

Invest in Japan

May 2014

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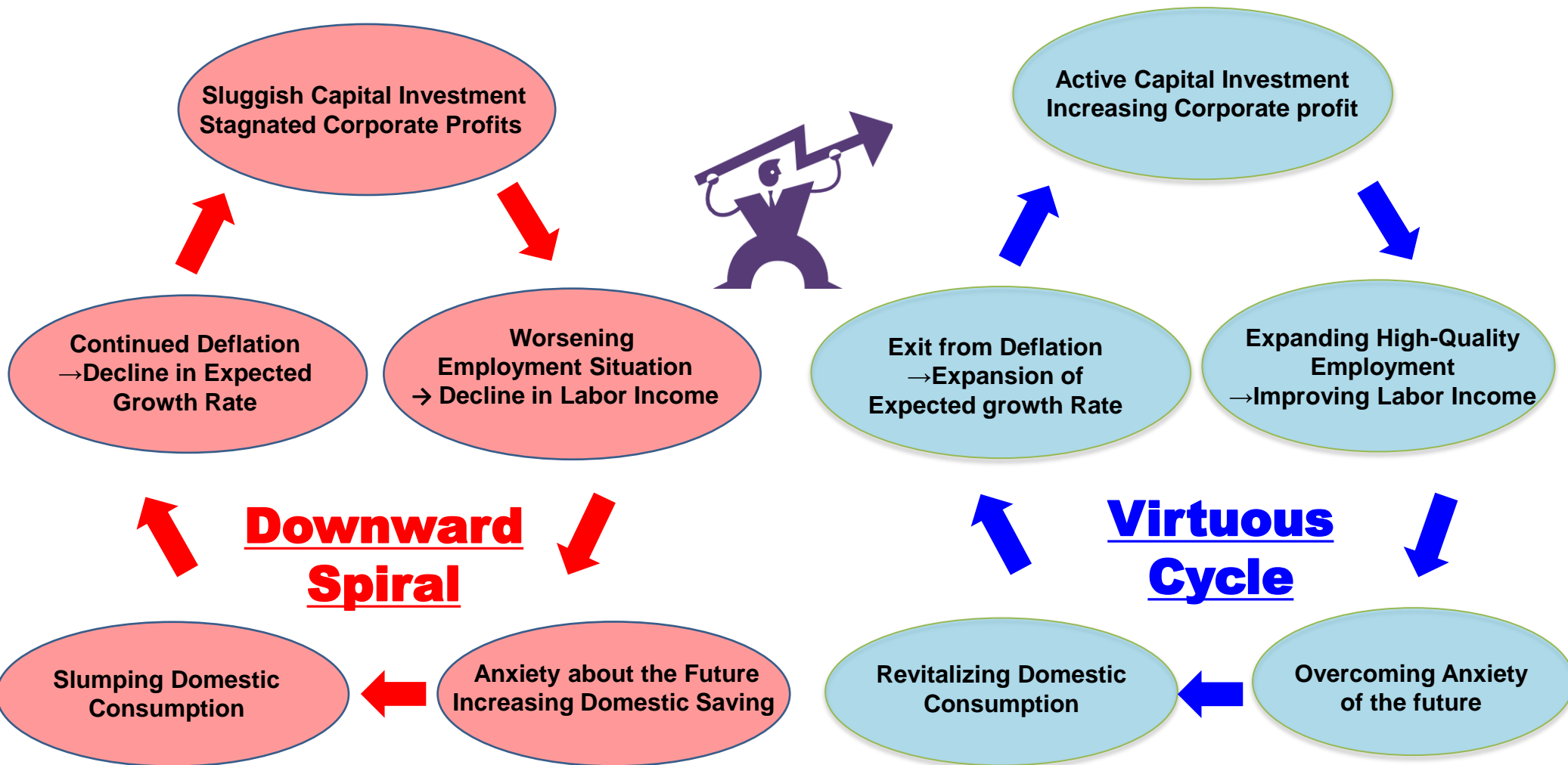
Outline

- 1. Overall Picture of Abenomics and the Current Japanese Economy**
- 2. Attractive Investment Environment**
- 3. New Business Chances Provided by the Growth Strategy of Abenomics**
- 4. Government Incentives for Global Companies**

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Abenomics has been Transforming the Downward Spiral to a Virtuous Cycle



1. Price Stability Target and Bold Monetary Policy: The First Arrow

- Price stability target (2% inflation) within about a two year time frame

2. Flexible Fiscal Policy: The Second Arrow

- Massive ¥10 trillion (US\$100 billion) fiscal stimulus package 【FY2012 Supplementary Budget】
- Additional ¥5.5 trillion (US\$55 billion) fiscal stimulus package to counter the impact of the April 2014 consumption tax increase (5% to 8%) 【FY2013 supplementary budget】

3. Growth Strategy: The Third Arrow

Signs of Economic Recovery: A Tidal Shift

GDP Growth Rate

The Japanese economy shifted from negative to positive growth

July-September 2012

-3.2%



January-March 2013

+ 4.5%

April-June 2013

+ 4.1%

July- September 2013

+0.9%

October-December 2013

+0.7%

(real terms)

Consumption

Consumption is starting to pick up.

July-September 2012

-1.3%



October-December 2013

+0.9%

(contribution of final consumption expenditures by households (in real terms) to GDP)

Capital Investment

Private capital investment has largely bottomed up

Capital investment
(nominal terms)

July-September 2012

-9.3%

July-September 2013

+1.4%

October-December 2013

+4.1%

Change from previous quarter and these numbers are annual rates.

Private capital investment
(nominal terms)

Pre-Lehman Shock level

**Approximately
¥70 trillion**
<Approx. US\$ 700billion>



Fiscal 2012

**Approximately
¥63 trillion**
<Approx. US\$ 630billion>


The values in last June when the growth strategy was developed.
The confirmed level : ¥64.6 trillion
(Approx. US\$ 646 billion, December 2013)

(yen)

Change in Nikkei Stock Average



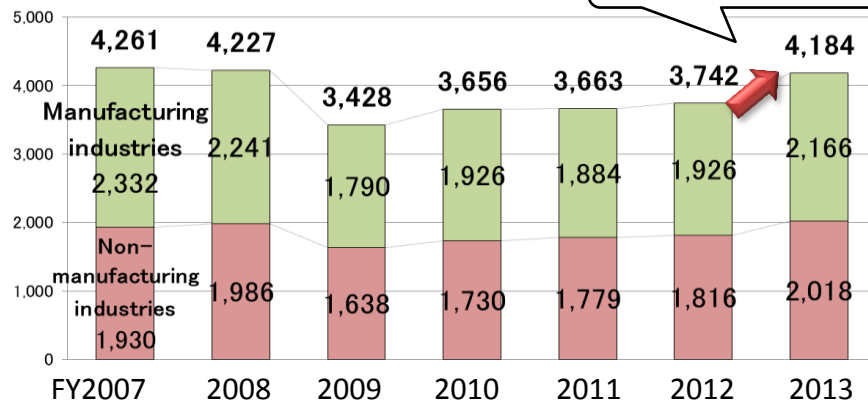
Signs of Economic Recovery: Improvement of Corporate Profits

