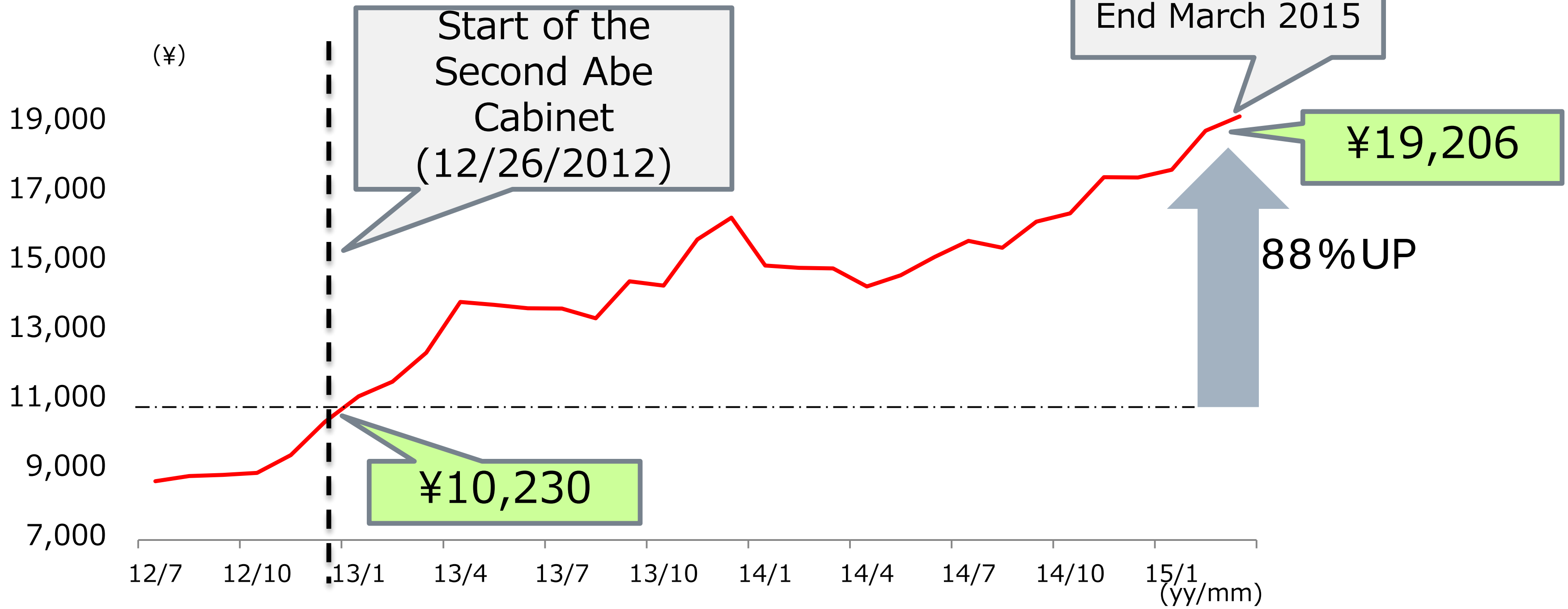
Improving Corporate Value and Corporate Governance Reforms

September 2015

Tokyo Stock Exchange, Inc.

Inauguration of the Second Abe Cabinet and Rise in Stock Price

Nikkei Stock Average



Buying by overseas investors amounted to 15 trillion JPY in 2013 and 850 billion JPY in 2014

Three Arrows of "Abenomics"

First Arrow
Aggressive Monetary Easing

Second Arrow
Massive Fiscal Stimulus

Not unlimited

Third Arrow
Growth Strategy that Spurs Private Investment

Key to recovery of Japanese economy

(Reference) Japan Revitalization Strategy ～JAPAN is BACK～

○ Announced in June 2013 (extract)

* Revised in June 2014 (covered later)

2． Roadmap to Growth

(1) Unleashing the power of the private sector to the fullest extent

The private sector holds the key to strengthening the competitiveness of industries.

To ensure that the expectations for the exit from deflation created by the “first arrow” and “second arrow” do not end up being temporary, the vast quantities of funds which lie idle in companies must be directed towards investments that generate future values.

(Omitted)

In addition, to ensure that shareholders and other stakeholders proactively support the forward-looking initiatives by company managers, corporate governance will be reviewed so that Japanese companies will excel in international competition.

3. Reviewing corporate governance and examining the use of public funds, etc.

(i) Amend the Companies Act and promote the installation of external directors who can supervise from an outsider’s perspective without being bound to company constraints or interests.

