[English Translation]

November 30, 2015

[REPORT ON THE THIRD/FOURTH INVESTORS FORUMS]

Forum of Investors Japan

Theme: Forward Looking Guidance on Earning Results-What makes a "Good Corporate Disclosure"?

Time: i) September 17, 2015, 6:30 p.m. – 8:30 p.m.

ii) October 22, 2015, 6:30 p.m. ‐ 8:30 p.m.

Venue: Meeting Room, QUICK Corp.

Participants: i) 27 persons, ii) 23 person

Purposes:

- The agendas such as "Review toward Integrated Information Disclosure, etc." which are stated in the METI's "Report on the Study Group concerning Promoting Dialogue between Companies and Investors for Sustainable Growth – Corporate Disclosure and Process in Shareholders Meeting toward Advanced Country in Dialogue" in April, 2015 and "Japan Revitalization Strategy (Revised in 2015)" point to reviewing what makes a good corporate disclosure to promote sophisticated and constructive dialogue between the companies and the investors. In this Forum, we sought to find and share a certain common ground on what makes a truly useful and effective corporate disclosure for the institutional investors.
- It should be noted that the participating institutional investors are agreeing with the purpose of this Forum, namely, "[to] realize constructive dialogue between the institutional investors and investee companies, and contribute to the sustainable growth of such companies." Therefore, the way we believe is a "good" corporate disclosure is good particularly for the long-term and actively managing institutional investors.

Below, we have listed without modification to the extent possible the main opinions of the participants of the third and fourth investors' forums. Note that, in order to clarify the points of discussion and the details of the opinions, competing opinions (if any) are presented together.

I Basic Issues

1. Rationalize Overlapping Disclosure Documents

- Many companies prepare and deliver financial statements as prescribed by the Companies Act in between releasing earnings summary and disclosing annual securities reports, and it does not look well-timed. In addition, those financial statements are insufficient for investment decision-making because they do not include the comparison with the previous year's results, cash flow statements or segment information. Also, they are not user-friendly as they are not in XBRL format.

- Ministry of Justice seems to regard those financial statements as "official financial statements," but many investors wonder who uses those financial statements.
- Annual securities reports should be disclosed before the shareholder meeting in order to have them examined through investors' eyes and to vote based on the content of the reports.
- Some people involved in accounting and auditing claim that financial statements and annual securities reports should be audited twice respectively.
- From investors' perspective, several auditing in a short period of time is pointless. A careful and integrated auditing is rather preferable.
- Information that investors need immediately should be disclosed separately from information that doesn't require prompt examination. Such two types of information may be disclosed as modules and such modules will finally make up one body of integrated corporate disclosure document. This type of approach was discussed also in the study group of METI last year.
- Financial information is supposed to be almost fixed when companies prepare their earnings summary. Qualitative information or non-financial information can wait to be disclosed but performance figures should be disclosed without simplification and delay. This is because Investor-company dialogues are often held after the release of earnings summary.

2. The description in "Operating and Financial Review and Prospects / Overview of Business Results" of annual securities report looks like shifting blames to external factors

- Many companies describe, in the outset of their earnings summary and annual securities report, a macro-economic trend in Japan and the trend in their industries before explaining their business results. This way of description will make it that their business results tend to be passively evaluated. I don't know how this has become a standard. They tend to be cookie-cutter descriptions. They are lacking in such information as what issue the company tackled and what came out as the result or what approach failed, etc.
- They choose such descriptions because a direct mentioning of a particular business in slump may be picked as a mismanagement of a particular director in charge. In this part of the reports, companies should provide cause of a failure (if any) and make this part connected to Evaluation of Board of Directors in accordance with Supplementary Principle 4.11.3 of the Corporate Governance Code (the "CG Code").
- If any mistake is found in annual securities report which is a statutory disclosure document, the companies have to submit an amendment report or receive correction order from the regulator, and they even become subject to legal liability for such misrepresentation. For this reason, some companies make simple statements in the annual securities report, and they make the integrated reports richer in contents as they are voluntary disclosure documents that don't bear such legal liabilities as misrepresentation.
- Companies including **Mitsui & Co., Ltd.** use such charts as they use in the IR meetings in the annual securities report. Such disclosure in unified format is good in that it's easy to find any particular information, but such annual securities report tends to be huge in volume and file size.

