What is your overall assessment on the effect of the Abenomics’ Corporate Governance reforms so far?

<table>
<thead>
<tr>
<th></th>
<th>VERY GOOD</th>
<th>GOOD</th>
<th>NEUTRAL</th>
<th>BAD</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>J-version Stewardship Code</td>
<td>15%</td>
<td>55%</td>
<td>25%</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>J-version Corporate Governance Code</td>
<td>15%</td>
<td>63%</td>
<td>19%</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Ito Review (J-version Kay Review)</td>
<td>27%</td>
<td>49%</td>
<td>18%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>New voting guideline of ISS (ROE/independent directors mandates)</td>
<td>16%</td>
<td>54%</td>
<td>22%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Japan’s Amendment of Companies Act (independent director mandate)</td>
<td>8%</td>
<td>47%</td>
<td>37%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>JPX400</td>
<td>13%</td>
<td>45%</td>
<td>30%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>GPIF reforms</td>
<td>12%</td>
<td>45%</td>
<td>33%</td>
<td>7%</td>
<td>3%</td>
</tr>
</tbody>
</table>

[Dr. Yano’s investor survey 2016]
Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds) Japanese Equity Holdings by all the respondents’ funds: 100 trillion yen(estimate)
Do you agree with the statement “Japanese companies should seek at least 8% or higher ROE” in “Ito Review”?

[Total] [Domestic investor] [Foreign investor]

A) Strongly agree
B) Basically agree
C) Disagree
D) Neutral
E) Others

Fisher’s exact test
p-value 0.07

<table>
<thead>
<tr>
<th></th>
<th>Domestic investor</th>
<th>Foreign investor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>99% confidence level bimomial distribution</td>
<td>62.4%</td>
<td>80.2%</td>
<td>77.9%</td>
</tr>
<tr>
<td>Agree</td>
<td>48</td>
<td>109</td>
<td>157</td>
</tr>
<tr>
<td>Disagree/Neutral</td>
<td>13</td>
<td>13</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>61</td>
<td>122</td>
<td>183</td>
</tr>
</tbody>
</table>

⇒ Approval rating of the total is 77.9% to 91.7%. (Confidence level 99%)

[Dr. Yanagi’s investor survey 2016]
Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds)
Japanese Equity Holdings by all the respondents’ funds: 100 trillion yen(estimate)
Are you satisfied with Japan’s corporate governance in general?

- **A)** Very Satisfactory. Shareholder Value is highly respected here.
- **B)** Satisfactory. Shareholder Value is respected here.
- **C)** Unsatisfactory. Shareholder Value is not respected here.
- **D)** Very unsatisfactory. Shareholder Value is ignored here.
- **E)** Corporate governance is irrelevant to shareholder value.
- **F)** Others

<table>
<thead>
<tr>
<th></th>
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<th>Foreign investor</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>99% confidence level binomial distribution</td>
<td>13.20%</td>
<td>13.60%</td>
<td>16.20%</td>
</tr>
<tr>
<td></td>
<td>44.40%</td>
<td>34.00%</td>
<td>33.30%</td>
</tr>
</tbody>
</table>

Fisher’s exact test
p-value 0.57

$\Rightarrow$ Satisfaction rating of Japan’s CG is 16.2% to 33.3% of the total. (Confidence level 99%)

**Dr. Yanagi’s investor survey 2016**
Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds) Japanese Equity Holdings by all the respondents’ funds: 100 trillion yen(estimate)
Are you satisfied with Japan’s ROE in general?

- **A)** Very satisfactory. ROE is much higher than cost of equity.
- **B)** Satisfactory. ROE is above COE.
- **C)** Unsatisfactory. ROE is below COE.
- **D)** Very unsatisfactory. ROE is much below COE.
- **E)** ROE is irrelevant.
- **F)** Others

Fisher’s exact test
p-value 1.00

⇒ Satisfaction rating of Japan’s ROE is 9.4% to 24.2% of the total. (Confidence level 99%)

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**[Dr. Yanagi’s investor survey 2016]**

*Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds)*

Japanese Equity Holdings by all the respondents’ funds: 100 trillion yen(estimate)
Value Proposition: Disclosure of Equity Spread and Accountability thereof

Dr. Yanagi’s opinion inserted in “Ito Review” of METI

Equity Spread = ROE - CoE

Shareholder Value = Market Cap

Market Value Added

Financial capital

Non-financial capital (Intangibles)

Equity BV × Equity Spread

CoE - sustainable growth ratio (r-g)

PBR = \frac{Market\,cap}{Equity\,BV} = 1 + \frac{Equity\,Spread}{CoE - g}

• If Equity Spread is positive, PBR > 1
• If Equity Spread is negative, PBR < 1

Source: SMBC Nikko Sakagami Report Aug 2014
※ Expected ROE(for 12 month away) and PBR(2004-2013, TOPIX) ROE forecast is I/B/E consensus (FY2014-2015 data by SMBC Nikko)

Reference: Nikkei newspaper August 26, 2014
Synchronization of Non-financial and Equity Spread

Non-Financial Capital and Equity Spread Value Relevance Model*1

① Intrinsic Value Model*2

Sustainability Value
(Value of ESG/CSR)
Customer Value
Human Value
Organizational Value

Reduction of cost of equity
Margin improvement

Shareholder’s Value

Market Value Added (MVA)

Book Value of Shareholder’s Equity (BV)

② Eisai PBR Model

Non-financial capital

Intellectual Capital
Human Capital
Manufactured Capital
Social and Relationship Capital
Natural Capital

Financial Capital
(IIRC framework)

③ Residual Income Model (RIM)

Shareholder Value = BV +

\[
\sum_{t=1}^{\infty} \left( \frac{\text{Net income}_t - \text{CoE} \times \text{BV}_{t-1}}{(1+\text{CoE})^t} \right)
\]

Value Relevance between ESG and ROE

• Market value added (MVA: PBR>1) is theoretically attributed to Equity Spread (by Residual Income Model) on a long-term basis.

• Market value added (MVA: PBR>1) is also related to non-financial capital (ESG / CSR / intangibles).
  ⇒ As source of future value creation

• Therefore, non-financial capital (ESG) can be synchronized with Equity Spread (ROE).
  ⇒ Correlation bet. ESG & ROE is proved by academic theses.

• Japanese companies tout ESG/CSR while investors seek ROE.
  ⇒ Dichotomy and conflict should be avoided.

• With this value relevance model, Corporate Governance and Engagement can create win-win situation.

(To be presented at ICGN/IIRC London Conference on December 7th)