted for 62.5% of TSE-listed companies. Regarding each category of initiatives to offer incentives, stock option plans are introduced in 34.1% of TSE-listed companies, while performance-linked remuneration systems and other initiatives are introduced in 26.8% and 13.2%, respectively, of companies (Chart 59).

3,469 companies (98.9% of all) provided supplementary explanations on implementing initiatives to offer incentives.

Chart 59 Implementation of Initiatives to Offer Incentives



(2) Introduction of stock option plans

34.1% of TSE-listed companies have introduced stock option plans. In terms of market division (Chart 60), companies listed on Mothers showed a remarkably higher ratio, 82.0%, than those listed on TSE First Section (34.0%), TSE Second Section (19.7%), and JASDAQ (29.5%). Among JPX-Nikkei 400 companies, those adopting stock option plans accounted for 46.5%, 12.5 points higher than that of TSE First Section. As for the relation with foreign shareholding ratios (Chart 62), the higher the ratio, the more likely companies are to adopt stock option plans.

Chart 60 Implementation of Initiatives to Offer Incentives (by Market Division)

	Stock Option Plans	Performance-Linked Remuneration Systems	Other Initiatives
Total	34.1%	26.8%	13.2%
JPX-Nikkei 400	46.5%	52.8%	20.0%
TSE First Section	34.0%	37.4%	17.2%
TSE Second Section	19.7%	18.0%	11.5%
Mothers	82.0%	5.0%	2.1%
JASDAQ	29.5%	12.9%	7.8%

Chart 61 Implementation of Initiatives to Offer Incentives (by Consolidated Sales)

	Stock Option Plans	Performance-Linked Remuneration Systems	Other Initiatives
Total	34.1%	26.8%	13.2%
Under ¥10 billion	45.0%	10.9%	5.5%
¥10 billion to under ¥100 billion	27.9%	24.7%	14.0%
¥100 billion to under ¥1 trillion	34.6%	43.2%	18.4%
¥1 trillion or more	34.8%	63.2%	25.2%

Chart 62 Implementation of Initiatives to Offer Incentives (by Foreign Shareholding Ratio)

	Stock Option Plans	Performance-Linked Remuneration Systems	Other Initiatives
Total	34.1%	26.8%	13.2%
Under 10%	31.1%	18.6%	11.2%
10% to under 20%	34.9%	32.5%	16.5%
20% to under 30%	37.1%	41.0%	15.7%
30% or more	48.3%	52.0%	16.9%

In the supplementary explanations regarding their stock option plans, there were 133 companies that mentioned the connection with mid to long-term corporate value as also indicated in the Code. Many companies stated that stock options were granted in order to increase the motivation towards improvements in mid to long-term corporate value and to promote the sharing of interests with shareholders.

128 companies stated that they provided stock options as incentives, as there were many companies that used stock options for the purpose of clarifying incentives for performance.

65.9% of the companies have not adopted such stock option plans, and reasons for not adopting stock option plans include the following: (1) a plan will not be introduced because the company aims to increase value stably over the mid to long term rather than aiming for short-term increases in profits or the stock price, (2) stock options will be considered in the future if it is deemed that acquiring human resources and improving incentives for directors would improve corporate value, and (3) while stock options are believed to be an effective system, no stock options have been currently issued.

(3) Implementation of performance-linked remuneration system

26.8% of TSE-listed companies have introduced a performance-linked remuneration system. In terms of the results by market division, 37.4% of companies listed on TSE First Section have introduced a performance-linked remuneration system, showing a higher ratio compared with TSE Second Section (18.0%),

Mothers (5.0%), and JASDAQ (12.9%). (Chart 60). Among JPX-Nikkei 400 companies, companies which adopted a performance-linked remuneration system accounted for 52.8%, 15.4 points higher than that of TSE First Section.

In terms of a relation with company size, as shown in Chart 61, companies with larger consolidated sales tend to show a higher ratio of implementing a performance-linked remuneration system. In addition, the higher the foreign shareholding ratio, the more likely companies are to have implemented a performance-linked remuneration system (Chart 62). Examples of systems that were introduced include stock remuneration-type stock options in accordance with a performance-linked table that is linked with percentage changes in consolidated sales and consolidated operating profit for the previous fiscal year and stock remuneration-type stock options in accordance with the degree of attainment of performance targets in the medium-term management plan. There were also companies that only provide performance-linked remuneration and stock remuneration-type stock options to executive directors, and that do not grant such remuneration and stock options to outside directors in order to ensure independence.

(4) Other

The Ministry of Economy, Trade and Industry released a guide on the introduction of restricted stock as a new form of stock remuneration for officers⁴⁷. Restricted stock is provided to officers as remuneration in the form of actual stock with transfer restrictions for a fixed period of time. 5 companies mention restricted stock.

There are also companies that describe the assessment of KPI (key performance index) with the provision of performance-linked remuneration based on the degree of attainment, and the restricted stock as class shares.

(5) Eligible persons for stock options

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

Chart 63, Chart 64, and Chart 65 show the composition of eligible persons, when the sample is limited to TSE-listed companies with stock option plans. Excluding Companies with Three Committees, it is found that the companies offer their stock option plans mostly to inside directors (97.2% of Companies with *Kansayaku* Board, and 96.4% of Companies with Supervisory Committee). Among Companies with Three Committees, companies offer their stock option plans mostly to *shikkoyaku* (97.1%). This was followed by employees (66.1% of Companies with *Kansayaku* Board, 68.5% of Companies with Supervisory Committee, and 64.7% of Companies with Three Committees).

⁴⁷ Guidebook for Introducing New Stock-based Compensation (“Restricted Stock”) as Board Members’ Compensation to Encourage Companies to Promote Proactive Business Management

Chart 63 Eligible Persons for Stock Options (Companies with *Kansayaku* Board; with Stock Option Plans)

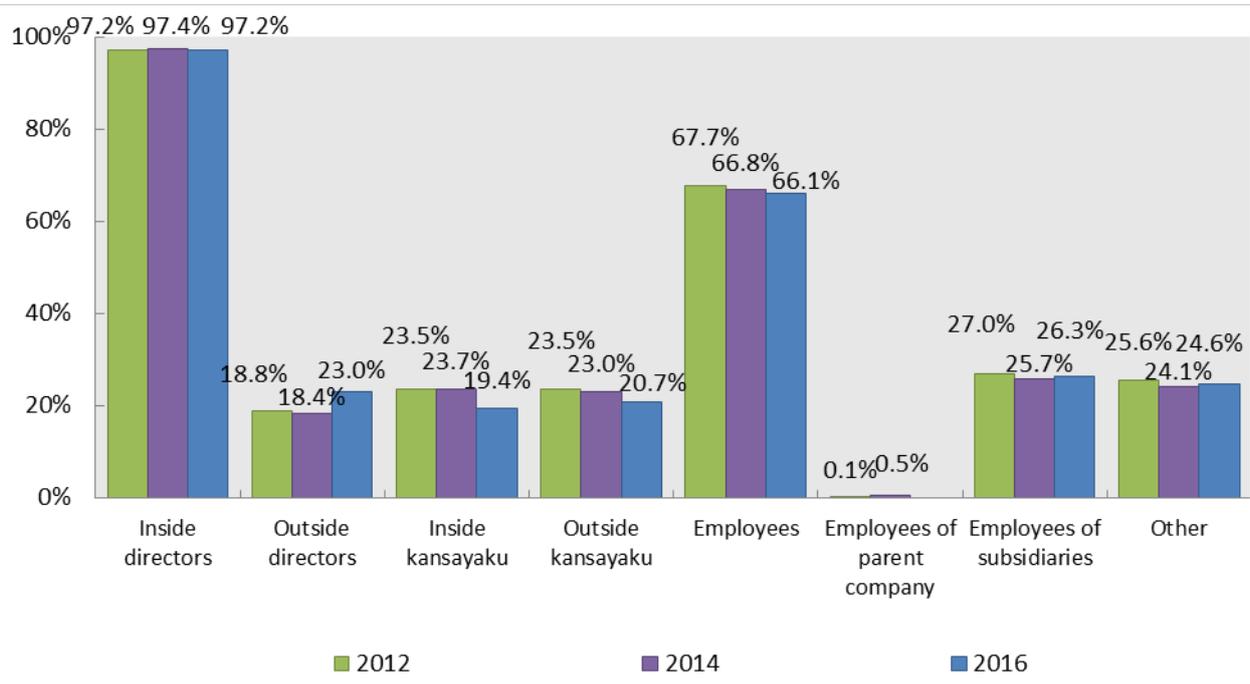


Chart 64 Eligible Persons for Stock Options (Companies with Supervisory Committee; with Stock Option Plans)

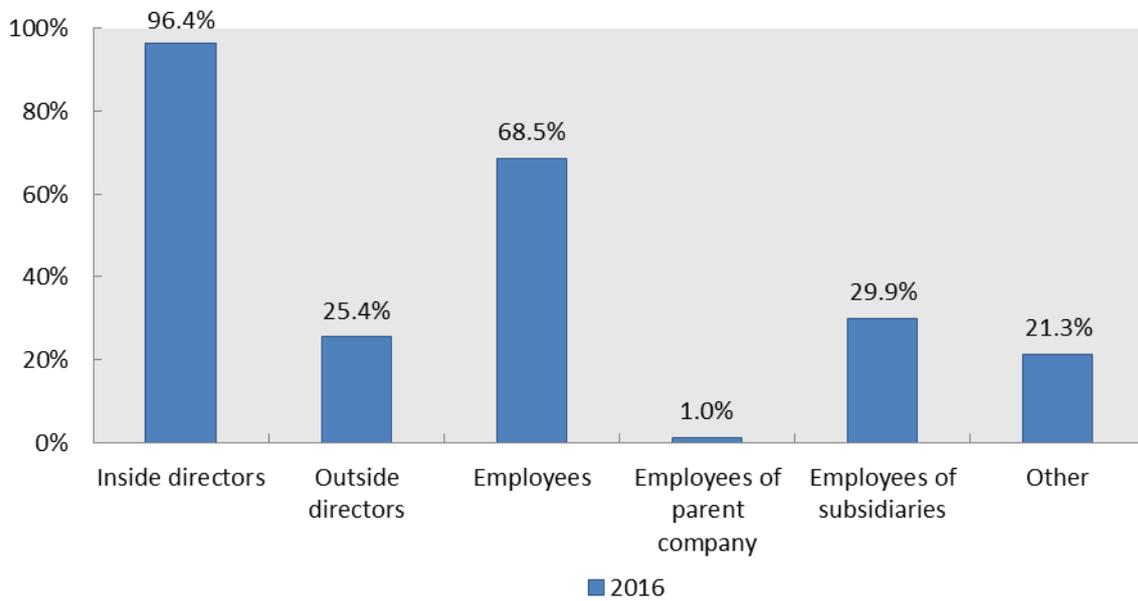
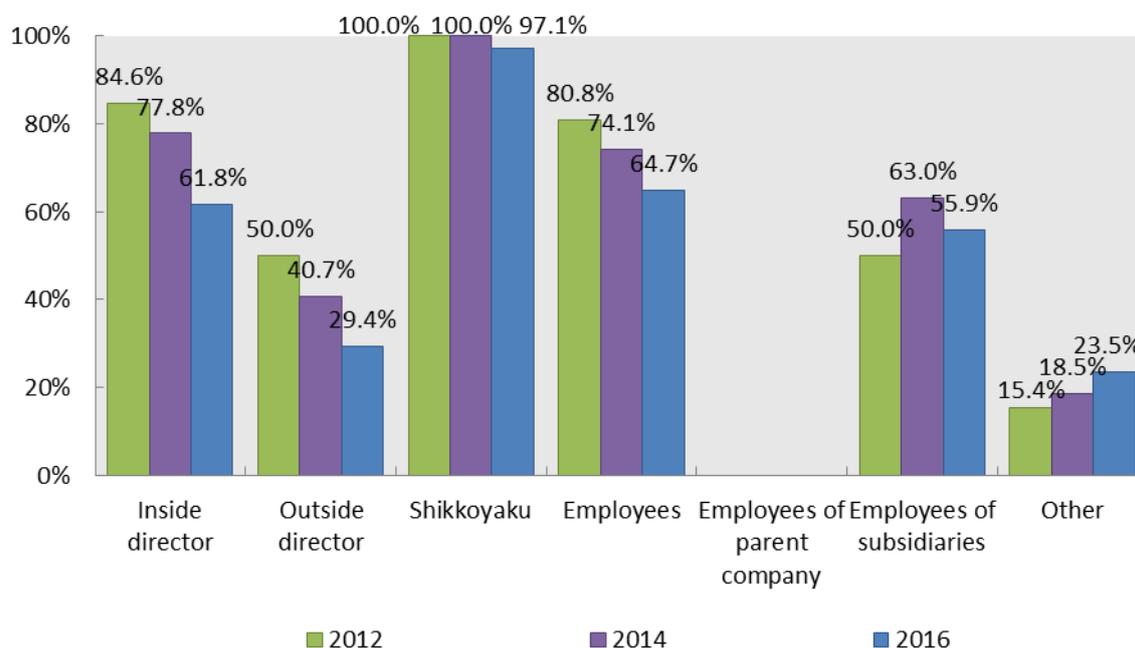


Chart 65 Eligible Persons for Stock Options (Companies with Three Committees; with Stock Option Plans)



[Column 5] D&O insurance and limited liability agreements with outside officers

Principle 4.8 of the Code indicates that independent directors should be used effectively with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. In addition, it is required to secure independent directors that are sufficiently qualified for these purposes.

For that reason, it is necessary to develop an environment that will reduce factors that might impede with the appointment of talented external human resources as outside directors. The reason for this is that if outside directors are held legally responsible in the case of a corporate scandal, etc., the liability for damages incurred could be a high amount.

Part of the development of such an environment could include D&O insurance (directors’ and officers’ liability insurance) and limited liability agreements.

Under D&O insurance, a general insurer pays an insurance benefit in response to damages in terms of legal compensation for damages and litigation expenses if a claim for damage compensation is received through a derivative lawsuit or third-party lawsuit, etc. during the insurance policy period as a result of actions by an officer.

A limited liability agreement is a structure under the Companies Act⁴⁸ in which a contract is entered between a company and a non-executive director, etc., and the amount of liability for damages an officer is responsible towards a company to kept to a set limit. In this manner, an upper limit is set on the responsibility for damages by a non-executive director, etc.

The D&O insurance and limited liability agreements are positioned as one means of providing appropriate incentives to officers, and can be viewed as important parts of environmental developments so that talented human resources can be used as candidates for outside directors in the governance of listed companies in Japan

⁴⁸ Article 427 of the Companies Act

in the future.

Next, we will look at the status of disclosures in the CG Report on D&O insurance and limited liability agreements.

According to a survey commissioned by the Ministry of Economy, Trade and Industry⁴⁹, D&O insurance has been enrolled in by approximately 90% of listed companies and can be considered to be in wide use. However, there was only one listed company that described D&O insurance in the CG Report, stating only “the director’s share of director limited liability insurance (D&O insurance) is added separately” in the “Policy for determining remuneration amounts and calculation method” item of the CG Report. As disclosures are extremely limited despite the fact that D&O insurance is in wide use, the details of disclosures can be considered minimal.

On the other hand, 403 companies mentioned limited liability agreements in the CG Report. A typical example of the types of disclosures made by most companies would be “The Company has signed an agreement limiting liability for damages with directors (excluding executive directors, etc.) and *kansayaku*, pursuant to the Companies Act, limited to cases in which the performance of duties that led to the liability was in good faith and did not constitute gross negligence.”

It is necessary to appoint talented human resources as outside directors so that outside directors can be utilized for corporate governance in Japan, and the promotion of D&O insurance and limited liability agreements as part of environmental developments is important to this end. At the same time, it would be preferable to provide specific and useful disclosures on these efforts to shareholders.

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

Principle 4.1 stipulates that “The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans.” In addition, Supplementary Principle 4.1.1 requires the board to specify its own decisions as well as both the scope and content of the matters delegated to the management. The compliance rate with Supplementary Principle 4.1.1 is 99.5% (2,250 companies). For most companies, the board stipulates its own resolutions in the internal regulations such as rules of the board of directors, approval authority regulations, and only a very small number of companies do not comply with this principle.

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

A common type of disclosure by companies regarding this principle would be “The Company has established

⁴⁹ March 2015, Ministry of Economy, Trade and Industry Commissioned Survey, “Survey Report on the State and Systems for Officer Remuneration in Japan and Overseas” page 124

Board Rules, and matters prescribed in laws and regulations and the articles of incorporation, as well as important matters related to business execution, are determined through a resolution by the board.” In analysis of actual keywords, 79.1% (1,780 companies) mentioned “rules and regulations, etc.”, 63.4% (1,426 companies) mentioned “laws and regulations, etc.”, and 50.5% (1,137 companies) mentioned “articles of incorporation”. In addition, 28.8% (647 companies) mentioned “duty authority”, 9.2% (208 companies) mentioned “approval authority”, and 6.1% (137 companies) mentioned “agenda standards”. In addition, 64.9% (1,460 companies) included the keyword “rules of the board of directors, etc.”. This suggests that many companies have clarified the roles and responsibilities of the board of directors based on laws and regulations, the articles of incorporation, various internal rules, approval authority, etc.

In addition, there were some companies that clearly stated a separation of roles between the board and the management team, such as the establishment of a *shikkoyakuin* system or management meeting. 31.4% (706 companies) included the keyword “*shikkoyakuin*”, while 23.6% (532 companies) included the keyword “management meeting, *shikkoyakuin* meeting, etc.”.

The number of companies including keywords such as business strategies and business plans that are items that should be decided on and determined by the board according to the Code was 8.6% (193 companies) for “business strategy”, 12.5% (281 companies) for “management plan”, and 4.7% (105 companies) for “business plan”. This is low in comparison to the number of companies that included keywords such as laws and regulations, the articles of incorporation, and various internal rules, which suggests that only some companies disclose the specific matters decided on by the board.

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

[Example 3] is a case of the specific internal regulations being clearly indicated. The company has disclosed the detailed standards including monetary standards for matters for a resolution by the board and matters delegated to the representative director, etc. It can be said that by clarifying the specific numerical standards, this clearly indicates the division of roles for the board and the management team towards shareholders, investors, etc. In [Example 4], it mentions that “strategy and vision deliberations” are held for the free exchange of opinions on management strategy, the long-term vision, and themes related to overall management. While only 14 companies (0.6%) mention the vision, these mentions include disclosures in which one can see a stance of active involvement by the board in the management strategy and the long-term vision of that company.

[Example 1]

The Company has introduced a *shikkoyakuin* system that separates oversight and business execution in order to conduct highly effective oversight from an objective and independent standpoint by the board.

In order to achieve the sustainable growth of the Group and medium to long-term improvements in corporate value, the board decides on important management matters including basic management policies, management strategies, medium-term management plans, annual management plans, and capital policies, and delegates specific business execution to the management team.

The board delegates decisions on individual business execution matters to the management committee, excluding matters stipulated by laws and regulations and decisions on important business execution matters. These classifications are clarified in the internal regulations.

(Fisheries, agriculture, and forestry)

[Example 2]

The Company has established the board that has been entrusted by shareholders as the management decision-making and oversight body, the management committee that makes decisions on business execution based on resolutions by the board, and a *shikkoyakuin* system that executes business in order to separate management decision making and supervision from business execution. For the purpose of achieving prompt and flexible decision-making and corporate management by the board, and strengthening of the oversight function of the board on the management team including directors, the Company's board has delegated some decision on business execution other than matters that are to be exclusively decided on by the board under laws and regulations to the management committee.

The Company's management committee has been established as a body for business execution to make systematic and prompt decisions on the matters above delegated by the board. The management committee is composed of the President, executive directors in Tokyo, International Business Division Manager, Tokyo Metropolitan Business Division Manager, Planning Unit Manager, and Administrative Unit Manager. (Construction)

[Example 3]

(Omitted)

The internal regulations (regulations on request for approval) stipulate that matters such as alterations to building equipment, the purchase of fixtures, vehicles, etc., the purchase or disposal of important or large quantities of sales assets, and the acquisition of the LP gas sales rights exceeding 200 million yen are matters for a resolution by the board, while such matters for amounts no more than 200 million yen are decision matters for the representative director or other bodies depending on the amount. In addition, the writing off and forgiveness of bad debts, indemnification and compensation for damages, obligation guarantees and pledging collateral, etc. for amount exceeding 30 million yen are matters for a resolution by the board, while such matters for amounts no more than 30 million yen are decision matters for the representative director or other bodies depending on the amount. (Wholesale)

[Example 4]

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

(Omitted)

(Shipping)

4-7. Appointment of independent directors

(1) Appointment of independent directors and number appointed

(i) Overview

Companies which have appointed outside directors⁵⁰ accounted for 95.8% of TSE-listed companies, which is a significant increase from 64.4% in the previous survey (Chart 66). 88.9% of companies have appointed independent directors⁵¹, which is also an increase from the previous survey results of 46.7% by approximately two times (

Chart 67). 60.4% of companies have appointed at least two independent directors as required in Principle 4.8 of the Code, which is an increase from the previous survey results of 13.0% by more than four times.

Possible contributing factors behind this increase include a drastic increase in the appointment of independent directors at Companies with *Kansayaku* Board as a result of the application of the Code in June 2015 and a move to the newly introduced Companies with Supervisory Committee structure (composed of at least three directors, and requires the establishment of a Supervisory Committee with a majority of outside directors) with the revision of the Companies Act in May 2015.

⁵⁰ The definition of outside director is subject to Article 2, Item 15 of the Companies Act.

⁵¹ The definition of "independent director" in this document is "an outside director notified as an independent officer".

Chart 66 Ratio of Companies by Number of Outside Directors (All Companies)

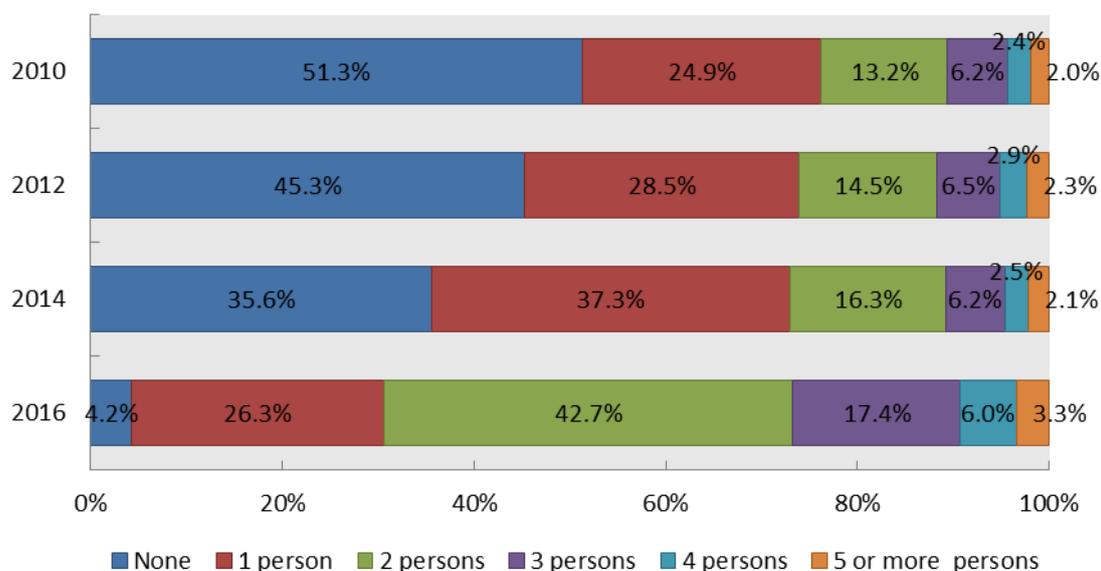
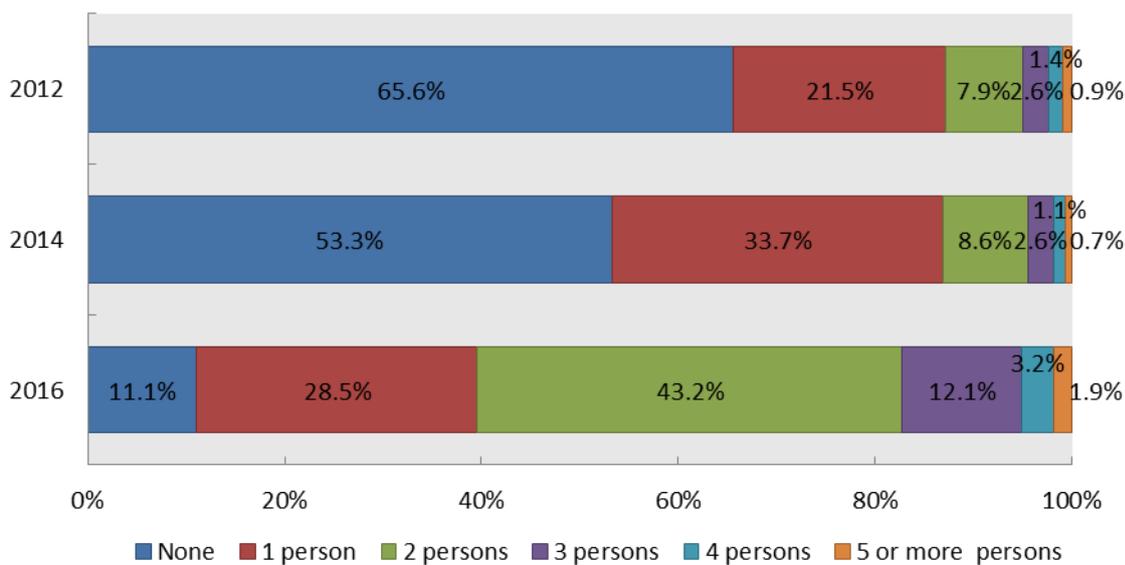


Chart 67 Ratio of Companies by Number of Independent Directors (All Companies)



(ii) By organizational form

Looking at the ratio of companies by number of outside directors by organizational form, the ratio of companies with two outside directors is highest at 44.9% for Companies with *Kansayaku* Board, the ratio of companies with three outside directors is highest at 41.1% for Companies with Supervisory Committee, and the ratio of companies with five or more outside directors is highest at 52.9% for Companies with Three Committees. It can be said that the number of outside directors is high at Companies with Three Committees (Chart 68).

