



# Information Disclosure regarding Listed Companies with a Controlling Shareholder

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Tokyo Stock Exchange, Inc.

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# The current framework and planned changes

- TSE has been improving disclosure rules to make predictions easier for minority shareholders and investors and enable investment decisions based on adequate information, as well as encouraging companies to consider minority shareholder interests.

| Type of company                               | Information for disclosure  |
|---|---|
| Listed company with a Controlling Shareholder | <ul style="list-style-type: none"> <li>● Guidelines regarding measures for minority shareholder protection in executing transactions, etc. with a Controlling Shareholder</li> <li>● Approaches and measures to ensure independence from the parent company</li> <li>● Parent company's approaches to and policies regarding management of the corporate group</li> <li>● Details of any contracts relating to the parent company's approaches to and policies regarding management of the corporate group</li> </ul> |
| Listed company with a listed subsidiary       | <ul style="list-style-type: none"> <li>● Approaches to and policies regarding management of the corporate group</li> <li>● The significance of having the listed subsidiary and measures to ensure the effectiveness of the listed subsidiary's governance system, based on the above</li> <li>● Details of any contracts relating to the approaches to and policies regarding management of the corporate group</li> </ul>   |

➤ Recently there have been cases where, for example, a dispute with the Quasi-Controlling Shareholder revealed that prior agreements had been made with the Quasi-Controlling Shareholder regarding director appointments, etc., or where it is not clear how business opportunities and business fields are coordinated and allocated within the corporate group.

⇒ TSE plans to improve disclosure on governance agreements, approaches to and policies on conflicts of interest and their supervision/control, and approaches, etc. to coordination/allocation of business opportunities and business fields within a corporate group, including in the case of Quasi-Controlling Shareholders.

(the Interim Report by the "Study Group to review Minority Shareholder Protection and other Framework of Quasi-Controlled Listed Companies")

## **Disclosure examples from companies with a Controlling Shareholder**

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- ✓ An example where the company describes how significant transactions with the parent company are deliberated by a highly independent supervisory committee set up as a consultative body to the Board of Directors.

## **Sumitomo Dainippon Pharma Co., Ltd. (4506)**

Sumitomo Chemical Co., Ltd. is the parent company holding 51.78% (as of March 31, 2020) of the voting rights of the Company.

In the case where the Company conducts transactions with the parent company, appropriate supervision is given in light of the importance of the transactions, and in accordance with relevant procedures such as a requirement of approval at meetings of the Board of Directors at which Independent Outside Directors are present, in order to ensure that such transactions are fair and reasonable from the viewpoint of enhancing the corporate value of the Company. With respect to the Company's significant transactions, etc. with its parent company or any subsidiary of the parent company (excluding the Company and its subsidiaries) (the "Parent Company's Group"), deliberations are conducted from the viewpoint of protecting the interest of minority shareholders at the Supervisory Committee for Conflict of Interests in Transactions between Group Companies which was set up as a consultative body to the Board of Directors and consists of all the Independent Outside Directors.

The Company conducts transactions with the parent company, such as leasing lands and procuring raw materials from the parent company. In these transactions, the prices were reasonably determined through negotiations between the two companies, taking into account the general market conditions. The contractual agreements resulting from these negotiations include the clause that the prices may be adjusted when relevant market conditions change. In addition, the Company has made a short-term loan to the parent company. The Company has set the relevant terms and conditions for the loan so that the interests of the Company will not be harmed. For example, a reasonable rate for the interest rate was set while taking the market interest rate into account.

# **Disclosure examples from listed companies with a listed subsidiary**

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# The significance of having the listed subsidiary and measures to ensure the effectiveness of the listed subsidiary's governance system (1)

- ✓ An example where the company describes realistic business synergies with the subsidiary, the rationale for maintaining its listing, and the use of a committee made up of mostly independent outside directors.

