

Reference materials



II. Status of individual initiatives

1. Management in recognition of cost of capital

Examples of explanations of own efforts (Principle 5.2) [Explicit mention of cost of capital]

■ Glass, stone, and clay products - 1st Section

- When formulating and releasing management plans and management strategies, the Group indicates basic policies for profit plans and capital policies in an effort to increase shareholder value over the medium to long term **after giving sufficient consideration to the cost of capital** while presenting targets related to profitability and capital efficiency, etc. appropriately linked with important management issues in consideration of status of the Group and endeavors to provide timely and clear explanations on matters such as business portfolio revisions and the allocation of management resources believed to be necessary or useful for achieving these targets. **In order to establish financial sustainability** under the current medium term management plan, **financial targets (FYE March 2020) including net borrowings/EBITDA: 3 times, ROS: 8% or above have been set, and an ROE of 10% or above is being aimed for as a capital efficiency benchmark at the time of attainment. In terms of revisions to the business portfolio,** the VANO.1 Strategy that **focuses on areas where growth is expected in the medium term management plan** is being implemented, building growth drivers that generate a driving force for profit growth at an early stage through selection and concentration has been pursued as a basic policy, and the progress is disclosed in the annual securities report, etc.

■ Other products, 1st Section

- **The Company's cost of capital** for the FYE March 2018 **was 1.5% is calculated based on the weighted average cost of capital (WACC).** The medium to long term benchmark of ROE was 8.7%. Going forward, **the Company will continue to work to improve profits in an aim to generate high added value that exceeds the cost of capital and improve corporate value.**

■ Retail industry, 1st Section

- **The Company's cost of capital** for the FYE March 2018 **is 2.80% calculated based on the CAPM (capital asset pricing model).** Going forward, we will endeavor to make investment decisions in recognition of our own cost of capital, and aim to improve medium to long term corporate value.

■ Pharmaceuticals, 1st Section

- The Company **uses the equity spread (ROE exceeding the cost of shareholders' capital) as a KPI**, and over the medium to long term we aim for the creation of a positive equity spread based on a ten-year average. While shares of pharmaceutical companies are defensive, **we conservatively assume the cost of shareholders' capital as 8%**. Furthermore, **we have established an investment criteria for strategic investments (VCIC: Value-Creative Investment Criteria), and ensure value creation with net present value (NPV) that uses a hurdle rate after adjustment for approximately 200 types of risks and the internal rate of return (IRR) spread as KPIs.**
- **Over the medium to long term, the Company will pursue value creation that exceeds a positive equity spread.** The attainment of **an ROE on the 10% level and an equity spread on the 2% level is aimed for in FY2020** that is the halfway point of our medium term management plan EWAY 2025, **and an ROE on the 15% level and an equity spread on the 7% level is aimed for in FY2025** that is the final year of the plan.

Examples of explanation (Principle 5.2)

[Examples of issue for future consideration]

■ Chemicals, 1st Section

- In our basic policies that were revised on December 19, 2018, the Company gained an accurate understanding of the costs of capital that is the rate of return expected by shareholders and creditors as part of the medium term business policy and formulated the medium term management plan accordingly. During the period of the plan, financial indicators such as target profitability and capital efficiency will be set and released. Although these financial indicators have not been set under the current medium term management plan of the Track for Growth 2019 that covers a period of three years from 2017 to 2019, **financial indicators such as target profitability and capital efficiency will be set and released after gaining an accurate understanding of the costs of capital in the next medium term management plan.**

■ Electronic equipment, 1st Section

- In the capital policy, the basic policy is to secure a sound financial position for making investment for sustainable growth and allowing for risks while providing stable and ongoing returns to shareholders. While targets related to profitability have been indicated in the current medium term management plan (Medium Term Management Plan 2019), targets related to capital efficiency, etc. have not been indicated. **For evaluation benchmarks related to the allocation of management resources to individual segments including revisions to the business portfolio, we will continue to consider indicators that are appropriate for the Company including the cost of capital, etc. in the process of formulating the next medium term management plan.**

■ Agriculture, forestry, fisheries and food business, 1st Section

- The Company has formulated a long term management plan, and it put forth its best effort to achieve this plan through means such as setting milestones every three years, reviewing the business plan as appropriate, and conducting root cause analysis aimed at achieving individual targets. Response to individual investment projects is made after formulation of a business plan and validation of the quantitative effects of the investment. Meanwhile, **while there is a certain level of recognition and understanding of the cost of capital, the correlation between management plans and investment plans is not currently being assessed. Going forward, consideration will be given to the formulation of the management plan and explanations in light of the appropriate cost of capital.**

II. Status of initiatives for individual principles

2. Roles of the board of directors

(1) Use of independent advisory committees

Examples of explanations of own efforts (Supplementary Principle 4.10.1)

[Use of highly independent advisory committees]

■ Service industry, 1st Section

- The Company has established a governance committee composed of a majority of independent directors and chaired by an independent director as an optional advisory body for the board of directors, and this committee considers a broad range of issues related to corporate governance including nomination and remuneration.

■ Information and communications industry, 1st Section

- The Company has independent directors besides supervisory committee members (3), independent directors who are supervisory committee members (2), and a non-executive director (1), and it works to strengthen audits and oversight through a large number of talented team members. Efforts are made to improve the transparency and reliability of the board of directors and make it more active through opinions, advice, and checks from these directors while strengthening the management oversight function.
- In addition, three committees have been established to even further strengthen corporate governance, namely a supervisory committee, as well as an optional nomination and remuneration committee and compliance committee as advisory committees to the board of directors. The supervisory committee and nomination and remuneration committee are composed of a majority of independent directors and an independent director serves as the chair. In addition, the compliance committee is composed of a majority of independent directors and an independent director serves as the chair.
- The nomination of director candidates is submitted to the optional nomination and remuneration committee, and selection is conducted by the board of directors in consideration of the response from this committee. In addition, the individual remuneration of directors (excluding supervisory committee members) out of the total amount decided on at the general meeting of shareholders is submitted to the optional nomination and remuneration committee and decided on by the board of directors in consideration of the response from this committee. Incidentally, the individual remuneration of directors who are supervisory committee members is determined in consultation with directors who are supervisory committee members.