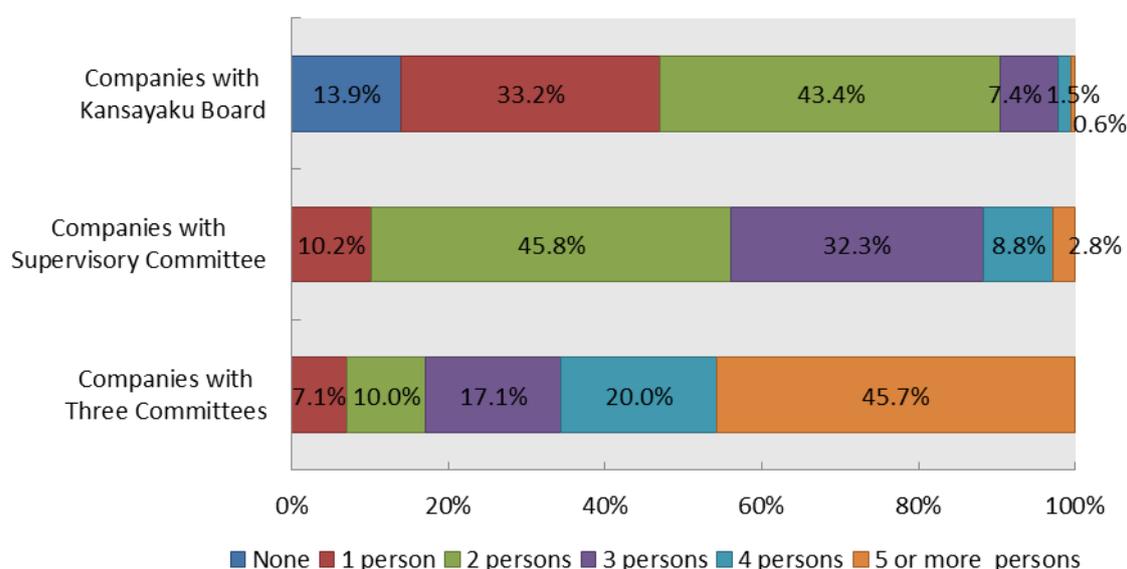
Looking at the ratio of companies by number of independent directors by organizational form, the ratio of companies with two independent directors is highest at 43.4% for Companies with *Kansayaku* Board, the ratio

of companies with two independent directors is highest at 45.8% for Companies with Supervisory Committee, and the ratio of companies with five or more independent directors is highest at 45.7% for Companies with Three Committees. In the same manner as for outside directors, it can be said that the number of independent directors is high at Companies with Three Committees (Chart 69).

Chart 68 Ratio of Companies by Number of Outside Directors (by Organizational Form)



Chart 69 Ratio of Companies by Number of Independent Directors (by Organizational Form)



(iii) By market division

Looking at the ratio of companies that appointed independent directors by market division, appointment were made by 97.1% in TSE First Section, 91.3% in TSE Second Section, 80.3% in Mothers, and 69.2% in JASDAQ. In addition, an even higher percentage (98.5%) of JPX-Nikkei 400 companies appointed outside directors (Chart 70).

The average number of independent director per company is 1.75 persons. Looking at the results by market division, the average number of persons is 2.16 persons for TSE First Section, 1.58 persons for TSE Second Section, 1.21 persons for Mothers, and 1.01 persons for JASDAQ. The average number of 2.69 persons for JPX-Nikkei 400 companies is higher than these divisions (Chart 71).

The ratio of companies with the number of independent directors accounting for at least one-third of the board by market division is shown in Chart 72. The ratio of companies appointing at least one-third of directors as independent directors has increased significantly for each market, and also on an all companies basis, to 19.4%. As for JPX-Nikkei 400 companies, the percentage of companies with at least one-third of outside directors reached 28.8%, which is 6.1 points higher than that of TSE First Section (22.7%). The ratio of companies with a majority of independent directors has increased significantly for each market as well, and also on an all companies basis, to 3.8%. As for JPX-Nikkei 400 companies, the percentage of companies with a majority of independent directors reached 7.5%, which is 2.9 points higher than that of TSE First Section (4.6%).

Chart 70 Ratio of Companies by Number of Independent Directors (by Market Division)

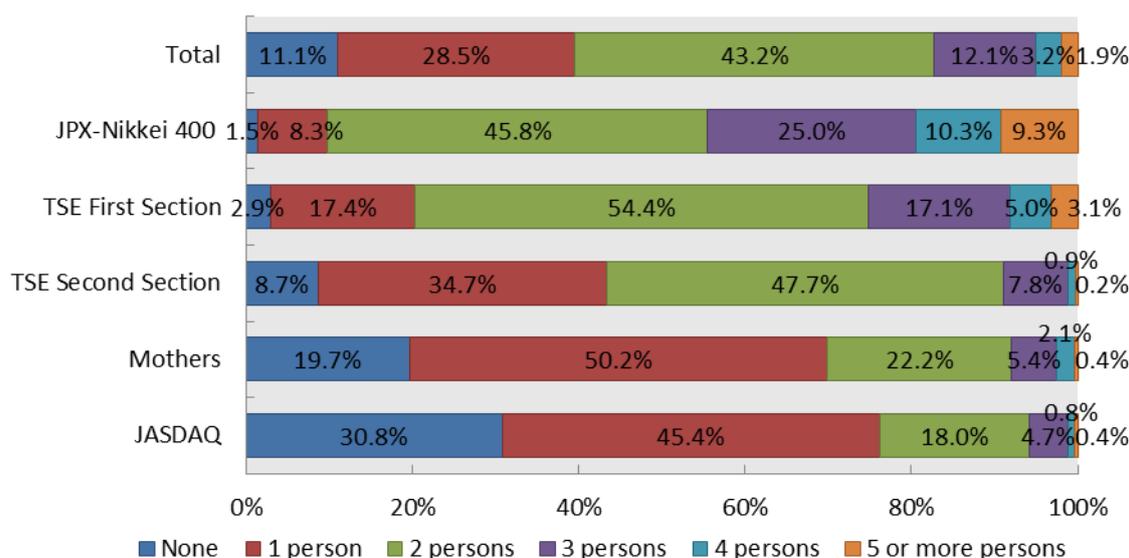


Chart 71 Average Number of Independent Directors (by Market Division)

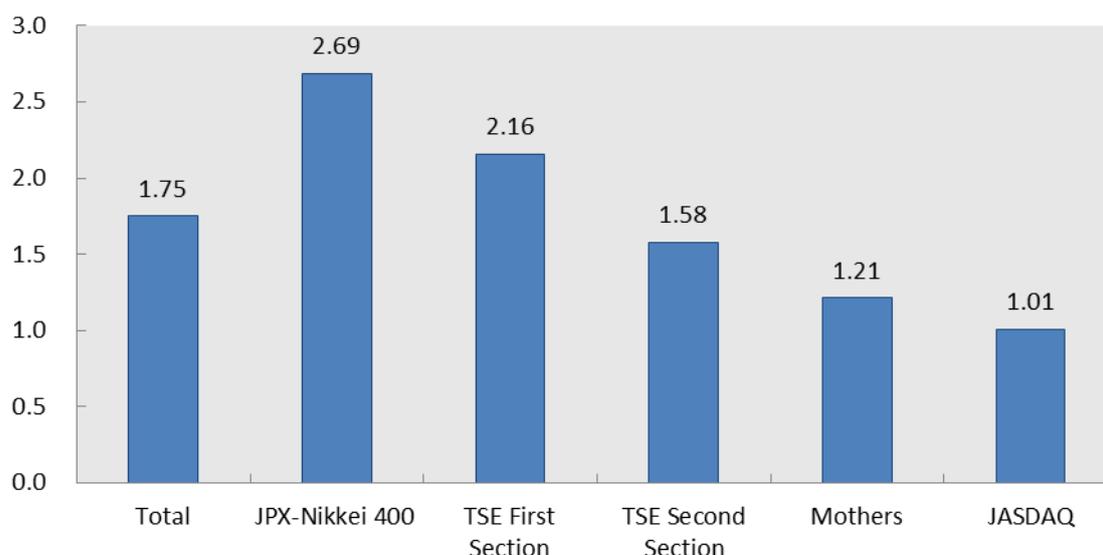
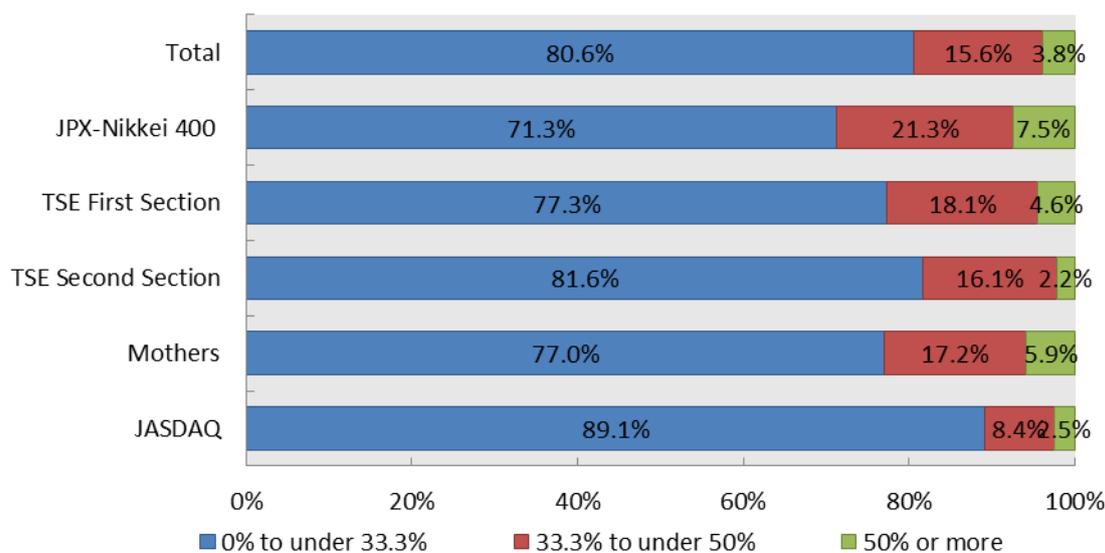


Chart 72 Ratio of Independent Directors on the Board (by Market Division)



(iv) By foreign shareholding ratio

In relation to foreign shareholding ratio, the higher the ratio, the more likely companies are to appoint independent directors, and the more likely the number of independent directors per company is to increase. Among companies with the foreign shareholding ratio exceeding 30%, companies which appointed outside directors accounted for 97.5%, with the average number of outside directors at 2.65 (Charts 73 and 74), as this ratio and the average number were the highest. However, even among companies with the foreign shareholding ratio of less than 10%, 84.3% of these companies have appointed outside directors, as the gap between caused by differences in the level of the foreign shareholding ratio is contracting.

The ratio of independent directors on the board has increased along with increases in the foreign

shareholding ratio, as well as for companies with at least one-third of outside directors and companies with a majority of independent directors (Chart 75). The percentage of companies with at least one-third of independent directors has increased, reaching 33.2% for companies with the foreign shareholding ratio exceeding 30%. The ratio of companies with a majority of independent directors has increased significantly, reaching 10.2% for companies with the foreign shareholding ratio exceeding 30%.

Chart 73 Ratio of Companies by Number of Independent Directors (by Foreign Shareholding Ratio)

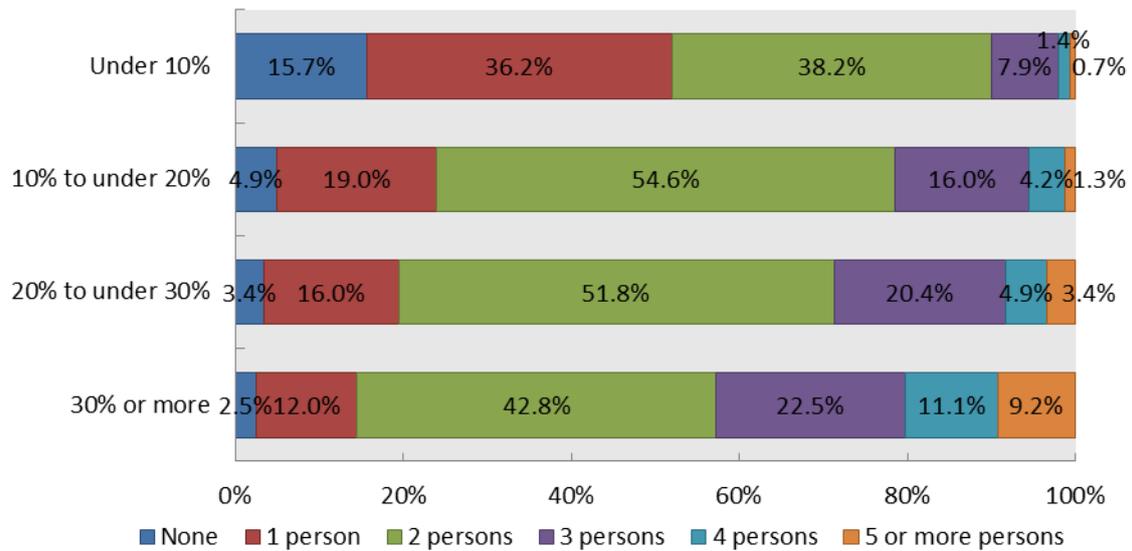


Chart 74 Average Number of Independent Directors (by Foreign Shareholding Ratio)

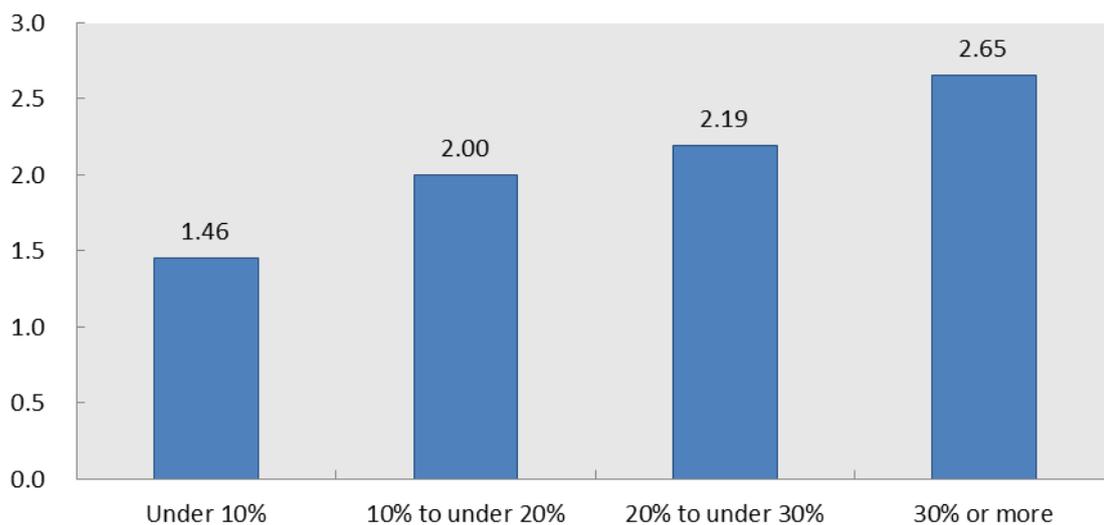
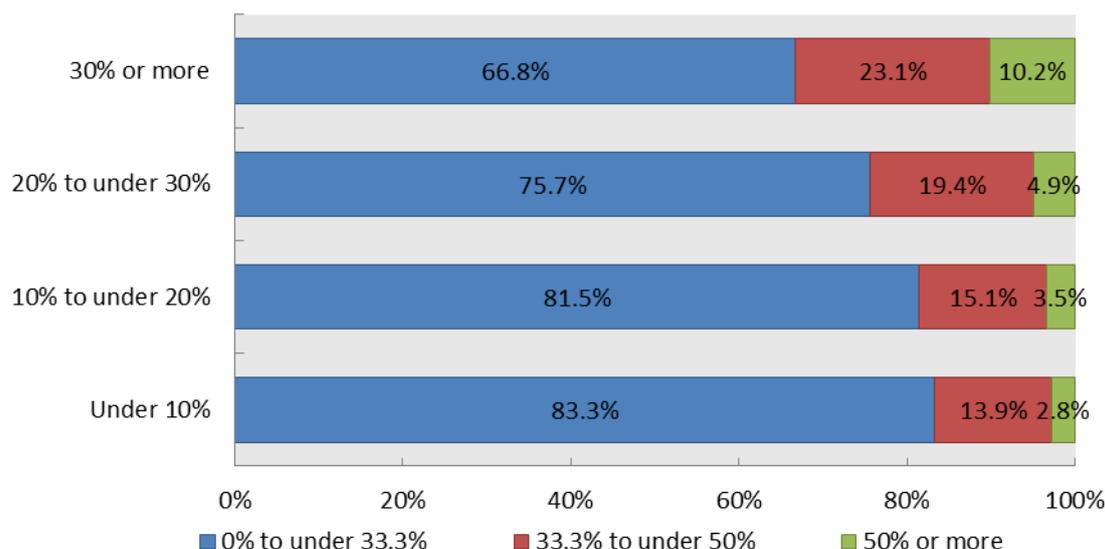


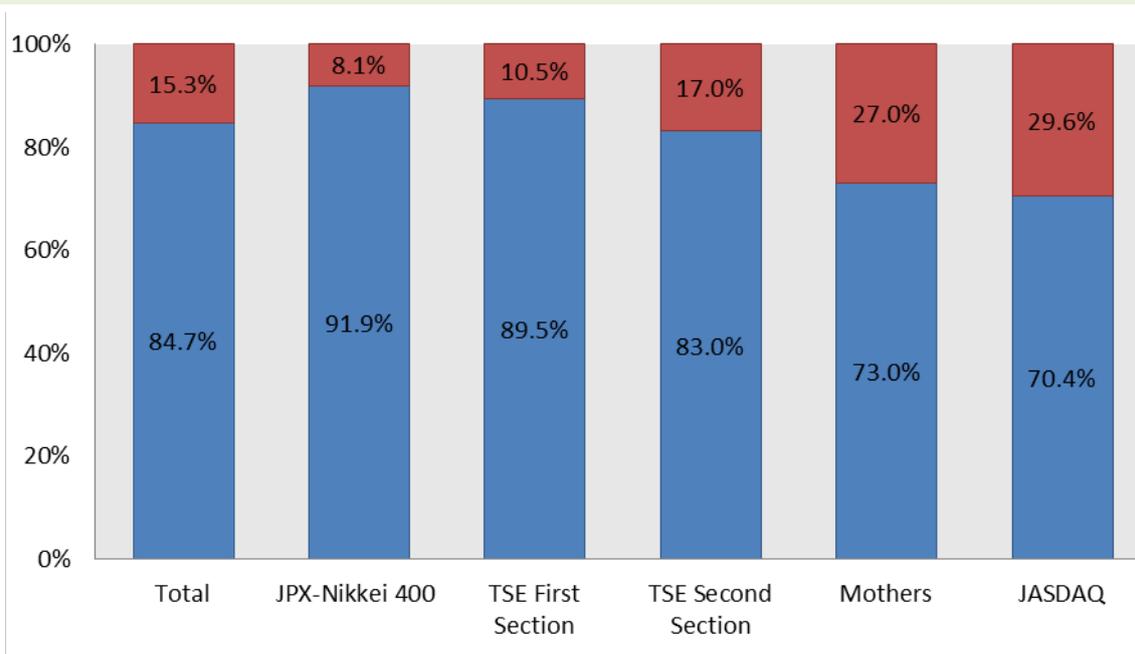
Chart 75 Ratio of Independent Directors on the Board (by Foreign Shareholding Ratio)



(2) Ratio of independent directors among outside directors

The CG Report requires companies to provide information on the number of independent directors appointed as independent officers. Among the total 7,247 outside directors appointed by 3,507 TSE-listed companies, 6,141 (84.7%) outside directors were notified as independent officers. Looking at the results by market division, this percentage is 89.5% in TSE First Section, 83.0% in TSE Second Section, 73.0% in Mothers, and 70.4% in JASDAQ, as there are many non-independent directors in Mothers and JASDAQ. Among JPX-Nikkei 400 companies, the percentage has reached 91.9% (Chart 76).

Chart 76 Percentage of Independent Directors among Outside Directors



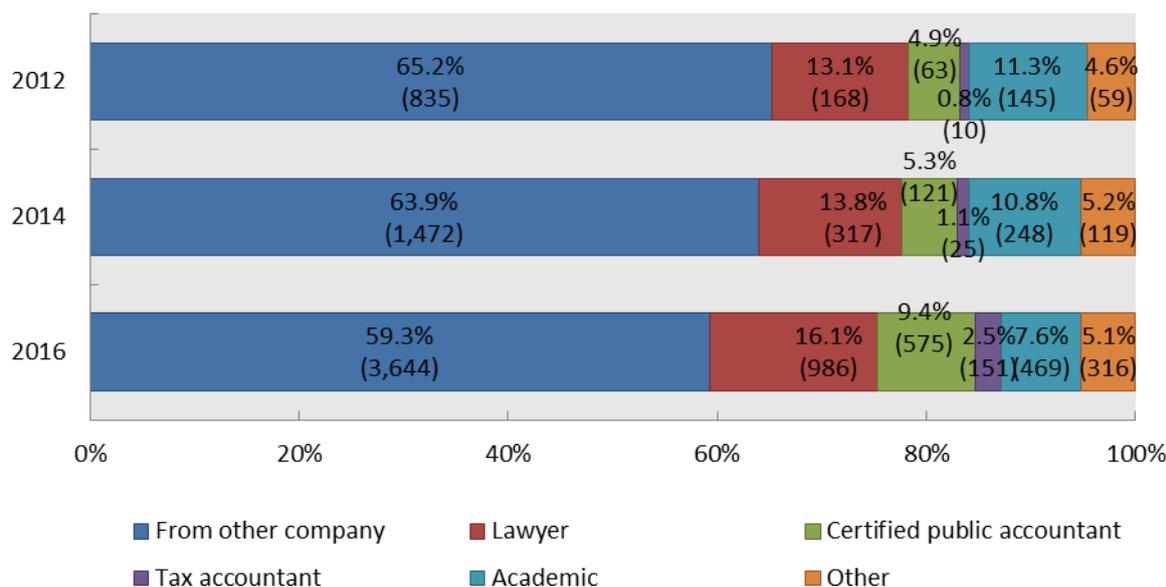
(3) Attributes of independent directors

The CG Report requires listed companies to specify each outside director’s attribute by choosing one of the following: “from other company⁵²”, “lawyer”, “certified public accountant”, “tax accountant”, “academic” and “other”.

In Chart 77, the percentage is high for “from other company”. Looking at past trends, the percentage has decreased while the number of people has increased significantly, changing from 65.2% (835 people) in 2012, 63.9% (1,472 people) in 2014, and 59.3% (3,644 people) in 2016. This was followed by the category “lawyer”, for which the ratio and the number of people has increased, from 13.1% (168 people) in 2012, 13.8% (317 people) in 2014, and 16.1% (986 people) in 2016.

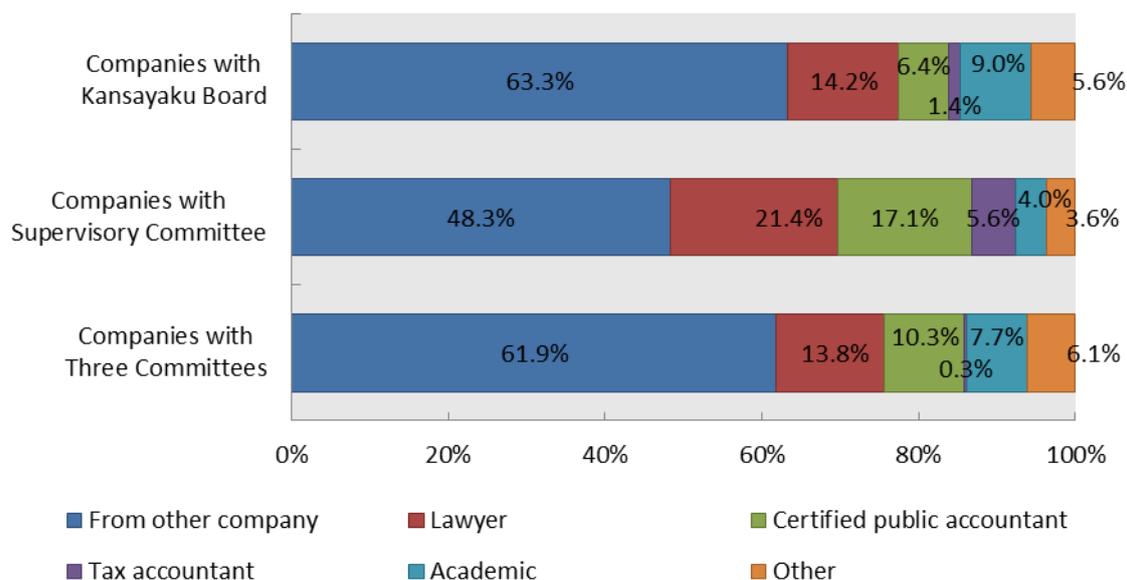
Next, looking at the attributes of independent directors by organizational form, the percentage is high for “from other company” for every organizational form, at 63.3% for Companies with Kansayaku Board, 48.3% for Companies with Supervisory Committee, and 61.9% for Companies with Three Committees. Moreover, the percentage is also high for “lawyer” and “certified public accountant” for Companies with Three Committees (Chart 78).

Chart 77 Attributes of Independent Directors (All Companies)



⁵² “From other company” refers to a person who works or has experience in working for another company.

Chart 78 Attributes of Independent Directors (by Organizational Form)



(4) Relation between independent directors and company

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

*Selection items of relation between independent directors and company

*In case a person falls under "currently/recently", select "○". In case of "the past", select "△".

*In case a close relative of a person falls under "currently/recently", select "●". In case of "the past", select "▲",

- a A person who has executed business of the company or its subsidiary
- b A person who has executed business of the company's parent company
- c A person who has executed business of the company's fellow subsidiary
- d A person who has executed business of an entity for which the company was a major client
- e A person who has executed business of a major client of the company
- f A person who belonged to a consulting firm, accounting firm, or law firm and has received large amounts of cash or other assets in addition to director/auditor compensation from such company
- g A major shareholder of the company
- h A person who has executed business of an entity for which the company was a client (except "d", "e" and "f")
- i A person who is or was from another company at which a person who is or was from said company is an outside director/auditor
- j A person receiving contributions from the company
- k Other

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

(1) Overview

Chart 79 shows which of the above-mentioned categories the independent directors of TSE-listed companies belong to (as multiple answers are allowed, an outside director may be included in multiple categories).

