

TSE-Listed Companies
White Paper on Corporate Governance
2011

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March 2011
Tokyo Stock Exchange, Inc.

■ Introduction

Since discussions regarding corporate governance began in Japan, along with revisions to systems or frameworks such as strengthening the function of statutory auditors and adopting the companies with committees system, Tokyo Stock Exchange (hereinafter "TSE") has demonstrated initiatives such as formulation of The Principles of Corporate Governance for Listed Companies and institutionalization of the Corporate Governance Report (hereinafter "Report"). Individual listed companies have also taken action aimed at preventing corporate misconduct or enhancing corporate value by raising management efficiency such as adopting a framework of management monitoring by an external party. Due to these efforts, corporate governance in Japan has been steadily improved and strengthened.

TSE compiles the approach of companies listed on its market toward enhancing corporate governance and reports the progress on various aspects of the initiative from the perspective of shareholder protection on par with international standards to allow all investors to participate in the market with confidence as well as supporting listed companies efforts toward enhancing corporate governance based thereon. TSE comprehensively analyzes and presents the current state of corporate governance based on data in the Report, previously issuing "TSE Listed Companies White Paper on Corporate Governance 2007" and "TSE Listed Companies White Paper on Corporate Governance 2009" (hereinafter collectively "previous white papers"). The 2011 edition "TSE Listed Companies White Paper on Corporate Governance 2011" (hereinafter "this white paper") is a continuation of this series.

Today, the state of listed company corporate governance has changed dramatically worldwide after the financial crisis in 2008. The financial crisis showed that the Anglo-Saxon model of corporate governance centered upon outside directors in a board of directors cannot fulfill the role expected by shareholders and investors if it falls into formality. The crisis revealed another lesson: diligence without being overconfident is required to achieve appropriate corporate governance.

In order to raise global competitiveness by attracting high quality domestic and overseas risk money and investment targets, TSE has made significant changes to its listing system and framework on corporate governance such as revising the Principles of Corporate Governance for Listed Companies and rules related to corporate activity such as third-party allotment, requiring independent director/auditors as well as introducing measures to prevent abuse of rights by controlling shareholders.

This white paper focuses on the state of implementation of such new measures with an emphasis on data continuity by including, as far as possible, comparisons of research results with those presented in previous white papers. We hope that this white paper allows listed companies to gain an understanding of the state of progress of corporate governance in Japan and contributes to better corporate governance in your company.

Finally, we would like to acknowledge the great assistance rendered by Corporate Practice Partners KK for the preparation of White Paper.

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Contents

Analysis Targets	1
Methodology for the Analysis	1
I Underlying Concept of Corporate Governance	3
II Capital Structure, Corporate Attributes, and Other Fundamental Information	6
1 . Capital Structure	6
(1) Foreign shareholding ratio	6
(2) Major shareholders	7
2 . Corporate Attributes	8
(1) Listed exchange and market section	8
(2) Fiscal year end	9
(3) Number of employees	9
(4) Net sales	10
(5) Existence of parent company	10
(6) Number of consolidated subsidiaries	12
3 . Other Special Conditions with Potentially Significant Effects on Corporate Governance	12
(1) Policy to protect minority shareholders upon transactions with controlling shareholders	12
(2) Other	14
III Corporate Governance System	15
1 . Organizational Form	15
2 . Directors and the Board of Directors	16
(1) Chairperson of the Board of Directors meetings	16
(2) Number of directors	18
(3) Appointment of outside directors	19
(a) Appointment of outside directors and number appointed	19
(b) Attributes of outside directors	23
(c) Relation between outside director and the company	24
(d) Reasons for appointing outside directors	28
(4) Reasons for not appointing outside directors	29
3 . Statutory Auditor and Board of Statutory Auditors	30
(1) Existence of the Board of Statutory Auditors	30
(2) Number of statutory auditors and outside statutory auditors	31
(3) Attributes of outside statutory auditors	33
(4) Relation between outside statutory auditors and the company	34
(5) Reasons for appointing outside statutory auditors	36
(6) Cooperation in Audit	37

(a) Cooperation between statutory auditors (or Audit Committees) and accounting auditors	37
(b) Cooperation between statutory auditors (or Audit Committees) and internal audit departments	38
4 . Independent Directors / Auditors	39
(1) Securing Independent Directors/Auditors	39
(2) Attributes of Independent Directors/Auditors and Relationship with Company, etc.	43
5 . Support System for Outside Directors and Outside Statutory Auditors	46
6 . Committees and Executive Officers	47
(1) Each committee	47
(a) Number of committee members	47
(b) Ratio of full-time members	48
(c) Composition of directors in each committee	49
(2) Executive officers	50
7 . Items in Relation to Respective Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration	51
(1) Description regarding Corporate Governance System	51
(2) Description regarding Strengthening the Function of Statutory Auditors	54
8 . Reasons for Adopting the Companies with Committees System	55
IV Incentives and Remuneration	56
1 . Implementation of Initiatives to Offer Incentives	56
(1) Overview of incentives	56
(2) Introduction of stock option plans	56
(3) Implementation of performance-linked remuneration system	58
(4) Other	58
(5) Eligible persons for stock options	58
2 . Disclosure of Directors' Remuneration	60
(1) Tools of disclosures	60
(2) Contents of disclosures	60
V Implementation of Measures for Shareholders and Other Interested Parties	62
1 . Efforts for Active General Shareholders Meetings and Smooth Exercise of Voting Rights	62
(1) Early notification of general shareholders meeting	62
(2) Avoidance of peak day	63
(3) Exercise of voting rights by electronic means	64
(4) Others	65
2 . Investor Relations (IR) Activities	67
(1) Regular seminars	67
(a) For individual investors	67

(b) For analysts and institutional investors	68
(c) For foreign investors	69
(2) Posting on the company website	70
(3) Department responsible for IR (responsible person)	71
(4) Other	71
3 . Measures to Ensure Due Respect for Stakeholders	72
VI Basic Policy of Internal Control Systems and the Progress of System Development	74
1 . Basic Policy of Internal Control Systems and the Progress of System Development	74
2 . Matters concerning Establishment of System for Eliminating Anti-social Forces	76
VII Matters Concerning Takeover Defense Measures	78
■ Prospective Challenges - Concluding Remarks	84

Chart

Chart 1	Market Section	1
Chart 2	Underlying Concept of Corporate Governance	5
Chart 3	Classification by Foreign Shareholding Ratio	6
Chart 4	Classification by Foreign Shareholding Ratio (Market Section)	6
Chart 5	Classification by Foreign Shareholding Ratio (Net Sales (Consolidated))	7
Chart 6	Classification by Shareholding Ratio of Major Shareholders	7
Chart 7	Classification by Shareholding Ratio of Major Shareholders (Market Section)	8
Chart 8	Classification by Shareholding Ratio of Major Shareholders (Net Sales (Consolidated))	8
Chart 9	Classification by Fiscal Year End (Market Section)	9
Chart 10	Classification by Number of Employees (Consolidated)	10
Chart 11	Classification by Net Sales (Consolidated)	10
Chart 12	Classification by Existence of a Parent Company (Market Section)	11
Chart 13	Classification by Number of Consolidated Subsidiaries	12
Chart 14	Organizational Form of TSE-Listed Companies	15
Chart 15	Organizational Form of TSE-Listed Companies (Foreign Shareholding Ratio)	16
Chart 16	Organizational Form of TSE-Listed Companies (Shareholding Ratio of the Largest Shareholder)	16
Chart 17	Attributes of Chairperson of the Board of Directors	17
Chart 18	Number of Directors (Market Section)	18
Chart 19	Number of Directors (Net Sales (Consolidated))	18
Chart 20	Number of Outside Directors (Companies with Statutory Auditors)	20
Chart 21	Number of Outside Directors (Companies with Committees)	20
Chart 22	Percentage of Companies by Ratio of Outside Directors in Board of Directors (Market Section)	20
Chart 23	Appointment of Outside Directors (Companies with Statutory Auditors; Market Section)	21
Chart 24	Number of Outside Directors (Companies with Statutory Auditors; Market Section)	21
Chart 25	Appointment of Outside Directors (Companies with Statutory Auditors; Shareholding Ratio of the Largest Shareholder)	22
Chart 26	Number of Outside Directors (Companies with Statutory Auditors; Shareholding Ratio of the Largest Shareholder)	22
Chart 27	Appointment of Outside Directors (Companies with Statutory Auditors; Foreign Shareholding Ratio)	23
Chart 28	Number of Outside Directors (Companies with Statutory Auditors; Foreign Shareholding Ratio)	23
Chart 29	Attributes of Outside Directors (Companies with Statutory Auditors)	23
Chart 30	Attributes of Outside Directors (Companies with Committees)	24
Chart 31	Relation between Outside Director and Company (Companies with Statutory Auditors)	25
Chart 32	Relation between Outside Director and Company (Companies with Committees)	26

Chart 33	Relation between Company with a Parent Company and Outside Director	27
Chart 34	Appointment of Outside Directors Meeting Certain Independence Criteria	27
Chart 35	Number of Companies without the Board of Statutory Auditors (Market Section)	31
Chart 36	Number of Statutory Auditors and Outside Statutory Auditors (Companies with a Board of Statutory Auditors)	32
Chart 37	Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; by Market Section)	32
Chart 38	Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; Net Sales (Consolidated))	32
Chart 39	Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; Shareholding Ratio of the Largest Shareholder)	32
Chart 40	Attributes of Outside Statutory Auditors	33
Chart 41	Relation between Outside Statutory Auditors and Company	34
Chart 42	Relation between Outside Statutory Auditors and Company with a Parent Company	35
Chart 43	Appointment of Outside Statutory Auditors Meeting Certain Independence Criteria	36
Chart 44	Cooperation between Statutory Auditors (Audit Committee) and Accounting Auditors	38
Chart 45	Cooperation between Statutory Auditors (Audit Committee) and Internal Audit Departments	38
Chart 46	State of Appointment and Number of Independent Directors/Auditors (Market Section)	41
Chart 47	State of Appointment and Number of Independent Directors/Auditors (Shareholding Ratio of Largest Shareholder)	41
Chart 48	State of Appointment and Number of Independent Directors/Auditors (Foreign Shareholding Ratio)	42
Chart 49	Distribution of Companies by Number of Independent Directors/Auditors	42
Chart 50	State of Notification of Independent Directors/Auditors	42
Chart 51	Number of Outside Directors and Outside Statutory Auditors Appointed as Independent Directors/Auditors	42
Chart 52	Attributes of Independent Directors/Auditors and Outside Directors	45
Chart 53	Ratio of Independent Directors/Auditors in All Outside Directors (Attribute)	45
Chart 54	Relationship between Independent Directors/Auditors and Company	45
Chart 55	Independent Directors/Auditors with Additional Disclosure Attributes	46
Chart 56	Number of Committee Members	48
Chart 57	Number of Full-Time Members in Each Committee	49
Chart 58	Composition of Inside Directors and Outside Directors in Each Committee, and Average Number	49
Chart 59	Number of Inside Directors in Each Committee	50
Chart 60	Number of Outside Directors in Each Committee	50
Chart 61	Attributes of the Chairman of Each Committee (Ratio of Outside Directors)	50
Chart 62	Other Positions Held by Executive Officers	51

Chart 63	Items Relating to Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration (Net Sales (Consolidated))	54
Chart 64	Implementation of Initiatives to Offer Incentives	57
Chart 65	Implementation of Initiatives to Offer Incentives (Market Section)	57
Chart 66	Implementation of Initiatives to Offer Incentives (Number of Employees (Consolidated))	57
Chart 67	Implementation of Initiatives to Offer Incentives (Foreign Shareholding Ratio)	57
Chart 68	Eligible Persons for Stock Options (Companies with Statutory Auditors; Companies with Stock Options System)	59
Chart 69	Eligible Persons for Stock Options (Companies with Committees; Companies with Stock Options System)	60
Chart 70	Tools for Disclosing Compensations to Directors	60
Chart 71	Disclosures in Relation to Compensations for Directors	61
Chart 72	Efforts for Active General Shareholders Meetings (Market Section)	65
Chart 73	Efforts for Active General Shareholders Meetings (Net Sales (Consolidated))	65
Chart 74	Efforts for Active General Shareholders Meetings (Foreign Shareholding Ratio)	65
Chart 75	Regular Seminars for Investors (Market Section)	69
Chart 76	Regular Seminars for Investors (Foreign Shareholding Ratio)	70
Chart 77	Posting of IR Data on the Company Websites and Formation of IR Department (Market Section)	71
Chart 78	Posting of IR Data on the Company Websites and Formation of IR Department (Foreign Shareholding Ratio)	71
Chart 79	Efforts for Respecting the Positioning of Stakeholders (Market Section)	73
Chart 80	Efforts for Respecting the Positioning of Stakeholders (Net Sales (Consolidated))	73
Chart 81	Basic Policy of Internal Control Systems and the Progress of System Development	76
Chart 82	Adoption of Takeover Defense Measures (Market Section)	78
Chart 83	Adoption of Takeover Defense Measures (Net Sales (Consolidated))	79
Chart 84	Adoption of Takeover Defense Measures (Foreign Shareholding Ratio)	79
Chart 85	Adoption of Takeover Defense Measures (Shareholding Ratio of the Largest Shareholder)	79
Chart 86	Relation between Adoption of Takeover Defense Measures and Governance	81
Chart 87	Relation between Adoption of Takeover Defense Measures and Efforts for Active General Shareholders Meetings	81
Chart 88	Relation between Adoption of Takeover Defense Measures and Regular Investment Seminars	81
Chart 89	Relation between Adoption of Takeover Defense Measures and Respect for Stakeholders	82

Analysis Targets

This analysis utilized data from the Reports of all the domestic companies listed on the Exchange (the "TSE-Listed Companies") as of September 10, 2010. Furthermore, the data

was compared with the results of the previous analysis (as of August 21 2008) and the one before previous (as of the end of October 2006), and increases or decrease in numeric values¹ are referred to, where appropriate.

As shown in Chart 1, the number of listed companies (classified by market section) included in this analysis is 2,294 companies (decreased by 84 companies from the previous analysis). It comprises of 1,669 companies (decreased by 48 companies) listed on TSE First Section, 443 companies (decreased by 23 companies) listed on TSE Second Section, and 182 companies (decreased by 13 companies) listed on TSE Mothers.

Chart 1 Market Section

Market	Number of companies		Ratio	
		Change from 2008		Change from 2008
TSE First Section	1,669	-48	72.8%	0.6%
TSE Second Section	443	-23	19.3%	-0.3%
TSE Mothers	182	-13	7.9%	-0.3%
Total	2,294	-84	100.0%	0.0%

Methodology for the Analysis

The data submitted on or after July 7, 2008 is now converted into XBRL files. For the purpose of this analysis, the Exchange used the data in XBRL files.

This White Paper is basically structured by chapter corresponding to topics in the Report, extracting data from corresponding topical sections in the Report. To make it easy to capture the characteristics, comparative analysis is performed by classifying the data by capital structure or corporate attribute, and aggregating the data of each attribute.

The classification and aggregation of numerical data are based on the quantified data in the Report², and expressed as percentages (to the first decimal place) by dividing the number of companies whose responses fall into certain category by the total number of companies with the attribute which the respondent companies belong to. The data of directors, extracted from the Report in number of persons,

¹ The columns titled "Increase/decrease 2008-2010" in charts in this White Paper show comparison with the data in the Previous White Paper (as of August 21, 2008), and time-series comparisons between 2006, 2008 and 2010 in graphs are based on the data as of the end of October 2006, those as of August 21, 2008, and those as of September 10, 2010.

² As numerical data on charts is rounded, a sum of individual data on a chart may not equal 100%, or a sum of figures for some items on a chart may not coincide with a figure in the relevant text.



is expressed as numbers of persons (to the second decimal place)³

To analyze the overall trends of topics in free-text description sections other than multiple choice sections, the Exchange defined several keywords representing directions of corporate governance in the same manner as the Previous White Paper, and aggregated the number of the data containing such keywords in the descriptions. As a new feature, typical and characteristic examples of such descriptions are also cited in this White Paper.

³ For "Attributes of Outside Directors," "Relation between Outside Director and Company," and "Reasons for Appointing Outside Directors," ratios to the total number of outside directors are shown. For "Scheduling General Shareholders' Meeting Avoiding Concentrated Dates," ratios to the total number of companies whose fiscal year ends in March are shown. "Eligible Persons for Stock Options," ratios to the companies adopting stock option system are shown. For "Description concerning Strategies for Takeover Defense Measures," ratios to the companies adopting strategies for takeover defense measures are shown.

Underlying Concept of Corporate Governance

With respect to the underlying concept of corporate governance, prior to the start of the Report system, Exchange required listed companies to describe, in their financial highlights, their basic policies and objectives for corporate governance, and priorities of corporate governance compared with other management issues. At that time, such disclosures did not include significant descriptions focusing on their awareness of the need for management monitoring, or descriptions about the positioning of their stakeholders including shareholders, key players in governance. As a result, shareholders/investors had difficulties to understand their position in such companies. Therefore, the Exchange added this chapter⁴ in the Report to clarify their perception of the above matters and purposes of corporate governance.

In the Reports, 52.4% (up 2.2%; any up/down in this chapter refers to a change from the previous research) - more than half of the companies - describe "corporate value" in connection with fundamental policies for and/or purposes of corporate governance efforts. As net sales (consolidated) or foreign shareholding ratio⁵ increase, the percentage tends to increase commensurately. This indicates that "corporate value" has become a concept of general significance through the active discussions surrounding takeover defense measures, although the number of the companies adopting takeover defense measures has peaked recently.

Many companies expressed that the objective of corporate governance is enhancement of corporate value, as shown in the following specific descriptions: "Basic principle of corporate governance is to enhance efficiency and transparency of management and to maximize corporate value," "We regard corporate governance as the key management issue to enhance corporate value as well as management transparency for shareholders," and "In order to continue to make profits from business activities and enhance corporate value, we consider it essential to develop corporate governance system as the framework to govern such activities."

Concerning management monitoring function, 38.4% (down 3.4%) of all companies referred to "monitoring" or "supervision". There was a decrease in both companies with statutory auditors and companies with committees by 37.4% (down 3.4%) and 80.4% (down 1.4%) respectively. Companies which mentioned "execution" showed the same downward trend with 38.8% (down 3.7%) of all companies, 80.4% (down 5.1%) of companies with committees and 37.8% (down 3.6%) of companies with statutory auditors. These figures indicate a difference between the systems adopted by listed companies. The characteristics of the system of companies with committees meant that more of such companies mentioned the terms concerning segregation between execution and supervision. With TSE

⁴ These are items in the Report for which fundamental policies (rationale for the policies) on the initiatives on the corporate governance and the objective of corporate governance are described concretely. In addition, companies are required to describe the positioning of their shareholders and other stakeholders (all the interested parties related to the companies including shareholders, employees, consumers, etc.), their management monitoring function, and the concept of the group as a whole.

⁵ This means shares held by corporations founded under any foreign law or non-Japanese individual investors (in accordance with the definitions for annual securities reports) as the percentage of outstanding shares issued.

implementing the independent directors/auditors system (discussed later), thereby introducing a new concept of "independence" not required the Companies Act of Japan, companies which mentioned "independence" increased slightly by 6.9% (up 1.1%).

Specific descriptions on management monitoring include: "Aiming at maintaining appropriateness of business execution by strengthening management monitoring function," "The management maintains high level of corporate ethics, secures sound management and transparency, makes the management monitoring mechanism led by Statutory Auditors fully work, and enhances the corporate value. This is a fundamental of corporate governance." A number of companies described that strengthening the function to monitor the management is the fundamental of corporate governance.

As a significant part of corporate value, more than half of the companies referred to "stakeholders"⁶, showing further growth from the previous research to 59.4% (up 1.5%). The result suggests that the companies are aware to an appreciate degree that it is essential to establish good relations not only with shareholders, but also with wide range of interested parties such as employees, customers, business partners (including creditors), consumers and communities in order to achieve better corporate governance. While some companies placed greater emphasis on their shareholders as well as showing certain considerations to their stakeholders, a distinctive trend is that shareholders and other stakeholders are described on an equal basis, as shown in phrase "aiming at enhancing corporate value through relationship with the stakeholders."

In recent years, respect for stakeholders has been represented by growing attention to corporate social responsibility, or CSR. Also in this research, 26.9% of all companies, which is lower than the previous research result by 0.2%, referred to "social responsibility"⁷. What is found characteristic is a trend toward emphasis on activities in consideration of social responsibility as the basic policy of the companies.

In addition, even though it was not required in the preparation guideline⁸ for "the Report on Corporate Governance" (the "Reporting Guideline"), "compliance"⁹ was mentioned by 40.2% (down 1.2%) of the companies from the viewpoint of sound corporate management. The high ratio would be partly because discussion on corporate governance in Japan has been provoked by efforts for prevention of corporate scandals. Conducting business activities in compliance with laws and regulations as well as social norms is the minimum requirement expected by the entire nation and society. This result shows high level of

⁶ With respect to the item "stakeholders," any company using any one of the following keywords is included: "stakeholder," "employee," "region and community," "interested party," "customer," "consumer," "creditor," "any parties involved in transaction," or "residents in the region."

⁷ With respect to the item "social responsibility," any company using any one of the following keywords is included: "CSR," "social responsibility," "responsibility for society," or "corporate ethics."

⁸ Available from TSE's website <http://www.tse.or.jp/rules/cg/index.html> (Japanese version only)

⁹ With respect to the item "compliance," any company using any one of the following keywords is included: "compliance," "observance" and "compliance (written in Japanese character)."

corporate awareness of this expectation as well as consideration for corporate social responsibility.

The related keyword "internal control," however, shows rather low ratio of 18.8% (down 1.1%), even though its significance has been emphasized in the Company Act and the Financial Instruments and Exchange Act (hereinafter referred to as "FIEA"). This may be because the Report has a separate section dedicated to internal control.

Similarly, as an overall corporate management issue, 69.0% of the companies referred to "transparency," maintaining a high ratio from the previous research. It is understood that this element has been widely spread as an important concept of management. Furthermore, 7.4% of the companies mentioned directors' accountability: Specifically, many companies described that enhancement of or adherence to accountability is recognized as a part of strengthening corporate governance.

Chart 2 Underlying Concept of Corporate Governance

		Corporate Value		Shareholders' value		Monitoring & supervision		Execution	
		Ratio	Change from 2008	Ratio	Change from 2008	Ratio	Change from 2008	Ratio	Change from 2008
Total		52.4%	2.2%	6.4%	0.0%	38.4%	-3.4%	38.8%	-3.7%
Organizational Form	Companies with Statutory Auditors	52.2%	1.9%	6.3%	0.1%	37.4%	-3.4%	37.8%	-3.6%
	Companies with Committees	62.7%	15.5%	11.8%	-6.4%	80.4%	-1.4%	80.4%	-5.1%

		Decision making		Internal control		Stakeholders		Social Responsibility	
		Ratio	Change from 2008	Change from 2008	Change from 2008	Ratio	Change from 2008	Ratio	Change from 2008
Total		39.5%	-2.1%	18.8%	-1.1%	59.4%	1.5%	26.9%	-0.2%
Organizational Form	Companies with Statutory Auditors	39.1%	-2.0%	19.0%	-0.9%	59.5%	1.5%	27.0%	-0.1%
	Companies with Committees	52.9%	-8.9%	7.8%	-8.5%	52.9%	-1.6%	23.5%	-5.6%

		Compliance		Transparency		Efficiency		Soundness	
		Ratio	Change from 2008	Ratio	Change from 2008	Ratio	Change from 2008	Ratio	Change from 2008
Total		40.2%	-1.2%	69.0%	0.3%	20.0%	0.9%	23.5%	1.5%
Organizational Form	Companies with Statutory Auditors	40.6%	-0.9%	68.7%	0.2%	19.9%	0.9%	23.8%	1.5%
	Companies with Committees	25.5%	-12.7%	82.4%	4.2%	21.6%	-0.2%	7.8%	0.6%

Capital Structure, Corporate Attributes, and Other Fundamental Information

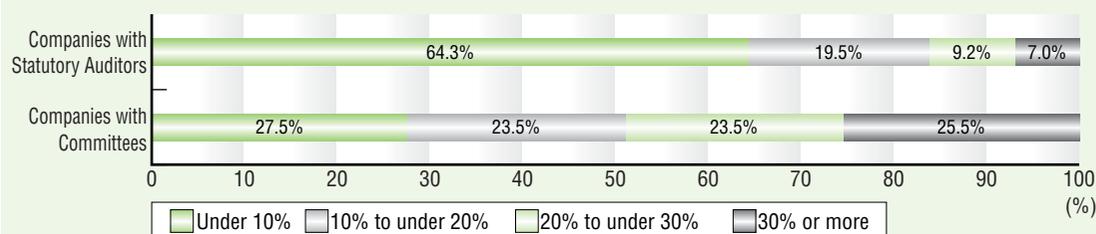
1. Capital Structure¹⁰

(1) Foreign shareholding ratio

Classification by foreign shareholding ratio is as shown in Chart 3. The ratio of the listed companies at TSE whose foreign shareholding ratio is less than 10% is 63.5%, an increase of 7.7% from 55.5% in previous research. This was affected by the decrease in the foreign shareholding ratio in the market on the whole.

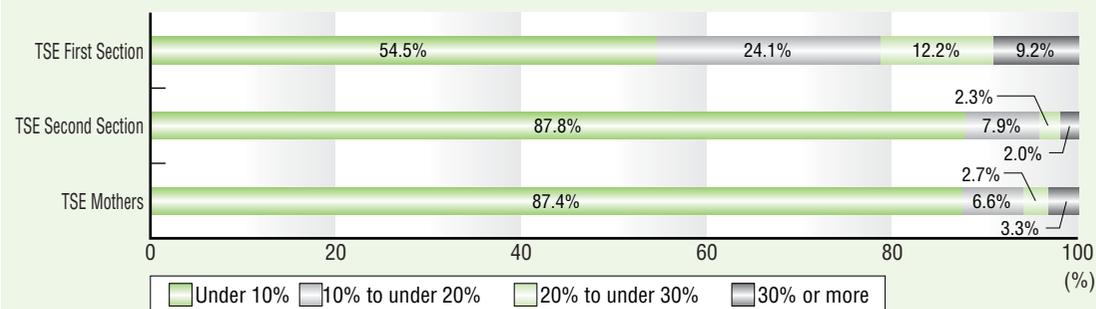
Nonetheless, the higher the foreign shareholding ratio is, the higher percentage share the Companies with Committees account for, similarly to the previous results.

Chart 3 Classification by Foreign Shareholding Ratio



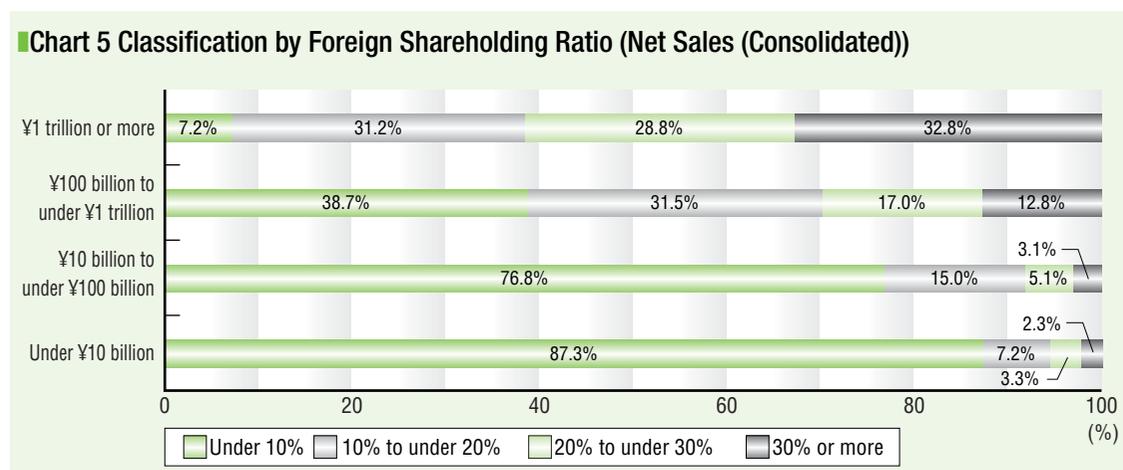
As for relation with market section, percentage shares of the companies with higher foreign shareholding ratio tend to be greater among those listed on TSE First Section, compared with those listed on TSE Second Section or TSE Mothers. (See percentage shares of foreign shareholding of no less than 30%: The companies listed on TSE First Section show higher 9.2%, compared with 2.0% of those on TSE Second Section and 3.3% of those on TSE Mothers.) Furthermore, as for relation with net sales

Chart 4 Classification by Foreign Shareholding Ratio (Market Section)



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

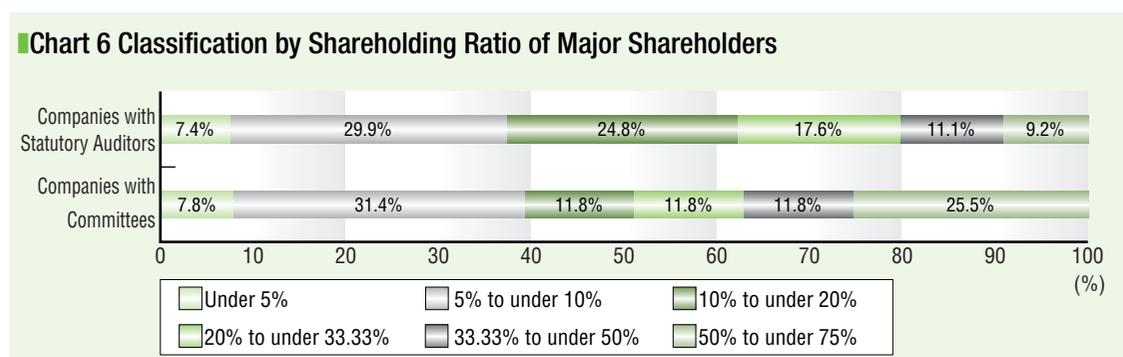
(consolidated), as shown in Chart 5, the greater net sales (consolidated) are, the higher percentage shares the companies with higher foreign shareholding ratio account for.



