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ABENOMICS IS PROGRESSING

TOWARDS THE REINVIGORATION OF THE JAPANESE ECONOMY

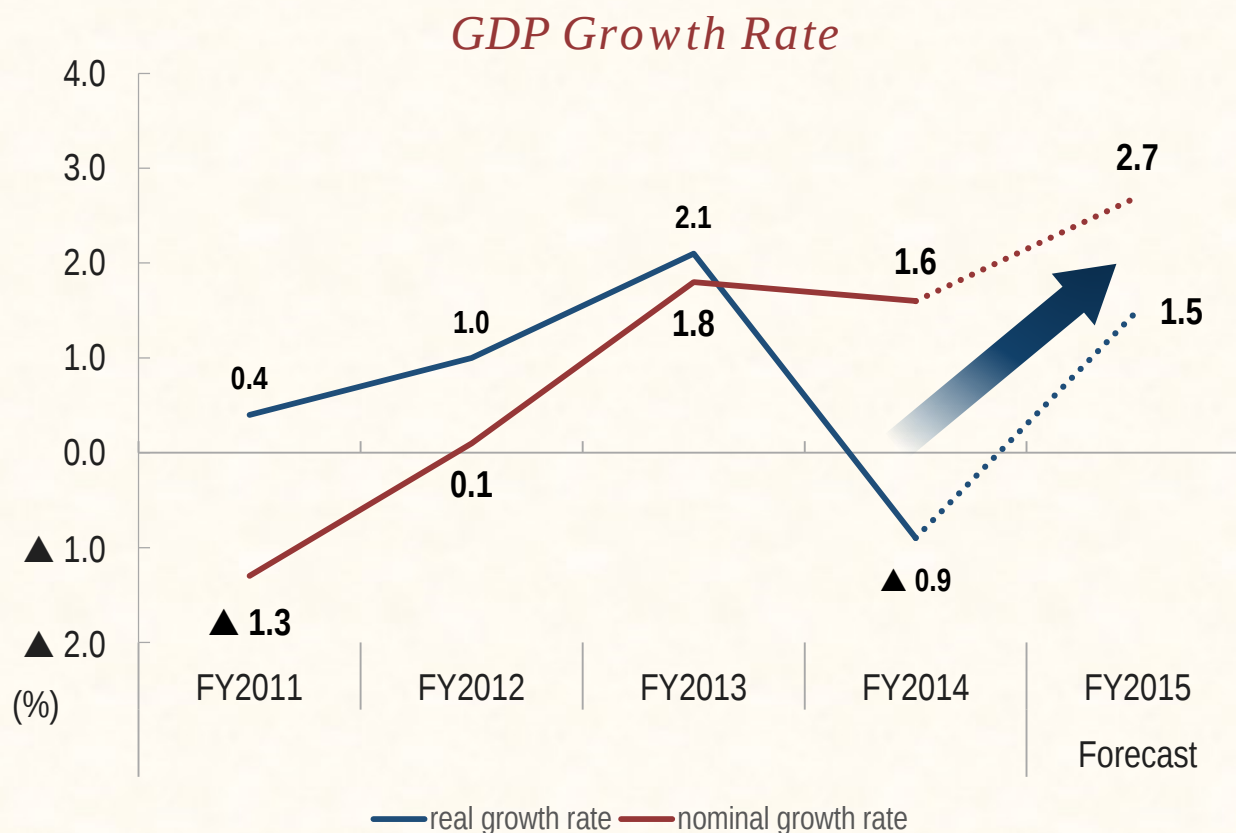
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JUNE 2015



I. ECONOMIC RECOVERY

The economy is expected to exit deflation and is on track for steady recovery



Key contributors

- BOJ monetary easing
- Yen depreciation
- Falling crude oil prices
- Anticipated real wage increases

