

Jun. 2015

"Japan Revitalization Strategy"

*Main Achievements to Date
and Further Reforms*

Enhance Corporate Governance

Transform managerial mindset for higher business performance

Government initiatives to date

- ❑ Formulated **Japan's Stewardship Code** requiring institutional investors to promote sustainable growth of companies through investment and dialogue
 - **A total of 184 institutional investors**, including the Government Pension Investment Fund (GPIF), have expressed acceptance of the code (as of end of Feb. 2015)
- ❑ Revised the Companies Act to encourage introduction of outside directors [Established in Jun. 2014]
- ❑ Created systems that encourage business restructuring through tax benefits
 - Industry Competitiveness Enhancement Act came into force in Jan. 2014

Examples of Private Sector Action

- ❑ Significant increase in companies appointing outside directors
 - ✓ Proportion of listed companies with independent outside directors (1st section of the TSE): 2013: 47% → 2014: **61%**
 - ✓ Companies appointing outside directors for the first time included Toyota Motor, Canon, Toray, and Nippon Steel & Sumitomo Metal
- ❑ Japan Exchange Group and the Nikkei established (Jan. 2014) "**JPX Nikkei Index 400**," a new index comprising companies attractive to investors.
- ❑ Major business restructurings utilizing the Industry Competitiveness Enhancement Act

✓ Mitsubishi Hitachi Power Systems (Established in Feb. 2014) : Division and integration of the thermal power plant businesses of Mitsubishi Heavy Industries and Hitachi. Net sales to reach approximately 1.2 trillion

Further Government Reforms

NEW!

- ❑ Draft Japan's **Corporate Governance Code**
 - Publication of Japan's Corporate Governance Code (took effect since Jun. 2015)
 - Promoting the exercise of healthy entrepreneurship and seeking to secure "growth-oriented governance" to enhance earnings power and capital efficiency
- ❑ Enhancing financial institutions' functions for supporting businesses



Strengths:
Small and mid-sized gas turbines
Sales channels in Europe and Africa



Strengths:
Large gas turbines
Sales channels in Southeast Asia and the Middle East

Revitalize Private Sector Investment

Create a world-leading business environment

Government initiatives to date

- ❑ Introduced tax reductions of **JPY 1 trillion** for capital investment and the like
- ❑ Abolished special corporate tax for reconstruction from Great East Japan Earthquake one year ahead of schedule [Effective corporate tax rate lowered by 2.4%pt in Apr. 2014]

Examples of Private Sector Action

- ❑ Recovery in capital expenditure levels
 - ✓ FY2013: **JPY 68.1 trillion** (+4.9% YoY)
 - ✓ FY2014: **JPY 68.6 trillion** (+0.8% YoY) [target value: JPY 70 trillion in FY2015]
- ❑ About **120,000 applications** filed for capital investment tax reductions during 2014 Jan.-Dec. period
- ❑ Private companies have renovated and expanded domestic plants

Komatsu:

Awazu Assembly Plant completed May 2014

Renovation of domestic construction machine plant, including 90% reduction in power purchase, and doubling of area productivity.



Toshiba:

No. 5 Fabrication Facility at Yokkaichi Operations completed summer 2014

Doubling of domestic investment in the semiconductor field to JPY 200 billion during FY2014 to facilitate mass production of a new type of memory for smartphones.



Further Government Reforms

NEW!

- ❑ **Pro-growth corporate tax reform** will be initiated.
 - Reduce the percentage level of effective corporate tax rate **down to the twenties in several years**
 - The effective corporate tax rate was lowered by 2.51% from Apr. 2015.
 - The alternative revenue sources will be secured.

Labor Market Reform

Allow flexible and diverse work styles that meet the needs of workers

Government initiatives to date

- ❑ Achieve fundamental policy change from excessive employment stability to labor fluidity

(e.g.)

