

Japanese Economic Recovery -Requirements for Japanese companies' growth-

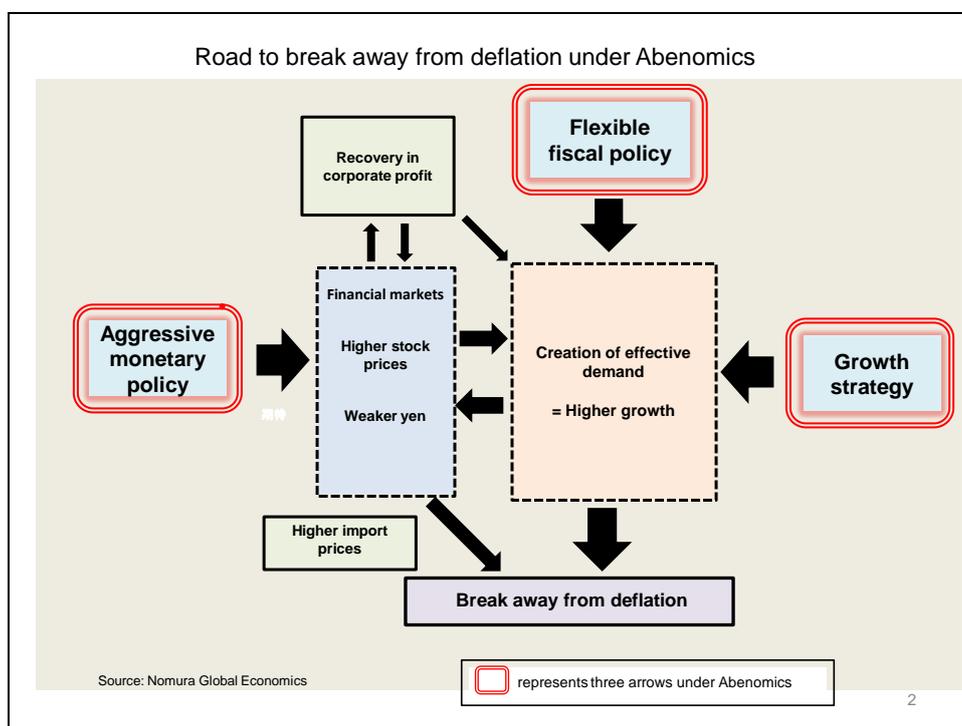
March 11, 2013

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It is a tremendous honor to have this chance to deliver a speech at the conference. From my own perspective as an analyst, I would like to share some thoughts on Japanese economy, Japanese corporate value creation and how to evaluate it. I would also like to talk about what analysts want from corporate growth in this context.

Abenomics and growth strategy

I have been saying that the Nikkei Stock Average will be ¥ 20,000. I do not just anticipate “it will be”. I mean we all should think what to do in our respective positions in order to make it ¥20,000. Now what should we do? There are many ways to achieve it.



A famous investor, Mr. Jim Rogers, said, “While there are many good examples around the world which tell us what to do, Japanese say they do not want to try any of them.

They eventually end up with choosing to become all poorer together, which I can't believe." Even without being said by him, we all do not want to let it happen.

There is no point in keeping complaining to the government in order to break a block. Even though Japan is surely close to the edge, we still have ways and solutions to the problems. It is required to set priorities, and execute its detailed plan. We both business entities and individuals all should utilize the investment opportunities, rather than waiting for becoming all poor together.

The public is expecting a change. The LDP, Liberal Democratic Party is now about to move in a new direction. Abenomics, a policy advocated by Prime Minister, Shinzo Abe, began to move forward with carrying a lot of expectations.

The companies promote their business across the borders even without the government. However, if the government helps medium-term growth strategy for companies, business activities should become more activated. Companies can contribute to increase national power by generating energy in Japan. Thus, innovation of business management is significantly important.

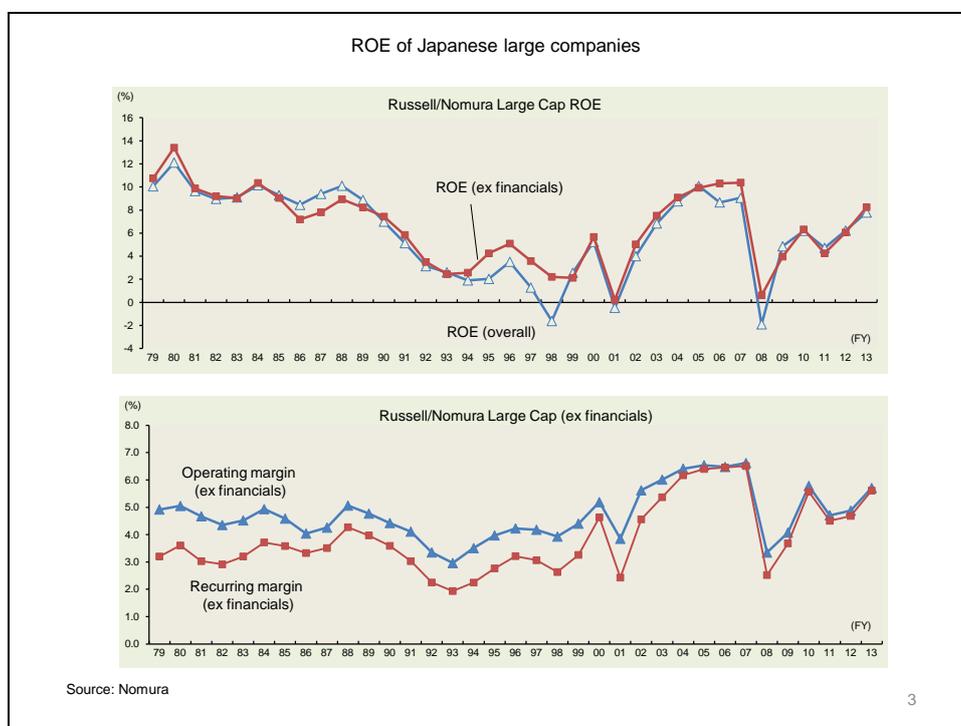
A lot of Japanese companies are not doing business management innovation enough. What is the problem? I propose four perspectives. First, the management capability is not necessarily sufficient. They need to promote or recruit new leaders more in order to bring a fresh air to the company.

Second, innovation for the business model is insufficient. Although it is totally right that the strength of Japanese companies is "the business fundamentals on the grounds", we cannot compete internationally if the structure of corporate value creation is faded and frayed. We need to design a new business model and pursue the execution of its strategies.

Third, it is critical to have "sustainability" as the essential part of the management. We don't have to limit the meaning of "sustainability" in terms of Environment, Society and Government. The important process is to coexist with the social value and build up the activities that generate the long-term corporate value.

The last one is "Risk management". Management need to handle any situations once it

happened to the company, no matter if it is unexpected. I would like them to develop the simulation for any issues with understanding what you can and cannot do.



Modified ROE

What is ROE level in Japanese major companies? According to the data from Nomura Financial Research, ROE will get back to 8% by 2013. Japanese Companies' low ROE is because of its low sales profit ratio. The point is that the turnover rate and leverage are almost same with the Western companies.

I always say to the company managements to secure 8% of ROE. Since ROE 8% which I am requesting is a return for the investors who are going to buy its stocks, using the Modified ROE on a market value basis is more appropriate. "A market value basis" means to use the stock price for the net assets.

