

The 19th Survey on Corporate Governance

JCGIndex Survey

Deadline: September 30, 2021 (Thursday)

September 1, 2021

Japan Corporate Governance Research Institute

This questionnaire was sent to the corporate representatives based on the information in the CD-ROM of the Japan Company Handbook 2021 Summer (Toyo Keizai Inc.) and the Tokyo Stock Exchange website.

Inquiries (until December 1, 2021)

E-mail: FRI-jcgr-desk@dl.jp.fujitsu.com

Phone inquiries are not accepted.

You are requested to enter your personal information in this questionnaire. For details, see Handling of personal information on page v.

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September 1, 2021

Request for cooperation to JCGR Corporate Governance Survey

Since 2002, the Japan Corporate Governance Research Institute (JCGR) has been surveying all companies listed on the First Section of the Tokyo Stock Exchange every year to conduct the Corporate Governance Survey. We request your cooperation for the 19th Corporate Governance Survey (or the third Phase II Survey) this year.

The JCGR became independent from the Japan Corporate Governance Network on July 1, 2019. Due to the preparation for achieving the independence, we did not conduct the Survey in 2018. In 2019, we overhauled the questionnaire of the Survey in line with the new start. The JCGR defines the period from 2002 to 2017 as Phase I, and the 16 surveys conducted in Phase I as Phase I Surveys. Surveys conducted in or after 2019 are defined as Phase II Surveys.

For each of the companies that responded to the survey and sent back the questionnaire, we calculate the governance index (JCGIndex) and report your company's JCGIndex. We do not disclose the other companies' JCGIndex to you, but instead disclose the statistics of the distribution of the JCGIndex. However, for the companies that achieved high JCGIndex, their names and JCGIndex are disclosed in accordance with the disclosure policy explained later.

Below is the JCGR's basic stance on corporate governance and the JCGIndex Survey. We hope that this will help you understand corporate governance and our activities.

Significance of corporate governance and recent developments

Social mission of joint-stock companies

Companies undertake the business of production and distribution of goods and services that people need to live, thereby creating value added. The value added is distributed to labor and capital as wages, interest and profit, and the income serves for people's lives as a means of buying goods and services. The unconsumed income is supplied into companies through financial market and added to their capital, which brings about the growth for the companies and, eventually, the economy.

The total value added produced by all companies in a country is the country's gross domestic product (GDP). The GDP is a basic indicator of a country's economy. If people constantly save money and companies constantly make investments financed by that savings, the value added produced by the

companies increases, and pushes up the GDP. This GDP growth enables people to live a safer and richer life. However, investments accompany risks in the framework of capitalism adopting a free economy. Therefore, it is essential that the companies overcome the fear of risk and make investments for producing goods and services needed by people, using the depositors' savings as a means of funding the investments.

Separation of ownership and management

Capitalism is an economic system that aims to maximize the GDP by securing efficient production and logistics systems through market competition of companies motivated for profit-making. In the framework of capitalism, which assumes private ownership, those who invest in a company own the company. The investors control the company by leveraging their ownership. That is, they either manage the company by themselves; or select their agents, entrust the management to the agents, and control the management in the form of overseeing the agents. Recently, the phrase "governance of a company" has been replacing the phrase "control over a company." The term corporate governance especially refers to the indirect control over a company.

The Japanese capitalism puts the joint-stock company in the center of the economy. Joint-stock companies that operate large-scale business with the supply of capital by many shareholders are not assumed to be managed by the shareholders by themselves. Rather, it is supposed that the shareholders entrust management to the directors selected at the shareholder meeting. That is separation of ownership and management. Attention should be paid that even though the ownership and management are separate, the governance is not separated from the ownership; shareholders, who own the company through investment, govern the corporate management by selecting the company's directors.

Under the separation of ownership and management, corporate governance aims at ensuring effective control over the management for the benefit of shareholders. The Companies Act serves for this purpose through requirements of complex organizational structures. In the 21st century, company with nominating committee, etc. and company with audit and supervisory committee were introduced in addition to the traditional company with the board of corporate auditors. These three governance structures are the options for Japanese companies.

Best practice of corporate governance

Practicing corporate governance is all about ensuring the effectiveness of governance by shareholders. The current best practice of corporate governance begins with selecting an enough number of independent outside directors. The board of directors that includes independent outside directors makes decisions on business operations (which is to say profit-making), but it entrusts management (or business execution) to executive directors selected by the board. By exercising nomination, compensation, and audit functions, the board of directors motivates the executive officers toward the management that meets the shareholders' trust and makes utmost efforts to realize shareholders' interests. That is the best practice of corporate

governance by board of directors in modern companies.

Abenomics and corporate governance reforms

For corporate management, it is essential that the board of directors is centered on independent directors, based on shareholder activism, and draws good performance from the CEO and executive officers, whose responsibility is to execute business, make a profit and distribute it to shareholders. Abenomics, which vows to revitalize Japanese companies and put them back on track by encouraging them to invest, has pushed forward corporate governance reforms in the last several years. In February 2014, the Financial Services Agency formulated Japan's Stewardship Code as "Principles for Responsible Institutional Investors" so that institutional investors—the pivotal shareholders in the contemporary economy—exercise governance in a constructive way. Besides, recognizing that board of directors with nominating committee, etc. is not effectively functioning in Japan, company with audit and supervisory committee was newly added as an alternative that is more suitable for Japanese companies, through the revision of the Companies Act effective May 2015. Meanwhile, tasked with establishing a corporate governance code as a yardstick of rational corporate management, the Tokyo Stock Exchange made the Corporate Governance Code part of its Securities Listing Regulations in June 2015. Furthermore, on May 29, 2017, and March 24, 2020, the Financial Services Agency revised Japan's Stewardship Code and on June 1, 2018, and June 11, 2021, the Tokyo Stock Exchange revised the Corporate Governance Code.