The percentage of cases for which the selections above did not apply was the highest, accounting for 60.4%. In the case of the selections applying, the percentage was highest for “other business partner”, at 22.8%.

Next, the status of “currently/recently” or “the past” for the individual and “currently/recently” or “the past” for a close relative for each selection is displayed in Chart 80, as “the past” for the individual accounted for the highest percentage (54.3%) of the most common selection h “other business partner”.

Chart 79 Relation Between Independent Directors and Company (Individual/Close Relative)

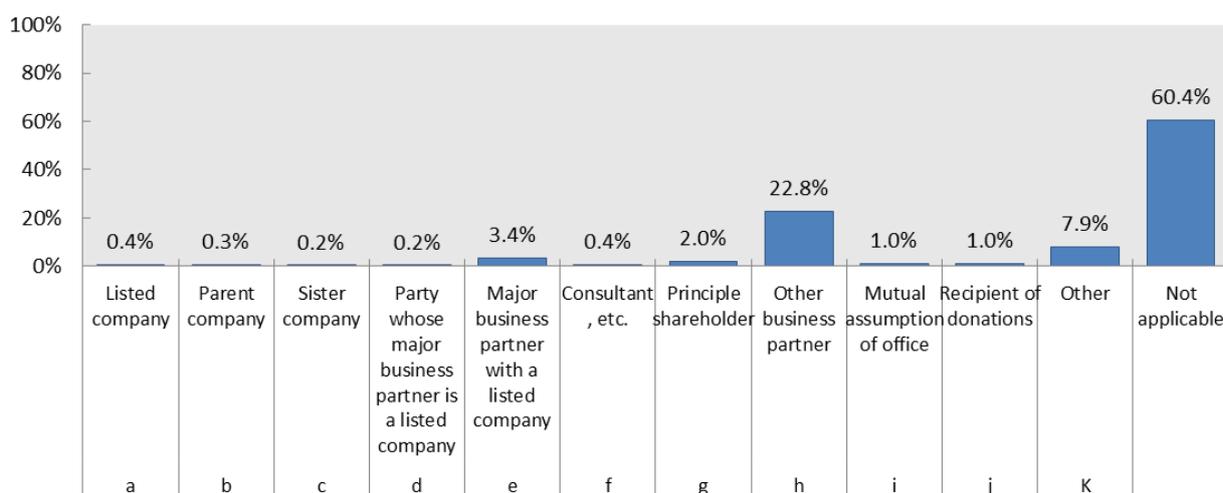
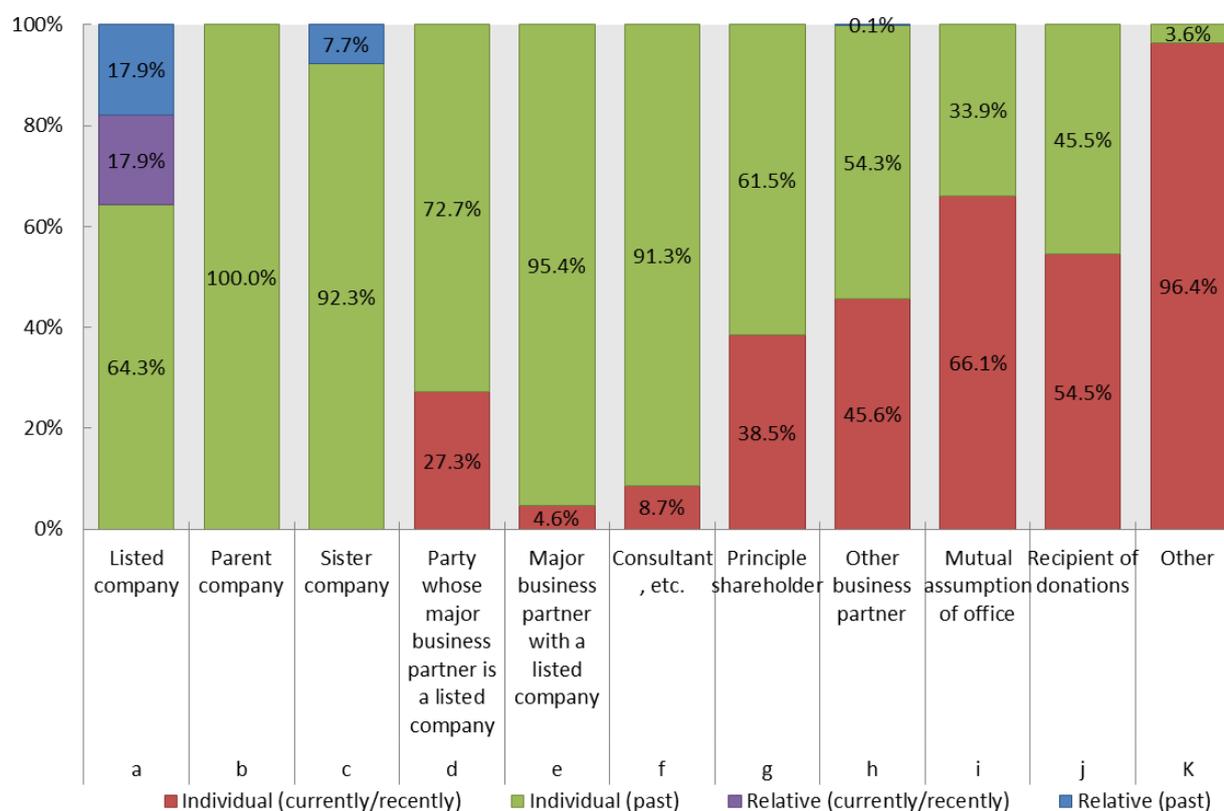


Chart 80 Relation Between Independent Directors and Company



4-8. Attributes of outside *kansayaku*

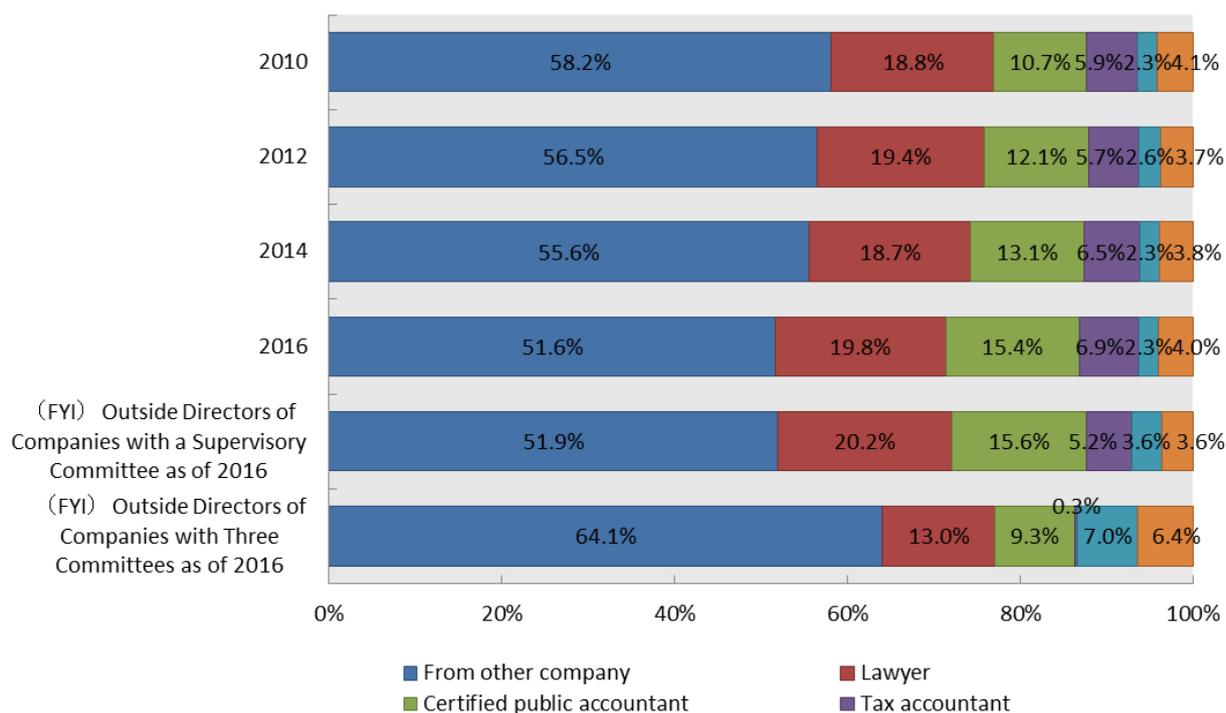
The CG Report requires companies to provide information on the number of outside *kansayaku* appointed as independent directors. Among the total 6,800 outside directors appointed by 2,800 TSE-listed companies that are Companies with *Kansayaku* Board, 4,808 (70.7%) *kansayaku* were notified as independent officers.

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

In this regard, among all *kansayaku* of TSE-listed Companies with *Kansayaku* Board, those “from another company” accounted for 51.6%, followed by lawyers (19.8%), certified public accountants (15.4%), tax accountants (6.9%), and academics (2.3%) (Chart 81).

Comparing the attributes of outside *kansayaku* at Companies with *Kansayaku* Board and outside director at Companies with Supervisory Committee and Companies with Three Committees, the attribute figures for Companies with Supervisory Committee (from another company 51.9%, lawyers 20.2%, certified public accountants 15.6%, tax accountants 5.2%, and academics 3.6%) are extremely close to the attribute figures for Companies with *Kansayaku* Board. It is believed that this is due in part to the fact that when companies moved from the Company with *Kansayaku* Board structure to a Company with Supervisory Committee structure, many outside *kansayaku* were changed to outside directors.

Chart 81 Attributes of Outside *Kansayaku*



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

Principle 4.8 requires companies to appoint at least two independent directors as a general rule, and also requires companies that believe it is necessary to appoint at least one-third of directors as independent directors based on their own judgment to disclose a roadmap for doing so. As the compliance rate is 78.8% (1,783 companies) and the explanation rate is 21.2% (479 companies) for this principle, this is one of the 73 principles with the lowest compliance rate.

The contents of disclosures related to Principle 4.8 can be roughly classified into (1) descriptions stating that at least two (or at least one-third) independent directors have been appointed, or (2) descriptions of the expected roles and qualities of independent directors.

First, looking at (1) descriptions stating that at least two (or at least one-third) independent directors have been appointed, there are cases of descriptions of the current situation at companies that appointed at least two independent directors and mentions of the appointment of “at least one-third”. 5.5% (98 companies) mentioned or stated “at least one-third”. Among the companies (49 companies) that have currently appointed at least one-third of directors as independent directors, while there was a conspicuous number of companies that described the current situation in a positive light, stating “we will appoint at least one-third of directors as independent directors as a general rule”, there were also companies that suggested the possibility of the ratio of independent directors changing in the future, making a statement such as “while we have currently appointed at least one-third of directors as independent directors, we do not believe that having at least one-third of directors as independent directors is necessary”. Among the companies that mention “at least one-third”, many of the 49 companies that have not currently appointed at least one-third of directors as independent directors have stated something to the effect that “we do not believe that having at least one-third of directors as independent

directors is currently necessary” In addition, there were companies that stated they would make efforts to appoint at least one-third of directors as independent directors in the future and that at least one-third of directors and *kansayaku* are independent outsiders if independent *kansayaku* are included in the calculation.

Next, analyzing the keywords related to (2) descriptions of the expected roles and qualities of independent directors, 21.6% (386 companies) mentioned “oversight”, 16.3% (290 companies) mentioned “opinion”, and 9.6% (171 companies) mentioned “advice”. In addition, keywords related to character included “experience” (18.9%, 337 companies), “specialization” (10.8%, 193 companies), and “knowledge” (10.3%, 183 companies).

Looking at individual disclosure examples, [Example 1] describes not only the character and actual roles expected of independent directors, but also summarizes the company’s stance towards the number (percentage) of independent directors and the future direction. [Example 2] is an example of a company that has appointed at least one-third of directors as independent directors. With the aim “to establish a management structure capable of soundly controlling growing risks including globalization and achieve an advanced monitoring model through outside directors”, the company has appointed at least one-third of directors as independent directors. [Example 3] is an example of a description of efforts that take into consideration the appointment of at least one-third of directors as independent directors.

[Example 1]

The Company has appointed two independent outside directors out of its seven directors. The Company’s independent outside directors have experience as corporate managers, university professors, etc., and have specialized knowledge related to business strategy. The Company has created a structure for these outside directors that have such specialized knowledge and independence to provide oversight on business execution. The Company’s independent outside directors actively provide suggestions at the board based on expert knowledge on management policies and management improvements aimed at improving med- to- long-term corporate value.

The Company’s independent outside directors fulfill the functions of monitoring and providing oversight through important decisions making at the board, monitor for the presence of conflicts of interests between the company and the management team or controlling shareholders, etc., actively provide suggestions based on expert knowledge on management policies and management improvements aimed at improving medium to long-term corporate value, and provide opinions accurately reflecting the views of stakeholders including users, clients, business partners, shareholders, and employees from the standpoint independent from the management team and controlling shareholder as appropriate.

Because the Company adopts structures that prioritize swift decision-making in meeting bodies, it has been deemed that the current structure seven directors that include two independent outside directors would be the optimal structure. Going forward, the Company will constantly review what constitutes an appropriate structure in light of changes in the environment, and if it is deemed that it is necessary to change the number of directors or at least one-third of directors as independent outside directors, a roadmap for doing so will be disclosed. (Service industry)

[Example 2]

In order to establish a management structure capable of soundly controlling growing risks including globalization and achieve an advanced monitoring model through outside directors, the Company has adopted a structure for the board that includes at least one-third highly-independent outside directors.

(Omitted)

(Food industry)

[Example 3]

(Developments related to the appointment of at least one-third of directors as independent outside directors)

In order to further strengthen corporate governance and taking into consideration the appointment of at least one-third of directors as independent outside directors, in June 2016 the Company newly appointed two independent outside directors and increased the number of independent outside director by two (and increased the number of outside director by three) due to transition to Companies with Supervisory Committee. As a consequence, the number of independent outside directors is five (and the number of outside directors is six).

(Banking industry)

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

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

The compliance rate with Principle 4.9 was 95.0% (2,148 companies). Examples of descriptions include the addition of the character required of independent directors (active requirements) in addition to the independence criteria stipulated by the Companies Act, TSE, etc. (passive requirements). A specific example is “based on the requirements of the Companies Act and the independence criteria stipulated by TSE, the Company selects candidates that will appropriately provide opinions to the Company’s management from an objective viewpoint”. Among companies that have complied with Principle 4.9, 30.3% (651 companies) included the keyword “Companies Act, etc.” in disclosures, while 62.6% (1,344 companies) included the keyword “stock exchange (TSE, financial instruments exchange, etc.)”. This suggests that many companies firstly make disclosures in consideration of external requirements under the Companies Act and independence criteria stipulated by TSE, etc. There are some companies that also clearly state that independence criteria uses standards for exercising voting rights of proxy advisory firms, institutional investors, etc. as a reference.

Meanwhile, 13.8% (297 companies) also established their own quantitative independence criteria for relationships with business partners, large shareholders, etc. 11.9% (255 companies) have established quantitative criteria for major business partners. Of these, the majority (192 companies) have used 2% of consolidated sales, etc. as a criteria, for example, defining a “major business partner” as “business partner for which the annual transaction amount accounts for over 2% of the consolidated sales of the Group or its business partners (including its parent company or major subsidiaries)”. In addition, in relation to business relationship, 8.6% (184 companies) of companies take both the criteria of the amount of payments made by their company to a business partner and the criteria of the amount of payments paid by a business partner to their company into consideration.

4.3% (93 companies) also set a definition for “major lenders”. The most common numeral criteria for such lender was “2% of consolidated total assets, etc.”, which was mentioned by 66 companies. In addition, among banks, etc. there were also companies that took into consideration loan transactions, establishing criteria such as “cases in which Bank is the top borrowers for the party and in which changes to the Bank’s financing policy could have a tremendous impact”.

11.2% (241 companies) set numeric criteria regarding the remuneration of lawyers, consultants, etc., and companies that used 10 million yen as the amount for this criteria were most common (151 companies). There were also cases using 10 million yen in the case of an individual who receive remuneration while using 2% of consolidated sales in the case of a corporation, organization, etc.

7.6% (163 companies) set criteria on donations from listed companies. Companies that used 10 million yen as the criteria for the donation amount were most common (151 companies).

9.4% (202 companies) set quantitative criteria for large shareholders, of which 184 companies used “10%” as a standard.

In addition, there were cases of companies incorporating elements such as the service period of independent directors and underwriting lead manager securities companies in independence criteria.

Keywords related to the character required of independent directors included “experience” (22.4%, 481 companies), “specialized/expert” (11.2%, 241 companies), “frank (opinions)” (9.3%, 199 companies), and “personal character” (3.3%, 71 companies). This suggests that many companies prioritize past experience. In addition, many companies (13.2%, 283 companies) mentioned “oversight” as a keyword regarding expected roles.

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

[Example 2] is an example of quantitative disclosures. The company has established specific quantitative criteria and presents its own objective criteria on the independence of independent directors to shareholders and investors. As in [Example 3], there are also some companies set criteria such as 5% of voting rights or 1% of the transaction amount which are more stringent than general standards. [Example 4] is an example of a criteria established for “major borrower”, listing the quantitative and qualitative factors based on which judgments are made.

Chart 82 Main Keywords in the Independence Judgment Criteria for Independent Directors

Item	Number of companies	Applicable ratio
Companies complying with Principle 4.9	2,148 companies	100%
There are quantitative criteria	297 companies	13.8%
■ Major business partners	255 companies	11.9%
2% of consolidated sales	192 companies	8.9%
1% of consolidated sales	13 companies	0.6%
■ Major lenders	93 companies	4.3%
2% of consolidated total assets	66 companies	3.1%
■ Lawyers, consultants, etc.	241 companies	11.2%
10 million yen	151 companies	7.0%
10 million yen or 2%	34 companies	1.6%
■ Donations	163 companies	7.6%
10 million yen	93 companies	4.3%
10 million yen or 2%	15 companies	0.7%
■ Large shareholders	202 companies	9.4%

10%	184 companies	8.6%
5%	13 companies	0.6%

[Example 1]

In the appointment of outside directors, in addition to the requirements under the Companies Act, the Company also prioritizes the ability to understand various businesses and the mental independence that makes it possible to present doubts and hold discussions in meetings such as the board, conduct re-investigations, and express contrary opinions.

In addition, the appointment criteria for independent directors require candidates to fulfill the qualifications for independent officers stipulated by TSE, and to be unlikely to have conflicts of interest with general shareholders. (Transportation equipment)

[Example 2]

■ Standards on the Independence of Outside Directors

The Company deems that outside directors and outside auditors as defined by the Companies Act have independence if they satisfy the independence criteria stipulated by the Tokyo Stock Exchange and do not fall under any one of the categories below.

- (1) Major shareholders holding voting rights equivalent to 10% or more of the total voting rights of the Company, or in the case of a corporation or organization, an executive of that corporation or organization
- (2) An executive of a major client of the Company or its subsidiaries, or executive of a corporation or organization that deals with the Company or its subsidiaries as a major business partner(*)
- (3) An executive of a financial institution to which the Company owes significant borrowings(*)
- (4) A person who receives significant amounts of compensation or other economic benefit (*) (other than their remuneration as a director) as a consultant, accountant, or lawyer for the Company or its subsidiaries, or where a corporation or organization, a person belonging thereto
- (5) An executive of a corporation or organization that receive significant donations (*) from the Company or its subsidiaries
- (6) A person who falls under any of the categories (1) to (5) above as an executive within the past 3 years
- (7) A spouse or relative within two degrees of kinship of a person falling under any of the categories below
 - A person falling under any of the categories (1) to (5) above
 - A person who is a director or executive of a subsidiary of the Company and a person who has been a director or executive of a subsidiary of the Company for the past three years.

*Classification into the category of a 'corporation or organization that deals with the Company or its subsidiaries as a major business partner' is judged according to the net sales that the corporation or organization had with the Company or its subsidiaries in the fiscal year immediately before: whether or not they exceed 2% of the consolidated net sales of the Company or the corporation or organization that deals with the Company or its subsidiaries, or 10 million yen, whichever is higher.

*Classification into the category of 'significant borrowings' is judged according to the amount of those borrowings: whether or not they exceed 2% of the gross assets of the Company for the fiscal year immediately before.

*Classification into the category of 'significant amounts of compensation or other economic benefit' is judged according to the benefit that the person has received from the Company or its subsidiaries (other than their remuneration as a director) in the fiscal year immediately before:

[Example 3]

Specifically, the Company observes the following standards of independence:

1. A person who has never belonged to the Company as a Director with executive authority over operations, an executive officer, or an employee;
 2. A person who is not an executive of a customer or supplier, etc. of the Company whose annual transactions with the Company exceed 1% of the Company's net sales or the other party's consolidated net sales;
 3. A person who is not a major shareholder holding a stake of 5% or more of the voting rights of the Company or an executive thereof at the end of the fiscal year of the Company;
 4. A person who is not an executive of any company in which the Company holds a stake of 5% or more of the voting rights at the end of the fiscal year of the Company;
 5. A person who is not an executive of a financial institution from which the Company has borrowed with a balance of loans payable exceeding 3% of the Company's total assets or the financial institution's consolidated total assets, as of the end of the fiscal year of the Company;
 6. A person from whom the Company received donations of 10 million yen or more in any of the past ten years or an executive thereof;
- or
7. A person who is not a consultant, accounting professional, legal professional, a person belonging to a corporation or association thereof, an Accounting Auditor, or advisor who has received cash or other financial gains of 10 million yen or more per year from the Company other than remuneration for Directors and Corporate Auditors, etc.
- (Retail)

[Example 4]

[Independence Judgment Criteria for Independent Outside Directors]

- (1) None of the following categories below apply for the individual currently or in the past
 - Executive (*2) of the Group (*1)
 - (2) None of the following categories below apply for the individual currently or in the past three years
 - Executive of major borrowers (*3) of the Company
 - Executive of major business partners (*4) of the Company
 - Large shareholders (directly or indirectly holding at least 10% of voting rights) of the Company, or executives, *kansayaku*, or accounting advisors of these large shareholders
 - Executives, *kansayaku*, or accounting advisors of parties whose 5% of the voting rights are held by the Group
 - Accounting auditor of the Group or executives of that accounting auditor
 - Parties paid remuneration exceeding 10 million yen per year from the Group other than officer remuneration (accounting professionals, legal experts, consultants, etc.)
 - Executives of organizations gaining donations exceeding 10 million yen per year from the Group
 - (3) None of the following categories below apply for a spouse, relative within two degrees of kinship, or person living together with the individual
 - Persons stated in (1) and (2) above
 - (4) There no officers, etc. that have mutually assumed office
 - (5) The service period of outside directors does not exceed 8 years
 - (6) There are no circumstances other than those above based on which it has been deemed that the person would not be able to fulfill the duties of an independent outside director
 - (7) Even if a person does not fulfill one of the requirements in (2) to (5) above, if the Company believes that the person has sufficient independence and would be appropriate as an outside director in the light of the personality, insights, etc., that person can be a candidate for an independent outside director of the Company by providing an external explanation on the reason for this belief.
- (*1) The Company and subsidiaries, affiliates, and associated companies of the Company
 (*2) Executive director, *shikkoyakuin*, or employee
 (*3) The Company will determine whether a company constitutes a major borrower based on whether that company is in a position that is subject to significant control from the Company's management team after giving comprehensive consideration to matters such as the credit share, ratio of the credit amount to sales, total assets, etc., years of debt redemption, balance with deposit transactions, etc., and the status of transactions with other financial institutions.
 (*4) The Company will determine whether a company constitutes a major business partner based on whether it is in a position that is subject to the same degree of influence as from a parent company or affiliate, for example, whether the sales, etc. from transaction between the Bank and the company account for a considerable portion of that company's sales (Banking industry)

4-11. Committees, etc.

A Company with Three Committees is a company that has three committees, namely a Nomination Committee, Remuneration Committee, and Audit Committee⁵³, and each of these committees must composed of at least three directors, the majority of who are outside directors.⁵⁴ In addition, in a Company with Three Committees it is possible to largely delegate decisions on the execution of the operations they have been entrusted with to *shikkoyaku*.⁵⁵

In addition, Principle 4.10 of the Code stipulates that companies should further enhance governance functions by using voluntary structures, while Supplementary Principle 4.10.1 stipulates that companies should seek involvement and advice from independent directors in the examination of matters such as nominations and remuneration (for example, establishing optional advisory committees to which independent directors make significant contributions).

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

At Companies with Supervisory Committee, if an optional committee equivalent to a Nomination Committee or Remuneration Committee has been established in addition to the Supervisory Committee that must be

⁵³ Article 2, Item 12 of the Companies Act.

⁵⁴ Article 400, Paragraph 1 and 3 of the Companies Act.

⁵⁵ Article 416, Paragraph 4 of the Companies Act.

established under the Companies Act, it is necessary to describe the committee composition and the attributes of the committee head (chairperson).