Employment Adjustment Fund	¥117.5bn (FY13)	¥54.5bn (FY14)
Labor Movement Support Fund	¥0.2bn (FY13)	¥30.1bn (FY14)



Scale of funds to be reversed in FY2015

- ❑ Spread and promoted model cases of 'diversified regular employment'

Examples of Private Sector Action

- ❑ Rare briskness in the labor market in recent years
 - ✓ Jobs-to-applicants rate: 1.17x (Apr. 2015)
 - ✓ Unemployment rate: 3.3% (Apr. 2015)
 - ✓ Wage increase rate:
 - Average monthly amount +2% or more (**highest in 15 years**)
 - Summer bonus +3.1% (**highest in 23 years**)
- ❑ More companies introducing system of 'diversified regular employment'
 - ✓ Fast Retailing (UNIQLO): Introduced "local regular employee" system allowing shorter working hours close to home (Approx. 16,000 part-time workers to be made regular employees).



Further Government Reforms

NEW!

- ❑ Flex-time system: Ensure that temporary reduction in hours worked does not result in decreased payment by taking a paid leave
- ❑ Discretionary Working System: Revise labor coverage and the formal process
- ❑ Develop a new system based on evaluation of work rather than working hours
 - * This system will apply for those who satisfy fixed annual income conditions (for example, no less than 10 million yen annually), have clearly defined responsibility and possess high skill levels
- ❑ Developing a highly foreseeable system to resolve labor conflicts which is globally accepted

Revisions to the working hours system

Promote an Active Role for Women in the Workplace

Enhance women on stage, mother-friendly working environment

Government initiatives to date

- ❑ Secured **childcare services for another 0.4 million children** by the end of FY2017
 - “Zero Childcare Waiting-list Project” formulated in April 2013
 - Number of childcare arrangements will have increased for another 0.19 million children by the end of FY2014.
- ❑ Increased childcare leave benefits: **2/3 of base salary prior to leave** (Before, 1/2 of base salary prior to leave)
 - Legislation came into force in April 2014
- ❑ ‘Website visualizing women in executive and management positions’ was launched.
 - Data from 1,232 companies (**around 30% of listed companies**) listed on Cabinet website

Examples of Private Sector Action

- ❑ Increased number of female employees
 - **Number of female employees has increased by 0.78 million** since the start of the Abe administration (26.53mil. (Dec. 2012)→ 27.31mil. (Apr. 2015))
- ❑ Increased number of female executives
 - Proportion of women in managerial positions: 6.9% (Jun. 2012) → **8.3%** (Jun. 2014)

First female president in the banking industry



Nomura Trust & Banking
Chie Shimpo, President
(Appointed April 2014)

The bank's first female executive officer



Mizuho Bank
Atsumi Arima,
Executive Officer
(Appointed April 2014)

The bank's first female executive officer



Sumitomo Mitsui Banking
Teiko Kudo,
Executive Officer
(Appointed April 2014)

The company's first female director



Honda Motor
Hideko Kunii, Outside
Director
(Appointed June 2014)

Further Government Reforms

NEW!

- ❑ **Secure after-school care services for another 0.3 million elementary school kids** to meet needs by the end of FY2019.
- ❑ Allow **foreign home support staff** in National Strategic Special Zones
- ❑ Oblige companies to specify the proportion of women in executive posts in Annual Securities Report
 - Due to come into force in Mar. 2015

Stimulate Innovation through Science Technology

Speed up commercialization of innovative technology

Government initiatives to date

- ❑ Enhanced **the administrative power** of the Council for Science and Technology Policy (authority to review science and technology budgets).
 - Revised Cabinet Office Establishment Act came into force in May 2014
- ❑ Established cross-ministerial Strategic Innovation Program (**SIP**), and high risk, high impact research and development (Impulsing PARadigm Change through disruptive Technologies Program (**ImPACT**))
 - Allocations for each in FY14 budget (¥ 50.0bil.) and FY13 supplementary budget (¥ 55.0bil.)