(2) Major shareholders¹¹

Chart 6 shows classification by shareholding ratio of major shareholders.

In case of the Companies with Statutory Auditors, fewer companies belong to categories of higher percentage ownership held by major shareholders, except the category of less than 5%. On the contrary, in case of the Companies with Committees, the companies no less than 50% of whose shares are held by major shareholders comprise the highest proportion, 25.5% (down 1.8%). It would be attributed to such background that entire companies under certain enterprise groups adopted the company with committees system.



¹¹ For the Report, this corresponds to the item in an annual securities report for which the description of "major shareholders" is required based on the descriptions contained in the list of shareholders.

As shown in Chart 7 by market section, the companies listed on TSE First Section show lower percentage ownership held by major shareholders than others. Chart 8 indicates that the higher net sales (consolidated) are, the lower the percentage ownership held by major shareholders is. It indicates that such companies tend to show high ownership dispersion.

Chart 7 Classification by Shareholding Ratio of Major Shareholders (Market Section)

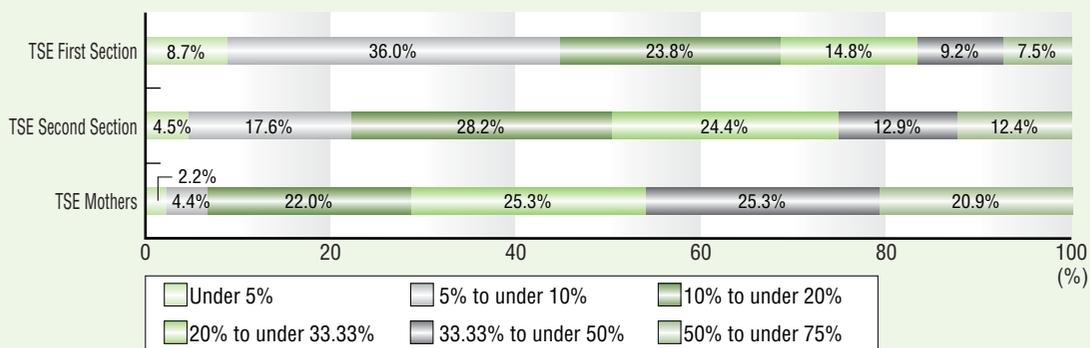
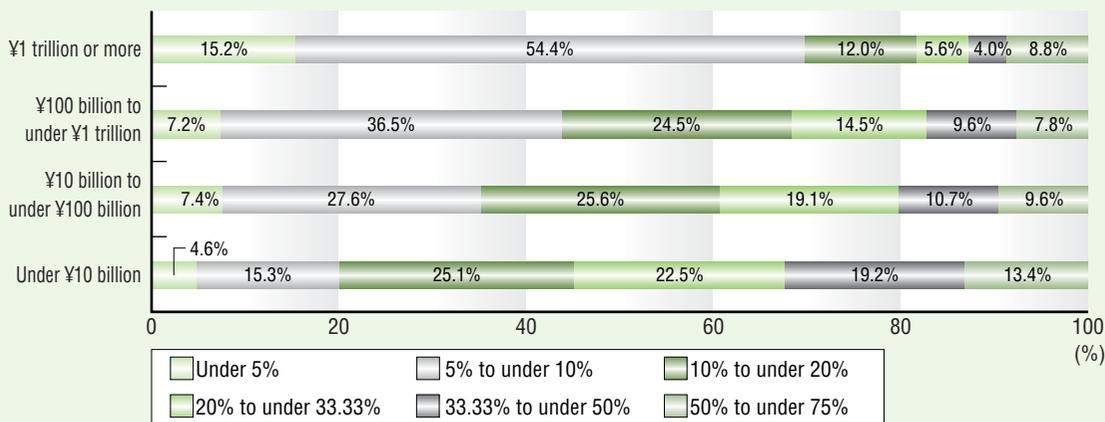


Chart 8 Classification by Shareholding Ratio of Major Shareholders (Net Sales (Consolidated))



2. Corporate Attributes ¹²

(1) Listed exchange and market section

The numbers and ratios of the TSE-Listed Companies by market section are shown in Chart 1.

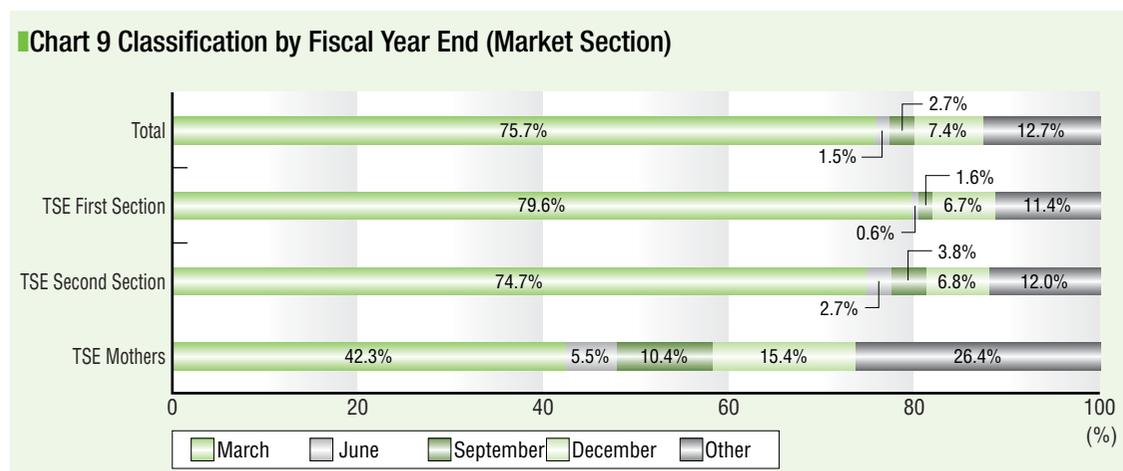
¹² The Report basically requires the description of conditions existing as of the end of the immediately preceding fiscal year.

Furthermore, 748 companies, 32.6% of all TSE-Listed Companies, are listed on other domestic exchange (dual listing). While all TSE Mothers-listed companies are single listing, the percentages of single listing companies listed on TSE Second Section and First Section are 82.8% and 59.7%, respectively. In respect of markets for such dual listing, 516 companies, 22.5% of all TSE-Listed Companies, are listed on the first section of Osaka Securities Exchange, which ranks first in dual listing, followed by the first section of Nagoya Securities Exchange where 203 companies or 8.8% of the same are listed.

(2) Fiscal year end

Chart 9 shows classification by ending month of fiscal year. The fiscal year of 75.7% of all TSE-Listed Companies (down 0.1%) ends in March.

As characteristics by market section, the majority of the companies listed on TSE First Section (79.6%; down 0.5%) and TSE Second Section (74.7%; up 0.2%) adopt a fiscal year ending March. However, only 42.3% (up 1.3%) of TSE Mothers-listed companies adopt a fiscal year ending March, while the remaining companies adopt a fiscal year ending December (15.4%) or September (10.4%).



(3) Number of employees¹³

Chart 10 shows classification by number of employees. 56.8%, more than a half, of the companies has no less than 1,000 employees. Although not included in the chart, as far as the Companies with Committees are concerned, the percentage is as high as 72.5%.

¹³ The Report requires companies preparing consolidated financial statements to make their descriptions on a consolidated basis.

(4) Net sales¹⁴

Classification by net sales is as shown in Chart 11.

(5) Existence of parent company¹⁵

265 companies, 11.6% (down 1.0%) of the TSE-Listed Companies have parent companies, 88.8% (10.3% of the total) of which are listed companies. One reason for such high listing ratio of the parent companies would be that as one of the requirements for a

subsidiary's initial listing until January 1, 1996, a parent company had to be listed on TSE¹⁶. Another reason would be that because TSE's Securities Listing Regulations requires any unlisted parent companies to disclose corporate information to the same extent as listed companies¹⁷, listing of a subsidiary tends to be a heavy burden for an unlisted parent company.

As for percentage of the companies which have parent companies by market section, while the companies listed on TSE First Section show relatively low 9.8% (down 0.7%), those listed on TSE Second Section show 17.2% (down 2.2%) and TSE Mothers shows 13.7% (down 1.1%).

As far as companies whose largest shareholders own more than 50% of the shares are concerned, 84.9% (up 2.2%) have parent companies, and 15.1% do not. It suggests that the percentage of controlling shareholders other than companies (usually individuals) is relatively low. Nonetheless,

Chart 10 Classification by Number of Employees (Consolidated)

number of employees (consolidated)	Number of companies		Ratio	
		Change from 2008		Change from 2008
Under 100	118	-11	5.1%	-0.3%
100 to under 500	461	-25	20.1%	-0.3%
500 to under 1000	413	-30	18.0%	-0.6%
1000 or more	1,302	-18	56.8%	1.2%
Total	2,294	-84	100.0%	0.0%

Chart 11 Classification by Net Sales (Consolidated)

net sales (consolidated)	Number of companies		Ratio	
		Change from 2008		Change from 2008
Under ¥10 billion	307	4	13.4%	0.6%
¥10 billion to under ¥100 billion	1,205	-4	52.5%	1.7%
¥100 billion to under ¥1 trillion	657	-61	28.6%	-1.6%
¥1 trillion or more	125	-23	5.4%	-0.8%
Total	2,294	-84	100.0%	0.0%

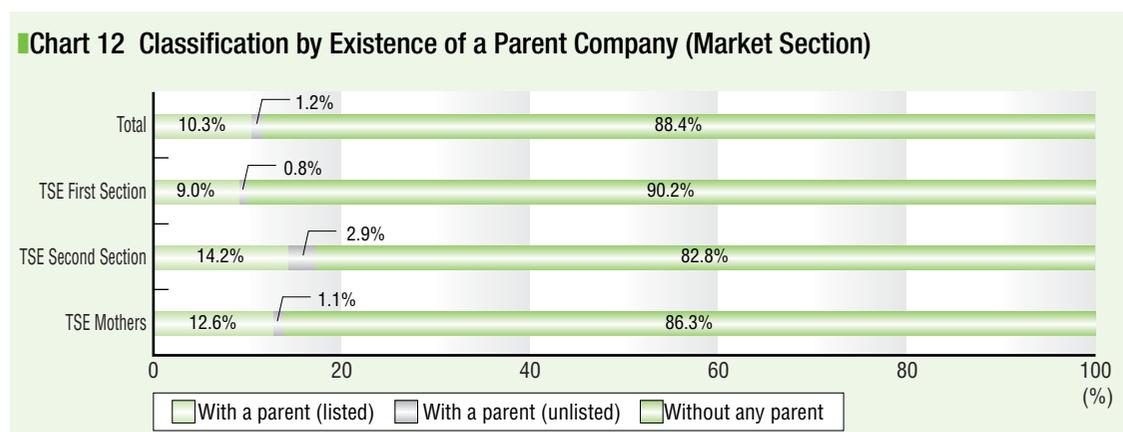
¹⁴ The Report requires companies preparing consolidated financial statements to make the descriptions on a consolidated basis using the annual net sales of the immediately preceding fiscal year as control.

¹⁵ This refers to the parent company defined in Article 8, Paragraph 3 of the Rules Concerning the Terms and Format for Financial Statements and the Methods for Preparing Financial Statements ("Rules on Financial Statements").

¹⁶ Up to November 2007, one of the requirements in the TSE listing examination criteria was that the stock issued by the parent company, etc. is listed on a domestic securities exchange (or the parent company, etc. had made assurance of conducting disclosure similar a listed company) (1. (2) d (b) in previous rule for handling of listing examination criteria for stocks).

¹⁷ With the revision of the Securities Listing Regulations in December 2009, disclosure concerning unlisted parent companies, etc. (Rule 406 of the previous Securities Listing Regulations) was consolidated into Disclosure of Matters Relating to Controlling Shareholder, etc. (Rule 411 of the Securities Listing Regulations).

speaking of percentages of such companies whose largest shareholders hold the majority ownership, TSE Mothers shows 50.0% which is a relatively high ratio compared with TSE First Section (8.7%) and TSE Second Section (5.5%). In case of so called start-up companies whose stocks are listed on TSE Mothers, controlling shareholders tend to be such individuals as the founders.



In June 2007, the Exchange announced that it is not appropriate to uniformly prohibit listing subsidiaries in light of its significance in the national economy as well as the expected role of stock exchanges to provide investors with diverse investment instruments, but that listing subsidiaries is not necessarily a desirable capital policy for various market players including investors¹⁸. In this respect, the Exchange requested the listed companies which have parent companies to be keen to shareholders' rights and interests, and to ensure accountability for market players including investors diligently. Furthermore, in October 2007, the Exchange together with other exchanges announced that listing of core subsidiaries of listed companies would be dealt prudently through cooperation among exchanges out of concern about possible intention to gain double benefits from initial public offerings¹⁹.

¹⁸ "TSE stance on the listing of companies which have parent companies" (TSE Listing No. 11, June 25, 2007)
Please refer to the TSE website (only available in Japanese): http://www.tse.or.jp/news/200706/070625_a.html

¹⁹ "Securities exchange's stance related to the listing of core subsidiaries" (TSE Listing Examination No. 235, October 29, 2007)
Please refer to the TSE website (only available in Japanese): http://www.tse.or.jp/news/200710/071030_d.html

(6) Number of consolidated subsidiaries

Chart 13 shows classification by number of consolidated subsidiaries.

Chart 13 Classification by Number of Consolidated Subsidiaries

Number of consolidated subsidiaries	Number of companies		Ratio	
		Change from 2008		Change from 2008
Under 10	1,300	-85	56.7%	-1.6%
10 to under 50	772	-3	33.7%	1.1%
50 to under 100	129	5	5.6%	0.4%
100 to under 300	69	-5	3.0%	-0.1%
300 or more	24	4	1.0%	0.2%
Total	2,294	-84	100.0%	0.0%

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

The Report contains a section titled "other special circumstances which may affect corporate governance" for free-text descriptions of company-specific circumstances which are not directly linked to each section in the Report but may significantly affect corporate governance, or supplementary explanation to other sections. In this research, 703 companies included descriptions on special circumstances. The following section (1) outlines descriptions concerning the subject, which is a newly-added reporting requirement for the listed companies with controlling shareholder²⁰ in accordance with improvement of the listing system in July 2008. The following section (2) provides descriptions concerning other matters applicable to optional free-text descriptions in the subject section as in the past.

(1) Policy to protect minority shareholders upon transactions with controlling shareholder

Due to improvement of the listing system in July 2008, a listed company with controlling shareholder is now required to describe guidelines for policy to protect minority shareholders upon transactions with the controlling shareholder. Controlling shareholders herein include a parent company, individual controlling shareholder, etc. When a listed company conducts a business transaction with its controlling shareholder, it is highly probable that the transaction conditions are determined in favor of the controlling shareholder and it causes damages to the minority shareholders. This issue has been raised in the context of listing subsidiaries, and therefore the Exchange addressed the issue from the aspect of

²⁰ For definition of "controlling" shareholder, refer to Article 2, Item 42-2 of the Securities Listing Regulations, and Article 3-2 of the Enforcement Rules for the Securities Listing Regulations.

disclosure first²¹.

Concerning the guidelines for policy to protect minority shareholders, it is expected to specifically describe such matters as a policy for developing company structure, internal procedures for decision-making and use of external bodies, in order to prevent damages to a company and further to its minority shareholders as a result of a transaction which benefits a controlling shareholder due to their influence.

As for criteria of transactions with controlling shareholder subject to the guidelines, in principle it is desirable to consider all transactions with controlling shareholder. Yet as it is assumed that the level of influences 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.

This analysis covers 360 TSE-Listed Companies with controlling shareholders, and their approaches for describing the subject matter are classified into two categories. One is to describe their policies for transaction conditions, and another is to refer to their procedures of transactions with the controlling shareholders.

Out of these two approaches, 212 companies, or 58.4% of TSE-Listed Companies with controlling shareholders, referred to their guidelines for such transaction conditions. Specifically, considerable number of the companies described their policies that transactions with the controlling shareholders are to be carried out in a fair and equitable manner as in those with other business partners taking into account the terms of such contracts and market prices, so that they do not conduct any transactions which adversely affect the minority shareholders' interests. Some companies stated that while not having business relationship with their controlling shareholders at the moment, they would take the same policy as above. There are companies which expressed their policy not to conduct any transactions with their controlling shareholder in principle.

207 companies, or relatively high 57.0%, referred to their procedures of transactions with the controlling shareholders. Many of them adopt such a basic policy for minority shareholders protection that upon each of such transactions, a company itself judges right or wrong about the transaction through the board of directors' discussion and resolution with regards to the appropriateness of transaction contents and conditions. Other procedures expressed include: a company asks for opinions of outside directors other than those from the parent company for more objective decision-making in order to prevent any transaction which benefits the parent company and also causes damages to the minority shareholders; a company makes a decision by consulting with external specialists, when needed, to ensure that transaction conditions in question are reasonable and appropriate; and as a difference from

²¹ In June 2010, the Code of Corporate Conduct saw new additions to "Matters to be Observed". In this new addition, where a listed company with a controlling shareholder or such subsidiary, etc., made a decision to conduct a significant transaction, etc. with a controlling shareholder, etc., with regard to such decision undermining the interests of minority shareholders, a listed company shall be required to obtain opinion from a party which has no conflict of interest with such controlling shareholder, and conduct necessary and sufficient timely disclosure. Rule 441-2 of the Securities Listing Regulations, Rule 436-3 of the Enforcement Rules for the same regulations.

ordinary transactions, a company requires a resolution of the board of directors regardless of transaction amount in question. Nonetheless, many companies seem to regard it sufficient to have such basic policies to protect minority shareholders that the said decisions are independently made by the board of directors of the subsidiaries, not based on instructions from the parent companies. Yet they are expected to explain more about whether directors under the parent companies' influence can make a fair decision. Other descriptions include the stipulation of rules on internal procedures related to decision-making on the transaction conditions to ensure appropriateness of transactions, and appropriate audit by statutory auditors or the operations audit group, etc.

Aside from transaction conditions and procedures, in case a controlling shareholder assumes a role of director, company rules such as code of ethics prohibit such a director to conduct conflict of interest transactions, which cause or may cause conflicts between the director's interests and the company's interests. There are certain companies which prohibit unfairly favorable or unfavorable transactions compared with transactions with third parties, or transactions for the purpose of transferring profits or losses/risks, clearly in their rules as policies to protect minority shareholders.

(2) Other

As described in the Reporting Guideline, the matters applicable to optional free-text descriptions in the subject section include the following matters: (i) in case a company has a parent company - views on, and measures and policies for, maintaining independence from the parent company; (ii) in case a company has a listed subsidiary - views on, and measures and policies for, maintaining independence of the subsidiary.

Concerning (i), out of 265 companies which have the parent companies in this research, 54 companies (20.4%) referred to independence from the parent companies. Specifically they explained independence from the parent companies showing such examples as whether or not there are matters for approval in business activities, pricing power with regards to conditions of transactions (sales, procurement, etc.) with enterprise groups including parent companies, and the situation of Companies with Committees where a number of directors sent from the parent companies in each committee must be less than the majority.

Concerning (ii), out of 135 listed companies with subsidiaries, while there has been an increase of 10 companies from previous research, only 24 companies specifically referred to considerations to the minority shareholders. Such companies described that respect for the minority shareholders' interests are included in the basic internal control policy, that the parent company is committed to respect managerial independence of its listed subsidiary to the maximum extent in the agreements of capital subscription and others, and that transaction conditions are determined in accordance with appropriate procedures or as the same conditions with other companies. This research also revealed a progressive attitude on group management from listed companies which included descriptions on misconduct (administrative penalty) by subsidiaries as well as development of preventive measures for the group of companies.

Corporate Governance System

As the matters concerning governing bodies and conduct of organizations, the Report has a section on statutory auditors in case of Companies with Statutory Auditors, or executive officers and each of statutory committees in case of Companies with Committees, in addition to a section on directors. Decision-making procedures and supervising/auditing functions for business execution vary depending on organizational form of a company. Therefore, it is considered that explanations in line with such organizational forms serve as useful information for making investment decisions from the perspective of understanding the status of corporate governance.

1. Organizational Form

As for organizational forms of the companies which submitted the Corporate Governance Reports, those who adopted the Companies with Committee system account for only 2.2% (down 0.1%; any up/down in this chapter refers to a change from the previous research) of all TSE-Listed Companies. Overwhelming majority of the companies (97.8%) are Companies with Statutory Auditors. Background factor behind the results would be that Japanese stock companies (kabushiki kaisha) have traditionally adopted the statutory auditor system under the former Commercial Code, and that only large or deemed-large companies were allowed to shift to the Companies with Committees system²² at the time when the committees system was first introduced as "Companies with Committees, etc." under the former Commercial Code and the Act on Special Provisions of the Commercial Code concerning Audits, etc. of Kabushiki Kaisha ("the former Special Provisions on Audits") on April 1, 2003. Currently a company, regardless of the company size, may adopt the Companies with Committees system by stipulating so in its own articles of incorporation²³.

Since the previous research, 6 companies changed their systems from Companies with Statutory Auditors to Companies with Committees, 2 Companies with Committees were newly listed and 8 Companies with Committees were delisted. 4 Companies with Committees also changed their systems to Companies with Statutory Auditors. As a result, the number of the TSE-listed Companies with Committees is 51, 4 companies less than in the previous research.

Chart 14 Organizational Form of TSE-Listed Companies

Organizational form	TSE First Section			TSE Second Section			TSE Mothers		
	Number of companies	Ratio	Change from 2008	Number of companies	Ratio	Change from 2008	Number of companies	Ratio	Change from 2008
Companies with Statutory Auditors	1,626	97.4%	0.2%	439	99.1%	0.6%	178	97.8%	-0.9%
Companies with Committees	43	2.6%	-0.2%	4	0.9%	-0.6%	4	2.2%	0.9%
Total	1,669	100.0%	0.0%	443	100.0%	0.0%	182	100.0%	0.0%

²² Article 1-2, Paragraph 3 of the former Special Provisions on Audits.

²³ Article 326, Paragraph 2 of the Companies Act.

Chart 15 Organizational Form of TSE-Listed Companies (Foreign Shareholding Ratio)

Foreign Shareholding Ratio	Companies with Statutory Auditors		Companies with Committees		Total
	Number of companies	Ratio	Number of companies	Ratio	Number of companies
Under 10%	1,443	99.0%	14	1.0%	1,457
10% to under 20%	437	97.3%	12	2.7%	449
20% to under 30%	207	94.5%	12	5.5%	219
30% or more	156	92.3%	13	7.7%	169
Total	2,243	97.8%	51	2.2%	2,294

Chart 16 Organizational Form of TSE-Listed Companies (Shareholding Ratio of the Largest Shareholder)

Shareholding Ratio of the Largest Shareholder	Companies with Statutory Auditors		Companies with Committees		Total
	Number of companies	Ratio	Number of companies	Number of companies	Ratio
Under 5%	165	7.4%	4	7.8%	169
5% to under 10%	671	29.9%	16	31.4%	687
10% to under 20%	556	24.8%	6	11.8%	562
20% to under 33.33%	395	17.6%	6	11.8%	401
33.33% to under 50%	250	11.1%	6	11.8%	256
50% or more	206	9.2%	13	25.5%	219
Total	2,243	100.0%	51	100.0%	2,294

In the analysis of the ratio of the Companies with Committees by market section as shown in Chart 14, TSE First Section shows a slightly higher ratio (2.6%). With respect to number of employees (consolidated), net sales (consolidated), and number of consolidated subsidiaries, the results of each of these elements show that the higher the figure is (meaning, the larger the companies are), the more likely the companies have adopted the committees system. As mentioned earlier, this would be under the influence of the fact that only large companies and deemed-large companies were allowed to adopt the committees, etc. system at the time the system was introduced.

Regarding foreign shareholding ratio (see Chart 15), there is a trend that the higher the ratio is, the higher the percentage of Companies with Committees is. Where the shareholding ratio of the largest shareholder exceeds 50%, the percentage of the Companies with Committees appears to be higher (see Chart 16). In this background, there was a case where the entire companies under certain enterprise groups adopted the committees system.

2. Directors and the Board of Directors

(1) Chairperson of the Board of Directors meetings

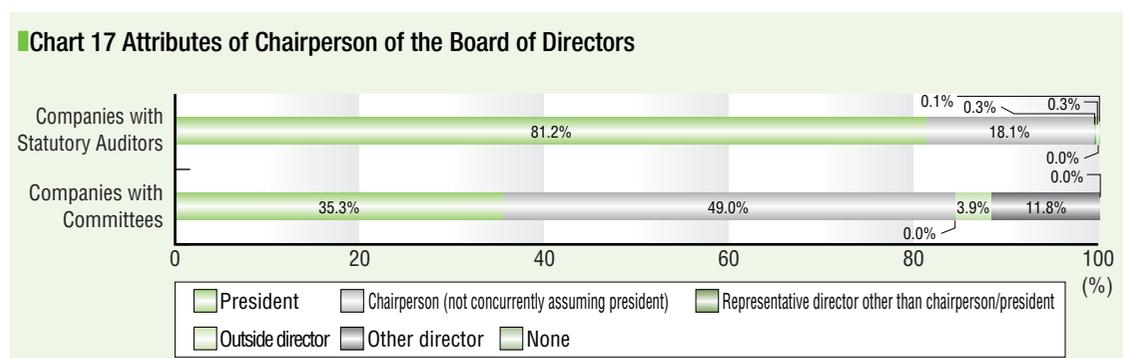
Concerning chairperson of the board of directors meetings, the Report requires each company to inform whether or not a chairperson exists, and an attribute of the chairperson, if any, by checking an appropriate answer among the following categories: (1) president (shacho), (2) company chairperson

(kaicho) (excluding a person who concurrently assumes the position of president; hereinafter the same shall apply), (3) representative director other than company chairperson/president, (4) outside director, or (5) other director.

Out of all TSE-listed companies, 99.9% have a chairperson of the board of directors, and only 0.1% do not have a chairperson.

As for the attributes of chairperson of the board of directors, an overall trend is that president chairs the board of directors in the most companies, making up 80.2% of all TSE-Listed Companies (up 0.3%), followed by company chairperson who chairs the Board in 18.7% (down 0.3%) of the companies. In 99.0% (up 0.1%) of the companies, either president or company chairperson chairs the board of directors. In the analysis by market section, whereas president chairs the board of directors in 75.2% (company chairperson: 23.5%) of the companies listed on TSE First Section, such ratios of TSE Second Section and TSE Mothers are 91.9% (company chairperson: 8.1%) and 97.8% (company chairperson: 1.1%), respectively. As number of employees (consolidated), net sales (consolidated), and number of consolidated subsidiaries get larger (in other words, in larger companies), percentage of president who chairs the Board tends to decline, while percentage of company chairperson who chairs the Board tends to increase.

In the comparative analysis of the chairpersons' attributes between the Companies with Statutory Auditors and the Companies with Committees (see Chart 17), while president and company chairperson who chairs the Board of the Companies with Statutory Auditors comprise 81.2% (up 0.2%) and 18.1% (down 0.2%), respectively, the respective ratios in the Companies with Committees show 35.3% (up 2.6%) and 49.0% (down 3.7%). In the latter companies, the cases company chairperson chairs the Board shows a higher ratio. This would not be interpreted as a difference between the Companies with Statutory Auditors and the Companies with Committees. Rather it would be due to the trend that the Companies with Committees system are more likely to be adopted by larger companies (see the above 1. Organizational Form).



