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JCGR Corporate Governance Survey 2004: Final Report

Japan Corporate Governance Research Institute (JCGR)
Corporate Governance Index Research Group
http://www.JCGR.org/

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Outline of the Survey

The objective of corporate governance is to assure long-term corporate performance by establishing a system that makes management accountable for achieving corporate goals. A good corporate governance system leads to excellent corporate performance because it brings out superior management.

In the face of the business environment of the 21st century, with its intensifying global competition and rapid technological change, a corporate governance system that separates execution by managers (management) and monitoring by the board of directors (governance) has been spreading around the world. Even in Japan, the Commercial Code was revised to allow firms beginning in April 2003 to either introduce a new corporate governance system, called the Board with Committees, or maintain the existing system of statutory corporate auditors.

Since 2002, the Corporate Governance Index Group of the Japanese Corporate Governance Research Institute has conducted an annual survey of corporate governance of all firms listed on the First Section of the Tokyo Stock Exchange. This survey assesses how close a firm's corporate governance adheres to this desirable state of separation between management and governance, and reports the results for each firm in terms of the JCGIndex.

Between July and October, 2004, we surveyed Tokyo Stock Exchange First Section Firms. The response rate jumped by 70% from the previous year's survey, reflecting what we believe is an increased interest in corporate governance. The results of our analyses of the relationship between the JCGIndex and performance were generally similar to results of previous years: high JCGIndex

companies enjoy superior performance, as measured by higher ROA, ROE, and return on common stock.

The findings of the JCGIndex surveys in 2004 and the previous two years demonstrate that a corporate governance system that separates governance and management is the best model in today's business environment. We hope that the JCGIndex and the results of our analyses will be used by both investors and managers and will be useful in promoting continued corporate governance reform in Japan. We are very grateful to the companies that responded to this survey.

7 Important Results from the 2004 Survey

1. Response rate: A significantly higher response rate indicates an increase in interest in corporate governance

From July to October 2004, the Japan Corporate Governance Research Institute surveyed all firms listed on the First Section of the Tokyo Stock Exchange (1,560 firms as of July 2, 2004), and received responses from 341 firms. Survey questions were based on the "JCGR Corporate Governance Principles." The JCGIndex is based on these questions.

This is the third consecutive year that we have carried out the survey. In 2002, we received responses from 159 firms. In 2003, 201 firms responded, 129 for the first time. In 2004, 189 firms responded for the first time. Over the past three years, we have received responses from 477 distinct firms.

Many of the firms that responded to the survey for the first time in 2004 are large, mainstream, "traditional" Japanese firms, indicating that interest in corporate governance has spread even to the largest and most influential Japanese firms.

2. Characteristics of the responding firms: Large firms with high performance

Firms that responded to the survey tended to be very large. The average size of assets, sales, and number of employees of responding firms (averaged over 1999-2003) was as much as twice the size of the average listed firm. The performance of responding firms was also higher than the average for listed firms. ROA of responding firms was 5.20%, compared to 4.95% for all listed firms: ROE was 3.04% versus .795%, and return on common stock was -.46% versus –1.23%.

3. Distribution of the JCGIndex: Increased average score but wide range

This year, the average JCGIndex is 45 (standard deviation 12.9), compared to an average of 37.8 (standard deviation 12.0) for last year. It is difficult to make a direct comparison between these two years, however. This is because in response to revisions in the Commercial Code and an increased interest in corporate social responsibility among Japanese firms, we made changes in about 20% of the questions.

The highest JCGIndex levels have increased considerably, suggesting that even considering changes in the questions, the state of corporate governance in Japan has advanced over the previous years. Nevertheless, the average of 45 points is less than one half of the total of 100 possible points, and from this it can be concluded that the state of corporate governance in most Japanese firms is far

from the ideal state of our governance model.

The range between the highest and lowest JCGIndex firms is quite large, as in previous years. This year the highest JCGIndex was 83 and the lowest was 11. Last year the highest JCGIndex was 73 and the lowest 12.

4. Average points by category: Governance reform is unbalanced

The JCGIndex is the sum of the points in 4 separate categories (Cg1, Cg2, Cg3, Cg4). The following table reports the average points in each category for the 341 responding firms.

In Categories III and IV, firms on average achieved over 50% of all possible points. The achievement rates for Categories I and II were far lower. In particular, average points for Category II, the structure and function of board of directors, were particularly low, indicating that the separation of monitoring by the board of directors (governance) and execution by managers (management) has yet to spread widely.

These results suggest that in corporate governance reform, firms have focused on corporate restructuring, and have improved management systems and disclosure. In contrast, reform in the essence of governance, which is CEO accountability and board function, has not progressed as far.

Category		Maximum points (A)	Mean (B)	Achievement rate* (B) / (A)
I	Corporate objectives and CEO responsibility	28 (28)	11.9 (12.3)	42.5% (43.9%)
II	Structure and function of board of directors	25 (29)	6.7 (6.1)	26.8% (21.0%)
III	Management system	27 (26)	16.0 (11.6)	59.3% (44.6%)
IV	Transparency and communication with shareholders	20 (17)	10.4 (7.7)	52.0% (45.3%)

(note) results from last year's survey are in parentheses

In the table above, results for 2003 are shown in parentheses. The point allocation for each category has changed somewhat from 2003, due to the change in questions as noted above.

5. Characteristics of high and low JCGIndex firms

To compare the characteristics of high and low JCGIndex firms and to examine the relationship between the JCGIndex and corporate performance, we constructed two groups: high and low JCGIndex firms. The high JCGIndex group consists of the 51 firms with a JCGIndex of 58 or more points (over one standard deviation above the mean) and the low JCGIndex group consists of the 55 firms with a JCGIndex of 38 or less (over one standard deviation below the mean).