Examples of explanation (Principle 4.10.1)

[Examples of current mechanism functioning]

■ Transportation equipment, 1st Section

- When the board of directors makes a decision on the submission of a proposal to the general meeting of shareholders regarding the appointment, etc. of a director (excluding directors who are supervisory committee members) or a decision or change to the remuneration system or remuneration standards for directors, **efforts are made to strengthen the independence and objectivity of the functions of and the accountability of the board of directors by holding deliberation after hearing opinions formed by the supervisory committee in advance.** Accordingly, it is believed that **an optional advisory body is not necessary and that the current framework is functioning properly.**

■ Information and communications industry, 1st Section

- Although the Company has not established an independent advisory body such as an optional nomination and remuneration committee, **explanations are provided to independent directors and the parent company and appropriate advice is obtained in advance of resolutions by the board of directors on the appointment of director candidates and the remuneration of directors.** Because appropriate involvement and advice from independent directors on the appointment of director candidates and remuneration of directors is gained in this manner, **it is believed that the independence, objectivity, and accountability of the functions the board of directors is sufficiently ensured.**

■ Real estate, 1st Section

- The Company has considered an optional framework for strengthening the independence, objectivity, and accountability of the functions of the board of directors regarding particularly important matters while receiving involvement and advice from independent directors. As a result, in light of the fact that under current conditions, **independent directors are appropriately involved in decision-making for particularly important matters through means such as actively stating opinions at the board of directors and providing advice as necessary while taking advantage of highly specialized knowledge and abundant experience, it has been decided not to establish an independent advisory body such as an optional nomination and remuneration committee at this point in time.**

Examples of explanation (Principle 4.10.1)

[Examples of issue for future consideration]

■ Service industry, 1st Section

- While the Company has not established an independent advisory body such as an optional nomination and remuneration committee, for the nomination, appointment, and dismissal of directors and corporate officers and decisions on the individual remuneration of directors who are not supervisory committee members and corporate officers, explanations are provided to independent directors and matters are submitted in consideration of their opinions to achieve objective and transparent nomination, appointment, and dismissal procedures and remuneration decision procedures for directors and corporate officers. In addition, the Company has started considering the transition to a pure holding company structure around January 2020, and at the same time, **the establishment of an optional nomination and remuneration committee around FY2020 will be considered.**

■ Wholesale industry, 1st Section

- While the board of directors makes decisions on the appointment of director candidates and the remuneration of directors, first priority will be given to management organization reform for the purpose of further strengthening our governance structure in the future. Subsequently, **we will start to consider the establishment of a nomination and remuneration committee in about one to two years.**

■ Information and communications industry, 1st Section

- Although we do not have an independent advisory committee such as a nomination committee or remuneration committee at this point in time, we will **consider the establishment of such as committee as necessary.** As stated in Principle 4.8 above, because we only have 1 independent director, **we would first like to focus on increasing the number of independent directors.**

II. Status of initiatives for individual principles

2. Roles of the board of directors

(2) CEO appointment, dismissal,
and succession planning

Example of explanations of own efforts (Principle 3.1(iv)) [Explicit mention of dismissal standards]

■ Machinery, 1st Section

- If it is deemed that the president and representative executive officer is not fulfilling his function sufficiently in light of an appropriate evaluation of the company's performance, etc., the board of directors has established an independence and objective process for discussing whether or not to dismiss the president and representative executive officer. Specifically, when the nomination committee regularly confirms the appropriateness of the current president and representative executive officer, **if the single-year consolidated financial results have not attained the standards prescribed by the nomination committee for three consecutive accounting periods, the nomination committee will propose not recommending the reappointment of the current president and representative executive officer, and as a long as there are not special circumstances, whether or not to dismiss the president and representative executive officer will be discussed by the board of directors.**

■ Construction, 1st Section

- Proposals on the dismissal of directors will be decided on by the board of directors in consideration of the dismissal standards.

(Dismissal standards)

1. Conducted an act in violation of public order and morals
2. It has become difficult to continue their duties due to health reasons
3. Have caused significant damage to corporate value as a result of negligence of duties
4. Recognized as not having the qualities prescribed in the selection standards

■ Other products, 1st Section

- [Method for appointment and dismissal of members of senior management] For the appointment and dismissal of members of senior management, the representative director gives comprehensive consideration to the experience, knowledge, character, etc. of the candidate and their degree of contribution to improvement in corporate value and submits a proposal for decision by the board of directors while also taking into consideration the opinion of independent directors. **Going forward, we will consider clarifying the appointment and dismissal standards from a more objective perspective.**

■ Construction, 1st Section

- Appointment and dismissal policies and procedures
The appointment of director candidates is decided on by the board of directors based on the appointment standards prescribed by the board of directors after evaluating the appropriateness. **Although no specific policies for the dismissal of directors have been established at the current point in time, going forward the board of directors will hold sufficient discussions including independent directors to consider the establishment of procedures that are more objective, timely, and transparent.**

■ Food products, 1st Section

- The **nomination committee recommends on appointments and dismissals of top executives**. This committee comprises at least four members, and the majority are independent directors. **The members have a say in the succession plan for the CEO.** We have celebrated the 100th anniversary and created the Group 2026 Vision, our long term business plan. With a view to achieving the group's vision for 2026, **we have established a set of standards ("Leadership Value") for our executives. Leadership Value was reviewed by both the nomination committee and the board of directors before being resolved by the latter in January 2018.** Leadership Value describes the standards that our executives must uphold to lead the group toward achieving its vision. The main thing we expect of top executives is the ability to "instigate change and lead reform efforts." **To this end, Leadership Value outlines the following 10 competences across three themes:**

- 1) Strategic planning and action: Imagination, decisiveness, ability to achieve breakthroughs, ability to channel creative energies
- 2) Organizational leadership skills: Ability to communicate and convince, ability to motivate, magnanimity for others' mistakes, ability to develop others' talents
- 3) Character: Ability to recognize and channel diverse talents, upstanding character

Based on our Leadership Value, we will promote the development of succession planning.