Examples of Private Sector Action

- ❑ Selection of 12 program managers to promote innovative themes of ImPACT (Jun. 2014)

- Dr. Masashi Sahashi at Tohoku University;
Developed advanced magnetic memory chip

If put to practical use...

Reduce power consumption of a smartphone by 99%

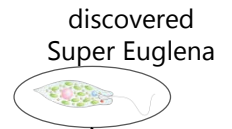


Continuous use without charge for 1 month

- Dr. Goda Keisuke at Tokyo University;
Developed technology to search for rare cells

If put to practical use...

Make it possible to produce low-cost biofuel with Super Euglena



Low-cost biofuel

- ❑ Companies are stepping up investment in R&D

- Japanese automakers are increasing investment in new fields such as fuel-cell vehicles, with research and development expenditures **reaching a record high** (approximately JPY 2.5 trillion planned for FY2014)

Further Government Reforms

NEW!

- ❑ Establish an **“Innovation National System”** that fundamentally enhances **“bridging”** function from seeds to commercialization
 - Build infrastructure to allow researchers to hold concurrent posts at universities, research institutes, and other organizations
- ❑ University reforms (strengthening the functions of universities, establishing the system enabling universities to be victorious in global competition, etc)
- ❑ Create effective measures to prevent leakage of trade secrets (E.g., alleviation of burden of proof on victims)
 - A bill will be submitted at the next ordinary Diet session

Proactively Develop Agriculture

Empower leaders who are ready and willing to act

Government initiatives to date

- ❑ Decided to review **rice production regulations, which lasted for more than 40 years**
 - Eliminating production volume targets by 2018
- ❑ Established "Public intermediate organization for farmland consolidation"
 - Established in every prefectures as of November 2014
- ❑ Helped develop the "sixth industry" by leveraging the Agriculture, forestry and fisheries Fund Corporation for Innovation, Value Chain and Expansion Japan (A-FIVE)
 - **Investing in 49 entities** as of Feb. 2014

Examples of Private Sector Action

- ❑ More companies entering the agricultural business
 - ✓ **Iris Ohyama**
 - Established agricultural joint venture with Butai Farm
 - Drawing on expertise in the manufacture and wholesale of consumer goods to begin milling and selling rice
 - Launched plant operations in Jul. 2014



- ❑ **Record exports of agricultural, forestry and marine products and food** (2014: +11.1% YoY, JPY 611.7 billion)

❑ **Sub-funds of A-FIVE:**

able to invest totally **JPY 74.3 billion** (of which more than **JPY 37.15 billion** was from private sector, as of Dec. 22nd 2014)

- **Mizuho Bank:** Set up 12 funds nationwide with regional banks to support seafood processing and dairy food companies

Further Government Reforms

NEW!

- ❑ Agricultural Committees¹: Prioritizing functionality in farmland consolidation and reforming committee selection system
- ❑ Agricultural Production Corporations²:
 - Enabling non-farmers (including corporation) to invest more (the limit for voting rights will rise up from 1/4 to 1/2.)
- ❑ Agricultural Cooperatives: **First drastic reforms in 60 years** to encourage regional agricultural cooperatives' ingenuity

Notes:

1. Administrative bodies set up in municipalities to authorize farmland sales and leases
2. Corporations that can own farmland

Stimulate Healthcare Industry and Providing Quality Services

Government initiatives to date

- ❑ Established **a new headquarter institution that strategically manages R&D** in the field of medicine
 - 'Headquarters for Healthcare and Medical Strategy Promotion' and 'Japan Agency for Medical Research and Development' (AMED)
(Law enacted May 2014)
- ❑ Established **a new legal framework to accelerate commercialization of regenerative medicine** (Nov. 2014)
 - Introducing fast-track approval system and making it possible to commission external engineers to culture and process cells
- ❑ **Removed gray zones** in relation to the healthcare industry
 - Created a new system which ensures the legality of businesses operating in 'gray areas' (Jan. 2014)