Tokyo Stock Exchange's market restructuring

To urge listed companies to sustainably enhance their corporate value, the Tokyo Stock Exchange is restructuring its current stock market comprised of four segments (First Section, Second Section, Mothers, and JASDAQ) into three new market segments on April 4, 2022: Prime Market, Standard Market, and Growth Market.

The Corporate Governance Code and the JCGIndex Survey

2021 version of the Corporate Governance Code (the Revised 2021 Code)

While the Revised 2021 Code reasserts the importance of actions to be taken that the previous versions of the Code already promoted, such as clearly presenting the basic policy regarding the business portfolio and the status of the review of such portfolio (Supplementary Principle 5.2.1) and engaging in proactive enterprise risk management systems (4.3.4), it also added new guidelines: ensuring diversity in the promotion to core human resources (2.4.1), dealing with sustainability issues (2.3.1), the board's responsibility to develop a basic policy for the company's sustainability initiatives (4.2.2), and more.

However, the concept of sustainability is merely a translation of corporate social responsibility, and the initial version of the Corporate Governance Code already mentioned sustainability. Namely, it asked the

board to consider addressing sustainability issues positively and proactively for the sake of risk mitigation, but the Revised 2021 Code went further to enhance this Supplementary Principle 2.3.1 by acknowledging that the board should recognize that sustainability issues are important management issues because they can lead to earning opportunities.

Market restructuring and the Corporate Governance Code

In the wake of the introduction of the Prime Market, the revised Corporate Governance Code encourages companies to improve the quality of dialogue with investors and information disclosure by adopting the electronic voting platform (1.2.4) and disclosing and providing necessary information in English (3.1.2). At the same time, it also requires companies listed on the Prime Market to raise the ratio of independent directors among their directors to at least one-third (4.8) and make concrete efforts to ensure the independence and effectiveness of the nomination committee and the remuneration committee (4.10.1).

The Revised 2021 Code and the 2021 JCGIndex Survey

What the Revised 2021 Code proposes is already assumed by the JCGR's corporate governance framework. Even though the introduction of the Prime Market is fazing many listed companies, the market restructuring does not affect the essence of corporate governance at all. Hence, we judged that no change should be made to the JCGIndex Survey questions in 2021.

Survey of executive compensation

In 2017, we began to conduct the officers' compensation survey together with the JCGIndex Survey as a trial. Since 2019, it has been fully incorporated into the JCGIndex survey as Part VI. The aim of the new survey on officers' compensation is as follows.

It is said that officers' compensation is the cost of entrusting management to the executives paid by shareholders. In advanced economies, the system of linking executive compensation to performance indicators that represent the benefit of shareholders is employed. This system is intended to incentivize good management. If executives run the company well and generate sustainable profit, they receive more reward. That is called performance-linked compensation.

The Tokyo Stock Exchange's Corporate Governance Code advises on officers' compensation as follows:

Principle 4.2

(……) the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.

Supplementary Provision 4.2.1

The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately.

However, performance-linked compensation for officers has not taken root in Japan, where the stability of compensation is widely preferred. To establish the best practices of Pay-for-Performance in Japan, the JCGR has decided to start surveying the officers' compensation of listed companies. Note that the officers' compensation survey is irrelevant to the calculation of the JCGIndex. Rather, it is intended to disclose the overall trend of the executive compensation of listed companies.

JCGR's Corporate Governance Principles

The purpose of this survey is to quantify each company's corporate governance in the form of JCGIndex (governance index). Since evaluation criteria are indispensable for quantifying corporate governance, the JCGR has set forth the JCGR's Corporate Governance Principles* based on the best practices in the world. The companies that completely adhere to this framework receive the full JCGIndex of 100.

* See the following page to learn the details of corporate governance.

<https://jcgr.org/principles/>

Disclosure policy of JCGIndex

A company's corporate governance is one of the important criteria for evaluating the company. Amid the ongoing globalization, it has become a global trend that all kinds of stakeholders, not to mention investors, are aware of corporate governance. We expect all of you to recognize this and respond to our survey, with hope that we will be able to disclose the JCGIndex of all listed companies in Japan.

However, for the time being, only the names and the JCGIndex of the high JCGIndex companies that gave us permission are disclosed. To be specific, only companies that fall in the upper half of the JCGIndex rankings are subject to the disclosure. If your company consents to the disclosure, we will disclose your company's name and the JCGIndex to testify the company's excellent corporate governance.

We hope that all companies that responded to this survey make the most of their JCGIndex in and out of the company. In that case, clearly indicate that the JCGIndex is the trademark of the Japan Corporate

Consistency of the JCGIndex Survey—From Phase I to Phase II—

The JCGIndex Survey was conducted every year for 16 years from 2002 to 2017, during which significant development was observed in the system and the environment of corporate governance. For the sake of maintaining the consistency of the JCGIndex, attention had been paid in changing the questions and scores to the minimum extent. However, taking the corporate governance reforms promoted as part of Abenomics into account, we had to make a significant change on the survey for the 13th survey held in early 2015.