■ Banking, 1st Section

- In order to achieve sustainable growth for the entire group and improve medium to long term corporate value, the Company endeavors to spend sufficient time and money on succession planning so that the best human resources can be promoted to positions including the Group CEO, executives that support the Group CEO (company presidents, etc.), and the top management of the three core companies. At the same time, candidates for the “after next” Group CEO are also considered while preparing for unforeseen circumstances involving the Group CEO.
- Reports are made to the nomination committee and the personnel review council (below, “nomination committee, etc.”) regarding the status of succession plan establishment and implementation for the Group CEO.
- In succession planning for the Group CEO, etc., the nomination committee, etc. will basically discuss matters including (1) human resources requirements needed, (2) replacement timing, (3) setting of a candidate pool and the appropriate development of candidates over time (including important career selections for candidates), (4) assessment of the characters of candidates by members of the nomination committee, etc. and (5) decisions on candidates, etc. while taking into consideration the opinions of the current CEO.
- The nomination committee, etc. will conduct thorough profiling on candidates by utilizing multifaceted talent evaluation information, including 360 degree evaluations and third-party evaluations from external evaluation agencies, and hold sufficient discussions on selection based on personal character that avoid formalities such as the annual passing along of candidates after gaining the opinion of the current Group CEO. The current Group CEO will provide the utmost cooperation in assessing the character of candidates through means such as establishing processes for directly assessing the capabilities and qualities of candidates by members of the nomination committee, etc.
- The Group CEO who is a director that serves concurrently as a corporate officer, makes decisions while the objectivity and transparency of the process is ensured by the nomination committee.

■ Banking, 1st Section

- Aiming for sustained improvements in corporate value, the Group introduced a succession plan in June 2007 that serves as a mechanism to ensure the successions of the top management roles and responsibilities at the Company and each Group bank and secure the transparency of the process of selecting and nurturing directors.
- The scope of the succession plan covers various candidates, from those who are candidates for the next generation of top leadership to those who are new candidates for directorships. The process of selection and nurturing successors is carried out steadily according to a schedule, matching qualified candidates to the appropriate rank. The Group retains the objectivity of this process by drawing on the advice of external consultants. Evaluations of candidates undergoing the process are reported to the nominating committee. In addition to receiving reports on candidate evaluations, members of the Nominating Committee come into direct contact with candidates as part of the process, evaluating candidates' characters from various aspects. The activities of the nominating committee are reported to the board of directors, of which independent directors are the majority, and are discussed from diverse perspectives. Through the entire process, which is highly transparent, each potential director's capabilities and competencies are closely studied and enhanced where appropriate.
- In addition, the Company has set forth seven competencies that define the ideal candidate for the position of director. By ensuring that the directors in the nominating committee as well as the other directors share common ideals regarding candidates, the Company clarifies standards for the evaluation and nurturing of successors and thereby aims to realize impartiality during the entire process.

Examples of explanation (Supplementary Principle 4.1.3, 4.3.2, and 4.3.3)

■ Wholesale industry, 1st Section

- The Company has established an appointment council that is equivalent to a nomination committee within the executive evaluation committees which is an advisory body to the board of directors to consider HR matters related to directors along with independent directors and submit proposal on HR matters related to directors. **Candidates for the successor for the CEO, etc. are narrowed down while taking into consideration the individual performance, character, insights, etc. of directors and corporate officers. Although we have not clearly stipulated specific procedures or plans such as a succession plan, since FY2003 we have introduced an individual mutual evaluation system for corporate officers including executive directors and indicated the desired requirements for executives as evaluation items, and the results of evaluation of all corporate officers have been stored. The accumulation of evaluations conducted every year and feedback makes it possible to select a candidates who has the requirements desired for a CEO. In consideration of the number of members of senior management, we believe that it is of a level that allows the rationale for and the appropriateness of the appointment of successor candidates to be shared within the board of directors.**

■ Textile products, 1st Section

- **We have established a succession plan for senior management that includes a succession plan for the CEO, and we view the appropriate implementation of this plan as one of the most important issues for improving corporate value. The frameworks and information handling rules for this plan are considered by the board of directors.**

■ Information and communications industry, 1st Section

- The Company has deemed that a succession plan for the representative director and president **is not highly urgent enough at this time to spend the time and money that would be required, so no planning or supervision is conducted by the board of directors.** We will continue considering whether or not to conduct planning going forward.

II. Status of initiatives for individual principles

2. Roles of the board of directors

(3) Ensuring diversity in board of directors

Examples of explanations of own efforts (Supplementary Principle 4.11)

[Promoting the active participation of female directors]

■ Wholesale industry, 1st Section

- Balance of knowledge, experience, and skills for the board of directors overall, diversity, and size
There will be a similar number of executive directors and supervisory committee members (currently 5 and 5) in an effort to achieve a balance between the business execution and audit and oversight function. For independent directors, we aim to achieve diversity for the entire board of directors by selecting from pioneers in various fields including business, law, accounting, and the government as described above. **We appoint one executive director who has overseas working experience. In addition, we appoint one female independent director. We would like to continue to promote women from outside and inside of the company so that our management and business can be checked from a women's perspective in light of the characteristics of our business that involves interiors and the living environment.**

■ Retail industry, 2nd Section

- Our board of directors is composed of executive directors who are familiar with each business field including the sales unit, management planning unit, and administrative unit as well as independent directors that consist of lawyers or people from financial institutions who have strong knowledge of compliance and risk management, and supervisory committee members who are qualified as public accountants and tax accountants and have abundant knowledge of taxes and accounting. **In terms of gender, we have appointed two female independent directors, and in terms of international experience, one of them manages a company that is engaged in overseas market research and marketing activities.** In addition, staff that are familiar with languages and conditions in some of our overseas businesses have been selected as executives for Group companies.

