Provisional translation

Material 1

Guidelines for Investor and Company Engagement

(Draft)

Guidelines for Investor and Company Engagement

The Guidelines herein provide the agenda items for engagement between institutional investors and companies based on the Stewardship Code and the Corporate Governance Code, in recognition of the current corporate governance issues. Institutional investors and companies are expected to focus on these agenda items. Through constructive dialogue with institutional investors, companies are expected to achieve sustainable growth and increase corporate value over the mid- to long-term based on their own business principles, which will eventually lead to the growth of the Japanese economy as a whole and the stable asset growth of households.

Since corporate governance issues and company priorities are diverse, it is important to take each company's conditions into consideration during the dialogue.

1. Management Decisions in Response to Changes in the Management Environment

1-1. Are specific business strategies and business plans established and disclosed to achieve sustainable growth and increase corporate value over the mid- to long-term? Are these business strategies and business plans consistent with business principles?

1-2. Does management identify the capital costs of their companies appropriately? Does the management undertake their businesses with recognition of their capital costs by setting targets on profitability and capital efficiency to achieve sustainable growth and increase corporate value over the mid- to long-term? Do companies achieve returns which cover capital costs on a mid- to long-term basis?

1-3. Does the management understand the management environment and risks appropriately and make decisive management decision such as restructuring their business portfolio, including investment in new businesses and exit from or sale of existing businesses, based on business strategies and business plans? Is the policy on review of their business portfolio clearly established, and is such a review process effective?

2. Investment Strategy and Financial Management Policy

2-1. Is investment in fixed assets, R&D and human resources to achieve sustainable growth and increase corporate value over the mid- to long-term carried out strategically and systematically from the standpoint of obtaining returns which cover capital costs on a mid-to long- term basis?

2-2. Is financial management policy established and managed appropriately based on business strategies and investment strategies?

3. Appointment/Dismissal of CEO and Responsibilities of the Board

Appointment/Dismissal of the CEO, etc.

3-1. Does there exist an established policy on CEO qualifications in order to appoint a CEO who can make decisive management decisions to achieve sustainable growth and increase corporate value over the mid- to long-term?

3-2. Is the qualified CEO appointed through objective, timely and transparent procedures taking sufficient time and resources? In order to make these procedures effective, is an independent nomination committee actively involved?

3-3. Is the CEO succession plan appropriately established and operated, and are CEO candidates developed systematically with sufficient time and resources?

3-4. Are objective, timely and transparent procedures established so that CEOs can be dismissed when it is identified that the CEO does not fulfill responsibilities sufficiently based on appropriate evaluation of business performance, etc. of the companies?

Determination of Remuneration of the Management

3-5. Are procedures established for designing the management remuneration system so as to operate as a healthy incentive to achieve sustainable growth and increase corporate value over the mid- to long-term and determining actual remuneration amounts appropriately? In order to make these procedures effective, is an independent remuneration committee actively involved? Is the appropriateness of the management remuneration system and of the actual remuneration amount clearly explained?

Constitution of the Board of Directors, Appointment of Independent Directors, and Their Responsibilities

3-6. Is diversity of the board of directors fully ensured?
Is a sufficient number of qualified independent directors appointed who have knowledge of finance, including capital efficiency, and understanding of relevant laws and regulations, etc.?

3-7. Do independent directors recognize their roles and responsibilities, and provide advice and monitor management appropriately in response to business issues?

Appointment of Audit Committee Members and Their Responsibilities

3-8. Are qualified persons with appropriate knowledge, experience and skills appointed as *kansayaku*, Audit Committee Members, or Audit and Supervisory Committee Members (hereafter, collectively referred to as "Audit Committee Members")?

3-9. Do Audit Committee Members implement the business audit appropriately and act effectively to secure the proper accounting audit?

4. Cross-shareholdings

Examination of Cross-shareholdings

4-1. Do the companies clearly explain the purpose of each cross-shareholding in an understandable manner to their stakeholders?

Are decisions appropriately made on whether or not to hold the shares of individual companies as cross-shareholdings, by the board of directors and so on, considering whether benefits from such holdings cover their capital costs? Do the companies clearly explain the status of cross-shareholdings including changes of names of held companies?

Are appropriate standards with respect to the voting rights as to cross-shareholdings established and disclosed in an understandable manner? Are voting rights exercised appropriately in accordance with the established standards?

4-2. Do the companies clarify reduction policies of cross-shareholdings in disclosing their policies on cross-shareholding, and take appropriate actions in accordance with the policies?

Relations with Cross-shareholders

4-3. When cross-shareholders (shareholders who hold a company's share for the purpose of cross-shareholding) indicate their intention to sell the share, are there any cases in which the companies hinder sale of the cross-held shares by, for instance, implying possible reduction of business transactions?

4-4. Are there any cases in which companies engage in transactions with cross-shareholders which may harm the interests of the companies or common interests of their shareholders by, for instance, continuing transactions without carefully examining the underlying economic rationales?

5. Asset Owners

5-1. Do the companies, as pension funds sponsors, take measures in terms of human resources and operational practice such as recruitment or placement of qualified persons (including hiring outside experts), in order to enhance expertise of their corporate pension funds in investment management (including stewardship activities such as monitoring of asset managers) thus making them fulfill their responsibilities as asset owners?[*]

[*] During the dialogue, investors and companies need to be careful about whether conflicts of interest, which could arise between sponsoring companies and pension fund beneficiaries as a result of the measure, are appropriately managed.