## **TORAY INDUSTRIES, INC. (3402) (1)**

(1) Approach to and policy on group management (applicable to all listed subsidiaries)

A. Toray holds two domestic listed subsidiaries (Chori Co., Ltd. and Suido Kiko Kaisha, Ltd.). The Company aims to achieve the Group's sustainable growth and enhancement of the corporate value over the medium- to long-term by sharing with these listed subsidiaries its "Corporate Philosophy ("Contributing to society through the creation of new value with innovative ideas, technologies and products")," the management philosophy and values that the Company has held since its foundation, and the "Toray Group Sustainability Vision," an overarching vision that describes perspectives of the world that Toray Group aims to realize by 2050 and the issues to be addressed in order to realize that world, and by providing such listed subsidiaries with appropriate advice and support concerning the establishment of their internal control systems, etc.

B. While respecting the independence of the listed subsidiaries and avoiding to engage in any act that damages the interests of their minority shareholders, the Company will fulfill its accountability for the reasonable grounds for having the subsidiaries remain listed and ensuring the effectiveness of the governance framework for the listed subsidiaries.

(2) Reason for having the subsidiaries remain listed

A. Chori Co., Ltd.

1) We are able to: expect the generation of synergies through cooperation and coordination with the subsidiary, a company with strength in textile and chemical product businesses as well as a significant presence in the Chinese market (Chori Co., Ltd. was designated as a friendly trading company in 1961). leverage the subsidiary's knowledge as a resource for our business development in the manufacturing sector, as Chori Co., Ltd. has penetrated emerging markets early by taking advantage of talents, having qualities that stand apart from those of employees of the Company, a manufacturer, and flexible capabilities. and incorporate a broad range of supply chains into Toray Group as a result of the subsidiary's successful business operations with its partners outside the Group. In order to realize these benefits, we believe that Chori Co., Ltd. has to maintain its listing status for the purpose of enhancing its corporate value, and thereby contributing to the enhancement of the Group's overall competitive advantages, by recruiting and motivating a broad range of excellent talents, a key asset for the business of trading company, while remaining independent from the Company, as a listed subsidiary.

2) In the medium-term management program "Project AP-G 2022" (hereinafter referred to as the "AP-G 2022") that we have been implementing as a Group starting in the fiscal year ending March 31, 2021, the consolidated ROE target is set at approximately 9% in the fiscal year ending March 31, 2023 (the final year of the Program), an increase from the 7% set in the fiscal year ending March 31, 2020 (both figures are estimated on an IFRS basis), based on the assumption that all of the financial plans of the listed subsidiary will contribute to an improved ROE for Toray Group.

# The significance of having the listed subsidiary and measures to ensure the effectiveness of the listed subsidiary's governance system (2)

## TORAY INDUSTRIES, INC. (3402) (2)

B. Suido Kiko Kaisha, Ltd.

1) We position the subsidiary as the keystone in our “Comprehensive Water-related Engineering Business” and are enhancing our collaboration in our water treatment membrane business, a business expected to become a representative growing field in the AP-G 2022. We believe that Suido Kiko Kaisha, Ltd. has to maintain its listing status for two principal reasons: first, the subsidiary needs to broadly recruit highly professional talents for the highly technical water treatment systems and plant business the subsidiary is involved with in the abovementioned Group’s comprehensive business, and enhance and maintain their motivation. second, the subsidiary needs to secure by fair means the high transparency required of its business operations as an entity with a highly public nature.

2) In the AP-G 2022 that we have been implementing as a Group starting in the fiscal year ending March 31, 2021, the consolidated ROE target is set at approximately 9% in the fiscal year ending March 31, 2023 (the final year of the Program), an increase from the 7% set in the fiscal year ending March 31, 2020 (both figures are estimated on an IFRS basis), based on the assumption that all of the financial plans of the listed subsidiary will contribute to an improved ROE for Toray Group.