Examples of explanation (Principle 4.11)

[Examples of issue for future consideration]

■ Electronic equipment, 1st Section

- To ensure that they effectively fulfill their roles and responsibilities, directors are recommended after consideration by the nomination consultation committee while taking into consideration the balance of knowledge, experience, and skills and diversity. Up until now, independent directors have selected from corporate executives and lawyers, etc. while independent kansayaku have been selected from corporate executives, lawyers, accountants, etc. among human resources with diverse experience and expertise.
- Currently, **we have not appointed a female director, and we recognize diversity in terms of gender as an issue and we will be considering securing a female director.**

■ Chemicals, 1st Section

- Our board of directors is composed of people with specialized knowledge and abundant experience in a variety of fields including management, finance, R&D, production, and sales as well as many people with overseas living experience, and we believe that as such a balance has been achieved between diversity and an appropriate size. In addition, our full-time kansayaku have abundant experience with financial institutions and we have one female independent kansayaku who is qualified as a public accountant and tax accountant and has sufficient knowledge on finance and accounting. Meanwhile, **while a female director has not been appointed at this time, we will consider diversity improvements in terms of gender in the future by improving the workplace environment for the development of director candidates, implementing working style reforms, and developing an environment that allows women to aim for management positions.**

II. Status of initiatives for individual principles

3. Cross-shareholdings

(1) Reducing cross-shareholdings

■ Retail industry, 1st Section

(1) Cross-shareholdings policy

- Overall, the Group's cross-shareholdings as of February 28, 2018 comprise 56 stocks, with a market value of 61.8 billion yen accounting for just over 2% of consolidated net assets.
- **In principle, the Group does not hold cross-shareholdings except where there is an accepted rationale for doing so, such as maintaining or strengthening business alliances or business relationships, in order to maintain and strengthen business competitiveness.**
- **Stocks held are reviewed annually and shares with less rationale are to be sold in view of the circumstances of the investee companies.**

(2) Method of assessing the rationale for the holdings

- The Company's Board of Directors assesses the matters below regarding the rationale for holding listed cross-shareholdings and makes comprehensive decisions. The Company **will continually review the matters to be assessed.**

[Matters reviewed]

[Qualitative matters]

- 1) Background of acquisition;
- 2) Presence or absence of business relationship;
- 3) Strategic significance at the time of holding;
- 4) Possibility of future business;
- 5) Risks related to survival or stability, etc. of business if shares are not held; and
- 6) Continuity of advantages, future outlook for business, and risks if shares continue to be held.

[Quantitative matters]

- 1) The most recent amounts of transactions and profits if any business is conducted through business alliances, etc.;
- 2) Annual dividends received and gain or loss on valuation of shares; and
- 3) **Whether the benefits and risks from each holding cover the Company's cost of capital.**

Disclosure examples (Principle 1.4) [Methods for examination of appropriateness of holding and clear indication of the results]

(3) FY2018 assessment of cross-shareholdings

- The results of the board of directors' FY2018 assessment of all of the Company's listed cross-shareholdings are as below. (The review was performed at the board of directors meeting on November 1, 2018.)

[Results of the assessment of all of the Company's listed cross-shareholdings]

Issue	Qualitative and quantitative judgment	Significance of holding	Response
Company A	○	Yes	Maintain holding
Company B	○	Yes	Maintain holding
Company C	○	Yes	Maintain holding
Company D	○	Yes	Maintain holding
Company E	○	Yes	Maintain holding
Company F	○	Yes	Maintain holding

- The Company's board of directors confirms that its group companies other than listed subsidiaries also assess cross-shareholdings based on the same shareholding policy as the Company.**

(4) Standards for exercising voting right

- When exercising voting rights as to listed cross-shareholdings, the Company decides whether to vote for or against proposals from the perspective of increasing the medium to long term corporate value of the Company and the investee companies, and engages in dialogue with the investee companies about the proposals before exercising its voting rights if necessary.
- From FY2018, the Company is exercising the voting rights based on newly established detailed rules to specifically examine the above standards.

(Detailed Rules regarding Standards for Exercising Voting Rights)

- Whether proposals at each general shareholders' meeting inure to medium to long term improvement of corporate value?
- Whether proposals at each general shareholders' meeting will maximize the benefits of shareholders of the company that convenes the general shareholders' meeting?
- Whether a convocation notice of general shareholders' meetings and other materials such as documents that explain proposals are timely and appropriate as information disclosure?