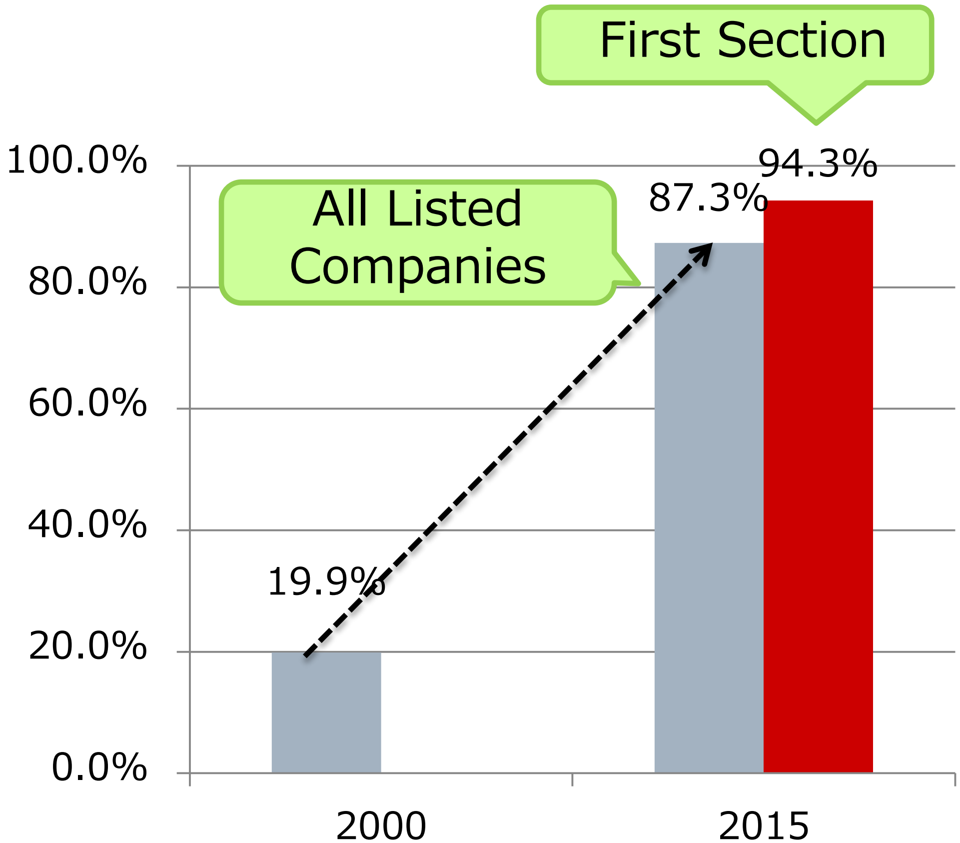
(Submit to Diet during next session)

(ii) Consider and compile principles (Japanese version of the Stewardship code) for institutional investors to fulfill their fiduciary responsibilities, such as promoting the mid- to long-term growth of companies through dialogues.

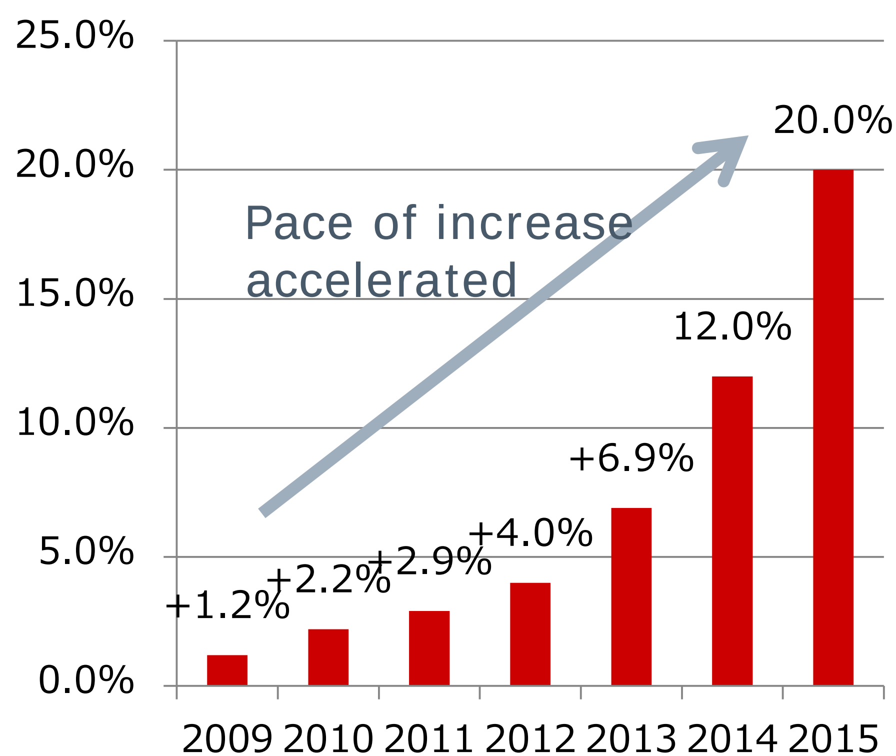
(Compile by end of the year)