3. Effective Use of Voluntary Disclosure

- **OMRON Corporation**, for instance, has well-documented annual report. It explains the process of electing their future president in a dialogue between the chairman and one of the outside directors.
- The annual report of **Olympus Corporation** is rich in contents, too. One of the outside directors talks about the level of discussion in the board meeting in a dialogue format.
- Companies are committed to their IR activities because they want their stock value fairly evaluated. Companies with relatively fluctuating performance should voluntarily disclose their figures more frequently, and companies with relatively steady performance may choose otherwise. I think different ways to disclose company information should be granted to some extent.
- I understand the idea that some extent of diversity should be granted in the way companies disclose their information regarding the quarterly disclosure and the performance prospects, but there are too many companies for investors to evaluate such diversified methods of disclosure appropriately. I doubt such an approach would lead to the betterment of the capital market.
- Companies should have their own vision in how they release the information, rather than stick to follow-the-others mentality in the industry.
- The integrated report is the one-stop source of information which contains necessary information such as outside directors and ESG (Environment, Social and Governance). Making clear of what the company is up to may result in better evaluation as is the case for **Mitsubishi Heavy Industries, Ltd.** **Mizuho Financial Group, Inc.** has also released the integrated report with their prospects for relatively longer period.
- The disclosure on the company website should be better-organized. Information other than earnings summaries and annual securities reports is not so easy to find in many websites. It is pointless to release important information that cannot be found by investors. It is a good idea to move toward unified disclosure as in integrated reports.

II Quarterly Disclosure

1. Views on Effectiveness of Quarterly Disclosure

Negative Views:

- It would encourage short-termism.
- Europe is shifting to abandoning it.
- Quarterly disclosure causes four silent periods. They account for 5 months of non-disclosure period in a year in total.
- 1 or 2 times of disclosure would be enough and even appropriate for some companies, depending on their business category.
- Quarterly auditing places too much burden on auditing firm and the quality of auditing is deteriorated.
- There is, on one hand, a company who makes quarterly disclosure and nothing more, and its competitor, on the other hand, shares its management philosophy, capabilities, pricing and response to environmental changes and wins investors' trust.

Positive Views:

- Quarterly reports are important for us to know the progress of the mid-term management plan. A dialogue about the mid-term management plan can be held in the said silent period.
- Companies grasp their actual performance through the management accounting. The effectiveness of discussion in a dialogue may be diminished without such information.
- From the perspective of checking the annual budget and the achievement of the long-term management plan, I feel no discomfort with the quarterly disclosure.
- Some presidents of start-ups and emerging companies don't always have the right image on their current performance. Quarterly reports are effective as their remainder. In such companies, outside directors should also check the quarterly disclosure. Quarterly disclosure is important for such companies to discipline the president.
- Frequent release of information on current status is appreciated with respect to underperforming companies. The quarterly disclosure is important in that sense.
- Except for companies which are excellent in disclosure, governance and performance, quarterly disclosure and annual prospects for business performance are necessary to be disclosed.
- Many companies have got better in their performance after quarterly disclosure became required. Also, I worry about companies under middle-sized not releasing quarterly disclosure.
- The lengthy silent period can be shortened by setting the disclosing timing ahead.
- The silent period may look lengthy because earnings announcement is late, but earnings announcement of Japanese companies is not actually late compared with that of other countries.