- Major improvement of profitability of companies
 Recovered to the pre-Lehman shock level

1,178 Listed Companies Settlement of Accounts (April-December)

Sales

¥100 billion (=US\$ 1 billion)

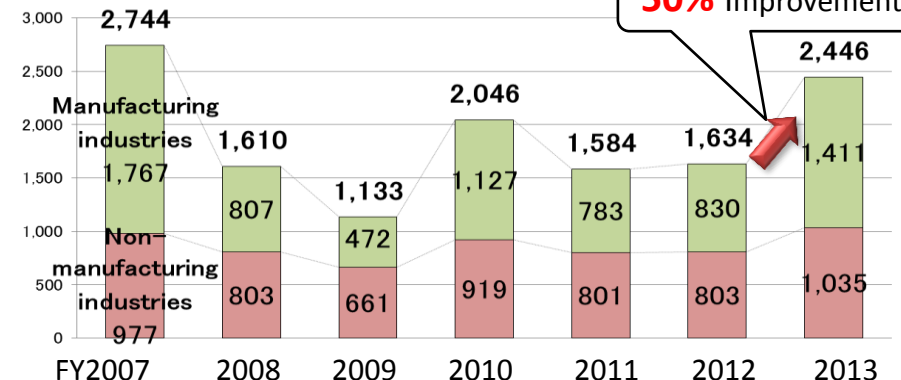


12% improvement

Year-on-year rates of change (%)	-0.8	-18.9	6.6	-0.2	2.1	11.8
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Current profits

¥ 10 billion (=US\$ 100 million)



50% improvement

Year-on-year rates of change (%)	-41.3	-29.6	80.6	-22.6	3.1	49.7
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Improvements to Bonus Payouts and the Employment Environment

The Year-end Bonus (Year-on-Year)

2012 **-3.0%**  2013 **+3.5%**

Unemployment Rate

2012 (December) **4.3%**  2014 (February) **3.6%**
0.7% Improvement

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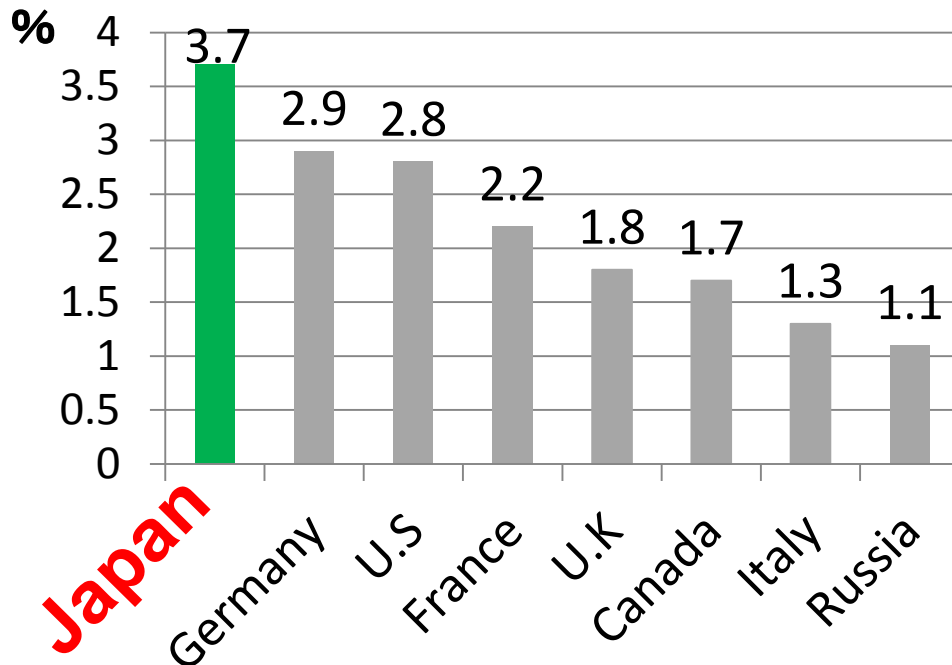
Attractive Investment Environment for Innovation and Manufacturing

Large and Sophisticated Market

- GDP: US\$5.96 trillion (world's third largest market) Source : IMF World Economic Outlook (2012)
- Sophisticated consumers

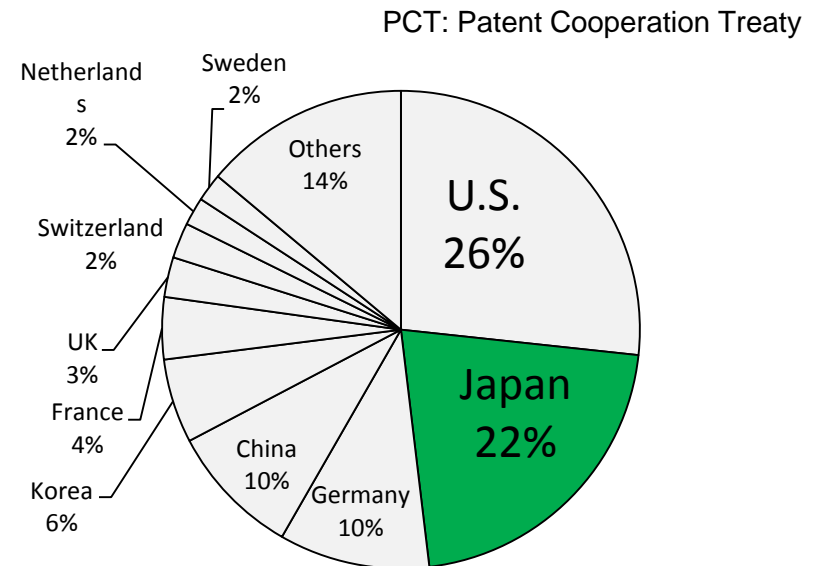
Optimized for Innovation

Gross domestic expenditure on R&D



Source: OECD (2013) , MIC Statistics Bureau (Japan, 2013)

Share of PCT filings by country of origin



Source: WIPO Statistic Database (October 2013)

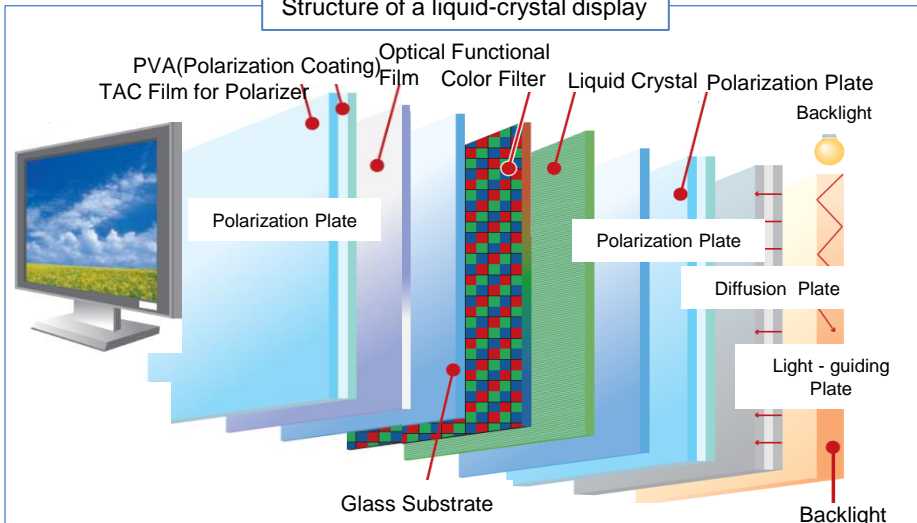
Industrial Cluster which consists of high-tech Supporting Industries

- Japanese manufacturing industries have state-of-the-art materials which determine the performance of the final products. Huge growth potential is anticipated in this field.