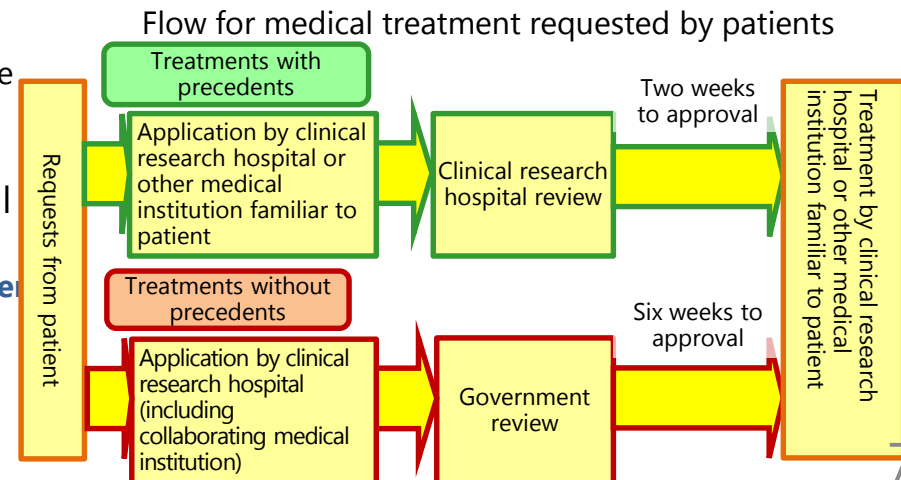
Examples of Private Sector Action

- ❑ Expansion of new health-care service
 - **Healthy Life Compass**
(provides health-care service to notify the results in a simple test by self-blood collection):
Since it was ensured by "the System to Remove Gray Zone Areas" that the service doesn't violate the Medical Practitioners Act (Feb. 2014), the number of its stores considerably has increased (Feb. 2014 : 84 → Oct. 2014 : 229)
- ❑ Active investment in the field of regenerative medicine
 - **SanBio** (developing and marketing regenerative therapies): Transferred headquarter function from California to Tokyo and reversed the parent-subsidiary relationship in Jan. 2014

Further Government Reforms

- ❑ Creation of non-profit holding company system
 - Enabling integrated management of multiple medical and social welfare corporations to provide medical and nursing care and living support services
- ❑ Considerable expansion of the system for mixed use of medical treatments covered and not covered by public insurance
 - Creation of **expedited scheme for the mixed medical treatment system requested by patients**, to expand options for patients when selecting medical treatments (diagram on right)
 - Confirming safety and efficacy and shortening assessment period (From current six months, to around six weeks*)

*in case of treatments without precedents



Stimulate the Financial and Capital Markets

Change mindset from savings to investment

Government initiatives to date

- ❑ Launched a Japanese version of Individual Savings Account (NISA) (8.2 mil. accounts (worth JPY 3 trillion) set up as of Jun. 2014)
- ❑ Recommendations on public and quasi-public asset management (Nov. 2013)
- ❑ Set up tax scheme to incentivize investments in corporate venture funds (Industrial competitiveness Enhancement Act enacted Jan. 2014)
- ❑ Established a system to promote use of security-based crowd-funding* (Law amendments in May 2014)
 - A scheme in which emerging and growing companies and investors are connected via the Internet so that funds are collected from a large number of fund providers who each contribute a small amount.

Examples of Action

- ❑ **GPIF efforts toward revision of investment strategy** (the world's largest public pension fund, worth around JPY 130 trillion)
 - GPIF decided to invest in infrastructure assets under co-investment agreement with Development Bank of Japan (DBJ) and a Canadian public pension fund (Feb. 2014)
 - Employment of new equity index (including the JPX-Nikkei Index 400) for passive investments (Apr. 2014)
 - Acceptance of Japan's Stewardship Code (May 2014)
- ❑ Municipalities began supporting start-ups employing crowd-funding
 - **Osaka Prefecture:** Undertaking PR, cultivating promising projects, and providing business planning support
 :More than 2,000 individuals have invested a total of around JPY 90 million since Jul. 2013 operational launch



Website run with Osaka Prefecture

Further Government Reforms

NEW!