The average ROE of the major American companies is 19.9%. Since the PBR at that time is 2.99 times, the modified ROE is 6.7%. Considering the fact that the average ROE of the major Japanese companies is 5.8% and PBR is 1.03 times, the modified ROE is 5.6%. Even the attractive Japanese companies' average of ROE is 13.2% and PBR is 2.35 times, therefore the modified ROE is 5.6%. All of the average ROE are less than

8%.

The difference of Japan and the U.S. is on their future perspectives. The low PBR indicates that the future growth will be also low. In this point, Japanese major companies relatively inferior to American ones. Japanese executives should talk to the investors about the future perspectives as a management executive with understanding the modified ROE. Then, the investors will listen to you.

Forecasts for the world economy Source: Nomura Global Economics.

	Real GDP (% y-o-y)			Consumer Prices (% y-o-y)			Policy Rate (% end period)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Global	3.0	3.0	3.7	3.3	3.3	3.5	2.99	3.12	3.24
Developed	1.2	0.8	1.8	2.0	1.6	1.8	0.45	0.38	0.41
Emerging Markets	5.2	5.5	5.8	4.7	5.2	5.3	5.97	6.21	6.24
Americas	2.3	2.2	3.3	3.6	3.7	3.7	2.07	2.23	2.30
United States*	2.2	1.7	3.1	2.1	1.6	1.6	0.13	0.13	0.13
Canada	1.9	1.6	2.3	1.5	1.3	2.0	1.00	1.00	1.75
Latin America**	2.7	3.4	3.9	8.1	9.6	9.1	7.44	8.00	7.83
Argentina	2.0	4.0	3.5	26.4	32.3	29.7	15.00	17.00	14.00
Brazil	0.9	3.5	3.5	5.8	6.0	5.8	7.25	8.25	8.00
Chile	5.4	5.5	5.0	1.5	3.3	3.0	5.00	5.25	5.25
Colombia	3.8	4.2	4.5	2.4	2.7	3.5	4.25	3.50	4.50
Mexico	4.0	3.5	4.5	4.1	3.4	3.5	4.50	4.00	4.50
Venezuela	5.5	-1.0	3.0	20.1	35.5	27.6	14.55	17.00	16.00
Asia/Pacific	5.4	5.4	5.7	3.0	3.5	4.1	4.66	4.90	4.95
Japan†	1.9	0.9	1.9	0.0	0.1	2.3	0.05	0.05	0.05
Australia	3.5	2.2	2.6	1.8	2.6	2.5	3.00	2.75	3.00
New Zealand	2.7	3.2	3.3	1.7	2.4	2.8	2.75	3.50	4.25
Asia ex Japan, Aust, NZ	6.2	6.4	6.6	3.7	4.3	4.5	5.65	5.90	5.90
China	7.8	7.7	7.5	2.6	3.5	4.0	6.00	6.50	6.50
Hong Kong***	1.2	2.5	3.5	4.1	4.3	4.3	0.40	0.40	0.40
India**	5.3	6.0	6.6	7.5	7.2	6.9	8.00	7.50	7.00
Indonesia	6.2	6.1	6.2	4.3	5.2	5.1	5.75	6.25	6.75
Malaysia	5.3	4.3	4.6	1.7	2.4	2.5	3.00	3.50	4.00
Philippines	6.6	6.4	5.8	3.1	4.6	4.5	3.50	4.00	4.50
Singapore***	1.2	2.4	4.2	4.6	3.9	3.6	0.38	0.48	0.50
South Korea	2.0	2.5	3.5	2.2	2.7	3.0	2.75	2.75	3.25
Taiwan	1.2	3.0	3.5	1.9	2.3	2.3	1.88	2.13	2.13
Thailand	6.0	4.5	5.0	3.0	3.2	3.1	2.75	2.75	3.25
Western Europe	-0.4	-0.6	0.2	2.6	2.0	1.7	0.71	0.50	0.50
Euro area	-0.5	-0.8	0.0	2.5	1.9	1.5	0.75	0.50	0.50
Austria	0.6	-0.1	0.8	2.6	2.4	2.0	0.75	0.50	0.50
France	0.0	-0.5	0.5	2.2	1.7	1.7	0.75	0.50	0.50
Germany	0.9	0.5	0.7	2.1	1.7	1.4	0.75	0.50	0.50
Greece	-6.6	-5.5	-2.0	1.0	0.2	0.2	0.75	0.50	0.50
Ireland	0.5	0.8	1.3	1.9	0.5	0.7	0.75	0.50	0.50
Italy	-2.2	-2.5	-1.3	3.3	2.0	1.4	0.75	0.50	0.50
Netherlands	-0.9	-1.2	0.1	2.8	3.1	2.3	0.75	0.50	0.50
Portugal	-3.2	-3.3	-0.1	2.8	0.0	0.7	0.75	0.50	0.50
Spain	-1.4	-2.5	-1.5	2.4	2.0	1.1	0.75	0.50	0.50
United Kingdom	0.0	0.4	0.9	2.8	2.7	2.4	0.50	0.50	0.50
EEMEA	1.8	2.4	3.5	5.5	4.2	4.4	4.41	4.10	4.76
Czech Republic	-1.1	0.0	1.4	3.3	1.8	1.7	0.05	0.05	1.00
Hungary	-1.7	-0.5	0.9	5.7	3.8	4.5	5.75	4.50	4.50
Israel	2.8	3.0	3.5	1.7	2.6	2.7	1.75	1.75	2.50
Poland	2.0	1.7	3.0	3.7	1.5	2.8	4.25	3.25	4.50
Romania	-0.1	0.6	1.5	3.3	3.4	3.2	5.25	5.25	6.00
South Africa	2.4	2.6	3.2	5.7	5.6	5.5	5.00	5.00	6.00
Turkey	3.0	4.5	5.5	8.9	6.7	6.3	5.50	5.50	5.50

Expectations for equities

According to the world economic movements, the U.S. economy will head for economic recovery. Also the Europe will pass the worst situations and Japan will be improving.

I participated in Asian Financial Forum in January. Mr. Charles Evans from Federal Reserve Bank of Chicago expressed the United States is no longer the driver of the economy. Federal Open Market Committee also specifies to focus on “price stability” and “job security”. However they can’t bring in the detailed strategies yet. Even though the available capacity of the U.S. government is getting weak, Quantitative Easing Program 3 cannot be deactivated unless the inflation rate and the unemployment rate would be more than 2.5%, less than 6.5 % respectively.

Professor Lawrence Henry Summers from Harvard University expressed the Fiscal Cliff like exciting two kids are playing on the backseat in the car. He quoted “Americans can always be counted on to do the right thing...after they have exhausted all other possibilities” from Winston Churchill. Professor said “The developed countries are always lack of demand. It is difficult to handle this situation.”

While Mr. Lou Jiwei, CEO of China Investment Corporation assumed that Japanese Quantities Easing Program would not be successful, like a case in the United States. On the other hand, Mr. Mark McCombe, Senior Managing Director - Chairman of Asia-Pacific from Black Rock showed a strong perspective. He said, “It is a time to shift from bonds to stocks. Prime Minister Abe moved on”. So what will Japan do next? The world is now paying attention to our “political power”. The only way to show strong Japanese existence to the world is the improvement of national and enterprise power.