Functional Materials with a Large Global Share

- Japanese functional materials are playing a key role in the field.

Structure of a liquid-crystal display

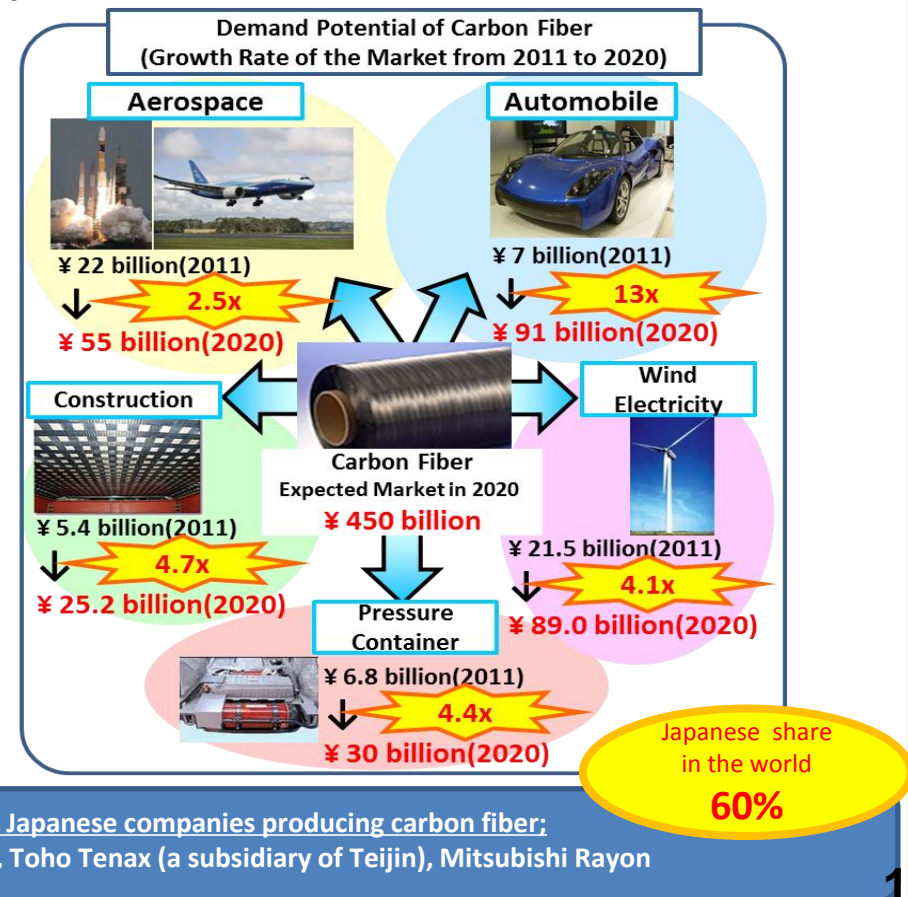


Sub-components of the above

Color Resist	Market ¥85.5 billion Japanese Share in the World 71.3%	Photo Spacer	Market ¥20.7 billion Japanese Share in the World 94.5%
Companies: JSR, Toyochem		Companies: JSR, Osaka Organic Chemical Industry	
Black Resist	Market ¥16.5 billion Japanese Share in the World 81.4%	Liquid Crystal Glass Substrate	Market ¥1.3 trillion Japanese Share in the World 51%
Companies: TOKYO OHKA KOGYO, Mitsubishi Chemical		Companies: Asahi Glass, Nippon Electric Glass	
TAC Film for Polarizer	Market ¥126 billion Japanese Share in the World 100%	Phase Difference Film with Compensatory Function	Market ¥150 billion Japanese Share in the World 100%
Companies: Fuji Film, Konica Minolta Opto Products		Companies: FUJII FILM Konica Minolta Opto Products	
		Antireflection Film	Market ¥116 billion Japanese Share in the World 94.2%
		Companies: JSR, Nissan Chemical Industries	

Carbon Fiber Available in Multiple Areas

- Features of Carbon Fiber; Lightness (1/4x of iron), intensity (10x of iron), hardness (7x of iron), non-corrosiveness etc.
- The market is growing by 20% a year, expected to become 4 times larger in 2020.



SMEs with Superior Technology

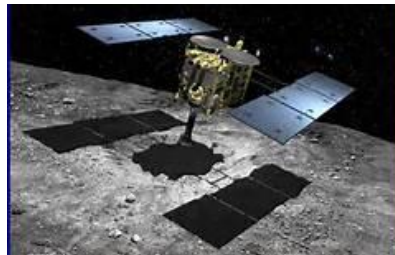
Mirror Polishing Technology

- Polishing metal and ceramic surfaces at the nanolevel
- Approved for the sample collection capsule for the Japan Aerospace Exploration Agency Hayabusa 2 asteroid mission

TDC Corporation

Miyagi Pref. Capital: US\$ 300,000.

No. of employees: 54



Resin Molding Technology

- Encapsulation molding technology using a new adhesive (hot melt adhesive) has been developed
- Enhanced electric product quality (waterproof, dust moisture performance, etc.)