Changes in the Election of Outside Directors

Percentage of Companies that Have Outside Directors



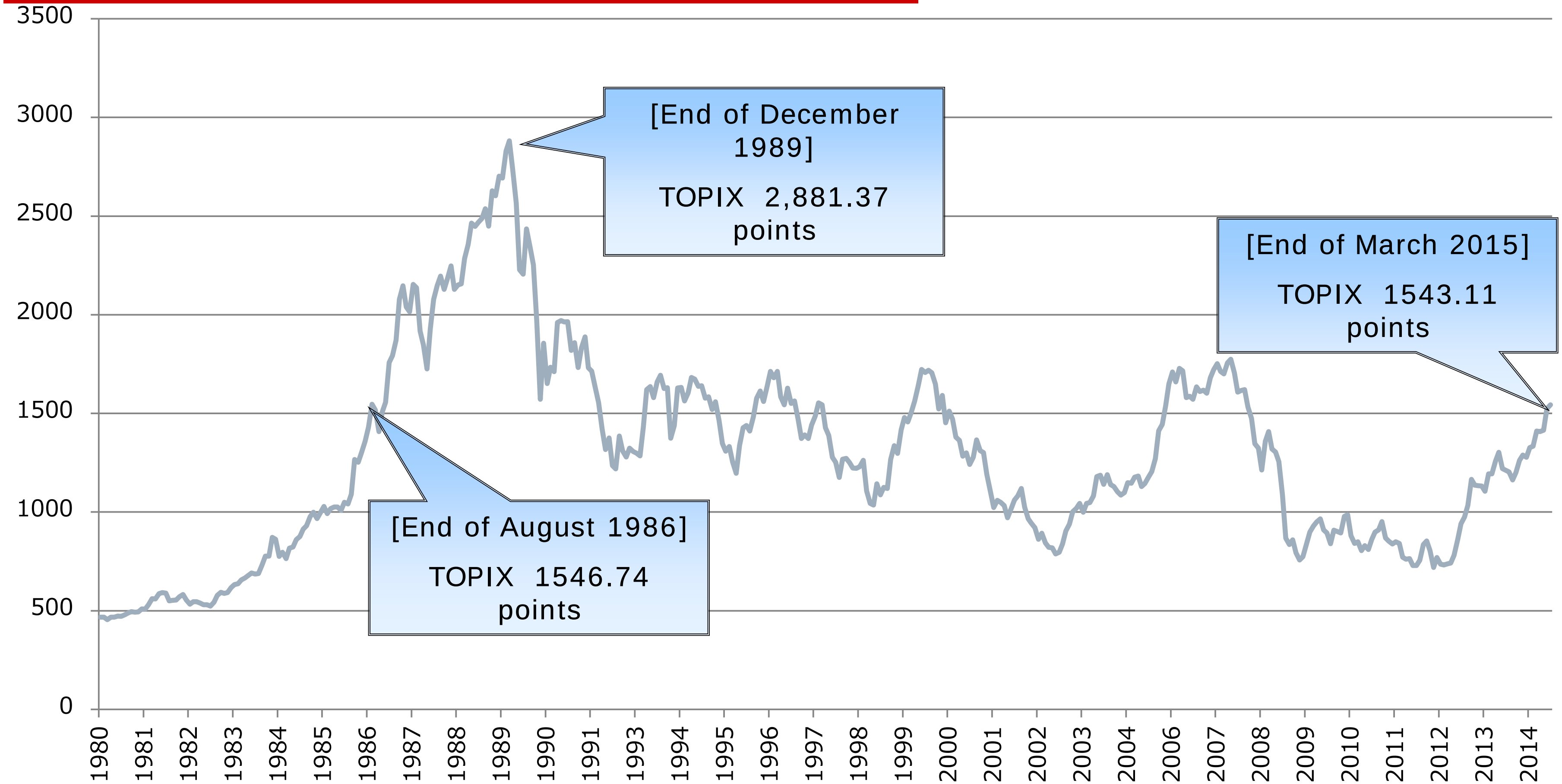
Increase on Previous Year (First Section)



