Provisional Translation

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Please accept my sincere apologies for not being able to attend the second meeting today. I would like to express the following opinions.

○Group governance is important mainly for listed companies which operate globally and diversify their businesses. In order to increase corporate value, their boards need to discuss matters from both growth-oriented and defensive perspectives, and perform supervisory functions. In case of parent-subsidiary listings, there is a controlling structure where group governance does not work very well for the parent company. Therefore, if they maintain such a form, their boards are responsible for discussing reasons for that and providing explanations to their shareholders. In a listed subsidiary, in order to protect minority (general) shareholders, its board needs to carefully oversee transactions with its parent company. The dissolution of parent-subsidiary listings is desirable, but recently, we have seen some cases which become problematic for minority shareholders' interests when a parent company acquires 100% ownership of its subsidiary. It is necessary to design a framework where independent directors play their roles in preventing minority (general) shareholders from being disadvantaged at the time of TOB.

○It is important for a board to regularly check the company's business portfolio based on its medium-term business plan, by adopting an 'ambidextrous' perspective as well. As for business restructuring which tends to be postponed, outside directors are expected to support the group's CEO so that he/she can make and implement decisions in a timely manner. Especially, when the business environment is significantly changing due to COVID-19, such efforts are becoming even more important. However, business portfolios vary depending on business models of individual companies. With the advancement of DX, taking a smart city for example, we will see new combinations of businesses that create new value, such as healthcare x transportation, and energy x transportation. Listed companies need to be able to provide clear explanations to investors about a pathway to increase corporate value over the long term with their business portfolios, together with their business models.

○The ratio of intangibles to GDP in Japan is rather low compared to other advanced economies, and it is required to improve the ratio from the perspective of increasing competitiveness. Especially, from the viewpoint of increasing corporate value over the long term, investments in human capital are extremely important. Companies are expected to enhance their disclosure of such information, and investors are also expected to actively engage with the companies.

〇Companies need to be managed upon considering business portfolios, taking into account capital efficiency. ROE of Japanese companies had gradually increased until 2019, but it is still low by international comparison. Looking at the components, the low ROE is attributable to the low net profit margin (ratio of net profit to net sales), so it is important to increase net profit margin. ROIC is a useful indicator because it considers weighted average capital cost, easily shows profitability by business segment, and may serve as a performance indicator for frontline employees. Companies need to set targets of such indicators, and link such targets to their remuneration systems, aiming at increasing corporate value.

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