Disclosure examples (Principle 1.4) [Contents of examination by the board of directors and clear indication of the results]

■ **Wholesale industry, 1st Section**

- Stance on acquisition, holding and reduction in holding of listed stocks
 - The company may acquire and hold shares and equity stakes of non-affiliated companies (“general investment shares”) (Note 1), as a means of creating business opportunities and building, maintaining and strengthening business and partner relationships. Cross-shareholdings are included in these general investment shares.
(Note 1) General investment shares include listed and unlisted shares. all general investment shares are included under “other investments” on the consolidated balance sheets.
 - **When acquiring general investment shares, the Company judges whether or not to make the acquisition based on the significance and economic rationale of the purchase, periodically reviews its holding policy after an acquisition and promotes reducing holdings of stocks with decreased significance.** Moreover, the Company confirms the significance of holding shares of major listed companies, included in General Investment Shares, from a company-wide management perspective, and regular verifications by the board of directors will be discussed later. In addition to the scheme described above, **the Company has a policy for proactively reorganizing its portfolio and sold approximately 0.1 trillion yen of listed shares, previously included in general investment shares, on a consolidated and market value basis during FY2017, reducing its holdings by 10% year on year.**

[Matters examined by the board of directors]

- **Of the general investment shares held on a consolidated basis, for the stocks of major listed companies (Note 2), each year the board of directors verifies the result of reviewing its holding policy for each stock from the perspective of economic rationality and significance.**
(Note 2) The total market value of the Company’s holdings subject to verification as of March 31, 2018 was approximately 0.7 trillion yen (acquisition price was approximately 0.3 trillion yen), representing approximately 80% of the total market value of the Company’s holdings of listed shares on a consolidated basis.
The verification result as of March 31, 2018 was as follows:
 - **The economic rationality is verified for each individual share by comparing the earnings related to each share, such as dividends and related earnings on transactions, to see whether they are higher than the Company’s target capital cost.** The related earnings for the majority of shares subject to verification was confirmed to be higher than such capital cost.
 - In addition to the above, **the Company confirmed the significance of holding each share. For those that were to be held continuously, the Company confirmed that the purpose of holding the shares is to maintain and strengthen business relationships with investment destinations and promoting joint ventures, etc.**
 - **The board of directors also confirmed shares that it would consider selling after examining the significance of holding them going forward, since their expected purpose or the significance of holding them has become unclear, etc.**

(Continued)

- Stance on exercising voting rights relating to listed stock
 - The Company attaches great importance to dialogue and communication with its investment destinations through various channels, aiming to create business opportunities and build, maintain and strengthen business and partner relationships, and from the perspective of raising the medium to long term corporate value of the Company and these companies. The Company considers exercising voting rights to be an important approach. For this reason, when exercising voting rights relating to an investment destination, the responsible department for the oversight of the company reviews its business conditions (earnings, capital efficiency, etc.) from both quantitative and qualitative standpoints in accordance with internal regulations. These regulations stipulate matters to be considered, etc., when determining whether to vote for or against proposals such as appropriation of surplus, election of directors and *kansayaku*, and revision of executive remuneration. Then the Company exercises its voting rights appropriately for individual matters for resolution.



■ Pharmaceuticals, 1st Section

- The Company **does not hold shares of other companies except in cases where such shareholdings are deemed to contribute to medium to long term increase of the Company's enterprise value. The rationale of each shareholding is examined annually by the board of directors from the viewpoint of the Company's medium- to long-term business strategies. The Company sells the shares for which there is insufficient rationale of shareholding.**
- With regard to the exercise of voting rights of strategic shareholdings, the Company appropriately exercises them judging from the viewpoint of increasing shareholder value of the issuing company, on the condition that such exercise of the voting rights contributes to increasing the Company's enterprise value.
- The Company has reduced shareholdings since 2005. The number of shareholdings has been reduced from 106 shares in April 2005 to 29 shares as of March 31, 2018 (29.4 billion yen on the balance sheet) after 88 shares were sold (proceeds from sale of 88.6 billion yen). **The Company will continue to reduce shareholdings going forward. The appropriateness of continuing to hold shareholdings will be confirmed based on the following policy.**
 - **Shareholdings that have been acquired in relation to a business alliance will be held while that objective is maintained, and sold after the completion of the alliance as a general rule.**
 - **Other shareholdings will be sold at an appropriate timing through an appropriate method.**

■ Food products, 1st Section

[Policy on cross-shareholdings]

- The Company will comprehensively take into account whether there is a business management necessity and other factors and **will not engage in cross-shareholding when such is deemed not to help ensure sustainable growth and boost the corporate value over the medium to long term.**
- **The board of directors will verify the reasonableness of the individual cross-shareholdings on a yearly basis. Concerning the shares for which the meaning of possessing has diminished, while discussing and negotiating with the cross-shareholding partner, etc., the Company will move to reduce such holdings.**
- Voting rights on cross-shareholdings will be exercised upon deciding for or against each agenda item, taking into account whether a particular cross-shareholding will help boost the corporate value of the company concerned, and whether it will help ensure sustainable growth and boost the Group's corporate value over the medium to long term.

[Current status]

- **In the first half of 2018, we sold five of the Company's cross-shareholdings in whole and sold two of the cross-shareholdings in part (proceeds: approximately 2.0 billion).** As a result, **the balance sheet value of the Company's cross-shareholdings is 69.3 billion yen as of the end of June 2018, a steady reduction compared to 86.1 billion yen as of the end of 2015 at the beginning of the medium-term business plan.**

■ Chemicals, 2nd Section

- For equity investments for purposes other than pure investment, **the basic policy is not making new investments if holding is not recognized to be reasonable and to reduce current holdings if not recognized to be reasonable.**
- **When making a judgment on reasonableness of holding, whether or not the holding will contribute to improvements in our corporate value is used as a standard while giving comprehensive consideration to factors such as the necessity for maintaining or strengthening business, controlling shareholding risk, and maintaining financial soundness including capital efficiency.**
- The reasonableness of holdings for individual companies is considered by the board of directors at least once every year based on the above judgment standards as a general rule.
- Specific matters that are examined to determine reasonableness include (1) medium to long term policy for transactions with the company held, (2) performance trends of the company held, and (3) whether the individual share balances are insignificant compared to the Company's total assets.
- In addition, **when exercising voting rights** on such shares, **judgments are made based on factors such as (1) whether the company held has an appropriate governance structure and (2) whether continued holding would boost the medium to long term corporate value of that company and increase economic benefits for the Company.** (Note that the 9 listed shares held by the Company are all disclosed in the annual securities report. In addition, securities held account for 1.0% of the total assets of 141,485 thousand yen on the balance sheet for the year ended March 31, 2018.)