Q1 2015: GDP +3.9%
Q4 2014: GDP +1.2%
at an annual rate

Two consecutive quarters of positive economic growth

I. ECONOMIC RECOVERY

Exports are up and Japanese businesses are recovering

- Profits earned overseas increased in Yen terms
- Crude oil prices dropped by 50% between Jun. 2014 and Dec. 2014
 - 2-3 trillion yen increase in nominal corporate profits and employee nominal compensation



I. ECONOMIC RECOVERY

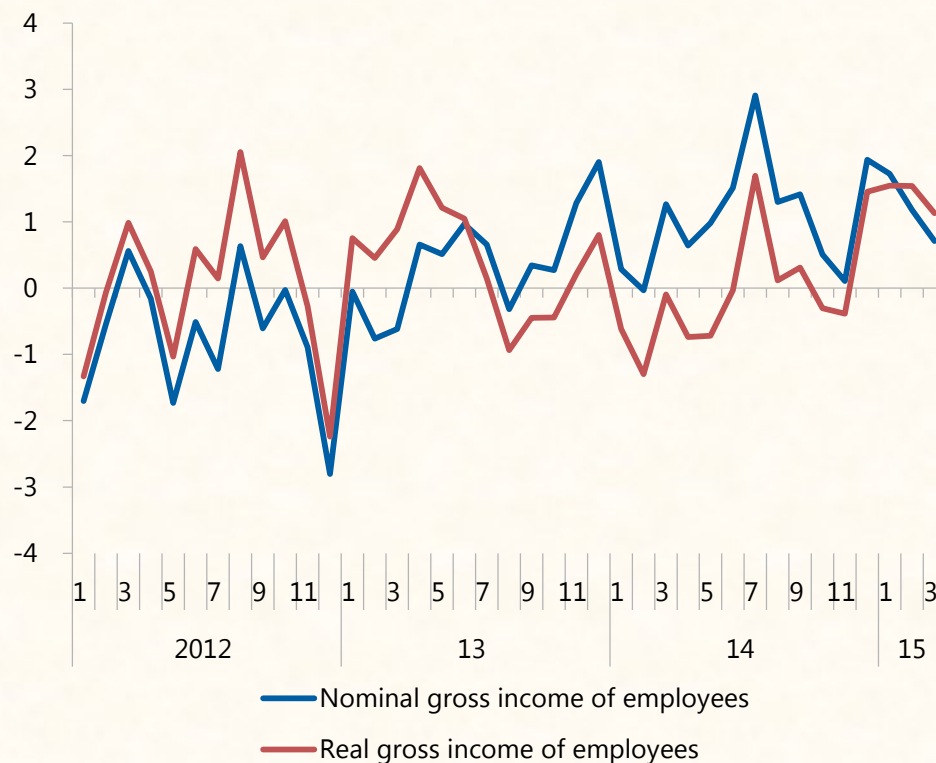
Corporate recovery is driving wage increases

- Business leaders agreed to incur higher raw material costs to support financial recovery of SME suppliers (Dec. 2014)
- Workers' union spring labor offensive resulted in a 2.23% average wage increase* for FY2015, which was 2.08% for FY2014 (Jun. 2015)

* Preliminary result.

Sample size: 4,488 enterprise unions

Gross income of employees (YoY)