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

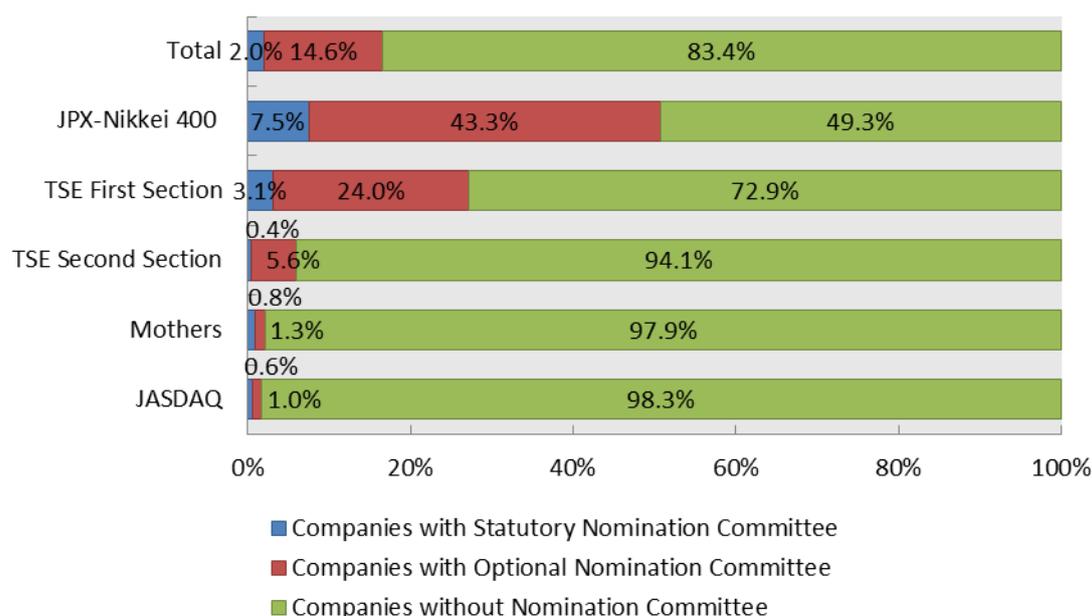
(1) Nomination Committee

(i) Status of Nomination Committee establishment

While the establishment of a Nomination Committee is mandatory at Companies with Three Committees, the establishment is up to the discretion of companies for Companies with Supervisory Committee and Companies with *Kansayaku* Board. The status of establishment of statutory or optional Nomination Committee by market division is displayed in Chart 83. The percentage of TSE First Section companies that have established statutory or optional Nomination Committees is higher compared to other market divisions. As for JPX-Nikkei 400 companies, 7.5% (30 companies) have established a statutory Nomination Committee, 43.3% (173 companies) have established an optional Nomination Committee, and 49.3% (197 companies) have not established a Nomination Committee, and these percentages are even higher than those for TSE First Section companies.

The compliance rate with Supplementary Principle 4.10.1 which stipulates that companies should seek involvement and advice from independent directors in the examination of matters such as nominations and remuneration was 74.8%.⁵⁶

Chart 83 Status of Nomination Committee Establishment (by Market Division)

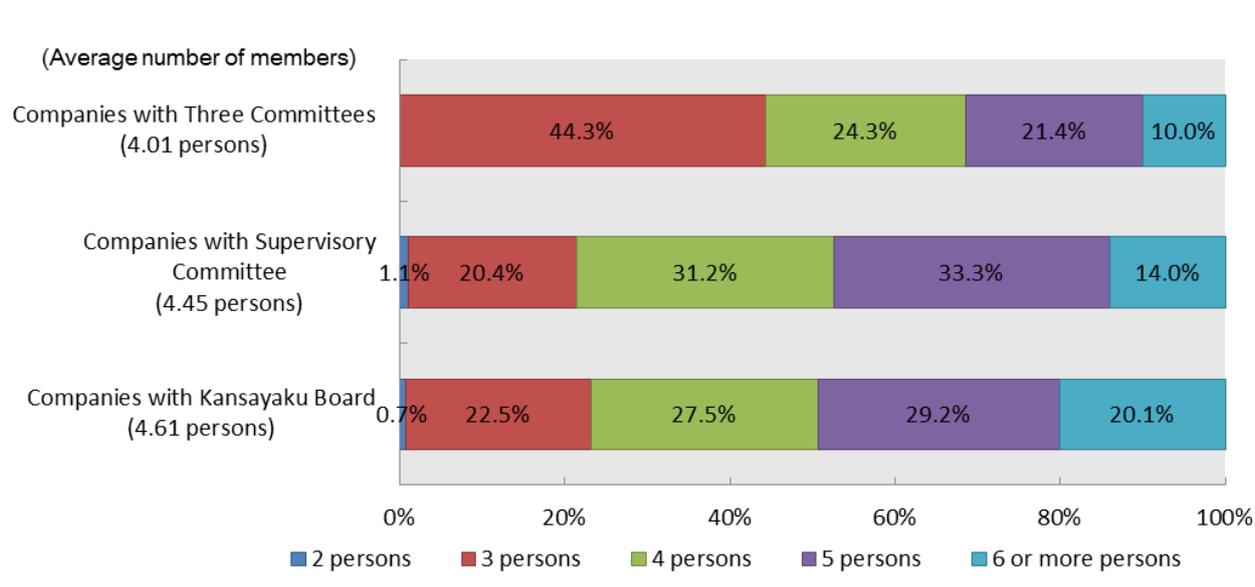


⁵⁶ In Supplementary Principle 4.10.1, the establishment of an optional committee is an exemplification and there is no distinction between nomination and remuneration committees. The use of other optional frameworks would also constitute compliance.

(ii) Number of Nomination Committee members

Chart 84 displays the number of Nomination Committee members by organizational form. For Companies with Three Committees, it can be said that the number of Nomination Committee members is lower compared with other organizational forms. The average number of members of a statutory Nomination Committee at Companies with Three Committees is 4.01, and companies with three committee members account for the highest proportion (44.3%). The average number of members of an optional Nomination Committee at Companies with Supervisory Committee is 4.45, and companies with five committee members account for the highest proportion (33.3%). The average number of members of an optional Nomination Committee at Companies with *Kansayaku* Board is 4.61, and companies with five committee members account for the highest proportion (29.2%).

Chart 84 Number of Nomination Committee Members



(iii) Ratio and number of inside directors and outside directors in Nomination Committees

Chart 85 displays the ratio and number of inside directors and outside directors in Nomination Committees by organizational form. For Nomination Committees at Companies with Three Committees, 28.1% of members are inside directors and 71.9% are outside directors. For optional Nomination Committees at Companies with Supervisory Committee, 39.9% of members are inside directors, 58.4% are outside directors, 0.7% are external experts, and 1.0% are other. For optional Nomination Committees at Companies with *Kansayaku* Board, 39.5% of members are inside directors, 46.1% are outside directors, 2.3% are external experts, and 12.1% are other. *Kansayaku* are included in “other” here.

Chart 85 Ratio of Inside Directors and Outside Directors in Nomination Committees

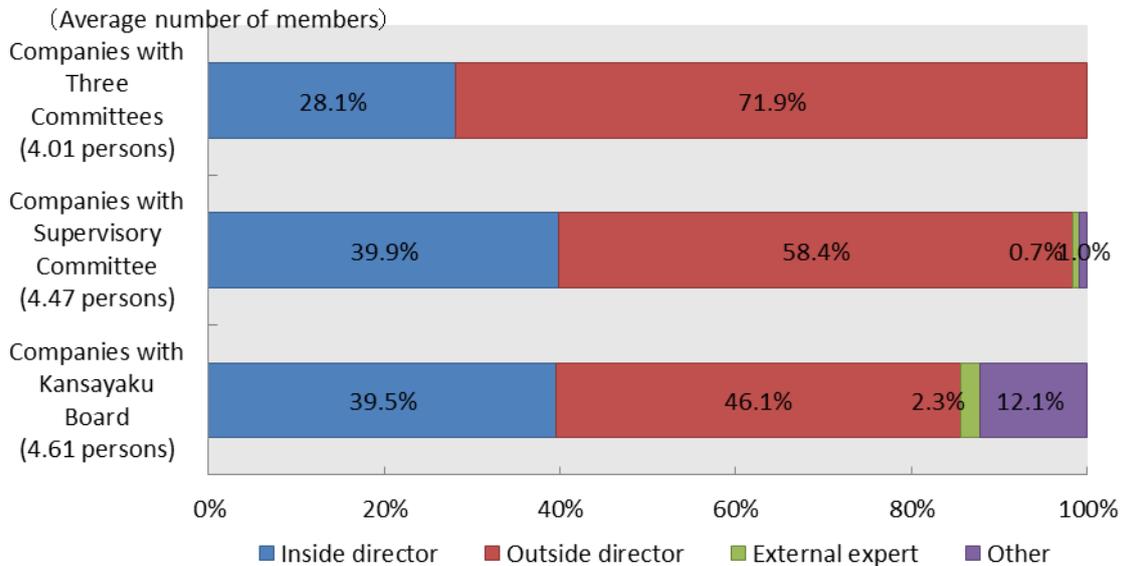


Chart 86 displays the number of inside directors in Nomination Committees. For optional Nomination Committees at Companies with *Kansayaku* Board and Companies with Supervisory Committee, the number of inside directors is higher compared to Nomination Committees at Companies with Three Committees. While companies with only one inside directors account for the majority (70.0%) of Nomination Committees at Companies with Three Committees, companies with two or more inside directors account for the majority of optional Nomination Committees at Companies with Supervisory Committee and Companies with *Kansayaku* Board.

Chart 86 Number of Inside Directors in Nomination Committees



Chart 87 displays the number of outside directors in Nomination Committees. Because the majority of directors that form a Nomination Committee at a Company with Three Committees must be outside directors

under the law, at the very least such committees must be composed of two outside directors. For optional Nomination Committees at Companies with Supervisory Committee and Companies with *Kansayaku* Board, while there are at least two outside directors at the majority of committees, there are also some cases of 0 outside directors.

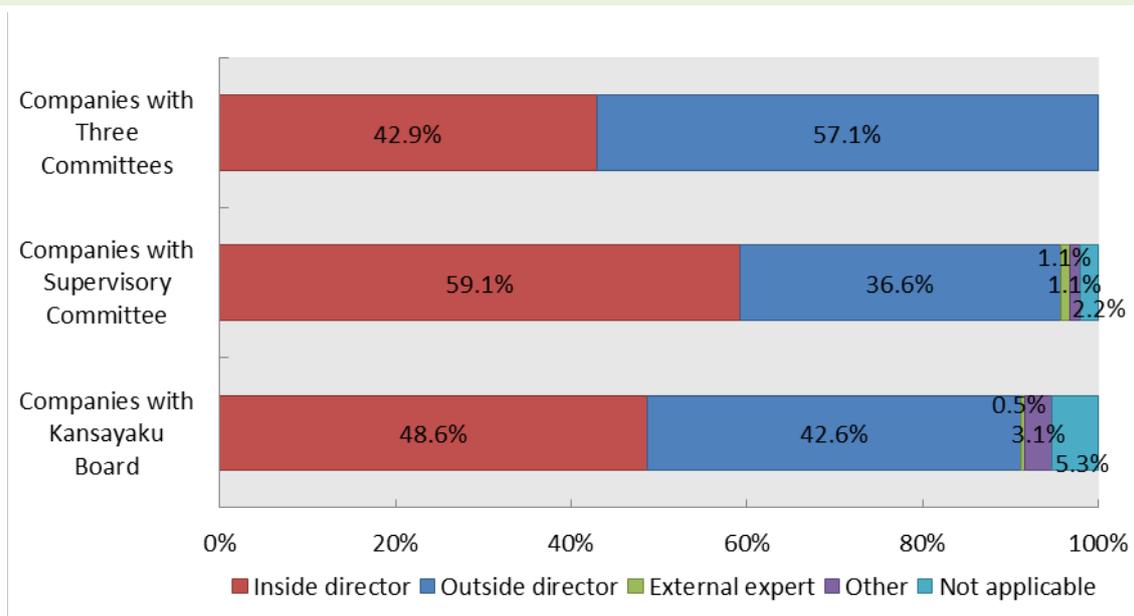
Chart 87 Number of Outside Directors in Nomination Committees



(iv) Attributes of chairpersons of Nomination Committees

Chart 88 displays the attributes of Nomination Committee chairpersons by organizational form. For Nomination Committees at Companies with Three Committees, the chairperson is an outside director at the majority of companies (57.1%). On the other hand, for optional Nomination Committees at Companies with *Kansayaku* Board and Companies with Supervisory Committee, the percentage of chairpersons who are inside directors is higher compared to statutory Nomination Committees. At optional Nomination Committees at Companies with Supervisory Committee, the chairperson is an inside director for 59.1% of committees, while at Companies with *Kansayaku* Board, the chairperson is an inside director for 48.6% of committees.

Chart 88 Attributes of Chairpersons of Nomination Committees

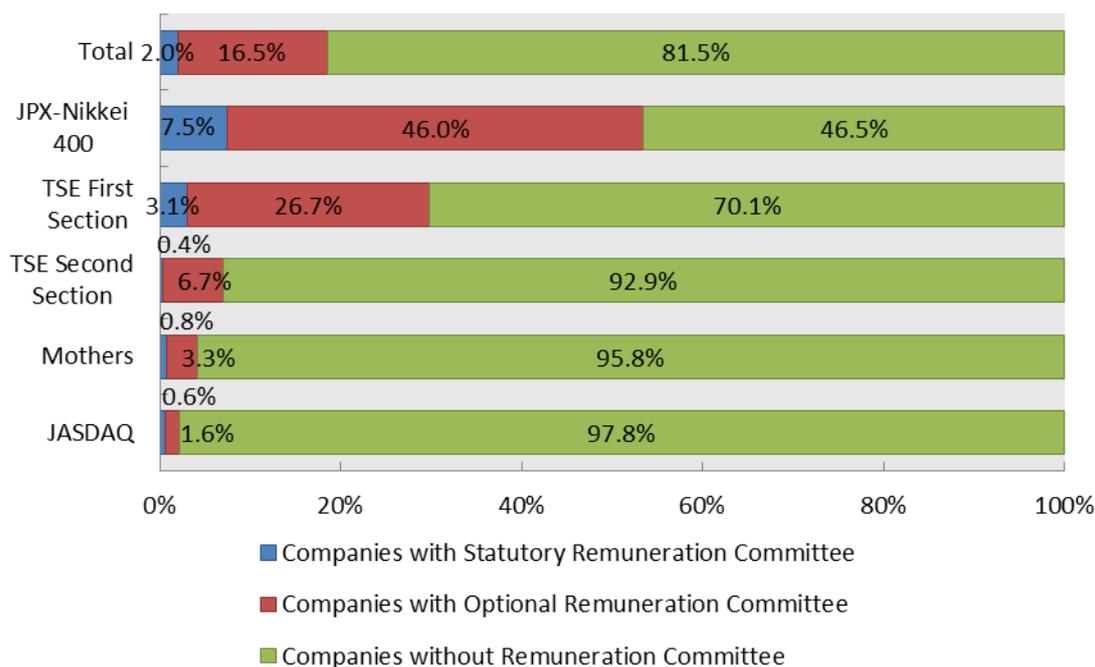


(2) Remuneration Committee

(i) Status of Remuneration Committee establishment

While the establishment of a Remuneration Committee is mandatory at Companies with Three Committees, the establishment is up to the discretion of companies for Companies with Supervisory Committee and Companies with *Kansayaku* Board. The status of establishment of statutory or optional Remuneration Committee by market division is displayed in Chart 89. The percentage of TSE First Section companies that have established statutory or optional Remuneration Committees is higher compared to other market divisions. As for JPX-Nikkei 400 companies, 7.5% (30 companies) have established a statutory Remuneration Committee, 46.0% (184 companies) have established an optional Remuneration Committee, and 46.5% (186 companies) have not established a Remuneration Committee, and these percentages are nearly two times higher than those for TSE First Section companies.

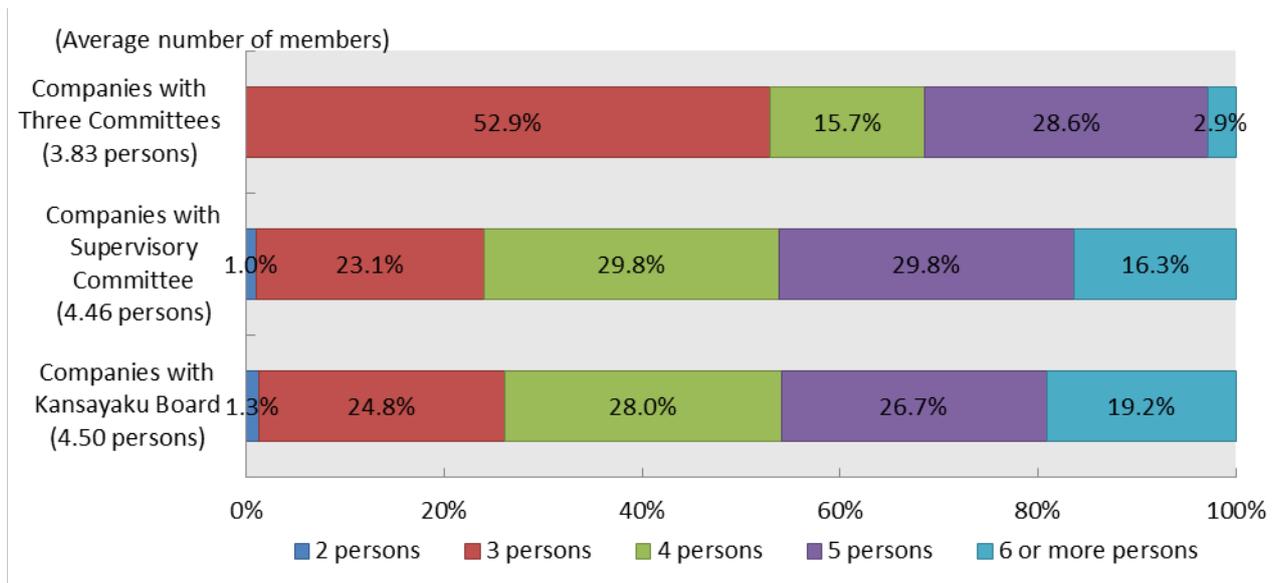
Chart 89 Status of Remuneration Committee Establishment (by Market Division)



(ii) Number of Remuneration Committee members

Chart 90 displays the number of Remuneration Committee members by organizational form. For Companies with Three Committees, it can be said that the number of Remuneration Committee members is lower compared with other organizational forms, in the same manner as for Nomination Committees. The average number of members of a statutory Remuneration Committee at Companies with Three Committees is 3.83, and companies with three committee members account for the highest proportion (52.9%). The average number of members of an optional Remuneration Committee at Companies with Supervisory Committee is 4.46, and companies with four or five committee members account for the highest proportion (29.8%) respectively. The average number of members of an optional Remuneration Committee at Companies with *Kansayaku* Board is 4.50, and companies with four committee members account for the highest proportion (28.0%).

Chart 90 Number of Remuneration Committee Members



(iii) Ratio and number of inside directors and outside directors in Remuneration Committees

Chart 91 displays the ratio and number of inside directors and outside directors in Remuneration Committees by organizational form. For Remuneration Committees at Companies with Three Committees, 27.6% of members are inside directors and 72.4% are outside directors. For optional Remuneration Committees at Companies with Supervisory Committee, 42.2% of members are inside directors, 56.7% are outside directors, 0.6% are external experts, and 0.4% are other. For optional Remuneration Committees at Companies with *Kansayaku* Board, 39.7% of members are inside directors, 45.0% are outside directors, 2.9% are external experts, and 12.5% are other.

Chart 91 Ratio and Number of Inside Directors and Outside Directors in Remuneration Committees

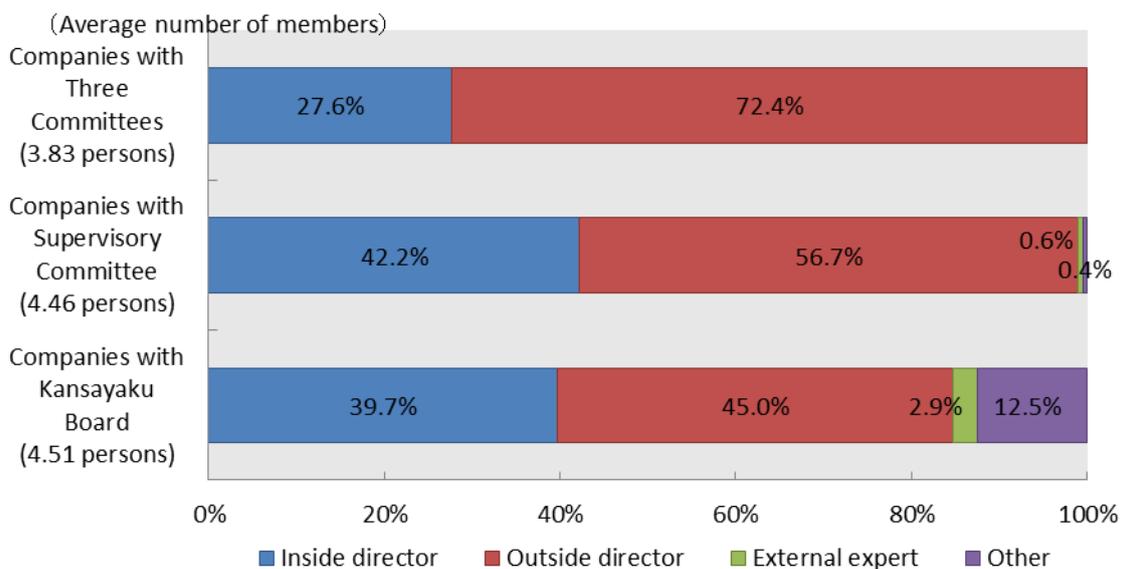


Chart 92 displays the number of inside directors in Remuneration Committees. The average number of inside directors of a Remuneration Committee at Companies with Three Committees is 1.06, and companies with one inside directors account for the highest proportion (64.3%). On the other hand, companies with two or more inside directors account for the majority of optional Remuneration Committees at Companies with Supervisory Committee and Companies with *Kansayaku* Board.

Chart 92 Number of Inside Directors in Remuneration Committees



Chart 93 displays the number of outside directors in Remuneration Committees. In the same manner as for Nomination Committees, there were two or three outside directors at the majority of Companies with Three Committees, and there were some cases of zero or one outside director at Companies with Supervisory Committee and Companies with *Kansayaku* Board.

Chart 93 Number of Outside Directors in Remuneration Committees

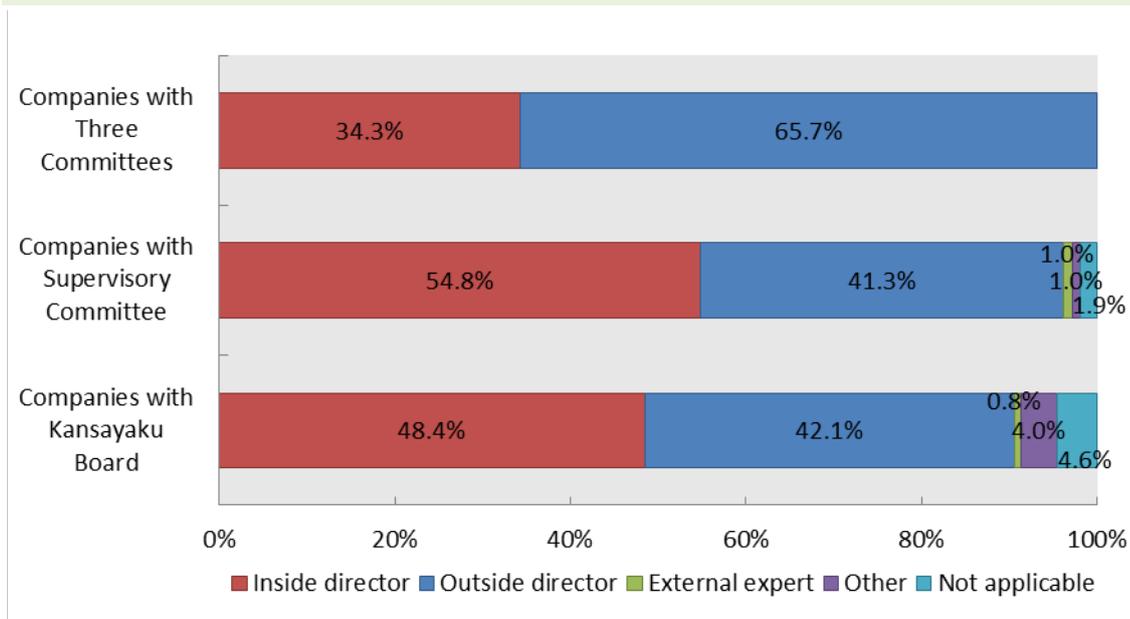


(iv) Attributes of Chairpersons of Remuneration Committees

Chart 94 displays the attributes of Remuneration Committee chairpersons by organizational form. For Remuneration Committees at Companies with Three Committees, the chairperson is an outside director at the majority of companies (65.7%). For optional Remuneration Committees at Companies with Supervisory Committee, 54.8% of chairpersons are inside directors, which is higher compared to outside directors (41.3%). For optional Remuneration Committees at Companies with *Kansayaku* Board, 48.4% of chairpersons are inside directors, which is higher compared to outside directors (42.1%).

In comparison with chairpersons of Remuneration Committees at Companies with Three Committees, there is a high percentage of chairpersons of optional Remuneration Committees at Companies with Supervisory Committee and Companies with *Kansayaku* Board who are inside directors.

Chart 94 Attributes of Chairpersons of Remuneration Committees

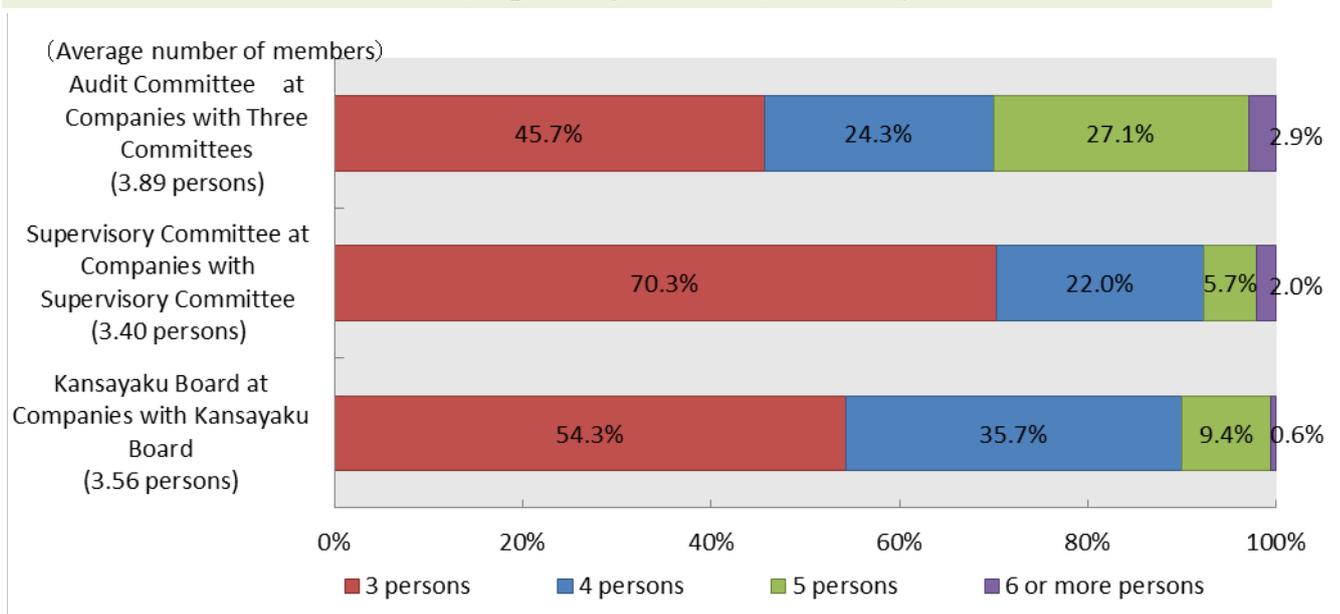


(3) Audits Committee, etc.