Nakatani Sangyo

Kanagawa Pref. Capital: US\$ 2.25 million

No. of employees: 250



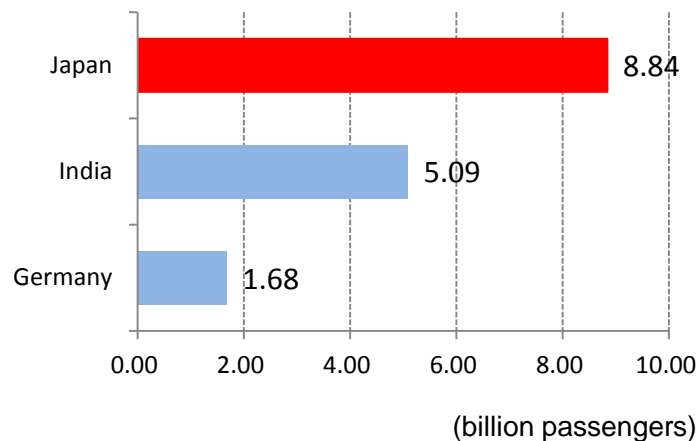
“J-Good Tech” – a website for matching with Japanese SMEs

- A matching website that connects superior small and medium manufacturers with top niche/unique technology/products in Japan, selected by SMRJ (Organization for SMEs and Regional Innovation, JAPAN), with large domestic manufacturers and overseas companies.
- Information will be available in Japanese and English. Service available from May 2014.
- SMRJ Website: <http://jgoodtech.smrj.go.jp/en/index.html>

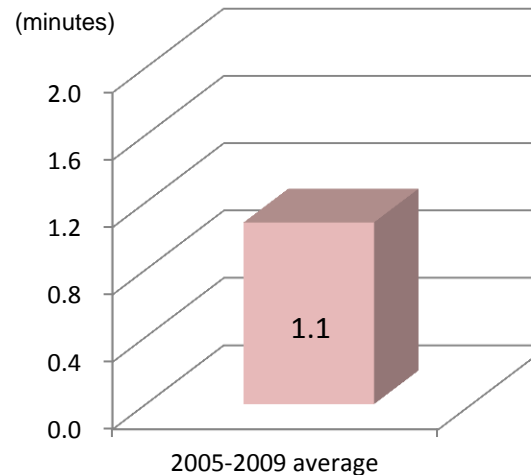
Well-developed Infrastructure – Punctual and Reliable Railways

- The annual number of Japan's railway passengers is ranked among the world's largest. Due to volume of passengers, high frequency operation management (1 train / every 2-3 minutes) is implemented.
- Average delay per conventional train (2005-2009 average) is around 1 minute, comparatively punctual.
- The number of failures per 1 million km is almost zero, which means high reliability.

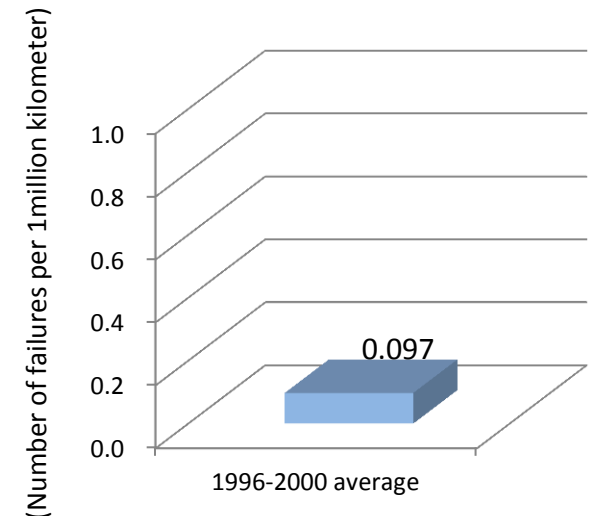
The annual number of railway passengers in 2009



Average delay per conventional train



**Failures of rolling stock
(Data of JR East)**



※Definition of rolling stock failure
Failure in rolling stock that cause driving accidents and obstruction that result in passenger trains being suspended or delayed by 10 minutes or more or non-passenger trains being delayed by 30 minutes or more.

The Outstanding Feature of Shinkansen

- Japan has nine dedicated super-fast express Shinkansen networks

Passenger fatalities

Safety

ZERO

1964 → 2014

49 Years

Tokaido Shinkansen
opened
(1964)



Operating frequency

(at peak time)

Frequency



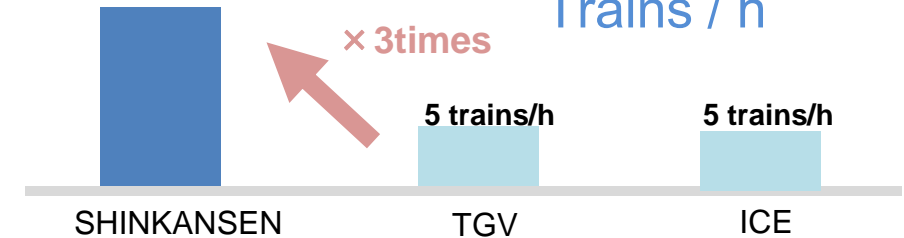
15trains/h

15

Trains / h



× 3times



SHINKANSEN

TGV

ICE

Reliability

Average delay time per trip

Within

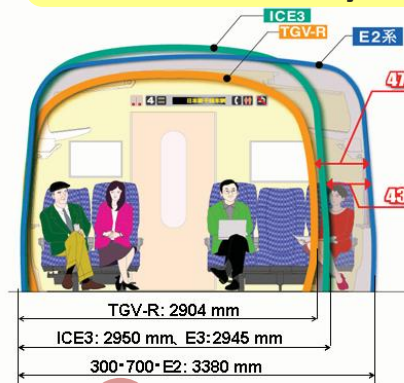
1

minute



Efficiency

The car body of Shinkansen is wider than that of any other high speed rail train.



	Width (mm)	Seat Pitch(mm)	Seats/Car (No./car)
Series E5	3350	1040	73.1
Series N700	3360	1040	82.7
TGV-R	2904	900	37.5
ICE3	2950	920	53.6

1

More passengers

2

Comfort

13

Japan's Contribution in the UK Railway Sector

- Hitachi contributes to the UK's railway sector by providing high quality rolling stock based on cutting-edge technologies of Japanese origin.
- Hitachi is constructing a new rolling stock factory in the UK that contributes not only to improving UK railway services but also the UK economy as a UK company.

Channel Tunnel Rail Link (CTRL)

Introducing Hitachi's rolling stock (Class 395) could shorten the necessary time.

Overview Of Class 395 for HS1

Speed	Max 225km/h*1
Route	Dover – St. Pancras
Journey Times: *2	Before Class 395: 83 min After: 37 min

*1 High speed line *2 High speed line (Ashford ~ St. Pancras)

- Class 395 worked as a shuttle express to Olympic Park in Stratford.
- Highly evaluated due to lack operational, maintenance problems.



Intercity Express Programme (IEP)



- The factory is being constructed in Durham.
- Manufacture, assembling and testing facilities with increasing scope including R&D
- More than **700 new jobs** are to be created.

Well-developed Infrastructure – World Class Waterworks Technology

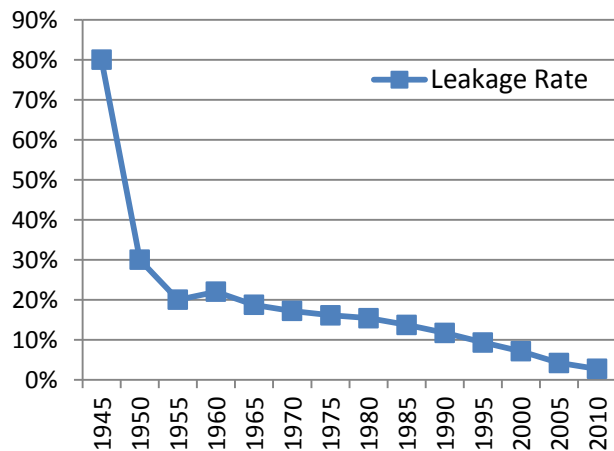
An advanced water treatment system supplies safe, better tasting water which can be drunk directly from the tap anytime and anywhere

Half of the people who took blind taste tests answered tap water is better tasting than bottled water.