Risk is anger

Mr. Douglas Hsu, CEO from Far Eastern Group, the biggest Taiwanese corporate complex said the risk in China is “over capacity”. He feels that the risk level is currently rising in his business experience in China for 25 years. Then, he suddenly changed a language to English so Chinese media can’t pick up what he explained the details. Chinese people do care about respectability. The new leadership of China is supposed to try a new thing, and has to succeed. So the appropriate growth is imperative for China.

However, recently Chinese people and consumers are getting keen eyes. They will begin to have complained with the quality of economies and policies. China should socially adapt this movement. Of course the leaders would like to satisfy the people. People claim to raise the salary in the inland, same as the coastal areas. Since the foods price rise is severe, Chinese economy tends to cause inflation. In this situation, the capital efficiency is requested. Then the management capability is requested. The company which expanded into China will need preparation in more depth for heated competition and pursue the larger scale.

Min Zhu, Deputy managing Director of IMF refers that China’s challenges is the structure adjustment after the current exporting model and the fixed asset model. In Asia, Interconnectivity is raising. In this circumstance, we cannot advocate only

nationalism. We need to understand the changes of people,

The territorial issues around Japan is making the people upset. Regarding as European debt issues, is it possible to let the people accept the huge unemployment situation and lower the living standard? Looking back at those factors, I would say “anger” is a theme for this year. We all know that we cannot generate prosperity by exploding anger. Risk and Opportunity are co-existing. We should not take any action emotionally but try to be friends with opportunities.

		As of 14 February 2013					
		FY12E	FY13E	FY14E	CY12	CY13E	CY14E
Gross domestic product	Real GDP growth	0.9	2.0	1.0	1.9	0.9	1.9
	Contribution of domestic demand (ppt)	1.8	2.2	0.5	2.7	1.4	1.5
	Private-sector demand (ppt)	0.7	1.5	0.8	1.7	0.7	1.5
	Public-sector demand (ppt)	1.1	0.7	-0.3	1.0	0.7	0.1
	Contribution of external demand (ppt)	-0.9	-0.2	0.5	-0.8	-0.5	0.4
	Private-sector consumption	1.4	1.5	0.1	2.3	0.9	1.2
	Private-sector housing investment	5.1	5.9	-1.6	2.9	7.2	-0.2
	Private-sector capital expenditure	-1.8	2.1	5.5	1.7	-1.3	6.0
	Private-sector inventories (contribution)	-0.1	0.2	0.1	0.0	0.1	-0.0
	Government consumption	2.4	1.5	1.2	2.6	1.6	1.2
	Public fixed capital formation	14.4	8.8	-12.2	12.3	9.6	-3.3
	Goods/services exports	-2.6	1.3	7.5	-0.3	-2.4	7.3
	Goods/services imports	3.5	2.8	4.8	5.3	1.2	5.3
	Nominal GDP growth	0.2	1.9	3.0	1.1	0.6	3.6
GDP deflator	-0.6	-0.1	2.0	-0.8	-0.3	1.7	
Production/prices	Industrial production	-2.8	4.2	2.5	-0.9	1.3	3.8
	Corporate goods price index	-1.0	1.1	4.4	-0.8	0.6	3.6
	Consumer price index	-0.2	0.4	2.9	-0.0	0.1	2.3
	Excluding fresh foods	-0.1	0.3	2.9	-0.1	0.1	2.3
	Excludes impact of consumption tax hike	-0.1	0.3	0.6	-0.1	0.1	0.6
	Unemployment rate (%)	4.3	4.0	3.9	4.3	4.1	3.9
External balances	Customs-cleared trade surplus (¥trn)	-7.8	-12.2	-13.0	-6.9	-11.2	-12.9
	Trade balance (¥trn)	-6.6	-10.8	-11.5	-5.8	-9.8	-11.4
	Trade/services balance (¥trn)	-9.3	-11.8	-12.2	-8.4	-11.2	-12.1
	Current account balance (¥trn)	4.3	3.8	5.0	4.7	4.0	4.7
		FY12	FY13	FY14			
\$/¥ rate (FY-average)		82.0	91.0	97.0			
Uncollateralized overnight call rate (at FY-end, %)		0-0.10	0-0.10	0-0.10			
Consumption tax rate (at FY-end, %)		5.0	5.0	8.0			
Crude oil price (WTI, FY-avg, \$/bbl)		91.0	89.0	83.0			

Source: Nomura

If Abenomics would work or not

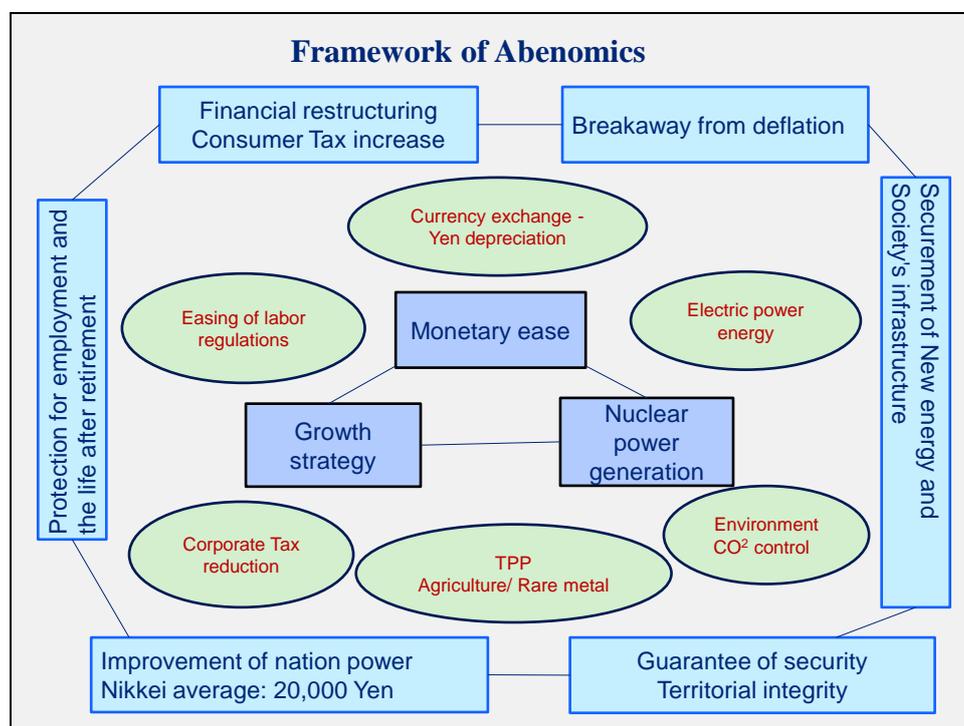
The sign of economic recovery is lighting with economic stimulus and yen depreciation. We agree that 2013 will be a good year for economy. Under this economic upturn, Consumption tax will be raised in April of 2014. However, since the commodity price will be raised, the growth rate will have negative impact.

Let's think about six heaviness and limitations for Japanese companies. Firstly, Japanese yen turned to be weak due to monetary easing expectations for breakaway from deflation. Let's say it was 100% just before the Lehman's fall. Until recently, while Japanese Yen value raised 30 %, Korean Won value declined 20%. It is 50%

difference against the dollar. Chairman of Toshiba, Mr. Nishida, said it was considerably difficult to compete internationally in this situation.

