(Rough translation of measures in the revised growth strategy related to corporate governance.)

p. 4

II. Key Policy Measures in the Revised [Growth] Strategy

1. Restoring Japan's Earning Power

(1) **Companies Will Change**

(Improving productivity)

Japanese companies have lower productivity than their Western counterparts. Particularly, the productivity of the nonmanufacturing sector including the services industry is seriously low, dragging down the Japanese economy. Many globally operating industries and companies are struggling due to their failure to quickly respond to market environment changes. While Japanese companies' earnings are recovering thanks to improvements in the macroeconomic environment after the inauguration of the Abe administration, they still have lower productivity than their global rivals. In order to raise productivity in all industries including services and win amid severe international competition, Japanese companies must achieve global-level earnings and productivity through carrying out business selection and concentration through bold business realignment, exploring promising new businesses, promoting overseas expansion and management reform by using information technology. A critical stage has come for companies to improve their earning power.

(Enhancing corporate governance)

What should be done to increase Japanese companies' earning power, in other words, medium to long-term profitability and productivity and to pass the fruits of such increase on to the people (households) evenly? First, it is important to strengthen the mechanism to enhance corporate governance and reform corporate managers' mindset so that they will make proactive business decisions to win in global competition for the purpose of attaining targets including globally-compatible level in return on equity. Particularly, companies that have achieved the highest earnings in several years should be encouraged to proactively use their earnings for new capital investment, bold business realignment, mergers and acquisitions, and other deals, instead of accumulating internal reserves.

In response to last year's Growth Strategy, investors and companies have launched efforts to deepen their talks towards sustainably improving profitability and capital efficiency and enhancing corporate governance through the creation of a

1-30-20 Kaminoge, Setagaya-ku, Tokyo, Japan 158-0093
tel: 81-3-6432-2337 fax: 81-3-6432-2338 email: info@bdti.or.jp http://bdti.or.jp

Japanese-version Stewardship Code, revision of the Companies Act to impose accountability on companies having no outside directors, and discussions on desirable investment of public and quasi-public funds. Under such circumstances, institutional investors have offered to participate in the Stewardship Code one after another. Companies have introduced outside directors one after another. Early this year, the JPX Nikkei Index 400 was launched as a new stock index covering companies that have higher profitability and are highly attractive for investors. Positive developments towards improving "earning power" are gaining momentum.

The time has come to further advance the environment for companies' demonstration of corporate governance and implement specific measures to improve companies' “earning power”. Based on the efforts so far, companies must link their proactive utilization of outside directors to the evolution of their business strategies, specify what values they would create in the long term and how they would enhance their earning capacity to win in global competition, and activate their communication with investors.
At the same time, banks, institutional investors and other financial players must maintain healthy tension with companies and play positive roles in creating values in the long term and improving their "earning power." Among them, banks and trading houses must promote the return-oriented provision of risk capital and finance, including contributions to private-sector equity and mezzanine finance investment through funds, and offer good judgments and advice with a view towards supporting companies' business restructuring. Institutional investors, including those managing public and quasi-public funds, are called on to appropriately manage their investment portfolios and proactively perform their governance functions as investors.

Such series of initiatives will allow corporate earnings to expand further, bringing about a true virtuous cycle where the fruits of the breakaway from deflation will be returned finally to the people through various channels including increases in employment opportunities, wages and dividends.

p. 30

(3) New Specific Measures To Be Taken

Based on our efforts so far, new opportunities have arisen for companies to take on new challenges - to create new businesses, or to increase profitability and productivity. We will enhance measures and add new methods going beyond past policies, in order to further encourage this sort of stance by companies.

i) **Enhancing Corporate Governance, Promoting the Provision of Risk Capital, and Enhancing Investment Chains**

In order to increase corporate profitability by improving productivity, and to link that to wage hikes, reinvestment, shareholder returns, and other key aspects, it is important to enhance corporate governance, focusing most of all on global companies and making

1-30-20 Kaminoge, Setagaya-ku, Tokyo, Japan 158-0093
tel: 81-3-6432-2337 fax: 81-3-6432-2338 email: info@bdti.or.jp http://bdti.or.jp

them aware of their cost of capital, thus leading to sustainable increases in enterprise value.

To achieve this, comprehensive efforts need to be made to increase profitability and productivity, based on bold efforts by corporations and advancement by various investors of the "investment chain" --, the flow of returns eventually passing on to households, --together with support by the financial institutions that are the providers of funds, in order to enhance borrowers' performance, strength, and sustainability.

The "virtuous cycle" of the economy needs to be strengthened, by returning the fruits of economic growth from these efforts via the expansion of employment opportunities, wage hikes, capital investment, and higher shareholder returns.

① **Drafting the Corporate Governance Code, and Other Measures**

Corporate governance is the system by which corporations conduct transparent, fair, prompt and bold decision-making, taking into due consideration the viewpoints of shareholders, customers, employees and communities. Summarizing the fundamental concepts of corporate governance in the format of a collection of principles is considered beneficial for corporations, investors and the Japanese economy as a whole because it will promote autonomous actions to sustainably increase corporate value.

From this standpoint, there shall be drafted a Corporate Governance Code, which sets forth corporate governance principles for publicly-traded companies. The Code will be drafted based on the Tokyo Stock Exchange's existing rules and guidance concerning corporate governance, and on the OECD Principles of Corporate Governance, consistent with the actual circumstances of Japanese companies, and shall be a Code that is internationally well-regarded. To this end, basic principles shall be formulated by a committee of experts coordinated by a joint secretariat office composed of representatives from the TSE and the Financial Services Agency by approximately this fall. Then, we will assist the TSE in drafting the Corporate Governance Code in time for the shareholder meeting (AGM) season at the end of this fiscal year. The Code shall require public companies to "comply or explain" with listing rules of the TSE.

Also, the status of how voting rights with respect to cross-shareholdings are exercised shall be considered, and we will seek to secure [more] concrete disclosure and explanations of the purpose for holding "policy shareholdings". Moreover, listed banks and holding companies of listed banks shall be encouraged to have at least one, and preferably several, outside independent directors. Subsidiary banks which are 100 % owned by holding companies of listed banks should also be encouraged to introduce outside independent directors.

….

1-30-20 Kaminoge, Setagaya-ku, Tokyo, Japan 158-0093
tel: 81-3-6432-2337 fax: 81-3-6432-2338 email: info@bdti.or.jp http://bdti.or.jp