Tokyo Water PET bottle (for PR),
100% advanced water treatment

Leakage rate is only 3%.
It is implemented by high-level technology and know-how.

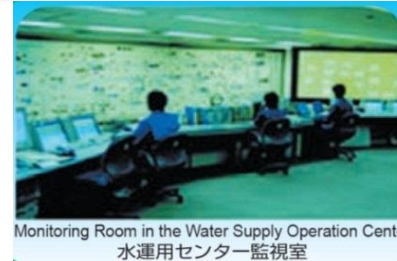


Leak Detection Work at Night
夜間の漏水調査作業



Leak Detection Using
an Acoustic Bar
音聴棒による漏水調査

By constantly monitoring water quality and water pressure, stable water supply is ensured 24/7



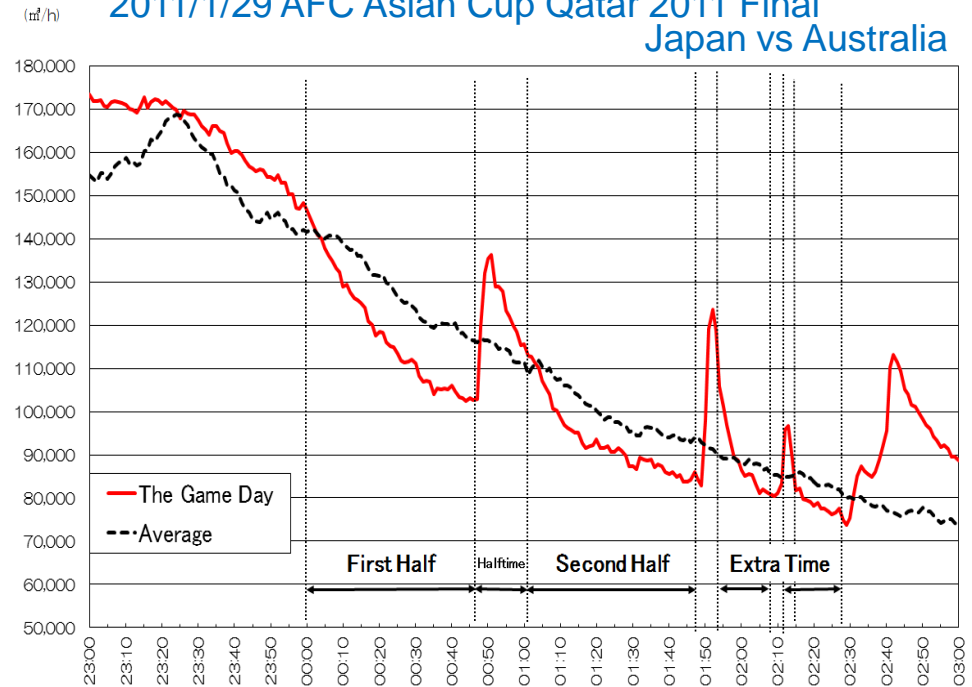
Monitoring Room in the Water Supply Operation Center
水運用センター監視室

During a big football game, people's behavior changes.

During halftime or after the game, water demand increases through the use of toilets and others.

According to changes in demand, water pressure is controlled.

2011/1/29 AFC Asian Cup Qatar 2011 Final
Japan vs Australia



Safe and Comfortable Living Environment

Safety and Security

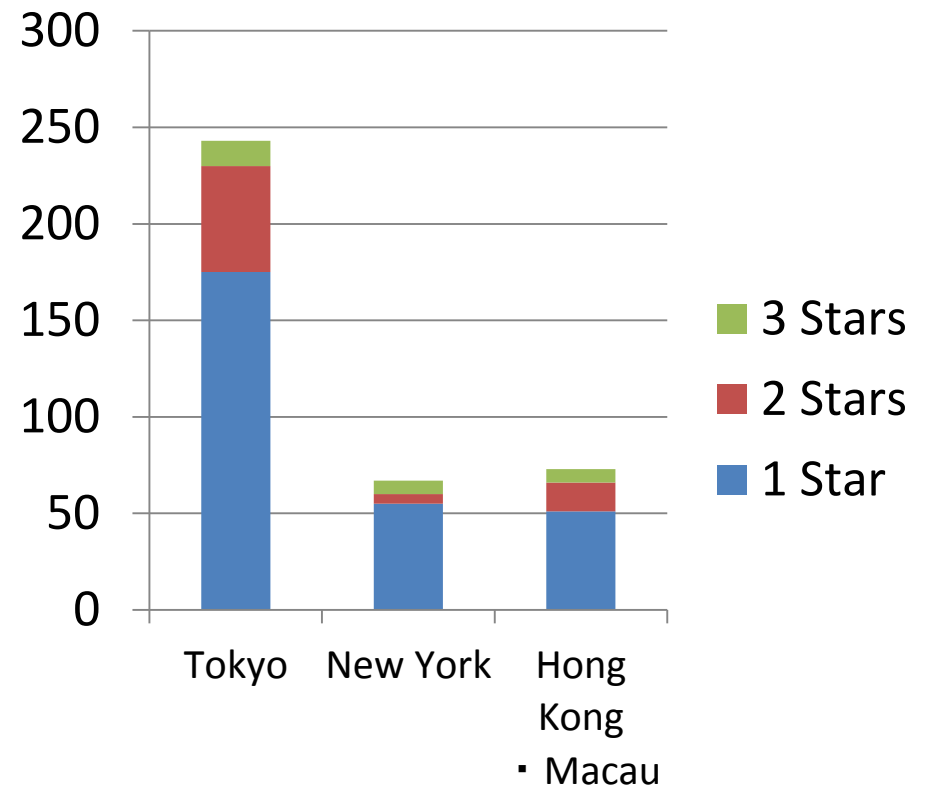
Global Peace Index Ranking

Rank	Country	Score
1	Iceland	1.162
2	Denmark	1.207
3	New Zealand	1.237
4	Austria	1.250
5	Switzerland	1.272
6	Japan	1.293
7	Finland	1.297
8	Canada	1.306
9	Sweden	1.319
10	Belgium	1.339

Source: Institute for Economics and Peace, "2013 Global Peace Index"