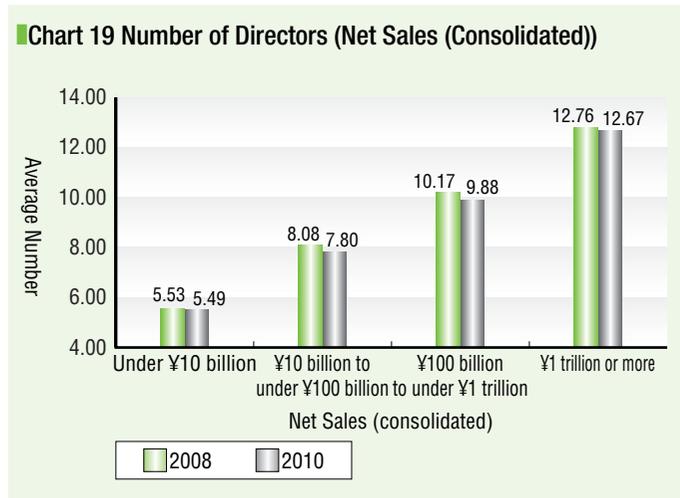
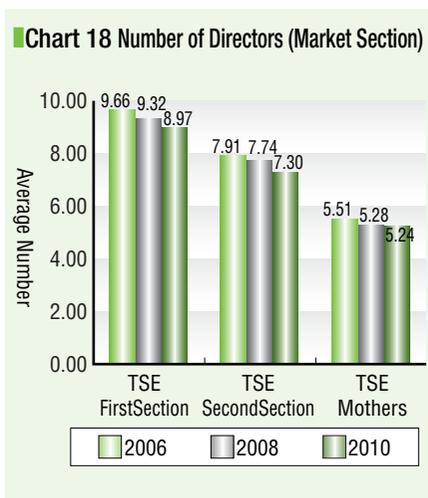
(2) Number of directors

The size of the board of directors has been in continuous decline since the 2007 research. Consequently, the current average number of directors per company for all TSE-Listed Companies is 8.35 (decreased by 0.33 persons).

Despite of an overall decline in number of directors, there are 16 companies which have more than 20 directors, and 8 companies among them do not have any outside director. In contrast, there are 460 companies which have no more than 5 directors. Among them, 9 companies have more statutory auditors than directors, and the size of the board of directors is equal to the size of the Board of Statutory Auditors in 80 companies; and number of directors exceeds number of statutory auditor by only 1 person in 241 companies. Furthermore, upon dividing the number of directors by the number of the statutory auditor, 1,220 companies shows no more than double, including 498 companies showing no more than 1.5 times, indicating that statutory auditors has been gaining more power.

In the analysis by market section (see Chart 18), companies listed on TSE First Section have 8.97 directors in average (decreased by 0.35 persons) in contrast to 7.30 directors (decreased by 0.44 persons) in TSE Second Section and 5.24 directors (decreased by 0.04 persons) in TSE Mothers, while all of them showing declines.

In addition, as shown in Chart 19, there is a notable feature that the larger the net sales (consolidated)²⁴ are (that is, when a company size is larger), the more directors companies tend to have.



When classified by foreign shareholding ratio, the analysis finds that the higher the ratio, the more directors the companies have. This would not be related to higher foreign shareholding ratio itself; rather

²⁴ The similar trends are observed in analysis by (consolidated) number of employees, and number of consolidated subsidiaries.

it would be because foreign shareholding ratios tend to be higher in larger companies (see the above II.1. (1) Foreign Shareholding Ratio).

As for major shareholders, the lower the shareholding ratios of the largest shareholder are, the more in number the companies tend to have directors. This would be due to a trend that the lower shareholding ratio of the largest shareholder, the larger companies are (see the above II.1. (2) Major Shareholders).

(3) Appointment of outside directors

(a) Appointment of outside directors and number appointed

(i) Overview

Companies which appoint outside directors²⁵ account for 48.7% (up 3.4%) of all TSE-Listed Companies. When limited to the Companies with Statutory Auditors, the corresponding ratio is 47.6% (up 3.5%), showing an increase from the previous research. While the Companies with Committees are required to have more than a half of outside directors in each committee under the Companies Act (Article 400, Paragraph 3 of the Companies Act), the Companies with Statutory Auditors, which are not subject to such a requirement, are increasingly appointing outside directors voluntarily.

The percentage of the companies whose number of outside directors having a seat on the board of directors occupies more than one-third or are in the majority is as shown on the Chart 22. In accordance with the Companies Act, the majority of each committee in Companies with Committees must be made up of outside directors. Most of the companies (94.1%) have secured outside directors to make up at least one-third of the board of directors and 41.2% have outside directors who are in majority on the board of directors. On the other hand, among Companies with Statutory Auditors, there were only 8.8% of companies which have outside directors making up at least one-third of the board of directors and 1.0% which have outside directors occupying a majority on the board of directors.

As for average number of outside directors per company, it is 0.91 (increased by 0.05 persons) for all TSE-Listed Companies (1.86 persons, when limited to those who have outside directors), 0.83 (increased by 0.05 persons) for the Companies with Statutory Auditors (1.74 persons, when limited to those who have outside directors), and 4.43 (decreased by 0.04 persons) for the Companies with Committees.

Chart 20 and 21 show percentages of companies classified by numbers of outside directors in the Companies with Statutory Auditors and the Companies with Committees, respectively. What is found from the data is that 22.1% of the Companies with Statutory Auditors (or 46.4% of those who have outside directors) have multiple (2 or more) outside directors.

²⁵ Definition of outside director is subject to Article 2, Paragraph 15 of the Companies Act.

Chart 20 Number of Outside Directors (Companies with Statutory Auditors)

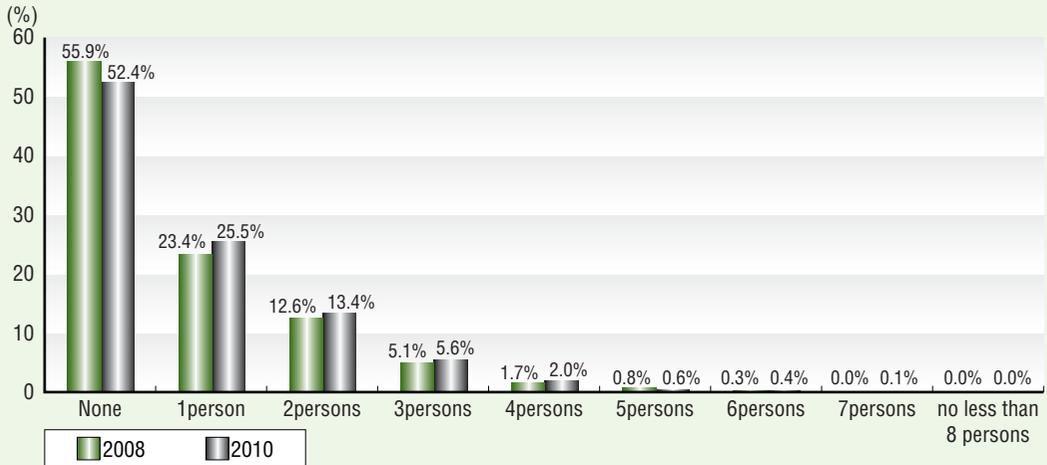


Chart 21 Number of Outside Directors (Companies with Committees)

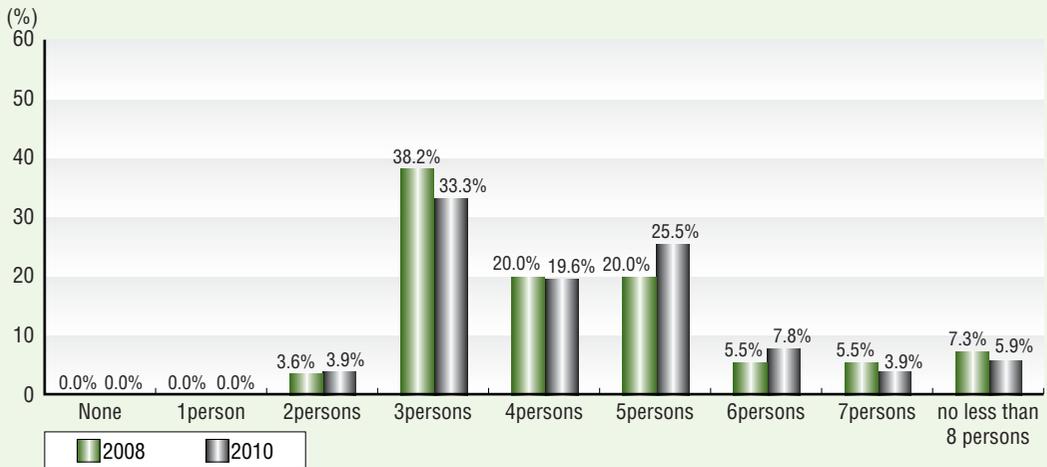
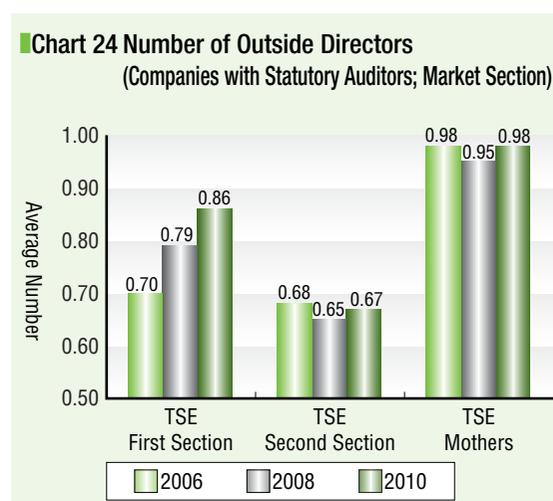
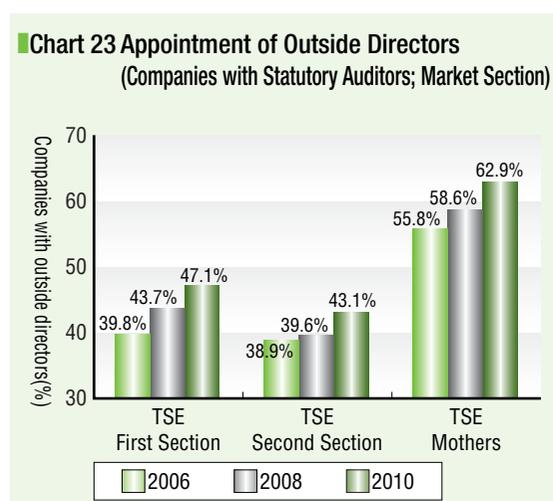


Chart 22 Percentage of Companies by Ratio of Outside Directors in Board of Directors

Corporate Structure	Companies whose outside directors occupy at least 1/3 of board of directors		Companies whose outside directors occupy more than half of board of directors	
	No. of Companies	Percentage	No. of Companies	Percentage
Companies with Statutory Auditors	197	8.8%	22	1.0%
Companies with Committees	48	94.1%	21	41.2%
All Companies	245	10.7%	43	1.9%

(ii) Relation with market section

In the analysis by market section, outside directors are appointed in 48.5% (up 3.3%) of all companies listed on TSE First Section (47.1%, when limited to those with the statutory auditor system), showing 0.95 as the average number of outside directors (0.86, as above). TSE Mothers-listed companies show the higher ratio of appointment of outside directors at 63.7% (62.9%, as above), with the average number of 1.05 (0.98, as above). The background to this is that TSE Mothers is a market for growing companies so the listed companies tend to be young and were listed after discussions on corporate governance began. Furthermore, we can infer that they were relatively less hesitant at bringing in talent from outside the company for their boards of directors, because the management teams of these start-up companies generally include many from outside the company.

**(iii) Relation with shareholding ratio of the largest shareholder**

In case of the Companies with Statutory Auditors, from the analysis on relation between appointment/number of outside directors and major shareholders, it is found that as shareholding ratios of the largest shareholder declines, percentages of the companies with outside directors as well as number of outside directors tend to decline (see Chart 25 and Chart 26).

As a potential reason for such trends, it is assumed that companies with higher shareholding ratios of the largest shareholder need to appoint outside directors to project an image of independence of the board of directors from the companies. On the other hand, as the shareholding ratio of the largest shareholder increases, the ratio of outside directors appointed from parent or affiliated companies to the entire outside directors tends to increase. Accordingly, it is also interpreted that outside directors from those companies are contributing to raise the ratio of the companies with outside directors as well as the number of outside directors.

Additionally, compared to previous research, companies whose largest shareholder's shareholding ratio

is less than 10% have a higher tendency to appoint outside directors.

Chart 25 Appointment of Outside Directors
(Companies with Statutory Auditors; Shareholding Ratio of the Largest Shareholder)

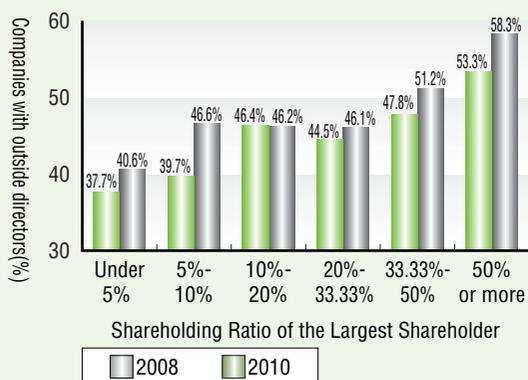


Chart 26 Number of Outside Directors
(Companies with Statutory Auditors; Shareholding Ratio of the Largest Shareholder)



(iv) Relation with company size

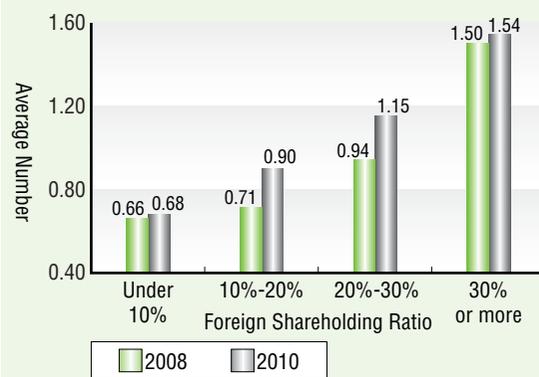
In case of the Companies with Statutory Auditors, from the analysis on relation between appointment/number of outside directors and company size, it is found that larger companies do not necessarily have more outside directors. Especially in relation with number of employees (consolidated), the lowest category, that is companies with less than 100 employees, include the largest number of companies with outside directors (66.4% of the Companies with Statutory Auditors). This is interpreted as being due to more companies on TSE Mothers, where relatively smaller companies are listed, appointing outside directors.

On the contrary, concerning relation between appointment/number of outside directors and foreign shareholding ratio among the Companies with Statutory Auditors, there is a distinctive trend that the higher the foreign shareholding ratio is, the higher the percentage of the companies with outside directors and the more the number of outside directors is. (In the category of Companies with Statutory Auditors whose foreign shareholding ratio is no less than 30%, 65.4% (up 4.7%) have outside directors, with an average number of 1.54 (up 0.04 persons), showing a growth (see Chart 27 and Chart 28)). In a comprehensive review of the problems and issues of the listing system, TSE has conducted surveys to gather opinions from both domestic and overseas investors in 2008 and 2010. Both surveys revealed that the appointment of outside directors is the most highly requested item by overseas investors, and the trend in listed companies indicates a response to such requests from institutional investors.

Chart 27 Appointment of Outside Directors (Companies with Statutory Auditors; Foreign Shareholding Ratio)



Chart 28 Number of Outside Directors (Companies with Statutory Auditors; Foreign Shareholding Ratio)

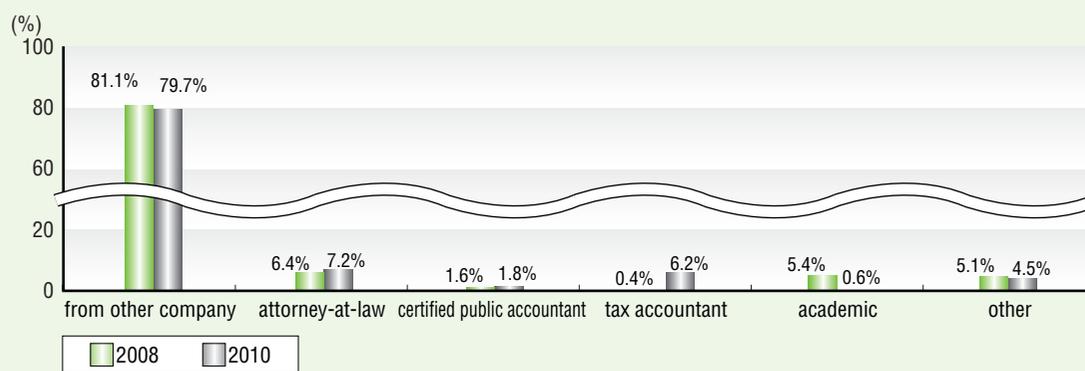


(b) Attributes of outside directors

The Report is designed to select each outside director's attribute from the following categories: "from other company,"²⁶ "attorney-at-law," "certified public accountant," "tax accountant," "academic," and "other."

In this respect, the overwhelming majority of outside directors of all TSE-Listed Companies are appointed "from other company," making up 78.5% (down 1.5%). While the Companies with Statutory Auditors shows even higher percentage, 79.7% (down 1.3%) for this category, the Companies with Committees shows lower 68.1% (down 4.2%) for those from other company in contrast to higher percentages for attorney-at-law (11.1%; up 1.7%) and certified public accountant (6.6%; up 0.9%).²⁷

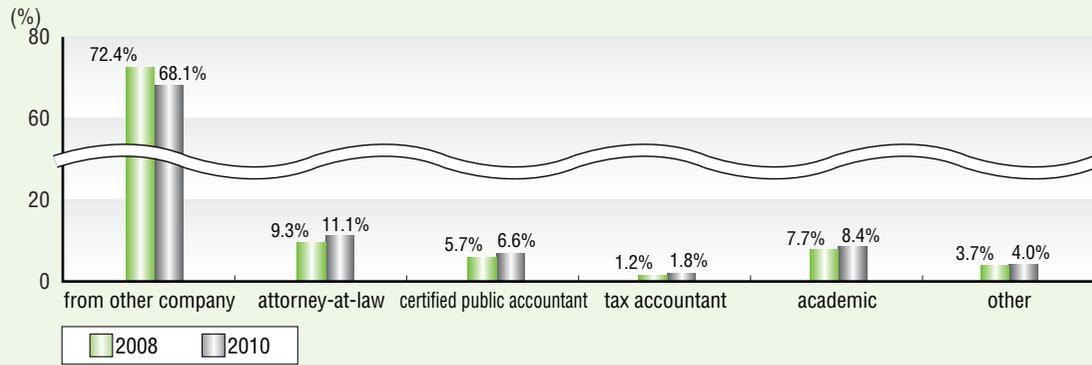
Chart 29 Attributes of Outside Directors (Companies with Statutory Auditors)



²⁶ The term "from other company" means that a person currently works for or has previously worked for other company.

²⁷ See footnote 3.

Chart 30 Attributes of Outside Directors (Companies with Committees)



(c) Relation between outside directors and company

The report requires detailed disclosure of relations between outside directors and the company. Before the Report system was introduced, the Exchange required the listed companies to disclose, in their financial highlights, the qualitative information including human, capital, and business relationships. This information is considered essential for judging independence/neutrality of outside directors under the Companies Act, and enhanced disclosures are required in their annual business reports and reference materials for general shareholders' meetings where outside directors are to be elected. Under this circumstance, the Report provides the following list of relations, among which the respondents make a choice (multiple answers allowed), so that readers of the Reports can understand relations between outside directors and companies at a glance, unlike judging the same from statutory documents, and also comprehend whether outside directors meet certain independence criteria. (The following list of relations is also used for 3.(4) "Relation between outside statutory auditors and company" in this chapter.)

- a.Appointed from the parent company;
- b.Appointed from other affiliated company;²⁸
- c.Major shareholder²⁹ of the company;
- d.Concurrently assumes a position of outside director or outside statutory auditor of other company;
- e.Assumes executive director or executive officer or the like³⁰ of other company;

²⁸ The term "other affiliated company" is as defined in Article 8, Paragraph 17, Item 4 of the Rules on Financial Statements.

²⁹ The term "major shareholder" means any shareholder who holds 10% or more of the outstanding shares issued (excluding treasury shares). It includes an outside director who works for a company being a major shareholder.

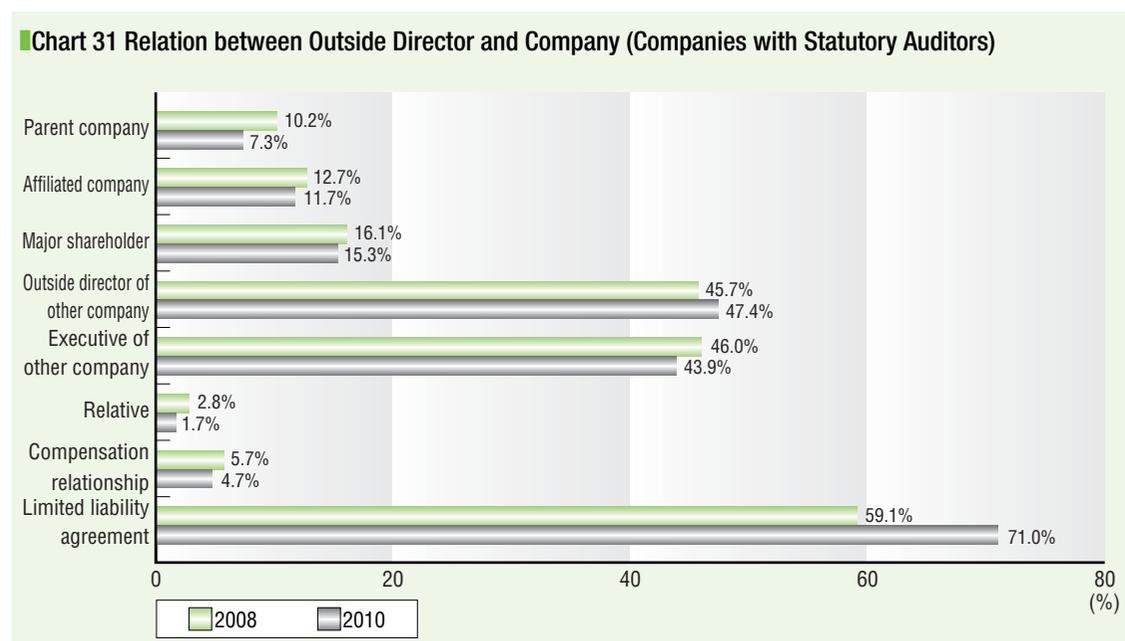
³⁰ The term "executive officer or the like" means executive officers, or members who execute the business (including any person who executes duties defined in Article 598, Paragraph 1 of the Companies Act) or employees (in accordance with Article 124, Item 1 or 3 of the Enforcement Rules for the Companies Act).

- f. Spouse or relative within the third degree or their equivalent of an executive director and/or executive officer or the like of the company or a special related entity³¹ of the company;
- g. Receives compensation,³² etc. as an officer from the parent company, or a subsidiary of the parent company;
- h. Has entered into a limited liability agreement³³ with the company; or
- i. Other

(i) Overview

Charts 31 and 32 show which of the above-mentioned categories the outside directors of the TSE-Listed Companies belong to. (As multiple answers are allowed, an outside director may be included in multiple categories.)

According to the charts, outside directors of the TSE-Listed Companies, who concurrently assume executive directors or executive officers or the like, account for 43.9% (down 2.0%) of the Companies

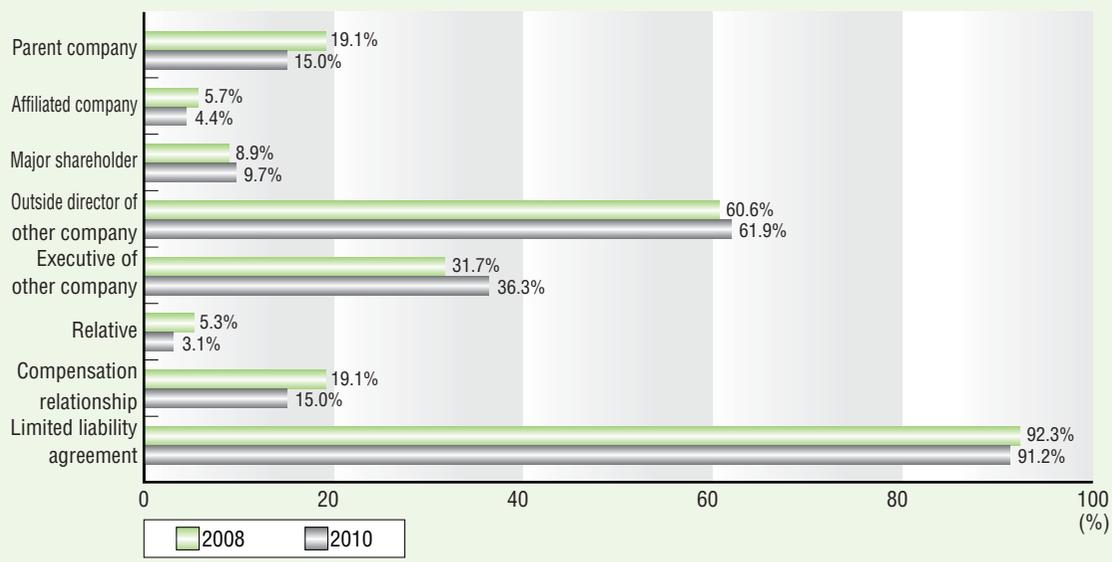


³¹ The term "special related entity" means any person stipulated by Article 2, Paragraph 3, Item 19 of the Enforcement Rules for Companies Act.

³² The term "compensation, etc." refers to any compensation, bonus, or other interest in assets received from a stock company in exchange for execution of business.

³³ The term "limited liability agreement" means that a certain limit of the liability of an outside director is determined by virtue of the agreement between the company and an outside director in accordance with the Articles of Incorporation (i.e., the agreement prescribed in Article 427, Paragraph 1 of the Companies Act).

Chart 32 Relation between Outside Director and Company (Companies with Committees)



with Statutory Auditors, and 36.3% (up 4.6%) of the Companies with Committees, showing unchanged or declining trend. On the other hand, percentages of those who concurrently assume outside directors or outside statutory auditors of other companies rose to 47.4% (up 1.8%) of the Companies with Statutory Auditors, and 61.9% (up 1.4%) of the Companies with Committees.

(ii) Outside directors from parent or affiliated company

In the Companies with Statutory Auditors (see Chart 31), outside directors from parent companies and "other affiliated companies" account for 7.3% (down 2.9%) and 11.7% (down 1.1%), respectively, of all outside directors, both showing declines. As for outside directors who are major shareholders or work for companies which are major shareholders, their ratio decreased to 15.3% (down 0.8%). Also in the Companies with Committees (see Chart 32), all the categories of relations, except those from the parent companies, show declines. In both types of the companies, on-going efforts to maintain outside directors' independence/neutrality can be observed.

For the analysis of companies with parent companies, Chart 33 provides number of outside directors per company (and the ratio to all directors of the companies with parent companies), and number of outside directors from parent companies per company (and the ratio to all outside directors of the companies with parent companies). According to this data, 59.3% (down 8.2%), more than two thirds, of outside directors of the TSE-Listed Companies with parent companies came from such parent companies. Out of such outside directors of listed companies with parent companies, those who receive compensation, etc. as directors from the parent companies or their subsidiaries account for 69.2% (up 9.8%), still maintaining a high level despite of a decline from the previous research.

Chart 33 Relation between Company with a Parent Company and Outside Director

		Number of listed companies with parent companies		Number of outside directors, per company		Number of outside directors from parent companies, per company		Number of paid outside directors from parent companies, per company	
			Ratio to listed companies		Ratio to directors		Ratio to outside directors		Ratio to outside directors from parent company
Companies with Statutory Auditors	2008	286	12.3%	0.93	11.9%	0.63	67.5%	0.34	54.2%
	2010	249	11.1%	0.89	11.3%	0.54	61.1%	0.34	62.2%
Companies with Committees	2008	13	23.6%	3.77	51.0%	2.54	67.3%	2.23	87.9%
	2010	16	31.4%	4.00	53.3%	2.13	53.1%	2.06	97.1%
Total	2008	299	12.6%	1.05	13.5%	0.71	67.5%	0.42	59.4%
	2010	265	11.6%	1.08	13.8%	0.64	59.3%	0.44	69.2%

Focusing on independence of outside directors (see Chart 34), the ratios of "independent outside directors" (meaning outside directors who do not fall under any of the above categories a, b, c, f, and g; hereinafter the same shall apply) to all outside directors are high both in the Companies with Statutory Auditors and the Companies with Committees, making up 73.9% (up 3.3%) and 77.0% (up 4.6%), respectively. When limited to outside directors of companies with takeover defense measures, the independence ratio is even higher, at 89.8%, nearly nine tenths. Yet when limited to companies with parent companies, the independence ratio is just 29.8%.

