

Pension Fund Association Guidelines for the Exercise of Shareholder Voting Rights

The Pension Fund Association shall exercise its shareholder voting rights according to the following guidelines.

1. Proposals on appointment of directors

- a Oppose a proposal to reappoint a director when shareholder value is clearly impaired by incurring losses and not paying dividends for the previous three consecutive years, including the current year, or by incurring an aggregate net loss for the previous five years.
- b Oppose a proposal to reappoint a director when the company's profitability as calculated by ROE has been significantly poor over a long term and there is no satisfactory explanation or action with respect to business plans and capital policies, including reasons and responses.
- c Oppose when a director is nominated for reappointment even though the company's business has been significantly impacted by misconduct, including illegal or antisocial activities, while employed at the company. The business impact of misconduct shall be determined based on comprehensive consideration of sales and earnings conditions, share price trends, public opinion, and the company's subsequent response.
- d Oppose a proposal to reappoint a director involved in other actions deemed to impair shareholder value.

2. Proposals on appointment of corporate auditors

- a Oppose when a corporate auditor is nominated for reappointment even though the company's business has been significantly impacted by misconduct, including illegal or antisocial activities, while employed at the company. The business impact of misconduct shall be determined based on comprehensive consideration of sales and earnings conditions, share price trends, public opinion, and the company's subsequent response.
- b Outside corporate auditor candidates must, in principle, be independent. However, this does not apply when the independence of the overall board of corporate auditors is considered guaranteed.
- c Oppose outside corporate auditor candidates who do not attend enough meetings of the board of directors and the board of corporate auditors and do not provide a clear explanation of the reasons for nonattendance.

3. Proposals on executive remuneration

(1) Revision of executive remuneration amounts

- a Decrease is appropriate when shareholder value is clearly impaired by incurring losses and not paying dividends for the previous three consecutive years, including the current year, or by incurring an aggregate net loss for the previous five years.
- b Should provide adequate explanation of reasons when raising the remuneration amount.

(2) Payment of retirement bonuses to executives

- 1) Payment of retirement bonuses to retiring directors
 - a Oppose payment of retirement bonuses to outside directors.
 - b Oppose when the resignation or retirement is related to misconduct, including illegal and antisocial activity, while employed.
 - c Oppose when shareholder value is clearly impaired by incurring losses and not paying dividends for three consecutive years, including the current year, or by incurring an aggregate net loss for the past five years.
- 2) Payment of retirement bonuses to retiring corporate auditors
 - a Oppose payment of retirement bonuses to outside corporate auditors.
 - b Oppose when the resignation or retirement is related to misconduct, including illegal and antisocial activity, while employed.

(3) Granting of stock options

- a Oppose when shareholder value could be affected by large dilution of stock value (potential dilution ratio exceeding 5% of shares outstanding).
- b Oppose when scope of recipients includes parties (corporate auditors, business partners, etc.) likely to have little concern with improving business performance.

4. Proposals related to capital policies

(1) Share buybacks (setting of repurchase limit)

- a Approve, in principle.

(2) Distribution of retained earnings

- a Distribution of profits to shareholders (including dividends and share buybacks) should strike a balance with future business plans, financial stability, employee compensation, executive remuneration, and other factors.

(3) Approval of merger agreement

- a Should provide an adequate explanation about the impact on shareholder value.

(4) Business transfer or receipt

- a Should provide an adequate explanation about the impact on shareholder value.

(5) Approval of corporate spin-off plan or agreement

- a Should provide an adequate explanation about the impact on shareholder value.

(6) Capital increase through private placement of new shares

- a Oppose when a satisfactory explanation of why the capital increase is required and how it will raise shareholder value is not provided.
- b Consider individually if the capital increase is part of the restructuring of a company whose financial conditions have deteriorated significantly.

5. Proposals on appointment of accounting auditors

- a Oppose when a satisfactory explanation of the auditor's independence and qualifications is not provided.
- b Examine all proposals carefully when an auditor is not reappointed due to a conflict with the company over accounting policies.

- c Should provide a satisfactory explanation of the need to limit the liability of accounting auditors.

6. Changes to the articles of incorporation

(1) Increase in authorized shares

- a Oppose when there are concerns about large dilution in the holdings of existing shareholders and when a satisfactory explanation of the need is not provided.

(2) Term of office for directors

- a Approve shorter terms for directors.
- b Oppose longer terms for directors.

(3) Body for deciding distribution of retained earnings

- a Whether the board of directors is the body responsible for deciding on the distribution of retained earnings shall be considered individually.

(4) Measures for easing quorum requirements for special resolutions (e.g., resolutions for amending the articles of incorporation)

- a Oppose when a specific explanation about the reasons for the change is not provided.

7. Shareholder proposals

- a Consider individually, in principle. The basic guideline is whether the shareholder proposal will contribute to increasing shareholder value over the long term. However, oppose when the proposal is considered to be a means for resolving specific social or political issues.

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