In 2019, when the JCGR achieved the independence, we drastically changed the questions and the proportions to better reflect the Corporate Governance Code and the Stewardship Code while succeeding the fruits of the preceding 16 years. For the sake of the consistency of the Survey, the past 16 surveys are referred to as Phase I Surveys, and surveys to be conducted going forward are referred to as Phase II Surveys.

Even while the number of companies listed on the First Section of the Tokyo Stock Exchange increased in 2013 due to the merger of the Tokyo Stock Exchange and the Osaka Stock Exchange, the JCGIndex Survey continues to survey all companies listed on the First Section of the Tokyo Stock Exchange.

Handling of personal information

This questionnaire contains blanks for personal information. The JCGR promises to protect and respect your personal information, recognizing that it is a social responsibility of an NPO to handle the respondents' personal information (names, post addresses, e-mail addresses and other information that can identify individuals) properly.

1. JCGR asks for personal information in this survey for the following purposes:
 - Personal information on CEOs Statistical analysis for the survey
 - Personal information on respondents Contact with the responding companies

2. The JCGR subcontracts the tasks of sending/collecting questionnaires and statistical analysis to Fujitsu Research Institute (FRI). The JCGR and FRI have concluded a non-disclosure agreement, which covers personal information. Every data related to the JCGIndex Survey is transferred to the JCGR after the subcontract period. FRI only retains data necessary for the follow-up survey on each company, and every data containing personal information is deleted, and every device storing them is destroyed.

3. The provision of personal information must be based on the respondents' consent. If you have any

doubt about the JCGR's handling of your personal information, leave blanks the relevant brackets. In such a case, the information necessary for statistical analysis will be handled as missing values.

4. If you are a corporate representative or a contact person and would like to make inquiries about or correct your personal information already provided to us, contact us at the following e-mail address. We will respond to your requests as promptly as reasonably possible.

Until December 1, 2021: Fujitsu Research Institute (subcontractor)

E-mail: FRI-jcgr-desk@dl.jp.fujitsu.com

From December 1, 2021: Japan Corporate Governance Research Institute

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Structure of this questionnaire

Fill in the outline of your company.

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Schedule of the survey

September 30, 2021 (Thursday): Deadline (Your company's JCGIndex will be notified to you by late October.)

November 1, 2021 (Monday): Interim report on the overall results (on the JCGR website)

December 1, 2021 (Wednesday): Announcement of the list of companies that responded to the Survey and the JCGIndex analysis results (on the JCGR website)

JCGR website: <http://www.jcgr.org/index.html>

Inquiries regarding the questions

Questions and answers about the questions of this survey are posted on the website of the Japan Corporate Governance Research Institute (<https://jcgr.org/survey/>).

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Phone inquiries are not accepted.

Part I Performance targets, leadership of CEO

<The CEO must answer this part by yourself as much as possible.>

【 1 】 Which of the following performance targets does your company regard as most important? Choose up to three from below. (Choose the most similar ones if the corresponding items are not listed below.)

Most important figures for your company: ① _____ ② _____ ③ _____

- a . Sales
- b . Market share
- c . Operating profit
- d . Ordinary profit
- e . Net profit
- f . Profit after cost of capital
- g . EPS (earnings per share)
- h . Cash flow/EBITDA^(*1)
- i . Return on sales
- j . ROA (return on assets)
- k . ROE (return on equity)
- l . TSR (total shareholder return)
- m. Profit after cost of capital
- n . Stock price
- o . Other (_____)

【 2 】 Does your company use cost of capital^(*2) as a management indicator? (Choose as many as are applicable.)

- a . Discounted cash flow analysis is applied in investment decisions.
- b . Indicators calculated using cost of capital are used for performance evaluation.
- c . Cost of capital is not used in the company.
- d . Other (_____)

(*1) EBITDA : Earnings Before Interest, Taxes, Depreciation, and Amortization

(*2) Cost of capital is the cost of procuring the capital for a company. In theory, it serves as the minimum rate of return the company expects from investments. Hence, the use of cost of capital demonstrates the management's commitment to shareholder value. In practical terms, WACC (weighted average cost of capital), the average cost that a company must pay to its shareholders and creditors, is widely used as the expected rate of return.

【7】 Suppose that your company has not reached the performance targets for a long time even though the environment surrounding your company is not so unfavorable. Which of the following most represents how you bear the responsibility as CEO? Choose one.

- a . Revise the plan and the target figures
- b . Publicly explain reasons for failing to achieve the targets
- c . Accept the compensation calculated through pre-determined formulas
- d . Leave the decision to the board of directors on whether to resign, etc.
- e . Resign as CEO

【8】 Are you required to hold a certain amount of stock as CEO?

a . Yes

【8 – 1】 What is the lower limit? (units)

【8 – 2】 How much stock do you currently hold? (units)

b . No

【8 – 3】 If you hold stock on a voluntary basis, how much stock do you currently hold?
(units)

【9】 Some people assert that, since a joint-stock company is a going concern governed by shareholders, the primary objective of a joint-stock company is to pursue long-term profit consistent with the profit of shareholders, or in other words, maximize the shareholder value. Which of the following best represents your opinion as CEO? Choose one.

- a . That is right.
- b . That is right, but in reality, it does not fit Japanese companies.
- c . Such kind of notion is wrong.
- d . Other ()

Note: Even though the Companies Act does not stipulate that the purpose of companies is to pursue business profit, the Act assumes that those who contribute money to the company share the profit of the company. Besides, the Japanese law does stipulate “non-profit” organizations. Therefore, in the context of the Companies Act, it is interpreted that the purpose of companies is to pursue business profit.