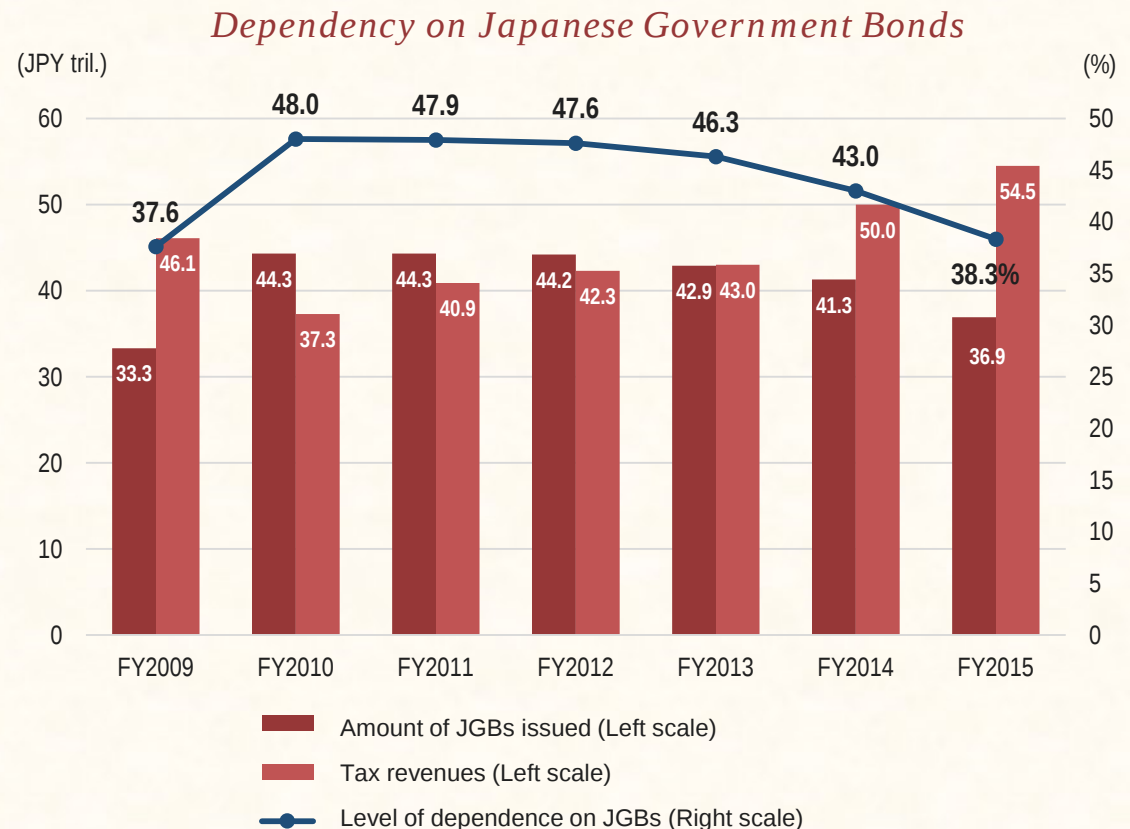


* Real gross income of employees excludes impact of consumption tax increase (assumed to be 2%) after Apr. 2014.

II. FISCAL CONSOLIDATION PROGRESS

Tax revenue is up and dependency on Japanese Government Bonds is declining

- On target to reduce primary deficit to GDP ratio by half (from minus 6.6% in FY2010 to minus 3.3% in FY2015)
- Moving as planned to achieve primary surplus by 2020
 - a. Advancing on concrete fiscal consolidation plan by summer 2015
 - b. Set to implement consumption tax increase to 10% in April 2017



III. CORPORATE EARNING POWER ENHANCEMENT

Companies are expected to benefit from a new Corporate Governance Code and a series of planned tax rate reductions

A new Corporate Governance Code

The exposure draft of Japan's Governance Code was published (Dec. 2014)

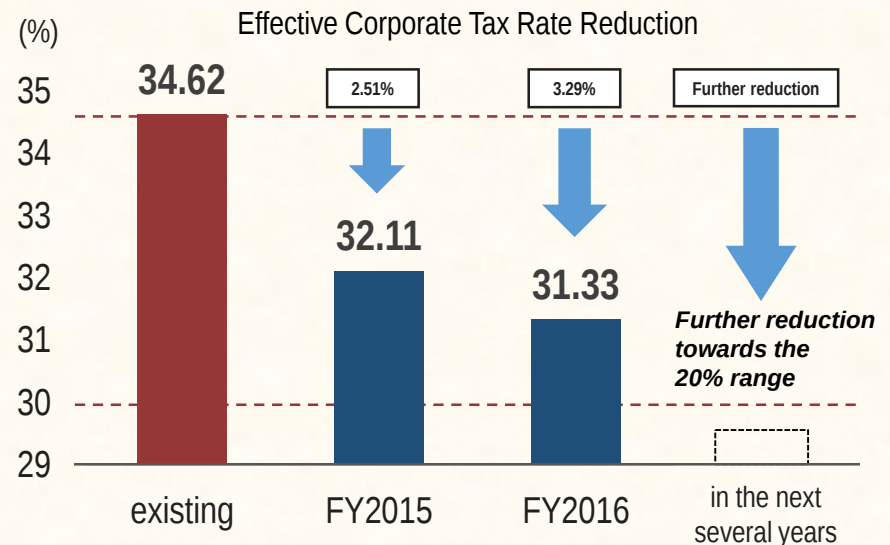
Corporate Governance Code (Draft)