The difference shrank up to 20% thanks to the recent yen depreciation and won appreciation. Actually, there was no reason to appreciate Japanese yen. Depreciation of U.S. dollar and Euro make Yen appreciation. Mr. Carlos Ghosn from Nissan Motor believes that 1 dollar equal 100 yen is reasonable. The biggest point is whether if we can go back to that level (1 dollar=100 yen), and keep the economy stable.

Japanese monetary easing does not work yet. The government and Bank of Japan agreed to raise the CPI target from 1% to 2% in order to get out of deflation. The Governor of the Bank of Japan will change in March. How will they start monetary easing? Since Japanese companies have enough money, they don't need support by the external finance for the business expansion, or capital expenditure. Otherwise, they need to invest more into the stock market such as ETF (Exchange traded Funds), and help to activate the market. Can they really do that? We have to keep eyes on that.



The second agenda item is whether they can let the nuclear energy plant work or not. The founder of Kyocera, Mr. Kazuo Inamori has been studying the solar energy

generation for over 30 years and he takes it in his business. But, he indicates the solar energy generation is NOT sufficient as a source of energy. Nuclear power generation is necessary for stable energy supply. It is critical if they can manage the risks to activate smoothly the nuclear generation plant within two years.

The third item is TPP (Trans-Pacific Partnership). Japan is a trading country and aiming to be an investing country. We can't close the market due to disadvantages. Disadvantage to whom? It is those who earn the current established interest but there are many people who will benefit from joining TPP.

We can get any numbers by calculating the interest with pros and cons. We can develop a simulation plan which is convenience for us. We should talk to the people with the clear visions and solid philosophy. There will be no successors in the field of agriculture in ten years. We should develop "New Agriculture" which has enough room for innovation. There will plenty of young people who want to do agriculture. There will be ways to be developed.

The fourth one is how to cope with the environmental problems. After the government declared that Japan will be decreasing Co2 (carbon dioxide) by 6% on Kyoto Protocol, the former Prime Minister made an international commitment with deceasing 25% of Co2, which is totally impossible. We work on the Co2 environmental issues, but need to be more feasible. We better to provide the proposals to improve the air pollution problems in China. We need to seriously consider the pollution issues coming from China. It is important to respect for China and let them bring a good result by their own effort.

The fifth item is reduction of corporate tax. The corporate tax in Japan is very high. The idea that decreases the corporate tax according to the increase of salary or employment is getting detailed. I hope reduction of tax for Investment, R&D, and development of human resources will be following.

The sixth one is "easing of regulations". The labor market should be more liberalized. There are one million 20 year-old people. Even though half of them go on to college, 20% of them, which is 100,000 people, do not have a job. They end up with temporally workers. In this case, we cannot expect young people to support the Social Security. 100,000 people out of 500,000 High-school graduates also cannot have a job. The same

situation might happen to the developed countries. Situation is very serious. What is a good company? It is the companies which generate employment. The company should be much more activated for creating job opportunities.

What are the strategies for this? This has been clear since the Democratic government. The government should develop a policy to support a variety of ideas come out from the private sector. I don't think the idea that the public sector establish a fund and invest will work well. But if the public sector helps financially private sector, it would be easier to gather funds. Who takes leadership? It is private companies. Otherwise, not much can be acted.

So, can Japanese take out of deflation? Mr. Yanai from Fast Retailing says that "Never say "cannot" or "difficult"." He continues that it is critically important to accomplish no matter what in terms of national policy and company's management. There are many countries tried to beat deflation. Now it is time for us, Japan.

The economic condition will be getting active in the near future. As 20 trillion yen will be used in order to stimulate the economic conditions as a financial policy, it will be good at least for two years. If the Japanese yen gets stable around 95 yen for a dollar, the corporate performance would dramatically get better. While the share of manufacturing in the total Japanese GDP is 20 %, it occupies 40 % in the stock market. This is why Japan sticks with "manufacturing".

Since the economic condition gets better, let's let the consumer tax increase plan will come into effect in April of 2014. The finance reform in Japan will move ahead. Even though having debts for a quadrillion yen, which is twice of GDP, we still secure the credence since there is a way to retrieve by tax from households financial assets which is estimates as 1.5 quadrillion yen. However, we all know even if the consumer tax rises to 10%, it is not enough for healthy financial condition.

Now can we maintain pension and Social Security such as medical care? It is impossible. The retirement at 60 is a model case which a 19-year-old person starts to work and keeps working for 42 years. In other words, 60% of their life time is used to work, according to Mr. Taichi Sakaiya, writer and former Chief of the Economic Planning Agency. So, 42-year-work means the duration of life is 70 years.

If you work until 60 years old, and end your life at the age of 70, you need pension for 10 years. However, if you live till 90 years old, let's say getting a job after graduating from college at the age of 23, 90 years old time's 60% equals 54 years. 23 years old plus 54 years equals 77 years, which means you need to work till 77 years old. Since Japanese government set the start of "a later stage of the retirement years" as 75 years old, you need to work until then.

After 75 years old, the number of illness considerably increases. Also the medical cost will be raised. So we can say that all of the healthy people should work, otherwise we cannot sustain the social security system.

There is a strange thing. Many people around me say they will not rely on their children at their old age. Then who do they depend on? They answer, it is the government. Since they have been paying the tax and pensions, they believe they can get it back. But in reality, it is impossible. If you live longer, you need to receive more than you pay. The population of Japan at my age is 2 million. At my child's age, 1 million people should bear the social security costs for 2 million people. That is too much.

The current system is favorable for the people over 65 years old. I know it is not easy to change. However, I guess they will need to join the social activity by decreasing the amount of pension sooner or later.

Regarding energy, a new energy development is also needed besides nuclear power generation. When we see the social infrastructures, we find it is obviously aging. We need to renew the public facilities in 30 years, but there is no money for that. In other words, we cannot keep the same level of social infrastructure like before. We need to develop a new compact community, and live in there with saving resources consumption. Like Smart City, we need to bring innovation and develop as a business model.

How about the National Security? What strategies does Japan have for the territorial problems with China and threats from the North Korea? We better to keep peace with the neighbor countries, at the same time strengthening the policies such as Japan-U.S. Security Treaty and enhancement of Self-Defense. Japan is not good at getting along with neighbors. The biggest risk of us would be "anger".

In any case, there are some options. If Abenomics makes advances, 20,000 yen for the equity price will come into sight in three years. This is not the bubble. This is the reflection of a favorable turn of the actual economy. Each of us should try to achieve it.

