

[REPORT ON THE FIRST/SECOND INVESTORS FORUMS]

Forum of Investors Japan

Theme:	Investors' Evaluations and Expectations on the Companies' Response to the Corporate Governance Code
Time:	i) July 9, 2015, 6:30 p.m. – 8:30 p.m. ii) August 6, 2015, 6:30 p.m. – 8:30 p.m.
Venue:	Meeting Room, QUICK Corp.
Participants:	i) 35 persons, ii) 26 persons
Purposes:	<ul style="list-style-type: none">• To identify and publish good examples of <i>comply or explain</i> disclosure under the Corporate Governance Code (the "CG Code") from the viewpoint of institutional investors.• We want to avoid a situation to converge in narrow definition of the "best practice", and other companies simply imitate such model superficially. From this perspective, we will present multiple good examples of disclosure and <i>explanation</i>.• In addition, only focusing on insufficiency or dissatisfaction may discourage each company's own initiative. Since this is the first year for complying with the CG Code, we will focus only on good examples.

Below, we have listed (without modification to the extent possible) the main opinions of the participants of the first and second investors forums. Note that, in order to clarify the points of discussion and the details of the opinions, competing opinions (if any) are presented together. The Corporate Governance Report, Corporate Governance Guidelines and other documents referred to in this Report are those publicly announced as of August 12.

I New Corporate Governance Report in General

1. Method of Disclosure/Composition

- Some of the Corporate Governance Reports (the "CG Report") have a number of references to links to the disclosed items under each principle of the CG Code, and often, are not completed without such references. This is not reader-friendly.
- The links in the CG Report are not always easily accessible, and the information in such links does not always correspond to the CG Code but merely shows a notification of timely disclosure. In such case, searching the appropriate information requires a lot of efforts and is time-consuming. Also, even if the link includes the management philosophy, it is very difficult to reach it smoothly.

- The history of amendments to CG Reports for the past five years can be viewed at the "Listed Company Search" at the Tokyo Stock Exchange website, but not at the "Corporate Governance Information Service", which causes some inconvenience. Also, it is desirable that any document (other than the CG Report) that is referred to by a link be stored/disclosed voluntarily by the company, and the access to the history of amendments of such documents and the documents prior to the amendment be secured.
- "The Company's Initiatives Related to the Corporate Governance Code" by **Daito Trust Construction Co., Ltd.**, which is linked to the CG Report, describes the company's initiatives under all 73 principles of the CG Code, and is easy to read. **OMRON Corporation's** CG Report has only one link to "OMRON Corporate Governance Policies", which is worth thinking about as a method of disclosure.
- There are various other good examples (some of them are already mentioned in this Report):
 - Details are shown in the CG Report, and is complete by itself. E.g.) **Eisai Co., Ltd**
 - Details are shown in the CG Report (the order has been changed and organized systematically), and is complete by itself. E.g.) **Kao Corporation**
 - Single link to unique guidelines. E.g.) **OMRON Corporation**
 - Single link to unique guidelines and presentation of the same contents in the CG Report. E.g.) **DAIWA HOUSE INDUSTRY CO., LTD., Daito Trust Construction Co., Ltd., Asahi Group Holdings,Ltd.**
 - The above three companies which have a single link and presentation of the same contents in the CG Report show the corresponding numbers of the CG Code principle, and offer convenience.
- There are some companies which do not prepare an English translation of its notice of shareholders' meetings and any other document, because the foreign ownership is below 10%, and will prepare an English translation only if such ownership becomes 20% or more. Just like the chicken-and-egg problem, it could be said that the foreign ownership will not increase if English translation is not available.

OMRON: Corporate Governance Report

[Disclosure based on each principle set forth in the Corporate Governance Code] (Updated)

- Following a resolution of the meeting of the Company's Board of Directors held on June 23, 2015, the Company established the OMRON Corporate Governance Policies: Seeking Sustainable Enhancement of Our Corporate Value (hereinafter referred to as the "Policies"). In May 2015, the Company introduced the newly defined OMRON Principles, along with the Management Policy in which it declares to all stakeholders the Company's management stance and its approach to putting the OMRON Principles into practice through its business operations. Based on the underlying spirit of the newly defined OMRON Principles and Management Philosophy, these Policies were established with the goal of achieving sustainable improvement of corporate value.
- These Policies are available at the OMRON Group Website:
URL: http://www.omron.com/ir/management/pdfs/20150623_governance_policies_e.pdf
- The Company upholds the aim and spirit of the Corporate Governance Code (hereinafter referred to as the "Code"), and these Policies articulate that the Company implements all of the principles set forth in the Code, including those principles that call for disclosure of specific items, in the Company's corporate governance system and practices.
- For details regarding the Company's implementation of the principles stated in the Code, please refer to "Corporate Governance Code Implementation Status" on p.30.