Highlights

1. Explain the objective and rationale in case of stock cross-holdings
2. Publish information on nomination and remuneration policies for board members
3. Appoint no less than 2 independent outside directors

A series of tax rate reductions

Cabinet meeting concluded to reduce effective corporate tax rates for 2015 and 2016 (Jan. 2015)



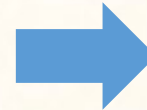
Expected results are (a) Increased corporate profits and (b) Raised dividends by 30% of listed companies

IV. FINANCIAL AND CAPITAL MARKETS STIMULATION

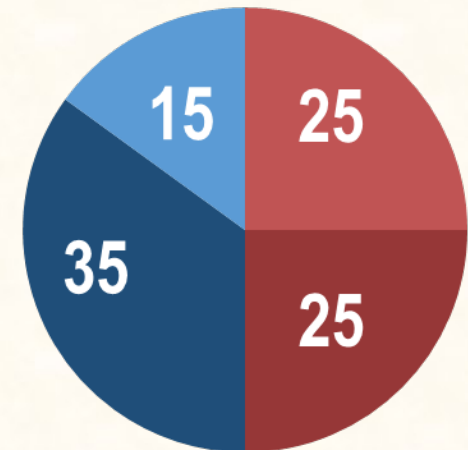
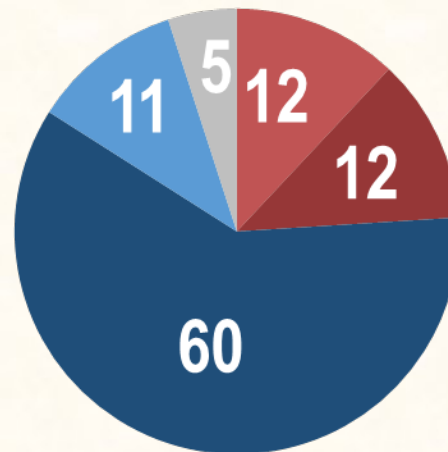
Improved governance and management of the Government Pension Investment Fund is now in progress

- A new policy asset mix has been adopted
- Reinforcement of the governance of the GPIF structure is now in progress

Previous Portfolio



New Portfolio



(%)