Restructure of Japanese companies and its direction ~eight perspectives and pursue of sustainable capitalism~

1. **【Business Model】** The fact that we lose in business competition despite our advantage of technology is just because we do not consider and emphasis enough on the value of customers. Technology used to generate value. We need to consider and pursue what is the important factor for the value creation. (Mr. Usui, CEO of Seiko Epson Corporation)

2. **【Leadership Training】** Agriculture in Japan needs to be activate. The manufactures need to have a solution provider capability, service capability in addition to manufacture. I would strongly like to point out there are not enough leadership training programs for young people. The good point of GE is that they provide HR training with not only Americans but also foreigners. (Mr. Fujimori, CEO of LIXIL Group Corporation and the former CEO GE in Japan)

3. **【Generation transition】** Does Japanese culture hates competitions? Governance should be improved, and also capital efficiency should be enhanced. I feel people in their 20's to 40's should gain confident in the competitions by opening the country more and reviewing the regulations. I expect people in the late 40's should have a key role as COO. (Mr. Niinami, CEO of LAWSON, Inc)

4. **【Competition】** Many Japanese companies have expanded their business in China and now they are going into India. However, in terms of the “quality”, we can confirm that Japan is totally superior. (Mr. Ooyagi, CEO of Teijin Limited)

5. **【Strategy】** China expands the domestic consumption market by developing infrastructure. Korea advertises their pop culture to the world. Both strategically consider how to develop their own country. Asian countries say that Japan is such an appealing country. Let's open our country to the world. (Mr. Ooyagi, CEO of Teijin Limited)

6. **【Globalization】** In order for LIXIL Group Corporation to increase the total sales revenues from 1.2 trillion yen to 3 trillion yen, considerably huge M&A should be executed. We obviously need global human resources. We want to have respect from the people for our CSR and personnel system as a global corporation. (Mr. Fujimori, CEO of LIXIL Group Corporation and the former CEO GE in Japan)

7. **【Diversity】** I would like the world-wide investors to invest to our company. In order to let it happen, personnel diversity is must. Thus, we established the head office functions in Singapore and Shanghai besides Japan. In Japan, we try to develop a better working environment for women. (Mr. Niinami, CEO of LAWSON, Inc)

8. **【Sustainability】** We should have a long-term strategy at least 5-10 years. How do you manage the business after entry into China? We try to raise the current ROE, 14.5%, up to 20% by becoming a global company which purses sustainable capitalism. (Mr. Niinami, CEO of LAWSON, Inc)

Positioning of growth industry

Seven strategic fields were decided at the Industrial Structure Vision by the government in 2010. I do not have any objections since the seven fields were developed by professionals from the various industries. The governmental problem was that they do not establish leadership in practice.

Seven fields are 1) Environment / Energy (Green Innovation), 2) Health / Medical Care / Nursing for Elderly (Life Innovation), 3) Take-in of Asia Economic Growth (Asia Innovation), 4) Tourism / Regional activation (Tourism Innovation), 5) Science Technology / Information Technology (ST / IT Innovation), 6) Employment / Human Resource (Human Capital Innovation), 7) Finance (Financial Innovation). I want to ask if the government is trying to carry out reforms in these fields with the wider view including other fields.

There are also five strategic industries designed by the Ministry of Economy, Trade and Industry. 1) Infrastructure industry (system export such as water supply and railroads), 2) Environment / Energy solution industry (Smart Community, future generation automobile system and so forth), 3) Medical care, nursing for elderly, health, and child-raising industry (outside of the area covered by public insurance), 4) Cultural industry (fashion, contents, food, tourism and so forth), 5) Emerging industry (robots,

space, Nano-technology, bio-medical supplies and so forth). The investors all want to know in what domain companies try to expand their strategic business, and what kind of business model will be created, and in order to do so what kind of prior investment will be done.

Growth Strategy ⇒ Recovery Strategies . . . to take an action					
7 Strategic Fields (June, 2010)			11 Growth Strategies (July, 2012)		
				In JPY Trillion	2020 target (in people)
1	Environment / Energy	(Green Innovation)	⇒ Green Growth Strategy	50	1.40 mil.
2	Health / Medical Care / Nursing for Elderly	(Life Innovation)	⇒ Life Growth Strategy	50	2.84 mil.
3	Take-in of Asia Economic Growth	(Asia Innovation)	⇒ Asia-Pacific Economic Strategy	12	0.19 mil.
4	Tourism / Regional activation	(Tourism Innovation)	⇒ Tourism-Oriented Country Strategy	10	0.56 mil.
5	Science / Technology / IT Communications	(ST / IT Innovation)			
6	Employment / HR(Human Capital Innovation)				
7	Finance	(Financial Innovation)			
(Plus)					
8	Strategy for Smaller Businesses		(SME Innovation)		
9	Food and Agriculture Recovery Strategy		(Food Agriculture Innovation)		
10	Life / Employment Strategy		(Working Innovation)		
11	Country / Regional Vitality Strategy		(Urban / Rural Innovation)		

(Source) Industrial Structure Vision, Ministry of Economy, Trade and Industry May 2010, National Policy Unit, July 2012

Essence of Inamori-way management shown in Japan Airlines recovery

I want to pick up the corporate recovery. How did Mr. Inamori work on recovering JAL? He was offered the role in the end of 2009, and took up a post of the chairman in February of 2010. He already had a plan for recovery at that time and he was very confident with it. The only thing that the company needed was execution.

The problem is how to execute the plan. He requested all the employees “You just believe and act”. This is a slogan that he brought when he led Kyocera. Mind of persistent workers is significantly imperative for execution. It needs that the high ideal thought should be shared and soaked into the all workers and managements in order to achieve the goal.

There were three reasons for Mr. Inamori to accept the appointment. The first one was the impact for the Japanese economy. Since JAL at that time symbolized the declination of Japanese economy, he wanted to show EVEN JAL could recover from the

worst situation and wanted people to get back their confidence.

The second one was to save the employees. If the recovery fails, all of them would get fired. He wanted to protect 32,000 employees no matter what. The third one was for the customers. He thought it would be needed for the consumers that two airlines companies compete with each other.

He appealed the three main causes above to the employees. He indicated the reason of company's existence clearly, and supported all of the employees with this philosophy, "Everything Is for Your Happiness" which gives positive energy and confident to them. It is true that company is for its shareholders. – company should maximize the value for shareholders. However, prior to do so, or in order to do so, more importantly company needs to create a good environment to work so the workers can work with vigor and enthusiasm and create the value of the company.

By doing above, all the employees took "recovery" as their own issue, and got motivated. Mr. Inamori worked without any compensation. He provided the training program with 50 executives every day for a month and talked about his philosophy, a way of management and work. He emphasized that the leader should be respected by the people. Everybody knows that it is important. But he said just "know" is not enough, you should "act" and "understand" it.

Then, Mr. Inamori proposes three topics to Japanese company managements. 1) The leaders should not speak out a reason why he/she cannot do it. It will not help the employees motivated at all. 2) Japan is a fortunate country compared to others. So leaders should have faith. Do not be pathetic. 3) The world is always confused. You do not make excuses about the external environment.

JAL was recovered with the support from the government. It was true, 1) since it went bankrupt, the stock certificates at that time become just paper. 2) 500 billion yen debt got cancelled. 3) a lot of employees had no choice but to quit. Under these circumstances, JAL was re-born. He said that this process was not unfair. In fact, JAL paid back 350 billion yen of the national support.

Beyond manufacturing, Hitachi's innovation

Hitachi has been beyond just being a manufacturer. They have been acting with their

ideal to make the social innovation into a business.

The world GDP is increasing. Especially Asian's growth is astonishing. By 2013, 47 % of the world GDP will be occupied by Asia (26 % in 2010, 11% in 1990). At that time, GDP of Japan would be only 4%. There is not so many who doubt about this perspective.