DAIWA HOUSE INDUSTRY CO., LTD.: Corporate Governance Report

In order to implement the above, the Company has formulated the following "Corporate Governance Guidelines" in order to clarify specific Company initiatives and fulfill its duty of accountability to the shareholders.

<<URL of our website regarding corporate governance>>

<http://www.daiwahouse.com/ir/governance/index.html>

<<URL of Corporate Governance Guidelines>>

<http://www.daiwahouse.com/ir/governance/pdf/guidelines.pdf>

DAIWA HOUSE INDUSTRY CO., LTD.: Corporate Governance Guidelines

Chapter I General Provisions

(Purpose)

Article 1 The purpose of these guidelines is to enhance the enterprise value of Daiwa House Industry Co., Ltd. (hereinafter, "Daiwa House" or the "Company") based on its founding spirit by realizing the "Corporate Philosophy" and "Management Vision (Connecting Hearts)" defined below, establishing Daiwa House as a corporate group that is necessary to society, in the aim of realizing corporate governance that is optimal for society and the global management environment. (2.1)

2.The Company has formulated its "Principles of Corporate Ethics" based on a philosophical construct comprise its Corporate Philosophy, Management Vision and Employees' Charter. Executives and employees pursue these principles as the core action principles. (2.2)

Daito Trust Construction Co., Ltd.: Corporate Governance Report

[Disclosure based on each principle set forth in the Corporate Governance Code] (Updated)

We have presented the status of our initiatives and policies towards all 73 initiatives (the basic principles/principles/supplementary principles), including disclosure under each principle, of the Corporate Governance Code at the following URL.

In addition, the English version of the "The Company's Initiatives Related to the Corporate Governance Code" is available at our English website.

"The Company's Initiatives Related to the Corporate Governance Code":

<http://www.kentaku.co.jp/corporate/ir/governance/top.html>

"The Company's Initiatives Related to the Corporate Governance Code" (English version):

<http://www.kentaku.co.jp/e/ir/library.html>

Daito Trust Construction Co., Ltd.: The Company's Initiatives Related to the Corporate Governance Code

Section 1: Securing the Rights and Equal Treatment of Shareholders

General Principle 1

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

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

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

The Company promptly discloses both positive and negative information to ensure that all shareholders are essentially equal and to contribute to securing the rights of shareholders and enabling shareholders to exercise their rights appropriately.

In addition, to secure the rights of shareholders and improve the common interests of shareholders, the Company clearly separates the management decision-making and supervision structure and the business execution structure. Furthermore, the Company has developed a structure to ensure that corporate governance functions sufficiently through the appointment of multiple Outside Directors and efforts to strengthen the decision-making and supervision function.

Principle 1.1 Securing the Rights of Shareholder]

Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.

The Company works to create an environment that enables proactive information disclosure and facilitates the exercise of voting rights to ensure that all shareholders are essentially equal.

2. **Comply or Explain**

- Although the contents are almost the same, some are given as *compliance*, and some as an *explanation*, which is confusing. For instance, a company says it *complies* with the disclosure of criteria regarding the exercise of voting rights, but at the same time, states that it "comprehensively determines" the criteria, which implies that the company practically has not disclosed such criteria. On the other hand, **Daito Trust Construction Co., Ltd.** gives it *as an explanation*. Unless a company *complies* without any doubt, it should straightforwardly *explain*. A forthright disclosure is more reliable. Investors seek the disclosure of the companies' philosophy, which will trigger discussions or become the tools for discussions, and not the number of *compliance* items.
- Foreign companies, which take a lead in *compliance* and *explanation*, do not necessarily *explain* convincingly. With regard to such situation, there are some arguments that penalties or low-ratings should be given for inappropriate representation. We should have a careful reflection on whether we wish to head in such direction. Rather, the Forum of Investors Japan intends to place more importance on discussions.
- Unfortunately, in the U.K., many companies tend to focus on *compliance* in order to avoid the cumbersome explanation. This does not meet the expectations of the investors.
- **Mitsubishi UFJ Financial Group, Inc.** says it *complies* with every principle, whereas its group company, **Mitsubishi UFJ Lease & Finance Company Limited**, states it does not implement three rules, plans to implement but yet to implement eight rules, thus *explains* a total of 11 rules. It straightforwardly states that it does not *comply* with certain rules at the moment. Its attitude of not blindly following its group company deserves reliance, and is valuable.