Part II Corporate governance system —Directors, board of directors—

【10】 Does your company's board of directors formulate the corporate governance guideline (corporate governance principles, code of corporate governance, etc.) in writing?

a. Yes

【10-1】 Does the guideline clearly state that corporate governance shall be for the benefit of the shareholders?

a. Yes b. No

【10-2】 Is the guideline disclosed, whether online or not?

a. Yes b. No

b. No

【11】 How many directors are there in your company altogether? ()

【11-1】 How many outside directors are there in your company? ()

【11-2】 How many outside directors in your company satisfy the Tokyo Stock Exchange's criteria on independent directors*? ()

【11-3】 How many executive directors are there in your company? ()

【12】 Does your company's board of directors formulate standards for selecting and dismissing inside directors in writing?

a. Yes b. No

【13】 Does your company's board of directors formulate standards for selecting and dismissing outside directors in writing? Note that standards only relating to the independence of outside directors are excluded.

a. Yes b. No

【14】 Is diversity taken into account when selecting directors?

a. Yes

【14-1】 How many inside directors in your company are women? ()

【14-2】 How many inside directors in your company are from overseas? ()

【14-3】 How many inside directors in your company are aged 50 or younger? ()

【14-4】 How many outside directors in your company are women in your company? ()

【14-5】 How many outside directors in your company are from overseas? ()

【14-6】 How many outside directors in your company are aged 50 or younger? ()

b. No

*For the Tokyo Stock Exchange's criteria on independent directors, see the footnote on the next page.

【15】 Which of the following best represents the most important role your company expects the outside directors to play? Choose one.

- a . To exercise governance over the management from the viewpoint of shareholders
- b . To ensure disciplined management by ensuring transparency
- c . To give advice on management
- d . To check each discussion topic objectively
- e . Other ()

【16】 Are roles that the board of directors expects the directors to play explained to each director when selecting the candidates for inside and outside directors?

- a . Yes

【16-1】 Is a skill matrix used to demonstrate the division of roles for directors? Choose one.

- a . Yes, but only for inside directors
- b . Yes, but only for outside directors
- c . Yes, for all directors
- d . No

- b . No

*The Tokyo Stock Exchange defines independent directors/auditors as outside directors/auditors who are unlikely to have conflicts of interest with general shareholders, and categorizes outside directors/auditors who are likely to have conflicts of interest with general shareholders and hence not considered independent directors/auditors as follows:

- a. A person who executes business of the parent company or fellow subsidiary of said company
- b. A person for which said company is a major client or a person who executes business for such person, or a major client of said company or a person who executes business for such client
- c. A consultant, accounting professional or legal professional (in the case of a group such as a juridical person or association, including persons belonging to such group) who receives a large amount of money or other asset other than compensation for directorship/auditorship from said company
- d. A person who has recently fallen under any of a. to the preceding c.
- e. A close relative of a person enumerated in any of the following (a) to (c) (excluding those of insignificance):
 - (a) A person enumerated in a. to the preceding d.
 - (b) A person who executes business of said company or its subsidiary (including directors who do not execute business or accounting advisors (when any of such accounting advisors is a juridical person, including any member thereof who is in charge of such advisory affairs) in the case where said company designates its outside auditor(s) as an independent auditor(s)); and
 - (c) Persons who have recently fallen under the preceding (b)

【17】 Does the board of directors evaluate each of the inside and outside directors based on the standards for selecting and dismissing directors mentioned in **【12】** and **【13】** and in light of the expected roles mentioned in **【16】** ?

a . Yes b . No

【18】 Are newly appointed directors required to attend lectures on the following themes?

【18-1】 Corporate governance a . Yes b . No

【18-2】 Corporate finance a . Yes b . No

【18-3】 Risk management a . Yes b . No

【18-4】 Business portfolio strategies a . Yes b . No

【19】 Is there any term or age limit on inside directors?

a . Yes

What is the upper limit? (years) (years old)

b . No

【20】 Is there any term or age limit on outside directors?

a . Yes

What is the upper limit? (years) (years old)

b . No

【21】 Is there any term or age limit on the CEO?

a . Yes

What is the upper limit? (years) (years old)

b . No

【22】 Does your company's board of directors have a nominating committee, whether statutory or not?

a . Yes

【22-1】 How many members are in the nominating committee? ()

【22-2】 How many members of your company's nominating committee satisfy the Tokyo Stock Exchange's criteria on independent directors? ()

【22-3】 Does the chair of your company's nominating committee satisfy the Tokyo Stock Exchange's criteria on independent directors? a . Yes b . No

b . No →Proceed to **【27】** .

If you answered a. Yes in 【22】, answer 【23】 to 【26】.

【23】 Does the nominating committee stipulate rules on the objectives, missions and administration?

a. Yes b. No

【24】 Does the nominating committee stipulate rules on the selection of the candidates for directors?

a. Yes b. No

【25】 Does the nominating committee stipulate rules concerning the independence of outside directors?

a. Yes b. No

【26】 Does the nominating committee conduct self-evaluation in accordance with the rules and report the self-evaluation results to the board of directors every year?

a. Yes b. No

For all respondents

【27】 Does your company's board of directors have a compensation committee, whether statutory or not?

a. Yes

【27-1】 How many members are in the compensation committee? ()

【27-2】 How many members of your company's compensation committee satisfy the Tokyo Stock Exchange's criteria on independent directors? ()

【27-3】 Does the chair of your company's compensation committee satisfy the Tokyo Stock Exchange's criteria on independent directors? a. Yes b. No

b. No → Proceed to 【31】.