■ Domestic Bonds
■ International Bonds
■ Short-term assets

■ Domestic Stocks
■ International Stocks

V. OUR REFORMS



Agriculture



Healthcare



Energy



Labor



Pilot Initiatives

V. OUR REFORMS

1. AGRICULTURAL SECTOR REFORM



First major structural reform and deregulation in 60 years

Opening the door to new and modern business opportunities

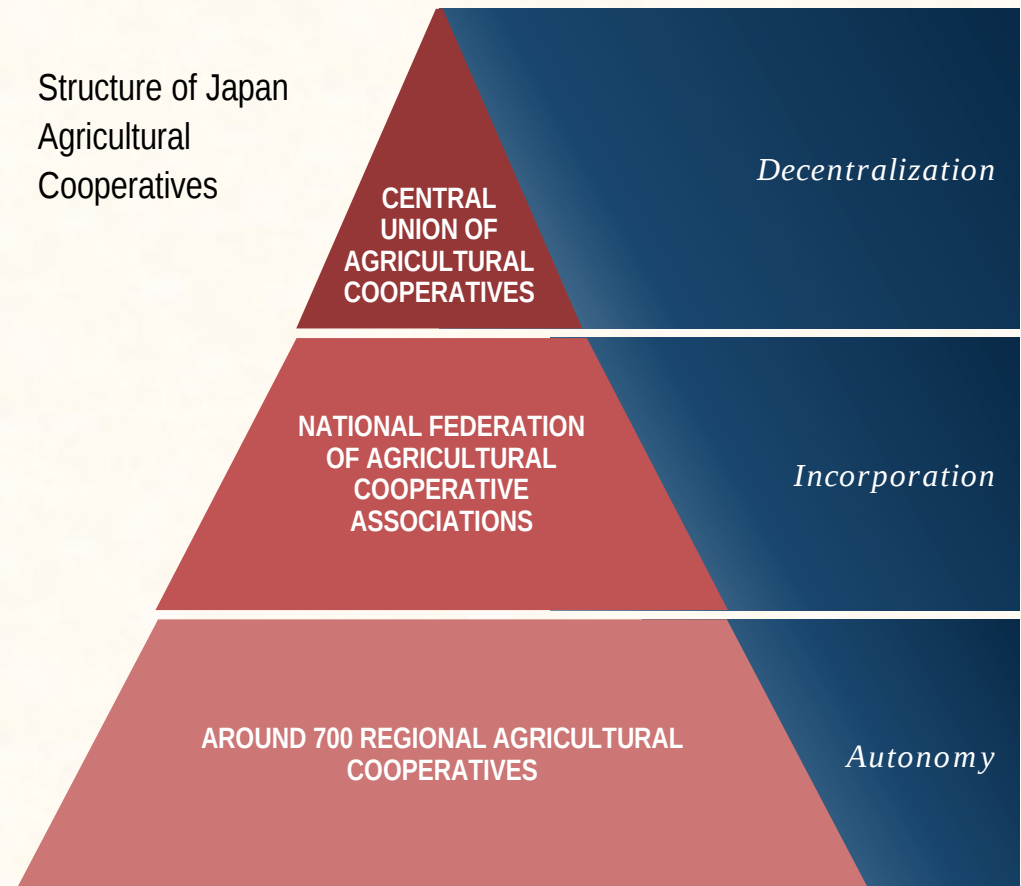
- Reform the Agricultural Cooperative system to encourage entrepreneurialism and seek new market entrants¹
- Relax requirements to form Agricultural Production Corporations²
- Remove Rice Production Adjustment program

Consolidating scattered farmland and optimizing use

Establishing product-specific export organizations to promote exports

→ Reference : 611.7 billion yen in exports of agriculture/forestry/fishery products and foods is a record high

Structure of Japan
Agricultural
Cooperatives



V. OUR REFORMS

2. HEALTHCARE SECTOR REFORM



A shot in the arm to energize the healthcare industry

Accelerate the commercialization of regenerative medicine¹

- Allow outsourcing of culturing and processing of cells
- Enact an adaptive licensing approval system, making Japan the fastest country for commercialization of regenerative medicine

Create a new system for combining insured and uninsured medical services²

- Allow patients to receive prompt advanced medical care at preferred medical institutions upon request

Promote business alliances through a new healthcare corporation system³

- Allow for consolidated and integrated management of multiple medical corporations

→ Provides efficient and high-quality medical and nursing care services in each region

Recent cases

- Pharmaceutical venture SanBio (developing and marketing regenerative therapies) transferred its headquarters function from California to Tokyo
- Pluristem Therapeutics (Israel) (culturing cells) is considering an alliance with Japanese companies
- ReNeuron (UK) (stem cell regenerative therapies) is considering an investment in Japan
- Terumo Corporation (JP) entered the regenerative medicine market