The ratio of companies all of whose outside directors meet certain independence criteria is over half (54.9% (up 4.0%)) of the Companies with Committees, yet the same ratio for the Companies with Statutory Auditors shows low 31.9% (up 3.6%). Furthermore, when limited to the companies with parent companies, such ratio is only 8.7% (up 1.3%), which suggests that outside directors of the companies with parent companies are less independent. From time-sequential comparison, it is found that the ratios of appointing independent outside directors have increased in each case, therefore it is considered that the awareness of independence has been increasing in general.

Chart 34 Appointment of Outside Directors Meeting Certain Independence Criteria

	Average number of outside directors, per company		Average number of independent outside directors, per company		Ratio of independent outside directors out of all outside directors		Ratio of companies with outside directors		Ratio of companies all of whose outside directors are independent	
		Change from 2008		Change from 2008		Change from 2008		Change from 2008		Change from 2008
Companies with Statutory Auditors	0.83	0.05	0.61	0.06	73.9%	3.3%	47.6%	3.5%	31.9%	3.6%
Companies with Committees	4.43	-0.04	3.41	0.18	77.0%	4.6%	100.0%	0.0%	54.9%	4.0%
Companies with outside directors	1.86	-0.04	1.38	0.04	74.2%	3.4%	100.0%	0.0%	66.5%	3.1%
Companies with parent companies	1.08	0.03	0.32	0.06	29.8%	5.3%	57.4%	0.8%	8.7%	1.3%
Companies with takeover defense measures	1.01	0.02	0.91	0.03	89.8%	1.2%	54.0%	1.4%	46.5%	1.7%

(iii) Limited liability agreement

Outside directors who concluded limited liability agreements with the companies account for 73.2% (up 10.1%) of all outside directors of the TSE-Listed Companies. This is mainly due to a significant increase in the Companies with Statutory Auditors, which account for 71.0% (up 11.9%). The Companies with Committees shows a moderate increase to 91.2% (down 1.1%), yet still much higher ratio than the Companies with Statutory Auditors.

One of the reasons would be that appointment of outside directors is mandatory for Companies with Committees (Article 400, Paragraph 3 of the Companies Act), and they often make use of limited liability agreements to invite such outside directors. A company cannot conclude a limited liability agreement with an outside officer without relevant provisions in their articles of incorporation (Article 427, Paragraph 1 of the Companies Act; Article 266, Paragraph 19 of the former Commercial Code). While companies which intend to adopt the Committees system are required to amend their articles of incorporation (Article 326, Paragraph 2 of the Companies Act; the same in case of Companies with Committees, etc. under the former Commercial Code (Article 1-2, Paragraph 3 of the former Special Provisions on Audits)), many companies used such amendment opportunities to include provisions on limited liability agreement in their articles of incorporation as well.

(d) Reasons for appointing outside directors

The Report requires companies with outside directors to describe reasons for appointing of each outside director. The Reporting Guideline specifies that each outside director's expertise and the relevance to business of the company are to be included in the reasons for appointment. The revision of the Reporting Guideline in December 2009 requires description on the stance on the independence of outside directors. In addition, with the introduction of independent director/auditor system, if an outside director is positioned as an independent director, the Reporting Guideline requires the listed company to include reasons for appointing such outside director as an independent director.

Examples of descriptions on expertise in the Reports include capacities of specialists such as attorney-at-law or certified public accountant, and profound knowledge of the industry. With respect to the relevance to the business, many companies explained that the outside directors in question are from parent companies, or major shareholders, or officers of their business partners. For example, in case such directors are from the parent companies, information sharing with such parent companies as well as appropriate advice or guidance from the managerial viewpoint of the parent companies is emphasized. In case such directors are the major shareholders, they are expected to perform check-and-balance functions as representative of the shareholders.

According to keyword research, the term "independence"³⁴ was included in 67.5% (up 48.6%, 78.4% of Companies with Committees and 67.0% of Companies with Statutory Auditors) of outside directors of

³⁴ With respect to "independence," any company using any one of the following keywords is included: "independent," "objective," or "neutrality."

TSE-listed companies, a significant increase from previous research. The term "expertise"³⁵ was included in 71.2% (up 14.9%; 88.2% of Companies with Committees and 70.4% of Companies with Statutory Auditors) of such descriptions.

(4) Reasons for not appointing outside directors

The Report requires description on the reasons for selecting the current corporate governance system. The revision of the Reporting Guideline in December 2009 requires Companies with Statutory Auditors which do not appoint outside directors to include descriptions on improving its corporate governance system and execution thereof in substitute of the role expected of outside directors.

This caused the amount of description on reasons for not appointing outside directors to increase remarkably from previous research (more than 500 companies described this at least 1.5 times more than previous research). Even for companies not appointing outside directors, efforts to enhance the function of the board of directors are shown in descriptions related to aspects such as supervision (387 companies, up 183 companies from previous research), execution (629 companies, up 229 companies), enhancing coordination (281 companies, up 131 companies), shortening the term of directors (48 companies, up 27 companies) and description related to executive officers (134 companies, up 61 companies).

The majority of details in the descriptions are the cross-checking between (board of) Statutory Auditors comprised mainly of outside statutory auditors and directors, the segregation of supervision and execution through the introduction of an executive officer system, the proper functioning of advisory functions of an advisory board, etc. There were also descriptions on shareholders' monitoring function by shortening the term of directors to 1 year and advice from and issues raised by Statutory Auditors on a 4-year term are effective based on the broader picture and less influenced by short-term views. Moreover, 180 companies mentioned that the newly-introduced independent director/auditor system will probably lead to effective monitoring of management.

Among Companies with Statutory Auditors which do not appoint outside directors, 91.5% of such companies include the term "outside statutory auditors" in their descriptions, and there were many cases of outside statutory auditors function on monitoring management being raised as the reason for not appointing outside directors. However, the figures show that among Companies with Outside Directors, the total number of statutory auditors is 3.88 persons and 66.5% is occupied by outside statutory auditors, while the total number of statutory auditors in the Companies which do not appoint outside directors is 3.77, and only 66.0% is occupied by outside statutory auditors.

While the effectiveness of outside statutory auditors' function on monitoring management is being raised as the reason for not appointing outside directors, the number of statutory auditors and the ratio of outside statutory auditors does not necessarily compare favorably with Companies with Outside

³⁵ With respect to "expertise," any company using any one of the following keywords is included: "specialty," "knowledge," or "insight."

Directors. From the perspective of accountability to investors, for example, clearer descriptions are needed to explain why such companies do not appoint outside directors in relation to how the outside statutory auditors' governance function and the difference from companies that appoint outside directors. There are opinions, in particular, from foreign investors that since outside directors do not have voting rights in a board of directors meeting or rights to appoint or dismiss the representative director, outside statutory auditors cannot substitute outside directors. This was also shown in TSE's 2010 survey for investors, so further consideration would be necessary.

Among the companies which state a governance structure based on cross-checking between directors as the reason, some companies have appointed outside directors from financial and other institutions, even though they do not fall under outside directors in the Companies Act. As such, it is interpreted that such companies are capable of business execution which incorporates the viewpoint of outsiders.

In addition to the above, some companies, while showing positive attitude to outside directors, are counting on external consultative bodies like advisory boards, such as compensation advisory committees and compliance committees, which include external committee members, for such functions at this moment. There also were companies seeing lack of appropriate personnel as a problem.

An opinion showing negative attitude to outside directors was presented on the ground that directors are in charge of business execution, and the board of directors, as the highest executive organ, needs to equip deep knowledge and experience in business to direct the employees. For this reason, a commenter was questioning the outside directors system itself.

3. Statutory Auditor and Board of Statutory Auditors

(1) Existence of the Board of Statutory Auditors

The Report includes information on whether a company has the Board of Statutory Auditors. Before the Companies Act came into effect, only large companies³⁶ were allowed to establish the Boards of Statutory Auditors (Article 18-2 of the former Special Provisions on Audits). Now, under the Companies Act, companies other than large companies may optionally establish the Boards of Statutory Auditors (Article 328, Paragraph 1 of the Companies Act). In November 2007, the Exchange incorporated the "Code of Corporate Conduct" into the Securities Listing Regulations. The Code of Corporate Conduct include fundamental issues related to corporate governance to enhance the quality of listed companies, and requires all listed companies, even if they do not fall under the category of large companies under the Companies Act, to establish the Board of Statutory Auditors (or committee) (Article 439 of the Securities Listing Regulations). As this Report shows, all listed companies are already Companies with Board of Statutory Auditors, i.e., there are no companies which do not have a Board of

³⁶ The term "large companies" means companies with a share capital of ¥500 million or more or liability of ¥20 billion or more (Article 2, Item 6 of the Companies Act; Article 1-2, Paragraph 1 of the former Special Provisions on Audits).

Statutory Auditors (see Chart 35).

Chart 35 Number of Companies without the Board of Statutory Auditors (Market Section)

	2008		2010	
	Number of companies	ratio by market section	Number of companies	ratio by market section
TSE First Section	0	0.0%	0	0.0%
TSE Second Section	0	0.0%	0	0.0%
TSE Mothers	17	8.9%	0	0.0%
Total	17	0.7%	0	0.0%

(2) Number of statutory auditors and outside statutory auditors

In all Companies with Statutory Auditors listed on TSE, average number of statutory auditor per company is 3.82 (increased by 0.01 persons), and 2.53 (66.2% of Statutory Auditors; increased by 0.01 persons) among them are outside statutory auditors³⁷ (see Chart 36). Among those companies, there are 22 companies with a relatively large number of, specifically no less than 6, statutory auditors.

In analysis by market section (see Chart 37), while average number of statutory auditors per company listed on TSE First Section is 3.97 including 2.54 outside statutory auditors, the average numbers are 3.49 (including 2.41 outside statutory auditors) for companies listed on TSE Second Section, and 3.26 (including 2.72 outside statutory auditors) for TSE Mothers-listed companies.

As for relation with company size (see Chart 38), the higher the net sales (consolidated)³⁸ are (or the larger the company size is), the more statutory auditors are appointed. Such trend can be observed in the relation between number of outside statutory auditors and company size, though less remarkable. The similar tendency can be found in the analysis of directors: the larger the company size is, the more directors the company has; yet such a trend is not so substantial in case of the number of outside directors of Companies with Statutory Auditors (see the above III 2. (3)(a) State of Appointment of Outside directors and Number Appointed).

With respect to major shareholders (see Chart 39), the lower the shareholding ratio of the largest shareholder is, the more statutory auditors tend to be appointed. (In contrast, there is no such a trend in case of outside statutory auditors.) It is considered that this is because the less the shareholding ratio of the largest shareholder, the larger the company size (see the above II.1. (2) Major shareholders).

When classified by foreign shareholding ratio, there is correlation with number of outside directors (see the above III.2.(3)(a) Appointment of outside directors and number appointed), but no correlation with numbers of statutory auditors or outside statutory auditors.

³⁷ For the definition of outside statutory auditors, see Article 2, Item 16 of the Companies Act.

³⁸ The similar trends are observed in the analysis classified by number of employees (consolidated), and number of consolidated subsidiaries.

Chart 36 Number of Statutory Auditors and Outside Statutory Auditors (Companies with a Board of Statutory Auditors)

	2008 Statutory Auditors (outside statutory auditors)	2010 Statutory Auditors (outside statutory auditors)
Average number per company	3.81 (2.52)	3.82 (2.53)

Chart 37 Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; by Market Section)



Chart 38 Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; Net Sales (Consolidated))

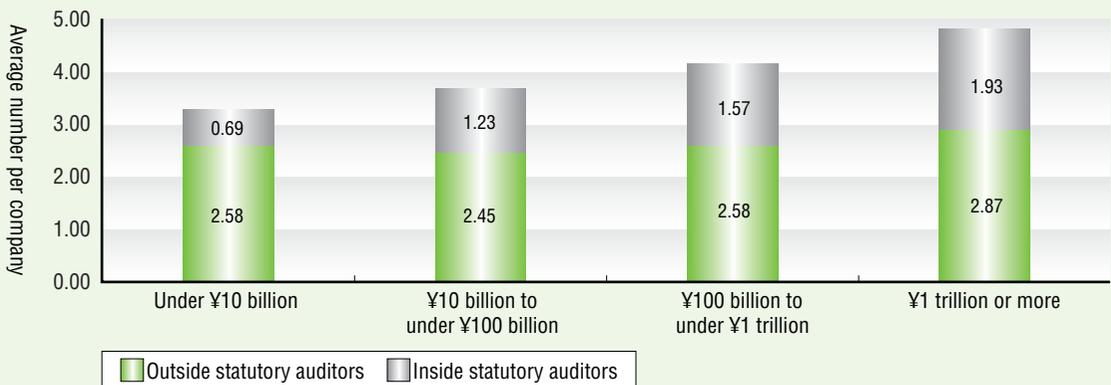


Chart 39 Number of Statutory Auditors and Outside Statutory Auditors (Companies with Statutory Auditors; Shareholding Ratio of the Largest Shareholder)

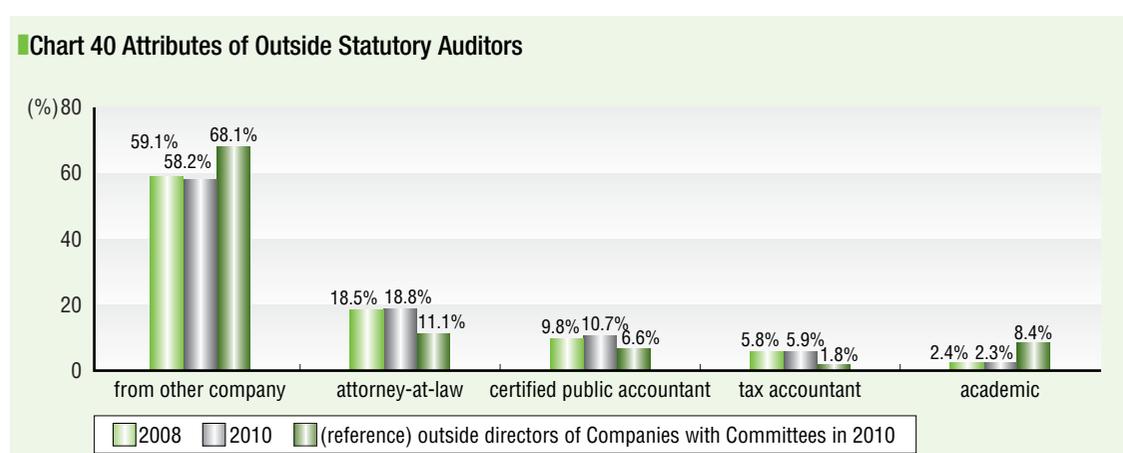


(3) Attributes of outside statutory auditors

Similarly to the attributes of outside directors (see III.2.(3)(b) Attributes of outside directors), the Report is designed to select each outside statutory auditor's attribute from the following categories: "from other company," "attorney-at-law," "certified public accountant," "tax accountant," "academic," and "other."

In this respect, among all statutory auditors of the TSE-Listed Companies with Statutory Auditors, those "from other companies" account for 58.2% (down 0.9%), followed by attorney-at-law (18.8%; up 0.4%), certified public accountant (10.7%; up 0.8%), tax accountant (5.9%; up 0.1%), and academic (2.3%; down 0.2%).³⁹

Outside statutory auditors of the Companies with Statutory Auditors and outside directors of the Companies with Committees play similar roles, yet the comparative analysis of their attributes found that outside statutory auditors show lower percentage of those "from other companies," and higher percentages of attorney-at-law, certified public accountant, and tax accountant. The same trend was observed in the previous research. The reasons would be that while an outside statutory auditor is expected to fulfill the basic responsibilities of a statutory auditor, check the legality of the execution of duties by directors, and to have knowledge of finance and accounting, an outside director of a Company with Committees not only audits business execution as an Audit Committee member (Article 404, Paragraph 2, Item 1 of the Companies Act), but also is engaged in decision-making on business execution including basic management policies as well as supervision of executive officers' execution of duties (Article 416, Paragraph 1 of the Companies Act), and therefore the position of outside director requires a higher level of expertise in management.



³⁹ See footnote 3.

(4) Relation between outside statutory auditors and the company

Concerning relation between each outside statutory auditor and a company, the Report requires each company to select applicable relation(s) (multiple answers allowed) from the list of relations introduced in the section of relation between outside directors and company (see the above III.2.(3)(c) Relation between outside directors and company).

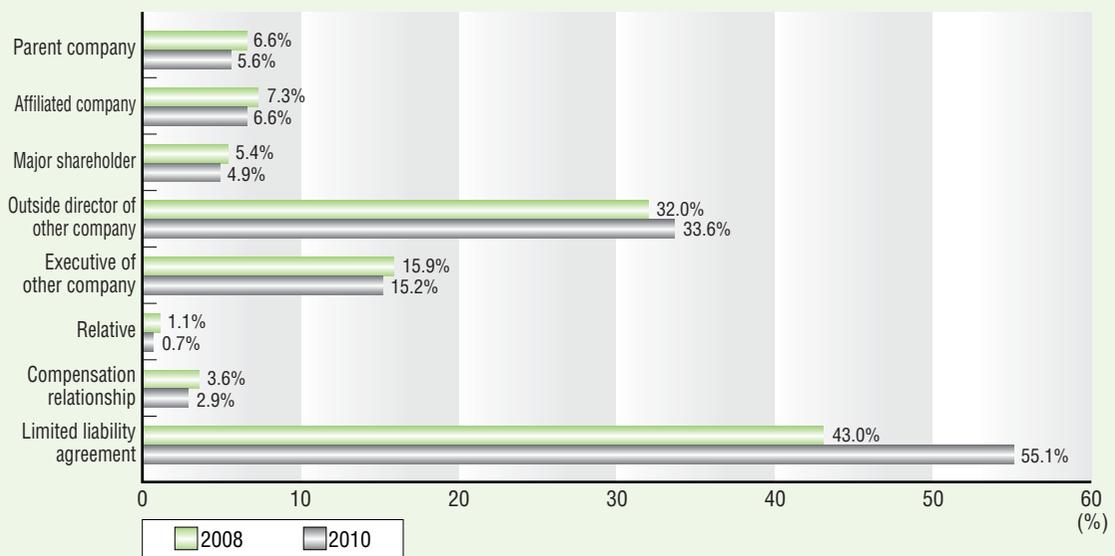
(i) Overview

Chart 41 shows which categories of relations the outside statutory auditors of the TSE-Listed Companies falls under. (As multiple answers are allowed, an outside statutory auditor may be included in multiple categories.)

Compared with the results of the relations between outside directors and companies, each category shows a lower percentage. One reason would be that higher percentages of outside statutory auditors are attorneys-at-law and certified public accountant, who have generally not worked for other companies, compared with outside directors.

Out of outside directors of the TSE-Listed Companies, those who concurrently assume the positions of outside directors or outside statutory auditors of other companies account for 33.6% (up 1.6%), and those who concurrently assume executive directors or executive officers or the like account for 15.2% (down 0.7%).

Chart 41 Relation between Outside Statutory Auditors and the Company



(ii) Outside Statutory Auditors from parent or affiliated company

In the Companies with Statutory Auditors, outside statutory auditors from parent companies account for 5.6% (down .1.0%) and those from "other affiliated companies" account for 6.6% (down 0.7%) of outside statutory auditors. The cases where outside statutory auditors are either major shareholders or work for companies which are the major shareholders show 4.9% (down 0.5%). The percentages of these categories are decreasing.

Limited to the Companies with Statutory Auditors which have parent companies, Chart 42 shows number of outside statutory auditors per company (and their ratio to statutory auditors of the companies with parent companies) and number outside statutory auditors from parent companies, per company (and their ratio to outside statutory auditors of the companies with parent companies). According to the chart, as for outside statutory auditors of the Companies with Statutory Auditors which have parent companies, 48.2% (down 3.6%), or the majority, of them come from the parent companies. As mentioned earlier, almost two thirds of outside directors of the companies with parent companies come from the parent companies (see the above III.2.(3)(c) Relation between outside directors and company). These results illustrate that the majority of officers from outside are appointed from the parent companies, when the companies have parent companies.

Furthermore, 47.2% (down 0.1%) of outside statutory auditors of the Companies with Statutory Auditors which have parent companies receive compensation or other property interest as officers from the parent companies or subsidiaries of such parent companies.

Chart 42 Relation between Outside Statutory Auditors of Company with a parent companies and the Company

		Number of listed companies with parent companies		Number of outside statutory auditors, per company		Number of outside statutory auditors from parent companies, per company		Number of paid outside statutory auditors from parent companies, per company	
			Ratio to listed companies		Ratio to statutory auditors		Ratio to outside statutory auditors		Ratio to outside statutory auditors from parent company
Companies with Statutory Auditors	2008	286	12.3%	2.60	69.9%	1.35	51.7%	0.64	47.3%
	2010	249	11.1%	2.67	70.1%	1.29	48.2%	0.61	47.2%

Similarly to the analysis of outside directors meeting certain independence criteria, the Exchange analyzed independence of outside statutory auditors (see Chart 43). The ratio of "independent outside statutory auditors" (means outside statutory auditors who do not fall under any of the earlier-mentioned categories a, b, c, f, and g in terms of relations with the company; hereinafter the same shall apply) to all outside statutory auditors currently serving the Companies with Statutory Auditors is as high as 85.5% (up 3.1%). When it is limited to outside statutory auditors of the companies with takeover defense measures, the independence ratio even exceeds nine tenth, showing 95.6%. On the other hand, when it is limited to outside statutory auditors of the companies with parent companies, the ratio grossly falls to 42.8% (up 4.1%).

In 77.1% (up 4.3%) of the Companies with Statutory Auditors, all of the outside statutory auditors satisfy certain independence criteria. Such ratio even reaches to 90.1%, when limited to the companies with takeover defense measures. On the contrary, when limited to the companies with parent companies, the same ratio is as low as 17.4% (no change). Compared with the same analysis of outside directors, the aforementioned percentage is not lower, but the trend of relatively low independence of outside statutory auditors of companies with parent companies is similar.

On the other hand, in a time-series comparison, the ratio of appointing of outside statutory auditors with a certain degree of independence in all Companies with Statutory Auditors remains at a high level and has increased since the previous research.

Chart 43 Appointment of Outside Statutory Auditors Meeting Certain Independence Criteria

	Average number of outside statutory auditors, per company		Average number of independent outside statutory auditors, per company		Ratio of independent outside statutory auditors out of all outside statutory auditors		Ratio of companies with outside statutory auditors		Ratio of companies all of whose outside statutory auditors are independent	
		Change from 2008		Change from 2008		Change from 2008		Change from 2008		Change from 2008
Companies with Statutory Auditors	2.53	0.01	2.16	0.09	85.5%	3.1%	100.0%	0.1%	77.1%	4.3%
Companies with parent companies	2.51	0.02	1.07	0.11	42.8%	4.1%	94.0%	-1.7%	17.4%	0.0%
Companies with strategies of takeover defense	2.45	0.00	2.35	0.07	95.6%	2.5%	98.5%	0.5%	90.1%	5.1%

(iii) Limited liability agreement

Outside statutory auditors who concluded limited liability agreements with the companies account for 55.1% (up 12.1%), which is rather low considering that outside directors who concluded the same account for 73.2% (up 10.1%) (71.0% of outside directors of the Companies with Statutory Auditors; up 11.9%). This would be because the former Commercial Code allowed companies to conclude limited liability agreements only with their outside directors, and limited liability agreements with outside statutory auditors were permitted only upon enactment of the Companies Act (See Article 266, Paragraph 19 of the former Commercial Code, and Article 427 of the Companies Act). In addition, it suggests that as outside directors have been increasingly appointed by the Companies with Statutory Auditors, the gap is significantly narrowed down with an effort to have consistency.

(5) Reasons for appointing outside statutory auditors

The Report requires listed companies to describe the reasons for appointing each outside statutory auditor. The Reporting Guideline suggests including the expertise of each outside statutory auditor and the relationship to the company operations. In the revision of the Reporting Guideline in December 2009, as the state of strengthening the function of statutory auditors, the Guideline suggests including the state of appointing outside statutory auditors who are highly independent and statutory auditors with expertise in finance and accounting. The requirements for descriptions on the company's view on the

independence of its outside statutory auditors and the reasons for appointing them as independent directors/auditors where such outside statutory auditors are appointed as independent directors/auditors, are the same as those for outside directors.

Keyword research reveals that of all outside statutory auditors of TSE-listed companies, "independence" was mentioned by 79.4 % (up 51.2% from previous research), "expertise" was mentioned by 78.2% (up 15.7%), and, in relation to the revised Reporting Guideline, "finance" and "accounting" was mentioned by 27.7% (up 13.7%) and 42.5% (up 14.4%) respectively.

(6) Cooperation in Audit

(a) Cooperation between statutory auditors (or Audit Committees) and accounting auditors

The Report requires the Companies with Statutory Auditors to describe existing cooperation between their statutory auditors (Audit Committees in case of Companies with Committees) and accounting auditors. As the Reporting Guideline suggests descriptions of frequency and details of meetings between them, if any, the majority of descriptions were about exchanges of opinions and information through such regular meetings. Specific descriptions include statutory auditor's attendance to accounting audits, and accounting auditors' reporting to statutory auditors on outline audit plans, focus of audits, progress of audits, internal control systems, risk management, etc.

Furthermore, some referred to involvement of internal audit departments for enhanced exchange of information. Some also referred to statutory auditors' capacities in evaluation of accounting auditors such as verification of accounting audit qualities by (the boards of) statutory auditors, or requests for submission of a proposal to dismiss accounting auditors (in case of Companies with Statutory Auditors) or rights to dismiss accounting auditors if they violate or neglect their duties.

Analyzing keywords included in the above descriptions (see Chart 44), keywords related to audit planning⁴⁰ are used in the descriptions of 52.3% (up 3.4%) of the companies; keywords related to coordination⁴¹ are used by 92.2% (down 0.9%) and keywords related to reporting⁴² are used by 71.7% (up 2.5%) of the companies; and companies which used keywords from all three categories account for 41.4% (up 3.6%). Most of the categories show slight increases from the previous research, and it suggests enhanced cooperation between statutory auditors (Audit Committees) and accounting auditors. Approximately 200 companies have revised and lengthened their descriptions this time. Specifically, there was more description regarding supervision of internal control related to the framework introduced from the fiscal year ending March 2009 (from 142 companies in previous research to 206 companies), and quarterly collaboration between statutory auditors and accounting auditors (from 102 companies in

⁴⁰ With respect to "audit planning," any company using any one of the following keywords is included: "planning," "policy," or "regulations."

⁴¹ With respect to "coordination," any company using any one of the following keywords is included: "coordination," "consultation," "regular," "exchange," "discussion," "meeting," or "conference."

⁴² With respect to "reporting," any company using any one of the following key words is included: "reporting," "results," "explanation," "verification," or "control."

previous research to 350 companies).

(b) Cooperation between statutory auditors (or Audit Committees) and internal audit departments

The Report requires the Companies with Statutory Auditors to describe existing cooperation between their statutory auditors (Audit Committees in case of Companies with Committees) and internal audit departments⁴³. As the Reporting Guideline suggests descriptions of frequency and details of meetings between them, if any, similarly to cooperation with accounting auditors, such descriptions are observed, but much less than those with accounting auditors.

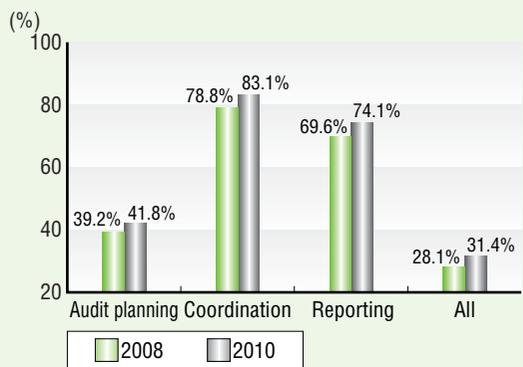
The similar trend is observed in keyword search (see Chart 45). Percentages of TSE-Listed Companies which used keywords related to audit planning, coordination, and reporting, similarly to the above, show 41.8% (up 2.6%), 83.1% (up 4.3%), and 74.1% (up 4.6%), respectively. Companies which used keywords from all three categories account for 31.4% (up 3.3%). The percentages of all the categories are lower than those in the descriptions on cooperation with accounting auditors, yet all of the categories show slight increases from the previous research, and enhanced cooperation can be confirmed.

More than 200 companies have revised and lengthened their descriptions. In addition to more description on collaboration, reporting and meetings, the lengthened descriptions include content related to internal control (from 329 companies to 459 companies), regular collaborations (from 535 companies to 660 companies) and direct involvement by the president (from 281 companies to 314 companies). The results also reveal that the collaboration between statutory auditors and internal audit departments is increasingly being considered important. There are some companies which mentioned, from the

Chart 44 Cooperation between Statutory Auditors (Audit Committee) and Accounting Auditors



Chart 45 Cooperation between Statutory Auditors (Audit Committee) and Internal Audit Departments



⁴³ The term "internal audit department" generally refers to a department independent from administration or a business department, which makes comprehensive and objective assessments of the adequacy of the internal management system within the organization and provides recommendations for issues pointed out to be in need of improvement, or implements follow-up auditing.

perspective of maintaining independence, internal audit departments not obeying the president's instructions or orders.