3. **Significance: Providing Information and Making Appeals as Part of Investor Communication Policy**

- The CG Report is useful as the source of information for the purpose of IR, i.e.) investment decisions. In order to promote such usage, it is important that investors appropriately understand and respond to the statements made in the CG Report, which is expected to change the behavior of companies.
- Readers can identify the companies who think that CG Report should be used not only as a report on governance, but be leveraged to appeal to investors as part of their IR. These are exactly our expectations. It is important that companies appeal to investors as part of their IR, through the CG Report.
- It is important to convey a message that companies will reinforce their management through improvement of internal governance.
- I got the impression that **Eisai Co., Ltd** organically connects the CG Report, IR activities and IR documents.
- I was left with the impression that **KAMEDA SEIKA CO., LTD.** explains in its own words the reason why it does not implement the principles. I felt I wanted to visit this company. CG Reports may be used to trigger the investors' interest in a company.
- If any reader asks for an interview after reading and finding the CG Report interesting, companies will be encouraged to adopt a proactive attitude to acquire investors. Such

supportive attitude by investors is necessary, or otherwise, the CG Code, which has been implemented, will be used only as a tool for compliance.

- Even if the contents of the CG Report are not convincing, it is important that these will trigger discussions, and based on such discussions, to talk and exchange various opinions with the company in order to foster a better understanding of each other. In this way, time will be managed effectively when we meet a company as an institutional investor.
- It will be difficult for companies if the CG Report is to give a thorough understanding to investors by just reading it. Such high level of disclosure is not required. However, deeper contents will help understand the circumstances of the company and will trigger discussions.
- It is important that investors read the CG Report, and ask questions that lead to shareholders' value enhancement.

4. **Viewpoint: Do Not Accept the Present Situation, But Get Conscious About An Ideal Company**

- An atmosphere, where a company can properly *explain* instead of turning to inactive/superficial *compliance*, is important.
- Even if the contents of the CG Report were not convincing, it would be fine if an investor, by reading such CG Report, hopes to ask the company what it wants to be, and mutual understanding is gained through a one-on-one meeting.
- There are some companies that only state what the companies are currently doing, but it is important to state, in the CG Report, what and how the companies have improved, or how they are planning to improve. I hope a new atmosphere for improvement will be created through discussions between the companies and the investors.

5. **Uniqueness**

- Uniqueness is important, but I have found that some CG Reports are carbon copies of other companies.
- Several companies say, using the same wording, they will make disclosures in English once the shareholding ratio of foreign investors reaches 20%. Perhaps there is an advisory body. Mass production of the same wording is not desirable.
- General discussions and common wordings will not give specific points of discussions with the company.
- The CG Reports of **OMRON Corporation** and **Eisai Co., Ltd**, which are stated in conjunction with their management philosophy, are unique and easy to understand.
- **KAMEDA SEIKA CO., LTD.** explains the reason why they do not hold meetings consisting solely of independent outside directors. They state their perspective on the disadvantage of holding such meetings, and such perspective has some logic. It is helpful in opening up a discussion during an interview with the company.
- **START TODAY CO.,LTD.** states in its own words about the number of outside directors. Apart from the pros and cons of the contents, the straightforward explanation of their philosophy should be appreciated.
- **NIKKATO CORPORATION** explains what kind of companies they own shares and why so, which is very unique.

KAMEDA SEIKA CO., LTD.: Corporate Governance Report

[Supplementary Principle 4.8.1 Active Utilization of Independent Outside Directors]

We have decided not to hold "meetings consisting solely of independent officers" for the following reasons:

- We believe that "meetings consisting solely of independent officers" are effective when, out of the directors, the number of outside directors is small, and the company endeavors so that their opinions will be reflected. However, we have appointed four outside directors and believe that they are able to speak freely;
- Each of our outside director has great knowledge, and is expected to exercise it individually; however, establishing "meetings consisting solely of independent officers" will raise some kind of shared awareness, which will make it difficult to express a view to challenge such shared awareness, and the independence of such directors will diminish; and
- By providing, to the outside directors, the minutes/reports of our important meetings in the same quantity/contents and no variation, we believe we can adequately share our awareness.

[Supplementary Principle 4.8.2 Active Utilization of Independent Outside Directors]

We have decided not to appoint a "lead independent outside director" for the following reasons:

- Appointing a "lead independent outside director" may create a sense of seniority between the independent outside directors and dependence on the lead independent outside director; and
- Each of our outside director has great knowledge, and is expected to make the most of what he/she has.

START TODAY CO.,LTD.: Corporate Governance Report

[Principle 4.8 Active Utilization of Independent Outside Directors]

We have one outside director and three outside auditors, and all of such outside officers are registered as independent officers.

Although there is only one outside director, he exchanges opinions very often with every director, auditor and management from his unique external point of view, and he has so far sufficiently fulfilled his obligations as an independent outside director. In addition, since the auditors are exercising the rights given to them under the laws and regulations from time to time, we believe that four outside officers are sufficient in monitoring and supervising the management. Therefore, we believe at the moment that we do not need to increase the number of outside directors. Note that, our evolving environment may raise the need to increase the number of outside directors, so we will consider the appointment of a candidate as necessary.