(1) Characteristics of high and low JCGIndex firms: The percentage of foreign ownership is higher and the CEOs are younger.

The average percentage of shares held by foreigners in the high JCGIndex group is 26.1%, while the average for listed firms is 13.8%, and the average for low JCGIndex firms is even lower at 8.3%. The average age of the CEO for high JCGIndex firms is 60.9 while the average age for low JCGIndex firms is 63.9.

(2) High JCGIndex firms are bigger

The total assets, sales, and number of employees are over 10 times greater in the high JCGIndex firms than the low JCGIndex firms.

(3) High JCGIndex firms are strong in all aspects of corporate governance

High JCGIndex firms have achieved high points in all four categories, indicating that a high JCGIndex cannot be achieved with high scores in only one or two categories. In Category I, high JCGIndex firms achieved on average 18.1 points (versus 6.7 points for low JCGIndex firms). In Category II, this was 12.4 versus 4, in Category III, 20.9 versus 10.1, and in Category IV, 15.2 versus 6. The JCGIndex captures the complete picture of a company's corporate governance capabilities and is not determined by single category.

6. JCGIndex and firm performance: A clear relationship

The objective of corporate governance is to assure excellent corporate performance. Is there really a relationship between corporate governance and corporate performance? In the 2004 JCGIndex survey, as well as in surveys for 2002 and 2003, we found a close relationship between the two.

(1) High JCGIndex firms enjoy superior performance

Based on 5-year averages (1999-2003), ROA (6.30% versus 4.66%) and ROE (4.12% versus –1.82%) are higher in the high JCGIndex firms than in the low JCGIndex firms. Return on common stock is also higher in the high JCGIndex firms then in the low JCGIndex firms (1.93% versus –1.82%).

(2) The rate of growth in employment is higher in the high JCGIndex firms

Based on the 3-year average (2001-2003) of growth of employment, high JCGIndex firms have a higher growth rate than low JCGIndex firms (1.43% versus .60%), although this difference is not significant at the 10% level. While it is often said that in order to increase profits it is necessary to sacrifice employment, our result suggests that high JCGIndex companies are establishing high performance without cutting costs through reducing employment.

7. Relationship between each category and performance: Strongest for structure and function of the board of directors and transparency and communication with shareholders

To determine whether or not there was a similar relationship between performance and each of the categories of the JCGIndex, we constructed high and low JCGIndex groups in each of the 4 categories, choosing the firms with points of one standard deviation above the mean or one standard deviation below the mean for each of the categories. In general, the groups with high points in each category had higher performance (averaged over the past 5 years) than firms with low points, though this difference was not significant in all cases. There were statistically significant differences for two categories: Category II (structure and function of the board of directors) and Category IV (transparency and communication with shareholders). In the last year's survey, we did not find a clear relationship between structure and function of the board of directors and performance. We are not sure why this relationship changed over the last year, and this is a topic for further research.

This year, as in the survey for last year, there was a close relationship between transparency and communication with shareholders, measured by Category IV, and performance. This may be because companies with high performance are much more enthusiastic about disclosure.

Category I Corporate objectives and CEO responsibility: The group of high firms had a higher return on common stock than low firms (1.03% versus –1.79%). In ROA (5.00% versus 5.14%) and ROE (3.00% versus 3.59%) low firms showed higher performance, though this was not statistically significant at the 10% level.

Category II Structure and function of board of directors: For all performance metrics, high firms performed better, at the 5% level of statistical significance. ROA was 6.62% versus 4.70%, ROE was 4.44% versus 1.75%, and return on common stock was 1.23% versus –3.07%.

Category III Management system: For all of the indicators, the high firms had better performance. ROA was 5.86% versus 4.92%, ROE was 2.92% versus 1.45%, and return on common stock was .95% versus –3.26%. Except for return on common stock, which was significantly significant at the 5% level, none of the other differences were statistically significant at the 10% level.

Category IV Transparency and communication with shareholders: For all of the indicators, the high firms had higher performance. ROA was 5.20% versus 4.02%, and was significant at the 5% level. ROE (4.13% versus .56%) and return on common stock (2.17% versus –2.51%) were all significant at the 1% level.

Corporate governance reform is key to the revival of the Japanese economy

The JCGR surveys over the past 3 years have demonstrated that corporate governance is strongly related to corporate performance. Although the response rate of the survey has not been high in any given year, over the past three years we have received 701 responses for 477 distinct firms, and each year shows a similar relationship between JCGIndex and performance. Based on this, we feel that it is appropriate to conclude that corporate governance reform is a necessary condition for Japanese firms to compete in the 21st century business environment. We hope that investors and managers will use the JCGIndex to promote corporate governance reform.

Shareholders are particularly important to governance reform. From the perspective of managers, there is not much incentive to promote corporate governance, as corporate governance reform makes them more accountable for corporate performance. For shareholders, on the other hand, corporate governance reform has a close relationship to the improvement of the performance of their investment, and therefore, they have a strong incentive to push for reform. This is especially true for institutional investors, who manage such a large share of investment capital today.

As shareholders become more aware of the importance of corporate governance reform, shareholder activism, including exercise of voting rights and establishment of governance funds, will increase. We hope that the JCGIndex will be used as an important weapon in these activities. For this reason, this year, we have asked all responding companies to disclose their JCGIndex results. As part of the survey, we asked firms to give us permission to disclose their name if they were in the top 50% of the JCGIndex. Fortunately, most of the companies answered “yes.” Thus, this year, we are able to report a list of the top 50% JCGIndex firms, as well as a list of all responding companies. We are very impressed by the courage of firms that permitted the disclosure of their names, and are very grateful to them. We hope that firms and investors will find many uses for the JCGIndex.