If you answered a. Yes in 【27】, answer 【28】 to 【30】.

【28】 Does the compensation committee stipulate rules on the objectives, missions and administration?

a. Yes b. No

【29】 Do the rules of the compensation committee prescribe incentive-based compensation or performance-linked compensation?

a. Yes b. No

【30】 Does the compensation committee conduct self-evaluation in accordance with the rules and report the self-evaluation results to the board of directors every year?

a. Yes b. No

For all respondents

【31】 How many members are in your company's audit and supervisory committee or board of corporate auditors? ()

【31 – 1】 How many members of your company's audit and supervisory committee or board of corporate auditors satisfy the Tokyo Stock Exchange's criteria on independent directors? ()

【31 – 2】 Does the chair of your company's audit and supervisory committee or board of corporate auditors satisfy the Tokyo Stock Exchange's criteria on independent directors? a. Yes b. No

【32】 Are there written rules for the audit and supervisory committee or board of corporate auditors?

a. Yes

b. No → Proceed to 【35】 .

If you answered a. Yes in 【32】 , answer 【33】 and 【34】 .

【33】 Which of the following are subject to audit as stipulated by the rules of the audit and supervisory committee or board of corporate auditors? Choose as many as are applicable.

a. Appropriateness of internal audit

b. Impartiality of internal auditors

c. Financial audit

d. Business audit

e. Appropriateness of external audit

f. Impartiality of external auditors

g. Other ()

【34】 Does the audit and supervisory committee or board of corporate auditors conduct self-evaluation in accordance with the above mentioned rules and report the self-evaluation results to the board of directors every year?

a. Yes b. No

For all respondents

【35】 Who chairs the board of directors? Choose one.

a. The CEO

b. The chairperson of the board of directors who is not the CEO

c. An outside director who satisfies the Tokyo Stock Exchange's criteria on independent directors

d. An outside director who does not satisfy the Tokyo Stock Exchange's criteria on independent directors

e. Other ()

【36】 Are the agendas to be discussed at the meetings of your company's board of directors explained to the outside directors in advance? Choose one.

a . All of the agendas are explained to the outside directors in advance.

(a) More than five days before the meeting

(b) Two to five days before the meeting

(c) On the day before the meeting

(d) On the day of the meeting

b . Only important agendas are explained to the outside directors in advance.

(a) More than five days before the meeting

(b) Two to five days before the meeting

(c) On the day before the meeting

(d) On the day of the meeting

c . In general, there is no advance explanation to the outside directors.

【37】 Does your company's board of directors discuss the following agendas at least once in a year?

【37-1】 Management strategies a . Yes b . No

【37-2】 Financial strategies a . Yes b . No

【37-3】 Risk management strategies a . Yes b . No

【37-4】 Business portfolio strategies a . Yes b . No

【37-5】 M&A strategies a . Yes b . No

【38】 Does your company's board of directors confirm the basic policies for the following items once in a year?

【38-1】 Corporate pension a . Yes b . No

【38-2】 Information technology a . Yes b . No

【38-3】 Compliance a . Yes b . No

【38-4】 Corporate governance a . Yes b . No

【38-5】 Corporate social responsibility a . Yes b . No

【39】 Are board meetings that are attended only by outside directors/auditors or independent directors/auditors (as defined by the Tokyo Stock Exchange) regularly held?

a . Yes b . No

【39-1】 Does the leading independent outside director (or the equivalent outside director) regularly exchange views with the top management?

a . Yes b . No

【40】 Does your company's board of directors set a rule concerning outside directors' holding of the company's stock? Choose one.

- a . Yes, they must hold a certain amount of stock
- b . Yes, they are encouraged to hold a certain amount of stock
- c . Yes, they are allowed to hold a certain amount of stock on a voluntary basis
- d . No

【41】 Does your company assess the effectiveness of the board of directors meetings?

- a . Yes
- b . No

If you chose a., answer the following questions.

【41 – 1】 How often does your company assess the effectiveness of the board of directors meetings? Choose one.

- a . The assessment is conducted every year (or planned to be conducted every year)
- b . The assessment is conducted on a regular basis, but not every year (once _____ in years)
- c . The assessment is conducted on a non-regular basis (held _____ times in the past)
- d . Other (_____)

【41 – 2】 Who is effectively responsible for the said assessment? Choose one.

- a . The CEO
- b . The chairperson of the board of directors who is not the CEO
- c . An inside director
- d . An outside director
- e . An executive officer designated by the CEO
- f . An outside expert
- g . Other (_____)

【41 – 3】 How does your company conduct the assessment? Choose as many as are applicable.

- a . An ad hoc committee centered on outside directors is set up.
- b . The opinions of institutional investors are heard in advance to better reflect the voice of the stock market.
- c . The overview of the questionnaire survey or the interview survey is notified in advance.
- d . A questionnaire survey or an interview survey is conducted for all directors.
- e . The decision on how to conduct the assessment and the analysis of the results are entrusted to an objective outsider.
- f . The board of directors deliberates on the analysis results of the assessment, and decides on measures.
- g . Other (_____)

【41 – 4】 If the assessment revealed issues on corporate governance and proposals for improving corporate governance, how does your company explain to investors? Choose as many as are applicable.