II Principle 3.1 Philosophy of Corporate Governance

- Continuously enhancing the corporate value of the investee companies is the goal of our stewardship responsibilities. I would like to ask companies to state how they eliminate the factors that possibly hinder the enhancement of corporate value, how they secure transparency, and how they handle risks.

III Principle 4.8 Independent Outside Directors

- **START TODAY CO.,LTD.** has only one independent outside director, and **Iida Group Holdings Co., Ltd.** states they failed to find a qualified person. Some may criticize this as inadequate, but rather, stating that a company *complies* with Principle 4.8 merely by appointing two persons from a company that belongs to the same group is more problematic.
- The ratio of independent outside directors at **Shiseido Company, Limited.** is more than 50%, but the company states that it does not *comply* because it believes a roadmap is necessary as to whether the company needs to appoint at least one-third of the directors as independent outside directors in accordance with Principle 4.8. This is very sincere. Moreover, with regard

to the appointment of directors, in its notice of shareholders' meeting, the company states the names of directors and also their careers at **Shiseido Company, Limited**. and what they specialize in (and also states the aforementioned in the Corporate Governance Report). This will add more specifics and will trigger discussions.

- The report published by the Ministry of Economy, Trade and Industry in July (“Implementation of Corporate Governance – Incentives and Reforms toward an Increase in Corporate Value –” by the Corporate Governance System Study Group as of July 24, 2015) states that it is necessary that CEOs who have retired from a company assume positions as outside directors at other companies rather than remaining at their own companies. This is indeed desirable. For instance, the retirement age of officers at **Daito Trust Construction Co., Ltd.** is 60, and they are not allowed to stay at the company as consultants or advisers.
- A system in which retired company officers remain at their companies as consultants or advisers is of a problem.

IV Supplementary Principle 4.11.3 Evaluation of Board of Directors

- Some of the IR/SR supporting companies have started to provide evaluation of Board of Directors. There seem to be two patterns: internal evaluation, or evaluation by an outside consultant. I believe it should primarily be done through self-evaluation. I would like to watch the moves.
- "Analysis and evaluation of effectiveness of the Board of Directors taken as a whole and summary of the results thereof" and the evaluation thereof are included in the CG Report of **Kao Corporation**. With regard to the effectiveness of the Board of Directors, it lists four viewpoints and self-evaluation of its Board of Directors based on each of such viewpoint.

Shiseido Company, Limited.: Corporate Governance Report

<Principle 4.8: Approach concerning the Ratio of External Directors at the Board of Directors and the Roadmap for the Implementation>

As of June 30, 2015, the Board of Directors of the Company is comprised of a total of six members, three executive directors and three independent directors. The ratio of independent directors at the Board of Directors is 50%.

However, the Company has not yet reached a conclusion at this point, as to whether the Company believes it needs to appoint at least one-third of directors as independent directors, and a roadmap for the case in which it is believed this would be necessary. The Company believes that the ratio of independent directors at the Board of Directors is a matter that would be directly related to decisions as to whether the Board of Directors should be positioned as a body specifically designed for monitoring functions, or as a body responsible for a considerable part of business execution functions. Because this could lead to discussions on which form of organizational structure the Company should adopt, namely a committee-based form such as a company with nominating committee, etc. and a company with audit and supervisory committee, or the type of company with Audit & Supervisory Board, we are currently reviewing it carefully. The Company's view and the policy will be notified upon being determined.

<Supplementary Principle 4.11.3: Summary of Analysis and Evaluation concerning Effectiveness of the Board of Directors>

While there is no analysis or evaluation on the Board of Directors conducted on a regular basis at this time, we have conducted evaluations through questionnaires (self-evaluation) as necessary for the purpose of gaining an understanding of issues at the Board of Directors.

Going forward, we will consider implementing regular analysis and evaluation on the Board of Directors to ensure management with the PDCA cycle whereby the Company identifies issues to address to improve effectiveness of the Board of Directors, takes necessary steps and verifies the results.

Once analysis and evaluation methods are determined and they are implemented, we will notify you of the methods and a summary of the results.

Shiseido Company, Limited.: Corporate Governance Report

Masahiko Uotani:

Mr. Masahiko Uotani has a proven track record in business management and is particularly highly regarded within the marketing field. As a result of this and other factors, the Company invited him to become President & CEO, and in April 2014 he assumed that office. Following his election as a director of the Company at the 114th ordinary general meeting of shareholders held on June 25th that year, he was selected as representative director by the Board of Directors and since then has undertaken the mandate given by our shareholders to steer the Company's management. During fiscal 2014, Mr. Uotani demonstrated high-level marketing capabilities and leadership, discarding organizational hierarchy to build a structure enabling the entire Company to work as one to generate value and deliver that value to customers. He also fully identified all the issues challenging the Company and faced them head-on, formulating the VISION 2020 medium- to long-term strategy to define a road map for resolving those issues.