Foods

Number of Michelin-starred Restaurants



Source: Michelin guide website

Japan as a Gateway to Utilize Supply Chains in Asia

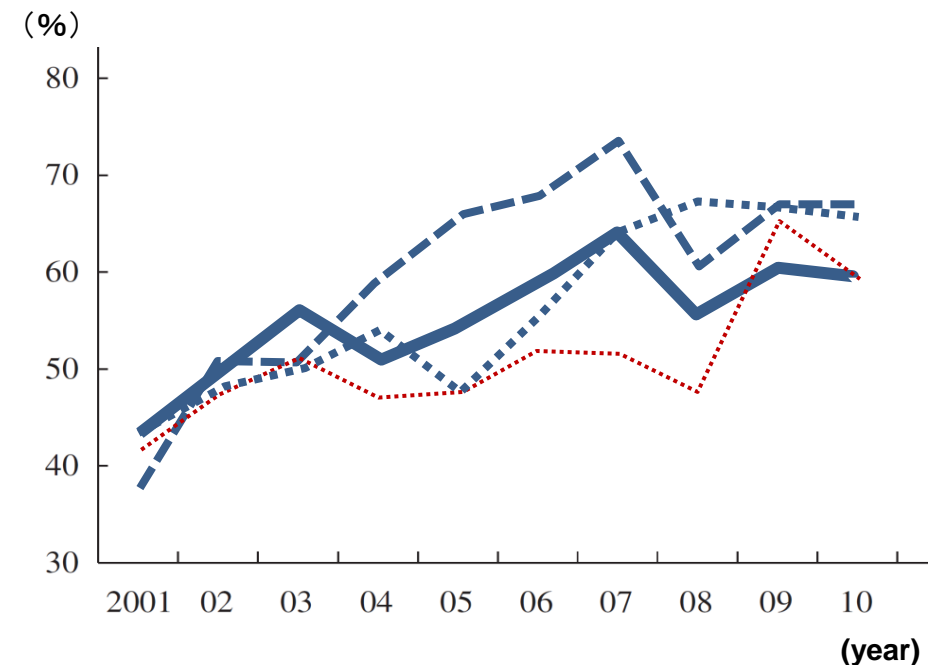
**Broad, International Supply Chain
being Created in East Asia**



**AJCEP (ASEAN-Japan Comprehensive
Economic Partnership Agreement) became
effective in April, 2008**

**Local Procurement Rate of Japanese
Manufacturers in ASEAN 4**

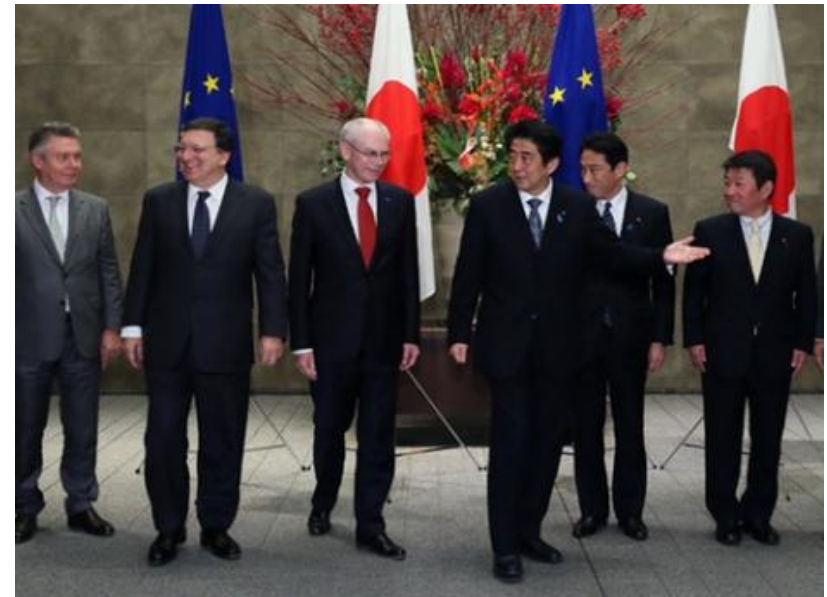
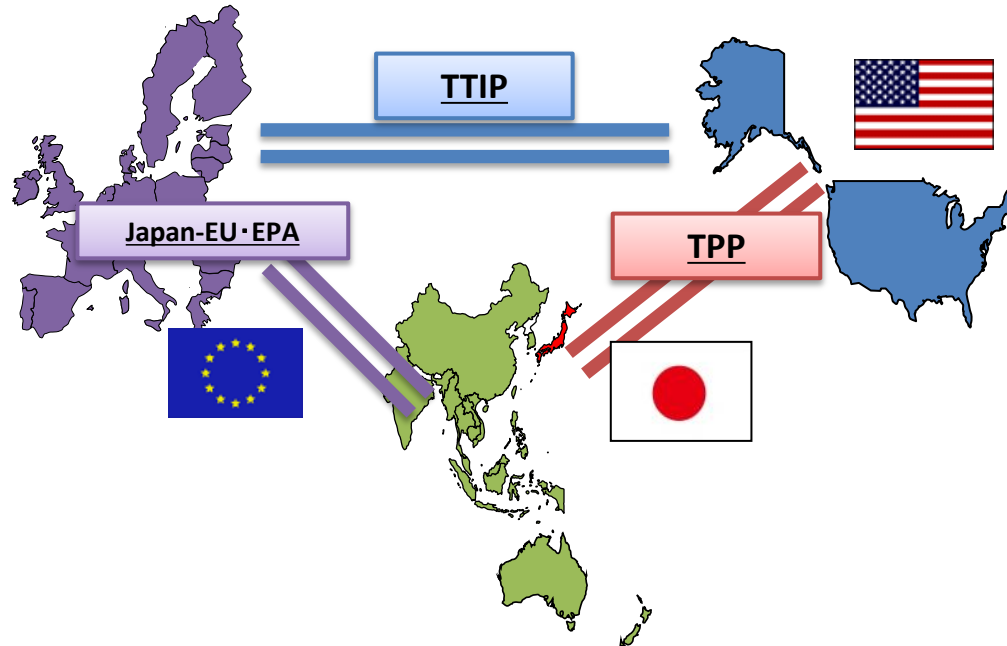
※ ASEAN4: Malaysia, Thailand, Indonesia and Philippines



- Japanese manufacturers in ASEAN4
- Electronics
- - - Transportation equipment
- Japanese manufacturers in China

Japan-EU EPA / FTA

- In March 2013, the negotiation was launched in the conference call between the EU and Japan leaders. Since April 2013, five rounds of the negotiation meetings have taken place.
- Both leaders agreed to pursue a comprehensive and high level Economic Partnership Agreement (EPA) and reaffirmed their strong commitment to its early conclusion.