2. Quarterly Financial Results Forecast is Unnecessary (It only encourages short-termism.)

- Quarterly Financial Results Forecast is unnecessary. Investors expecting those forecasts are just being delinquent. The problem lies also in the side of investors who are satisfied only with periodic performance figures in their hands.
- Some companies release only quarterly forecasts for the next quarter and not annual forecast. It might be because they can foresee the trend of their clients only for the next quarter, but such companies are caught in a vicious circle of short-termism. The quarterly forecasts by such companies are most likely to fail and those are pointless disclosure.
- **General Electric Company**, for instance, discloses its forecasts for each business category as (+), (++) or (-) or in some other cases, companies represent their forecasts in a certain range.
- Quarterly disclosure of financial results may substitute for the forecasts on the annual financial result. **Shin-Etsu Chemical Co., Ltd.** releases its forecasts on the annual financial result after the first quarter (ends on June 30). They don't even release mid-term management plan, but they are positively evaluated as they have fine track record.
- Figures in quarterly disclosure should at least be consistent with those of audited annual report, even though quarterly figures are not audited.

III Mid-term Management Plan

1. The Problems regarding the Mid-term Management Plan

- Most of the mid-term management plans turn out to be unachievable in the end.

- Sometimes it turns out in the middle of a dialogue with the management members that the CEO hasn't grasped the right figures in their mid-term management plan. Without thorough understanding of the management plan by the management themselves, who can expect it to be fully committed and thus achieved?
- Many of the mid-term management plans project their future performance as soaring in every business domain. I am wondering whether they really think such plans are achievable.
- In their plans, they are going to achieve the highest profits ever in the end of the projected period on the basis of the higher uncertainty of the further future. The solid grounds of the planning such as long-term trends of foreign exchange should be presented.
- By knowing the process of thinking that made up such a rosy management plan, the level of the company shall be revealed by itself.
- Investors pay attention only to the quarterly figures rather than long/mid-term performance of companies because their mid-term management plans are rarely achieved.
- Still not many companies release the mid-term management plans.
- Some companies don't present their mid-term management plans on their websites, and others do but only in the briefing materials in the IR meetings. I've found some mid-term management plans on the websites had been deleted before I knew it.
- The time scale of the mid-term management plans varies from 3 to 30 years.
- Foreign companies rarely focus on hard numbers on P/L statement in their mid-term management plans, like "XX billion yen of operating income by the end of XX, 20XX." There writings show a wide range of variation in KPIs quoted and time scales, or which figure to commit to: net earnings or EPS.
- Companies' performance goes through ups and downs in a cyclic manner. Linier forecasts on a yearly basis don't look trustworthy.
- Mid-term management plans of Japanese companies tend to be P/L-centric and have little discussion in cash flow. Companies such as **LAWSON, INC.**, **NEC Corporation** and **Kao Corporation** have been focusing on cash flow since before and also **Hitachi, Ltd.** and **Mitsubishi Heavy Industries, Ltd.** have recently started to focus on cash flow in making their mid-term management plans and they are positively evaluated.
- Some companies say they have no idea how to make a mid-term management plan. Investors may provide such information as frameworks of plans and investors' perspective on focal points, etc. That's what only the long-term investors can do to grow together with the companies.
- Not only performance forecasts but also the strategy thereto needs to be described specifically.
- The forecast of next 3 years looks reasonable if it is framed in the vison of 10 - 20-year-timeline and back-calculated from its goal. Though it would be difficult to achieve short-term figures due to unstable currency exchange rate and other factors, it is important to continue its business looking toward the 10 - 20 years later and communicate such positive messages to investors. Discussion on the target profit margins and ROEs comes after having such attitude, and not the other way around.
- The important thing is to have a clear vision of the company 10 - 15 years later and back-calculate what the company should be like today. It cannot be mere extension of vague image of 3 years later for further future.

- I get the impression that the current disclosure practices are primarily for the analysts of securities companies or Japanese Company Handbook (*Shikiho*) rather than for investors like us. It's worthwhile to communicate what we want to know about companies.
- The mid-term management plan of **Asahi Group Holdings, Ltd.** includes some quantitative targets but only in the form of percentage or change ratios of ROEs, etc. and not in detailed schedule as a certain figure in P/L by the end of XX, 20XX. **Ajinomoto Co., Inc.** also focuses on showing roadmap but not on indicating target figures of some particular P/L items. Both pay certain attention to the prospect regarding cash flow.
- Regarding US companies, MD&A (Management's Discussion and Analysis of Financial Condition and Results of Operations) shows the direction the company is heading toward. Such descriptions cannot be seen from the annual securities report of Japanese companies.
- In the US, CEOs have strong intention to make their business models and visions understood to investors so as to have their companies be properly evaluated.