【Appendix】The top 50 JCGIndex firms and their JCGIndex results

（see [Firms in the Top 50% of the JCGIndex]）

Toshiba Corp. (*)	83	Komatsu Ltd.	65
Teijin Ltd.	81	Anritsu Corp.	
Sony Corp. (*)	80	Nichirei Corp.	64
Nikko Cordial Corp. (*)		Showa Shell Sekiyu K.K.	
Omron Corp.	79	HOYA Corp. (*)	
Sanyo Electric Co., Ltd.		Marubeni Corp.	
Orix Corp. (*)	76	Yamaha Corp.	63
Konica Minolta Holdings, Inc. (*)	75	Mitsui O.S.K. Lines, Ltd.	
Daiwa Securities Group Inc. (*)		Yokogawa Electric Corp.	62
Matsushita Electric Works, Ltd.	74	Bandai Co., Ltd.	
Sumida Corp. (*)	73	(anonymous 1 firm).	
Meitec Corp.		Sohgo Security Services Co., Ltd.	61
Eisai Co., Ltd. (*)	72	Takeda Pharmaceutical Co., Ltd.	60
Hitachi, Ltd. (*)	71	Tokyo Electron Ltd.	
Mitsubishi Electric Corp. (*)		Sumitomo Corp.	
Asahi Glass Co., Ltd.	70	Resona Holdings, Inc. (*)	
Benesse Corp.		Natori Co., Ltd.	59
Nomura Holdings, Inc. (*)	69	Yamaha Motor Co., Ltd.	
Nomura Research Institute, Ltd.	68	Nifco Inc.	
NEC Corp.		Hitachi Software Engineering Co., Ltd. (*)	
Asahi Breweries, Ltd.	67	CSK Corp.	
Mitsui & Co., Ltd.		Hitachi Chemical Co., Ltd. (*)	58
Sankyo Co., Ltd.	66	Nippon Steel Corp.	
Aeon Co., Ltd. (*)		Tokyo Gas Co., Ltd.	
		(anonymous 3 firms).	

(note) (*) firms with committees

I. A description of the survey and the survey results

1. An overview of the JCGIndex survey

Between the end of July and October 2004, the Japan Corporate Governance Research Institute (JCGR) sent its third annual survey to all Tokyo Stock Exchange First Section firms (1560 firms as of July 2, 2004). We received responses from 341 firms. The names and industries of these firms are listed in the Appendix.

In 2002, 159 firms responded. In 2003, 201 firms responded. Of the 341 firms that responded in 2004, 152 had responded to the survey in earlier years, and 189 were responding for the first time. Over the three years, we have received a total of 701 responses from 477 distinct firms.

Beginning in April 2003, the Commercial Code was revised to allow the Board with Committees structure. To respond to this and other changes in the legal and business environment, we changed about 20% of the questions in the survey and therefore it is difficult to make direct comparisons between the years.

2. The objective of the JCGIndex

The objective of the JCGIndex is to measure the current state of corporate governance in Japanese firms through indexation. We hope that the JCGIndex will help Japanese people to look at Japanese firms in a new light. Furthermore, we hope that the JCGIndex will help the foreign business community better understand the corporate governance situation in Japan.

3. About the JCGIndex

The objective of corporate governance is to give corporate executives a clear goal for corporate performance and to create a system by which they assume responsibility to reach those goals. For this reason, it is important to separate the execution of management (management) by executive officers from the monitoring of management (governance) by the board of directors, and to maintain transparency to shareholders and all stakeholders regarding the state of the corporation.

The JCGIndex is based on 53 questions, drawn from the "JCGR Corporate Governance Principles." These principles are:

- governance from the perspective of shareholders
- clear and measurable corporate goals
- a system to assure the responsibility of CEO and top management team for realizing the goals
- an independent board with capability to monitor and motivate management

- systems for managerial decision-making, implementation, and risk-management
- accountability to shareholders
- provision of appropriate information to shareholders through investor relations activities
- maintenance of transparency through disclosure to all stakeholders

The JCGIndex consists of four categories:

I. Corporate objectives and CEO responsibility
II. Structure and function of board of directors
III. Management system
IV. Transparency and communication with shareholders

II. Characteristics of responding companies and the JCGIndex

1. A comparison of responding companies to all listed companies

The responding companies represent 22% of the 341 companies listed on the Tokyo Stock Exchange First Section. The table below presents comparisons of financials of responding companies and all listed companies, based on 5-year averages (1999-2003). The averages do not include companies that did not report financials in all five years.

Companies that responded to the JCGIndex survey were far larger than average in terms of total assets, sales, and number of employees. ROA, ROE, and return on common stock, which are not related to firm size, were also larger for responding companies than for the average listed companies. The differences in these measures of size and performance for responding firms and all listed firms were significant in all cases.

5 year averages

total assets (consolidated)	firms	average	minimun	maximum	standard deviation
listed firms	1293	428651.71	1240.00	19945103.20	1279355.24
responding firms	287	796811.62	7869.60	19332006.40	1925330.48

(million yen)

sales (consolidated)	firms	average	minimun	maximum	standard deviation
listed firms	1293	357394.84	767.40	14951866.20	1102080.81
responding firms	287	722076.27	8038.60	14951866.20	1808635.81

(million yen)

ROA (consolidated)	firms	average	minimun	maximum	standard deviation
listed firms	1173	4.946	-15.394	22.030	3.947
responding firms	264	5.196	-1.608	19.722	3.840

(%)

ROE (consolidated)	firms	average	minimun	maximum	standard deviation
listed firms	1159	0.791	-466.540	28.990	20.006
responding firms	263	3.038	-27.988	18.044	6.028

(%)

employees (consolidated)	firms	average	minimun	maximum	standard deviation
listed firms	1239	7354.53	32.00	316423.40	21075.17
responding firms	275	13418.75	117.80	316423.40	32425.71

(number of employees)