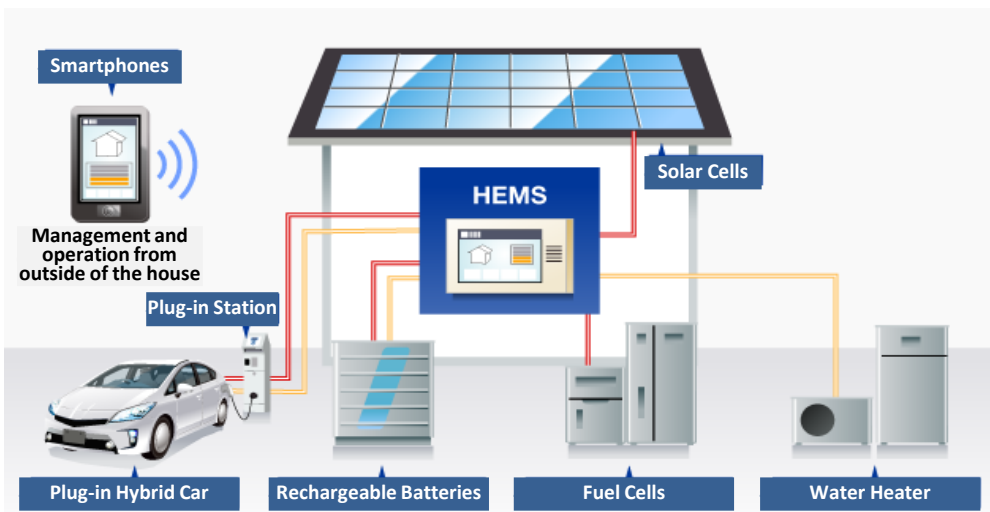
The 21st Japan-EU Summit -19 Nov, 2013

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Creating New Businesses and Reform of Electric Utility Systems

Energy Control Using an Energy Management System



Home Energy Management System (HEMS) by Denso Corporation

Implementing Reforms of the Electricity System

1st stage (by around 2015)

→ **Enacted the related bill**

- ◆ Establishment of the Organization for Cross-regional Coordination of Transmission Operators (OCCTO).

→ nation-wide grid system

2nd stage (by around 2016)

→ **The related bill is under discussion in the current Diet session**

- ◆ Full liberalization of the retail market.

3rd stage (by around 2018 - 2020)

- ◆ Unbundle the transmission and distribution sector.
- ◆ Full liberalization of retail rates.

An Image of “Smart Community”

- Redesigning the management of community systems and creating a new lifestyle
- A total of **63** Feasibility Studies have been conducted around the world by Japanese Consortiums

Control Center

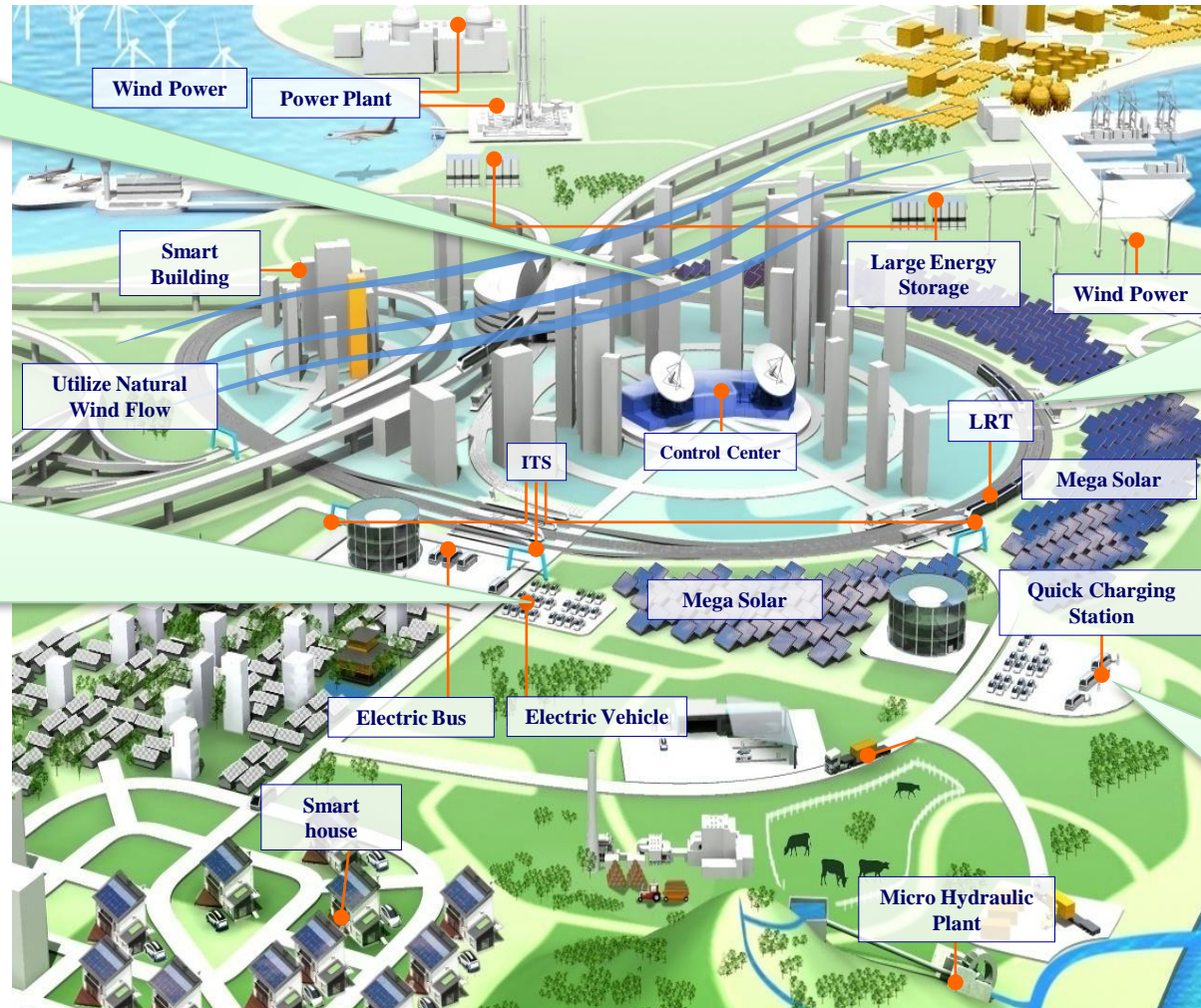
- New Information Network
- New Energy System “Smarter Grids”
- New Transportation System

EV as a part of
Energy Infrastructure



Charge & Discharge

Electric Car ↔ Smart House



Catenary-less LRT & Electric Bus



Quick Charging Station

80% charge in 30 minutes



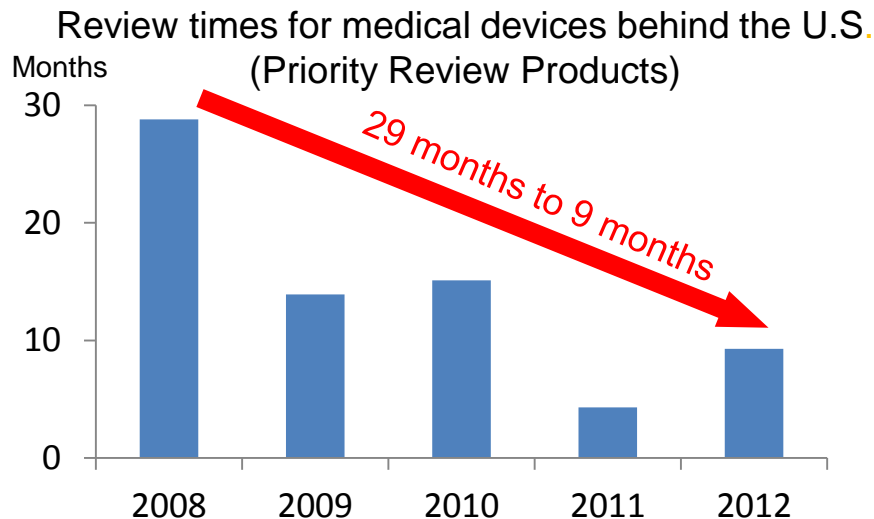
Creation of New Industries in Response to Japan's Aging Society

- Examples from the Healthcare Sector

- Revised Pharmaceutical Affairs Law last autumn
(As part of the regulatory reform in the field of healthcare)

Major revisions in the related bills
of the Pharmaceutical Affairs Law, etc.

