

Statement on the Guidelines for Dialogue Between Investors and Companies

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It is recognized that consideration was given to deepening constructive dialogue with a purpose by moving from formalities to substance, the necessity to resolve issues and produce results to improve corporate value, the formulation of guidelines, and revisions to the Corporate Governance Code (below, “CG Code”) as necessary.

Based on this recognition, we would like to state the following opinion regarding the Guidelines for Dialogue Between Investors and Companies (provisional name) (below, the “Guidelines”).

1. Objectives: in a way of more effective dialogue
 - a. Pursuing sustainable growth and improving medium to long-term corporate value creation
 - b. Identifying and sharing of management issues that should be resolved to achieve the above
 - c. Ongoing monitoring of the execution to resolve issues and the outcomes
2. Points that should be noted regarding the preparation and use of the Guidelines
 - d. For b. above, it needs to be kept in mind that it would not be effective to apply the items of the Guidelines to all companies in a standardized manner because the types of issues, priorities, and expected time horizon differs depending on the individual company. Note that the management issues that are focused on here are not limited to matters related to monitoring management, but also include matters related to management execution directly linked to the creation of corporate value.
3.

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| 1. Management decisions in response to changes in the business environment | 1-2, |
| 2. Investment strategy and financial management policy | 2-2 |

 - e. While the ideal relationship between the cost of capital and the return on capital is mentioned, according to company awareness surveys, etc., many companies have responded that the return on capital exceeding the cost of capital have already been attained, indicating a significant awareness gap between the investors and the companies. Accordingly, the financial management policy should clearly indicate the necessity of the management of debt and capital in line with the profitability of assets, and cash flow management that is consistent with strategy, for example, as follows.

2-2 Is financial management policy being appropriately formulated and implemented in accordance with management strategy and investment strategy? For example, financial management policy includes the profitability and risks of operating assets, the selection of capital (interest-bearing debt, equity capital) in line with the risk profile of operating assets, and the use and allocation of equity capital (for the purpose of

ensuring the financial strength required for interest-bearing debt financing and the use of a direct risk buffer for risk assets).

4. 3. Appointment and dismissal of CEO, performance of functions of the Board of Directors, etc.

- 3-1 to 4, 3-6 to 7
- f. Is the Board of Directors structures with the necessary skills to perform the function of resolving issues in medium to long-term strategies in place? Does the composition of the Board of Directors function as a whole?
For example, rather than conventional explanations on the outstanding career history and character of candidates, is there a structure for appointment and dismissal that clarifies what form of leadership is required of the CEO for the Board of Directors and what kind of skill portfolio and balance is required for the Board of Directors as whole?
- 3-8 to 9
- g. In order to allow the Audit & Supervisory Board to perform its functions independent from the Board of Directors and to gain an understanding of the current state of the management of subsidiaries including overseas subsidiaries, the current efforts and issues related the support structure for statutory auditors, etc., internal control system, and coordination with accounting auditors should be clearly indicated.
- Regarding CG Code Supplementary Principle 4.11.3
“Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.”
- h. Currently, while many companies are conducting questionnaire surveys with directors and interviews utilizing third-party institutions, cases of specific descriptions and information disclosure in relation to General Principle 1-4 of the CG Code regarding whether an evaluation is conducted for Board of Directors every year, how rationale is reviewed, and examples of serious efforts towards the effectiveness of the Board of Directors are extremely limited. Accordingly, the implementation status CG Code General Principle 1.4 should be within the scope of disclosures on the evaluation of the effectiveness of the Board of Directors under Supplementary Principle 4.11.3. [*]

5. 4. Cross-shareholdings

- i. It should be clearly defined that so-called “cross-shareholdings” include not only Specified Investment Securities, but also Deemed Shareholdings in retirement benefit trusts.
- j. CG Code General Principle 1.4 states “In addition, the board should examine the mid-to long-term economic rationale and future outlook of major₁ cross-shareholdings on an annual basis, taking into consideration both associated risks and returns₂.” We concern about this wording because as if it treats cross-shareholdings as pure return-seeking investment. In other word, the strategic significance of cross-shareholdings that are not [1] major is illogical, and such holdings should be unwound if they are not examined. In relation to [2], while risk indicates the volatility of returns in the case of a pure return-seeking investment, because these are not investments for the purpose of gaining share

price appreciation, cross-shareholdings should be recognized as risk assets on the balance sheet and whether it is waste of equity capital should be examined. [*]

- k. In accordance with CG Code General Principle 1.7, the cross-shareholding mechanism with “making their trade partner hold shares” (capital tie-up, business terms, etc.) should be disclosed, as well as the monitoring structure and status. [*]

- 6. Sincere efforts to implement CG Code 3-1 “Full Disclosure” and Supplementary Principle 3.1.1 “These disclosures should add value for investors, and the board should ensure that information is not boiler-plate or lacking in detail.”, should be required once again.

Note: The [*] symbol indicates areas where it is believed revisions are required in the CG Code along with the Guidelines.