(i) Number of Audit Committee, Supervisory Committee, and *Kansayaku* Board members

Chart 95 displays the number of Audit Committee, Supervisory Committee, and *Kansayaku* Board members. The average number of members of an Audit Committee is 3.89, and companies with three committee members account for the highest proportion (45.7%). The average number of members of a Supervisory Committee is 3.40, and companies with three committee members account for the highest proportion (70.3%). The average number of members of a *Kansayaku* Board is 3.56, and companies with three committee members account for the highest proportion (54.3%). Accordingly, the average number of members is highest at Audit Committees of Companies with Three Committees.

Chart 95 Number of Audit Committee, Supervisory Committee, and *Kansayaku* Board Members



(ii) Ratio and number of inside directors and outside directors at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

Chart 96 displays the ratio of inside officers (inside directors and inside *Kansayaku*) and outside officers (outside directors and outside *Kansayaku*) at Audit Committees, Supervisory Committees, and *Kansayaku* Boards.

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

For Audit Committees, 20.2% of members are inside directors and 79.8% are outside directors; for Supervisory Committees, 24.3% of members are inside directors and 75.7% are outside directors; and for *Kansayaku* Boards, 31.9% of members are inside *kansayaku* and 68.1% are outside *kansayaku*.

Chart 96 Ratio of Inside Directors and Outside Directors at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

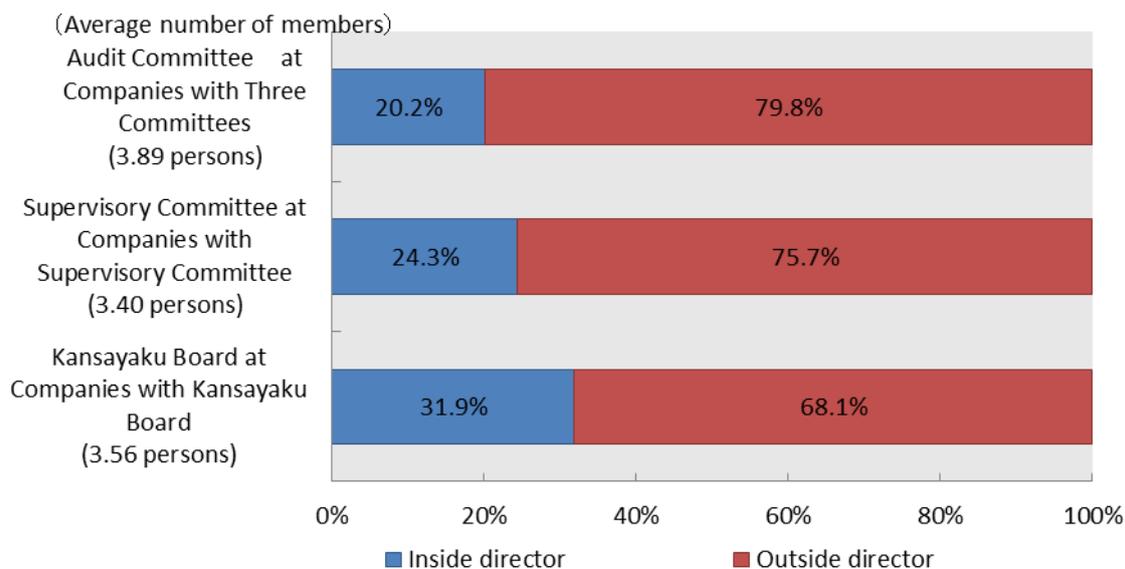


Chart 97 displays the number of inside officers at Audit Committees, Supervisory Committees, and *Kansayaku* Boards. For Audit Committees, companies with zero outside directors are most common (41.4%). For Supervisory Committees, companies with one outside director are most common (70.6%). At *Kansayaku* Boards, the majority of companies have at least one inside *kansayaku*.

Chart 97 Number of Internal Officers at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

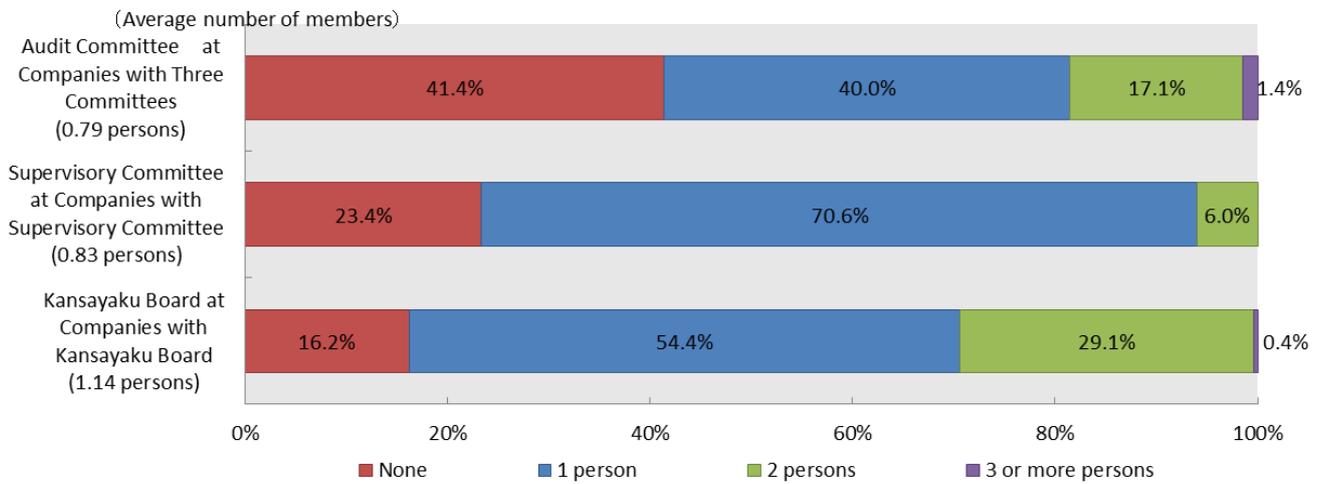


Chart 98 displays the number of outside officers (outside directors and outside *kansayaku*) at Audit Committees, Supervisory Committees, and *Kansayaku* Boards. In either case, while the statutory requirement is for there to be at least two outside officers, for Audit Committees of Companies with Three Committees, the majority of companies have at least three outside directors.

Chart 98 Number of Outside Officers at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

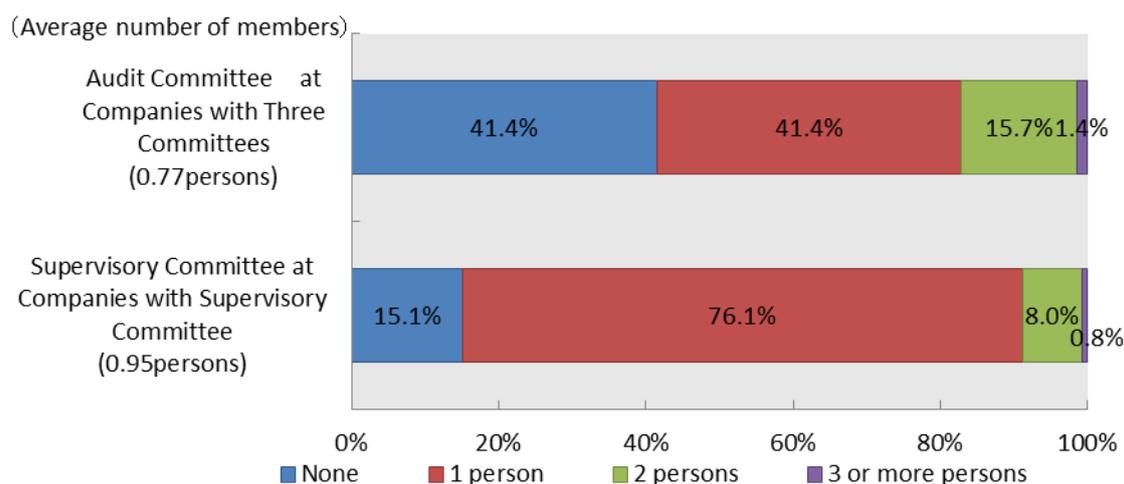


(iii) Ratio of full-time members at Audit Committees, Supervisory Committees, and *Kansayaku* Boards

Chart 99 displays the number of full-time members at Audit Committees and Supervisory Committees. The

average number of full-time members of an Audit Committee is 0.77, and companies with zero or one full-time members account for the highest proportion (41.4%) respectively. The average number of full-time members of a Supervisory Committee is 0.95, and companies with one full-time member account for the highest proportion (76.1%). *Kansayaku* Boards are required to statutorily have a full-time member.

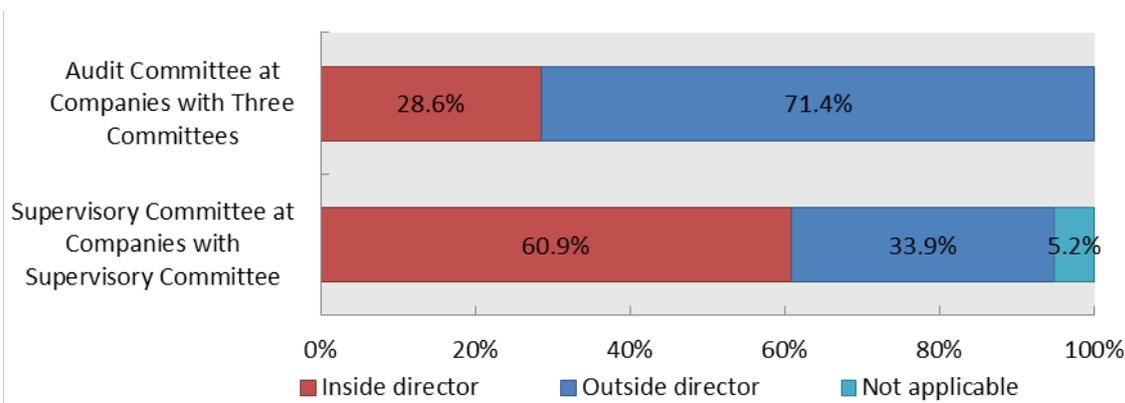
Chart 99 Number of Full-Time Members at Audit Committees, Supervisory Committees, and *Kansayaku* Boards



(iv) Attributes of Chairpersons of Audit Committees and Supervisory Committees

Chart 100 displays the attributes of chairpersons of Audit Committees and Supervisory Committees. While many chairpersons are outside directors at Audit Committees (71.4%), for Supervisory Committees 60.9% of chairpersons are inside directors. In addition, for Supervisory Committees, 5.2% of companies do not designate a chairperson.

Chart 100 Attributes of chairpersons of Audit Committees and Supervisory Committees



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

Principle 4.11 stipulates that “The board should be well balanced in knowledge, experience and skills in

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

The compliance rate with this principle is 98.5% (2,229 companies), and there are many descriptions of the current state of the board of directors.

In terms of keyword related to the balance between knowledge, experience and skills and diversity of directors, 25.2% (562 companies) mentioned “specialized/expert”. Specific specializations that were mentioned included “accounting and finance” (16.8%, 374 companies), “corporate management, corporate management, etc.” (16.0%, 357 companies), “global and international” (4.3%, 95 companies), and “law” (3.1%, 70 companies). In addition, there were also companies that mentioned the original department, including “business” (34.8%, 776 companies), “administration” (14.7%, 328 companies), “sales and marketing” (10.2%, 228 companies), and “production and manufacturing” (7.1%, 158 companies).

The percentage of companies mentioning “women” and “foreigners” as keywords related to demographic diversity was only 4.1% (92 companies) and 1.0% (23 companies), respectively.

“Quota (articles of incorporation)” was mentioned as the main keyword related to the scale of the board of directors. 34.9% (777 companies) of companies complying with this principle use the keywords “quota or articles of incorporation”, and among them, there are many companies that set the upper limit on the number of directors (quota) in the articles of incorporation. In addition, 28.7% (639 companies) mention “decision making”, 25.3% (565 companies) mention “oversight”, and 12.3% (274 companies) mention “discussion”. These companies describe how the current size of the board is appropriate for fulfilling the roles of “decision making” and “oversight”.

Looking at individual examples, [Example 1] describes the qualities, etc. required of directors, *kansayaku*, inside officers, and outside officers while taking into consideration the nature of the company’s business. The size of the board that is believed to be reasonable in order to have effective discussion is also clearly stated in this example. [Example 2] is an example of a company clearly stating that it has adopted a board in recognition of its own management issues.

Examples of descriptions related to diversity can be found in [Example 3] and [Example 4]. [Example 3] is a company that has already appointed women directors, and it describes the view that the values and ideas of women are important for the company’s business. [Example 4] is an example of a company that is positively considering the appointment of women and foreigners.

[Example 1]

The Company's Board decides on and selects candidates for directors by taking into consideration a balance between human resources capable of demonstrating strengths in business operations in a wide range of business domains, particularly the natural gas production business and town gas business that are both essential areas of the Company's business, and human resources suited for corporate management after conducting hearings on the opinions of outside directors in advance. In addition, in terms of *kansayaku* candidates, because *kansayaku* are required to attend the board and state an opinion as necessary, candidates are selected after gaining the approval of the *Kansayaku* Board in consideration of factors such as skills related to business operations and corporate management and whether they have sufficient knowledge of finance and accounting.

Internal officers are required to have abundant knowledge related to the Group's current and future businesses and technologies, advanced corporate management skills, and strong leadership, while outside officers are required to have a diverse background that could include broad knowledge as required for corporate management, experience as a corporate manager, profound knowledge of specific specialized fields, considerable knowledge of finance and accounting, or advanced insight related to corporate law in order to utilize the viewpoints of diverse stakeholders in management.

In terms of the size of board, while the quota for directors is up to 15 in the articles of incorporation, the Company believes that it is currently appropriate to have about 10 total directors in order to ensure substantive discussions at the board. (Mining)

[Example 2]

The quota stipulated in the Company's articles of incorporation is no more than seven directors and no more than four *kansayaku*. Currently, the Company has appointed six directors to maintain a structure that enables discussions by small numbers of peoples while having a structure composed of differing backgrounds in terms of specialized knowledge and experience that includes directors with deep knowledge of the Company's business and outside directors capable of contributing to further enhancements in corporate governance through means such as advice on appropriate decision-making by the board from an independent viewpoint and highly effective oversight on the management team. As each of the directors has the character and diversity required for responding to the Company's management issues that include "the growth of existing businesses", "enhancing product strength", "accelerating overseas business expansion", and "expansion of new business areas", and one-third of the board consists of independent outside directors, the Company believes it is possible to further ensure independence and objectivity based on this structure.

(Omitted)

(Food industry)

[Example 3]

(Omitted)

As a confectionery manufacturer, the Company believes that the values and ideas of women are important, and that it is necessary to include women in the board. (Food products)

[Example 4]

(Omitted)

The Company's policy is to appoint approximately ten directors, while also considering the appointment of women and foreigners if there are appropriate persons. (Chemicals)

Chart 101 Keywords Related to the Stance Towards the Diversity of the board

Item	Number of companies	Applicable ratio
Companies complying with Principle 4.11.1	2,229 companies	100%
■ Knowledge, experience, skills, etc.		
Specialized/expert	562 companies	25.2%
Finance and accounting	374 companies	16.8%
Corporate Management, corporate management, etc.	357 companies	16.0%
Global and international	95 companies	4.3%
Law	70 companies	3.1%
■ Size		
Articles of incorporation and quota	777 companies	34.9%
Decision making	639 companies	28.7%

Oversight	565 companies	25.3%
Discussion	274 companies	12.3%
■ Diversity		
Women	92 companies	4.1%
Foreigners	23 companies	1.0%

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

Supplementary Principle 4.11.2 stipulates that “Outside directors, outside *kansayaku*, and other directors and *kansayaku* should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and *kansayaku* also serve as directors, *kansayaku* or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.” In terms of concurrent positions by directors and *kansayaku*, because “significant concurrent positions” is something that needed to be stated on business reports up until now, the compliance rate with this principle is high at 99.9% (2,259).

Because this is a matter that has already been stated on business reports, the disclosures of many companies in the CG Report refer to materials, with statements such as “for details on the status of concurrent positions by officers, please refer to the notice of convocation of the general meeting of shareholders”. According to an analysis of keywords, 70.0% (1,581 companies) mentioned “general meeting of shareholders” and 42.3% (956 companies) mentioned “notice of convocation”. In addition, 18.4% (416 companies) clearly stated a website URL.

Furthermore, 22.3% (504 companies) mentioned “reasonable (reasonable scope, etc.)” concerning concurrent positions. 2.7% (60 companies) disclosed specific figures for the upper limits and guidelines for the number of concurrent positions. Looking at the breakdown, 10 companies stated “3 companies (including the enterprises concerned)”, 31 companies stated “4 companies”, 13 companies stated “5 companies”, and 6 companies stated “6 companies”. In addition, there were also companies that stated that the board is notified when another company offers a position to an officer or that advance approval by the board is necessary. There was a company that clearly stated that “an attendance rate of at least 75% will be ensured.”

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

[Example 1]

Because directors are required to understand the Company’s business activities and attend the board, and it is necessary to ensure that there is sufficient time that is required for preparations, directors are not permitted to serve as officers for more than two listed companies other than the Company as a general rule. The board shall be notified if a director receives an offer for a position as an officer at another company. (Wholesale)

[Example 2]

The only officer serving a concurrent position at a listed company is Outside *Kansayaku* ●●●●, who serves only at two companies. In addition, among officers serving a concurrent position at other companies the board attendance rate for Outside Director ●●●● is 94.4% (only one absence), while the board and *Kansayaku* Board attendance rate for both Outside *Kansayaku* ●●●● and ●●●● is 100%. In consideration of the above, it is believed that the number of concurrent positions as officers for other companies served by the Company's directors and auditors is within a reasonable scope (attendance rates, etc. based on the results for FY2015). (Other products)

[Example 3]

As long as outside officers fulfill their duties for the Company, we believe that outside officers concurrently serving as officers for other companies can be effective from the perspective of capability development in terms of conducting oversight and audits from various viewpoints. While we have not set any specific upper limits on the number of companies where concurrent positions can be served, each outside director has concurrent positions within a scope deemed reasonable, and the details of the latest concurrent positions are stated in the business report contained in the Notice of Convocation of the 31st Ordinary General Meeting of Shareholders (released May 27, 2016). (Wholesale)

[Column 6] Concurrent positions by outside directors and outside *kansayaku*

Supplementary Principle 4.11.2 stipulates that “Outside directors, outside *kansayaku*, and other directors and *kansayaku* should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and *kansayaku* also serve as directors, *kansayaku* or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.” Accordingly, we attempted to assess the actual current state of concurrent positions held by independent directors and independent *kansayaku*. Chart 102 displays the current state of concurrent positions held by independent directors and independent *kansayaku* at all 3,507 listed companies.

Chart 102 Concurrent Positions by Independent Directors And Independent *Kansayaku*

Number of concurrent positions	Number of people	Composition ratio
6 companies	1 person	0.0%
5 companies	7 persons	0.1%
4 companies	54 persons	0.6%
3 companies	193 persons	2.0%
2 companies	913 persons	9.7%
1 companies	8,287 persons	87.6%
Total	9,455 persons	100%

The total number of independent directors and independent *kansayaku* at all 3,507 listed companies is 9,455. The percentage of independent directors and independent *kansayaku* who serve at one company was overwhelmingly high (8,287 persons or 87.6%). This was followed by 913 persons with concurrent positions at 2 companies (9.7%), 193 persons with concurrent positions at 3 companies (2.0%), 54 persons with concurrent positions at 4 companies (0.6%), 7 persons with concurrent positions at 5 companies, and 1 person with concurrent positions at 6 companies.

The attributes of the 8 persons with many concurrent positions are displayed in Chart 103. Five are people originally from another company, two are lawyers, and one is a certified public accountant.

Chart 103 Independent Directors And Independent *Kansayaku* with Concurrent Positions at Five Companies or More

	Number of concurrent positions	Attribute
Mr. A	6 companies	Lawyer
Mr. B	5 companies	Person originally from another company
Mr. C	5 companies	Person originally from another company
Mr. D	5 companies	Lawyer
Mr. E	5 companies	Person originally from another company
Mr. F	5 companies	Person originally from another company
Mr. G	5 companies	Certified public accountant
Mr. H	5 companies	Person originally from another company

It is believed that the larger the number of concurrent positions per outside officers, the more the time and effort required for appropriately fulfilling roles and responsibilities gets dispersed, which can be expressed quantitatively as a decline in the board attendance rate. Some listed companies limit the number of concurrent positions by outside officers so that they concentrate as much as possible on activities at their own company so the experience and knowledge of these outside officers can be effectively used in management. Furthermore, proxy advisory firms suggest opposing votes if a *shikkoyakuin* of a listed company will concurrently serve as a director or *kansayaku* at three companies or more, or if an officer of a listed company who is not a *shikkoyakuin* will serve as a director or *kansayaku* at six companies or more. Accordingly, it is believed that this topic continues to attract attention.

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

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

Conducting evaluations on the effectiveness of the board is already a common practice in various countries such as the UK and the US, and it is necessary to conduct such evaluations and provide disclosures based on the Code, securities exchange regulations, etc. On the other hand, while listed companies in Japan have made operational improvements, etc. to the board as necessary up until now, it seems that there were many companies that used the introduction of the Code as an opportunity to first consider evaluations on the effectiveness of the board. The compliance rate is 55.0% (1,245 companies), which is the second lowest compliance rate among the 73 principles, following Principles 1.2.4 on the provision of English translations of the convening notices (44.2%). Looking at the contents of explanations, about two-thirds of companies stated they are “considering

whether to comply”, a little under one-fourth stated they will “comply in the future”, and the remainder stated they have “no plans to comply”. This suggests that many companies are searching for specific evaluation methods, disclosure methods, etc. for evaluations on the effectiveness of the board as there were no such practical practices in the past.

The contents of specific disclosures can be broadly divided into the evaluation process and an overview of evaluation results. 72.0% (896 companies) of the companies complying with Supplementary Principle 4.11.3 mentioned the evaluation process. The typical evaluation process consists of the distribution of questionnaire, etc. to directors and *kansayaku*, and holding deliberations on the effectiveness evaluation and future improvement measures, etc. based on the aggregated results. According to an analysis of keywords, the most common keyword related to the evaluation process was “questionnaire, survey form, etc.”, which was mentioned by 41.5% (517 companies). 11.2% (140 companies) mentioned “interviews and hearings”. There were also companies that confirmed effectiveness through hearings at the board, exchanges of opinions, etc..

36.3% (452 companies) conducted self-assessments. Meanwhile, 5.9% (74 companies) mentioned the use (including consideration in the future) of external evaluation (third-party organizations, external evaluation organizations, lawyers, etc.). There were also cases of the creation, gathering, totaling, and analysis of questionnaires, etc., conducting hearings, and having third-party organizations participate in the board to directly observe the state of deliberation and conduct an evaluation of effectiveness. While the UK Corporate Governance Code stipulates that an evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years,⁵⁷ the practice of evaluating the effectiveness of the board has just started in Japan, and only a minority of companies clearly state that they use external evaluations.

In addition, 29.7% (370 companies) mentioned the evaluation items. In terms of evaluation items, many companies mentioned the composition, roles, and operations status of the board. There were also multiple companies that mentioned the diversity of the board, leadership and risk management, dialogs with the shareholders, and board culture as evaluation items. There was also company that conducted evaluations based on Peter Drucker’s Five most important questions.

72.8% (906 companies) made disclosures on the overview of evaluation results, as many companies stated that effectiveness had been ensured. 39.6% (493 companies) clearly stated challenges and the response policy for ensuring an even more effective board, which will lead to future initiatives. The main challenges that were pointed out include ensuring the diversity of the board, further enhancements to the support system for outside officers, and having deeper deliberations on mid to long-term strategies. Some companies also mentioned succession planning and risk management as issues.

If we analyze individual cases, [Example 1] is an example of the evaluation process, evaluation items, overview of results, and issues and countermeasures all being mentioned. In relation to the effectiveness of the board, the main points are summarized for the evaluation process, evaluation items, and overview of results. In [Example 2], an evaluation of effectiveness is conducted from the perspective of the provision of a sufficient

⁵⁷The UK Corporate Governance Code (2016) B.6.2.

quality and quantity of information, multifaceted discussions, and the establishment of the PDCA cycle for the board. As described above, while most companies have created evaluation frameworks in a manner that is compliant with the Code, this is a case of using new approaches to evaluation as a means to improve the effectiveness of the board. [Example 3] is an example of using an external evaluation. The board uses an external advisor for the creation of self-evaluation questionnaires and the supervision of the self-evaluation of each director. In addition, [Example 4] is an example of an external evaluation body participating in the board and evaluating the effectiveness of the board based on the directly observed results. Three companies clearly indicated the use of the direct observation method (hearings at the board).

[Example 5] is a case of an overview of results in which the future issues are described. The company clearly states that it recognizes “long-term succession plans (plan for the Chief Executive Officer) and the promotion of health management” as new management issues, and that in response to “a gap between inside officers and outside officers in the quantity of information related to IR”, it will “strive to share information with outside officers including feedback from investors after financial results briefing in order to fill the information gap”.

