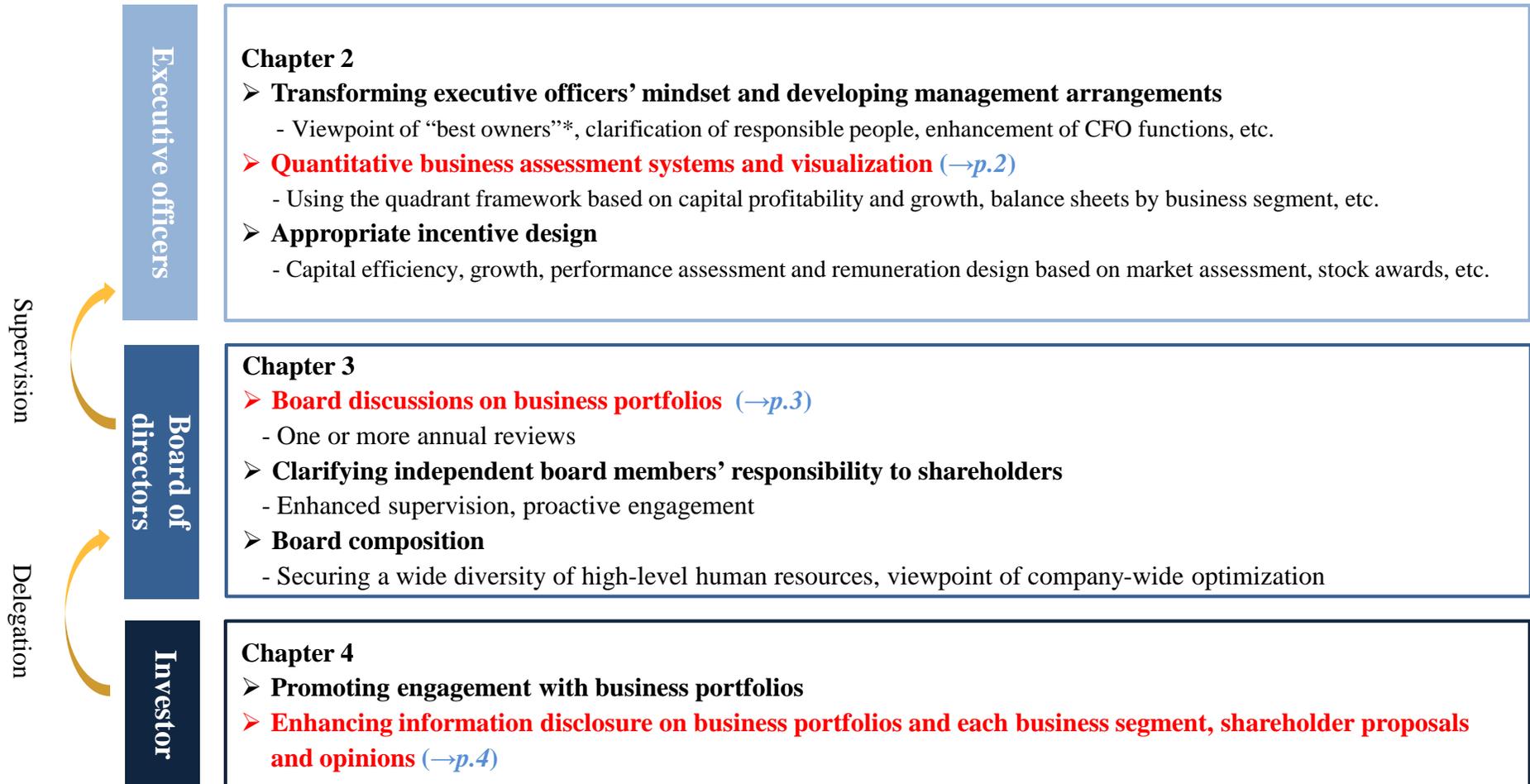


Overview of “Practical Guidelines for Business Transformations”

- The Guidelines summarize corporate governance through the three layers – (1) executive officers, (2) the board of directors (independent directors, in particular) and (3) investors (engagement) – from the viewpoint of promoting business transformations to achieve sustainable growth and improve corporate value over a medium to long term.



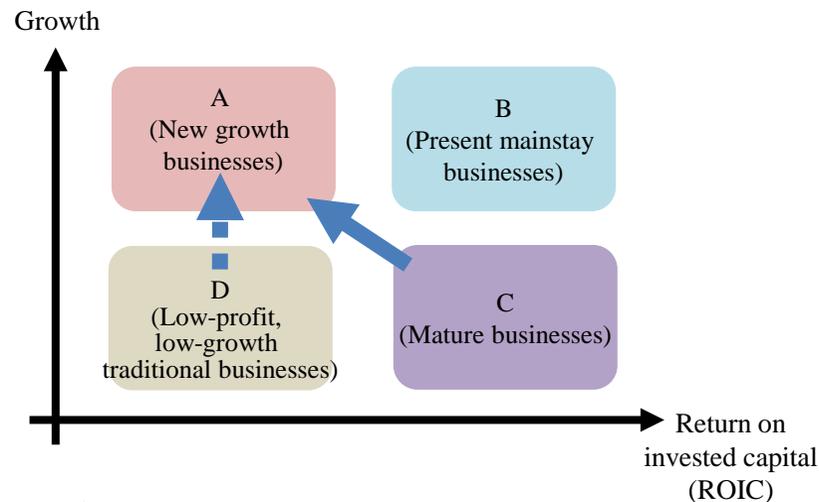
Note: The best owners of businesses are companies that are expected to maximize the value of these businesses over the mid- to long-term.