2. Best Practices in Overseas Companies

- **AstraZeneca K.K.** presents its general prospects without numerical target other than sales revenue. It's different from many Japanese companies that show detailed but questionable prospects such as sales, operating income and ordinary income by the end of XX, 20XX, etc.
- **Novo Nordisk Pharma Ltd.** presents 4 numerical targets: operating profit growth rate, operating profit margin, rate of operating profit after tax to net operating assets and cash to earnings[1], and the last one is an indication of the company's unique policy that the excess of 90% of the cash to earnings shall be invested or returned to shareholders. Novo Nordisk only presents numerical targets that it deem necessary underpinned by its ideal and philosophy.
- **General Electric Company** presents its future outlook of each business category by (+) and (-). It also estimates its shareholder return as in range of $10-30 billion. Japanese companies should also show numerical targets in ranges rather than fixed low figures that would be criticized.
- **Siemens AG** shows KPI on which they focus in range and describes the progress of performance of that KPI like a checklist.
- **Intel Corporation** shows continuous progress since previous year in the beginning of its report.

IV Forecast on Earnings

- Some companies spend 6 months to draft next year's budget and during that period they review the performance of the first half year. They adjust forecast on earnings by moving up and down the figures in every quarter period.
- **OMRON Corporation** and **KEYENCE CORPORATION** don't disclose next year's forecast on earnings.
- **OMRON Corporation** appears to be hesitant to disclose short-term information because the company wants mid-long term investors to hold its shares. The attitude is accepted by investors

[1] Free cash flow as a percentage of net profit [see p.94 Novo Nordisk Annual Report 2015]

because the content of its disclosure is satisfying to such investors. However, just holding back of short-term information would drive down its stock price.

- Proactive disclosure may reduce the cost of capital raising.
- The listing rules of TSE do not require the disclosure of the forcast on earnings. Companies disclose the forecast probably because it's necessary as an instrument of dialogue with investors. Some companies even say that it's impossible to have constructive dialogue without it.
- Copmanies are operated on a single year basis. Earnings forecast for each year makes it easier to level the points of view with the management of companies.
- Many companies abroad don't make earnings forecast, and analysts try to grasp the company's business model and external factors and proactively evaluate the companies. Analysts who blame the company for its unachieved target while ignoring their own non-performance are misguided.
- Not all companies abroad draft annual budget. Still, however, such companies keep their commitment to investors by maintaining their disclosed target profit ratio by taking measures such as reorganizing the departments or divisions, etc.
- Japanese companies tend to show figures in detail such as sales, general and administrative expenses in earnings forecast.
- I know some companies abroad that only update the budgets from time to time and not on a single year basis.

V Problematic Preview Interview[2] (*Purebyū Shūzai*)

1. Preview Interview is not Necessary for Long-term Investors

- The cause of problem of preview interview is to be attributed to all of companies, brokerage firms and investors.
- Companies expect brokerage firms, analysts and investors to positively evaluate their performance as an incentive to accept preview interview meetings. Investors also should be blamed for their being prone to respond to such expectations easily.
- It may be true that the preview interview meetings became a common practice by the existence of brokerage firms hold the meeting with prepared lunch (*bento* in Japanese) and there are investors who do not value the preview interview meetings but attend the meetings.
- It is also a problem of investment chain in which asset owners seek short-sighted return.
- It is ludicrous to have preview of financial statement a month after a review of closing financial statements by the accountants. Some companies abandoned accepting interviews. This is a positive trend.
- Some companies try to share their expected target figure without even being asked when I visit the companies around book closing period.
- It's also an idea that investors, etc. independently examine the preview report by the media.
- Excessive preview interview by asset management firms may need to be monitored.

[2] "Preview Interview" (or "*Purebyū Shūzai*" in Japanese) is a common practice that analyst of stock brokerage firms or the media, etc. interview Japanese companies before the announcement of quarterly financial statements and obtain information which is not publically released at that time.