■ Electronic equipment, 1st Section

(1) Views on cross-shareholdings

- In principle, **the Company will not hold listed stocks as cross-shareholdings except in cases where it recognizes there is significance or justification for ownership. Significance or justification for ownership will be judged from the results of yearly examinations conducted on each stock based on whether there are expectations of collaboration with the issuers and business synergies, as well as on whether the benefit and risk of holding said stock are appropriate to its capital cost.** Consequently, stock where there is little significance or justification for ownership will be sold while taking into account the proper stock price, market conditions and other factors.
- As of March 31, 2018, the results of examinations into the Company's cross-shareholdings are as follows.
 - **In terms of economic justification, each individual stock was examined as to whether revenues from dividends and related-party transactions exceeded the capital cost to the Company** and it was confirmed that the majority of stocks subject to examination produced revenues that exceeded capital cost of the Company.
 - In addition to the above, the stocks were checked regarding their qualitative significance which confirmed the purpose of holding stocks that are to continue being held by the Company, such as the maintenance or strengthening of business relations with investees or expectations of collaboration and business synergies.
 - **This also confirmed stocks that the Company should consider selling due to the dilution of the significance or justification for ownership, or other factors. Additionally, six stocks that were recognized as having a diluted significance for ownership were sold in FY 2017.**

(2) Standard for exercise of voting rights related to cross-shareholdings

- The execution of voting rights is an important means of communicating with investees and the Company exercises its voting rights related to all cross-shareholdings. In exercising these rights, the Company checks each proposal and rather than making a uniform judgment on whether to approve or reject it based on formulaic or short-term standards, it makes a judgment from the perspective of whether said proposal will lead to continuous growth and a medium to long term increase in corporate value for the Company and the investee, based on sufficient consideration of said investee's management policy, strategies, and the like. Judgment on whether to approve or disapprove a proposal includes careful consideration of the following items in particular, as they may have a significant impact on shareholder return.
 - 1) Transfer of important assets
 - 2) Merger or share transfers which cause or cease wholly owned subsidiary
 - 3) Third-party allotments through favorable issuances
 - 4) Introduction of measures to defend against hostile takeovers

■ Banking, 1st Section

■ Strategic shareholdings policy

- ◇ The circumstances surrounding strategic shareholdings⁽¹⁾ have changed greatly in recent years due to, among other things, the tightening of international financial regulations and the introduction of the Corporate Governance Code in Japan.
- ◇ Based on these changes, **the Company has adopted a basic policy that** the Company and its Group banks⁽²⁾, taking into account shareholding risk, capital efficiency and international financial regulations, **shall reduce the amount of shares held for the purpose of strategic investment⁽³⁾, following sufficient consultation with the relevant corporate business clients.**
- ◇ Shares held for the purpose of strategic investment **will be examined for their significance and economic rationale from the perspectives of our corporate business clients' growth and earnings and the strengthening of business relations. We shall proceed with selling those shareholdings for which there is insufficient rationale, after securing an understanding of the relevant corporate business clients.** Even where there is sufficient rationale, we may sell those shareholdings in accordance with our basic policy of reducing strategic shareholdings, taking into account, among other things, the market environment and our business and financial strategy.
- ◇ In fiscal year 2017, the Company reduced its strategic shareholdings by approximately 201 billion yen (simple combined revenue of Group banks, acquisition cost basis), and its ratio of equity holdings at acquisition price over Tier1 capital declined from 16.6% to 14.2% as of March 31, 2018. The Company aims to lower this to around 10% by the end of the medium term business plan (March 31, 2021).

Note:

(1) "Strategic shareholdings" refers to "other securities" excluding trading investments (shares of subsidiaries and affiliates are not included). These are classified into three categories: 1. strategic investments, 2. business strategy and 3. revitalization support, with most falling under 1.

(2) "Group banks" refers to ○○ Bank, Ltd. and ○○ Trust and Banking Corporation, consolidated subsidiaries of the Company.

(3) "Shares held for the purpose of strategic investment" refers to shares held for the purpose of increasing the medium to long term economic profits of the Company and Group banks through maintaining and expanding comprehensive business relations with our corporate business clients.

(Continued)

■ Examination of significance and economic rationale of shareholdings

◇ At each Group bank, all shares held for the purpose of strategic investment are being confirmed for their significance and economic rationale (risk-return) over the medium to long term from the perspectives of our corporate business clients' growth and earnings and the strengthening of business relations. Based on Principle 1.4 of the Corporate Governance Code, individual strategic shareholdings⁽⁴⁾ are examined by the Company's board of directors.

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

◇ The results of the March 31, 2018 validations are as follows.

- We confirmed the validity of the significance of these shareholdings as most of the validation targets were held with the aim of enhancing the medium to long term economic interests of the Bank and Group banks. Regarding economic rationality, the overall business RORA of all of the verification targets as a whole exceeded the target value.⁽⁵⁾
- By company, approx. 80 percent of business partners exceeded the target value.⁽⁶⁾ The approx. 20 percent that fell below the target value are aiming to improve profitability, but if they do not improve within a set period, we will consider selling.

Note:

(4) The aggregate market value held as of March 31, 2018 was approx. 5.5 trillion yen (book value: approx. 2.4 trillion yen).

(5) (6) Whether a business partner exceeded the target profitability value was determined on a group basis for each business partner.

(Continued)

■ Standards with respect to the exercise of voting rights

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

(1) Will it increase the medium to long term corporate value and lead to continuous growth of the relevant corporate business client?

(2) Will it increase the medium- to long-term economic profits of the Company and Group banks?