For its growth, urbanization is the key point. The population will be growing. The improvement of the social infrastructure (energy, Transportation, water, telecommunication) is another business opportunity. Siemens AG from Germany also agrees with this idea.

Hitachi declares to play a key role with their theme "the social innovation", and tries to establish a new business here. In a couple of decades, there will be many cities with a population size of a million people in Asia. Since electricity, information communications, and water should be needed, various projects are already going on.

The social innovation from Hitachi tries to create new structures by mixing up with the social infrastructure development and IT. CEMS (Community Energy Management System) is one of them. Hitachi can develop urbanization with disaster-proof and new commercial facilities by utilizing a huge amount of data and analyzing people's behavior.

What is the advantage of Japan? The answer had been "craftsmanship" with a finely tuned response. It is still important, but in order to survive in Asia, it is not enough, according to Mr. Nakanishi, CEO of Hitachi. He claimed the idea that creates better systems by unitizing feedback from job sites, rather than sticking to the narrow meaning of "craftsmanship".

"If simply exporting own country's fine products to other countries, the products will be beneficial and accepted" – this simple idea will not work so easily. For example, Singapore does not have four seasons. Bringing Japanese or European air conditioning system does not work well there. They need another plan and know-how to fit the country. In terms of water plumbing, you need to adjust according to each country. By obtaining the real demands from the job site, Hitachi will provide the suitable system for the needs.

As for the storage business, Hitachi changes themselves from just a vendor to IT solution provider. They will engage in the market with the regional headquarter in the U.S, Asia, and Europe along with the Silicon Valley office. Regarding the railroad project in UK, they establish companies for sales, engineering, and maintenance, and try to hire to increase the profit with the British managers. They also hope to expand water business in industrial location of India by establishing a business operation company with Japanese trading company and Hyflus in Singapore.

4D management by Mitsubishi Chemical Holdings - Stakeholder Capitalism

Then, I would like to introduce the case of Mitsubishi Chemical Holdings. Company president Kobayashi maintains that there are three basic drivers behind corporate management. The first is management of business administration, or MBA, which refers to financial management. The second is management of technology, or MOT, which entails pursuing corporate growth through technological innovation. The third is management of sustainability, or MOS, a term coined by Mr. Kobayashi. Within its environmental, social, and corporate governance activities, Mitsubishi Chemical Holdings places particular emphasis on the environment.

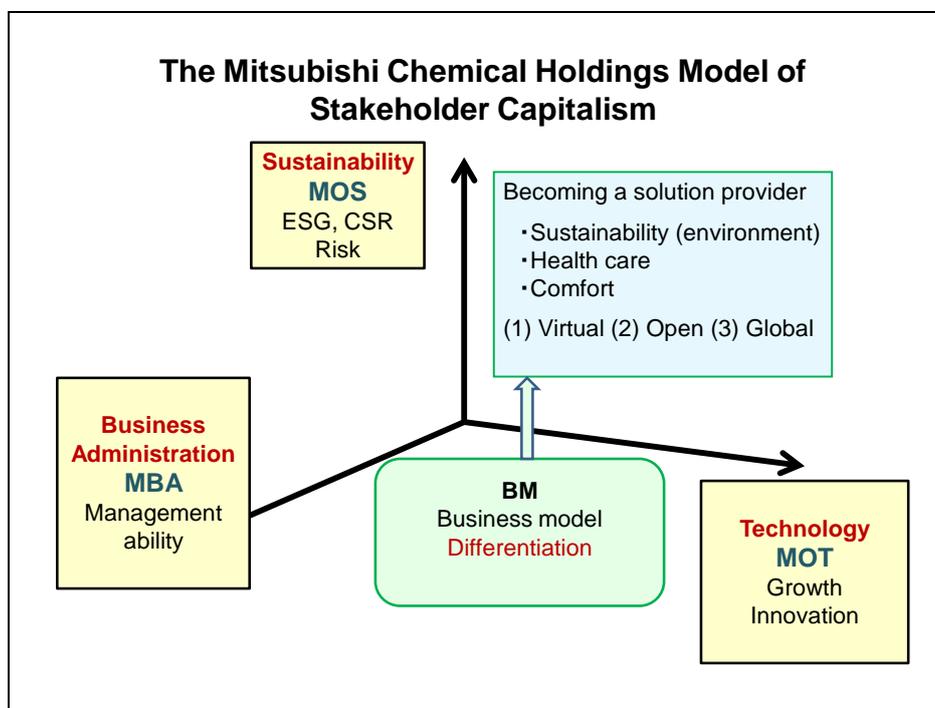
What does this company provide? Going beyond the normal sector classification of a general chemical company, Mitsubishi Chemical Holdings declares that it provides KAITEKI, or comfort. KAITEKI is a concept created by Mr. Kobayashi, and underpins a new corporate vision.

Based on the philosophy of being a virtual, open, and global enterprise, Mitsubishi Chemical Holdings has decided to declare itself a company that provides solutions relating to comfort, health care, and sustainability.

Mr. Kobayashi stresses that companies need to adopt a time horizon of one year for business administration, 10 years for technology, and 100 years for sustainability. Since he is an engineer by profession, his idea of looking at new technology development on a 10-year horizon is persuasive.

Mr. Kobayashi originally thought that corporate management simply meant keeping a close eye on business administration and technology. However, after becoming head of the company, he added the concept of sustainability to make three axes for corporate

value creation.



An interesting point is that he used characteristically Japanese terms to name these three axes: *yoku*, meaning desire, hunger, or passion, to denote business administration; *chi*, meaning knowledge or wisdom, to denote technology; and *gi*, meaning justice, to denote sustainability. In addition to justice, *gi* also forms part of the Japanese worlds for loyalty and morality, indicating the company’s desire to do the right thing and pursue its vision. Mitsubishi Chemical Holdings aims for a style of capitalism that takes account of the multifaceted needs of various stakeholders.

Mr. Kobayashi feels that in recent years the financial community has tended to pursue short-term returns with a horizon of a single year, and this view is worthy of careful attention. When investors look at a company, they need to focus not only on immediate business results, but also on mid-range technology prospects and long-term sustainability. I hope that many corporate managers will also do this.

Mitsubishi Chemical’s corporate value creation is based on KAITEKI, which means comfort, and more impressively they make it metrizable. They quantify the value by making index for each axis at 80 points. They got 140 points (comfort 34, healthcare 77, and sustainability 29) in 2010 and 177 points (comfort 51, healthcare 86, and

sustainability 40) in 2011. The target points in 2015 would be 300.

Delivery strategies in Asia (Yamato Holdings)

Yamato Holdings is not well-known abroad. The company was founded in 1919 and it has been 30 years to start parcel delivery service. Now 100th anniversary is coming in 6 years. They are currently working on a mid-term plan.

They would like to be a No.1 solution provider in Asia. While international forwarder service and international moving service and has been expanded in 20 countries, the first attempt to the word for parcel service was in 2010 in Taiwan. They began their service in Shanghai and Singapore two years ago, Hong Kong and Malaysia last year.

They are trying to expand parcel service in Asia with the same service quality of Japan. Even though they got pointed out that Japanese service is sometimes too excessive, they will keep the service quality.

In this case, delivery service will be provided by local people, not Japanese. They should deliver high-quality service same as Japan. The sales person would be a driver. They should be on time. If the recipient is not at home, the driver has to visit until service is completed.