4. Independent Directors/Auditors

(1) State of Securing Independent Directors/Auditors

TSE revised the Securities Listing Regulations on December 30, 2009, and stipulated in the Code of Corporate Conduct "Matters to be Observed," that an issuer of listed domestic stocks must secure at least one independent director/auditor (hereinafter "ID/A") (meaning an outside director/auditor who is unlikely to have conflicts of interest with general investors; hereinafter the same) for the protection of general investors (Securities Listing Regulations Rule 436-2). The provisions apply from the day following the annual general shareholders meeting for the fiscal year ending after March 1, 2010 (after the annual general shareholders meeting in June 2010 for the companies whose fiscal year end in March). For securing of ID/A, TSE requires listed companies to submit the "Independent Director/Auditor Notification". TSE verifies the data on ID/As in the Notifications submitted by the record date for this white paper, September 10, 2010, with data on outside directors or statutory auditors in corporate governance reports before consolidating and analyzing such data.

Even in a case where a company has not secured an ID/A at the time of an annual general shareholders meeting for the fiscal year ending after March 1, 2010, when the application of the provisions related to securing ID/As have come into effect, the application of measures to ensure effectiveness such as publication measures⁴⁴, etc. for failing to fulfill the obligation of securing ID/As can be delayed⁴⁵. Therefore, as of the record date, there are listed companies who have yet to secure ID/As.

At the time of this research, 2,146 listed companies (93.5%) have secured at least one ID/A (of which, 2,097 (93.5 %) of companies with statutory auditors, and 49 (96.1%) companies with committees). The ratio of securing ID/As by market section is shown in Chart 46. The TSE First Section has the highest ratio (94.8%), followed by TSE-Mothers (92.3%) and the TSE Second Section (89.4%). In terms of ratio of top shareholder's ownership, the shareholding ratio from 0% but less than 5% is the highest at 97.6%, there is a trend of an increasing number of companies not having secured ID/As with a higher top shareholder ownership ratio (see Chart 47). In terms of foreign shareholding ratio, the tendency to secure ID/As increases with a higher foreign shareholding ratio (see Chart 48). This is because such companies with high foreign shareholding ratio have been active in securing the independence of outside directors, in response to keen requests from overseas investors through their IR activities (V2. IR Activities). This coincides with the trend regarding outside directors shown with Chart 25-28.

⁴⁴ See Securities Listing Regulations Rule 508.

⁴⁵ For example, for the case of the company whose fiscal year ending in March, as long as the company notifies the appointment of outside directors or outside statutory auditors as independent directors at a general shareholders meeting in June 2011, such company shall not be considered as being subject to public announcement measures, etc.

The distribution of number of ID/As is shown in Chart 49. 1,062 companies (46.3%) secured more than 2 ID/As. ID/As system requires companies to designate 1 or more ID/As from outside directors or outside statutory auditors and notify TSE of such directors. Therefore, if multiple outside directors or outside statutory auditors within the company who satisfy the requirements, a company may decide to notify TSE of all such directors or a single director who is deemed the most appropriate to fulfill the role of an ID/A. Accordingly, a company may choose to notify TSE of only 1 director to comply with the rule's minimum requirement. However, in reality, there were quite a few companies which have included several directors/auditors in their notifications. One of the reasons for this may be that a company would like to avoid the complete absence of ID/As if the company notifies of only one director/auditor and such director/auditor resigns from the position due to sudden illness. Another reason for this may be that the company is concerned that other outside directors/auditors of the company may be considered as lacking independence if the company includes only one of them even though there are several outside directors/auditors who satisfy the requirements for ID/As. Although in the "Expected Role of Independent Directors/Auditors⁴⁶" compiled by the Advisory Group on Listing System Improvement, the responsibilities which can be fulfilled by a single ID/A are described, notifying only one ID/A risks isolating such director in the board of directors. As such, some companies would rather secure several ID/As in order to indicate the presence of a team.

The total number of ID/As notified to TSE is 4,191 (of which, 4,049 persons for companies with statutory auditors and 142 persons for company with committees). For each listed company which has notified that they had already secured ID/As to TSE, an average of 1.83 ID/As have been secured (of which, 1.81 persons for companies with statutory auditors and 2.78 persons for companies with committees).

For the number of ID/As per company by market section, as shown on Chart 46, the TSE First Section has the highest number (2.00 persons on average, 94.8% appointed), followed by TSE Mothers (1.53 persons on average, 92.3% appointed) and the TSE Second Section (1.28 persons on average, 89.4% appointed).

214 listed companies (165 companies with statutory auditors) have notified of only outside directors as ID/As. This is 10.0% of listed companies which have already secured ID/As. 1,515 companies, 70.5% have notified of only outside statutory auditors. In addition, 418 companies or 19.5% have notified of more than one outside director and one outside statutory auditor (see Chart 50).

Among ID/As, there are 1,026 outside directors (24.5%) and 3,165 outside statutory auditors (75.5%) (see Chart 51). The percentage of outside directors who were notified as ID/As out of the total number

⁴⁶ See TSE website: http://www.tse.or.jp/english/rules/ls-improvements/expected_role.pdf

of outside directors is 49.2%, and the percentage of outside statutory auditors who were notified as ID/As out of the total number of outside statutory auditors is 55.8%. Considering the total number and the corresponding percentages, close to half of all outside directors and outside statutory auditors were designated as ID/As. As described later, most of the outside directors and outside statutory auditors from main shareholders or business partners were not designated as independent directors.

Chart 46 State of Appointment and Number of Independent Directors/Auditors (Market Section)

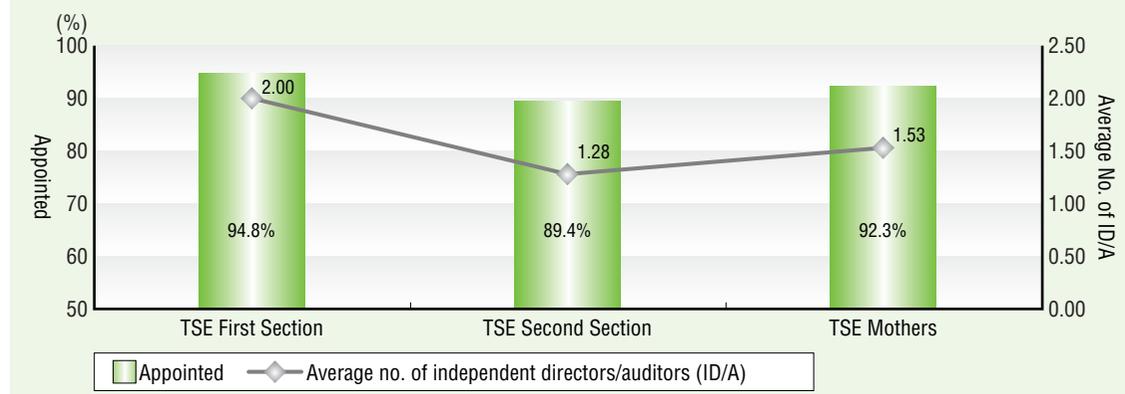


Chart 47 State of Appointment and Number of Independent Directors/Auditors (Shareholding Ratio of Largest Shareholder)

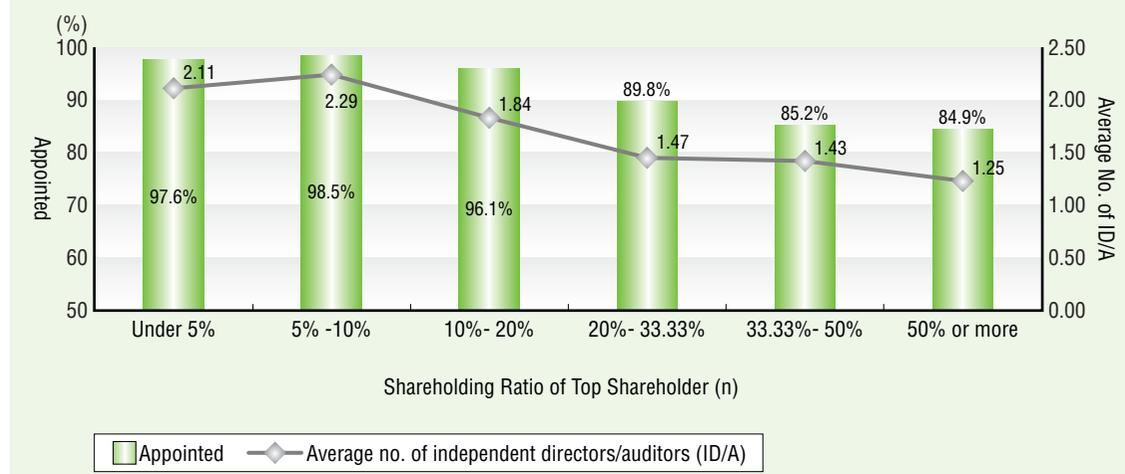


Chart 48 State of Appointment and Number of Independent Directors/Auditors (Shareholding Ratio of Foreigner Shareholder)

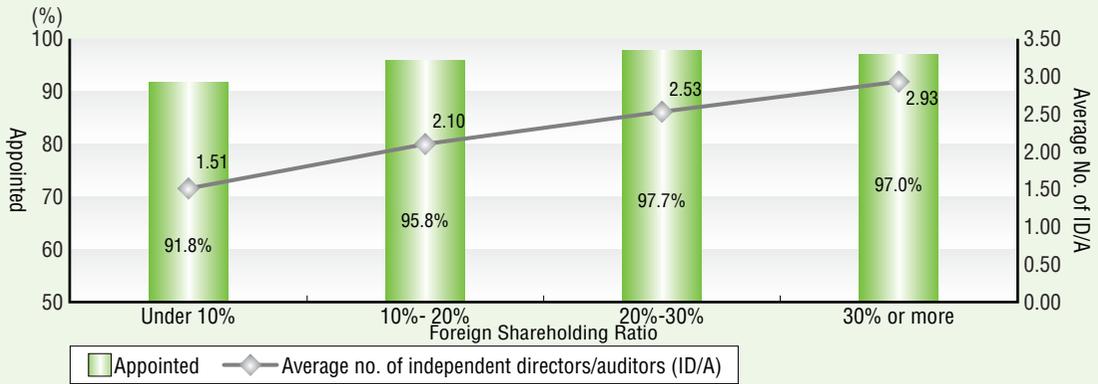


Chart 49 Distribution of Number of Companies by Number of Independent Directors/Auditors

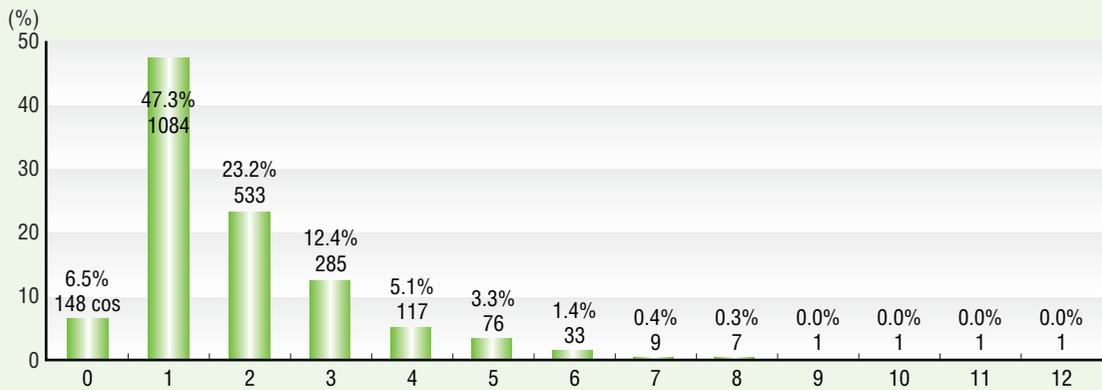


Chart 50 State of Notification of Independent Directors/Auditors

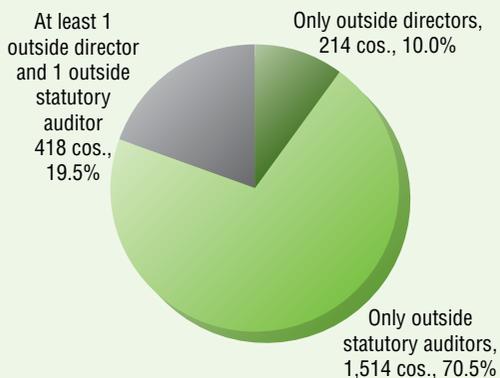
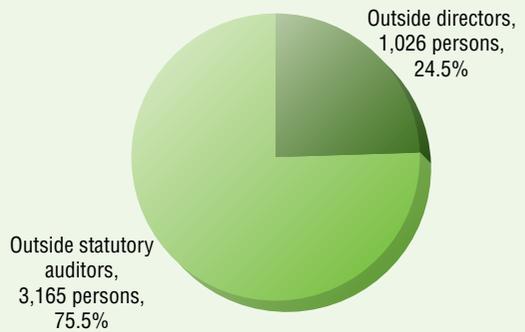


Chart 51 Number of Outside Directors and Outside Statutory Auditors Appointed as Independent Directors/Auditors



(2) Attributes of Independent Directors/Auditors and Relationship with Company

Chart 52 shows a summary of attributes of ID/As and compares this with attributes of outside directors/auditors (outside directors and outside statutory auditors).

The attributes of ID/As are, out of 1.83 persons on average per company, 0.95 persons (52.2%) are from other companies, followed by attorneys (0.38 persons, 20.8%), certified public accountants (0.21 persons, 11.8%), certified public tax accountants (0.10 persons, 5.3%), academics (0.10 persons, 5.2%), and others (0.09 persons, 4.7%).

On the other hand, for the attributes of all outside directors/auditors, out of 3.38 persons on average per company, 2.15 persons (63.6%) are from other companies, followed by attorneys (0.53 persons, 15.8%), certified public accountants (0.28 persons, 8.4%), certified public tax accountants (0.15 persons, 4.6%), academics (0.11 persons, 3.4%), and others (0.14 persons, 4.2%). Compared to other outside directors/auditors, for ID/A attribute, there is a high percentage of professionals such as attorneys and certified public accountants.

For the percentage of outside directors/auditors by attribute appointed as ID/A, the percentage of academics (84.0%) is the highest, followed by attorneys (71.2%), certified public accountants (75.5%), and finally those from other companies (44.3%) (see Chart 53). For those from other companies, it is considered that their independence is not secured as they happen to be business partners, etc.

In listed subsidiaries, the percentage of ID/As from other companies of all ID/As is 50.8%, and this is almost the same level as the percentage in all listed companies. However, out of all outside directors/auditors from other companies, the percentage of those appointed ID/As falls to as low as 19.8%. This indicates that there are certain numbers of outside directors/auditors in listed subsidiary companies who do not meet the ID/A requirements.

Next, for the relationship between ID/A and companies, compared to all outside directors/auditors, the percentage of ID/As who are from parent companies, group companies and major shareholders, etc is low (see Chart 54).

The Report requires supplemental explanation on the relationship between the company and its outside directors/auditors. The Report shows that there are 975 outside directors/auditors from financial institutions⁴⁷ (12.6% of all outside directors/auditors). Among these, there are 572 persons notified as ID/As (57.3% of all those from financial institutions), and there are 92 independent directors (54.4% of all those from financial institutions) and 480 independent auditors (59.6% of all those from financial institutions). In addition, among 168 outside directors from public institutions⁴⁸ (2.2% of all outside directors/auditors), there are 135 persons appointed as ID/As (80.4% of all those from public institutions). Among these, there are 41 independent directors (83.7% of all those from public

⁴⁷ "Those from financial institutions" mean people from banks and insurance companies.

⁴⁸ "Those from public institutions" mean former government officials or local government officials in financial institutions.



institutions) and 94 independent auditors (79.0% of all those from public institutions).

In addition, where outside directors or outside statutory auditors are designated as ID/As, companies are required to describe the reasons for such appointment. There were many descriptions regarding securing neutrality such as avoidance of conflict of interests (62.1%), considerations for general shareholders (63.1%), objectivity (24.5%) and having no interests (21.3%). There were also other descriptions such as directors' experience (67.6%), expertise (33.9%), and knowledge (32.6%). While these numbers are much lower than compared to description regarding the qualities and abilities of the director/auditor, there were also descriptions on the functions of ID/As. For the expected functions of ID/As, the keywords related to monitoring such as supervision (14.8%) and surveillance (12.7%) were more than those related to advisory such as counsel (5.4%) and advice (2.1%). From this, we may interpret that ID/As are more likely to be expected to fulfill the function of monitoring.

On the other hand, for the descriptions for outside directors and outside statutory auditors who were not notified as ID/As, there were very few descriptions regarding securing neutrality such as avoidance of conflict of interests (3.8%), considerations for general shareholders (4.2%), objectivity (17.0%) and having no interests (7.4%). In contrast, there were many descriptions regarding the qualities and abilities of the director/auditor, such as the directors' experience (67.9%), expertise (20.9%), and knowledge (29.5%). For monitoring, advisory and such functions, there was no major difference from that of ID/As. In the "Independent Director/Auditor Notification" companies are required to select the checkbox in the Notification format if the person who is designated as ID/A fall under certain conditions specified by TSE. As shown on Chart 55, 94.0% of ID/As do not fall under any of such conditions.

The conditions stipulated in the Guidelines Concerning Listed Company Compliance III 5-3-2 refers to the relationship which is likely to pose a clear risk of a conflict of interest with general shareholders. Prior consultation with TSE is required if a person who is to be notified as an ID/A may lead to such risk. However, in reality, there were no notified ID/As who risked violating such conditions.

As for the conditions stipulated in provisions such as Rule 211, Paragraph 4, Item 5 of the Securities Listing Regulations, directors/auditors who used to be executive officers of major business partners made up the largest number, about 4.7% of ID/As. In addition, 80.2% of ID/As who used to be executive officers of major business partners are from financial institutions.

Chart 52 Attributes of Independent Directors/Auditors and Outside Directors

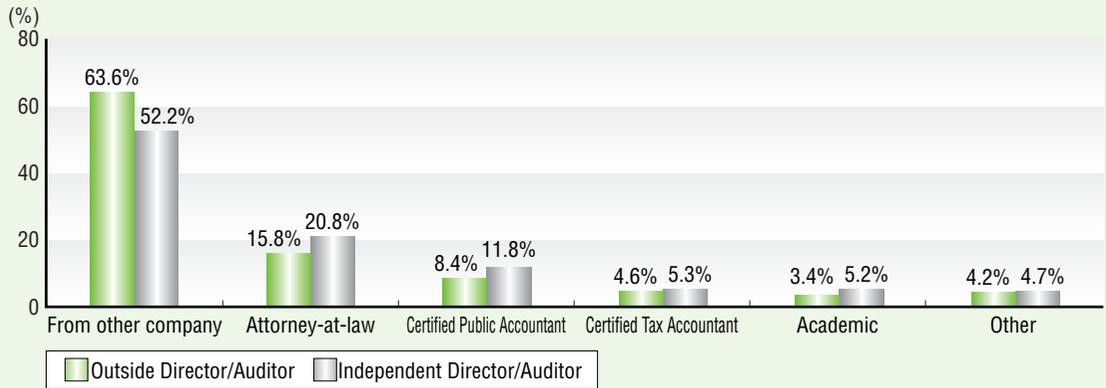


Chart 53 Ratio of Independent Directors/Auditors in All Outside Directors (Attribute)

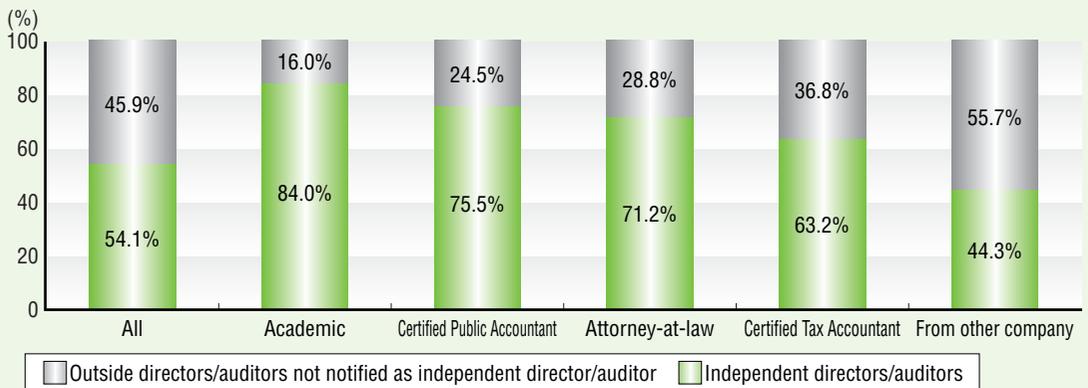


Chart 54 Relationship between Independent Directors/Auditors and Company

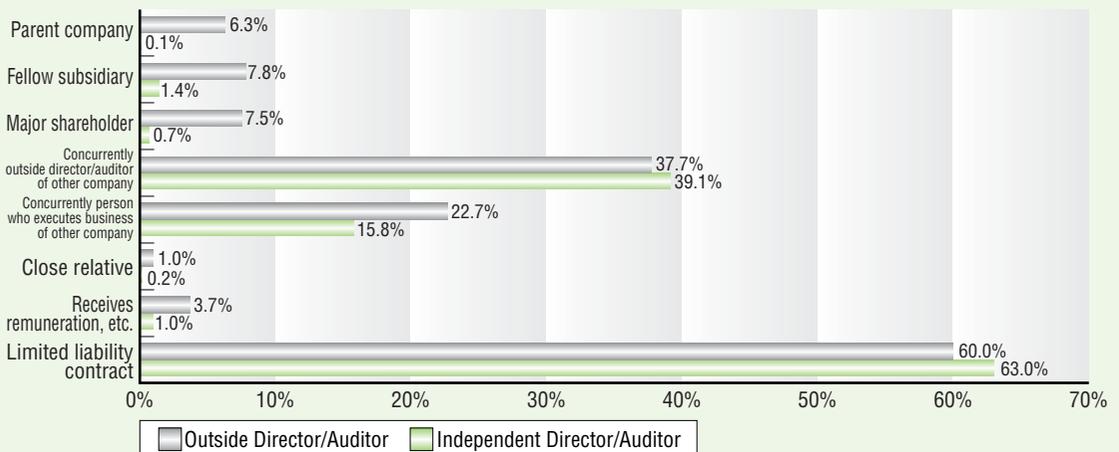


Chart 55 Independent Directors/Auditors with Additional Disclosure Attributes⁰



5. Support System for Outside Directors and Outside Statutory Auditors

This item requires descriptions on the outline of the support system for communicating information to outside directors and outside statutory auditors including ID/As. In order for ID/As to appropriately fulfill their responsibilities, as described in "Expected Role of ID/As" mentioned above, it is indispensable to develop appropriate means of communication for ID/As, collaborate with related departments and secure the support personnel.

200 companies have revised and extended their descriptions on the support system. Most of them described that they have prepared a more compact support system, provided explanations which focused on important aspects of significant issues, and enhanced the operational aspect of the support system, such as facilitating smoother communication.

The majority of the companies reported that they have a department in charge. Regarding support contents, "distribution of information, communication, and cooperation related to information" are mentioned by 22.1% (up 0.7%), and "prior distribution of and/or briefing on reference materials" are mentioned by 47.4% (up 2.9%) of the companies.⁴⁹

As a specific department for the support, in addition to Corporate Secretariat, such core departments as corporate planning department and general administration department are named by a number of companies. Their specific supports include prior distribution of related documents, prior submission of reference materials via e-mail and briefing on the contents, and distribution of meeting minutes.

As for statutory auditors, the revision in December 2009 required descriptions on the status of securing personnel and establishing systems in support of enhancing the functions of statutory auditors.

⁴⁹ With respect to "distribution of information, communication, and cooperation related to information," any company using any one of the following keywords is included: "information," "distribution (of information)," "communication," or "cooperation." With respect to "prior distribution of and/or briefing on reference materials," any company using any one of the following keywords is included: "prior," "distribution (of documents/materials)" or "explanation."

As a support system to statutory auditor, 220 companies (9.8%) have a dedicated section named "Corporate Audit Office." Some reported on special arrangements for the staff member of the department in terms of assignment or treatment, in order to maintain independence of statutory auditors and Statutory Auditor Office. For instance, they have such arrangements that the staff members must be the company employees who are not under control of directors, and that personal transfer and performance appraisal of such employees require prior consultation between human resources department and full-time auditors. Specific support methods reported include: coordination for productive on-site audits and inspection visits by statutory auditors, including support for establishing cooperative relations with site managers and attending on-site inspections; and explanation given by full-time auditors concerning the company's financial condition, audit status, discussions in management meetings, activities of management audit department, activities of corporate ethics/CSR committee, etc.

6. Committees and Executive Officers

Companies with Committees are required to establish three committees, namely Nomination Committee, Compensation Committee, and Audit Committee (Article 2, Item 12 of the Companies Act), each of which consists of 3 or more directors, the majority of which must be outside directors (Article 400, Paragraphs 1 and 3 of the Companies Act). Furthermore, in the Companies with Committees, the board of directors may delegate decisions on business execution substantially to executive officers whom it appointed (Article 416, Paragraph 4 of the Companies Act). The Report requires the Companies with Committees to describe composition of each committee, executive officers' other capacities such as directors or employees, from the perspective to find the status related to distinctive features of the committees system. The status of and trends in unique features of the Companies with Committees are introduced below.

(1) Each Committee⁵⁰

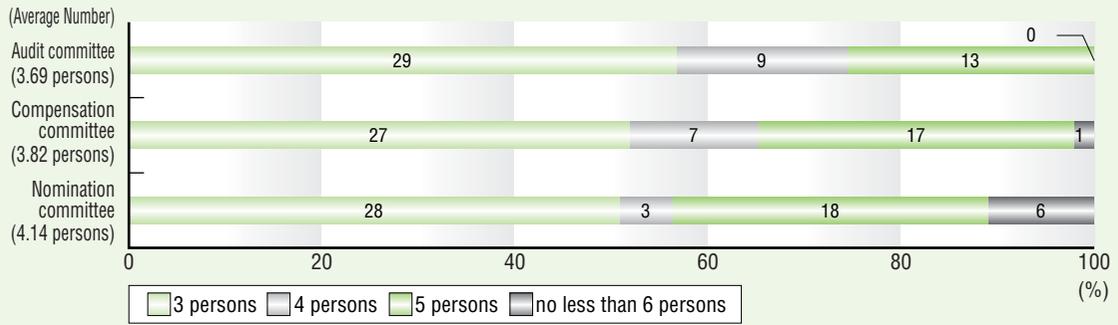
(a) Number of committee members

Chart 56 shows number of directors consisting of each committee. In most cases, each committee comprises of 3 to 5 members. As for average number of its members, the Nomination Committees show 4.14 (increased by 0.01 persons), which is the largest, followed by 3.82 (decreased by 0.11 persons) in the Compensation Committees, and 3.69 (increased by 0.05 persons) in the Audit Committees. As an overall trend, committees consisting of 3 directors are most frequently observed in any category. While

⁵⁰ The term "each committee" refers to such statutory committee as Audit Committee, Compensation Committee, and Nomination Committee which are mandatory for the Companies with Committees. Regarding composition of the committees, the Report requires the companies to classify members of each committee into the following categories: full-time member (for the purpose of the Report, "full-time member" means a person who is in principle exclusively engaged in duties of each committee of the company during the business hours without having any other full-time position), inside director, or outside director.

the average numbers of all committee members slightly increased from the previous research, the Audit Committees show the highest increase.

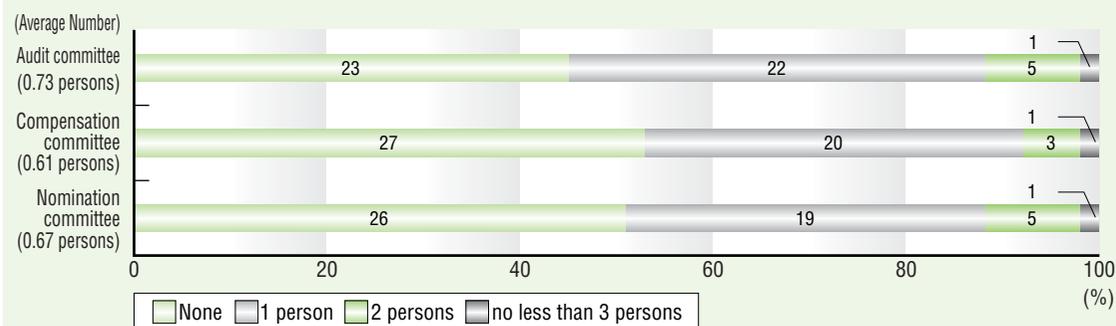
Chart 56 Number of Committee Members



(b) Ratio of full-time members

In the analysis of ratio of full-time member in each committee, the Audit Committees show the highest ratio of 19.7% (down 3.4%) among these 3 committees. On the other hand, the Nomination Committees and the Compensation Committees show relatively low percentages, 16.1% (up 1.6%) and 15.9% (up 0.6%), respectively. Slight declines in the ratios of full-time members in the Audit and Compensation Committees would be indicating a trend that companies are strengthening monitoring system by committee members from outside the companies. Unlike full-time auditors of the Companies with Statutory Auditors, it is not mandatory for the Companies with Committees to have full-time committee members. However, as shown in Chart 57, a significant number of companies have at least 1 full-time Audit Committee member. In terms of average number of full-time member per company, the Audit Committees show a higher number of 0.73 (decreased by 0.11 persons) than the Nomination Committees (0.67) and the Compensation Committees (0.61). This trend was also observed in the previous research.