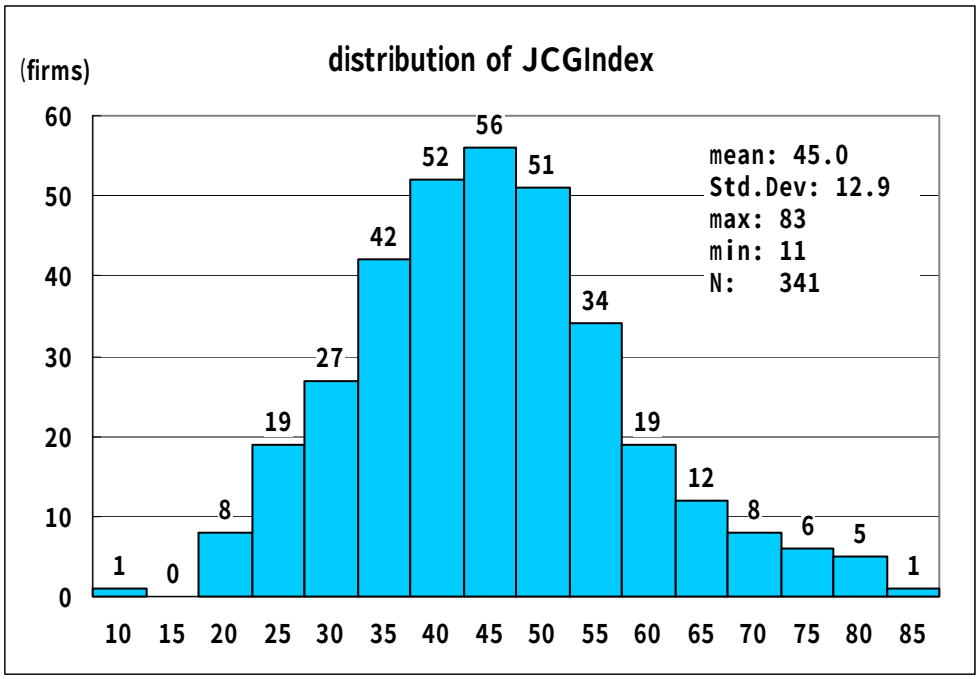
stock return (consolidated)	firms	average	minimun	maximum	standard deviation
listed firms	1228	-1.233	-46.500	66.300	9.576
responding firms	284	-0.461	-28.300	38.200	8.410

(%)

2. Distribution of the JCGIndex

The JCGIndex for individual companies was distributed widely, ranging from a maximum of 83 to a minimum of 11. Given that the maximum possible number of points was 100, even the firms with the highest JCGIndex were far from the ideal level of corporate governance according to JCGR's corporate governance principles.

The mean JCGIndex was 45 (last year, 37.6), the standard deviation was 12.9 (last year, 12), and there was a normal distribution around the mean.



(note) The x axis depicts a range of +/- 2.5 around the number indicated. For example, the number 10 depicts a range greater than 7.5 and less than 12.5. Because the JCGIndex is rounded to the nearest integer, the reported range is 8 to 12.

3. Board with committees and JCGIndex

From April of last year, the Commercial Code was revised to allow the introduction of the Board with Committees structure. The spirit of this revision, to facilitate the separation of governance by an independent board of directors and management by executive officers, is similar to the JCGR corporate governance principles. In the 21st century business environment, characterized by increasing globalization and rapid technological change, a governance system that ensures transparency, clarifies the responsibility of management for performance, and ensures that management makes its best efforts is critical.

Although the Board with Committees structure makes it easier to create this kind of governance structure, it is still possible to establish this sort of governance with the existing statutory auditor system. The JCGIndex is designed so that even if a firm has not introduced the Board with Committees structure, if its governance structure assures the separation of management and monitoring, these efforts will be duly reflected in a higher JCGIndex.

Of the 341 firms that responded to the 2004 JCGIndex survey, 22 firms had introduced the Board with Committees structure. Of the top 10 companies in the JCGIndex, 6 companies had introduced the Board with Committees structure. Of the top 20 companies, 11 companies had introduced this structure, and 13 of the top 30 firms had introduced it. Thus, while the Board with Committees structure is well-represented in the list of high JCGIndex firms, not all high JCGIndex firms had introduced this structure.