Significant agenda of a shareholders meeting that could have material impact on medium to long term improvement of corporate value of the relevant corporate business client and economic benefit for the Company and Group banks will be determined through communication with the relevant corporate business client, etc. as necessary. Following agendas are considered significant by the Company and Group banks:

- Agenda on disposal of surplus (when disposal significantly lacks balance with financial soundness and retained earnings)

- Agenda on election of directors or corporate auditors (when the relevant corporate business client has caused a disgraceful affair or posted a loss for a certain consecutive period, etc.)

- Agenda on retirement benefits for corporate auditors, etc.

- Agenda on organizational restructure

- Agenda on takeover defense, etc.

◇ The status of the exercise of voting rights of the most important strategic shareholdings⁽⁷⁾ will be reported to the Bank's board of directors.

(7) Regarding the most important strategic shareholdings, the aggregate market value held as of March 31, 2018 was approx. 3.5 trillion yen (book value: 1.6 trillion yen), covering approx. 60 percent of the total market value of the (listed) equities held by Group banks for the purpose of strategic investment.

■ Food products, 1st Section

- **The Company does not maintain certain holdings of shares when such holdings are deemed as neither contributing to its sustainable growth nor increasing its corporate value over the medium to long term, in terms of asset and capital efficiency improvement that takes into consideration capital cost.** This is one of the key priorities of the Company's medium term management policy, which has been established in order to further the development of management to enhance corporate value in order to achieve sustainable growth.
- Major cross-shareholdings are reviewed every year by the board of directors on the basis of the aforementioned policy. **In the event that a shareholding is deemed to not contribute the Company's sustainable growth or to the increase of its corporate value over the medium term, the result of said review shall be disclosed and the Company shall sufficiently engage in requisite dialogue with the counterpart entity, as a shareholder. Shareholdings that are deemed to not be improvable, even after engaging in dialogue, will be sold as necessary in an appropriate manner. It is the view of the Company that the implementation of such measures ensures that the reduction of cross shareholdings is proceeding in an appropriate manner.**
- The Company appropriately exercises voting rights of the stocks held thereby by comprehensively judging whether they contribute to the sustainable growth and the increase of corporate value over the medium to long term of the Company, and whether they contribute to the common interests of the investee's shareholders. It is the Company's view that the implementation of such measures ensures appropriate responses regarding the exercise of voting rights of cross-shareholdings.

■ Transportation equipment, 1st Section

- For listed shares that are held as cross-shareholdings, **the Company assesses every year whether the holding purpose is appropriate and the benefits from each holding cover the cost of capital, and holding is continued if it is deemed that the holding contributes over the medium to long term management strategy and business strategy. The Company has steadily reduced listed shares that are held as cross-shareholdings since the enactment of the Corporate Governance Code,** and as a result the number of listed share issues held was 60 as of March 31, 2015, 32 as of March 31, 2016, 30 as of March 31, 2017, and 18 as of March 31, 2018.
- **However, because we have steadily reduced holdings of listed shares that are held as cross-shareholdings as described above, there are no plans to disclose policies towards the reduction of listed shares that are held as cross-shareholdings or the details of the examination of the appropriateness of holdings.**
- Voting rights for listed shares that are held as cross-shareholdings are exercised appropriately by comprehensively judging whether they contribute to improvements in corporate value, corporate governance, and social responsibility in light of the company's management policies and medium to long term management plan.
- However, because it is believed that an appropriate response is being made based on this policy on exercising voting rights above, there are no plans to disclose the specific details of the standards for exercising voting rights.

II. Status of initiatives for individual principles

3. Cross-shareholdings

(2) Response when intention to sell is indicated and transactions with cross-shareholders

■ Electronic equipment, 1st Section

- The Company is engaged in transactions in accordance with the perspective of ESG and economic rationale, and holding the Company's shares is not a condition for transactions with the Group for any customers, business partners, etc. In addition, the continued holding of the Company's shares is not a condition for continuing transactions for any business partners that currently hold the Company's shares.

■ Electronic equipment, 1st Section

- If a company indicates their intention to sell shares of the Company that are held, the Company will not hinder the sale through means such as implying a possible reduction of business transactions or conduct transactions that damage the joint interests of that company and shareholders.

■ Retail industry, 1st Section

- If the intention to sell is indicated by a cross-shareholder that holds the Company's shares, the Company will not hinder in any way the sale through means such as implying a possible reduction of business transactions, and respond to the sales appropriately.

■ Other products, 2nd Section

- If a company that holds shares of the Company as cross-shareholdings indicates their intention to sell those shares, the Company will not hinder the sale.

■ **Food products, 1st Section**

- Response if intention to sell is indicated by a cross-shareholder
If the intention to sell the shares of the Company is indicated by a cross-shareholder, the Company shall not hinder the sale through means such as implying a possible reduction of business transactions. However, if the intention is indicated to sell shares of the Company from a cross-shareholder with holdings for the purpose of a business partnership, we recognize that it will be necessary to consider reviewing the partnership relationships based on the economic rationality.

■ **Real estate, 1st Section**

- If a cross-shareholder **indicates their intention to sell shares of the Company, the Company will not hinder the sale.** However, if the intention to sell shares of the Company is indicated by a cross-shareholder that holds shares due to business necessity, we recognize that it will be necessary to consider that impact on the business relationship based on the economic rationality.

II. Status of initiatives for individual principles

4. Asset owners

■ Wholesale industry, 1st Section

- In an effort to utilize personnel with experience in markets and investment, those responsible for pension management are appointed from the finance department of the Company and serve concurrently as employees of the Company's corporation pension fund. The basic policy and management guidelines for safe and efficient management of the reserve are drafted and issued to institutions contracted to undertake management, which are then monitored constantly. Rules governing the fund prevent inappropriate administration and management of the reserve for the benefit of one's self or an independent party other than the fund. Moreover, the Company's corporation pension fund elects four directors to execute the fund's operation and two auditors to audit its operations. Officers in these positions are rotated after a certain period based on their decided terms of office. In addition, the fund has clearly expressed the acceptance of Japan's Stewardship Code as an asset owner that independently allocates assets held, and requires stewardship activities of asset managers entrusted with asset management.