[Example 1]

[Response to the principle]

In order to improve the function of the Board of Directors, the Company analyzes and assesses the effectiveness of the Board of Directors as a whole, and discloses a summary of the results.

[Analysis and assessment method]

A written self-assessment survey is conducted for all directors, and the Board of Directors discusses effectiveness based on the aggregated results of the survey.

[Overview of self-assessment survey items]

Roles and responsibilities of Board of Directors, Composition of Board of Directors, Management of Board of Directors, Decision-making process of Board of Directors, Supervision by the Board of Directors, Training of directors, Nomination Committee and Remuneration Committee which are advisory bodies to the Board of Directors, items concerning Outside Directors, and Decision-making function and supervisory function of Board of Directors, and Effectiveness of Board of Directors

[Summary of assessment results]

The following have been reviewed by assessment.

- The scale and composition of the Board of Directors are appropriate; the allocation of authorities, roles and responsibilities of the Board of Directors and senior management is clarified; and the operation of the Board of Directors and the Nomination Committee and the Remuneration Committee are functioning appropriately.
- The decision-making functions and supervisory functions at the Board of Directors are balanced appropriately, sufficient discussions are held at the Board of Directors, and the effectiveness of managerial decision-making for important matters and supervision of business execution is ensured at the Board of Directors.

Meanwhile, the proposal was made that there was room for improvement with respect to providing more opportunities for training to Directors and providing opportunities for communication with Outside Directors and officers/employees responsible for the execution of company operations on occasions other than meetings of the Board of Directors, and confirmed that improvements are to be made going forward. (Wholesale)

[Example 2]

The evaluation of the effectiveness of the board that was conducted in March 2016 following the general meeting of shareholders in May 2015 was conducted through individual hearings with each director by the chairperson of the board. The results will be deliberated at the board in April in an aim for improvements in order to further enhance the effectiveness of the board in consideration of the issues identified.

[Evaluation perspective]

- (1) Whether a sufficient quality and quantity of information is being received for the oversight of management based on specialized expertise
- (2) Whether short-term, long-term, and multifaceted discussions are being held depending on the issue
- (3) Whether the board is going beyond PDC (plan, do, check) in response to issues, and conducting A (action) in subsequent management

[Results of analysis and evaluation of the effectiveness of the board]

It was confirmed that sufficient information provision, discussion of important issues, and the establishment of the PDCA cycle by the board was generally being achieved at the board that is composed of a majority of outside directors with diverse experience and insight, and advanced expertise and knowledge. Accordingly, it has been confirmed that for the role of the Company's board of "The board shall hold resolutions on statutory matters as the Company's management decision making body, decide on or approve the basic management policies and important matters related to business execution, and provide oversight on the performance of duties by directors and *shikkoyaku*" as stipulated in the Board Rules has been ensured.

On the other hand, it was confirmed that discussions tend to focus on the Company's current issues such as improvement or enhancement to the results of each business, and that both directors and *shikkoyaku* need to bring up medium to long-term issues. In addition, as the Company is a multi-business, multi-industry company, other issues that were recognized include the performance of cross-cutting issues, the succession of ideas, and the further development of management resources. (Retail)

[Example 3]

1. Methods of analysis and evaluation

In analyzing and evaluating effectiveness of the board in fiscal 2015, the Company's board had each director complete a self-evaluation between December 2015 and January 2016, on the basis of a director self-evaluation questionnaire prepared by the secretariat of the board. After that, the results were reported and discussed at meetings of the board held in February and March 2016. The secretariat of the board has referred to the opinions given by third-party external advisors in the course of preparing director self-evaluation questionnaires and compiling results of the self-evaluations completed by respective directors. (Food products)

[Example 4]

The Company performed the evaluation by third-party organization of the board from June 2015 to September 2016.

In light of the roles and responsibilities of the Board of Directors, an analysis/evaluation was performed for each of the items for evaluation, including the Board of Directors' composition and its operational status, agenda items, and materials for deliberations.

The evaluation was performed using a methodology whereby the third-party organization prepared a report containing summaries and analyses of the results of "individual interviews" and "direct observation of the Board of Directors" (see note) and the Board of Directors carried out deliberations on the evaluation based on the report.

(Note)

"Individual interviews"

The third-party organization conducted individual interviews in which all Directors and Audi & Supervisory Board Members(both Internal and Outside) were inquired about their views and awareness of issues in response to various questions concerning the Board of Directors.

"Direct observation of the Board of Directors"

The third-party organization was present at the meetings of the Board of Directors and directly observed the actual discussions held. (Retail)

[Example 5]

It was confirmed that it was needed to consider the size and composition of the board in consideration of changes in the external environment. In addition, in relation to operations, it was confirmed that matters that should be deliberated by the board in the future include growth strategy, CSR issues, and the promotion of diversity as issues that have focused on up until now, and long-term succession plans (plan for the Chief Executive Officer) and the promotion of health management as issues that should be newly focused on. Furthermore, in terms of relationships with investors and shareholders, it was determined that there was a gap between inside officers and outside officers in the quantity of information related to IR.

As described above, the board will gradually address the issues recently recognized as matters for deliberation, and strive to share information with outside officers including feedback from investors after financial results briefings in order to fill the information gap. The Company will conduct ongoing evaluations of the board in an effort to improve effectiveness. (Food products)

Chart 104 Keywords Related to Evaluations on the Effectiveness of the Board

Item	Number of companies	Applicable ratio
Companies complying with Supplementary Principle 4.11.3	1,245 companies	100%
■ Evaluation process		
Mention evaluation process	896 companies	72.0%
Questionnaires, etc. (surveys, etc.)	517 companies	41.5%
Self-evaluation	452 companies	36.3%
Hearings, etc. (interviews, hearings, etc.)	140 companies	11.2%
Exchange of opinions	101 companies	8.1%
External evaluation, etc. (third party institutions, lawyers, etc.)	74 companies	5.9%
■ Evaluation items		
Mention evaluation items	370 companies	29.7%
Management (operations)	327 companies	26.3%
Structure	284 companies	22.8%
Deliberations	189 companies	15.2%
Functions	180 companies	14.5%
Roles, duties, etc. (responsibilities)	143 companies	11.5%
■ Overview of evaluation results		
Mention overview of evaluation results	906 companies	72.8%
Issues, response	493 companies	39.6%

4-15. Training policies (Supplementary Principle 4.14.2)

Principle 4.14 states that “directors and *kansayaku* should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills” and that listed companies “should provide and arrange training opportunities suitable to each director and *kansayaku* along with financial support for associated expenses”. Furthermore, Principle 4.14.2 states that “companies should disclose their training policy for directors and *kansayaku*”.

Although there had been no provisions on officer training in exchange regulations, etc. or requirements for disclosures in the CG Report, etc. up until now, the compliance rate for Supplementary Principle 4.14.2 is high at 97.5% (2,206 companies) because practices such as the provision of various forms of training including compliance training for newly-appointed officers and opportunities for company briefings for outside officers had already been instilled at many companies.

A typical description for many companies would be something like “in order to acquire and update necessary knowledge and skills, directors and *kansayaku* will endeavor to study through means such as external seminars”. In terms of the training methods, 26.9% (593 companies) clearly mentioned “external seminars,

external lecturers, etc.”, and there were also cases of clearly indicating the organizers of specific seminars. In addition, some companies also mentioned the provision of books, e-learning, etc. Moreover, there are many companies that state that the company covers expenses, and 34.8% (767 companies) mention expenses.

In addition, there were also companies that change the contents of training depending on the attributes of officers (inside, outside, etc.). Such companies have disclosures stating that opportunities were provided to newly appointed inside officers to learn basic knowledge as directors and to newly appointed outside officers to deepen their understanding of the company through means such as factory tours.

Looking at keywords related to the contents of training, “finance and accounting” was the most commonly used keyword (31.0%, or 683 companies). 20.9% (460 companies) mentioned “Companies Act (laws, regulations, etc.)”, 16.4% (362 companies) mentioned “corporate governance”, and 12.7% (280 companies) mentioned “compliance”. Other keywords include “economy”, “leadership”, “internal control”, and “risk management”. In relation to outside officers, some companies stated that they provided explanation on the company’s organization and industry trends along with observation, etc. of plants and offices.

Looking at individual examples, [Example 1] is a case in which the training policy is described based on the categories of directors (excluding outside directors), outside directors, and *kansayaku*. For directors other than outside directors, opportunities for training on the themes of corporate value and shareholder value are provided in addition to basic training related to the roles and responsibilities of directors. For outside directors and *kansayaku*, the company provides explanations on industry trends and the state of the company, and also provides opportunities for training conducted by external organizations as necessary. [Example 2] describes a case in which a company provides outside directors with opportunities for an improved understanding of management through visits to overseas subsidiaries, plants, farms, etc. in addition to explanations on an overview of management, and for inside officers, a training program related to a successor development plan is provided. [Example 3] is an example of training results also being mentioned. This example also includes a detailed explanation on recent results in terms of opportunities to improve and acquire knowledge for outside directors after appointment to the company through various meals with directors, visits, etc. [Example 4] is a case in which it is clearly stated that the officers appointed have sufficient qualities, and that more emphasis is placed on external lecture courses or exchange meetings based on current themes than on basic training.

[Example 1]

■ Directors (excluding outside directors)

- As training for directors (excluding outside directors), the Company provides basic training related to the obligations and responsibilities of the responsible departments before assuming office, and opportunities for training on themes such as the creation of corporate value and improving shareholder value conducted by external organizations after assuming office.
- In addition, the Company offers opportunities for training as required for strategic purposes.

■ Outside directors

- As training for outside directors, the Company provides explanations on the state of the drug store industry, an overview of the Company's management, and the status of corporate governance before assuming office. In addition, after assuming office, the Company will provide opportunities for training conducted by external organizations as necessary in consideration of the responsibilities and roles required of outside directors by the Company and society in general and the results of evaluations of the effectiveness of the board.

■ *Kansayaku*

- As training for *kansayaku*, the Company provides explanations on the state of the drug store industry, an overview of the Company's management, and the status of corporate governance before assuming office. In addition, after assuming office, the Company will provide opportunities for training conducted by external organizations as necessary in consideration of the responsibilities and roles required of *kansayaku* by the Company and society in general.

(Retail)

[Example 2]

At the Company, directors receive training on their roles, responsibilities, etc. when they assume office as directors. The secretariat of the board provides explanations on an overview of management and the corporate governance system when outside directors assume office, and opportunities are provided to develop a deeper understanding of the Company's management after assuming office through means such as visits to overseas subsidiaries, plants, farms, etc. In addition, as part of a successor development plan that is scheduled to be enacted in the future, the Company will conduct training for not only newly appointed directors and *shikkoyakuin*, but all officers to provide an understanding of roles and responsibilities including legal liability that includes the roles and responsibilities required of officers, an overview of corporate governance, and compliance. For officer candidates, the Company will conduct training on the management skills required of the management team that includes leadership development, management strategy, financial strategy, and risk management. The Company also encourages directors and *shikkoyakuin* to participate in external seminars and join external organizations, and the Company will provide for these expenses based on internal regulations if a claim is made by a director or *shikkoyakuin*. (Food products)

[Example 3]

(Omitted)

1. Opportunities to improve and acquire knowledge for all directors

- Help directors to comprehensively understand the Group's management as a whole through various reports at Board of Directors meetings such as "management status reports"
- Annual scheduled training sessions (for all directors and executive officers, etc. of our group) regarding compliance and customer protection and human rights awareness by external instructors
- If necessary in executing duties, opportunities are to be offered to receive separate explanations from executive officers in charge, etc., as well as advice from and training by external specialists and authorities (at the company's expense)

2. Opportunities to improve and acquire knowledge for outside directors

At the time of appointment

- Intensive explanations at the time of appointment will be conducted individually for each newly appointed external director
- Explanations from executive officers in charge, the Deputy Chairman of the Board of Directors and the General Manager of the Corporate Secretariat on corporate identity, business, strategy, medium-term business plan, annual business plan, organizational structure and authorities, finance, risk and compliance management, human resources, IT systems and operation, internal audits and governance system, etc.

Post-appointment (Shown below are examples conducted for FY2015)

- Visits to the domestic and overseas branches, offices and information system centers of the core subsidiaries
 - Help outside directors to obtain a deeper understanding through on-site observations and exchange of opinions with employees
- The External Director Session
 - Help outside directors to share the awareness and issues of the top management through communications among directors.
- Lunches following the Board of Directors meetings
 - Help outside directors to obtain necessary knowledge through exchanging information with internal and external specialists and authorities and the sharing of IR related information, etc.
- Executive reception (dinner)
 - Help outside directors to deepen the understanding towards the management team
- Attendance at meetings of the General Managers of the core subsidiaries
 - Help outside directors to deepen the understanding toward execution plans and their status based on the Group strategic policies.
- Thorough explanations of proposals prior to the Board of Directors meetings
 - Help outside directors to deepen the understanding towards the proposals and to substantiate the discussions at the Board of Directors meetings by explaining not only the structure of proposals, but also details such as the relevant financial terminologies and business matters.

(Bank)

[Example 4]

The Company will appoint human resources that are sufficiently capable of fulfilling the required roles and responsibilities (including legal liability) as directors and *kansayaku*, and in particular, for inside directors and *kansayaku*, the Company will appoint human resources that are familiar with the Company's business, finances, organization, etc.

For directors, the Company will regularly conduct lecture courses by external experts on the Companies Act and contents appropriate for current conditions, establish opportunities for participation in external lecture courses or exchange meetings, and promote the acquisition of the knowledge required of directors and an understanding of the roles and responsibilities of directors.

For *kansayaku*, the Company will provide opportunities for participation in external lecture courses or exchange meetings as necessary, and promote the acquisition of the knowledge required of *kansayaku* and an understanding of the roles and responsibilities of *kansayaku*. (Transportation equipment)

Chart 105 Keywords Related to Officer Training

Item	Number of companies	Applicable ratio
Companies complying with Supplementary Principle 4.14.2	2,206 companies	100%
Expenses	767 companies	34.8%
External seminars, external lecturers, etc.	593 companies	26.9%
Finance and accounting	683 companies	31.0%
Organizations	497 companies	22.5%
Companies Act, laws, regulations, etc.	460 companies	20.9%
Corporate governance	362 companies	16.4%
Compliance	280 companies	12.7%

4-16. Independent directors/*kansayaku*

(1) Appointment of independent directors/*kansayaku*

Listed companies have an obligation to secure at least one independent director/*kansayaku* (independent director/*kansayaku* refers to an outside director or outside *kansayaku* who is unlikely to have conflicts of interest with general investors) for the purpose of protecting general shareholders.⁵⁸ As of the period included in this survey, all 3,507 companies listed on TSE secured at least one independent director/*kansayaku*.

Listed companies have an obligation to designate at least one outside director or outside *kansayaku* as an independent director/*kansayaku*, submit an independent director/*kansayaku* notification as stipulated by TSE that describes the independent director/*kansayaku*, and also state the number of independent director/*kansayaku* in the CG Report.

Chart shows the distribution of the number of independent directors/*kansayaku*. 483 companies (13.8%) have secured only 1 independent director/*kansayaku*. 3,024 companies (86.2%) have at least 2 independent directors/*kansayaku*. The aggregate number of persons notified as independent directors/*kansayaku* is 10,949 persons, and the average number of independent directors/*kansayaku* secured per listed company is 3.12 persons.

An analysis of the average number of independent directors/*kansayaku* by market division is shown in Chart 107. The average number is the highest for TSE First Section, where the average number is 3.65 persons, followed by Mothers (2.78 persons), TSE Second Section (2.75 persons), and JASDAQ companies (2.17 persons). JPX-Nikkei 400 companies notified of, on average, 4.48 independent directors/*kansayaku*, which is 0.83 persons more than TSE First Section (3.65 persons).

Notifications as seen by foreign shareholding ratio show the highest average number of 4.37 persons for the “30% or more” category. The lower the ratio, the less number of persons companies notified of (Chart 108).

Out of all independent directors/*kansayaku*, 6,141 persons (56.1% of all independent directors/*kansayaku*)

⁵⁸Rule 436-2 of the Securities Listing Regulations.

are outside directors, and 4,808 persons (43.9%) are outside *kansayaku* (Chart 109).

Chart 106 Number of Independent Directors/*Kansayaku*

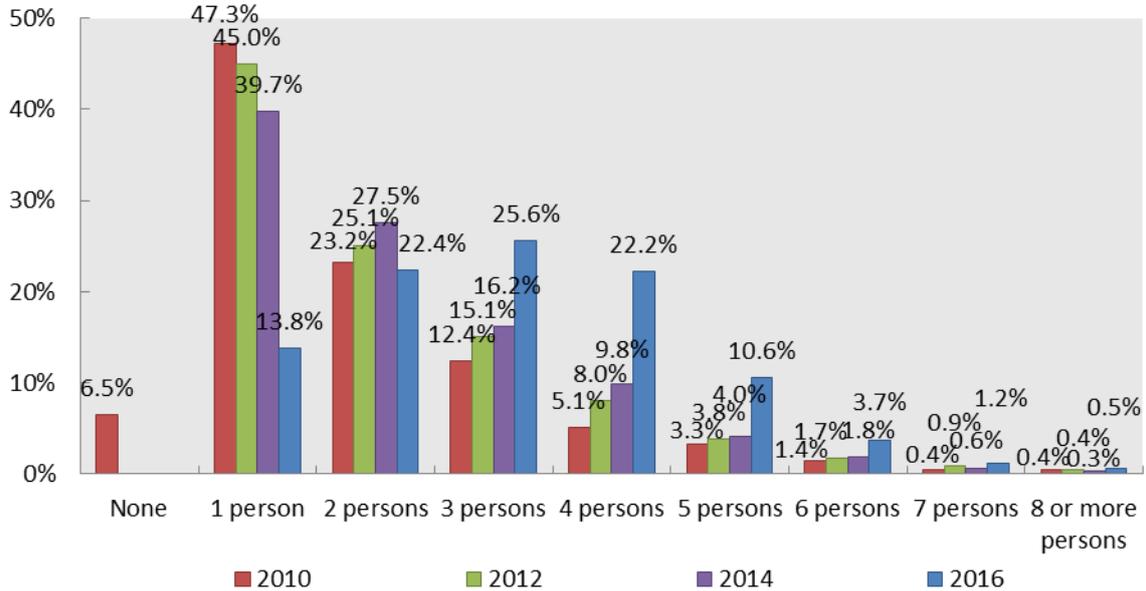


Chart 107 Average Number of Independent Directors/*Kansayaku* (by Market Division)

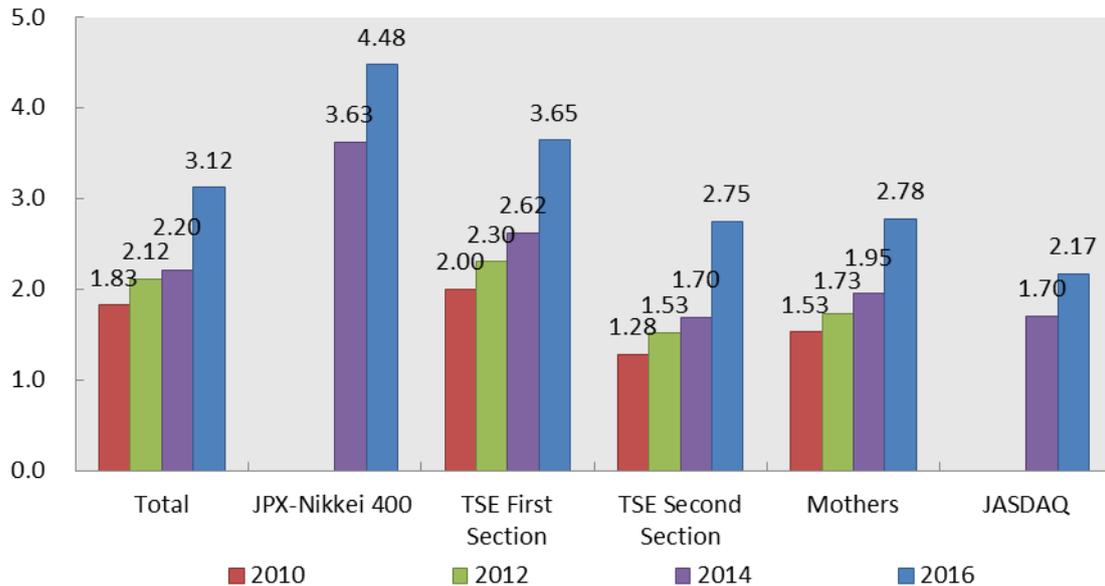


Chart 108 Average Number of Independent Directors/*Kansayaku* (by Foreign Shareholding Ratio)

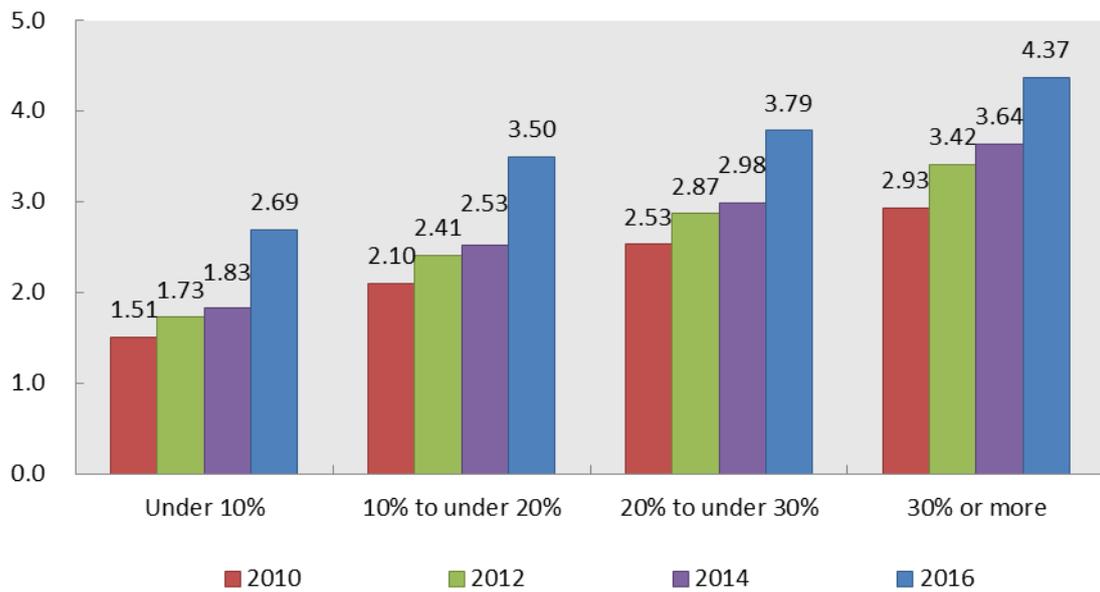
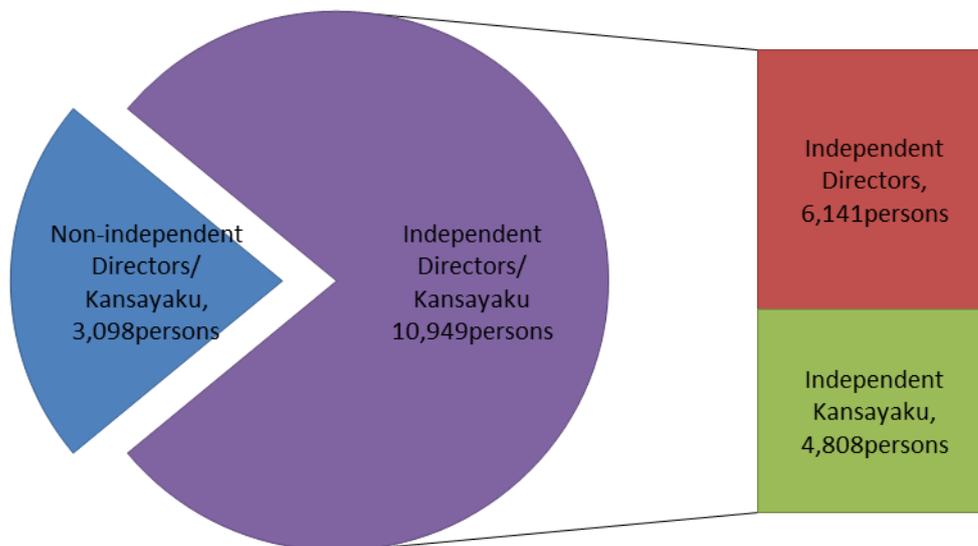


Chart 109 Ratio of Independent Directors/*Kansayaku*

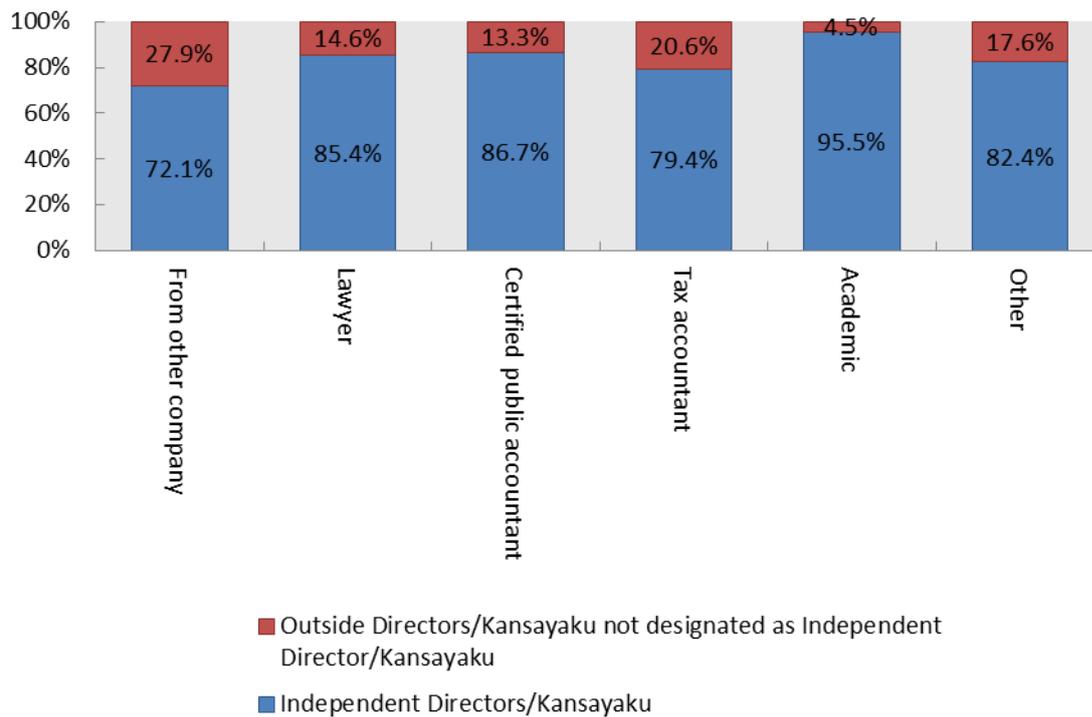


(2) Attributes of independent directors/*kansayaku*

Chart 110 displays the ratio of independent directors/*kansayaku* to all outside officers for each attribute.⁵⁹ The ratio of independent directors/*kansayaku* is highest for academics (95.5%), certified public accountants (86.7%), and lawyers (85.4%), while the ratio was lowest for persons from other companies (72.1%).