Some services such as collection of receivables, delivery service at low temperature for perishables, a receiver of an order at the convenience stores have started in Asia. Circle K Sunkus and Hakuyosha are already a base for delivery in Hong Kong. They can deliver fresh oyster with a great condition. Under the close network in Hong Kong, they will eventually cover China. They are trying to establish the same regional system as they do in Japan.

In Japan, lifestyle or life culture were changed by their parcel delivery service. Mr. Kigawa wants to make this innovation in Asia happen. Their mission is to deliver to people not to the place. He also anticipates there is a lot of demand on e-commerce delivery in China

On the other hand, not only a new business is very fast to be copied in Asia but also similar service comes out soon. However if they develop the network made in Japan into Asia, its superiority would be beneficial. This is "Taste of Japan". They aim at

the achievement of international sales rate from currently only a few % to over 20 % in six years. They are currently targeting over 11% of ROE. Will their Japanese-minded service be accepted in Asia? I expect Kuroneko Yamato of Asia to establish a business model there.

What do investors invest in?

Let me begin with an example. When the Seven-Eleven convenience store chain first appeared in Japan more than 30 years ago, or even when it became well known, few investors anticipated that it would grow to its current size and continued to invest in the company right through to today.

When companies list on the stock market, they already have some kind of strength. As a source of revenue, this strength brings profits. Viewed from the perspective of products and services, such profit-making mechanisms seem easy to understand, yet predicting the future is no easy task. This is because products and services soon become obsolete if left untouched. A company cannot survive if its existing strengths are not adapted to meet changing market needs.

What Do Investors Invest In ?
—They want to share in the corporate value creation process—

- Internal corporate activities aimed at creating value are not clearly visible to outsiders.
- However, such activities can only proceed with the cooperation of various stakeholders.
- Listed companies need to gain the full understanding of their investors.
- **Investors invest in corporate value creation mechanisms.**
- They **want to understand and share in** not only results and accomplishments, but also **the value creation process.**
- **Strategies are stories for developing new value creation mechanisms (business models).**
- If stakeholders cannot fully understand these stories, they become biased; shared understanding with stakeholders improves the probability of achieving strategies.
- Accountability toward investors also enhances the consistency of internal corporate activities.
- The key to success lies in achieving effective engagement toward this end.

Such profit-making mechanisms form business models. Many listed companies try to shed light on various aspects of their businesses to explain themselves, but they fail to

clearly communicate the business models that are the cornerstones of their operations. So are business models difficult to explain? Not at all. Since a business model simply constitutes the corporate value creation mechanisms that a company devotes most of its energy to, it is not difficult to understand.

Internal corporate activities aimed at creating value are not clearly visible to outsiders. However, such activities can only proceed with the cooperation of various stakeholders. Listed companies need to gain the full understanding of their investors. Investors invest in corporate value creation mechanisms. They want to understand and share in not only results and accomplishments, but also the value creation process.

Perspectives on Evaluating Corporate Value

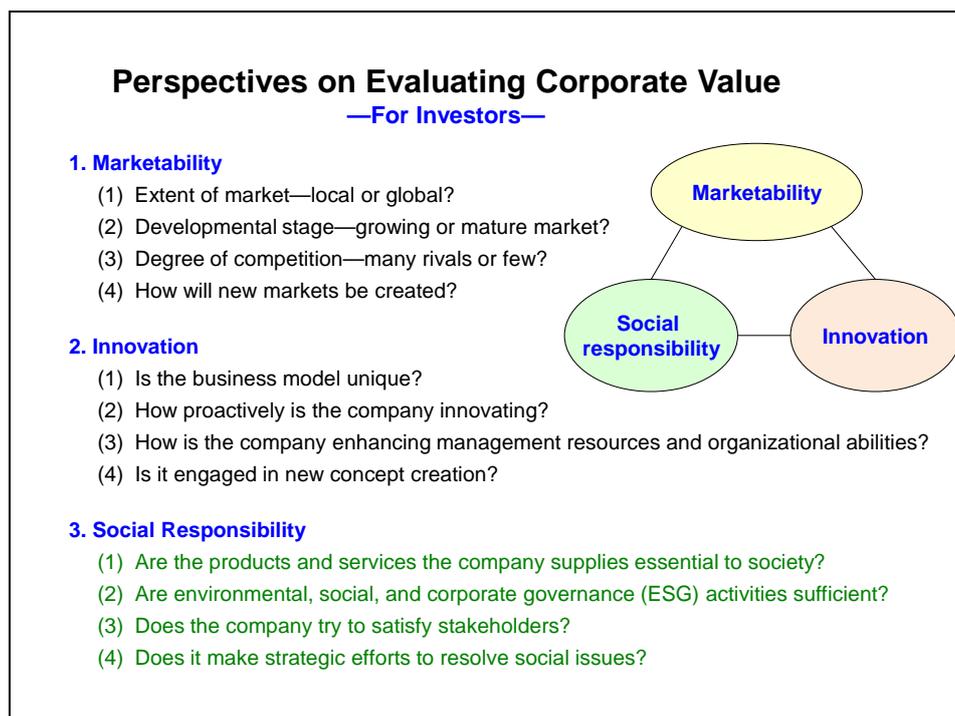
Then, what is the corporate value of companies like Takeda Pharmaceutical or Hitachi? How much damage has been done to the social value of TEPCO? Can corporate value really be measured in monetary terms? Price is certainly not a complete measure of corporate value. Different people attach different values to companies. When we try to show corporate value through price, important aspects may get lost. Even so, investors want to evaluate corporate value.

It is fine to take several perspectives on evaluating corporate value. However, when people look at things qualitatively from different perspectives, it is best to stick to three or four. Too many perspectives make it difficult to form a clear view and exaggerate biases. Let's focus on three perspectives.

The first is marketability. A company creates some kind of value. Where does it conduct the activities that provide this value? I want to know about the market to which it supplies products and services. How big is the market? Is it local or global? I evaluate its potential for development: is the market growing or already mature? Then I examine the extent of competition: does the company have many rivals or few?

The second perspective is innovation. How unique is the business model that forms the company's value creation mechanisms? How is the company responding to the challenge of creating new mechanisms, in other words innovation? It is essential to look at how the company is enhancing its management resources and organizational abilities through such mechanisms.

The third perspective is social responsibility. Are the products and services the company supplies really recognized as essential? Is the company exercising sufficient responsibility in its environmental, social, and corporate governance activities? Does it communicate well with stakeholders involved in value creation and gain their understanding and satisfaction?