- ❑ **Revised GPIF's basic portfolio (policy asset mix*)** (Oct. 2014)
 - * Long-term asset allocations determined by GPIF
- ❑ Reinforcing GPIF's governance structures
 - Appointment of multiple full-time members to the investment committee
 - Securing highly-skilled investment professionals

Government Pension Investment Fund (GPIF) asset allocation trend

	Basic portfolio (New)	Basic portfolio (Old)
Domestic bonds	35% (±10%)	60% (±8%)
Domestic stocks	25% (±9%)	12% (±6%)
International bonds	15% (±4%)	15% (±5%)
International stocks	25% (±8%)	25% (±5%)

Decisive Electricity System Reforms

Broaden business entry opportunities and usage options

Government initiatives to date

- ❑ Embarked on **first fundamental reforms of the electricity system in around 60 years**
 - 1st Step: Expand use of the national-wide grid
 - To allow more flexibility in balancing power needs between regions (Law enacted November 2013 , to be implemented from 2015)
 - 2nd Step: Complete liberalization of retail electricity entry
 - To allow consumers to choose their supplier and charging system (Law enacted June 2014, to be implemented from 2016)
- ❑ Shortened environmental assessment period for thermal power facilities upgrades (3 years => 1 year)

Examples of Private Sector Action

- ❑ Active power retailing competition beyond regions and industrial sectors
 - Kansai Electric: Through subsidiary, entered corporate power retailing business in metropolitan areas in Apr. 2014
 - JX Nippon Oil & Energy: Looking to enter consumer power retailing business
- ❑ Number of companies entering power retailing business **x1.8 in 1 year 7months**
- ❑ Five major electric utilities announced plans to add **around 11 mil. kw in thermal generating capacity**

Further Government Reforms

NEW!

- ❑ 3rd Step of the electricity system reforms (bill submitted in 2015, **with law enacted no later than 2020**)
 - Legal separation of electricity generators and distributors to ensure fair usage
 - Elimination of retail price regulation (full liberalization of retail price)

Integration with Global Economy

Expand cross-border movements of human talents, goods, and funds

Government initiatives to date

- ❑ Promoted economic partnerships (participation in the TPP negotiations, Signed the Japan-Mongolia EPA, launch of negotiations for the Japan-Turkey EPA, entry into force of the Japan-Australia EPA (in January 2015))
- ❑ Prime Minister and other Cabinet members conducted sales pitches (Up from 25 cases in 2012, to **67 in 2013**)
- ❑ **Relaxed visa requirements for 10 countries**, primarily for visitors from ASEAN countries (July 2013 - June 2014)
- ❑ **Added 30,000 international landing slots** in a year at Haneda Airport (increased from 60,000 to 90,000 in March 2014)

Examples of Private Sector Action

- ❑ **Record new outward foreign direct investment**
 - From JPY 9.8 trillion in 2012, to JPY 13.2 trillion in 2013
- ❑ Japanese companies **tripled infrastructure project orders received**
 - From JPY 3.2 trillion in 2012, to JPY 9.3 trillion in 2013 (in terms of major projects grasped by the ministries concerned)

(Key infrastructural project orders in 2013)

U.K.	High-speed trains	About ¥180 billion
Malaysia	High-efficiency coal-fired power plant	About ¥130 billion
France	Heavy ion radiotherapy systems	About ¥20 billion

- International High-Speed Rail Association (set up by four JR companies and manufacturers in April 2014)
:It aims to make advanced Shinkansen technologies such as crash avoidance into international standards and expand their export.
- ❑ The number of foreign visitors to Japan in a year exceeded **10 million for the first time** (10.36 million in 2013, **+24% YoY**)
 - The number of foreign visitors exceeded **13 million in 2014 (+29.4% YoY)**, pushing the figure to the highest mark ever.
- ❑ Balance of payments in travel services achieved surplus **for the first time in 44 years** (April, 2014(since 1970, Osaka Expo held))
 - Total expenditure by inbound tourists to Japan is estimated **at 2.03 trillion yen**, surpassing 2013 (1.41 trillion yen), and will be **record-high**.