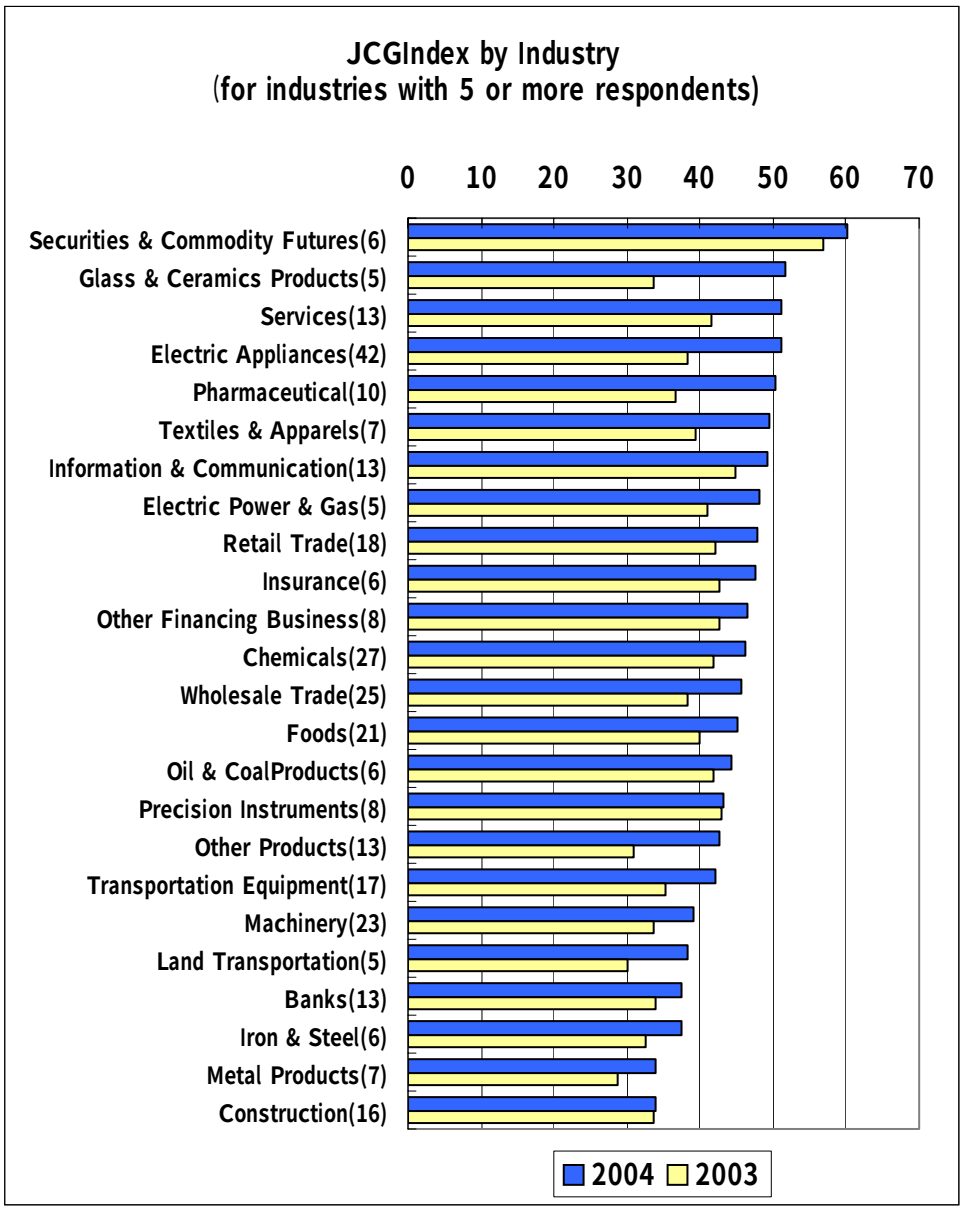
Whether or not a company has a Board with Committees structure, if it has clarified its structure for management accountability and has satisfied the necessary conditions in each category, it can obtain a high JCGIndex equivalent to that of a company that has adopted the Board with Committees structure.

Questions of the structure of the board aside, even the top JCGIndex firms are still far from the maximum 100 points and there are many challenges ahead both for companies that have adopted this structure and those that have not.

4. The JCGIndex by industry

The following table shows the average JCGIndex by industry for 2004 and 2003. We report results only for industries for which 5 companies or more responded.

The average JCGIndex for all industries has increased, though we think that this largely reflects the difference in questions. However, it is interesting to note that the amount of increase differs by industry, and we believe that this reflects the different speed in corporate governance reform across industries.



(note) Name of industry. The number in parentheses is the number of firms in each industry that responded to the survey.

5. Points by category

The following table reports the average points by category for the 341 responding firms. While firms achieved a relatively high percentage of total possible points in Categories III and IV, the achievement rate for Categories I and II was much lower. In particular, average points for board structure and function were quite low, indicating that the separation between the governance and management through independent boards has yet to be fully accomplished.

For reference, results for 2003 are included in parentheses. It is important to note that some caution must be used in comparing these directly. As noted earlier, due to revisions in the Commercial Code and increased interest in corporate social responsibility among other factors, the corporate governance situation has changed and about 20% of the 53 questions in the 2004 survey have been changed in some way. Changes are particularly concentrated in questions concerning the board of directors. There were also changes in questions concerning accountability for performance of the CEO.

Despite these differences between years, the results indicate that companies that have embarked on corporate governance reform have tended to focus on restructuring of management systems and improvements in disclosure, while reforms to core of governance, in other words, clarifying management accountability and board reform, have progressed much more slowly.

Category		Maximum points (A)	Mean (B)	Achievement rate* (B) / (A)
I	Corporate objectives and CEO responsibility	28 (28)	11.9 (12.3)	42.5% (43.9%)
II	Structure and function of board of directors	25 (29)	6.7 (6.1)	26.8% (21.0%)
III	Management system	27 (26)	16.0 (11.6)	59.3% (44.6%)
IV	Transparency and communication with shareholders	20 (17)	10.4 (7.7)	52.0% (45.3%)

(note) results from last year's survey are in parentheses

III. Analyses based on financial data

In this section, we analyze differences between high and low JCGIndex firms in financial performance and compare performance for high and low firms in each of the 4 categories of the JCGIndex. This report presents comparisons of unadjusted data. We have also created a supplementary report that shows comparisons of data adjusted for industry, which can be downloaded separately. The differences in these two sets of analyses are not great, suggesting that our results are stable and robust to industry differences.

1. The definition of high and low JCGIndex groups

To analyze the relationship between the JCGIndex and firm characteristics, we constructed two groups: high JCGIndex firms, with JCGIndex greater than one standard deviation above the mean (mean is 45.0 points, standard deviation is 12.9 points) and low JCGIndex firms, with JCGIndex greater than one standard deviation below the mean.

High JCGIndex firms: 51 firms with JCGIndex above 58 (45+12.9=57.9)
Low JCGIndex firms: 55 firms with JCGIndex below 32 (45.0-12.9=32.1)

We also used this method to construct groups of high and low firms for each of the four categories that make up the JCGIndex.

2. Analysis of relationship between JCGIndex and firm performance

(1) Method of analysis

We used the high and low JCGIndex groups constructed as described above to compare financial characteristics of high and low JCGIndex firms. Comparisons are shown in the form of graphs. We show the differences in means, and report the degree of statistical significance.