Among three committees, the Audit Committees would meet more frequently, and smooth information distribution would be required for close cooperation with accounting auditors and internal audit departments. In addition, it is also considered that necessity for directors who monitor business execution on a day-to-day basis like "full-time auditors" is being recognized to some extent.

Chart 57 Number of Full-Time Members in Each Committee**(c) Composition of directors in each committee**

According to Article 400 of the Companies Act, the majority of each committee members must be outside directors. In connection with this requirement, Chart 58 shows numbers of outside directors and inside directors as well as their percentage shares in each committee of all TSE-Listed Companies. Percentage shares of outside directors in each committee are 79.3% (up 0.3%) in the Audit Committees, while being 70.6% (up 0.6%) in the Nomination Committees and 72.3% (up 0.5%) in the Compensation Committees. The results here also remain unchanged from the previous research.

One of the reasons would be that the Audit Committees are expected to be more independent from the companies than others, as demonstrated by a requirement that any Audit Committee member should not be an executive officer or employee of the company, or executive director, executive officer or employee of the subsidiary company (Article 400, Paragraph 4 of the Companies Act).

This trend can be seen also in the numbers of inside directors (see Chart 59) and outsides directors (see Chart 60) in each committee. As far as the Audit Committees are concerned, 37.3% (19 companies) of the companies do not have any inside director.

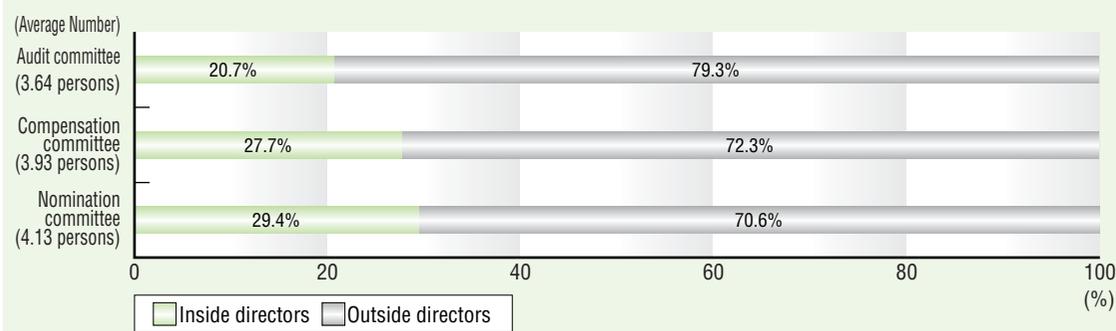
Chart 58 Composition of Inside Directors and Outside Directors in Each Committee, and Average Number

Chart 59 Number of Inside Directors in Each Committee

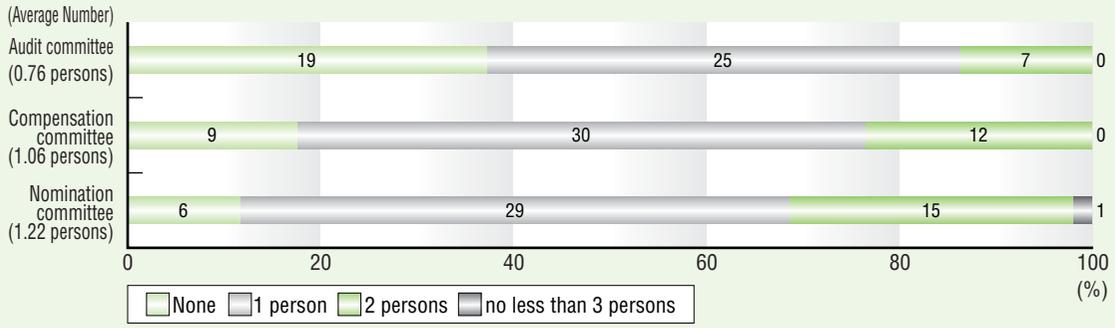
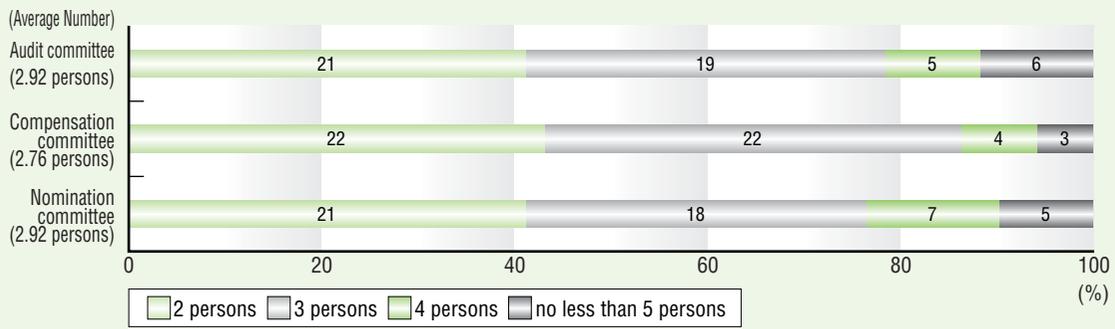


Chart 60 Number of Outside Directors in Each Committee



As shown in Chart 61, in terms of the attribute⁵¹ of the chairperson of each committee, the ratio of outside directors appointed as chairperson of a committee are 54.9% (up 4.0%) in audit committees and 51.0% (up 3.7%) in compensation committees. While these figures are higher than previous research, they fell to 47.1% (down 3.9%) in nomination committees.

(2) Executive officers

It is mandatory for the Companies with Committees to have at least one executive officer (Article 402, Paragraph 1 of the

Chart 61 Attributes of the Chairperson of Each Committee (Ratio of Outside Directors)



⁵¹ The Report requires the companies to select relevant attributes by checking any of following items: "inside director," "outside director" or "n/a."

Companies Act), and the board of directors may delegate substantial part of decisions on business execution to executive officers (Article 416, Paragraph 4 of the Companies Act), and executive officers execute business (Article 418, Item 2 of the Companies Act).

An average number of executive officers of all TSE-Listed Companies with Committees is 11.55 per company (decreased by 0.96 persons).

Executive officers with rights of representation (CEO: chief executive officer) account for 17.5% (up 0.8%) of all executive officers, and a company has 2.02 CEOs (decreased by 0.07 persons) in average. An executive officer may concurrently assume a position of director (Article 402, Paragraph 6 of the Companies Act). In this respect, the research found that more than one fourth of the executive officers (26.3%; up 1.3%) concurrently assume the position of directors. Furthermore, 9.2% (up 1.5%) of the executive officers concurrently assume the position of the Nomination Committee members in the capacity of directors, and 8.5% (up 1.5%) of the executive officers concurrently assume the position of the Compensation Committee members in the capacity of directors. As for Audit Committee members, executive officers are prohibited to assume the concurrent responsibilities (Article 400, Paragraph 4 of the Companies Act).

18.2% (down 14.4%) of the executive officers also hold positions as employees.

Chart 62 Other Positions Held by Executive Officers

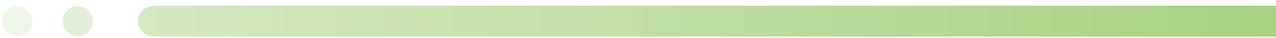


7. Items in Relation to Respective Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration⁵²

(1) Descriptions Regarding Corporate Governance system

In the revision of the Reporting Guideline in December 2009, due to appropriate disclosure related to corporate governance, there is a new requirement for listed companies to disclose the reasons for adopting current corporate governance systems from the perspective of encouraging listed companies to construct corporate governance systems most suited to their situations. Under the Companies Act, a company may select either a company with committees or a company with board of auditors when deciding on the structure of the listed company. Some companies have also taken the initiative to

⁵² The Report provides a section in which companies may make voluntary qualitative descriptions bearing in mind that such descriptions should focus on a decision-making process. In the case of companies with statutory auditors, for example, a company which has adopted a process to reinforce the functions of business execution or supervision functions is required to describe the actual nature of such process.



establish optional channels for consultation and other functions in the name of advisory boards. As a result, many different forms of corporate governance have been adopted, whether actively or otherwise, by each company. In light of the diversity in corporate governance systems, the requirement to disclose the reason for adopting the corporate governance system of their choice fulfills the demands for accountability of individual listed companies.

As a response to the revision of the Reporting Guideline, out of companies included in this research, the majority (1,200 companies) have revised and extended their descriptions from previous research. The length of descriptions by these companies has increased by 1.5 times.

With respect to the reason for adopting the current corporate governance system, 621 companies provided explanations under the title corresponding to this item. There were also many companies which explained, without placing a title, the effectiveness of governance systems in the report. As a result, almost all companies explained their current corporate governance systems.

For an overview of the outline of business execution methods which is an existing requirement, there were many descriptions on the position and the holding of board of directors meetings, the role of the board of directors in the formulation and decision-making process for basic policies regarding management, the establishment of systems and frameworks other than the board of directors for swift decision-making, and the relationship between such systems and frameworks and the board of directors. There were descriptions by companies with committees on delegating the rights of decision-making and execution to executive officers as well as accelerating the decision-making process through delegation.

The Reporting Guideline requires companies to describe procedures to strengthen their business execution and management monitoring functions, if they have launched such procedures. A number of Companies with Statutory Auditors referred to significant decision-making bodies other than the board of directors, such as management committee, to make decisions swiftly. Those who referred to management committee and executive committee, both of which are typical conference bodies in Japanese corporations, account for 46.4% (up 3.2%) and 11.2% (down 1.0%), respectively.

There are also cases where the company voluntarily establishes an organization with committees similar to those of the companies with committees. 36 companies described the establishment and responsibilities of audit committees at companies with statutory auditors, 116 companies described the compensation committee, and 60 companies described the nomination and/or personnel committees. In addition, 807 companies described establishment of review bodies bearing the name "committee", and most of such bodies have advisory functions to the board of directors in special matters related to internal control.

Such conference bodies tend to meet more frequently in larger companies, and they undertake preliminary discussion before submitting agenda to the board of directors, while established from the perspective of smooth business execution.

Besides, 12.4% (up 0.4%) of the companies referred to advisory committees⁵³ or the like consisting of third parties. As already found in previous research, it is confirmed that a certain number of companies established organs to provide advice on or evaluate overall management by inviting outside experts and/or management specialists. Again larger companies tend to refer to such organs. Voluntary establishment of such committees suggests that although not adopting the Company with Committees system, the companies have better understanding of active utilization of such committees either as advisory organs for the board of directors or to strengthen the board functions. On the other hand, a reason for not adopting the Company with Committees system may be that advisory committees are generally managed in accordance with unique decision-making procedures of individual companies, and the companies are not inclined to lose such flexibility by adopting the statutory committees.

While business scale is expanding, based on the standpoint to expedite management decision-making and streamline business execution and to clarify responsibilities, adoption of executive officer system was mentioned by 51.3% of the companies, showing an increase by 5.0% from the previous research. A Move toward clear-cut division of duties between supervision and execution can be confirmed. Notable features of companies which referred to executive officers are: larger companies tend to refer to executive officers; there are a significant number of companies which referred to downsizing of the board of directors by reducing directors and clear separation between decision-making function and execution function of management performed by the board of directors. These trends remain unchanged from the previous research.

Companies with outside directors described reasons for the system being the most appropriate to monitor and supervise business execution and to provide feedback and advice to company management. While the ideal role of the board of directors in both advisory and monitoring is currently under consideration, the descriptions by individual companies clearly expressed views on both aspects. On the other hand, the companies which do not have outside directors described that the effectiveness of monitoring system by statutory auditors has been secured because the statutory auditors monitor the appropriateness, efficiency and adherence to law of the operations by monitoring on directors' operation and execution and internal control including financial reports. There are a few descriptions that the functions of statutory auditors have been reinforced from such companies.

⁵³ With respect to "advisory committee," any company using any one of the following key words is included: "advisory," "advice," or "consultation."

Chart 63 Items Relating to Decision-Making Functions with Respect to the Execution of Business, Audits, Supervision, Nominations, and Remuneration (Net Sales (Consolidated))

	Management Committee		Executive Officer		Executive Committee		Advisory Committee	
		Change from 2008		Change from 2008		Change from 2008		Change from 2008
Under ¥10 billion	35.8%	1.8%	26.1%	-2.7%	2.9%	-0.4%	5.9%	-0.7%
¥10 billion to under ¥100 billion	45.0%	3.0%	49.6%	7.5%	13.7%	-0.9%	7.7%	0.0%
¥100 billion to under ¥1 trillion	52.2%	4.7%	61.0%	5.5%	11.6%	-1.4%	19.9%	1.3%
¥1 trillion or more	56.0%	4.0%	77.6%	7.3%	6.4%	-2.4%	34.4%	8.7%

(2) Descriptions regarding reinforcement of functions of auditors

As an initiative to enhance the functions of statutory auditors, the revision of the Reporting Guideline in December 2009 requires listed companies to describe the state of securing personnel and systems to support audit by statutory auditors⁵⁴, the state of appointing outside statutory auditors who are highly independent, and the state of appointing statutory auditors with knowledge of finance and accounting. 514 companies described enhancing the functions of auditors. The main contents of the descriptions include appointing outside statutory auditors who are highly independent, strengthening collaboration among the board of directors, accounting auditors and the internal audit department, and conducting regular audit. Additionally, the contents of the descriptions do not only cover measures to secure the appropriateness of internal control or financial reports, but also legality audit and even validity audit.

Descriptions on monitoring and supervision are classified into such categories as matters mainly related to statutory auditors and the Board of Statutory Auditors, matters related to internal audits, and matters related to accounting audits. Specific example of the matters mainly related to statutory auditors and the Board of Statutory Auditors include frequency of the Board of Statutory Auditors meetings and their resolutions, and activities of each statutory auditor such as attendance to important meetings, examination of documents, and inspections of the subsidiaries. Descriptions on matters related to internal audits include personnel allocation, audit activities, reporting lines of audit results, and authority concerning recommendations for improvement. As for the matters related on accounting audits, the majority are mere routine descriptions showing the names of audit corporations and certified public accountants in charge, as well as absence of special interest, while few companies referred to cooperation between accounting auditors and the companies.

In addition, descriptions under this subject include specific risk management measures and compliance systems which have been increasingly drawing attention of corporations, as well as importance of ensuring the effectiveness of such measures and systems.

In cases where ID/As have not been secured, the Reporting Guideline requires listed companies to describe such cases and future policy to secure ID/As. For this reason, most of the companies which

⁵⁴ However, if such contents are described in other columns ("the support systems of outside directors / auditors", "the reasons for appointing outside auditors", etc.), such description can be substituted.

have not secured ID/As (148 companies) describe that they are still considering their approach, and, as a supplemental reason, they also describe that it is not easy to secure personnel who are capable of auditing with objectivity and neutrality.

8. Reasons for Adopting the Companies with Committees System

The Report requires description on the reasons for adopting the current corporate governance system. Given that the Companies with Committees made decisions to convert their organizational form from traditional Statutory Auditors system to the Committees system, the Report requires those companies to describe the reasons for adopting such organizational form.

Reasons for adopting the Committees system (51 companies in total) include: aiming at clear division of duties between supervision and execution (48 companies; 94.1%); to strengthen execution function (50 companies; 98.0%); quick and speedy decision-making by executive officers as top management (41 companies; 80.0%); delegation of authority to execution function (20 companies; 39.2%); strengthening checking function by outside directors (19 companies; 37.3%) and securing management transparency in a consequence. Also the companies which have become companies with committees since previous research describe reasons such as segregating supervision and execution, increasing transparency and accelerating business execution. 7 companies also described the independence of outside directors since the introduction of the ID/A system, an increase from previous research.

IV Incentives and Remuneration

1. Implementation of Initiatives to Offer Incentives

The Report requires disclosure of implementation status on initiatives to offer incentives to directors. In connection with their functions to monitor/supervise corporate management, information on incentives to directors is naturally considered to have a significant weight from the perspective of corporate governance. Specifically, the companies are requested to select applicable incentives (multiple answers allowed) from such categories as "introduced stock option plan," "introduced performance-linked remuneration system" or "other" in case they are offering such incentives, or select "none" in case they are not offering any. In either case, supplementary explanations are required to the utmost extent.

(1) Overview of incentives

Companies implementing any initiatives to offer incentives account for 87.1% (down 1.0%) of TSE-Listed Companies.

Regarding each category of initiatives to offer incentives, the stock option plans are introduced in 31.4% (down 2.1%; any up/down in this chapter refers to a change from the previous research) of the TSE-Listed Companies, and the performance-linked remuneration system and other initiatives are introduced in 19.7% (up 2.4%) and 45.2% (down 0.2%), respectively, of the companies (see Chart 64).

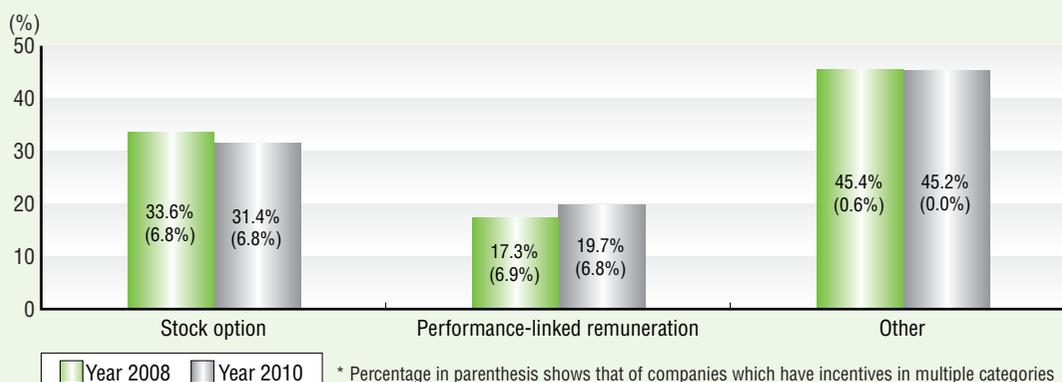
(2) Introduction of stock option plans

In the analysis of the companies adopting the stock option plans by market section as shown in Chart 65, TSE Mothers-listed companies show an outstandingly higher ratio, 80.2% (down 5.4%), than TSE First Section (29.4%; down 1.4%) and TSE Second Section (19.0%; down 2.9%). This distinctive feature was already clear in the previous research. Additionally many small Mothers-listed companies adopt stock option plans. In terms of a relation with number of employees (consolidated), as shown in Chart 66, companies with fewer employees⁵⁵ (meaning smaller companies) tend to show a higher level of adoption of the stock option plans.

In contrast, as for a relation with number of consolidated subsidiaries, companies which have more subsidiaries tend to show a higher level of adoption of the stock option plans. Regarding a relation with foreign shareholding ratio (see Chart 67), the higher the foreign shareholding ratio, the higher the ratio of implementing the stock option plans. Again, these trends were also observed in the previous research.

While in the supplementary explanations regarding their stock option plans, the majority simply described the details of past issues of stock options, some expressed such effects that the plans contribute to securing human resources, and encouraging employees to have a higher level of awareness and morale. Speaking of advantages of the stock option plans, some referred to effects not only in motivating their employees but also in promoting shareholders' interests.

⁵⁵ Similarly, companies with lower net sales (consolidated) tend to show a higher level of adoption of the stock option plans.

Chart 64 Implementation of Initiatives to Offer Incentives**Chart 65 Implementation of Initiatives to Offer Incentives (Market Section)**

	Stock option		Performance-linked remuneration		Other	
		Change from 2008		Change from 2008		Change from 2008
TSE First Section	29.4%	-1.4%	24.2%	2.9%	43.6%	-1.5%
TSE Second Section	19.0%	-2.9%	8.1%	0.6%	64.1%	3.4%
TSE Mothers	80.2%	-5.4%	6.6%	1.0%	14.8%	3.0%

Chart 66 Implementation of Initiatives to Offer Incentives (Number of Employees (Consolidated))

	Stock option		Performance-linked remuneration		Other	
		Change from 2008		Change from 2008		Change from 2008
Under 100	66.1%	-2.1%	5.1%	-0.3%	30.5%	3.4%
100 to under 500	34.9%	-5.0%	9.8%	1.3%	51.4%	5.9%
500 to under 1000	23.5%	-2.5%	19.4%	5.8%	54.5%	-1.5%
1000 or more	29.6%	-0.8%	24.7%	1.6%	41.5%	-2.2%

Chart 67 Implementation of Initiatives to Offer Incentives (Foreign Shareholding Ratio)

	Stock option		Performance-linked		Other	
		Change from 2008		Change from 2008		Change from 2008
Under 10%	27.7%	-1.5%	13.7%	1.8%	51.9%	0.0%
10% to under 20%	35.0%	0.9%	25.8%	8.3%	37.9%	-5.0%
20% to under 30%	36.1%	-2.5%	31.5%	3.6%	31.5%	-3.7%
30% or more	48.5%	-4.3%	39.6%	3.7%	25.4%	-0.3%

While 68.6% of the companies have not adopted such stock option plans, they stated reasons for non-adoption from the various angles. Specifically, some companies are currently preparing for introducing the plans, while there are companies which once had adopted and then abandoned the plans, finding it inappropriate as incentives due to factors such as low stock price and varied strike prices. Some companies consider that their current remuneration structures are sufficient, and some question the idea of the stock option plan on the ground that remunerations should not be offered in the short-term perspective. As a reason for judging it inappropriate as incentives, there was an explanation that the stock option plan is a program to receive capital gains without taking risks associated with a drop in stock price, and therefore conflicts with the shareholders' interests.

(3) Implementation of performance-linked remuneration system

In the analysis of implementation of performance-linked remuneration system by market section, TSE First Section clearly shows a higher ratio of adoption at 24.2% (up 2.9%) than TSE Second Section (8.1%; up 0.6%) and TSE Mothers (6.6%; up 1.0%), similarly to the previous research (see Chart 65).

In terms of a relation with company size, as shown in Chart 66, companies with larger number of employees (consolidated)⁵⁶ (meaning larger companies) tend to show a higher ratio of implementing the performance-linked remuneration system. In addition, there is a trend that the higher the foreign shareholding ratio, the higher the ratio of implementing the performance-linked remuneration system (see Chart 67). These results show a similar trend as that in previous research.

Along with wide-spread adoption of the performance-linked remuneration system, an increasing number of companies which decided to abolish the retirement benefits system due to its seniority element. In the Reports, 188 companies referred to abolition of their retirement benefits systems. In addition, some clearly stated that they would cut directors' remunerations upon business downturn.

(4) Other

Companies which selected "other" as their initiatives to offer incentives mostly described that they consider business performance and directors' contributions/efforts when deciding provisions of directors' remunerations or bonuses. In fact, out of 1,038 companies (increased by 331 companies) which selected "others," 50.4% (523 companies) referred to either "remuneration" or "bonus" in their supplementary explanations of the initiatives.

In the said supplementary explanations, 1.3% (13 companies) of those who selected "other" referred to "employee shareholding association." This result shows a downward trend which has continued from previous research.

(5) Eligible persons for stock options

The Report requires companies implementing the stock option plans to specify the eligible persons by

⁵⁶ The similar trends are observed in analysis by net sales (consolidated) and number of consolidated subsidiaries.

selecting one(s) from the following categories: "inside directors," "outside directors," "inside statutory auditors," "outside statutory auditors," "executive officers," "employees," "subsidiaries" or "other" (multiple answers allowed).

Chart 68 and Chart 69 show the composition of eligible persons, when the population is limited to TSE-listed companies with the stock option plans. It is found that the companies offer their stock option plans mostly to the inside directors (96.8% of the Companies with Statutory Auditors, and 81.5% of the Companies with Committees) and the employees (77.1% of the Companies with Statutory Auditors, and 77.8% of the Companies with Committees). As for companies offering the plans to the outside directors, the ratio to all TSE-Listed Companies is just 6.9% (down 1.5%); yet, when limited to the companies with outside directors, the ratio shows 21.9% (down 3.0%).

As supplementary explanations regarding eligibility for stock options, while some companies stated that the eligibility was expanded from directors to statutory auditors, to employees of the companies and their subsidiaries, there was an opinion that it is not appropriate to offer a stock option program to those who assume the responsibility of audit.

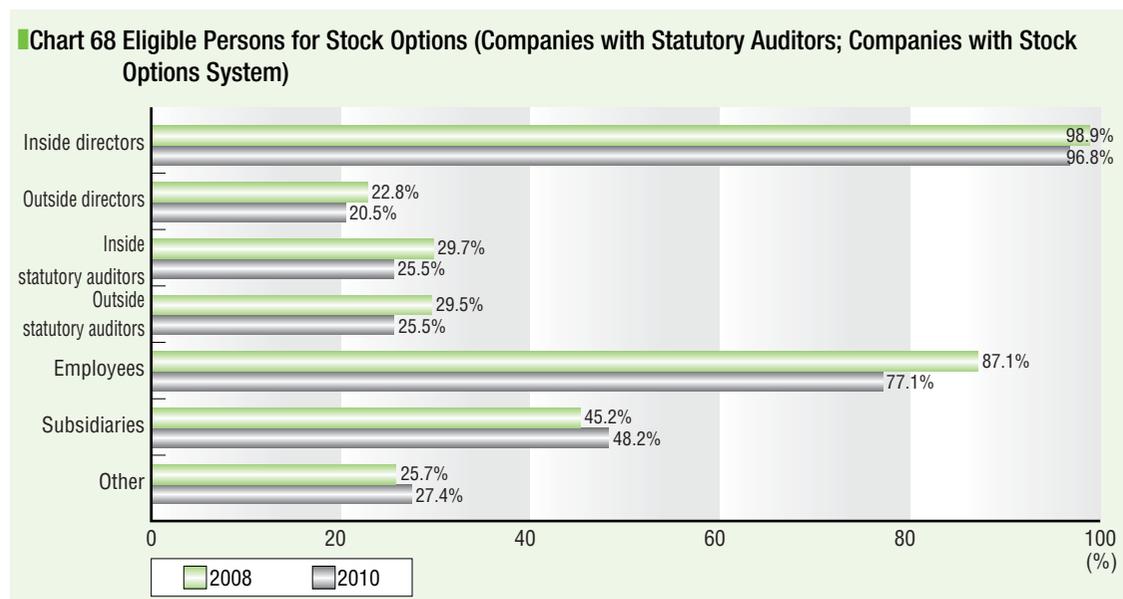
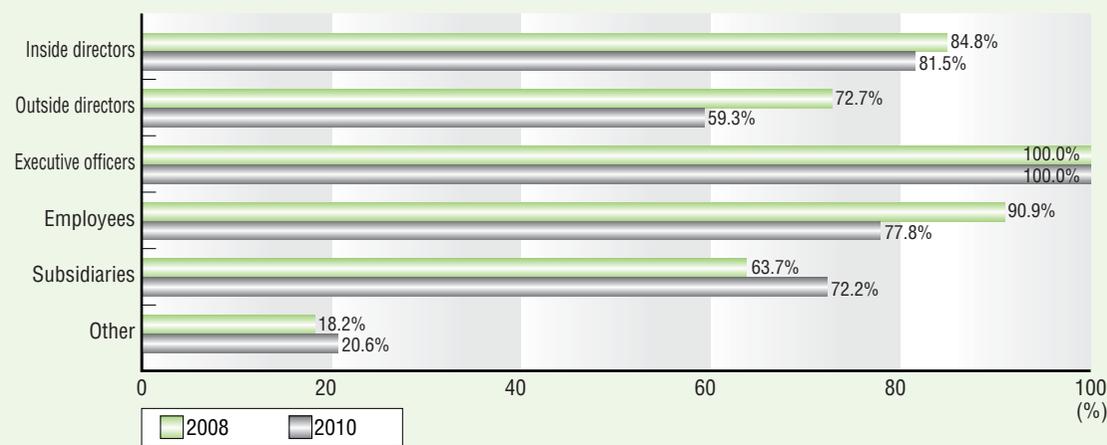


Chart 69 Eligible Persons for Stock Options (Companies with Committees; Companies with Stock Options System)



2. Disclosure of Directors' Remuneration

(1) Tools of disclosure

The Report requires the companies to specify how the companies disclose information on directors' remunerations by selecting applicable tool(s) from the following categories: "annual securities reports," "financial highlights," "business reports," or "other" (multiple answers allowed).