Governance Reforms behind Improvements

2004	Principles of Corporate Governance for Listed Companies
2006	Introduction of corporate governance report ✓ Made it easy to compare governance information between listed companies
2007	Introduced Code of Corporate Conduct
2009	Reviewed listing rules for securing the independent director(s)/auditor(s)
2012	Composition of independent directors/auditors ✓ Revised in response to corporate scandals
2014	Formulated Japan's Stewardship Code (Financial Services Agency)
	Reviewed Securities Listing Regulations ✓ Shall strive to have at least one independent director on the board of directors
	Bill passed to revise part of the Companies Act (Diet) ✓ Requirement to explain reasons why appointing outside directors in not appropriate
2015	Introduction of Corporate Governance Code

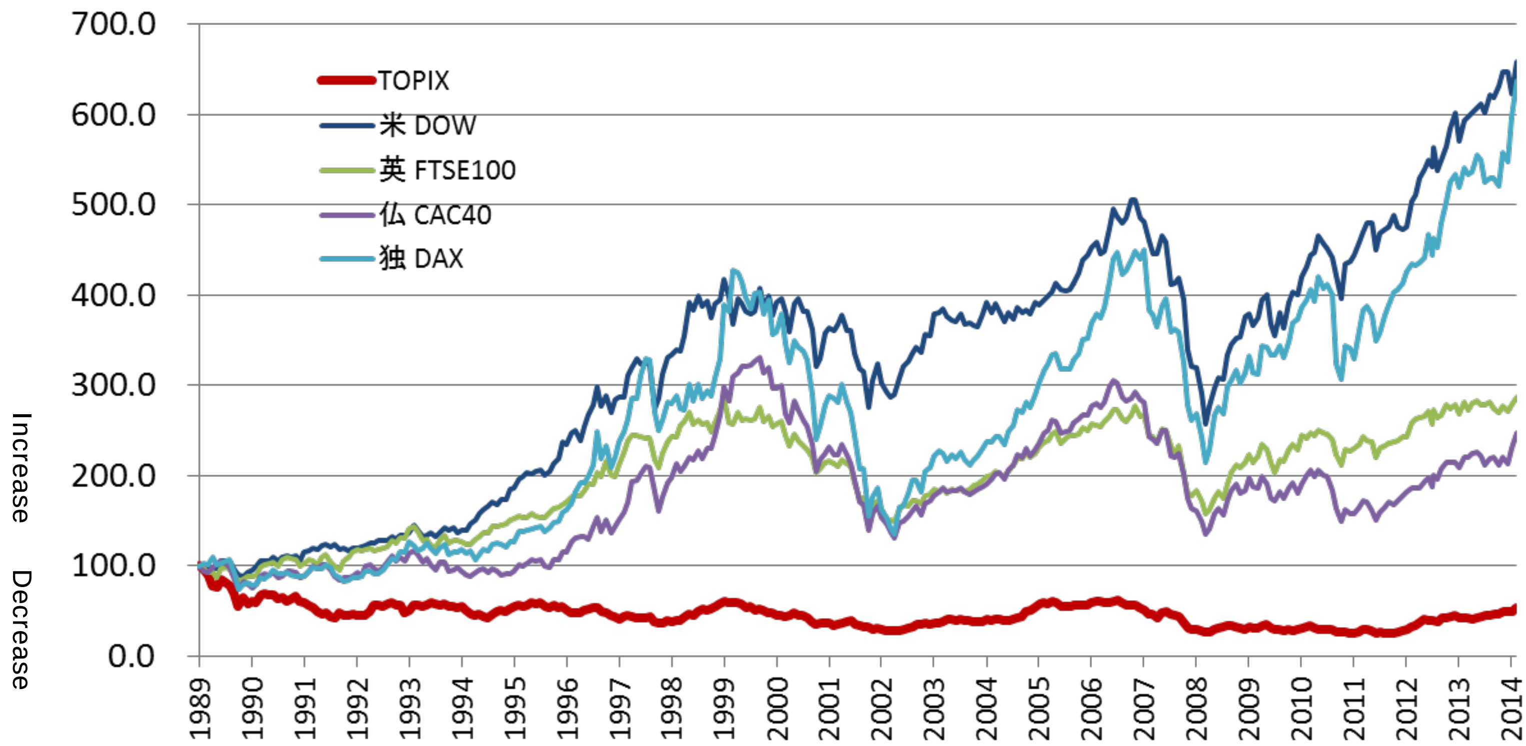
Changes in the Tokyo Stock Price



(Source) Tokyo Stock Exchange, Inc.