⁵⁹It refers to outside directors and outside *kansayaku*.

Chart 110 Ratio of Independent Directors/*Kansayaku* to All Outside Directors/*Kansayaku* (by Attribute)



(3) Relation between independent directors/*kansayaku* and company

The CG Report requires companies to state the relation between outside directors/*kansayaku* and the company in a selection format, and Chart 111 displays those items. Note that the two items “l Non-executive director” and “m *Kansayaku* of parent company” are unique items for outside *kansayaku*.

Furthermore, it is necessary to select whether “currently/recently” or “the past” apply for the individual or a close relative.

Chart 111 Selection Items for Relation Between Independent Directors/*Kansayaku* and Company

	Graph items	
a	Listed company	Person executing business of listed company or its subsidiaries
b	Parent company	Person executing business or non-executive director of parent company of listed company
c	Sister company	Business executor of sister company of listed company
d	Party whose major business partner is a listed company	Party whose major business partner is a listed company or person executing its business
e	Major business partner with a listed company	Major business partner with a listed company or person executing its business
f	Consultant, etc.	Consultant, accounting professional, or legal professional that receive large sums of money or other assets other than officer remunerations from a listed company
g	Major shareholder	Major shareholder of listed company (if the major shareholder is a corporation, a person executing business of that corporation)
h	Other business partner	Person executing business of business partner (for which d, e, and f do not apply) of listed company
i	Mutual assumption of office	Person executing business of partner where an outsider officer has mutually assumed office
j	Recipient of donations	Person executing business of recipient of donations from a listed company
k	Other	
l	Non-executive director (Unique item for outside <i>kansayaku</i>)	Person executing business or accounting advisor of listed company or its subsidiaries
m	<i>Kansayaku</i> of parent company (Unique item for outside <i>kansayaku</i>)	<i>Kansayaku</i> of parent company of listed company

Chart 112 shows the relation between independent directors/*kansayaku* and company. The most common selection was “not applicable” (47.0%) as none of the selections applied. This was followed by the remarkably high percentage (29.3%) of companies that selected “other business partner”. In addition to “other business partner”, a high percentage of companies also selected “other” (11.6%) and “major business partner with a listed company” (5.0%).

Furthermore, Chart 113 shows the results for companies that selected the individual (currently/recently), the individual (past), close relative (currently/recently), or close relative (past) as the relation for independent directors/*kansayaku* for which the selections in Chart 111 apply.

Looking at the selection “other business partner” that a remarkably high percentage of companies selected,

individual (past) accounted for the majority (57.4%). For “other”, the ratio was extremely high for the individual (currently/recently) (97.3%), as the individual (currently/recently) had the highest ratio for this item. Meanwhile, for “major business partner with a listed company”, the ratio was extremely high for the individual (past) (97.1%), as the individual (past) had the highest ratio for this item.

Chart 112 Relation Between Independent Directors/*Kansayaku* and Company

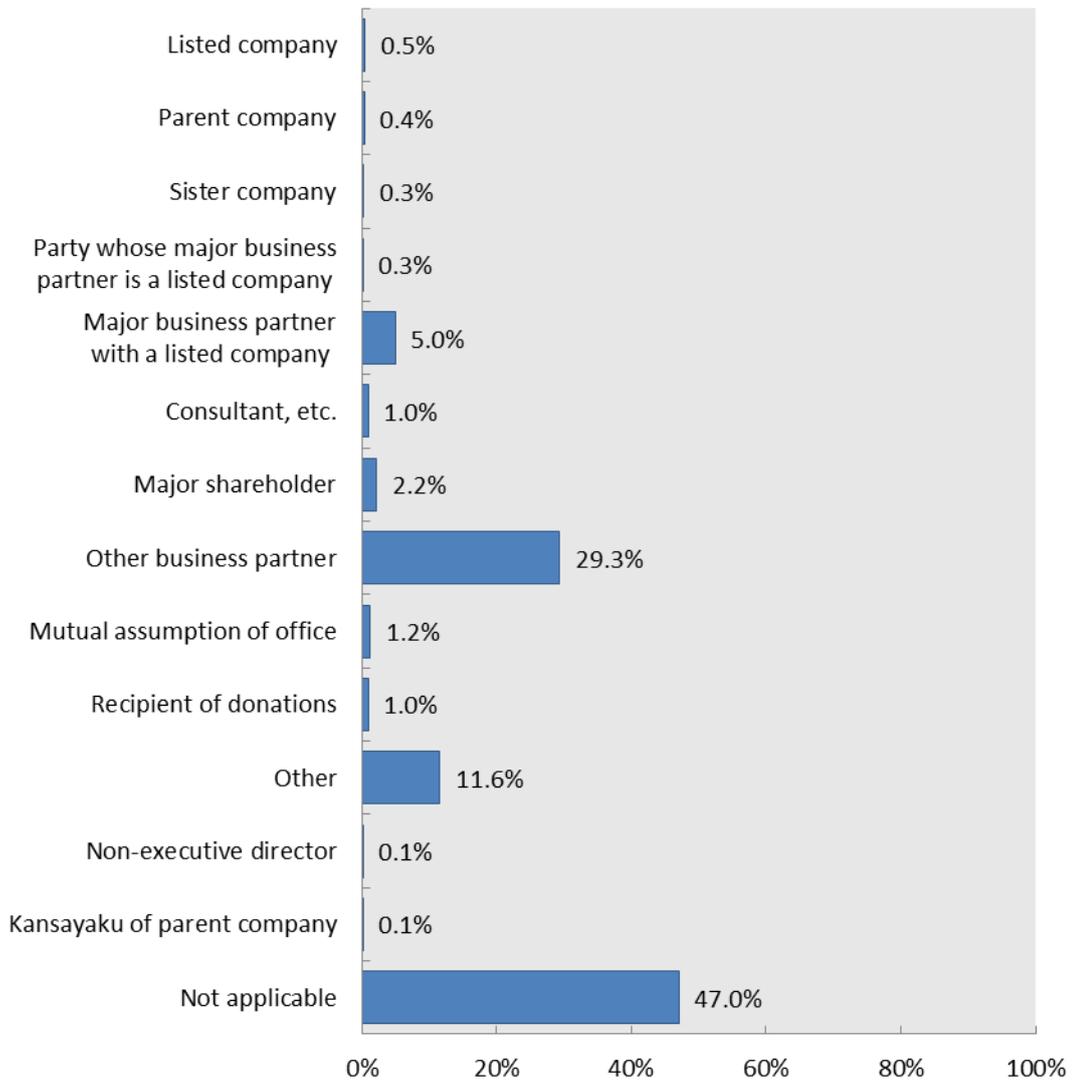
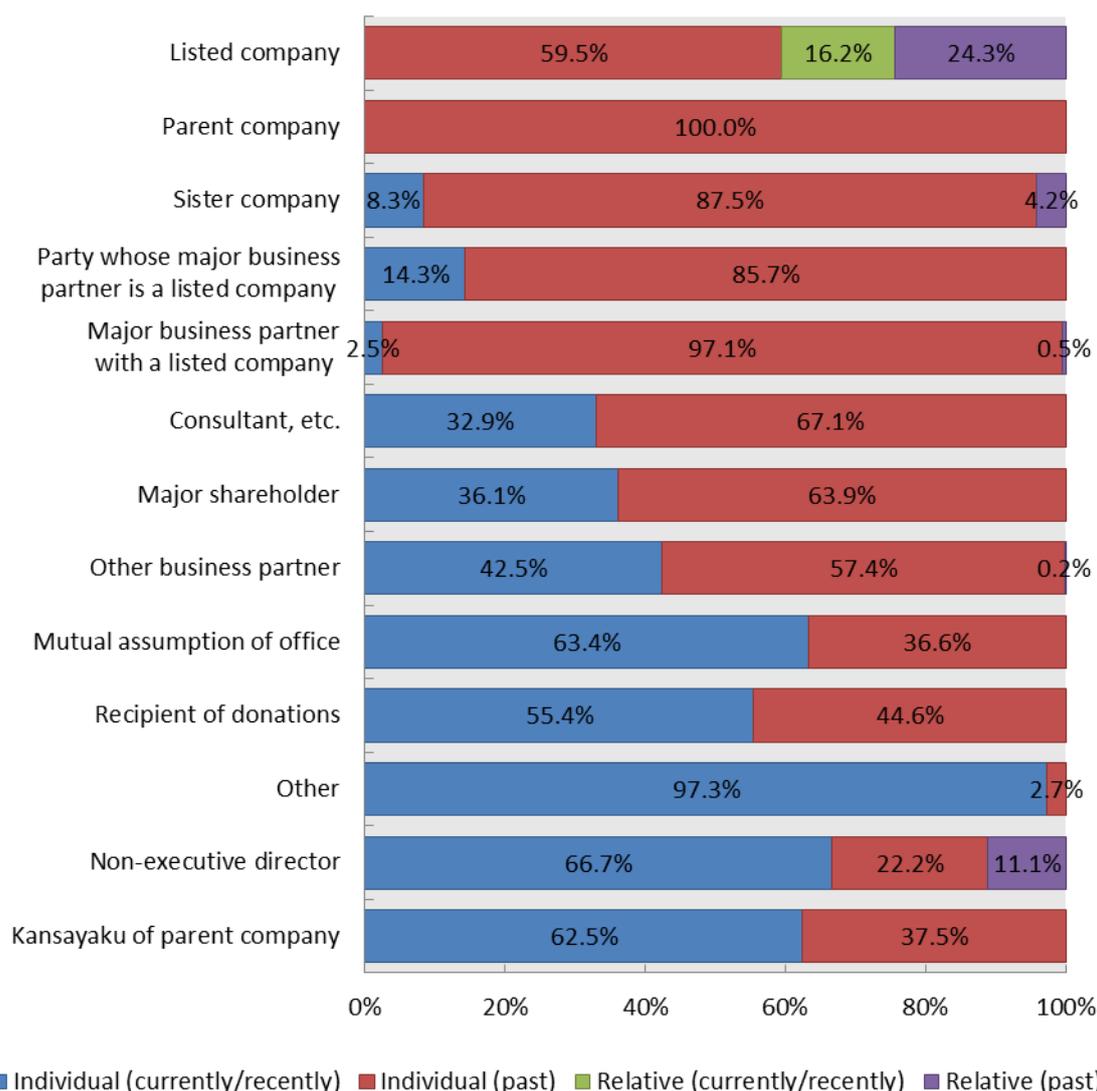


Chart 113 Relation Between Independent Directors and Company (Individual/Close Relative)



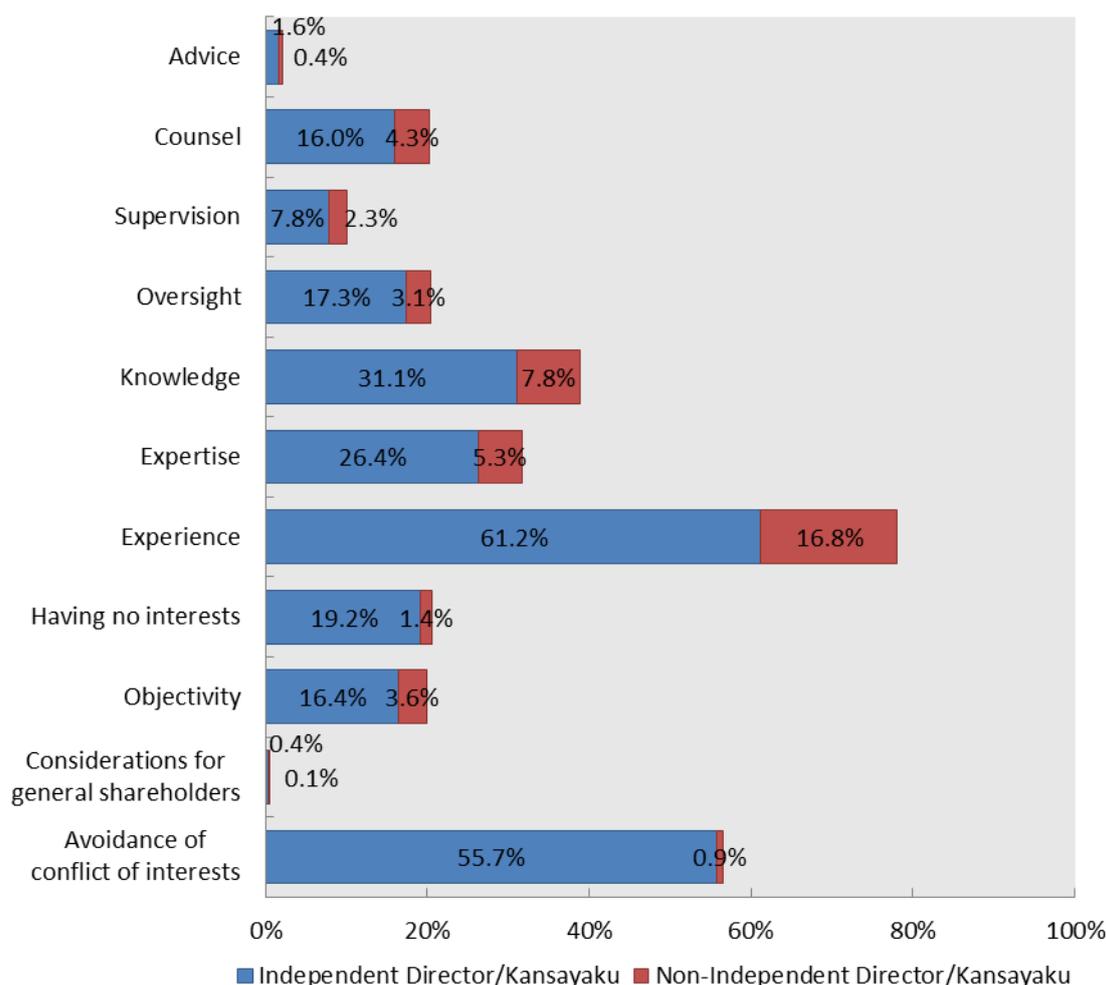
(4) Description of reason for appointment of independent directors/*kansayaku*

The CG Report requires companies to describe reasons for appointment of outside directors or outside *kansayaku*, and if they are designated as independent directors/*kansayaku*, companies are required to provide reasons for such designation. Looking at descriptions, explanations such as experience (78.0%), knowledge (38.9%), and expertise (31.7%) are seen often, which highlighted the person's attributes, character, and experience. Companies also frequently mentioned avoidance of conflict of interests (56.6%), having no interests (20.6%), and objectivity (20.0%) as they showed intent to secure neutrality (Chart 114).

In terms of expected functions, outside directors/*kansayaku* were expected to provide oversight in a monitoring role (20.4%), counsel in an advisory role (20.3%), and supervision (10.1%) (Chart 114).

Furthermore, if we analyze keywords used based on whether an independent directors/*kansayaku*, for independent directors/*kansayaku* there were many reasons related to experience and neutrality such as having experience (61.2%), avoidance of conflict of interest (55.7%), knowledge (31.1%), and objectivity (16.4%). This suggests that aiming to secure neutrality was the reason for appointment of independent directors/*kansayaku*.

Chart 114 Reason for Appointment of Independent Directors/Kansayaku



4-17. Support system for outside directors and outside *kansayaku*

(1) Overview

The CG Report requires listed companies describe sections and personnel responsible for supporting outside directors and outside *kansayaku* (and whether there are dedicated personnel) and the details of this support if applicable, as well as an overview of the information communication system for outside directors and outside *kansayaku*.

Looking at details of descriptions, many companies stated that the Secretariat of the Board is responsible for supporting outside directors while the Secretariat of the *Kansayaku* Board is responsible for supporting *kansayaku*, that materials related to resolution measures involving the board are sent in advance, and that supplementary explanations are conducted by the secretariat as necessary.

In addition, there were descriptions of meetings other than the board and the setting of meetings with full-time *kansayaku* for the provision of information through means such as attendance by outside *kansayaku* at meetings, etc. for considering the status of sales and meetings with full-time *kansayaku* familiar with internal

circumstances.

Moreover, there were descriptions of the establishment of dedicated consultative meetings such as an outside director/*kansayaku* consultative meeting as a forum for advance explanations of board resolution measures, information provision, and information exchange with outside director/*kansayaku*.

Furthermore, because outside directors also include foreigners, some companies also described support for foreigner outside directors such as the preparation of English versions of board materials that are distributed to the applicable directors in advance, and making sure to offer simultaneous interpreting when applicable directors attend the board, the general meeting of shareholders, etc.

Regarding actual means of support, “distribution of information, communication, and cooperation related to information” were mentioned by 58.2%, and “prior distribution of and/or briefing on board materials” were mentioned by 58.1% of the companies⁶⁰.

(2) Support system, etc. for audits

(i) Existence of directors and employees that provide assistance for Audit Committee and Supervisory Committee duties

The CG Report requires a description of an overview of directors and employees that provide assistance for Audit Committee and Supervisory Committee duties.

Looking at the descriptions for Companies with Three Committees, the majority of companies have descriptions such as the establishment of an audit committee office as an organization to assist the duties of the Audit Committee, and the assignment of dedicated employees to provide assistance for Audit Committee duties for which the consent of the Audit Committee is required for hiring, transfers, personnel evaluations, and disciplinary action. In addition, there were also descriptions of the establishment of an organization to provide assistance for Audit Committee duties and the assignment of dedicated personnel when the Audit Committee makes a request for the assignment of employees to assist with its duties.

Looking at the descriptions for Companies with Supervisory Committee, the majority of companies have descriptions such as the establishment of a supervisory committee office as an organization to assist the duties of the Supervisory Committee, and the assignment of dedicated employees to provide assistance for Supervisory Committee duties for which the consent of the Supervisory Committee is required for hiring, transfers, personnel evaluations, and disciplinary action. In addition, some companies also stated that personnel that have received the mandate required for audit work from the Supervisory Committee would not be subject to command from the business execution line regarding such mandates. There were also descriptions stating that while there were no dedicated employees for providing assistance for Supervisory Committee duties, as necessary the internal audit office would provide assistance for Supervisory Committee duties and prioritize operations related to the Supervisory Committee.

⁶⁰ Reference to “distribution of information, communication, and cooperation related to information” covers companies which mentioned either “information”, “distribution”, “communication” or “cooperation”. Reference to “prior distribution of and/or briefing on reference materials” covers companies which mentioned either “prior”, “distribution” or “briefing”.

(ii) Efforts for reinforcement of *kansayaku*'s functions

In the Overview of the Current Corporate Governance System in the CG Report, listed companies are also required to describe the state of securing personnel and systems to support audits by *kansayaku*, the state of appointing outside *kansayaku* who are highly independent, and the state of appointing *kansayaku* with knowledge of finance and accounting as efforts for the reinforcement of functions of *kansayaku*.⁶¹

Regarding the state of securing personnel and systems to support audits by *kansayaku*, of the 2,800 Companies with *Kansayaku* Board, 151 companies (5.4%) mentioned the establishment of a *Kansayaku* Office or Secretariat of the *Kansayaku* Board. In addition, there were descriptions stating that only *kansayaku* have the authority to issue orders to the executives and employees of the *Kansayaku* Office, that the independence of such executives and employees from directors was ensured, and that the advance consent of full-time *kansayaku* was required for personnel changes, personnel evaluations, etc. involving these personnel.

In addition, there were descriptions of matters such as the appointment of highly-independent *kansayaku* and strengthening cooperation among the board, accounting auditors, and internal audit department. Additionally, the contents of the descriptions of *kansayaku* audits covered not only legality audits, but also validity audits.

(iii) Cooperation among the Audit Committee, Supervisory Committee, or *Kansayaku* Board and accounting auditors and internal audit departments

The CG Report requires companies to describe existing cooperation among their Audit Committee, Supervisory Committee, or *Kansayaku* Board and accounting auditors and internal audit departments. Chart 115 shows the ratio of companies that mentioned the keywords “audit planning”⁶², “cooperation/meeting”⁶³, and “report”⁶⁴. The ratio of companies that mentioned “audit planning” is higher for Audit Committees than for *Kansayaku* Boards or Supervisory Committees.

Looking at details of descriptions, the majority of companies stated that they held regular gatherings for exchanging opinions and information. Specific descriptions include attendance at site audits by accounting auditors and audit reviews, and receiving reports on audit plans, the focus of audits, progress of audits, internal control systems, risk management, etc. In addition, there were cases of stating the number of times opinions were exchanged with accounting auditors.

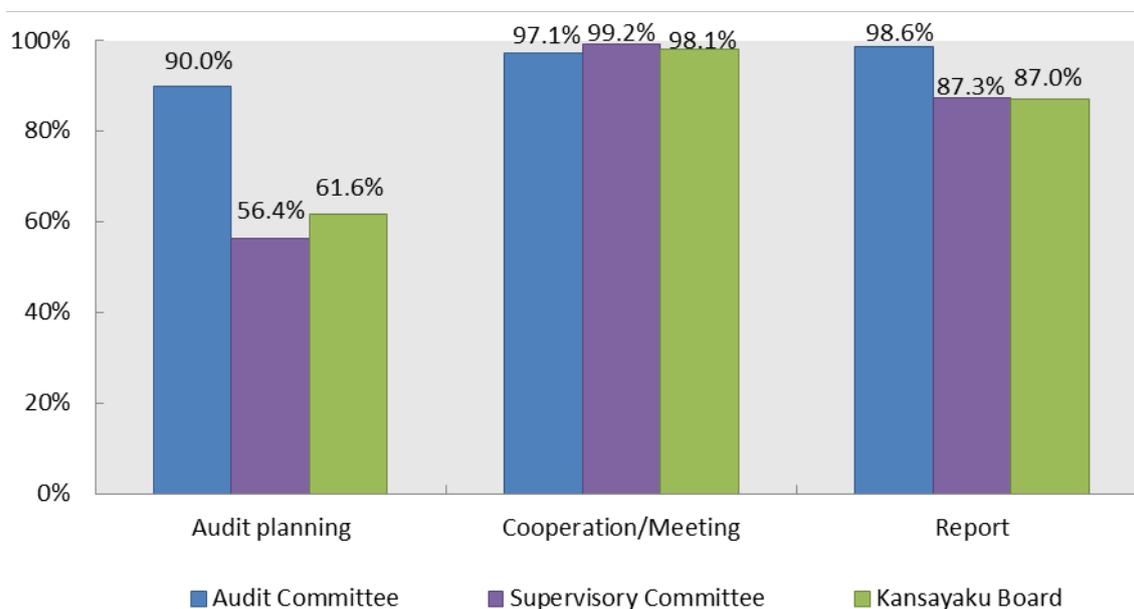
⁶¹ Companies, however, may just make reference to their explanations rendered in other sections (e.g. “Support System for Outside Directors and Outside *Kansayaku*”, “Reasons for Appointing Outside *Kansayaku*”, etc.), if any.

⁶² Reference to “audit planning” covers companies which mentioned one of the following keywords: “plan”, “policy” or “regulation”.

⁶³ Reference to “cooperation/meeting” covers companies which mentioned one of the following keywords: “cooperation”, “gathering”, “regular”, “exchange”, “consultation” or “meeting”

⁶⁴ Reference to “report” covers companies which mentioned one of the following keywords: “report”, “result”, “explanation”, “verification” or “control”.

Chart 115 Cooperation among *Kansayaku*, Accounting Auditors, and Internal Audit Departments



4-18. *Shikkoyaku*

Among TSE-listed Companies with Three Committees, the average number of *shikkoyaku* per company was 11.87 persons.

The average number of *shikkoyaku* with representative authority was 2.25 persons per company, accounting for 18.2% of all *shikkoyaku*.

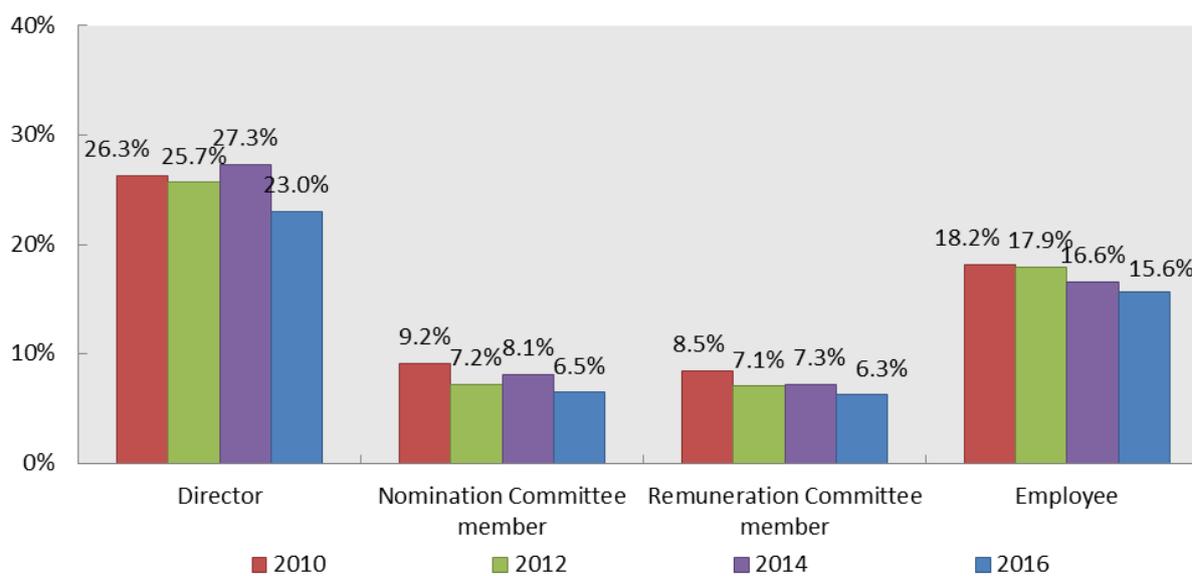
Shikkoyaku may concurrently assume the position of director⁶⁵, and 23.0% of *shikkoyaku* concurrently assume directors. Furthermore, 6.5% of *shikkoyaku* concurrently assume the position as Nomination Committee members, and 6.3% as Remuneration Committee members, both in the capacity of directors. As for Audit Committees, *shikkoyaku* are prohibited to concurrently assume the position as the committee members⁶⁶.