Further Government Reforms

NEW!

- ❑ Creating a strategy to facilitate longer stays¹⁾ of foreign visitors in Japan (permitting wealthy foreign visitors to stay **for a maximum of one year for sightseeing purposes (current: for 90 days)**)
- ❑ Doubling the number of tax-free shops across Japan to **10,000**
 - Expanded the scope of tax exempt items for foreign visitors to all items, including foods, beverages, drugs, and cosmetics (from October 2014)
- ❑ Further relaxing visa requirements primarily for visitors from ASEAN countries* (**exempting visas for nationals of Indonesia based on a system of preregistering e-passports**, substantially relaxing visa requirements for nationals of the Philippines and Vietnam, and starting issuing multiple-entry visas for nationals of India)

* In addition, decided to issue multiple-entry visas for nationals of Brazil and relax visa requirements for multiple-entry visas for Chinese citizens

Promote Public Private Partnerships (PPP) and Private Finance Initiatives (PFI)

Employ private capital and expertise for public capital

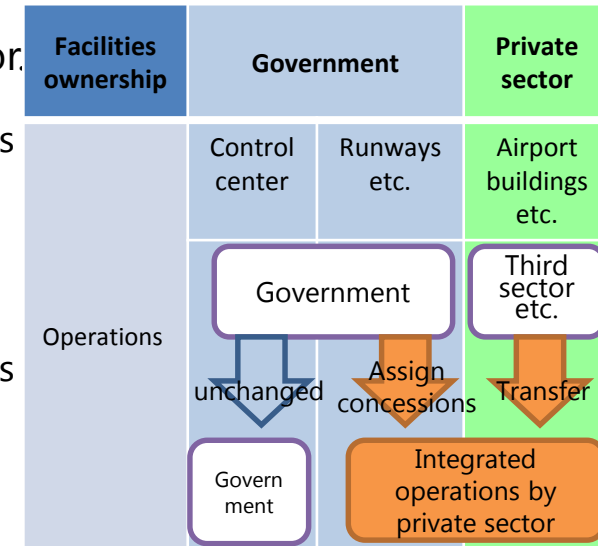
Government initiatives to date

- Enabled private enterprises to operate national government-administered airports through concession agreements (the introduction of a public facility management rights scheme) (Law enacted in July 2013)
- Allowed the application of the "Solid Crossing Road System" to existing roads in order to rehabilitate expressways under a collaboration with urban redevelopment. (Road Act revised in May 2014)

Examples of Private Sector Action

- Sendai Airport is in the process of choosing the private sector operator.
 - 156 companies and organizations attended the briefing in May 2014
 - Preferential negotiation rights to be granted in around Aug. 2015, operations by private sector is scheduled to be started in Mar. 2016
- Kansai International Airport and Osaka International Airport (Itami Airport) is also in the process of choosing the private sector operator.
 - 150 companies and organizations attended the briefing in Aug. 2014
 - Preferential negotiation rights to be granted in around Aug. 2015, operations by private sector is scheduled to be started in around Jan. 2016
 - Estimated project worth : around JPY 2.2 Trillion.

Image of outsourcing to private sector



Further Government Reforms

NEW!

- Setting priority areas and numerical targets of the projects through concession agreements** during the intensive period
 - The target of implementing JPY2-3 trillion worth of project by the end of FY2022 will be achieved by the end of FY2016
 - Priority areas and numerical targets of projects : Airports (6), Water supply systems (6), Sewage (6), and Roads (1)
- Taking the legislative action to promote smooth privatizations of public infrastructure operations
 - Establishing a new civil servant secondment system that allows the civil servants with operational know-how to be seconded to the operators