■ Electronic equipment, 1st Section

- The accumulated fund of the Company's pension fund is managed by "○○ Pension Fund". This fund exerts its function as expected as the asset owner, such as accepting the Stewardship Code in Feb 2018 and working on stewardship activities for the fund management agencies. The Company continues to develop the human resources for the fund in a planned manner to increase not only the investment management expertise but also the quality of its overall operations. In cases where the management agencies of the fund exercise voting rights for other companies than our group companies, we, the Company, ensures that conflicts of interest which could arise between the pension fund beneficiaries and the Company are appropriately managed. (The details are stated in the "Policy for fulfilling the stewardship responsibility".)

■ Electronic equipment, 1st Section

- The administration and management of the reserve for the Company's corporate pension is conducted by ○○ Corporate Pension Fund. In order to achieve the safe and efficient management of the reserves, **the fund issues basic management policies and management guidelines determined by the conference of representatives to institutions contracted to undertake management, regularly receives reports on the status of management** from the institutions contracted to undertake management, and **conducts appropriate oversight** while also incorporating the specialized expertise of external specialist organizations as necessary. In addition, **the fund conducts regular monitoring of the stewardship activities of institutions contracted to undertake management. The fund leaves up decisions on the selection of investments and exercising voting rights on investments to institutions contracted to undertake management** for the appropriate management of conflicts of interest that could arise between pension fund beneficiaries and companies. The Company **dispatches and assigns human resources with appropriate experience and skills from its finance and personnel departments** in order to improve the expertise of management by the fund and enable the fulfillment of functions including monitoring of institutions contracted to undertake management. In addition, in an effort to ensure the appropriate management of the retirement benefit system of the ○○ Group, **the Company has established a committee that is chaired by the corporate officer responsible for pensions and has executives from finance and personnel departments as members** to regular confirm matters such as important matters related to plan management and the status of pension assets. Furthermore, a subsidiary that is engaged in investment advisory and agent business and investment management business have been established in the ○○ Group, and the human resources of this company who have specialized knowledge and skills are utilized in order to achieve efficient management of pension assets for the Group overall.

■ Chemicals, 1st Section

- The Company **has a defined benefit corporate pension plan**, and it **has established a pension asset management committee** for the management of reserves related to this fund in order to ensure fairness and neutrality in the management of pension assets and in an effort to maintain the soundness of pension assets and improve management results.
- The committee decides on the basic management policy, management guidelines, and the composition of strategic assets, evaluates and selects asset managers, and analyses and evaluates the results of asset management. **The members of this committee** include officers from the Company's finance and personnel departments **as well as human resources with appropriate qualities from multiple related departments** including the general affairs department, legal department, and accounting department.
- In addition, a secretariat for this committee has been established in the Company's finance department, and **this secretariat conducts regular monitoring of not only the management results of each management agency, but also their investment policies and management process, compliance systems, stewardship activities, etc. while gaining opinions from external experts as appropriate.**
- **The members of this secretariat are made to learn the knowledge required and improve their expertise through means such as participation in various seminars held by management agencies.**

■ Land transport business, 1st Section

- The Company has adopted a defined contribution pension plan from FY2007 in an effort to support the asset formation of employees and reduce corporate pension fund management risks. In order to support the asset formation of employees, educational content has been enhanced, defined contribution pension plan seminars are held as new employee education, and awareness is raised of basic knowledge of systems for starting asset management and guidelines on asset management, etc. In addition, investment education on the importance of long term investment, ongoing investment, and diversified investment, etc. is conducted once a year for all members in consideration of the life-plan. The contents of this education are revised as appropriated based on the results of monitoring of asset management in coordination with the asset management agency so that it is effective education in line with reality.

■ Service industry, 1st Section

- The Company has adopted a defined benefit pension plan as the corporate pension fund, and defined benefit pension plan management is conducted by the employees. The Company has selected an asset management agency that is highly specialized in asset management to provide education on asset management to employees in an aim for stable asset formation by employees. In addition, a structure has been established to facilitate stable asset formation by employees that includes gaining the advice of qualified persons and third-party institutions involved in asset management when selecting the addition of investment products for the defined benefit plan in the future.

Examples of explanation (Principle 2.6) [Examples of issue for future consideration]

■ Retail industry, 1st Section

- The Group has introduced defined benefit pension plans at some subsidiaries. Because it has become necessary to fulfill a function as an asset owner in response to the revision in the Corporate Governance Code, **the Group has responded through means including the assignment of human resources with appropriate qualities for management of the corporate pension to the responsible department.**

■ Service industry, 1st Section

- The Company has adopted a defined benefit corporate pension plan to enhance the retirement benefits of employees. Contracts has been entered with external asset management agencies, etc. for the administration and management of the reserve for the defined benefit corporate pension plan, and these agencies, etc. are entrusted with management. **While the management results are monitored, going forward we will consider enhancing measures in human resources and operational practice including the systematic recruitment or placement of qualified persons for investment management.**

■ Banking, 1st Section

- The Bank manages the reserve for corporate pension through a corporate pension fund. Decisions on asset management are made by the representative committee in consideration of deliberations by asset management institutions. A system has been established for the appropriate management of conflicts of interest that could arise between the corporate pension fund and companies through the assignment of human resources with the appropriate qualities including department managers from the Bank's planning department, securities department, and human resources department to the asset management committee and the representative committee, and the assignment of labor union leaders, etc. as beneficiary representatives. **Although the selection of companies to invest in and decisions on exercising voting rights have been entrusted to the institutions contracted to undertake management, engagement from the perspective of stewardship activities, etc. is recognized as an important issue, and accordingly efforts are being made to strengthen the monitoring system over institutions contracted to undertake management in an effort to maximize benefits for employees.**