Due to these facts the Board of Directors has continuously selected him as a candidate for director. (The 115th Ordinary General Meeting of Shareholders)

Toru Sakai:

Mr. Toru Sakai has actively made statements at meetings of the Board of Directors as a director of the Company and performed appropriately, determining important managerial events and matters and supervising business execution. He has ample business experience in overall supply chain operations including production, purchasing and logistics, and after assuming the office of corporate officer he planned companywide management strategies and implemented structural reforms as General Manager of the Corporate Planning Department. From fiscal 2013 he took responsibility for the domestic cosmetics business, taking charge of the planning and implementation of its business strategies. During fiscal 2014 he led the implementation of the ICHIGAN Project whereby everybody in the Company works in unison to convey the value of our brands and lines to customers. He also, as a member of the CSR Committee of the Company, has attended Committee meetings and actively expressed opinions.

Due to these facts the Board of Directors has continuously selected him as a candidate for director. (The 115th Ordinary General Meeting of Shareholders)

Tsunehiko Iwai:

Mr. Tsunehiko Iwai has actively made statements at meetings of the Board of Directors as a director of the Company and performed appropriately, determining important managerial events and matters and supervising business execution. Since assuming the office of corporate officer, he has served as officer responsible for quality management, pharmaceuticals affairs, CSR, environmental affairs, and frontier science business. Since fiscal 2014 he has served as officer with overall responsibility for research and development, production, and technical affairs. In the research and development field his contribution included leading the advancement of value development from the customer's perspective. He also, as a member of the CSR Committee of the Company, has actively made statements at meetings of the Committee.

Due to these facts the Board of Directors has continuously selected him as a candidate for director. (The 115th Ordinary General Meeting of Shareholders)

Yoko Ishikura:

Ms. Yoko Ishikura has deep professional knowledge in international politics and economics, as well as international corporate strategy, and has built up experience serving as external director in a number of companies. She has also been involved in activities to facilitate greater global competitiveness and innovation by promoting diversity and women's empowerment. We believe that Ms. Ishikura can help to enhance the Company's corporate value by drawing on this experience and knowledge, professional and otherwise, not only to supervise management as an external director, but also to actively participate in promoting diversity and more active roles for women.

Ms. Ishikura has not participated in management of companies other than as an external director. For the reasons stated above, however, the Company is of an opinion that she would be able to achieve adequately the role of external director. Accordingly, the Board of Directors has decided to select her as a new candidate for external director. (The 115th Ordinary General Meeting of Shareholders)

Shoichiro Iwata:

Mr. Shoichiro Iwata has reflected his view as an active operator of the different business and industry free from the conventional framework on the management of the Company and he has actively made statements at meetings of the Board of Directors. Mr. Iwata performed appropriately as external director including supervising business execution. He also, as the Chairman of the Remuneration Advisory Committee and a member of the Nomination Advisory Committee of the Company, has actively made statements at meetings of these Committees.

Due to these facts the Board of Directors has continuously selected him as a candidate for external director. (The 115th Ordinary General Meeting of Shareholders)

Kao Corporation: Corporate Governance Report

11 Analysis and evaluation of effectiveness of the Board of Directors taken as a whole and summary of the results thereof (Principle 4.11.3)

On at least an annual basis, the effectiveness of the Board of Directors is evaluated by all of the Outside Directors and Outside Audit & Supervisory Board Members at meetings of the Board of Directors, and discussions are held based on such evaluation, by those present at the meeting, in order to make improvements aimed at enhancing the effectiveness of the Board of Directors.

At meetings of the Board of Directors held in May and June 2015, each of the three Outside Directors and the three Outside Audit & Supervisory Board Members presented their opinions on the activities of the Board of Directors including the following four perspectives particularly expected of boards of directors in the Corporate Governance Code.

- (1) Discussion of the broad direction of corporate strategy (General Principle 4)
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported (General Principle 4)
- (3) Carrying out effective oversight of directors and the management from an independent and objective standpoint (General Principle 4)
- (4) Constructive communication with shareholders and investors (General Principles 3 and 5)

Based on these opinions, the Board of Directors, with the participation of Audit & Supervisory Board Members, conducted a self-evaluation of its effectiveness, centered on these four perspectives. The following is a summary.