2. Preview Interview by the Media is Seriously Problematic

- The preview interviews by the media including newspapers might be a significant problem regarding insider trading. They might have been deemed unproblematic because it is for the reporting purpose and it does not involve tradings, but it is actually problematic. There were more than 40 coverages of preview last year, and they were more accurate than any forecast by professional analysts.
- The forecasts by Japanese Company Handbook *(Shikiho)* were also very accurate.
- They should have obtained information from companies to a certain extent as they won't put uncertain information on the front page of the newspaper.
- It might be the case that news reporters just write what they heard in one interview rather than well-organized interviews as their positions will change in a short period.
- The media sometimes often focuses on a quarterly return on investment when they cover public pensions, and this is very short-sighted and irrational.
- It is unjust to disclose decided matters or actual performance figures before the official announcement.
- Advance coverage by newspaper companies regarding individual cases such as the merger ratio upon a merger case is a big problem.
- Not only the preview of short-term performance, but there was also a case that a case of financing some hundred billion JPY was exposed in a morning newspaper and the company made the official announcement at 2 p.m. before the closing of stock exchange.
- There are problems on both sides: companies who provide the information and the reporters who receive such information.
- Companies abroad sometimes provide the media with some information with an intention to see the market response, but never provide actual figures. They only imply overall directions.
- In the case of an accounting problem of certain company, major papers except for one wrote "improper" accounting, but not "fraudulent." Companies are the biggest sponsors for paper companies and thus very influential.
- The uneven relationship between the media and companies, and news gathering based on inter-dependence is also problematic.
- I've heard of a case that some news reporters fabricate news when he/she cannot obtain information as expected from the source.
- For small companies, refusal of preview interview may lead to exclusion from the coverage. It reminds me of how the companies treated analysts a few decades ago.

3. Preview information by the media may be a source for the HFT (High Frequency Trading) and consequently brings distortion to the market.

- Previews by the media have a significant impact over the market where HFT accounts for more than 60% of all the transactions in the market.
- A growing number of short-term investors like hedge funds also increase the need for previews by the media.
- The volatility of certain stock can be heightened by information other than official announcement by the company, which is unwanted for long-term investors.

- A large volume of sells by hedge funds, for example, would drive down the stock price and may create an opportunity for long-term investors. In that sense, long-term and active investors cannot always negate the raison d'etre of short-term investors like hedge funds.
- There are diversified investors ranging from HFTs to passive managers and they have diversified need for corporate disclosure.

4. Companies are abolishing preview interviews; that trend is welcome

- **SEIKO EPSON CORPORATION** explicitly announced that it has abandoned accepting preview interviews.
- Some precision equipment manufacturers such as **KONICA MINOLTA, INC., HOYA Corporation, TOKYO ELECTRON DEVICE LTD., Brother Industries, Ltd., Fujifilm Corporation** also changed their policies, and some of them "represented" it in writing by email to securities companies.
- **Nissan Motor Co., Ltd.** also doesn't accept preview interviews. The company was expecting some backlash from some securities companies and investors in comparison with its competitors, but no such action has been taken so far.
- **TOKYO ELECTRON DEVICE LTD.** also changed its policy and abandoned accepting preview interviews last year. The company represented it by email to securities companies and investors this year. It made the decision based on a fair disclosure principle. The company doesn't accept preview interviews not only immediately before silent period, but also through the whole quarterly periods. The company says it doesn't provide, for instance in response to a telephone inquiry, nuanced information regarding a chance of winning an order.
- **HOYA Corporation** hasn't made an official announcement of abandoning accepting preview interviews, but has not accepted preview interviews for at least a year and a half.
- **Hitachi, Ltd.**, together with the group company, still accepts preview interviews, but makes no comments on the preview for fair disclosure reasons.
- Analysts seem to feel that the IR division had been accepting preview interviews, and the IR division also decided to abandon the preview interviews by itself.

IV Preferred Schedule of Disclosure

1. Annual securities reports should be disclosed before the shareholder meeting. Schedule of the shareholder meeting should also be reconsidered.