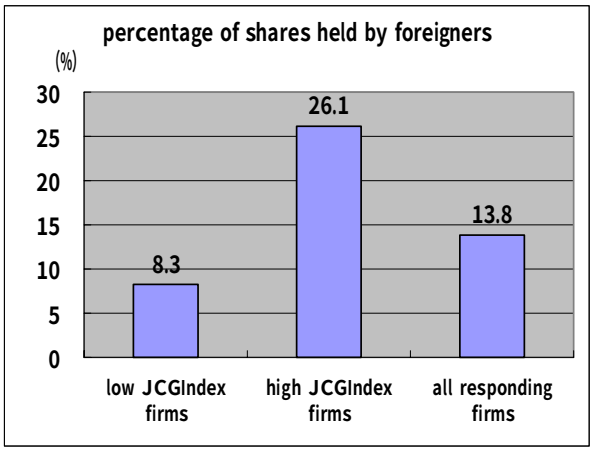
Financial information is averaged over the previous 3 years (2001-2003) and 5 years (1999-2003), using consolidated reports. Firms that did not report data for all 5 years were excluded from our comparison, so there is some variation in the number of firms used for each of the comparison.

Return on assets (ROA) is profits after tax and payment of interest divided by total assets (averaged across beginning and ending of period). Return on equity (ROE) is profits after tax divided by total shareholders equity (averaged across beginning and ending of period). The return on common stock is the sum of the dividends and capital gains (or capital loss) for the period, divided by the share price at the beginning of the period.

(2) Characteristics of firms responding to the JCGIndex

First, we present some of the more interesting differences between the characteristics of firms in the high and low JCGIndex groups. These results are generally similar to those from 2002 and 2003.

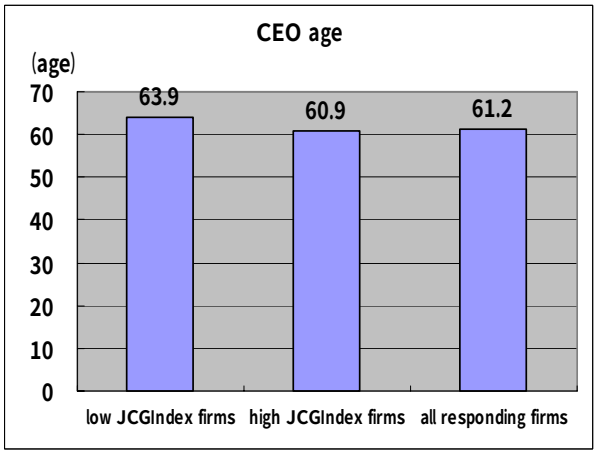
a. Percentage foreign ownership



Foreign ownership is higher in high JCGIndex firms than in low JCGIndex firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 306
High JCGIndex firms: 47
Low JCGIndex firms: 47

b. Age of CEO

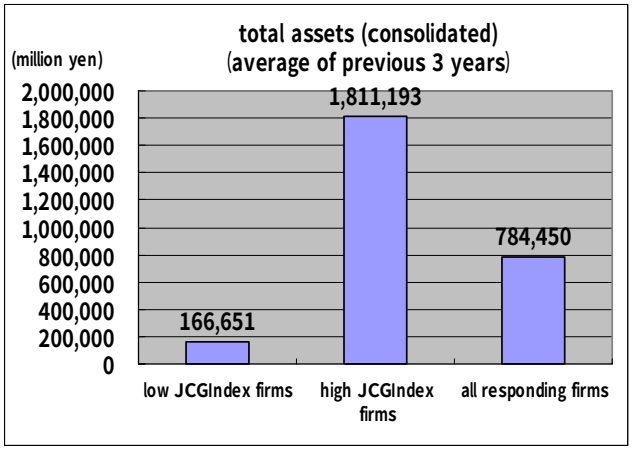


The CEOs of high JCGIndex firms are younger than CEOs of low JCGIndex firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 319
High JCGIndex firms: 49
Low JCGIndex firms: 51

(3) JCGIndex and firm size

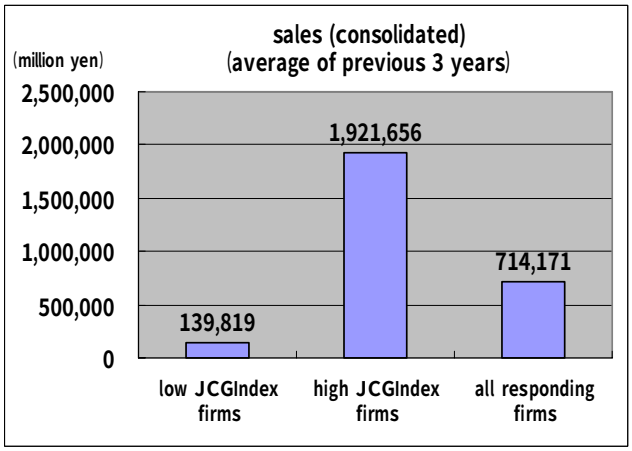
a. Total assets (consolidated, 3 years)



Total assets of high JCGIndex firms are greater than total assets of low JCGIndex firms, and this difference is statistically significant (at the 1% level). This result is the same for the 5 year average of total assets.