- (1) After explicitly sharing the vision of the kind of company Kao intends to be, medium-to-long-term management strategies are being discussed while setting specific numerical targets. The Board of Directors, with the participation of Audit & Supervisory Board Members, shares annual themes for deliberation, and at the start of the Board of Directors meeting each month, the President and Chief Executive Officer and other representative directors share immediate and medium-to-long-term matters of concern in execution to appropriately link recent actions with the broad direction. The Board of Directors should work further to constantly enhance this point.
- (2) In addition to the enhanced compliance organization, evaluations by using EVA® are effectively being utilized, one of the management indicators, in deliberations on investment items. Outside Directors function in a manner that enables the forward-looking expression of judgments on the pros and cons of making investments, while confirming preparations for taking on risk.
- (3) An independent Outside Director who is a non-executive Director acts as Chairman and conducts the proceedings, and lively discussions are undertaken that transcend the boundaries separating internal and external perspectives. Inside Directors are aware of and strive to incorporate these discussions. As a result, supervision of important points is conducted based on objective opinions that arise from the diverse experiences of Outside Directors and Outside Audit & Supervisory Board Members.
- (4) The Management, including the President and Chief Executive Officer, proactively conducts IR activities, and the Board of Directors receives feedback on the details of such activities, which enables interactive communication with investors. Constructive communication between shareholders and officers is conducted through question and answer sessions at the General Meeting of Shareholders and shareholder visits to Kao Group facilities.
- (5) Medium-to-long-term growth strategies, strategies for global expansion and personnel strategies are future issues for the Board of Directors, and it was proposed that, above all, the Board of Directors spare more time in the future for discussion of these matters.

V Principle 1.4 Cross-Shareholdings

1. Policy Regarding Cross-Shareholdings

- With regard to policy regarding cross-shareholdings, merely stating that a company will "determine comprehensively" is not sufficient as a disclosure.
- Companies which state that they may sell their shares as the case may be, or will decrease their cross-shareholdings in the long run, can be relatively appreciated. On the other hand, there are companies that apparently have no intention of selling their cross-shareholding shares.
- **Eisai Co., Ltd** clarifies within its business model its position of cross-shareholdings, and states that it holds the minimum number of cross-shareholding shares.
- We would like to know the exact transaction amount with the companies that a company strategically holds shares in.
- We would like to ask the companies to disclose the results of the review by the Board of Directors with regard to the economic rationale of cross-shareholdings.
- Since cross-shareholdings are not genuine investment, it is inappropriate to set the investment return as the basis of rationale.

2. Criteria for Exercise of Voting Rights

- With regard to exercise of voting rights, **Eisai Co., Ltd** states that they will oppose the proposed motion if they determine that such motion is detrimental to the corporate value.
- There are many companies that practically do not disclose the criteria for exercise of voting rights or sale of shares, even if they state that they *comply*. **Daito Trust Construction Co., Ltd.** *explains* some matters that another company states it *complies* (with almost the same contents), which deserves appreciation. We do not welcome companies that pretend they *comply*.

Note that, the following awareness of the cross-shareholdings was shared during the discussions, so we have summarized such awareness as a separate volume of this Report.

- Companies who "let their shares be held by other companies"
- Difficulty in reviewing the economic rationale of strategic-shareholdings
- Issues of conflict of interest with minority shareholders
- Effect of stock price fluctuations on the banks' financial base (the procyclicality issue)
- Conclusion/proposal

IV Principle 5.1 Policy for Constructive Dialogue with Shareholders

- Policies are important in communicating with investors. Companies whose top management is ready to communicate with investors are appreciated. I hope they include in the CG Report the effect of having a dialogue between outside officers and investors.
- There are some critical views against "The Best Practice Model for the Basic Policy for Corporate Governance Code" by the Japan Association of Corporate Directors ("JACD"), saying that this may become the stereotype. It is, however, interesting to see that JACD considers that the Chairman of the Board of Directors should control the dialogue with the shareholders.
- **Komatsu Ltd.** emphasizes direct communication by the President himself.
- **Eisai Co., Ltd** makes clear that the "CEO, CFO and IR/PR Officers" are responsible for information disclosure and dialogue.
- **MITANI SANGYO Co.,Ltd.** very straightforwardly states that the Representative Director controls the dialogue, with the support of the Finance Director.
- The Supplementary Principle 5.1.1 states that the persons who should be responsible for the dialogue with shareholders "include outside directors", but many companies have yet to get to such point.
- **DAIWA HOUSE INDUSTRY CO., LTD.** states that "directors, including outside directors" will deal with the constructive dialogue with shareholders.
- **OMRON Corporation** has separately developed and published the "Basic Policy for Constructive Dialogue with Shareholders".
- Principle 5.1.3 states that companies should endeavor to identify their shareholder ownership structure. This can be interpreted that the Principle assumes shareholders and potential investors will be distinguished, and this would raise concerns, if such differentiation causes selective activities of the IR.
- **Kao Corporation** states that the persons, with whom the management (such as the President) communicates to the extent possible, are institutional investors who are able to hold a dialogue from a long-term perspective. This is very much welcomed because this may be effective as an incentive to improve the "skills and resources" of the investors, as defined in Principle 7.3 of Japan's Stewardship Code. Investors should also improve their quality in order to be selected by companies.
- This, however, would raise concerns in terms of fair disclosure if it is used as an excuse for giving priority to or discriminating specific investors.
- Also, if a company differentially gives priority to dialogue with "silent" shareholders and "pro-company" shareholders, this would violate General Principle 1 of the CG Code (Securing Rights and Equal Treatment of Shareholders), and would raise concerns.
- I can understand that companies give priorities to institutional investors depending on the expected agenda of the dialogue with them, since the management has limited time to spend.
- If companies present a clear management vision and policy for shareholder return in order to attract investors as shareholders who are in support of them, this may have some filtering effect, but does not contradict fair disclosure.