Stock Price Changes in Other Countries

- Only Japan shows stagnant stock price (calculated in USD. Index as of the end of 1989 is set to 100)



(Source) Bloomberg

ROE by Country

	2011	2012	2013	2014
Japan (TOPIX)	3.3	5.7	8.5	8.5
USA (S＆P500)	15.0	13.6	15.3	15.1
UK (FTSE 100)	16.0	9.4	12.6	15.7
China (SSE Composite)	15.3	13.9	14.0	13.7
World Average (MSCI World)	11.7	10.6	12.1	12.4

(Data Source: Bloomberg)

Initiatives to Promote Highly Independent Directors

- **Ensuring a high level of independence**
  - Independent Directors/Auditors: listing rules that requires the securing of outside directors/auditors are highly independent, fulfilling criteria prescribed by TSE
  - Individuals from major clients may be appointed as outside directors but may not become independent directors (do not meet independence criteria prescribed by TSE)
  - Must disclose description of relationship when appointing individuals with a business relationship, even if the relationship is not major
- **Obligation to strive to appoint independent directors**
  - Introduced obligation to strive to appoint independent director(s) in accordance with the additional resolution to the outline of revisions to the Companies Act by the Legislative Council
  - TSE Securities Listing Regulations that provide that listed companies shall strive to have at least one independent director on the board of directors
  - “Comply or explain”: obligation to explain why appointing an outside director is not appropriate was introduced following amendments to the Companies Act
- **Introduction of Corporate Governance Code**
  - Applied a principle stating that listed companies should appoint 2 or more independent outside directors
  - If companies listed on the First Section or the Second Section do not comply with this principle, then they must explain their reasoning (“comply or explain”)

Japan Revitalization Strategy – Revised in 2014

II. Three Action Plans

I. Industry Revitalization Plan

1. Accelerating structural reform program (Vitalizing industries)

(3) Specific new measures to be taken

1) Drafting the Corporate Governance Code, etc.
Corporate governance is the system which supports companies making timely entrepreneurial decisions with transparency and integrity and with due regards to the views of shareholders as well as customers, employees, local communities and other stakeholders. Principles outlining key elements of good governance should help companies' initiatives towards sustainable growth of their corporate values and would thereby contribute to the prosperity of the companies themselves, investors and, ultimately, the whole economy.
The "Corporate Governance Code" will be drafted, specifying the principles of corporate governance to be applied by listed companies. The Code will be drafted by referring to, among other rules, the Tokyo Stock Exchange's existing rules and guidelines regarding corporate governance, and the OECD Principles of Corporate Governance. The Code will, while reflecting the circumstances of Japanese companies, aim to attain international reputation. To that end, <u>a council of experts of which the Tokyo Stock Exchange and the Financial Services Agency will jointly act as a secretariat, will aim to prepare key elements of the Code by around this autumn so that the Tokyo Stock Exchange can newly draft the Code in time for the next year's season of general shareholders' meetings</u>. Effectiveness of the new Code <u>shall be ensured through "comply or explain" approach. The listing rules of Tokyo Stock Exchange will require listed companies to either comply</u> with the principles contained in the Code or <u>explain</u> the reason why they did not comply with such principles.

OECD Principles of Corporate Governance

- Drafted in 1999, revised in 2004
- Outline

○ The Rights of Shareholders and key Ownership Functions

Protection of the rights of shareholders

Facilitation of the exercise of shareholders' rights

○ The Equitable Treatment of Shareholders

Ensuring the equitable treatment of all shareholders (including minority and foreign shareholders)

Effective redress for violations of shareholders' rights

○ The Role of Stakeholders in Corporate Governance

Respect of the rights of stakeholders other than shareholders

Encouragement of active co-operation between corporations and stakeholders

○ Disclosure and Transparency

Ensuring that timely and accurate disclosure is made on all material matters* regarding the corporation

*Financial situation, performance, ownership, foreseeable risk factors, etc.