As shown in Chart 70, the TSE-Listed Companies mostly disclose by means of their annual securities reports, which account for 99.6% (up 0.9%). The amendment to the "Cabinet Office Ordinance on Disclosure of Corporate Information, etc." on March 31, 2010 (hereinafter "Disclosure Ordinance") requires companies to disclose the total amount of directors' remuneration, total amount by category, total amount of remuneration, etc. for directors who receive more than 100 million yen, as well as company policy on directors' remuneration in securities reports.

Chart 70 Tools for Disclosing Compensations to Directors



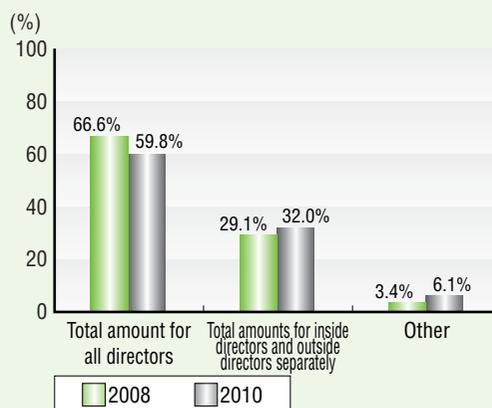
(2) Contents of disclosures

With respect to contents of disclosure on directors' remuneration, the Report requires each company to make a choice among "total amount for all directors," "total amounts for inside directors and outside

directors separately" and "other." In case a company discloses an individual amount for each director (including the case where individual amounts only for higher remunerations are disclosed), it is required to select "other" and provide supplementary explanations.

Among all TSE-Listed Companies, as shown in Chart 71, those who disclose only the total amount for all directors account for 59.8% (down 6.8%), and those who disclose the total amounts for inside directors and outside directors separately account for 32.0% (up 2.9%). As previously described, due to the amendment to the Disclosure Ordinance, while many companies disclosed the remuneration of directors who receive more than 100 million yen, only 2 companies (of which, one company disclosed in the Report) described disclosure on the remuneration amounts for each director and auditor.

Chart 71 Disclosures in Relation to Compensations for Directors



V Implementation of Measures for Shareholders and Other Interested Parties

1. Efforts for Active General Shareholders Meetings and Smooth Exercise of Voting Rights

It is fundamental for the stock company system that shareholders proactively exercise their rights pertaining to proposals for resolution at general shareholders meetings. The Exchange has requested each listed company to create an environment to facilitate the exercise of shareholders' voting rights at general meetings in the past.⁵⁷ Furthermore, in November 2007, the Exchange incorporated the Corporate Code of Conducts into the Securities Listing Regulations, which stipulates obligations to make efforts for facilitating the exercise of voting rights at general shareholders meetings, including scheduling of the meetings avoiding the peak day, early notification of general shareholders meeting, English translation of convocation notices, and exercise of voting rights by electronic means.⁵⁸

Creation of a better environment for the exercise of shareholders' voting rights is considered essential also from the perspective of making corporate governance work more effectively. In particular, achieving better corporate governance through the exercise of voting rights by shareholders and investors has recently become an important issue for companies, and we can expect better bilateral communications between listed companies and investors.

This section in the Report is designed for confirming the progress of the efforts to create an environment conducive to shareholders' active participation in general meetings and proper exercise of their voting rights, assessing how the listed companies communicate with their shareholders and investors on a routine basis, and ensuring that the shareholders and investors have fair and easy access to information.

(1) Early notification of general shareholders meeting

From the data in the Reports, it is found that 41.0% (up 8.1%; any up/down in this chapter refers to a change from the previous research) of the companies send convocation notices of general meetings to their shareholders well in advance.⁵⁹ Securing sufficient time for shareholders to make decisions and increasing the period of availability for exercising voting rights were mentioned as reasons for early notification of general shareholders meetings. In addition, some included descriptions that the company tries to make sure the notices for convening are sent as soon as possible in consideration of the high ratio of foreign shareholding.

In the analysis by market section as shown in Chart 72, companies providing early notification account for 47.9% (up 8.2%) of companies listed on TSE First Section, showing the much higher ratio compared

⁵⁷ TSE "Request for creating an environment to facilitate the exercise of shareholders' voting rights at general meetings of shareholders" TSE No. 255 (March 18, 2003)

⁵⁸ Rule 446 of the Securities Listing Regulations; Rule 437 of the Enforcement Rules for the Securities Listing Regulations.

⁵⁹ The term "early notification" means the case a company sends convocation notice of the most recent ordinary general meetings of shareholders at least 3 business days prior to the statutory date.

with TSE Second Section (22.8%; up 6.5%) and TSE Mothers (22.5%; up 9.2%). As shown in Chart 73, companies with larger net sales (consolidated) are more likely to provide early notification,⁶⁰ indicating that so called large companies tend to send convocation notices well in advance.

Another notable feature is, as shown in Chart 74, that companies with higher foreign shareholding ratios are more likely to provide early notification. With respect to early notification of notices for convening, both domestic and overseas investors responding to the TSE questionnaires in 2008 and 2010 continued to show a demand for early notification.

(2) Avoidance of peak day

75.7% (down 0.1%; see Chart 9) of all TSE-Listed Companies close their books in the end of March. Since fiscal year ending March remains predominant, most companies hold their ordinary general meetings of shareholders in end June because the companies must ensure that shareholders' rights are to be exercised within 3 months from the Record Dates (Article 124, Paragraph 2 of the Companies Act). Consequently, setting the ordinary general shareholders meeting on such a "peak day" - the date most other listed companies also hold the ordinary general meetings of shareholders - is considered to hinder shareholders' participation, and the Exchange stipulated an obligation to make efforts to diversify the general shareholders meeting dates in the Corporate Code of Conduct.⁶¹

Out of all companies whose fiscal year ends in March, 43.0% (up 4.6%) of the companies schedule general shareholders meetings avoiding the peak day.⁶² The reason stated for avoiding the peak day is so that many shareholders can attend the meeting (155 companies, 8.9%). Moreover, there were also descriptions on holding general shareholders meetings on Saturdays for shareholders' convenience.

In the analysis of companies whose fiscal year ends in March by market section, companies avoiding the peak day account for 58.2% (up 8.2%) in TSE Mothers, showing the higher ratio than those of TSE First and Second Sections which show 43.7% (up 4.0%) and 36.9% (up 6.0%), respectively (see Chart 72). On the contrary, no distinct correlation was found between the size (expressed by net sales (consolidated), etc.) of companies whose fiscal year ends in March and avoidance of the peak day,⁶³ similarly to the previous research (see Chart 73). This trend of setting the date of a general shareholders meeting to avoid the peak day is seen not only in large-sized companies, but also in many companies in the smallest category by net sales (consolidated), and follows the same trend as that in previous research.

⁶⁰ Relations with number of employees (consolidated) and number of consolidated subsidiaries also show the same trends. (i.e. the larger the number, the higher ratio of early notification).

⁶¹ Rule 446 of the Securities Listing Regulations; Rule 437, Paragraph 1 of the Enforcement Rules for the Securities Listing Regulations.

⁶² The term "peak day" means a date when the most of listed companies hold their ordinary general meetings of shareholders (the most concentrated day in a year), determined based on the most recent dates for shareholders meetings. The concentration ratio on the peak day for general shareholders meetings in June 2010 was 42.6%. Even though the concentration ratio on a daily basis is decreasing year by year, the concentration ratio on a weekly basis remains high at 86.6%.

⁶³ There is no correlation with number of employees (consolidated) or number of consolidated subsidiaries, either.

Likewise, the higher the foreign shareholding ratio, the more likely the companies are to avoid the peak day (see Chart 65).

(3) Exercise of voting rights by electronic means

The exercise of voting rights by electronic means has been permitted since the revision of the Commercial Code in 2001, subject to the resolution by the board of directors (Article 1, Paragraph 1-4 and Paragraph 4 of the Companies Act; Article 239-3 of the former Commercial Code). Meanwhile, the Exchange has striven to foster an environment where institutional investors may accurately exercise their rights via ICJ⁶⁴ which operates Electronic Voting Platform for Institutional Investors. To promote the use of the platform, the revision of the Securities Listing Regulations in June 2010 clearly stipulates "to provide an environment in which the shareholders (where such shareholder holds stocks for others, including beneficial shareholders having instructional rights pertaining to the exercise of voting rights and other rights equivalent thereto to the shareholders) can exercise their voting rights by an electromagnetic method".

According to the Report, companies which have established infrastructure for the exercise of voting rights by electronic means account for 23.8% (up 3.4%) of all TSE-Listed Companies. Despite of an increase from the previous research, most companies are still in the process of developing such infrastructure. Yet it can be also interpreted that development efforts are gradually going ahead led by large companies as mentioned below.

In the analysis by market section, companies allowing the exercise of voting rights by electronic means account for 30.2% (up 4.8%) in TSE First Section, the ratio of which is higher than those of TSE Second Section (5.6%; down 0.6%) and TSE Mothers (9.3%; down 0.9%) (see Chart 72). Companies with larger net sales (consolidated)⁶⁵ (meaning larger companies) obviously shows much higher ratio of allowing exercise of voting rights by electronic means (see Chart 73). For example, among the companies with the net sales (consolidated) of exceeding ¥100 billion (782 companies; 34.1% of all companies), 48.5% (379 companies; up 9.2%) of them allow the exercise of voting rights by electronic means.

Furthermore, with respect to relation with the foreign shareholding ratio, similarly to the previous research, companies with higher ratios are more likely to allow the exercise of voting rights by electronic means. Compared with the previous research, each category, except those under 10%, shows an upward trend (see Chart 74). 184 companies stated their use of the ICJ's Electronic Voting Platform for Institutional Investors.

⁶⁴ ICJ stands for Investors Communications Japan. As of February 28, 2011, 381 listed companies expressed their intention to participate in the ICJ platform. For details, please visit its website (<http://www.icj-co.com>).

⁶⁵ Relations with number of employees (consolidated) and number of consolidated subsidiaries also show the same trends (i.e. the larger the number, the higher ratio of allowing exercise of voting rights by electronic means).

Chart 72 Efforts for Active General Shareholders Meetings (Market Section)

	Early notification of general shareholders meeting		Scheduling general shareholders meetings avoiding peak day (FY end: March)		Exercise of voting rights by electronic means	
		Change from 2008		Change from 2008		Change from 2008
TSE First Section	47.9%	8.2%	43.7%	4.0%	30.2%	4.8%
TSE Second Section	22.8%	6.5%	36.9%	6.0%	5.6%	-0.6%
TSE Mothers	22.5%	9.2%	58.2%	8.2%	9.3%	-0.9%

Chart 73 Efforts for Active General Shareholders Meetings (Net Sales (Consolidated))

	Early notification of general shareholders meeting		Scheduling general shareholders meetings avoiding peak day (FY end: March)		Exercise of voting rights by electronic means	
		Change from 2008		Change from 2008		Change from 2008
Under ¥10 billion	20.2%	5.3%	44.8%	4.7%	8.1%	0.9%
¥10 billion to under ¥100 billion	33.5%	10.3%	40.7%	6.2%	11.9%	1.8%
¥100 billion to under ¥1 trillion	56.9%	9.2%	44.2%	4.6%	41.9%	10.2%
¥1 trillion or more	81.6%	3.9%	53.6%	-4.4%	83.2%	6.2%

Chart 74 Efforts for Active General Shareholders Meetings (Foreign Shareholding Ratio)

	Early notification of general shareholders meeting		Scheduling general shareholders meetings avoiding peak day (FY end: March)		Exercise of voting rights by electronic means	
		Change from 2008		Change from 2008		Change from 2008
Under 10%	31.0%	8.8%	38.7%	5.3%	10.8%	2.2%
10% to under 20%	52.3%	17.9%	47.1%	8.3%	36.7%	14.2%
20% to under 30%	63.0%	4.7%	51.4%	4.3%	52.1%	9.3%
30% or more	69.2%	7.5%	56.1%	1.4%	65.7%	7.7%

(4) Other

In case companies are making efforts for active general shareholders meetings and smooth exercise of voting rights in addition to the above-mentioned measures, they are supposed to check the category "other" and provide supplementary explanations on such efforts. In particular, the Reporting Guideline shows such measures as posting convocation notice on a company website and translation of convocation notice into English as examples of this category. The Exchange also incorporated these points into the Corporate Code of Conduct as obligations to make efforts in establishing framework enabling investors to receive convocation notices and reference documents by electromagnetic means, and preparing and providing summaries of convocation notices, etc. in English.⁶⁶ For notices for annual general shareholders meetings, from the general shareholders meeting of companies for the fiscal calendar

⁶⁶ Rule 438 of the Securities Listing Regulations, Rule 437, Items 3 and 4 of the Enforcement Rules for the Securities Listing Regulations.

ending March 2010, it is mandatory for listed companies to submit the notice and its attached documents to TSE by the day they are sent to shareholders. TSE will then post such notices on the TSE website.

In the review of supplementary explanations in the Reports, it is found that 23.2% (up 6.8%) of the TSE-Listed Companies referred to use of the company websites.⁶⁷ Descriptions related to visual presentation⁶⁸ account for 11.9% (up 2.4%), and descriptions related to English translation account for 9.7% (up 1.4%). Both ratios indicate the companies' active efforts. In October 2009, TSE requested listed companies to publish voting results, including the number of votes for each agenda item at a general shareholders meeting, and such disclosure subsequently became mandatory in the extraordinary report with the amendment to the Disclosure Ordinance in March 2010. In connection with this, this year some companies reported the individual number of votes in favor, against, and abstained for the resolution matters.

In the analysis of the ratios of using keywords related to use of the company website and visual presentation by market section as well as net sales (consolidated), number of employees (consolidated) and number of consolidated subsidiaries, TSE First Section shows higher ratios. Obviously the larger companies tend to show the higher ratios.

As further efforts to reduce distance between companies and shareholders, some companies hold events such as receptions or factory tours after the general shareholders meetings in the presence of representative directors and/or other management; or provide unique services or entertainments to the participants of the general shareholders meetings, taking advantages of their own products or services. For the convenience of shareholders to attend the general meetings, various explanations were presented including: setting the dates on weekends, location selection criteria such as convenient access and large capacity, facilitating participation not only by increasing meeting locations by preparing a satellite room but also by making the best use of communication tools.

Furthermore, for the convenience of increasing foreign investors, not a few companies referred to preparation of convocation notices in English⁶⁹ and posting such information on the company websites. While there are some securities transfer agents which run portal sites posting English versions of convocation notices collectively for foreign investors, some companies cited such sites in their explanations. On the contrary, some pointed out problems arising from preparation of convocation notices in English with time constraints and expressed reservation about it.

⁶⁷ With respect to "the company website," any company using any one of the following keywords is included: "the company website," "homepage," "HP," or "www."

⁶⁸ With respect to "visual," any company using either "visual" or "PowerPoint" as keywords is included.

⁶⁹ TSE requests companies which prepare English translations (including summaries) of notices of general shareholders meetings, etc. to submit the English translations along with the Japanese notice. As such, the English translations of such notices will also be found on the TSE website.

2. Investor Relations (IR) Activities

From the perspective of enhanced communications between the listed companies and shareholders/investors, in addition to efforts promoting more active participation in shareholders' meetings and the facilitated exercise of voting rights, emphasis should be placed on dialogue with the market through IR activities.

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

"IR activities" is a simple phrase, but individual companies have applied a variety of approaches for that purpose. In order to capture the overall trends, this part of the Report comprises of the following topics to enable companies to respond with a focus on contact with investors: "regular seminars for individual investors," "regular seminars for analysts and institutional investors," "regular seminars for overseas analysts," "the posting of IR data on the company website," and "the formation of a department (or responsible person) responsible for IR activities."

(1) Regular seminars

Seminars are an important means for establishing direct contact between listed companies and investors. The Exchange has required companies listed on TSE Mothers to hold seminars on investment at least twice a year for three years subsequent to the listing⁷⁰ and have thereby improved their communications with investors.

(a) For individual investors

In total, 25.1% (down 1.8%) of the TSE-Listed companies have held regular seminars⁷¹ for individual investors. Of these companies, those who mentioned that a representative attends the seminars as a speaker account for 74.9% (down 8.4%), comprising 18.8% (down 3.6%) of all TSE-Listed Companies.

In the supplementary explanations, a number of companies brought up presentation by their representative directors, and reported number of participants, locations, and number of seminars held. As formats of seminars, some reported that they have held IR seminars after the general shareholders meetings, and some described their active efforts for enhancing investors' understanding on their

⁷⁰ Securities Listing Regulations Rule 421-2. Before the revision of the Securities Listing Regulation in November 2009, this requirement was only up to 3 years after listing. After the revision, Mothers-listed companies are required to hold such seminars as long as they remain listed on the Mothers market.

⁷¹ The term "regular seminars" refers to the case where seminars are held annually at a certain frequency (expected to be held at least once in a year).

businesses by combining IR seminar with a factory visit. With respect to organization of such seminars, in addition to seminars hosted by the companies themselves, a number of companies reported on participation in joint seminars organized by securities companies, media, IR organizations, or other institutions for information dissemination to individual investors. Some also reported that IR meetings targeting analysts and investors are broadcast live or available on their website.

In case of targeting individual investors, while some companies have held seminars associated with the corporate characteristics by focusing on certain regions or female investors for example, some companies expressed their concerns about unfair information dissemination to a limited number of individuals and emphasized their policies not to carry out selective disclosures where only certain investors take advantage of receiving corporate information including business conditions prior to full public disclosures.

(b) For analysts and institutional investors

Companies which have held regular seminars for analysts and institutional investors account for 72.3% (up 1.4%) of all TSE-Listed Companies. Of these companies, those who mentioned that a representative attends the seminars as a speaker account for 94.1% (down 4.3%), comprising 68.0% (down 2.0%) of all TSE-Listed Companies. The increase of the ratio of such representative's presentation suggests that companies are increasingly becoming to place more emphasis on dialogue with their shareholders.

In the analysis by market section (see Chart 75), as TSE rules require companies to hold regular seminars, ratios of companies which have held seminars are higher in TSE Mothers: those who have held seminars for individual investors account for 40.7% (down 6.5%) and those who have held seminars for analysts and institutional investors account for 90.7% (up 0.9%) in contrast with TSE First Section (25.6% and 78.1%, resp.) and TSE Second Section (16.9% and 43.1% resp.).

When limited to the companies listed on TSE First Section, companies with larger number of employees (consolidated), net sales (consolidated) and number of consolidated subsidiaries (meaning the larger companies) are more likely to have held regular seminars for both individual and institutional investors.

In the supplementary explanations, 1,596 companies reported about regular seminars, and companies mainly wrote about dates of seminars and attributes of institutional investors. As for dates of holding seminars for institutional investors, while the overwhelming majority stated that they have held the seminars after announcements of final financial results, 642 companies stated that they conduct seminars on a quarterly basis, a dramatic increase from 283 companies in the previous research. Efforts for enhancing investors' understanding on their companies through factory tours, etc. are also observed.

With respect of how such seminars are organized for professional institutional investors, arrangements of internet-based or telephone network-based distance seminars were reported. Unlike the case with individual investors, ad-hoc individual meetings were also mentioned. Again, issues arising from information dissemination to a limited number of investors are raised, and based on such recognition, some companies reported that they deliver the contents of such seminars held for institutional investors

to public via the Internet, etc.

(c) For foreign investors

Companies which have held regular seminars for foreign investors account for 14.5% (down 1.8%) of all TSE-Listed Companies. Of these companies, those who mentioned that a representative attends the seminars as a speaker account for 83.4% (down 6.6%), comprising 12.1% of all TSE-Listed Companies. In the analysis by market section, TSE First Section shows the highest ratio of 18.9% (down 2.0%), followed by TSE Mothers at 5.5% (down 3.7%) and TSE Second Section at 1.6% (down 0.8%) (see Chart 75). As shown in Chart 76, companies with higher foreign shareholding ratio are more likely to have held regular seminars for foreign investors.

When limited to companies listed on TSE First Section, there is a distinct trend that companies with larger number of employees (consolidated), net sales (consolidated) and number of consolidated subsidiaries (meaning the larger companies) are more likely to hold regular seminars for foreign investors.

With respect of how such seminars are organized, a common method reported is that directors go abroad to speak in such seminars or individual meetings. Destinations are mainly the U.S. and Europe, followed by Hong Kong and Singapore reflecting the recent growth of Asia. The frequency is generally reported to be once a year. Similarly to the seminars held in Japan, some companies described that they have held orientation sessions on their factories at their local factories, or during events or fairs abroad, to enhance investors' understanding of the companies. Such measures as Internet-based seminars and improvement of annual reports were also reported.

320 companies (13.9%) have held seminars for foreign investors, but that has decreased from 15.8% in the previous research. Some reported that they have reduced the frequency of seminars for foreign investors or deleted descriptions on seminars for foreign investors. This is rooted in the lower ratio of foreign shareholding, leading to less impetus for IR activities targeting foreign investors.

Chart 75 Regular Seminars for Investors (Market Section)

	For individual investors		For analysts and institutional investors		For foreign investors	
		Change from 2008		Change from 2008		Change from 2008
TSE First Section	25.6%	-1.0%	78.1%	1.8%	18.9%	-2.0%
TSE Second Section	16.9%	-2.6%	43.1%	-0.2%	1.6%	-0.8%
TSE Mothers	40.7%	-6.5%	90.7%	0.9%	5.5%	-3.7%

Chart 76 Regular Seminars for Investors (Foreign Shareholding Ratio)

	For individual investors		For analysts and institutional investors		For foreign investors	
		Change from 2008		Change from 2008		Change from 2008
Under 10%	21.6%	-1.7%	62.4%	3.7%	3.8%	-1.5%
10% to under 20%	27.6%	-0.2%	88.4%	5.3%	22.0%	4.6%
20% to under 30%	36.5%	0.7%	92.2%	1.9%	41.1%	0.8%
30% or more	34.3%	-0.7%	89.3%	0.1%	52.1%	3.0%

(2) Posting on the company website

The disclosure of IR data⁷² via company websites is a very convenient and useful tool for providing information to investors and market participants. As such, the Report requires companies to state whether they post IR data on their own 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 (e.g., information on earnings results, timely disclosure materials other than earnings results, annual securities reports or semi-annual reports, materials relating to seminars, status of corporate governance, convocation notices of general meetings of shareholders, etc.).

Of all TSE-Listed Companies, 2099 companies reported their posting of IR data on the company websites, making up 92.0% (up 4.5%). This high ratio proves that they have striven to improve their activities using any channel easily and widely available to general investors. In the analysis by market section as shown in Chart 77, TSE Mothers (95.1%) and TSE First Section (93.0%) show relatively higher ratios of posting on the company websites. In relation with foreign shareholding ratio (see Chart 78), companies with higher foreign shareholding ratios are more likely to post IR data on the company websites.

With respect to the contents of IR data posted on the company websites, 24.6% (up 0.6%) of TSE-Listed companies mentioned "earnings results" in their supplemental explanations, followed by "annual securities reports" at 40.7% (up 3.8%), "public announcement of performance results" at 2.3% (down 0.9%) and "convocation notices" at 11.2% (up 2.9%). Almost all of the companies which provided supplementary explanations reported that they post the annual securities reports, timely disclosure materials, and annual reports. It is assumed that this trend is also shared by most of the companies which did not provide supplementary explanations this time, and that the company websites are widely used. Furthermore, cases of posting videos on the websites in addition to documents were reported as efforts in visualization.

⁷² "IR data" refers to any documents or electromagnetic data prepared or compiled by a company for the purpose of contributing to the appropriate understanding and assessment of the present conditions of the company by investors, etc. (investors, financial analysts, parties involved in transactions with the company or shareholders).

(3) Department responsible for IR (responsible person)

In total, 77.8% (down 2.9%) of TSE-Listed companies mentioned that they have a department responsible for IR activities (including responsible persons).⁷³ In terms of market sections, 86.3% (up 0.6%) of TSE Mothers-listed companies have such a department. This is the highest ratio, while TSE First Section and Second Section show the corresponding ratios at 80.9% (down 3.0%) and 62.5% (down 4.0%), respectively (see Chart 77).

The majority of the companies which have a department responsible for IR stated that it is a department dedicated to IR. In terms of organizational structure, such a department is reported to be under direct control of Executive Secretary's Office, or under Business Planning Division or Corporate Strategy Division.

Chart 77 Posting of IR Data on the Company Websites and Formation of IR Department (Market Section)

	Posting of IR Data on the Company Websites		Formation of IR Department	
		Change from 2008		Change from 2008
TSE First Section	93.0%	4.1%	80.9%	-3.0%
TSE Second Section	87.4%	5.2%	62.5%	-4.0%
TSE Mothers	95.1%	7.4%	86.3%	0.6%

Chart 78 Posting of IR Data on the Company Websites and Formation of IR Department (Foreign Shareholding Ratio)

	Posting of IR Data on the Company Webs		Formation of IR Department	
		Change from 2008		Change from 2008
Under 10%	90.4%	5.3%	72.2%	-1.9%
10% to under 20%	94.7%	6.6%	88.2%	1.7%
20% to under 30%	95.0%	3.3%	87.2%	-4.5%
30% or more	95.9%	0.5%	86.4%	-5.7%

(4) Other

The Report provides a section in which companies may provide optional descriptions on IR activities, and 397 companies (17.3% of the TSE-Listed Companies) provided explanations from various angles.

In specific descriptions, 112 companies (28.2% of those provided the subject descriptions) referred to individual visits to, individual meetings, and small group meetings with analysts, institutional investors or major shareholders. Out of these companies, some explained specific persons, such as representative directors and directors in charge, who attend such activities. The research also shows that some companies are taking initiatives for better bilateral communication by using blogs and Twitter.

In the context of fair disclosure, some described measures to respect individual shareholders and investors such as posting video of results briefing on the company websites soon after the briefing. In the context of information dissemination to shareholders, the following examples were presented: distribution of IR information via e-mail newsletters, delivery of business reports to the shareholders at least twice a year, and distribution of public relations magazines or quarterly magazines to the shareholders. In addition, some companies described their basic policies on information disclosure by representing that they formulated and announced their disclosure policies and disclose information in

⁷³ These companies have designated a department responsible for IR activities, a director responsible for IR activities (the person responsible for the surveillance of IR activities of the listed company), and a person responsible for IR-related communications.

accordance with such policies.

Other descriptions include posting of convocation notices of general shareholders meetings on the website for domestic and foreign institutional investors, regular site tours, and hospitality programs for shareholders.

3. Measures to Ensure Due Respect for Stakeholders

Corporate governance of listed companies is expected to create corporate value, create jobs, and promote the maintenance of sound corporate management through stable relationships established between companies and stakeholders. For the purpose of the Report, the Exchange addressed issues to be tackled by listed companies as they strive to establish stable relationships with stakeholders other than shareholders. In this regard, the Exchange has presented the following keyword themes focused on the development of corporate culture and the improvement of internal systems for respecting the positions of stakeholders: (1) Rules on Respect for the Positions of Stakeholders under Internal Regulations; (2) Environmental Preservation Activities and CSR Activities; and (3) Development of Policies in Relation to the Provision of Information to Stakeholders.

Companies which responded to the above (1) account for 62.0% (up 5.4%) of TSE-Listed Companies, and 1408 companies provided supplementary explanations. Most of such companies have established a code of conduct with high ethical standards to secure the trust of stakeholders including shareholders, clients, business partners and local residents. Some companies even gave special mention of notifying all group company employees around the world by distributing brochures.

Companies which responded to the above (2) account for 69.0% (up 4.7%). Out of these, 246 companies extended their descriptions from the previous research, indicating strong awareness of activities related to the environment and CSR. 248 companies reported that they had already obtained ISO14000 or ISO 14001. 363 companies reported that they had published environmental reports or CSR reports. 45 companies reported that the president of the company was deeply committed to the issue. In addition, 80 companies are committed to measures against global warming while 47 companies provided explanations regarding carbon emissions. There were many such descriptions highlighting company initiatives on environmental issues. Furthermore, some companies recognized CSR in a broader sense ? covering not only environmental issues but also labor issues and CS improvement, and described each relevant activity.

Companies which responded to the above (3) account for 45.1% (up 3.7%), and 168 companies provided supplementary explanations, describing company perspectives and policies on corporate governance such as charter, regulations, standards, rules, and policies to notify throughout the company.

In the analysis of such efforts by market section, as shown in Chart 79, a high percentage of companies listed on the TSE First Section have made all three efforts. It suggests that efforts to ensure due respect for stakeholders have been widely made by the companies listed on the First Section. For example, 77.3% (up 4.5%) of companies listed on the TSE First Section have implemented environmental

preservation activities or CSR activities, while only 19.2% (up 0.3%) of Mothers-listed companies have taken the same actions. This trend was already observed in the previous research and remains unchanged. Furthermore, as shown in Chart 80, companies with larger net sales (consolidated)⁷⁴ (meaning the larger companies) seem more proactive in these efforts.