- a . In the corporate governance report
- b . As part of the disclosure required by the Financial Instruments and Exchange Act or timely disclosure as stipulated in the regulations of the stock exchange (Specify: _____)
- c . By means voluntarily selected by the company (Specify: _____)
- d . At the shareholders meeting, IR meeting, or other occasions for direct communication with investors
- e . The company does not explain about these issues and measures to investors.
- f . Other (_____)

【42】 Does your company regularly monitor the status of corporate governance?

- a . Yes
- b . No

If you chose a., answer the following questions.

【42 – 1】 Who is effectively responsible for the said monitoring? Choose one.

- a . The CEO
- b . The chairperson of the board of directors who is not the CEO
- c . An inside director
- d . An outside director
- e . An executive officer designated by the CEO
- f . An outside expert
- g . Other (_____)

【42 – 2】 What are major targets of the monitoring? Cite up to three.

- ① _____
- ② _____
- ③ _____

【43】 Does your company plan to change the corporate governance structure in the mid-to-long term?

a . Yes b . No →Proceed to 【43-3】 .

If you chose a., answer the following questions.

【43-1】 To which structure does your company plan to change? Choose one.

A) If your company is currently a company with nominating committee, etc.

- a . Change to a company with audit and supervisory committee
- b . Change to a company with board of corporate auditors
- c . Not decided yet

B) If your company is currently a company with audit and supervisory committee

- d . Change to a company with nominating committee, etc.
- e . Change to a company with board of corporate auditors
- f . Not decided yet

C) If your company is currently a company with board of corporate auditors

- g . Change to a company with nominating committee, etc.
- h . Change to a company with audit and supervisory committee
- i . Not decided yet

【43-2】 Which of the following does your company regard as most important in changing the corporate governance structure? Choose one.

a . Although corporate governance is sufficiently functioning at present, changing the structure will enhance it even further.

b . We are considering to change the structure because it is necessary to enhance corporate governance, but the issue is the time required to change the structure.

c . We are considering to change the structure because it is necessary to enhance corporate governance, but the issue is the lack of personnel who will sustain the new corporate governance framework.

d . We are considering to change the structure because it is necessary to enhance corporate governance, but the issue is the cost.

e . Other ()

If you chose b. in 【43】 , answer the following question.

【43-3】 Which of the following is the most important reason for maintaining the current corporate governance structure? Choose one.

- a . Since corporate governance is sufficiently functioning, there is no need to change.
- b . Changing the structure is expected to enhance corporate governance, but we do not have time to think about it in detail.
- c . There is room to improve corporate governance, but we do not have enough personnel who can promote the change.
- d . There is room to improve corporate governance, but there is concern about its cost.
- e . The management does not recognize the necessity of changing the corporate governance structure.
- f . Other ()

Part III Management system, evaluation of management, and management compensation

【44】 Does your company use cost of capital or performance indicators based on cost of capital as performance targets for each independently managed organization (division, in-house company, subsidiary, etc.)? Choose one.

- a . Yes
- b . No (Specify the targets: _____)
- c . No performance targets set

If you chose a. or b., answer the following questions.

【44 – 1】 Does your company evaluate the head of each organization based on the said targets?

- a . Yes
- b . No

【44 – 2】 Is the compensation of the head of each organization linked to the performance evaluation mentioned in 【44 – 1】 ?

- a . Yes
- b . No

【44 – 3】 If it turns out to be difficult to achieve the said targets even though there are no explicit external factors unfavorable to the organization, is the head of the organization removed from the position?

- a . Yes
- b . No

【45】 Does your company have an organization that sets the policy of enterprise risk management and supervises it?

- a . Yes
- b . No

If you chose a., answer the following question.

【45 – 1】 Is it stated in writing that your company's enterprise risk management aims at securing the profit of shareholders?

- a . Yes
- b . No

【46】 Has your company introduced anti-takeover measures (as defined by the Tokyo Stock Exchange)?

- a . Yes
- b . No

If you chose a., answer the following questions.

【46 – 1】 Did your company get approval for the anti-takeover measures at a shareholders meeting ?

- a . Yes
- b . No

【46 – 2】 Are the anti-takeover measures stipulated in the articles of incorporation?

- a . Yes
- b . No

【46 – 3】 What is the response to proposals to acquire your company? Choose one.

- a . No independent panel is set up, and the board of directors makes decision.
- b . The board of directors accepts the independent panel's judgment, which effectively binds the board.
- c . The independent panel's judgment is respected, but it is the board of directors that makes decision.

【47】 Does your company have written codes of ethics or codes of conduct that govern all employees?

a . Yes

【47 – 1】 Are such codes published, whether online or not?

a . Yes b . No

【47 – 2】 Does your company have an organization for promoting and supervising corporate ethics?

a . Yes b . No

b . No

【48】 Is the policy of corporate social responsibility formulated in writing?

a . Yes

【48 – 1】 Is the said policy of corporate social responsibility published online?

a . Yes b . No

b . No

【49】 Is the scope of duties and responsibilities specified and formulated in a form of job description for all jobs in your company?

a . Yes b . No

【50】 Internal control system refers to a set of regulations on self-assessment, cross-check, and inspection by a specialized division (such as the middle office) to ensure the compliance. Are companywide frameworks and procedures of your company's internal control system digitized or formulated in writing?

Choose one.

a . Yes, they are digitized companywide.

b . Yes, they are formulated in writing companywide.

c . No, they are not digitized nor formulated in writing companywide.

【51】 Does your company have an internal audit division (an organization that checks whether the internal control system is functioning and, if necessary, takes corrective actions)?

a . Yes b . No

If you chose a., answer the following questions.