(3) Measures to ensure the effectiveness of the governance framework for the listed subsidiary

A. Chori Co., Ltd.

1) On March 25, 2020, Chori Co., Ltd. established the Governance Committee, which is a voluntary committee, to strengthen the independence, objectivity, and accountability of the functions performed by its Board of Directors regarding the nomination and remuneration of members of the Board. The subsidiary’s Governance Committee also deliberates on matters that become necessary to be addressed from the perspective of protecting the interests of its general shareholders. No former employees,

Directors, officers, or other personnel of the Company serve as members of the Governance Committee, which is composed mainly of independent outside directors, hence the independence of the subsidiary in exercising authority over the election and dismissal of its directors is guaranteed.

2) When exercising authority over the election and dismissal of the subsidiary’s independent outside directors, the Company seeks to make an appropriate decision for each agenda item, while serving the interests of the subsidiary’s shareholders in general. That decision depends on whether the candidate can oversee management from a broader perspective to further improve the transparency and fairness of management, and can provide appropriate management advice from a mid- to long-term perspective, based on his/her sympathy with the management philosophies of Toray and the subsidiary and understanding of the businesses.

3) The transactions between the Company and the subsidiary are entered into based on the negotiations with reference to the market price, etc.

B. Suido Kiko Kaisha, Ltd.

1) The Company’s involvement in the appointment of director candidates in Suido Kiko Kaisha, Ltd. Is limited to a reasonable extent in the interest of maintaining parent-subsidary cooperation, to leverage the Company’s knowledge and network so that the most suitable candidates can be elected for the enhancement of the subsidiary’s corporate value. In addition, the subsidiary shall reserve the power of appointment to ensure the independence of its management.

2) When exercising authority over the election and dismissal of the subsidiary’s outside and independent directors, the Company seeks to make an appropriate decision for each agenda item, while serving the interests of the subsidiary’s shareholders in general. That decision depends on whether the candidate can oversee management from a broader perspective to further improve the transparency and fairness of management, and can provide appropriate management advice from a mid- to long-term perspective, based on his/her sympathy with the management philosophies of Toray and the subsidiary and understanding of the businesses.

3) The transactions between the Company and the subsidiary are entered into based on the negotiations with reference to the market price, etc.

- ✓ An example where the company describes concluding a memorandum with a newly consolidated subsidiary which includes the share of the company's voting rights and respect for the subsidiary's autonomous management.

## **NEC Corporation (6701)** (Excerpt)

Together with the tender offer conducted in January 2017 for shares in Japan Aviation Electronics Industry, Limited, the Company concluded a memorandum of understanding regarding the involvement in the subsidiary's management after it became a consolidated subsidiary. The overview of the memorandum is as follows:

- ① The Company's voting rights in the subsidiary will be 51% or less.
- ② The Company will maintain the stock market listing of the subsidiary's shares, and the subsidiary will carry out autonomous management as a listed company.
- ③ The Company will give sufficient consideration to the exercising of rights by minority shareholders of the subsidiary.

The Company will continuously evaluate the policy of holding shares in the publicly listed subsidiaries, and the Company will keep holding the shares of the two publicly listed subsidiaries as long as they meet the above preconditions and it can be determined that they contribute to maximizing the corporate value of the NEC Group. At this time, the Company does not plan to newly list the shares of other subsidiaries on stock markets.

- ✓ An example where the company describes how it sets out in its regulations subjects that it requests the subsidiary to report in advance.

## **Teijin Limited (3401)** (Excerpt)

3) Measures to Ensure the Effectiveness of the Governance System of the Publicly Listed Subsidiary Considering that there is a risk of conflicts of interest between the Company and the ordinary shareholders of its publicly listed subsidiary, it is necessary to ensure Infocom Corporation's independent decision-making.

To this end, the Company has built an effective governance system through the measures listed below.

- (1) Infocom Corporation's final decision-making body for management decisions is its Board of Directors to ensure shareholder equality, which is fundamental to the governance of publicly listed companies. The Company's regulations stipulate that the Company may not be directly involved in Infocom Corporation's management decisions, in principle. Meanwhile, in order to fulfill its disclosure obligations and address related issues, the Company requests Infocom Corporation to report in advance on subjects limited to matters related to voting at the general meeting of shareholders, matters that will have an impact on the Company's timely disclosure, and matters that will have a material impact on the Company's consolidated financial statements