In addition to the above measures (1) to (3), 201 companies explained "other" efforts such as global environment or social action programs.

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

Chart 79 Efforts for Respecting the Positioning of Stakeholders (Market Section)

	Stipulation in Internal Regulations		Environmental Preservation and CSR Activities		Development of Policies on Information Provision	
		Change from 2008		Change from 2008		Change from 2008
TSE First Section	68.5%	5.1%	77.3%	4.5%	49.9%	4.1%
TSE Second Section	48.5%	5.4%	58.0%	5.9%	28.7%	-0.3%
TSE Mothers	35.2%	7.0%	19.2%	0.3%	41.8%	8.4%

Chart 80 Efforts for Respecting the Positioning of Stakeholders (Net Sales (Consolidated))

	Stipulation in Internal Regulations		Environmental Preservation and CSR		Development of Policies on Information	
		Change from 2008		Change from 2008		Change from 2008
Under ¥10 billion	36.5%	8.4%	33.6%	7.1%	35.8%	5.8%
¥10 billion to under ¥100 billion	58.9%	7.4%	65.1%	5.5%	39.1%	3.9%
¥100 billion to under ¥1 trillion	73.7%	4.0%	86.8%	5.3%	53.1%	4.1%
¥1 trillion or more	92.8%	0.2%	99.2%	1.9%	84.0%	4.3%

⁷⁴ Relations with number of employees (consolidated) and number of consolidated subsidiaries also show the same trends.

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

1. Basic Policy of Internal Control Systems and the Progress of System Development

Under the Companies Act, large companies (Article 362, Paragraph 4, Item 6 and Paragraph 5 of the Act) or companies adopting a committee system (Article 416, Paragraph 1, Item 1 (v) and Paragraph 2 of the Act) are required to develop a "system to ensure appropriate company management" (a so-called internal control system). In light of this situation, recognizing that companies need to inform general investors of the basic policy characterizing their internal control systems, the Exchange requires listed companies to describe relevant items in the Report. The Exchange also requires companies to describe the concepts (basic policies) they implement to ensure the appropriate fulfillment of operations. These concepts should illustrate how a company can manage organizations to attain management strategies or business purposes, and how a company can comply with laws, regulations, and its articles of incorporation.⁷⁵

With respect to the basic concept of internal control systems and the development of the systems themselves, many companies have made descriptions according to the items prescribed in the Companies Act and the Enforcement Rules for the Companies Act (Articles 100 and 112 of the Enforcement Rules for the Companies Act). More than 130 companies extended their descriptions from previous research, and such descriptions contain mainly supplementary descriptions in accordance with the Companies Act and Ordinance for Enforcement of the Companies Act.

Specifically, 29.5% (down 0.7%; any up/down in this chapter refers to a change from the previous research) of all TSE-Listed companies referred to the term "the Companies Act."⁷⁶ In total, 77.4% (up 3.1%) of the companies referred to "risk management," and more companies, reaching 94.9% (up 1.0%), referred to "compliance"⁷⁷ (See Chart 72).

As for "system to store and manage the information related to the operations of directors/executive officers" (Article 100, Paragraph 1, Item 1 and Article 112, Paragraph 2, Item 1 of the same Rules), 77.8% (up 28.6%) of all TSE-listed companies reported documented rules as most information is stored in document format.

Concerning "rules and system for management of risk of loss" (Article 100, Paragraph 1, Item 2 and Article 112, Paragraph 2, Item 2 of the same Rules), 77.4% (up 10.2%) of all TSE-Listed companies reported that rules on risk management have been adopted. Specific descriptions include establishment of individual rules addressing each specific risk, and preparation of measures to be taken when risk situations arise including establishment of a risk management committee.

⁷⁵ The Report further requires to describe the status of compliance system, risk management system, and information management system to ensure the status of creating necessary framework.

⁷⁶ Overwhelming majority of the companies described their basic policies in accordance with the provisions of the Companies Act, even though they do not use the term "the Companies Act."

⁷⁷ With respect to the item "compliance," any company using any one of the following keywords is included: "regulatory compliance," "compliance with laws and regulations" and "compliance."

Regarding "system to ensure proper execution of duties by directors/executive officers" (Article 100, Paragraph 1, Item 3 and Article 112, Paragraph 2, Item 3 of the same Rules), 86.3% (up 16.6%) of all TSE-Listed companies provided a wide variety of descriptions. Generally, such descriptions focused on management system taking corporate governance into account, and management procedures with management cycle in mind.

"System to ensure that employees' execution of duties comply with relevant laws and regulations as well as the articles of incorporation" (Article 100, Paragraph 1, Item 4 and Article 112, Paragraph 2, Item 4 of the same Rules) was mentioned by 88.7% (up 27.2%) of all TSE-Listed companies. Most frequently observed descriptions are formulation of guidelines including codes of conduct and compliance rules. To enhance effectiveness of such rules, some companies further referred to establishment of responsible committees and implementation of related training, as well as consultation service for employees and internal reporting system (whistle blowing program). 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 statutory auditors and outside directors, and outside attorney's check of legal compliance as well as compliance with the articles of incorporation.

"System to ensure proper business operations of the stock company and the business group consisting of its parent company and subsidiaries" (Article 100, Paragraph 1, Item 5 and Article 112, Paragraph 2, Item 5 of the same Rules) was referred to by 91.8% (up 24.6%) of all TSE-Listed companies. While being generally the same as descriptions concerning the headquarters, the descriptions include formulation of group management rules, formation of compliance department responsible for managing affiliated companies, internal control system overseeing subsidiaries and overseas business, and consultative meetings of statutory auditors across the group. With respect to control over subsidiaries, two different policy directions are observed: some expressed it necessary to strengthen control over their subsidiaries and appoint outside directors and outside statutory auditors of such subsidiaries from the parent company; and other emphasized independence of subsidiaries from the parent companies.

As for "matters concerning employees who assist statutory auditors when requested" (Article 100, Paragraph 3, Item 1 of the Enforcement Rules for the Companies Act) and "matters concerning independence of the employee from directors set forth in the preceding item" (Article 100, Paragraph 3, Item 2 of the Enforcement Rules for the Companies Act), descriptions were generally in line with the Act. The companies made due consideration of their independence in terms of appointment and discharge, performance evaluation, and personnel transfer. The similar explanations were made concerning Audit Committee member of the Companies with Committees (Article 112, Paragraph 1, Items 1 and 2 of the Enforcement Rules for the Companies Act).

Regarding "system for reporting from directors, employees and others to statutory auditors" (Article 100, Paragraph 3, Item 3 of the Enforcement Rules for the Companies Act) and "other system to ensure that statutory auditors conduct audits effectively" (Article 100, Paragraph 3, Item 4 of the Enforcement Rules for the Companies Act), companies referred to rules concerning statutory auditors' rights to

participate in certain significant meetings, and rights to review material documents. In addition, there was a case allowing employees to report directly to statutory auditors.

These internal control systems in accordance with the Companies Act can be recognized as systems to monitor internal structure including management in terms of the development of a system to ensure the appropriate business of the companies. Discussions on internal control systems have been proceeding concurrently as a premise for the reliability of financial reporting. Under the Financial Instruments and Exchange Act (FIEA), it is mandatory for listed companies to file internal control system reports with assessments of the effectiveness of internal control related to the financial reporting from fiscal year starting on or after April 1, 2008 (Article 24-4-4 of FIEA). Listed companies will have to develop internal control systems which incorporate all of the legal requirements. 157 companies reported that they have developed internal control systems for creation of documents such as drafting new internal rules.

Chart 81 Basic Policy of Internal Control Systems and the Progress of System Development

		Companies Act		Risk management		Compliance		Information management	
		Ratio	Change from 2006	Ratio	Change from 2006	Ratio	Change from 2006	Ratio	Change from 2006
All the data		30.2%	2.6%	74.3%	6.7%	94.0%	6.9%	20.7%	0.7%
Organizational form	Companies with Statutory Auditors	30.0%	2.5%	74.4%	6.9%	94.1%	6.9%	20.7%	0.6%
	Companies with Committees	40.0%	9.5%	72.7%	-0.2%	90.9%	6.2%	20.0%	3.1%
Market section	TSE First Section	32.5%	2.4%	75.5%	4.8%	95.4%	6.0%	22.0%	0.4%
	TSE Second Section	24.7%	2.7%	71.9%	9.7%	91.2%	9.2%	18.2%	1.7%
	TSE Mothers	23.6%	4.0%	70.3%	16.8%	88.2%	8.9%	14.9%	0.5%

		Ethics		Decision making		Antisocial Force	
		Ratio	Change from 2006	Ratio	Change from 2006	Ratio	Change from 2006
All the data		56.9%	10.0%	56.0%	10.8%	94.7%	93.6%
Organizational form	Companies with Statutory Auditors	56.8%	9.7%	56.1%	10.7%	94.6%	93.8%
	Companies with Committees	61.8%	22.8%	50.9%	13.6%	96.4%	84.5%
Market section	TSE First Section	59.5%	9.1%	56.9%	9.7%	96.1%	94.9%
	TSE Second Section	51.1%	10.3%	51.9%	12.9%	93.8%	93.0%
	TSE Mothers	48.7%	18.3%	57.4%	14.3%	84.1%	83.5%

2. Matters concerning Establishment of System for Eliminating Anti-social Forces

The Exchange has been striving for elimination of anti-social forces centering its efforts on initial listing examinations. Recently, adoption of measures to tackle with anti-social forces in securities trading and crime prevention has become pressing issues. For the purposes of preventing abuse of securities market by anti-social forces and maintaining order and confidence of securities market, the

Exchange established a new system in February 2008. Specifically, in relation with a section "Basic Policy of Internal Control Systems and the Progress of System Development" in the Report, the Exchange requires companies to provide additional information on their efforts for elimination of anti-social forces.⁷⁸ In line with "the guideline to prevent private corporations from anti-social forces" announced by the Japanese Government in June 2007 incorporating a recommendation which reads "it is necessary to clearly include prevention of damages caused by anti-social forces in internal control system," the Exchange added this subject in the Report as a matter related to internal control.

In principle, the Exchange expects companies to describe their policies 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 code of ethics, code of conduct, internal regulations, etc. as well as corporate structure enabling company-wide response.

Given that, 96.2% (up 1.5% from previous research, 96.2% of the Companies with Statutory auditors; 96.1% of the Companies with Committees) of the companies provided the relevant descriptions. High response ratios in all three markets (96.9% of TSE First Section; 94.8% of TSE Second Section; and 93.4% of TSE Mothers), proving that actions have been taken by wide most of the companies.⁷⁹

Concerning policies for eliminating 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. Concerning system for eliminating anti-social forces, 1,401 companies (61.1% of all companies) mentioned cooperation with police agencies. In addition to police agencies, a number of companies referred to 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 addressed.

⁷⁸ This was implemented in accordance with the revision of the regulations on Feb. 6, 2007 (partial amendment of the Securities Listing Regulations for improvement of listing system for elimination of anti-social forces and other). At the same time, the Corporate Code of Conduct in the Regulations was amended to require companies for effort to develop internal framework to prevent damages caused by anti-social forces as well as anti-social forces' involvement in each corporate activity (Rule 443 of the Securities Listing Regulations).

⁷⁹ These numerical data is based on data provided in this section of the Reports. Some companies may have provided comments related to this section elsewhere in the Reports, such as "I. Underlying Concept of Corporate Governance," by describing this topic together with compliance, etc.

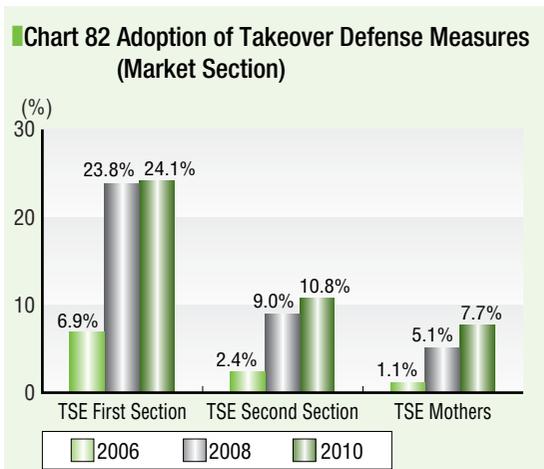
VII Matters Concerning Takeover Defense Measures

Any company which introduced⁸⁰ takeover defense measures⁸¹ is required to give an overview of the scheme in the Report and describe the reasons for introducing it. Many companies have been concerned about hostile takeovers and a growing number are now introducing takeover defense measures. These types of measures have a large impact on the rights of shareholders and investors, and they have the potential to be abused to serve the interests of directors or officers. In this respect, the Report requires companies with these measures to describe both the schemes and propriety of the scheme structures.

Companies which described adoption of takeover defense measures in the Reports account for 20.3% of all TSE-Listed Companies, showing an increase up to 465 companies (up 0.9%; up 5 companies; any up/down in this chapter refers to a change from the previous research).⁸² However, considering the fact that in previous research, the number of the companies grew by 329 companies from 2006, the increase this time is much smaller. 23 companies reported that they had abolished or discontinued previously adopted takeover defense measures. This shows that the introduction of takeover defense measures in Japan have come full circle, and the trend of adopting such measures has peaked.

The ratios by market section show 24.1% (up 0.4%) in TSE First Section, 10.8% (up 1.8%) in TSE Second Section, and 7.7% (up 2.6%) in TSE Mothers (see Chart 73). Concerning relation with company size, larger companies are more likely to have introduced takeover defense measures (in terms of relation with net sales (consolidated); see Chart 83). As for relation with foreign shareholding ratio (see Chart 84), the highest adoption ratio is marked by companies in the range of "20% to under 30%," which account for 32.0% (down 4.2%), followed by companies in the range of "10% to under 20%," which account for 29.8% (up 5.7%). From the fact companies with foreign shareholding ratio exceeding 30% comprise as low as 14.8% (down 3.9%), it is confirmed that higher foreign shareholding ratios do not trigger adoption of takeover defense measures.

In respect of relation with shareholding ratio of the largest shareholder (see Chart 85), an overall



⁸⁰ The term "introduce" or "adopt" here means a resolution to determine actual contents of a scheme, including a resolution to issue new shares or new share reservation rights.

⁸¹ The term "takeover defense measure" means any measure introduced by a listed company, before any unwanted takeover attempt is actually initiated against that company, to fend off any attempt by a third party to acquire the company (attempt to acquire a sufficient number of shares to have a significant influence on the company), through the issuance of new shares or new share subscription rights. Any issuance of new shares or new share subscription rights principally for business purposes such as fundraising shall not be regarded as takeover defense measures.

⁸² For the purpose of aggregation related to takeover defense measures in the White Paper, the Reports is not designed to check "yes" or "no" to answer whether a company has introduced the relevant measures, the Exchange reviewed the qualitative descriptions and counted number of companies which described specific anti-takeover system such as advance warning-type or trust type.

trend is that companies with lower shareholding ratio are more likely to have introduced these measures. As if the shareholding range from 5% to less than 10% provides companies with a guideline to consider takeover defense measures, the adoption ratio in this range is the highest 35.4%.

As for the relationship with parent companies, companies which have parent companies did not introduce takeover defense measures since there is, naturally, a lower risk of being acquired.

The analysis by industry found that the ratios of introduction of takeover defense measures are rather high in the following industries: mining (42.9%), foods (36.6%), pulp & paper (40.0%), rubber products (37.5%), steel (43.2%), other products (35.9%), and land transport (38.1%).

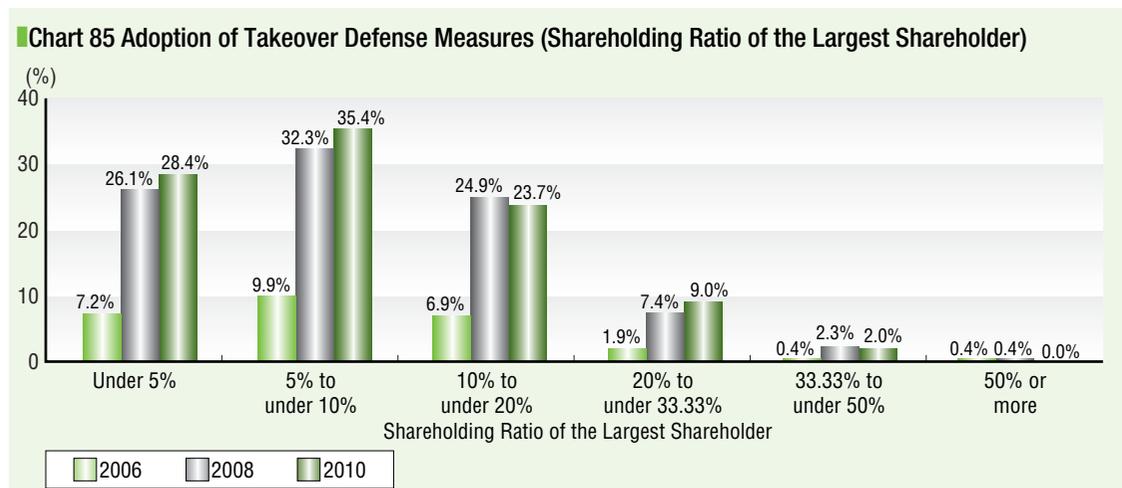
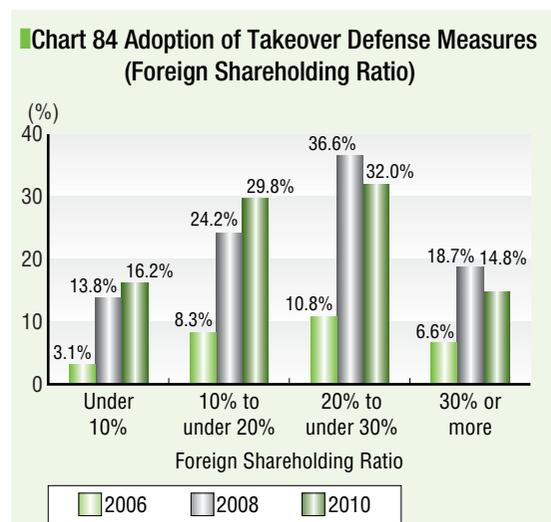
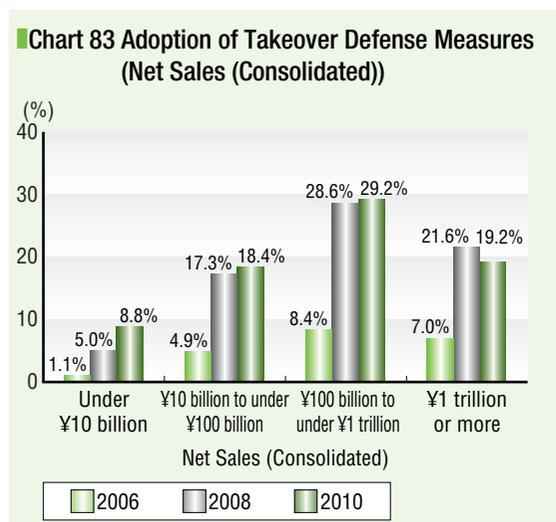


Chart 77 shows status of corporate governance system by classifying companies depending on whether or not they have adopted takeover defense measures. With respect to average number of directors per company, adopting companies have 9.29 directors, surpassing average number 8.11 of non-adopting companies (at the time of the previous research, the numbers were 9.74 and 8.42, respectively). As for appointment of outside directors, 54.0% (up 1.5%) of adopting companies appointed outside directors, whereas 47.4% (up 3.8%) of non-adopting companies appointed outside directors.

Average number of outside directors is higher in adopting companies, showing 1.01 (including 0.88 independent outside directors) compared with 0.88 (including 0.55 independent outside directors) in non-adopting companies. The average number of ID/As in companies adopting the new ID/A system is 2.26, and 1.72 in non-adopting companies. Adopting companies display a trend of establishing monitoring systems by independent outsiders as well as promoting the appointment of outside directors. Concerning average numbers of statutory auditors and outside statutory auditors, no significant difference was observed between adopting and non-adopting companies.

With respect of measures for shareholders and investors implemented by adopting companies, as efforts for active general shareholders meetings, those who send convocation notices well in advance account for 58.9% (vs. 36.5% of non-adopting companies), those who schedule general shareholders meetings avoiding the peak day account for 37.8% (vs.44.6%), and those who allow the exercise of voting rights by electronic means account for 31.4% (vs.21.9%). The results suggest that adopting companies are generally proactive in these efforts other than avoiding the peak day (see Chart 87). Concerning seminars for investors (see Chart 88), companies which have held seminars for individual investors account for 25.4% (vs. 25.0%), companies which have held seminars for analysts and institutional investors account for 79.6% (vs. 70.5%) and companies which have held seminars for foreign investors account for 17.2% (vs.13.8%). Again higher ratios are marked in all three cases. Moreover, with respect to IR activities, 93.8% (vs.91.6%) of adopting companies post IR information on their company websites, and 80.2% (vs. 77.2%) have a responsible department: high percentages here as well. In connection with such policies, whether or not presentations are given by top management of a company indicates the company's attitude toward shareholders and investors. Analyzing ratios of companies whose top management have directly given messages in regular seminars or on the company website, adopting companies show higher ratio than non-adopting companies, indicating that adopting companies are more proactive in these efforts for shareholders and investors.

While not a few companies emphasized that they take due account of stakeholders other than shareholders upon adoption of takeover defense measures, companies which adopted such defense measures show higher ratios in the following criteria: 70.3% (vs. 59.9% of non-adopting companies) stipulated rules to respect the positions of stakeholders in their internal regulations; 83.2% (vs. 65.3%) implement environmental preservation or CSR activities; and 47.7% (44.5%) developed policies on information provision. The results prove that companies which introduced takeover defense measures are more inclined to take measures to respect the positions of stakeholders (see Chart 89).

Chart 86 Relation between Adoption of Takeover Defense Measures and Governance

	Average number of directors		Ratio of adopting outside directors		Average number of outside directors		Average number of independent outside directors	
		Change from 2008		Change from 2008		Change from 2008		Change from 2008
Companies adopting takeover defense measures	9.29	-0.45	54.0%	1.37%	1.01	0.02	0.88	-0.06
Companies not adopting takeover defense measures	8.11	-0.31	47.4%	3.76%	0.88	0.05	0.55	0.04

	Average number of statutory auditors		Average number of outside statutory auditors		Average number of independent outside statutory auditors		Average number of outside ID/A	
		Change from 2008		Change from 2008		Change from 2008		Change from 2008
Companies adopting takeover defense measures	3.95	0.02	2.45	0.00	2.28	-0.04	2.26	-
Companies not adopting takeover defense measures	3.68	0.01	2.48	0.02	1.96	0.04	1.72	-

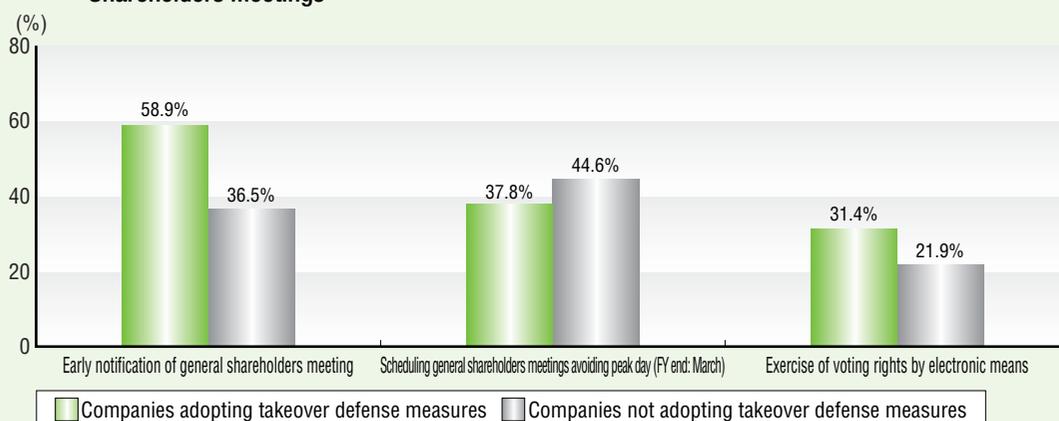
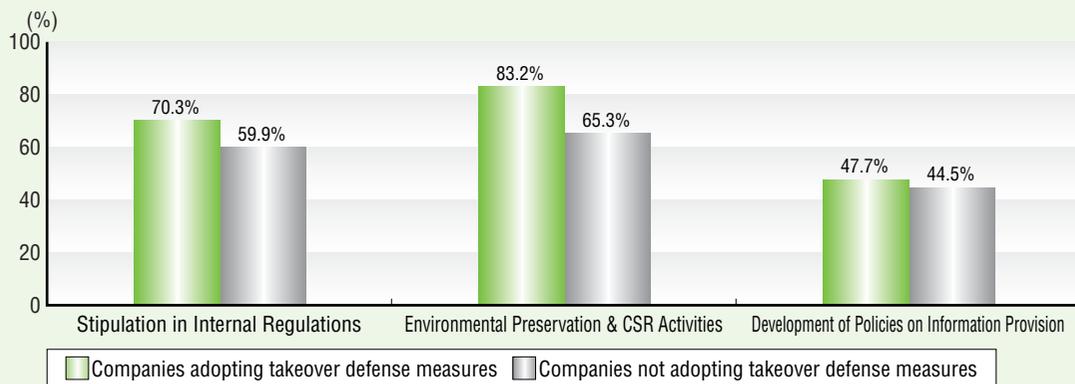
Chart 87 Relation between Adoption of Takeover Defense Measures and Efforts for Active General Shareholders Meetings**Chart 88 Relation between Adoption of Takeover Defense Measures and Regular Investment Seminars**

Chart 89 Relations between Adoption of Takeover Defense Measures and Respect to Stakeholders



While adoption status of takeover defense measures are outlined as above, specific contents of such measures have been increasingly becoming standardized with increasing adoption of takeover defense measures: first of all, a company set out certain procedures for bulk purchase of shares; then, in case a purchaser does not comply with such procedures, or in case a company finds any bulk purchase may damage common interests of the shareholders, the company takes a countermeasure by providing a new share subscription right, etc. to a third party other than the bulk purchaser. Such shareholders' rights plan in advance warning type is typically found in the descriptions. Furthermore, many non-adopting companies have introduced a framework such as an independent committee consisting of external parties to eliminate potential arbitrary decisions by the current management upon imposing a countermeasure.

Out of all non-adopting companies, 400 companies provided the reasons for not adopting takeover defense measures. Most of these companies expressed that maximization of corporate value is the most effective takeover defense measure, and represented such approaches that they enhance their corporate values by strengthening relationships with their stakeholders, and proactively implement IR activities in order for the market to judge stock prices properly.

Despite no intention to introduce takeover defense measures, certain companies articulated the following approaches: always remaining careful about their share prices and composition of shareholders; preparation of risk management manuals to address risks of hostile takeover attempts; and making efforts to increase long-term shareholders through shareholding associations for clients, employees and directors as well as cross-shareholdings with business partners. Some companies mentioned that they would continue discussion on adoption while watching trends of the society.

23 companies, which had previously adopted takeover defense measures, reported that they would discontinue such measures after careful consideration. The reasons for that include the company believing that shareholders should be the ones to decide whether takeover defense measures are adopted, and that the company's efforts to execute the mid-term management plans would maximize corporate value, and in turn secure shareholder interests and improve their benefits. Others pointed out

improvements to the regulatory environment through amendments of the Financial Instruments and Exchange Act. In addition, after the financial crisis in 2008, investment funds which were known as activists became less active in investment activities.

■ Prospective Challenges-Concluding Remarks

Similar to the previous white paper, this white paper conducts a broad and objective analysis on the various aspects of listed company corporate governance based on their Reports. On the other hand, as data used in analysis is based only on descriptions in the Reports, there is no comparative analysis of corporate governance information described in statutory disclosure documents such as securities reports and extraordinary reports. Analysis from such perspectives will be necessary in future to gain a better understanding of the state of corporate governance of listed companies in Japan.

Corporate governance in Japan is undergoing dramatic change. As of February 2011, from the perspective of further securing the trust of diverse company stakeholders, the Ministry of Justice Legislative Council Corporate Law Subcommittee has actively discussed a review of corporate law with particular focus on the role of corporate governance and discipline related to parent / subsidiary companies. In these circumstances, as a market operator, it is TSE's duty and responsibility to create an environment which allows shareholders and investors to gain a better understanding of the corporate governance of listed companies. With this in mind, other than providing a corporate governance information service which will make Reports by listed companies available to the public, TSE will strive to expand information provision aimed at providing information that can be compared, with the hope of further raising its usability as investment information.

Preparing the surrounding environment is indispensable for establishing good corporate governance practices. However, it is without doubt that such environment is organically formed by all parties involved with the listed company, starting from the management level and extending to its shareholders and investors. TSE hopes that this white paper will help such parties to establish true corporate governance and contribute to the development of corporate governance in Japan.



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