【51 – 1】 How many internal auditors (the staff in charge of internal audit) are in your company?
()

【51 – 2】 Is it stipulated in writing that the internal auditors must be independent from the CEO?

a . Yes b . No

【51 – 3】 Do members of the board of corporate auditors or the audit and supervisory committee periodically exchange information with internal auditors as necessary?

a . Yes b . No

【51 – 4】 Does the head of the internal audit division periodically submit internal audit reports to the board of directors and the CEO every year?

a . Yes b . No

【51 – 5】 Is the appointment of internal auditors approved by the board of corporate auditors or the audit and supervisory committee? a . Yes b . No

【52】 Does your company have an organization for promoting and supervising compliance (abiding by the law, social norms, internal rules, etc.)?

a . Yes b . No

【53】 Does your company have an internal reporting system?

a . Yes b . No

If you chose a., answer the following questions.

【53 – 1】 Did your company refer to the Guidelines for Business Operators Regarding the Establishment, Maintenance and Operation of Internal Reporting Systems Based on the Whistleblower Protection Act* when introducing the internal reporting system?

a . Yes b . No

*The Guidelines for Business Operators Regarding the Establishment, Maintenance and Operation of Internal Reporting Systems Based on the Whistleblower Protection Act are the guidelines for properly handling employees' reports of compliance violation prepared by the Cabinet Office with the aim of strengthening corporate compliance efforts in accordance with the Whistleblower Protection Act.

https://www.caa.go.jp/policies/policy/consumer_system/whistleblower_protection_system/overview

Part IV Management of consolidated subsidiaries and cross-owned shares

【56】 How is your company's situation regarding listed subsidiaries? Choose one.

- a . The company owns listed subsidiaries that meet the quantitative or qualitative criteria. (companies)
- b . While the company does not own listed subsidiaries, the company owns listed affiliates for which the group holds the majority of voting rights. (companies)
- c . While the company does not own listed subsidiaries, the company owns listed affiliates for which the group holds one third of voting rights. (companies)
- d . The company does not own any group affiliates that fall under a to c above.
- e . The company does not own any listed subsidiaries. →Proceed to **【59】** .

If you answered a. Yes in **【56】** , answer **【57】** and **【58】** .

【57】 What is your company's policy on owning listed subsidiaries? Choose one.

- a . The company currently owns listed subsidiaries, but that is on an exceptional basis.
- b . The company currently owns listed subsidiaries, but plans to resolve the situation by either wholly owning these subsidiaries or selling the shares.
- c . The company owns listed subsidiaries on an exceptional basis, only when the advantages outweigh the disadvantages (outflow of the corporate value, criticism from institutional investors, etc.).
- d . The company is willing to own listed subsidiaries, as they are useful for managing the group.
- e . There is no principle on owning listed subsidiaries. The decision on whether to own a listed subsidiary is made on a case-by-case basis.
- f . Other ()

【58】 How does your company exercise governance over the listed subsidiaries as a shareholder? Choose one.

- a . From the viewpoint of maximizing the company's value and optimizing the group's management resources, the company is involved in the management of listed subsidiaries as a shareholder.
- b . From the viewpoint that maximizing listed subsidiaries' value maximizes the company's value, the company imposes targets for maximizing the corporate value on the management of listed subsidiaries as a shareholder.
- c . From the viewpoint of maximizing the consolidated group's value and optimizing the group's management resources, the company is involved in the management of listed subsidiaries as a shareholder.
- d . The company is involved in the selection of directors of listed subsidiaries.
- e . Other ()

For all respondents

【59】 Does your company have any consolidated subsidiary, whether listed or not?

a . Yes

【59 – 1】 Who is effectively responsible for managing the consolidated subsidiaries in your company?

Choose one.

a . The CEO

b . The executive officer in charge

c . The division in charge of subsidiary management

d . Other ()

b . No

【60】 How much does your company do cross shareholding on a consolidated basis? Choose one.

a . Not at all → Proceed to **【65】** .

b . Less than 1% of the company's consolidated assets

c . Less than 5% of the company's consolidated assets

d . Less than 10% of the company's consolidated assets

e . 10% or more of the company's consolidated assets

f . No information on a consolidated basis at hand

If you chose either of b . to f . in **【60】 , answer **【61】** to **【64】** .**

【61】 Which of the following best represents your company's policy on cross shareholding? Choose one.

a . The company currently does cross shareholding merely on an exceptional basis, and will promptly sell them.

b . Although there are some advantages, the company does not do cross shareholding as a general rule because of more disadvantages.

c . Because it is helpful for the business, the company does cross shareholding.

d . Because it is in line with the company stable shareholder policy, the company continues cross shareholding to some degree.

e . Other ()

【62】 How is the board of the directors involved in making decisions on whether to continue cross shareholding? Choose one.

- a . The board makes decisions on whether to continue cross shareholding for each of the cross-owned companies.
- b . The board makes decisions on whether to continue cross shareholding only for cross-owned companies proposed by the secretariat.
- c . The board leaves such decisions to the secretariat, which reports its decisions to the board.
- d . The board is not involved in matters regarding cross shareholding at all.

【63】 How does your company judge the economic benefits of cross shareholding? Choose one.

- a . By referencing cost of capital
- b . By referencing quantitative indicators other than cost of capital (Specify : _____)
- c . Based on qualitative standards
- d . The company does not judge the economic benefits of cross shareholding.

【64】 How does your company exercise the voting rights for cross shareholding? Choose one.