3. ENERGY MARKET REFORM



First comprehensive electricity and gas market reform in 60 years

Electricity market reform

- Full liberalization of the retail electricity market in its entirety by 2016 to allow new entrants to the retail market across sectors
- Legal unbundling of generation, transmission and distribution by 2020¹

Roadmap

- a. Expansion of nationwide grid (planned for 2015)
- b. Modification of retail electricity sector (planned for 2016)
- c. Legal separation between electricity generators and distributors, and Deregulation of retail prices (planned for 2020)

Gas market reform²

- Full liberalization of the retail gas market by 2017
- Legal unbundling of gas infrastructure in metropolitan areas by 2022

Recent cases

- Number of companies able to provide retail power sales has increased by 80% in the last 19 months.
- Alliances successively realized between companies across regions and sectors in power generation



4. LABOR MARKET REFORM

Aggressive initiatives in motion as well as in the pipe line covering three critical pillars

A. Expatriate Careers

- Relax requirements to be accredited as highly skilled foreign professionals, and introduce a new type of residence status with an unlimited period of stay
- Revise current Technical Intern Training System with more job categories, increased admission quota and an extended training period
- Accept more foreign employees working at overseas subsidiaries of Japanese corporations
- Enable foreign nationals to work in the field of nursing care
- Leverage National Strategic Special Zones to promote entrepreneurship for non-Japanese start-ups etc.

B. Women in Business

- Secure additional childcare capacity for approximately 400,000 children by the end of FY2017
- Increase childcare leave salary from 50% to 67% which is applied to the first 6 months of leave
- Aim to increase the proportion of women in management positions to 30% by 2020

C. Working Conditions

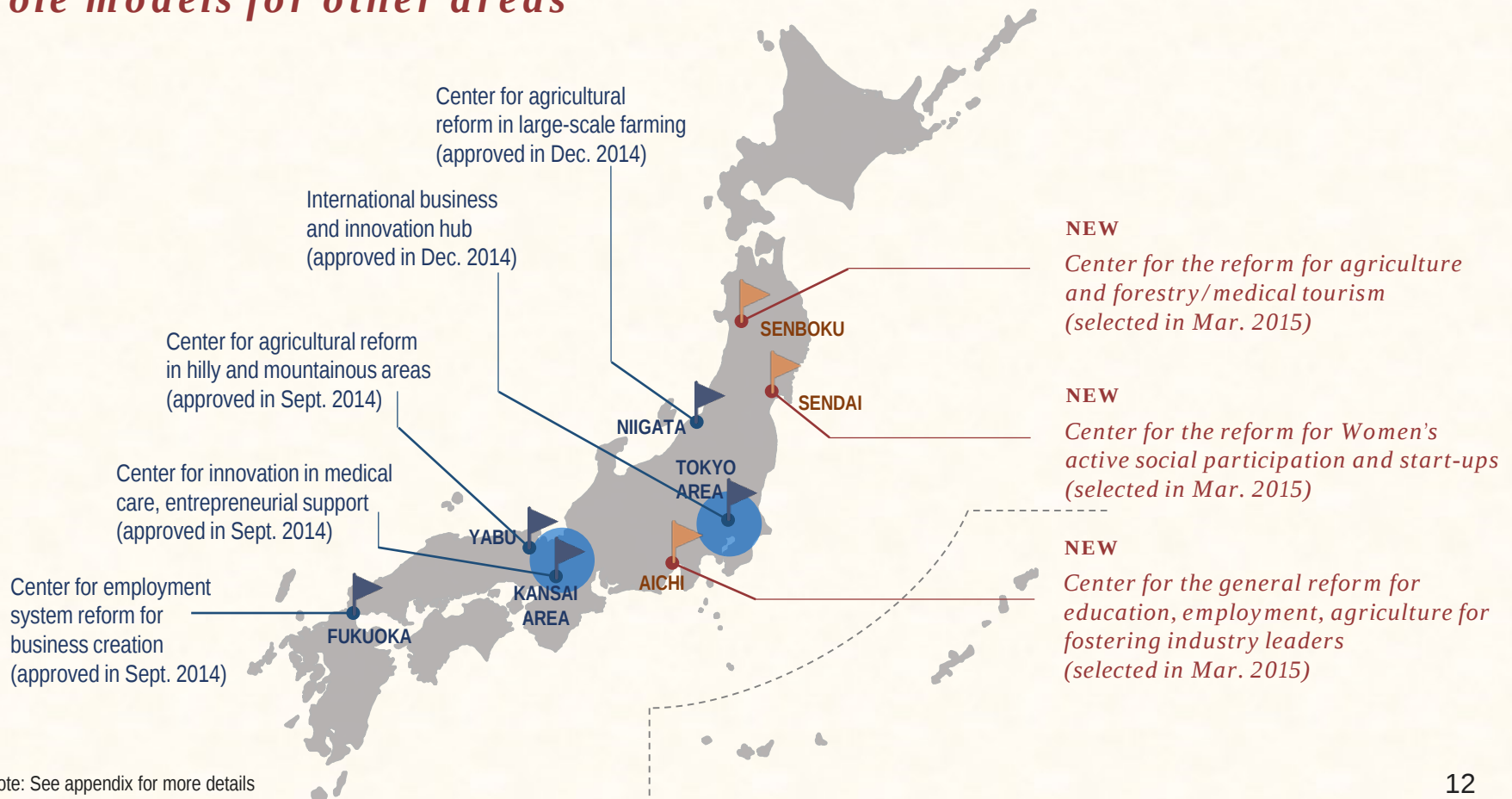
- Extend adjustment period from one month to three to implement flex-time
- Increase activities covered under Discretionary Working System
- Create a new working system which evaluates workers based on professional skills and performance instead of working hours