(1) Speed up the certification for innovative medical devices.



Source: Pharmaceuticals and Medical Devices Agency (PMDA)

(2) Faster authorization in Regenerative Medicine.

Establish an early authorization system.

Medical Device Making Use of SME Manufacturing Technology

Example.



Tailor-made Joint Prostheses

- Apply its propeller manufacturing technique for tankers.
- Develop less-wearing and durable joint prostheses suited for lifestyles and body structures common in Japan.

Nakashima Medical Co., Ltd,
(Okayama Pref. Capital: 50 million yen
Employees: 153)

Productivity Improvement in Nursing Care Business



Reduce the burden on nurses and care helpers

[Example] SMART SUPPORT Corporation
(Use of nursing care robots contributes
to improving the productivity
of nursing services.)

Regulatory Reforms to Create New Industries

Enforced the related bill this January

Field tests scheme particularly for “pioneer” companies

- Give the special approval of field tests for “pioneer” companies even if they are in conflict with the existing laws

Example

Putting a forklift with a fuel cell into practical use

- Approved the regulatory exemption to utilize a new type of a hydro tank



“Gray Zone” elimination scheme

- Clarify the white (legal) zones to enable companies to embark on new ventures with peace of mind.

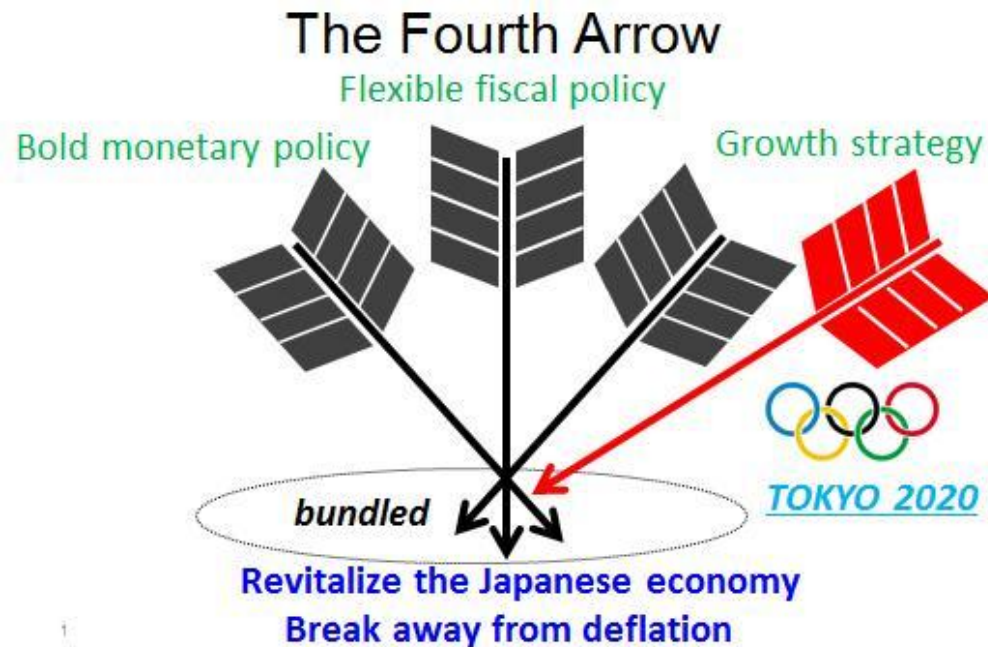
Example

The service of a simple blood testing

- Clarified it does not correspond to regulated “the practice of medicine” that companies give a diagnosis of blood collected by customers themselves



The Fourth Arrow on Abenomics



Economic Effect of Tokyo Olympic Games

	Demand Creation Amount (¥ 1 trillion = US\$10 billion)	Production Inducement Amount (¥ 1 trillion = US\$10 billion)
Daiwa Securities Co. Ltd. (September 2013)		For reforming infrastructure: 55 Effect of tourism: 95
SMBC Nikko Securities Inc. (November 2013)	14.9	36.6
Mitsubishi UFJ Morgan Stanley Securities (September 2013)	12.2	29.3
The Mori Memorial Foundation Institute for urban strategies (January 2014)	8.6	19.4

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Tax incentives to Vitalize Industries

These 3 tax incentives have been available from **this January.**

Tax incentives for
promoting capital investment

Tax incentives for promoting
business restructuring
(carve outs & integration of
business)

Tax incentives for
promoting venture /
start up investment



Together with tax incentives for promoting R&D, for raising wages, and for promoting investment by small and medium enterprises, the tax cut amounts to approximately ¥1 trillion (Approx. US\$10 billion).
(Total of revenue of corporate tax: ¥14 trillion (Approx. US\$140 billion). [FY2012])

Foreign Companies are also given preferential treatment!

- For R&D facilities and Regional Headquarters

Subsidy Program

- **Eligible costs**: Survey Design Costs, Facility Costs, Equipment Costs, Facility Rental Fees
- **Subsidy rates**: Up to 1/2 for SMEs, up to 1/3 for non-SMEs
(Max ¥ 500 million per case(=US\$ 5 million))

Selected companies of the Subsidy Program

FY2012

No	Company name	Global HQ
1	Faurecia Japan K.K.	France
2	GE Japan Limited	U.S.
3	Johnson & Johnson K.K.	U.S.
4	Tenneco Japan Ltd.	U.S.

FY2013

No	Company name	Global HQ
1	BASF Japan, Ltd.	Germany
2	Comverge Japan K.K.	U.S.
3	Nippon Busch K.K.	Germany
4	Siemens Japan K.K.	Germany

- For R&D facilities and Regional Headquarters

Preferential Treatment by the Act (*)

- Corporate tax breaks
(from approximately 36% to 29%)
- Acceleration of visa issuing procedures
(ordinarily 1 month → around 10 days)
- Acceleration of patent examinations
(ordinarily: around 16 months
→ around 2 months)

(*) *Act for Promotion of Japan as an Asian Business Center*

Providing an incentive for foreign companies!

Invest Japan Hotline

Questions
Requests

Requests for
regulatory reforms

JETRO

Questions on
administrative procedures

Cabinet
Office

Meeting

Official in charge

< JETRO Inquiry form > <http://www.jetro.go.jp/en/invest/hotline/>

Buy Abenomics!



Thank you!