Total responding firms: 296
High JCGIndex firms: 47
Low JCGIndex firms: 46

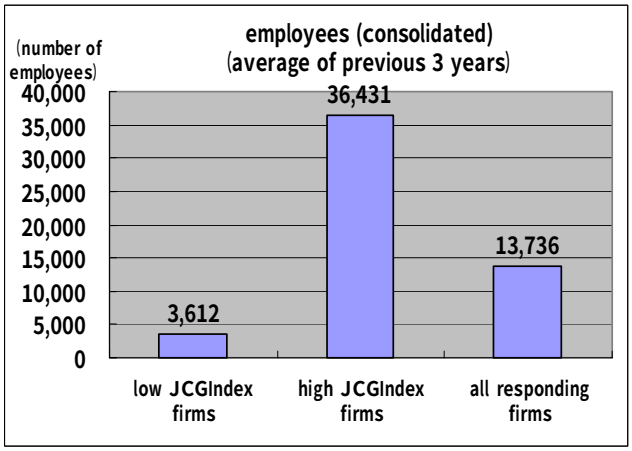
b. Total sales (consolidated, 3 years)



Total sales of high JCGIndex firms are greater than total sales of low JCGIndex firms, and this difference is statistically significant (at the 1% level). This result is the same for the 5 year average of total sales.

Total responding firms: 296
High JCGIndex firms: 47
Low JCGIndex firms: 46

c. Number of employees (consolidated, 3 years)



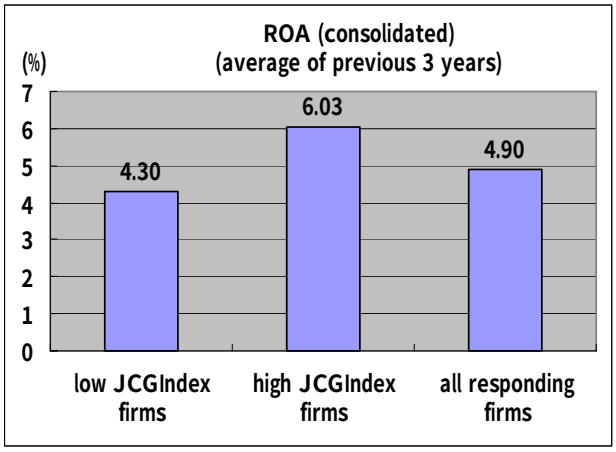
Number of employees of high JCGIndex firms is greater than number of employees in low JCGIndex firms, but this difference is not significant at the 10% level. This result is the same for the 5 year average of number of employees.

Total responding firms: 296
High JCGIndex firms: 47
Low JCGIndex firms: 46

(4) JCGIndex and firm performance

The essence of corporate governance from the perspective of shareholders is to maintain a return on capital invested. We compared return on total assets (ROA) and return on shareholders' equity (ROE) between high and low JCGIndex groups. For both 3 and 5 year averages, ROA and ROE are higher for high JCGIndex than for low JCGIndex firms.

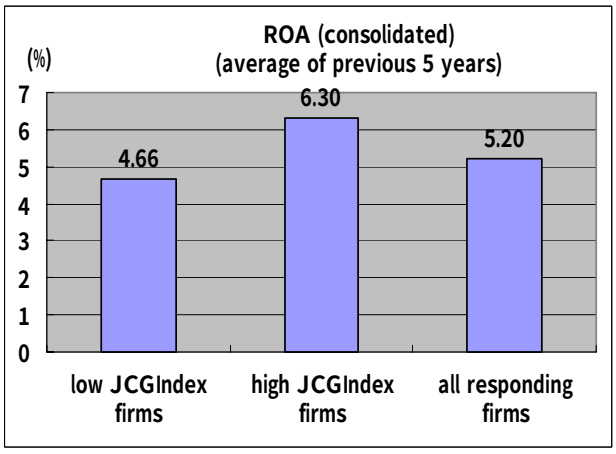
a. ROA (consolidated, 3 years and 5 years)



3 years

ROA for high JCGIndex firms is higher than ROA for low JCGIndex firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 287
High JCGIndex firms: 46
Low JCGIndex firms: 44

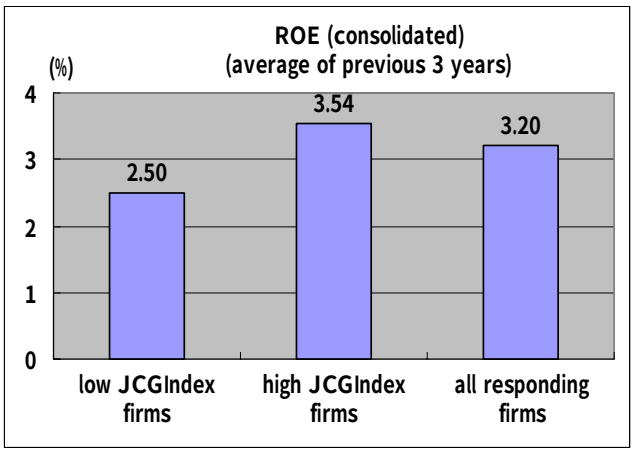


5 years

ROA for high JCGIndex firms is higher than ROA for low JCGIndex firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 264
High JCGIndex firms: 40
Low JCGIndex firms: 42

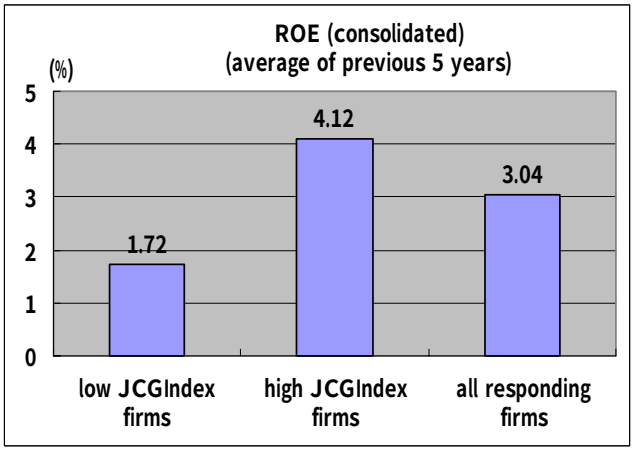
b. ROE (consolidated, 3 years and 5 years)



3 years

ROE for high JCGIndex firms is higher than ROE for low JCGIndex firms, but this difference is not significant at the 10% level.