V. OUR REFORMS

5. PILOT INITIATIVES IN SPECIAL ZONES



8 strategic pilot initiatives take advantage of multiple reforms to cultivate regional economic growth and become role models for other areas



Note: See appendix for more details

VI. FOREIGN DIRECT INVESTMENT PROMOTION

A commitment to become a more universal business environment by resolving inconveniences often cited by foreign enterprises operating in Japan

Five Commitments for Attracting Foreign Businesses to Japan (Mar. 2015)

1. Overcome language barriers

Retailers

Set the standard for QR codes for mobile phones to read product information in English and other languages

Restaurants

Make multiple-language menus widely available

2. Facilitate better Internet connectivity

Free Wi-Fi

Create an environment in which foreign visitors can use free public wireless LAN (Free Wi-Fi) simply and easily at various locations around cities

3. Accommodate business jets at local airports

Customs, Immigration and Quarantine (CIQ)

Consider accepting business jets if CIQ offices are notified one week prior to the flight at local airports currently requiring two-week advance notice

4. Enhance educational environment for foreign children

International schools

Encourage prefectures to loosen their criteria for accrediting international schools as Miscellaneous Schools

5. Strengthen services to support foreign enterprises

Consultation services

Establish a system for State Ministers to act as advisors for foreign businesses



A. Expatriate Careers

Invite Talented People From Overseas

(1) Attract highly skilled foreign professionals

- Relaxed requirements of salary level and research achievements to be accredited as highly skilled foreign professionals (Dec. 2013)
- Created a new type of residence status with an unlimited period of stay¹

(2) Revise current Technical Intern Training System²

- Dramatically strengthen management and supervisory structures
- Establish new public administrative authority
- Expand job categories covered by the system
- Extend training period to 5 years
- Expand admission quota

(3) Accept foreign workers at overseas subsidiaries of Japanese corporations

(4) Enable foreign nationals to work in the field of nursing care

(5) Leverage National Strategic Special Zones³

- Promote entrepreneurship for non-Japanese to start businesses, revising requirements for status of residence
- Accept foreign housekeeping support workers