Business assessment and business portfolio selection (Chapter 2)

- Proposing to use the quadrant framework based on capital profitability and growth for assessing businesses, and to reconsider optimum business portfolios

- ◆ It is important for a company to **introduce return on invested capital (ROIC)** as an indicator for measuring the capital profitability of each business, compare its ROIC with capital costs, and benchmark its ROIC with those at rival companies.
- ◆ To compare ROIC with capital costs for each business, a company must **prepare a rough consolidated balance sheet for each business segment**.
- ◆ The growth of each business should be assessed from the viewpoint of whether **a company is the best owner of each business** in a relevant market.

Quadrant framework



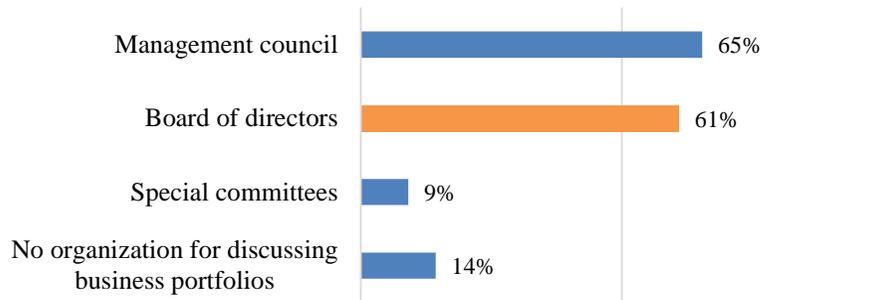
- ◆ **Funds** generated by mature business (C) **should be used for new growth businesses (A)**.
- ◆ Divestment should be **urgently considered for D (low-profit, low-growth) businesses**.

- Flow of funds generated through business operations
- - → Flow of funds gained through business divestment

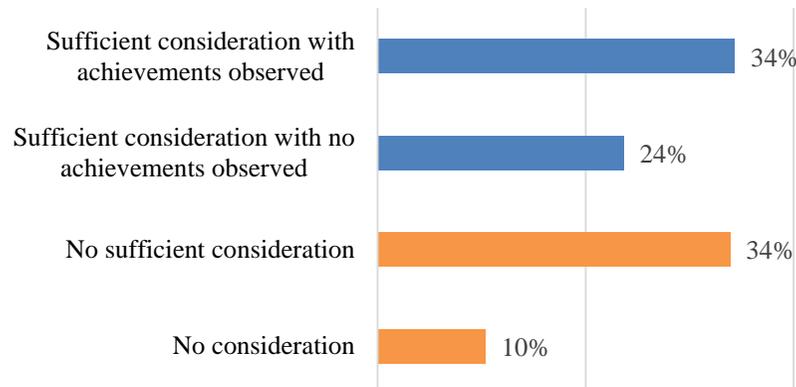
Board roles regarding business portfolios (Chapter 3)

- Under the Companies Act, the key roles of the board of directors are to decide on basic business portfolio policies and supervise the exercise of functions based on the policies, irrespective of organizational design.

Organ to consider a business portfolio



Independent board members' recognition regarding consideration of business portfolios



Proposals of the Guidelines

Positioning under the Companies Act

- Under the Companies Act, the key roles of the board of directors are to decide on basic business portfolio policies and supervise** executive directors' exercise of functions based on the policies, irrespective of organizational design.
- Board members are required to do their best** to improve corporate value regarding **the decision and control on the business portfolio policies** over a medium to long term in line with the duty of care for managers.

- ◆ The board of directors should check basic business portfolio policies at least once annually and **control** executive officers' **business portfolio management**.
- ◆ Based on its fiduciary responsibility to shareholders, the board of directors should consider business portfolios from a company-wide viewpoint and check (1) arrangements, performance assessment systems and information disclosure regarding business portfolio management and (2) business portfolio details.

Dialogue with investors on business portfolios (Chapter 4)

- For constructive dialogue on business portfolios, executive officers should disclose information including capital profitability by business segment, and investors should make reasonable shareholder proposals.

Executive officers

Constructive dialogue

Investors

Enhancing information disclosure, responding to shareholder proposals

[Company-wide level]

- ◆ Companies should **disclose specific information** on (1) corporate philosophy and value standards, (2) business models and strategies, and (3) **the development and operation of business portfolio management systems**.

[Information by business segment]

- ◆ **Thoughts and logic should be clarified with regard to how businesses** compiled into a segment **are related to each other**.
- ◆ It is desirable for companies to voluntarily **disclose the past data and future targets** of each segment's **capital profitability indicators (including ROIC)** after providing their definitions.

- ◆ If shareholder proposals are reasonable, **the board of directors should seriously consider them**.

Assessment of disclosed information, shareholder proposals/opinions

- ◆ It is hoped that **investors would highly rate executive officers trying proactively to realign business portfolios** to realize benefits for their companies and investors.

- ◆ It is hoped that **investors would deepen their understanding about their investment target companies' risk-taking** for realizing their medium to long-term growth.

- ◆ It is hoped that investors would submit **reasonable proposals** from the viewpoint of medium to long-term improvement of corporate value and have **careful communications** with their investment target companies.