Trend of Japanese Equity Market
- Investor and Listed Company -

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Hiroshi Nakamura
Director of Corporate Communications Planning
& CSR Promotions

Japan Exchange Group
Robust Trading Activity

Cash Equity
A strong upward trend in both stock prices and trading values in 2013

Nikkei225 (JPY)

Cash Equity ADV
(Jan. 2012 – Aug. 2014)

Average Daily Trading Value (Trillion Yen)

Source: Bloomberg, Tokyo Stock Exchange
1. Corporate Value Improvement Award
2. Outside and Independent Director
3. Japan’s Stewardship Code
4. Launch of JPX-Nikkei Index 400
Under the **Corporate Value Improvement Award** initiative, TSE awards companies with high corporate value and management practices that aim to improve corporate value considering cost of capital and other investor concerns.

### Selection Criteria
- Statistical criteria (ROE, etc.)
- Questionnaire to candidates
- Management interview
- Public comments from investors

### Past Awarded Companies

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<tr>
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<th>2014</th>
<th>2013</th>
<th>2012</th>
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<tbody>
<tr>
<td><strong>Grand Prize</strong></td>
<td>To be announced</td>
<td>Marubeni Corporation</td>
<td>United Arrows</td>
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<td><strong>Finalists</strong></td>
<td>TOTO LTD.</td>
<td>Kirin Holdings</td>
<td>Eisai</td>
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<td>OMRON Corporation</td>
<td>Anritsu</td>
<td>HOYA</td>
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<td>Pigeon Corporation</td>
<td>Bandai Namco Holdings</td>
<td>Marubeni Corporation</td>
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<td>Tokyo Gas Co., Ltd.</td>
<td>Itochu Corporation</td>
<td>Mitsubishi Corporation</td>
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Enhancing Corporate Value - Outside and Independent Director

Endeavor to Improve Corporate Governance

**Ratio of TSE 1st Section Companies with an outside director**
From 2010 to July 2014.

- 2010: 48.5%
- 2011: 51.4%
- 2012: 55.4%
- 2013: 62.3%
- 2014: 74.3%

**Ratio of TSE 1st Section Companies with an independent director**
From 2010 to July 2014.

- 2010: 31.5%
- 2011: 34.6%
- 2012: 38.8%
- 2013: 46.9%
- 2014: 61.4%
The Government published **Japan’s Stewardship Code** in February 2014.

Institutional Investors are expected to understand the principles of the code and declare their support of the code.

The Code aims to promote sustainable growth of investee companies through investment and dialogue.

The code adopts ‘Comply or Explain’ approach.

More than 160 institutional investors have signed up the code so far.

### The Principles of the Stewardship Code

Institutional Investors should:

- **Disclosure**
  - disclose a policy on how to fulfill their stewardship responsibilities, manage conflicts of interest, and policy for voting.

- **Dialogue with Investee**
  - monitor and have constructive engagement with investee companies.

- **Reporting to Beneficiaries**
  - make periodic reports on the stewardship responsibilities and voting policies.

- **Skill & Knowledge**
  - have in-depth knowledge on investees and the capability to undertake appropriate engagement.
TSE launched the **JPX-Nikkei Index 400** on January 6, 2014. This index employs in its selection criteria not only size-factors such as market capitalization, but also ROE and other corporate governance factors.

- **Unique Selection Criteria**
  - three-year average ROE
  - appointment of independent directors
  - adoption of IFRS
  - practice English disclosure

- **Aim**
  To motivate listed companies to raise their ROE and pursue management with investor interests in mind.
Enhancing Corporate Value - Launch of JPX-Nikkei Index 400

- Various products tracking the JPX-Nikkei Index 400 have been launched.
  - 4 ETFs (AUM: JPY 205 billion), 21 Mutual Funds (AUM: JPY 102 billion).
  - JPX expects Futures on the index to be available by the end of 2014.

- The Government Pension Investment Fund (GPIF) announced it would add JPX-Nikkei 400 Index as one of the benchmarks of its passive investment (April 2014).

- The Index 400 has contributed to promote awareness of ROE among Japanese companies.
  - A 1st Section company announced that it would return all net profit to shareholders through both dividends and share-buybacks for the next 2 years, to increase its capital efficiency.

- The first periodic replacement: 31 constituencies were replaced (August 2014).

- Data shows that JPX-Nikkei 400 constituents have better governance structure, better environment to have dialogue with foreign investors, and actively engaged in promoting corporate and social responsibility than the broader market.
Better Governance in JPX-Nikkei 400 Constituents

- **Better performance**
  - 3yr ROE: JPX400 9.23%, Market 5.22%
  - 3yr Operating Margin: JPX400 7.79%, Market 4.20%

- **Better board structure**
  - Company w/ Committees: JPX400 6%, Market 2%
  - At least 1 Ind. Director: JPX400 65%, Market 34%

- **Better compensation practices**
  - Performance-Based Comp.: JPX400 41%, Market 19%
  - Individual Comp. Disclosure: JPX400 29%, Market 6%

- **Fairer treatment for foreign shareholders**
  - Online Voting Platform Usage: JPX400 57%, Market 12%
  - English AGM Invitations: JPX400 53%, Market 12%

- **More socially conscious**
  - CSR Activities: JPX400 92%, Market 62%

- **More attractive shareholder structure**
  - Controlling shareholder: JPX400 2%, Market 9%
  - Foreign ownership >30%: JPX400 63%, Market 7%
Tokyo Stock Exchange will draft the Corporate Governance Code to encourage companies’ initiatives to promote sustainable growth. The initiative is in line with supporting the government’s “Japan Revitalization Strategy” (June 2014).

- The Code will outline the principles of corporate governance (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).

- Based on listing requirements of TSE, listed companies are asked either to comply with the principles OR explain why they are not complied with.

- “The Council of Experts Concerning the Corporate Governance Code” was established in August 2014 jointly by the government and TSE. The council, consisted of industry professionals and academics, will publish a recommendation outlining the Code this winter. Based on the recommendation, TSE will draft and publish the Code before the next AGM season of listed companies. (May/June 2015)

The Corporate Governance Code will mainly address topics as:

- Independent Directors
- Dialogue with shareholders
- Composition of Board/Committees
Thank you ขอบคุณ ค่ะ

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