B. Women in Business

Support to balance work and childcare

(1) Secure additional childcare capacity

- Secure additional childcare capacity for approximately 400,000 children by the end of FY2017

(2) Expand childcare leave benefits

- 50% → 67% of salary prior to start of leave for the first 6 months⁴

Encourage the promotion of women

(1) Aim to increase the proportion of women in management positions to 30% by 2020

- Make public progress for the promotion of women in companies
- Mandate companies to specify the percentage of women in executive posts in Annual Securities Report⁵
- Create legal framework to require enterprises to create action plan for participation and advancement of women⁶

Where we are on promoting women

- Women in management positions in the private sector:

6.9% (Jun. 2012) → 8.3% (Jun. 2014)

- Listed companies are pledging to appoint at least one female director

- In the public sector, female government officials with a position equivalent to chief of bureau or higher: *8 women (before the personnel reshuffling in the summer of 2014) → 15 women (as of Aug. 2014, after the reshuffle)*

Appendix

V -5. NATIONAL STRATEGIC SPECIAL ZONES PROGRESS

AREA	EXAMPLES OF REFORMS	APPROVAL
<i>Yabu, Hyogo Pref.</i> (Center for agricultural reform in hilly and mountainous areas)	- All procedures related to transfer of farmland managed by Yabu City mayor (no longer by the Agricultural Committee) - Private companies will produce and process crops as an exception to the Agricultural Land Act - Private companies will collaborate with local organizations to provide old Japanese-style houses to accommodate tourists	Sep. 2014 Zone Plan approved (added in Jan. 2015)
<i>Fukuoka city</i> (Center for employment system reform for business creation)	- Support start-ups by creating a Consultation Center to clarify the conditions of employment - MICE (conferences, exhibitions etc.) can be made more attractive and promoted by holding events that attract tourists and business people	Sep. 2014 Zone Plan approved and added
<i>Kansai area</i> (Center for innovation in medical care, entrepreneurial support)	- Accelerate assessment procedures for advanced medical treatment for medicines already approved for use in other countries - Increase in the number of hospital beds is planned through exceptional measures - Establish Employment and Labor Counseling Center to support start-ups and foreign companies *approved Dec. 2014	Sep. 2014 Zone Plan approved (added in Mar. 2015)
<i>Tokyo area</i> (International business and innovation hub)	Aims to support foreign companies and ventures, One-Stop Business Establishment Center will be established for start-ups to clarify the conditions of employment and work. (Added in Dec.2014.)	Dec. 2014 Zone Plan approved (added in Mar. 2015)
<i>Niigata city</i> (Center for agricultural reform in large-scale farming)	- Due to the deregulation on Agriculture Production Corporations, private companies will be able to enter agricultural businesses to grow crops including rice, and open restaurants within their farmland. - A part of the procedures related to transfer of farmland is managed by the Niigata City Mayor	Dec. 2014 Zone Plan approved

3 new zones selected from the perspective of Overcoming Population Decline and Vitalizing Local Economy (selected in Mar. 2015)

ZONE	OVERVIEW OF ZONE POLICY DRAFTS
<i>Senboku City, Akita Pref.</i> (Center for the reform for agriculture and forestry/medical tourism)	- Allows private sector to utilize the national forest, for grazing and technology demonstrations of drones, etc. - Allows foreign doctors to engage in medical activities at tourist sites such as hot spring areas
<i>Sendai City, Miyagi Pref.</i> (Center for the reform for Women's active social participation and start-ups)	- Accelerates the start-up procedures and conducting additional qualification exam for nursery teachers in designated areas to promote start-ups by women, young people and seniors - Future technology development and demonstration test for fully automated driving vehicles etc.
<i>Aichi Pref.</i> (Center for the general reform for education, employment, agriculture for fostering industry leaders)	- Foster human resources for industries, utilizing public schools run by private sector - Create a center for growing industries and advanced technologies through next-generation technologies - Promote transfer of farmland and utilization of abandoned farmland through reforms on the agriculture committee