○ The Responsibilities of the Board

Strategic guidance of the company

Effective monitoring of management

Accountability to the company and the shareholders

(Extract from materials used at First Meeting of the Council of Experts Concerning the Corporate Governance Code)

Corporate Governance Code in Other Countries

		Japan	UK	Germany	France	US
Principle-based and "Comply or Explain" style corporate governance codes		—	○	○	○	Rule-based CG approach (SOX Act, SEC Regulations, Listing rules)
	Regulations that require "Comply or Explain"	—*	Listing Rules	Stock Corporation Act	Commercial Code	
Ref.	Stewardship Code	○	○	—	—	—

*Under the Revised Companies Act of June 2014, a "Comply or Explain" approach has been taken that requires listed companies, etc. that do not have outside directors to "explain the reason why it is not suitable for their company to have outside directors."

(Extract from materials used at First Meeting of the Council of Experts Concerning the Corporate Governance Code)

Drafting Process

Government

Japan Revitalization Strategy
Revised 2014 (June 2014)

FSA & TSE

Council of Experts
(From August 2014)

Final Proposal for Code
(March 2015)

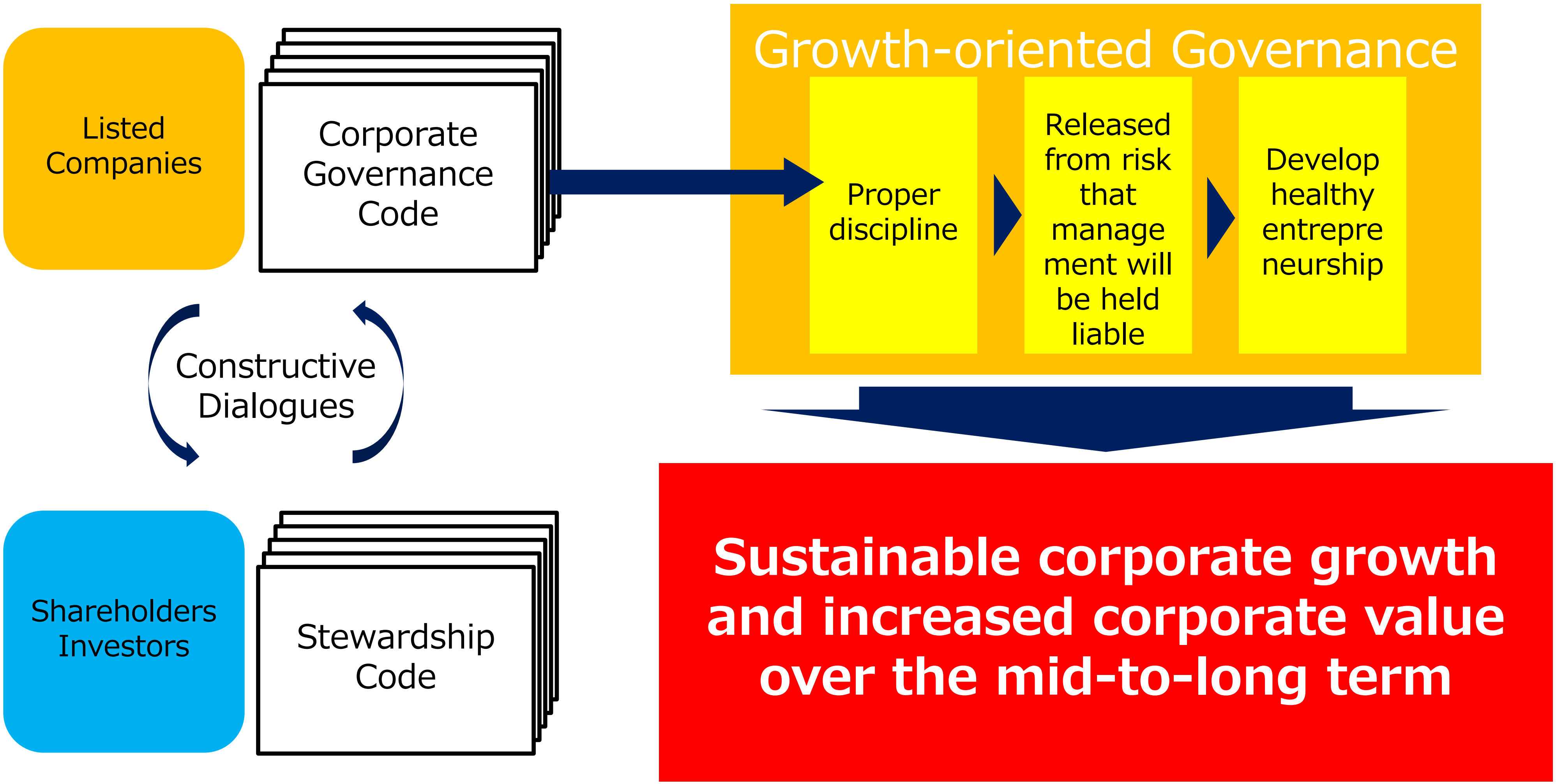
TSE

Advisory Group on Listing System Improvement (From December 2014)