Kao Corporation: Corporate Governance Report

(6) Promoting communications with shareholders

In order to improve its corporate value, the Company considers it important to communicate with shareholders and other stakeholders, thereby having better understanding of mutual views and positions, and taking appropriate measures based on the same. The Company will develop a structure to promote constructive communications with shareholders, and create opportunities to communicate with institutional investors and individual shareholders. In communication with shareholders, the members of Management participate to the extent possible in order to reflect the opinions of the shareholders in management properly.

14. Policy Concerning Measures and Organizational Structures to Promote Constructive Dialogue with Shareholders (Principle 5.1)

An investor relations division is in charge of measures for dialogue with institutional investors, and in addition to routine meetings with institutional investors inside and outside Japan, it conducts briefings and other presentations on summaries and the progress of the Business Strategies, the status of operating results and businesses, shareholder returns and other matters. The President and Chief Executive Officer and Management participate to the extent possible in order to have opportunities for direct conversations with institutional investors that enable dialogue for increasing corporate value from a long-term perspective, and to make it easier to reflect the results of the dialogues in management.

Eisai Co., Ltd: Corporate Governance Report

[Principle 5-1 Policy for Constructive Dialogue with Shareholders]

The Company has established an information disclosure policy. In order to ensure the consistency and uniformity of the Company's information disclosure, the policy stipulates that the people in charge of information disclosure are the Company's CEO, CFO and person responsible for IR/PR, and Company employees who have been appointed by them. Requests for conversations with Directors (including Outside Directors) are considered based on the purpose of the meeting, the importance of the contents and the attribution of the meeting attendees, etc.

Komatsu Ltd.: Corporate Governance Report

[Principle 5.1 Policy for Constructive Dialogue with Shareholders]

Our policy concerning organizational structures and measures aimed at promoting constructive dialogue with shareholders/investors is as described below:

- 1) We disclose information in a fair and timely manner to all stakeholders including shareholders/investors, and emphasize direct communications with the President himself.

MITANI SANGYO Co.,Ltd.: Corporate Governance Report

[Principle 5.1]

Our policy concerning organizational structures and measures aimed at promoting constructive dialogue with shareholders/investors is as described below:

- 1) The CEO controls the dialogue with our shareholders/investors, with the support of the Finance Director and the IR person of the Corporate Planning Office. In order to enhance the dialogue, the IR person requests a division (depending on the agenda) to provide information, and each division cooperates with the IR person.

DAIWA HOUSE INDUSTRY CO., LTD.: Corporate Governance Guidelines

<<Policy on Promoting Constructive Dialogue (Engagement) with Shareholders>>

[5-1]

The Company does the following to engage in constructive dialogue with shareholders, contributing to the sustained growth of the company and increases in corporate value over the medium to long term.

- (1) Taking the requests and interests of shareholders into consideration, to the extent reasonable, the directors, including outside directors, and senior management have a basic position to engage in dialogue (management meetings) with shareholders.
- (2) The director in charge of IR cooperates with departments within the Company to facilitate constructive dialogue.
- (3) The Company strives for disclosure that enables judgements on corporate value over the medium to long term, augmenting corporate value through dialog (engagement) with shareholders.
- (4) In addition to individual meetings, the director in charge of IR arranges management briefing sessions, facility tours and other activities to enhance IR activities.
- (5) Through dialogue with shareholders, the director in charge of IR communicates Company perspectives, provides feedback about shareholder opinions and requests to directors and senior management and provides feedback in timely and appropriate manner to outside executives, sharing an awareness of any issues from an independent and objective standpoint.
- (6) To prevent external leaks of important undisclosed internal information (insider information), the director in charge of IR cooperates with the person responsible for information management to information thoroughly based on Regulations on Insider Transactions.