15.6% of *shikkoyaku* also hold positions as employees (Chart 116).

⁶⁵ Article 402, Paragraph 6 of the Companies Act.

⁶⁶ Article 400, Paragraph 4 of the Companies Act.

Chart 116 Positions Held Concurrently by *Shikkoyaku*



4-19. Basic views on internal control system and the progress of system development

Under the Companies Act, large companies⁶⁷, Companies with a Supervisory Committee⁶⁸, and Companies with Three Committees⁶⁹ are required to develop a system necessary to ensure the properness of operations of a company and operations of group of enterprises consisting of said company and its subsidiaries (a so-called internal control system) and disclose the details in the CG Report. TSE also requires companies to describe their approach and basic policies from the perspective of ensuring the appropriate fulfillment of operations⁷⁰, including how a company can manage organizations to attain management strategies or business objectives, and how a company can comply with laws, regulations, and the articles of incorporation.

With respect to the basic views on internal control systems and the development of the systems themselves described in the CG Report, many companies provided descriptions according to the items prescribed in the Companies Act and the Ordinance for Enforcement of the Companies Act⁷¹.

Specifically, 35.3% of TSE-listed companies referred to the term “the Companies Act”⁷². In total, 83.1% of the companies referred to “risk management” and more companies, reaching 96.1%, referred to “legal compliance”⁷³. Refer to Chart 117 for the trends by market division.

As for “systems related to the retention and management of information pertaining to the execution of the duties of a director/*shikkoyaku*”⁷⁴, many companies mentioned appropriate storage and management in

⁶⁷ Article 362, Paragraph 4, Item 6 and Paragraph 5 of the Companies Act.

⁶⁸ Article 399, Paragraph 13, Item 1(c) and Paragraph 2 of the Companies Act.

⁶⁹ Article 416, Paragraph 1, Item 1(e) and Paragraph 2 of the Companies Act.

⁷⁰ In addition, the CG Report requires companies to describe the state of compliance system, risk management system, and information management system.

⁷¹ Article 100, Article 110-4, and Article 112 of the Ordinance for Enforcement of the Companies Act.

⁷² Although not directly referred to the Companies Act, the large majority of companies described their basic views in accordance with the provisions of the Companies Act.

⁷³ Reference to “legal compliance” covers companies which mentioned one of the following keywords: “legal compliance”, “compliance with laws and regulations” and “compliance”.

⁷⁴ Article 100, Paragraph 1, Item 1; Article 110-4, Paragraph 2, Item 1; and Article 112, Paragraph 2, Item 1 of the Ordinance for

accordance with their documentation rules.

Concerning “rules and other systems related to management of the risk of loss⁷⁵”, many companies reported that rules on risk management have been adopted. Specific descriptions include establishment of individual rules addressing each specific risk, and the establishment of an organization to supervise risk information and respond to risk, including the establishment of a risk management committee.

Companies provide a wide variety of descriptions regarding a “systems to ensure that the execution of the duties of a director/*shikkoyaku* is performed efficiently”⁷⁶, and generally, such descriptions focused on management systems taking corporate governance into account, and management procedures with management cycle in mind.

Regarding a “systems to ensure that the execution of the duties of an employee complies with laws and regulations and the articles of incorporation”⁷⁷, many companies mentioned the formulation of guidelines including codes of conduct and compliance rules. To enhance effectiveness of such rules, some companies further referred to the establishment of responsible committees and implementation of related training, as well as consultation services for employees and whistleblowing programs. Furthermore, some described that internal audit office or the like conducts internal audits to judge effectiveness of the subject system and provide feedback to management. In that connection, some made reference to the roles of *kansayaku* and outside directors, and outside lawyers’ check of legal compliance as well as compliance with the articles of incorporation.

Regarding a “systems to ensure the propriety of business activities in a group of enterprises comprised of the relevant stock company and any Parent Company or Subsidiary Companies thereof”⁷⁸, while being generally the same as descriptions concerning the headquarters, the descriptions include the establishment of affiliated company management rule or compliance departments responsible for managing affiliated companies, internal control systems overseeing subsidiaries and overseas business, and consultative meetings of *kansayaku* across the group. With respect to control over subsidiaries, two different policy directions are observed: some expressed that it is necessary to strengthen control over their subsidiaries and appoint outside directors and outside *kansayaku* of such subsidiaries from the parent company; and others emphasized the independence of subsidiaries from parent companies.

As for “matters related to the employee if *kansayaku* has requested that an employee be appointed to assist with the duties of *kansayaku*”⁷⁹ and “matters related to the independence of the employee under the preceding item from the directors”⁸⁰, descriptions were generally in line with the Companies Act. Many companies made due consideration of their independence in terms of appointment and discharge, performance evaluation, and personnel transfer. Similar explanations were made concerning supervisory committee members of the

Enforcement of the Companies Act

⁷⁵ Article 100, Paragraph 1, Item 2; Article 110-4, Paragraph 2, Item 2; and Article 112, Paragraph 2, Item 2 of the Ordinance for Enforcement of the Companies Act

⁷⁶ Article 100, Paragraph 1, Item 3; Article 110-4, Paragraph 2, Item 1 and Item 3; and Article 112, Paragraph 2, Item 3 of the Ordinance for Enforcement of the Companies Act

⁷⁷ Article 100, Paragraph 1, Item 4; Article 110-4, Paragraph 2, Item 1 and Item 4; and Article 112, Paragraph 2, Item 4 of the Ordinance for Enforcement of the Companies Act

⁷⁸ Article 100, Paragraph 1, Item 5; Article 110-4, Paragraph 2, Item 1 and Item 5; and Article 112, Paragraph 2, Item 5 of the Ordinance for Enforcement of the Companies Act

⁷⁹ Article 100, Paragraph 3, Item 1; Article 110-4, Paragraph 2, Item 1 and Item 7; and Article 112, Paragraph 1, Item 7 of the Ordinance for Enforcement of the Companies Act

⁸⁰ Article 100, Paragraph 3, Item 2 of the Ordinance for Enforcement of the Companies Act.

Companies with Supervisory Committee and audit committee members of the Companies with Three Committees⁸¹.

In relation to “system for the directors, *shikkoyaku* and the employee to report to the company auditor, and other systems related to reporting to *kansayaku*/ Supervisory Committee/Audit Committee”⁸² and “other systems to ensure that audits by *kansayaku*/Supervisory Committee/Audit Committee are performed effectively”⁸³, companies referred to rules concerning *kansayaku*’s rights to participate in certain significant meetings, and rights to review material documents. In addition, there was a case of allowing employees to report directly to *kansayaku*.

Chart 117 Basic Views on and State of Internal Control System

		Companies Act	Risk Management	Legal Compliance	Information Management	Ethics	Decision Making
		Ratio	Ratio	Ratio	Ratio	Ratio	Ratio
Total		35.3%	83.1%	96.1%	19.8%	55.5%	68.1%
Organizational Form	Companies with Kansayaku Board	35.9%	83.4%	96.3%	20.1%	56.2%	69.0%
	Companies with a Supervisory Committee	32.0%	82.1%	95.6%	18.7%	53.4%	66.1%
	Companies with Three Committees	38.6%	81.4%	91.4%	17.1%	44.3%	50.0%
Market	JPX-Nikkei 400	47.0%	84.5%	97.5%	28.3%	65.3%	69.3%
	TSE First Section	38.7%	84.0%	96.7%	22.6%	57.7%	69.0%
	TSE Second Section	31.5%	81.6%	95.7%	15.8%	53.8%	65.7%
	Mothers	25.5%	85.8%	95.4%	18.0%	46.0%	72.4%
	JASDAQ	32.2%	81.0%	95.0%	15.9%	53.9%	66.1%

4-20. Matters concerning development of system for excluding anti-social forces

The CG Report requires listed companies to describe their approaches to prevent involvement of anti-social forces in business activities or damages caused by such forces; and status of creating an environment for the above prevention, including establishment of a code of ethics, code of conduct, internal regulations, etc. as well as a corporate structure which enables a company-wide response.

Concerning approaches to exclude anti-social forces, companies generally described that they have no relationship with such anti-social forces as corporate extortionists or organized crime syndicates, and stand firmly against them, and 2,324 companies mentioned cooperation with police agencies concerning systems for excluding anti-social forces⁸⁴. In addition to police agencies, a number of companies referred to the exchange of information with organizations against such special crimes (i.e., crimes against corporations) and consultation with corporate lawyers. Furthermore, development of basic policies and manuals, implementation of employee trainings, and appointment of responsible persons were also mentioned.

⁸¹ Article 110-4, Paragraph 2, Item 1 and Item 2 and Article 112, Paragraph 1, Item 1 and Item 2 of the Ordinance for Enforcement of the Companies Act

⁸² Article 100, Paragraph 3, Item 4; Article 110-4, Paragraph 2, Item 1 and Item 4; and Article 112, Paragraph 1, Item 4 of the Ordinance for Enforcement of the Companies Act

⁸³ Article 100, Paragraph 3, Item 7; Article 110-4, Paragraph 2, Item 1 and Item 7; and Article 112, Paragraph 1, Item 7 of the Ordinance for Enforcement of the Companies Act

⁸⁴ This figure represents an aggregated total of the companies which mentioned it specifically in this section. There are some other companies, which referred to it in other sections such as “I. Basic Views on Corporate Governance” together with their approaches toward compliance, legal compliance, etc.

5. Dialogue with shareholders

As described below, Chapter 5 of the Code requires the realization of constructive dialogue between shareholders and listed companies.

[General Principle 5]

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.

During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

Meanwhile, up until now the CG Report has required descriptions related to the state of IR activities including the creation and release of a disclosure policy, holding regular briefings for investors, releasing IR materials over a company website, and the establishment of departments (or personnel) related to IR.

In this White Paper, we will analyze such descriptions, as well as the contents of disclosures on policies towards constructive dialogue with shareholders as required under Principle 5.1 of the Code.

5-1. Policy for constructive dialogue with shareholders (Principle 5.1)

Principle 5.1 requires the disclosure of policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders. In addition, Supplementary Principle 5.1.2 stipulates “(i) appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, (ii) measures to ensure positive cooperation between internal departments, (iii) measures to promote opportunities for dialogue aside from individual meetings, (iv) measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board, and (v) measures to control insider information when engaging in dialogue”. As these are efforts that many companies have conducted as part of IR/SR structure development up until now, the compliance rate for this principle is 98.6%, indicating that almost all companies are in compliance with this principle.

Looking at the contents of descriptions for each item, for “(i) appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place”, a remarkable number of companies mention the appointment of an officer, etc. responsible for IR. The keyword “person responsible for IR” was mentioned by 14.5% (324 companies) of the complying companies. Some companies also mentioned the specific position such as the manager of the administrative headquarters or CFO. There were also descriptions stating the president was responsible for oversight. In terms of “(ii) measures to ensure positive cooperation between internal departments”, a remarkable number of companies stated that information

was shared with internal departments, centering around the departments responsible for IR. The keyword “sharing (information, etc.)” was mentioned by 11.9% (265 companies). In terms of “(iii) measures to promote opportunities for dialogue aside from individual meetings”, many companies mentioned (results) briefings and the general meeting of shareholders. 55.2% (1,230 companies) mentioned “briefings”, and 16.3% (363 companies) mentioned “general meeting of shareholders”. In terms of “(iv) measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board”, it seems that many companies establish opportunities for feedback as necessary rather than regularly. While 16.6% (370 companies) mentioned “as necessary”, 5.9% (132 companies) mentioned “regularly”. In terms of “(v) measures to control insider information when engaging in dialogue”, many companies mention the development and implementation of internal regulations, etc. The keyword “regulations, etc. (rules, regulations)” was mentioned by 37.6% (839 companies). 12.0% (268 companies) mentioned a silent period.

[Example 1] is an example in which the basic stance towards dialogue is described, and the five viewpoints required under Supplementary Principle 5.1.2 are clearly described. The basic policies and separate measures as described in an easy-to-understand manner. [Example 2] is an example that includes a statement regarding endeavoring to gain an understanding of shareholder composition as stated in Principle 5.1.3 in the basic policies towards dialogue. [Example 3] is an example that clearly states the frequency of feedback to the senior management. It also clearly describes the establishment of a silent period for dialogue.

[Example 1]

The Company believes that dialogue with shareholders and investors is important for the sustainable growth of companies and improvements in medium to long-term corporate value. The Company improves the transparency of management and promotes the stimulation of management by using dialogue to deepen the understanding of the Company’s management policies, management plans, and business strategies, while providing financial information in a manner that is easy-to-understand and that takes into consideration timeliness, fairness, accuracy, and continuity in order to eliminate information gaps as much as possible and to gain trust and an appropriate evaluation.

1. Policies aimed at promoting constructive dialogue with shareholders

(1) Appointing a member of management responsible for supervision

The officer responsible for finance is appointed as the IR supervision administrator

(2) Measures to ensure positive cooperation

The officer responsible for finance and person responsible for IR will cooperate with internal departments and provide support in order to ensure that constructive dialogue takes place.

(3) Opportunities for dialogue aside from individual meetings

In addition to holding a financial results briefing twice a year (interim and year-end), the Company will regularly hold small meetings attended by the representative director, president & CEO and the officer responsible for finance in an effort to foster understanding.

(4) Measures to appropriately and effectively relay shareholder views and concerns to the senior management and the board

As necessary, the officer responsible for finance and the person responsible for IR will relay shareholder views gained through dialogue to senior management and work to share an awareness of issues.

(5) Measures to control insider information during dialogue

In order to prevent insider information from leaking outside the Company, the officer responsible for finance and the person responsible for IR will cooperate with the information management administrator to thoroughly enforce information management.

(Service industry)

[Example 2]

The Company believes that communication with shareholders is useful as a means of promoting an understanding of the Company’s management strategy and business plans among shareholders, and it will communicate with shareholders based on the following policy within a scope deemed reasonable.

(1) The Company will endeavor to gain an understanding of shareholder composition in order to enhance communication with shareholders.

(Omitted)

(6) Members of the Company who communicate with shareholders will strictly manage insider information based on internal regulations.

(Construction)

[Example 3]

(Omitted)

- Feedback is provided to the management every quarter on opinions, etc. gained through dialogue with shareholders.
- The Company complies with internal regulations on the handling of insider information, and does not disclose insider information in dialogue with individual shareholders. Note that there will be a silent period from the day following the last day of the financial period until the release date of financial results in order to prevent the leakage of insider information and maintain fairness in information disclosures. (Electrical equipment)

Chart 118 Keywords Related to Policy for Constructive Dialogue with Shareholders Under Supplementary Principle 5.1.2

Item	Number of companies	Applicable ratio
Companies complying with Principle 5.1	2,230 companies	100%
■ Appointing a member of the management or a director who is responsible for overseeing constructive dialogue		
Person responsible for IR	324 companies	14.5%
■ Measures to ensure positive cooperation between internal departments		
Sharing (information, etc.)	265 companies	11.9%
■ Opportunities for dialogue aside from individual meetings		
Financial results briefing	1,230 companies	55.2%
General meeting of shareholders	363 companies	16.3%
■ Measures to relay shareholder views and concerns to the board, etc.		
As required	370 companies	16.6%
Regularly	132 companies	5.9%
■ Measures to control insider information		
Regulations, etc. (rules, regulations)”	839 companies	37.6%
Silent	268 companies	12.0%

5-2. Preparation and publication of disclosure policies

1,056 companies (30.1% of all) indicated that they prepared and published disclosure policies.

In terms of market divisions, the preparation and publication was most common among Mothers companies (50.6%), followed by TSE First Section (36.4%), TSE Second Section (17.3%), and JASDAQ (16.8%). As for JPX-Nikkei 400 companies, 52.3% prepared and published disclosure policies, which is 1.7 points higher than Mothers (Chart 119). Looking at the relation with foreign shareholding ratios, the higher the ratio, the more likely the companies are to prepare and publish disclosure policies (Chart 120).

Looking at the descriptions, there were many companies that described their stance including constructive dialogue with shareholders and investors, timely, appropriate, and fair information disclosure, and mutual communication, as well as descriptions on the development of regulations including compliance with the

Companies Act, the Financial Instruments and Exchange Act, various laws and regulations, and the regulations of TSE; the prompt disclosure of information; and posting information on corporate websites. There were also companies that clearly described the establishment of a silent period on the until the release date of financial results during which no comments regarding the financial results or responses to inquiries would be made in order to prevent the leakage of information that could affect the stock price.

Chart 119 Investor Relations (IR) Activities (by Market Division)

	Preparation and publication of disclosure policies	Regular briefings for individual investor	Regular briefings for analysts and institutional	Regular briefings for foreign investors	Posting of IR data on the company websites	Formation of IR department
Total	30.1%	32.0%	71.0%	14.1%	98.0%	90.1%
JPX-Nikkei 400	52.3%	49.8%	99.0%	60.5%	99.5%	98.3%
TSE First Section	36.4%	36.2%	83.2%	21.3%	98.8%	94.1%
TSE Second Section	17.3%	16.5%	35.4%	1.9%	95.4%	78.3%
Mothers	50.6%	64.9%	95.8%	20.9%	100.0%	96.2%
JASDAQ	16.8%	22.0%	57.2%	2.5%	97.0%	86.5%

Chart 120 Investor Relations (IR) Activities (by Foreign Shareholding Ratio)

	Preparation and publication of disclosure policies	Regular briefings for individual investor	Regular briefings for analysts and institutional	Regular briefings for foreign investors	Posting of IR data on the company websites	Formation of IR department
Under 10%	23.9%	27.4%	58.9%	4.5%	97.5%	86.6%
10% to under 20%	32.3%	33.0%	85.9%	15.2%	98.3%	95.0%
20% to under 30%	42.0%	41.5%	92.9%	33.9%	99.5%	96.6%
30% or more	16.8%	48.3%	93.5%	50.5%	98.5%	95.7%

5-3. Regular investor briefings

Investor briefings or seminars are an important means for establishing direct contact between listed companies and investors. TSE has required companies listed on Mothers to hold informational sessions on investment twice or more in every year⁸⁵, and thereby contributed to improving their communications with investors.

(1) For individual investors

Companies which hold regular informational sessions⁸⁶ for individual investors accounted for 32.0% of TSE-listed companies. In 74.2% of these companies, or 23.7% of all TSE-listed companies, company representatives make presentations.

In terms of market divisions, holding regular informational sessions was most common among Mothers companies (64.9%), followed by JPX-Nikkei 400 companies (49.8%), TSE First Section (36.2%), JASDAQ (22.0%), and TSE Second Section (16.5%) (Chart 119).

Supplementary explanations were provided by 1,121 companies, and many companies stated that they were

⁸⁵Rule 421-2 of the Securities Listing Regulations.

⁸⁶“Regular informational sessions” refer to the case where a company holds informational sessions with certain frequency throughout a year (at least once a year).

conducted regularly. There were also companies that described when informational sessions are held, the number of times they are held, and the venue. In addition, some companies mentioned that they participated in briefing events for individual investor sponsored by securities exchanges or the Securities Analysts Association of Japan. Some companies mentioned that they posted the materials from such briefings on their website in order to disclose information to individual investors that did not participate in briefings from the perspective of fairness. Furthermore, there were companies that described the representative director and president using slides at briefings to provide their own explanations, and the representative director and president providing their own response to questions.

(2) For analysts and institutional investors

Companies which hold regular informational sessions for analysts and institutional investors accounted for 71.0% of TSE-listed companies, and in 94.8% of these companies CEOs make presentations.

In analysis by market division, the ratio of companies which hold briefings for analysts and institutional investors is 95.8% for Mothers, which is higher than TSE First Section (83.2%), JASDAQ (57.2%), and TSE Second Section (35.4%). Among JPX-Nikkei 400 companies, 99.0% of them hold regular briefings (Chart 119).

2,485 companies provided supplementary explanations. 24 companies mentioned holding informational sessions following the release of financial results and second quarter financial results, and posting the materials for informational sessions on their website after the sessions, while 70 companies mentioned the posting of materials for informational sessions, etc. on their website. There were also companies that mentioned the timing, location, and number of participants in informational sessions. In addition, there were companies that conducted job site and factory tours, small meetings, and teleconferences.

(3) For foreign investors

Companies which hold regular informational sessions for foreign investors accounted for 14.1% of TSE-listed companies. In 76.2% of these companies, company representatives make presentations.

In analysis by market division, TSE First Section shows the highest ratio of 21.3%, followed by Mothers at 20.9%, JASDAQ at 2.5%, and TSE Second Section at 1.9%. As for JPX-Nikkei 400 companies, 60.5% hold briefings for foreign investors, showing 39.2 points higher than TSE First Section (Chart 119). As for the relation with foreign shareholding ratios, the percentage of companies that hold informational sessions is higher as the foreign shareholding ratio increases. For companies with a foreign shareholding ratio of 30% or more, 50.5% hold briefings (Chart 120).

495 companies provided supplementary explanations. Many companies stated that executives go abroad to speak at such briefings or individual meetings. Destinations are mainly the US and Europe, but some companies reported that they also held such sessions in Asian countries such as Hong Kong and Singapore. There were also cases of companies mentioning the number of times informational sessions and meetings with shareholders were held, participation in conferences for overseas institutional investors hosted by securities firms, distributing informational sessions with English translations over the website, and visits to overseas factories. Among companies that did not hold informational sessions for overseas investors, there were companies that mentioned it as an issue for future consideration.

5-4. Posting on the company website

The disclosure of IR materials⁸⁷ via company websites is already generally known as a tool for providing information to investors and market participants. The CG Report requires companies to state whether they post IR materials on their own websites and to explain the types of information for investors they post on their URLs or company websites as supplemental explanations on IR activities, if they do post such data.

TSE-listed companies which post IR information on company websites reached 98.0%, and accordingly, this is already considered to be a generally used method. In case of JPX-Nikkei 400 companies, 99.5% post such information on their websites (Chart 119).

In terms of the types of IR materials posted on company websites, the majority of companies mention financial results information and other timely disclosure materials, etc. A high percentage of companies mentioned keywords related to financial results, as 55.3% mentioned “earnings reports”, 47.2% mentioned “annual securities reports”, and 16.8% mentioned “convening notice”. There were also descriptions containing instances of corporate governance information, CSR reports, environment reports, intellectual property reports, fact books, and sustainability reports. 60 companies also posted videos.

5-5. Department (or person) responsible for IR

In total, 90.1% of TSE-listed companies mentioned that they have a department responsible for IR activities (including responsible persons). In terms of market division, 96.2% of Mothers-listed companies have such a department. This is only slightly higher than that of TSE First Section at 94.1%, TSE Second Section at 78.3%, and JASDAQ at 86.5%. Furthermore, 98.3% of JPX-Nikkei 400 companies have such a department (Chart 119).

Among the companies which have a department responsible for IR, while the majority have a department solely for the purpose of investor relations, some companies stated that the (management) planning, PR, or financial accounting department had IR functions or operations.

[Column 7] Best practices for dialogue with investors

While constructive dialogue between listed companies and investors for the sustainable growth of companies and improvements in mid to long-term corporate value has been called for with the establishment of the Stewardship Code and Corporate Governance Code, people from listed companies have voiced uncertainties regarding the benefits from actually conducting dialogue and how such dialogue should actually be conducted.

Up until now, TSE has held training programs to communicate basic knowledge and information for listed companies to conduct management that improves corporate value from the perspective of investors. In a corporate value improvement management seminar called Best Practices for Constructive Dialog Between Listed Companies and Investors that was held in January 2017, we introduced best practices in consideration of actual experiences of engagement with investors and resulting improvements in corporate value from long-term investors and people from listed companies that actually worked to improve corporate value through dialogue, and offered an opportunity for discussion and lectures on what exactly constitutes constructive dialogue that

⁸⁷ “IR materials” refer to paper-based documents or electronic files prepared by a company for the purpose of enabling investors, etc. (investors, security analysts, business partners or shareholders) to appropriately understand and evaluate the company’s situations.

leads to improvement in corporate value from various perspectives.

The lecture materials and minutes have been posted together with materials from seminars held in the past on the Japan Exchange Group website. We hope that they may be of some value in efforts by listed companies to improve corporate value.

Corporate value improvement management seminar minutes and materials

(Only available in Japanese)

<http://www.jpx.co.jp/equities/listed-co/seminar/management/index.html>

Prospective Challenges – Concluding Remarks

This is the first edition of the White Paper on Corporate Governance since the application of the Corporate Governance Code in 2015. Listed companies have made advances in the appointment of independent directors that was long pointed out as an area needing improvements, and it is no exaggeration to say that it has become standard practice for independent directors to be appointed at nearly every listed company. Furthermore, as over 80% of TSE First Section and TSE Second Section companies are in compliance with at least 90% of the principles, it can be said that Japanese companies are steadily responding to the Corporate Governance Code. As “form” is beginning to fall into place, the aim going forward will be the sustainable growth and mid to long-term improvements in corporate value in “substance”.

Needless to say, it is important for listed companies to have frameworks for swift and decisive decision making by the management team in order to achieve improvements in mid to long-term corporate value. This Report shows actual examples of disclosures in addition to statistical data, and we hope that this information can serve as cues and materials for dialogue between listed companies and shareholders and investors, as well as a reference point for listed companies when they consider their own efforts.

While improvements in the surrounding environment are essential for enhancing corporate governance, it goes without saying that even more important is that corporate governance be organically formed by the management team of listed companies and the stakeholders of listed companies that include shareholders and investors. It would be a great pleasure if this White Paper could in some way be helpful for listed companies and stakeholders in enhancing corporate governance and contribute to the advancement of corporate governance in Japan.