Outline of Development of Listing Rules
(February 2015)

Code becomes effective
(June 2015)

Outline of Corporate Governance Code



Outline of Corporate Governance Code

- Three Tier Structure

General Principles	Universal principles and aims prepared based on the OECD Corporate Governance Principles (5 Principles)	73 Principles
Principles	Organize “general Principles” into each component, and state specific measures to achieve such principle and aim (30 Principles)	
Supplementary Principles	Supplement “Principles” and state specific measures to achieve the principle and aim of “General Principles” (38 Principles)	

- Principles-Based Approach
  - NOT a familiar rules-based approach
  - Abstract norms (principles) cited
  - Specific decisions on how to respond are autonomous
- Comply or Explain
  - If any principles are not complied with, explain the reasons

Development of Listings Rules for the Implementation of the Code

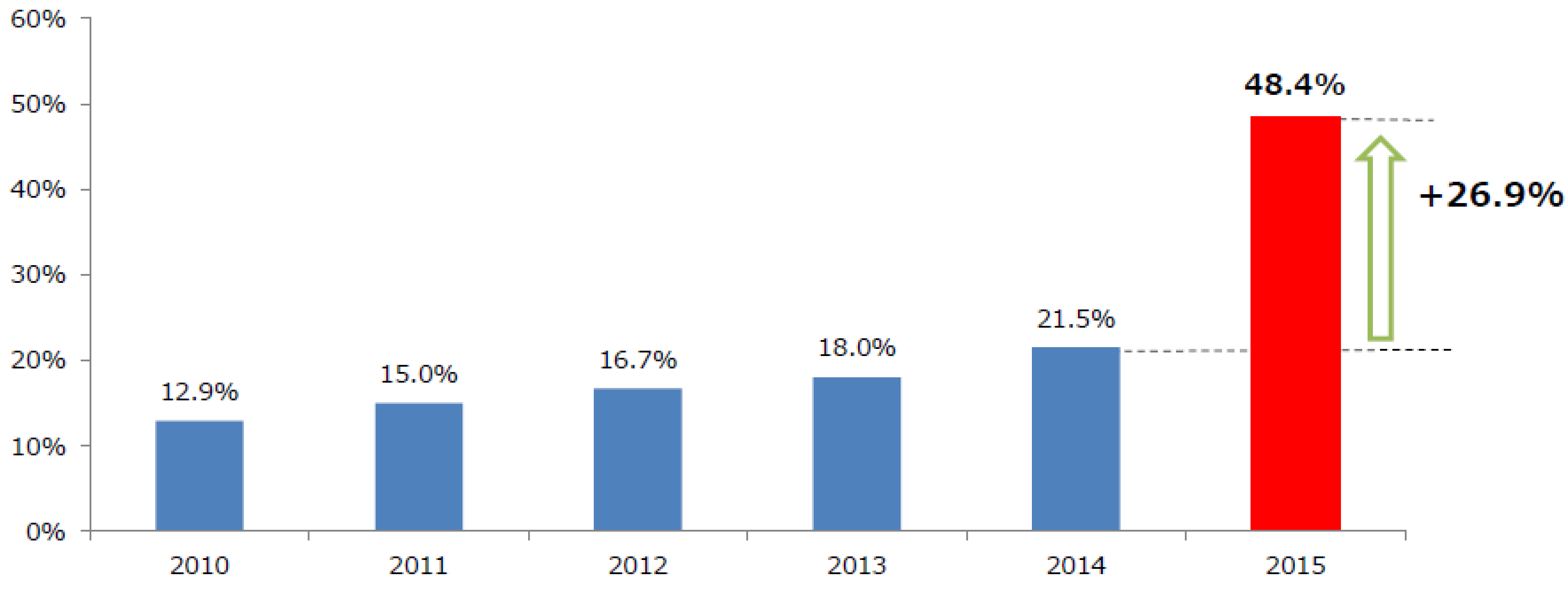
- Establish Code
  - Adopt from June 1

- Explain reasons for non-compliance with the Code
  - Introduction of "comply or explain" framework
  - Companies listed in First Section or Second Section: subject to all 73 principles
  - Companies listed on Mothers or JASDAQ: only subject to 5 general principles