OMRON Corporation: Corporate Governance Policies

<Policy for Constructive Dialogue with Shareholders>

- We proactively engage in dialogue with all investors and shareholders through investor relations (IR) activities in order to build sound relationships with them. We also seek to understand the shareholder composition and promote active IR efforts.
- The IR department is in charge of conducting dialogue with shareholders, under the supervision of the CEO. If requests for individual meetings are made by shareholders, the CEO, directors (including outside directors), and executive officers will engage in individual meetings as necessary.
- To facilitate smooth and efficient dialogue with shareholders, the IR department, taking on the central role, works in collaboration with other related departments.
- We arrange presentations for institutional investors to explain our medium- to long-term management strategies, financial results, individual businesses, and other matters. For individual investors, we set up explanatory sessions at IR events organized by the stock exchange or securities firms. After the close of the general shareholders meeting, we also set up separate opportunities to provide information about the current status of the OMRON Group's business and give them the opportunity to directly communicate with OMRON executives.
- Explanatory information and a video used for the presentation of financial results are posted on OMRON Group's website.
- When establishing and announcing business strategies and business plans, we articulate our general stance regarding earnings plans and capital policy, while also presenting our targets including the following:
 - For long-term management strategies and medium-term management plans, we present qualitative targets and quantitative targets (sales, operating margin, ROIC, etc.), and the framework of strategies to achieve the targets including the allocation of management resources.
 - For short-term plans, we present financial targets (sales, operating margin, ROIC, etc.) and the framework of strategies to achieve them.
- Investor views and inquiries obtained through dialogue are reported on a quarterly basis as follows, in order to incorporate suggestive input in our management decisions and make effective use of this input for sustainable enhancement of corporate value.
 - Report as part of CEO's activity report to the Board of Directors
 - Report investor views, inquiry summary, and results of IR financial result presentations to directors, Audit & Supervisory Board members, and executive officers.
- As for control of insider information, a disclosure policy is separately stipulated to ensure appropriate and fair disclosure.

VII Feedback from Participants in the First/Second Investors Forms

- I would not have read CG Reports in depth if I had not had the opportunity like this.
- It surprised me that many fund managers and analysts are so much interested in the "expression" in CG Reports.
- CG Reports can be retrieved from the Tokyo Stock Exchange website, but it is difficult to find, from all the reports, those that have been prepared using the new form in accordance with the amended regulations. Searching has become easier since a list of reports in the new form has become available on the QUICK ESG Web ^(Note).

(Note) Please refer to the QUICK ESG website for a list of companies that have submitted CG Reports in the new form. <http://sustainablejapan.jp/quickesg/2015/06/29/corporate-governance-report-2/16846>

<Forum of Investors Japan: Mission Statement>

With the aging and decreasing population in Japan, how to maintain and generate national wealth has become a crucial issue for the Japanese. In order to deal with this issue, a more effective use of capital to create value, that is, a more effective combination of human capital, intellectual capital and financial capital will be required. Companies are the stage for this. Reinforcement of the competitiveness and earning power of every company is believed to be the condition necessary for building the strength to create value in Japan as a whole.

On the other hand, the role of investors is to provide capital to companies that take on such task (retained earnings is a form that investors provide capital, in addition to IPOs and POs). Return from invested capital will be reinvested, which will promote the creation of more value to companies. As the main body of the investment chain that creates such virtuous cycle, investors are expected to assume the crucial role of "stewardship responsibilities".

From these perspectives, we want to understand in more depth measures taken by the companies to create values in the long-term, and to hold straight-forward talks with listed companies about the issues that the companies encounter.

With regard to our interests as mentioned above, the implementation of the Corporate Governance Code is expected to create a better environment for "dialogue with shareholders", but at the same time, as the Japan's Stewardship Code and Ito Review point out (Notes 1 and 2), institutional investors are required to enhance their "capability" to share knowledge and experience in order to have better dialogue with companies and make better judgments.

We operate the "Forum of Investors Japan" for the purpose of supporting institutional investors acquire skills to appropriately fulfill their stewardship responsibilities toward their investee companies, and thereby realize constructive dialogue between the institutional investors and investee companies, and contribute to the sustainable growth of such companies.

(Note 1) Japan's Stewardship Code, Principle 7-3

Exchanging views with other investors and having a forum for the purpose may help institutional investors conduct better engagement with investee companies and make better judgments.

(Note 2) Ito Review (pp.116-117)

"In order to enhance their capability for having dialogue with companies, it is important for a platform to be established in which institutional investors can share knowledge and experience, and have frank discussions on this matter. It is expected that this platform will help to provide a shared intellectual basis for dialogue and engagement, including issues such as the depth, appropriate counterparty at the company, and focus of dialogue.

* Please see the website below for more information on the activities of the Forum of Investors Japan
<http://investorforum.jp>