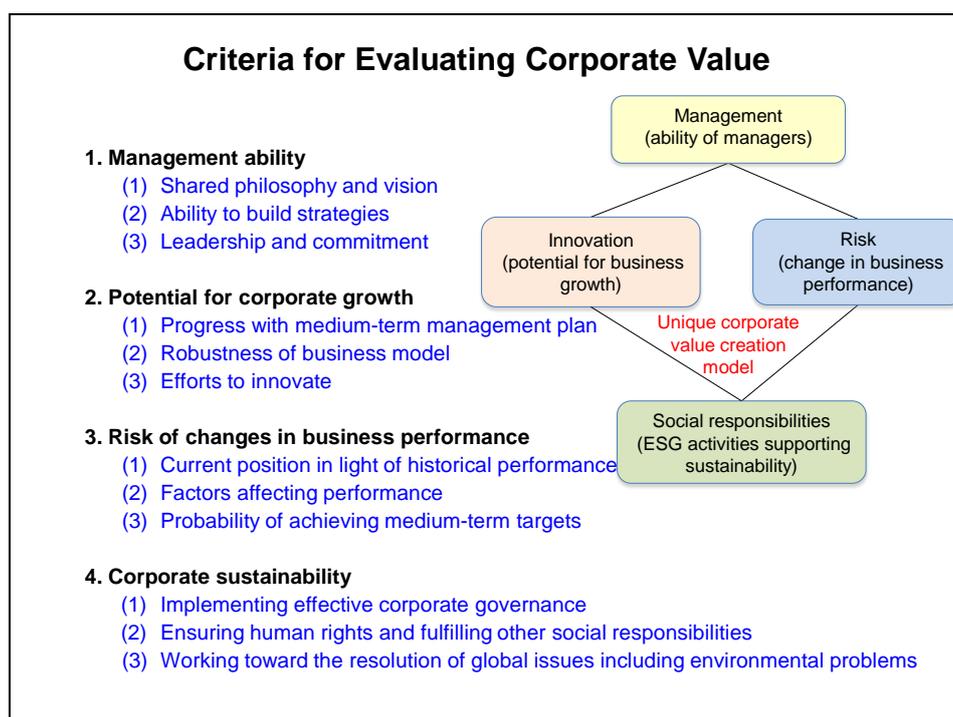
The series of processes that a company uses to develop and supply products and services constitute value creation. Value creation mechanisms form a business model, which frankly speaking is a scheme for making money. However, a business will not last long if it concentrates solely on making money for itself and forgets about others. Similarly, a business will not last long if it does not make profits, no matter how good it appears. Even if a mechanism is working well right now, failure to adapt to changes in the business environment will sooner or later lead to obsolescence and decline.

Markets are created, and challenges beget innovation. Companies need to have an ongoing social presence in any setting. When deciding where to invest, investors evaluate the marketability, innovation, and social responsibility of corporate activities. Viewed in this way, evaluation is not so difficult. However, some people may say that such abstract ideas do not form a concrete image of how to evaluate corporate value.

Four Criteria for Evaluating Corporate Value

Next, let's look at four criteria for qualitatively determining corporate value. The first is management ability. To evaluate this criterion, I ask three questions. Firstly, does management have a clear philosophy and vision, and are these shared with stakeholders? Secondly, judging from the strategy formulation process, does management have the ability to build business strategies? And thirdly, does it display sufficient commitment to future goals and the leadership needed to achieve them?

The second criterion is potential for corporate growth. Once again there are three key factors. Firstly, is the medium-term management plan appropriate in its content and has a good level of progress been achieved? Secondly, how robust is the business model? Do the current corporate value creation mechanisms have enough strength to withstand changes in the business environment? Thirdly, is the company innovating? I assess the company's efforts to innovate so that it can maintain its current strengths and grasp the next opportunity for growth.

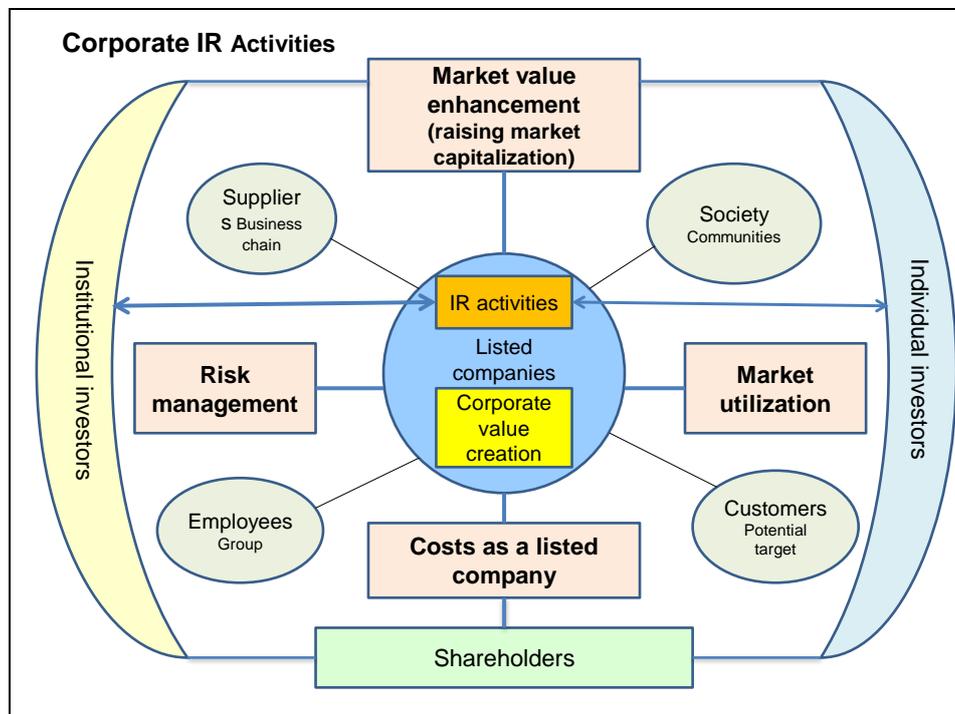


The third criterion is the risk of changes in business performance. Here, the first factor is deciding where the current level of performance sits in historical terms. I also carefully check the return on equity. Secondly, what is behind changes in performance? In addition to regular fluctuations that affect profits, how does the company respond

when something unexpected happens? I assess the impact and extent of measures it takes. The third factor is the direction for medium-term performance and the probability that medium-term targets will be achieved. If the probability is high, I want to know why. If the probability is quite low, I want to know what the issues are.

The final criterion is corporate sustainability, which is supported by the company's environmental, social, and corporate governance activities. I evaluate this criterion by checking whether the company implements effective corporate governance, ensures human rights and fulfills other social responsibilities, and works toward the resolution of global issues including environmental problems.

Investors first check these four criteria based on available information. If some factors are unclear, they identify points needing clarification. Investors and analysts can ask the company about these points. They meet with management in person to find the answers to their questions. By meeting those responsible and looking at the disclosed data, they strive to understand the business. They may also check facts with investor relations staff and ask for information relating to revision of future prospects.



Although it is often no simple matter to understand management abilities, the growth potential of a company's business, the risk of changes in its medium- to long-term

performance, or its sustainability, investors want to know these things. Investor relations staff may not be able to provide clear answers on future prospects. However, investors do not wish to access undisclosed information or company secrets. They want to use publicly available information to gain insights and hints about future performance, and to draw up their own scenarios based on this information.

How to strengthen Japan

I recently visited one major company. This company is known as a good company, but it is not a value creation company but a value destruction company. The actual condition is very bad.

Mrs. Lagarde from IMF executive director said that they now understand the problems of Euro Crisis. It is time to act the solution. Mr. Inamori, the Chairman of JAL, provided the training program with 50 executives every day for a month and talked about his philosophy, a way of management and work. He knew that the leader should be respected by people. Everybody knows that it is important, but it needs to “act” to “understand” it.

I would like to emphasis the power of business enterprises which will significantly help reconstruction of Japan.

Thank you very much for your attention.