- Abolish "Principles of Corporate Governance for Listed Companies"
  - Replace with a provision on respecting the spirit and intent of the Code

Appointment of two or more independent directors

[Ratio of 1st Section Companies with two or more Independent Directors]



* Figures for years prior to 2015 are based on corporate governance reports. The figures for 2015 are based on corporate governance reports submitted by listed companies as of July 14, 2015.

Next steps

August 7, 2015
Financial Services Agency
Tokyo Stock Exchange, Inc.

Establishment of "Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code"

1. Purpose

The Japan Revitalization Strategy as revised in 2015 (Cabinet Decision, June 30, 2015) states that "we need to work actively to prevail and to promote the adoption of Japan's Stewardship Code, established and released in February 2014 ("JSC"), and Japan's Corporate Governance Code, which entered into force in June 2015 ("JCGC"), as 'the two wheels of a cart' such that the sustainable growth of companies will be promoted by both sides of investors and companies.

Further improvements of corporate governance, e.g., making governance function not only formally, but also effectively, continue to be a major agenda, and we need to link such efforts to the establishment of a virtuous economic cycle.

Appendix

Appendix

Number of outside/independent directors

	Number of Companies	Directors	Outside Directors							Independent Directors						
		Average	Average	None	1 person	2 persons	3 or more persons	1/3 or more	1/2 or more	Average	None	1 person	2 persons	3 or more persons	1/3 or more	1/2 or more
1st Section	1,887	8.94	2.00	108	664	719	396	352	101	1.79	246	728	676	237	230	51
				5.7%	35.2%	38.1%	21.0%	18.7%	5.4%		13.0%	38.6%	35.8%	12.6%	12.2%	2.7%
2nd Section	551	7.15	1.58	75	268	166	42	101	18	1.34	185	258	95	13	38	3
				13.6%	48.6%	30.1%	7.6%	18.3%	3.3%		33.6%	46.8%	17.2%	2.4%	6.9%	0.5%
Mothers	212	5.45	1.70	41	95	48	28	68	23	1.27	86	99	21	6	22	1
				19.3%	44.8%	22.6%	13.2%	32.1%	10.8%		40.6%	46.7%	9.9%	2.8%	10.4%	0.5%
JASDAQ	824	6.39	1.52	216	408	128	72	124	33	1.26	407	332	70	15	37	5
				26.2%	49.5%	15.5%	8.7%	15.0%	4.0%		49.4%	40.3%	8.5%	1.8%	4.5%	0.6%
Total	3,474	7.84	1.82	440	1,435	1,061	538	645	175	1.61	924	1,417	862	271	327	60
				12.7%	41.3%	30.5%	15.5%	18.6%	5.0%		26.6%	40.8%	24.8%	7.8%	9.4%	1.7%
JPX-Nikkei 400	399	10.50	2.60	11	69	164	155	105	37	2.36	26	83	167	123	87	24
				2.8%	17.3%	41.1%	38.8%	26.3%	9.3%		6.5%	20.8%	41.9%	30.8%	21.8%	6.0%

* Average numbers are averages for companies that appoint outside directors and those that appoint independent directors.
* Percentages in lower rows are the ratios to the number of companies in each section.

General principles of the Corporate Governance Code

Appendix

Securing the Rights and Equal Treatment of Shareholders

1. Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.

   In addition, companies should secure effective equal treatment of shareholders.

   Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

Appropriate Cooperation with Stakeholders Other Than Shareholders

2. Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.

   The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

Ensuring Appropriate Information Disclosure and Transparency

3. Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk, and governance.

   The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

Responsibilities of the Board

4. Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid- to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

   (1) Setting the broad direction of corporate strategy;
   (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
   (3) Carrying out effective oversight of directors and the management (including *shikkoyaku* and so-called *shikkoyakuin*) from an independent and objective standpoint.

   Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with *Kansayaku* Board (where a part of these roles and responsibilities are performed by *kansayaku* and the *kansayaku* board), Company with Three Committees (Nomination, Audit and Remuneration), or Company with Supervisory Committee.

Dialogue with Shareholders

5. In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.

   During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.