- The lack of timely disclosure of necessary information: when we exercise voting rights referring to the information on cross shareholding, we have only an old annual securities report released one year ago.
- It must be possible to disclose the information on stocks held by the company at the time of dispatching the notification of the shareholder meeting.
- Disclosing an annual securities report before the shareholder meeting would be mostly appreciated from the voters' perspective.

2. "Operating and Financial Review and Prospects / Overview of Business Results" of annual securities report needs to be substantial

- The description of MD&A in 10-K usually has more meaningful content than its counterpart of Japanese companies. It is said that the Japanese companies fear the legal risk of making fraudulent statement, but the same can be true for the US companies. The "Operating and Financial Review and Prospects / Overview of Business Results" in Japanese annual securities reports should make the same level of disclosure.
- If Japanese companies still cannot get out of their comfort zone regarding the description in fear of legal risk, we expect them to make more proactive and meaningful disclosure in a different medium such as integrated report, etc.
- It would be convenient if all the disclosure documents including annual report and integrated report could be disclosed in one medium so that investors can find all the information with only one stop. Disclosure on the website, too, should be gathered in one page for the users' sake.

3. Modular disclosure (as discussed in METI study group) would hopefully clear the above shortcomings.

- Some companies say that they want newly appointed director or amount of dividend resolved in shareholder meeting written in annual securities reports, but such information can be disclosed in a separate extraordinary report.
- It would be difficult for companies and auditing firms to secure manpower if companies try to move up the disclosure schedule of annual securities report without changing the schedule of shareholder meeting accordingly. It can be an option for companies to rethink the schedule of shareholder meeting as stated in the Supplementary Principle 1.2.3 of the CG Code. A company whose fiscal year ending 31 March, for instance, would be able to send the notice of shareholder meeting well in advance, if the shareholder meeting were held in July.
- The notice can be digitized, too; companies can spend more time in working on the subject discussed.

<Forum of Investors Japan: Mission Statement>

With the aging and decreasing population in Japan, how to maintain and generate national wealth has become a crucial issue for the Japanese. In order to deal with this issue, a more effective use of capital to create value, that is, a more effective combination of human capital, intellectual capital and financial capital will be required. Companies are the stage for this. Reinforcement of the competitiveness and earning power of every company is believed to be the condition necessary for building the strength to create value in Japan as a whole.

On the other hand, the role of investors is to provide capital to companies that take on such task (retained earnings is a form that investors provide capital, in addition to IPOs and POs). Return from invested capital will be reinvested, which will promote the creation of more value to companies. As the main body of the investment chain that creates such virtuous cycle, investors are expected to assume the crucial role of "stewardship responsibilities".

From these perspectives, we want to understand in more depth measures taken by the companies to create values in the long-term, and to hold straight-forward talks with listed companies about the issues that the companies encounter.

With regard to our interests as mentioned above, the implementation of the Corporate Governance Code is expected to create a better environment for "dialogue with shareholders", but at the same time, as the Japan's Stewardship Code and Ito Review point out (Notes 1 and 2), institutional investors are required to enhance their "capability" to share knowledge and experience in order to have better dialogue with companies and make better judgments.

We operate the "Forum of Investors Japan" for the purpose of supporting institutional investors acquire skills to appropriately fulfill their stewardship responsibilities toward their investee companies, and thereby realize constructive dialogue between the institutional investors and investee companies, and contribute to the sustainable growth of such companies.

(Note 1) Japan's Stewardship Code, Principle 7-3
Exchanging views with other investors and having a forum for the purpose may help institutional investors conduct better engagement with investee companies and make better judgments.

(Note 2) Ito Review (pp.116-117)
"In order to enhance their capability for having dialogue with companies, it is important for a platform to be established in which institutional investors can share knowledge and experience, and have frank discussions on this matter. It is expected that this platform will help to provide a shared intellectual basis for dialogue and engagement, including issues such as the depth, appropriate counterparty at the company, and focus of dialogue.

* Please see the website below for more information on the activities of the Forum of Investors Japan
http://investorforum.jp