- a . Submit blank power of attorney forms, or vote in favor of any proposal put forward
- b . Vote against a proposal if deemed necessary
- c . Other (_____)

Part VI Officers' compensation survey

Regarding the officers' compensation, the Tokyo Stock Exchange's Corporate Governance Code asserts the necessity of introducing stock-based compensation ("the balance of cash and stock should be set appropriately"). In response, attention has been growing to stock-based compensation.

The JCGR conducted a pilot survey on officers' compensation in 2017, based on which the officers' compensation survey has been fully incorporated into the JCGIndex Survey since 2019. However, this part is irrelevant to the calculation of the JCGIndex. We will notify the overall results to you separately from the JCGIndex Survey results.

[76] The table below presents various types of stock-based compensation. For each type of stock-based compensation, draw a circle in ① if your company has already introduced it, ② if your company is thinking of introducing it, ③ if your company introduced it but has abolished it, or leave blank if your company has not introduced it.

Type of stock-based compensation	①	②	③
a. Restricted stock units issued in advance (with performance criteria)			
b. Restricted stock units issued in advance (with no performance criteria)			
c. Stock-compensation-type stock options (one-year stock options)			
d. Qualified stock options (or stock options granted at market value)			
e. Stock options granted in exchange for money			
f. Board benefit trust			
g. Restricted stock units issued afterward			
h. Performance share units issued afterward			
i. Executive stock ownership plan/Cumulative stock investment			
j. Phantom stock/Stock appreciation rights			
k. Market-price-issued stock acquisition right trust			
l. Other ()			

【77】 Which of the following best represents what your company considers the officers' compensation to be? Choose one.

- a. Cost borne by shareholders for entrusting management to the executives
- b. Incentive to increase the company's value and improve the corporate performance
- c. Way of acquiring or retaining competent human resources
- d. Reward paid to the officers for taking risks
- e. Payment to cover officers' living expenses

【78】 On which of the following does your company put emphasis in designing officers' compensation? Choose one.

- a. Linkage to the corporate performance or stock price
- b. Accountability to shareholders
- c. How other companies in the same industry design officers' compensation
- d. Level of payment
- e. Ensuring that the system is not too complicated
- f. Whether the compensation is deductible for tax purposes

【79】 What type of contract does your company conclude with corporate officers? Choose one.

- a. Entrustment contract
- b. Employment contract
- c. Both

【80】 The Tokyo Stock Exchange's Corporate Governance Code states that "the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship." Has your company introduced monetary reward whose amount is determined based on the performance (bonuses or the like are included; hereinafter, "performance-linked compensation")?

- a. Yes
- b. No

If you answered a. Yes in **【80】**, answer **【81】** to **【84】**.

【81】 Are the indices that are incorporated into your company's performance-linked compensation on a consolidated or non-consolidated basis? Choose one.

- a. Consolidated
- b. non-consolidated
- c. Both combined

【82】 Which of the following are incorporated into your company's performance-linked compensation?
Choose as many as are applicable.

- a. Sales
- b. Operating profit/ Operating profit margin
- c. Ordinary profit/ Ordinary profit margin
- d. EBIT/EBITDA
- e. Net profit
- f. EPS
- g. ROE
- h. ROA
- i. ROIC
- j. Stock price (or total shareholder return)
- k. Other (Specify : _____)

【83】 How does your company calculate the amount of the performance-linked compensation paid to each officer? Choose one.

- a. Calculate the amount based on the achievement of the performance target established for each officer
- b. Set aside a portion of the profit for paying the performance-linked compensation, and share this portion among the officers
- c. Both of a and b

【84】 Is the performance-linked compensation that your company pays deductible for tax purposes?
a. Yes

【84 – 1】 What is the paying method your company adopts? Choose one.

- a. Additional annual salary or monthly compensation is paid in the next business year.
 - b. The compensation is paid based on a rule to pay a defined amount at specified times when officers have carried out their duties, as specified in item 2, paragraph (1), article 34 of the Corporation Tax Act.
 - c. The compensation is paid as performance-based remuneration (former profit-related remuneration) specified in item 3, paragraph (1), article 34 of the Corporation Tax Act.
- b. No

If your company has already introduced stock-based compensation (i.e., you drew a circle in ① of 【76】 for at least one type of stock-based compensation), answer 【85】 .

【85】 How is the stock-based compensation for executives who are non-residents? Choose one.

- a. The system is the same as the one applied to executives who are residents.
- b. The system is different from the one applied to executives who are residents.

【85 – 1】 What is the paying method your company adopts? Choose one.

- a. Additional monetary compensation is paid instead of stock-based compensation.
- b. Stock-based compensation that takes the form of cash payment (phantom stock, stock appreciation rights, etc.) is paid.
- c. Other (Specify : _____)
- c. There are no non-residents among the executives in the company.

For all respondents

【86】 How are your company's rules on trading of the company's own stock by executives? Choose as many as are applicable.

- a. Trading is prohibited during their tenure.
- b. Trading is prohibited even for a certain period of time (for example, a year) after their retirement from office.
- c. Trading is permitted with prior consent.
- d. Trading is permitted if it is in accordance with the contract or the plan concluded or formulated before the executive comes to know the relevant fact.

Questions and answers about the questions of this survey are posted on the website of the Japan Corporate Governance Research Institute (<https://jcgr.org/survey/>).

We plan to continue the JCGIndex Survey in 2022 and onward. We will contact you by e-mail when we conduct the next JCGIndex Survey. Fill in the information about the contact person below.

Division	
Name	
E-mail address	

Thank you very much for your participation in the JCGIndex Survey.