Total responding firms: 285
High JCGIndex firms: 45
Low JCGIndex firms: 44



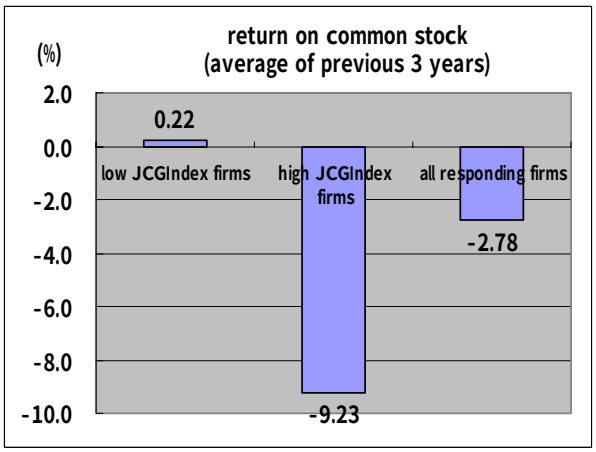
5 years

ROE for high JCGIndex firms is higher than ROE for low JCGIndex firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 263
High JCGIndex firms: 42
Low JCGIndex firms: 40

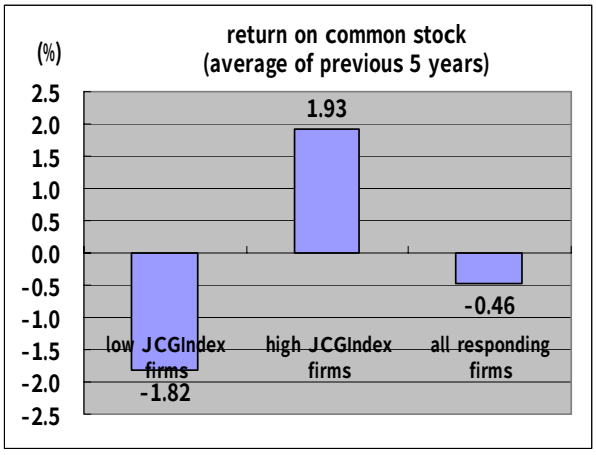
(5) JCGIndex and return on common stock (3 years and 5 years)

Return on common stock over the past 3 years is lower for high JCGIndex firms than for low JCGIndex firms, and this difference is significant (at the 5% level). However, return on common stock over the past 5 years is higher for high JCGIndex firms than low JCGIndex firms, and this difference is statistically significant (at the 1% level).



3 years

Total responding firms: 297
High JCGIndex firms: 45
Low JCGIndex firms: 51



5 years

Total responding firms:	284
High JCGIndex firms:	43
Low JCGIndex firms:	49

The reason that return on common stock over 3 years is lower for the high JCGIndex group is that over half of the firms in the high JCGIndex group had return on common stock in the negative two digits in the year 2003. This appears to be a short-term anomaly, and demonstrates that when evaluating corporate governance and performance, it is important to look at the relationship between the two over the long term.

<adjustment for risk>

In a world where there is risk, return (in other words, average profitability in past years or future expected profit) cannot be evaluated without thinking about differences in risk. In modern capital markets, high risk=high return and low risk=low return, for both individual stocks and entire portfolios. This degree of risk is measured by the beta (β), and the risk-adjusted expected return of an investment is calculated as follows:

$$\text{Expected return} = \text{interest rate} + \beta \times (\text{expected market return} - \text{interest rate})$$

This formula is called the CAPM, or capital asset pricing model. According to this model, the expected return of a stock is a function of the risk free rate (interest rate) plus the difference between the expected market return and risk free rate, times a beta (β). The beta represents the contribution of a single stock to the total variance of the market portfolio, and thus is a measure of the relative risk of a stock. Predictions for the return for stocks listed on the first section of the Tokyo Stock Exchange in excess of the risk free interest rate are in the range of 3% to 5%. The beta of the market portfolio is set at 1, and is the weighted average of betas of all listed stocks. Thus, betas of individual stocks are distributed around 1.

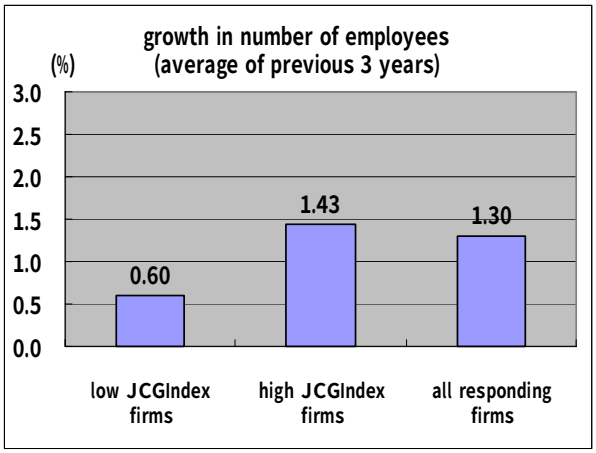
Based on this logic, if the excess return in the market is 4%, and the beta is 0.1 greater than that for other stocks, the return is expected to be 0.4% higher.

The following table shows the betas of high and low JCGIndex firms for 3 and 5 years. The difference between betas for the two groups is statistically significant in both cases (at the 1% level).

	β 3 year	β 5 year
High JCGIndex firms	1.097	.951
Low JCGIndex firms	.835	.667
All responding firms	.887	.766

This table shows that some of the difference between the average past returns for high and low JCGIndex firms must be attributed to differences in risk. The difference in betas is about .3, and when this is multiplied by 3% to 5%, returns attributable to difference in risk are .9% to 1.5%. Looking at the 5 year results, which are more reliable as they measure returns over a longer time period, the difference between high and low JCGIndex firm returns is 3.75%. Thus, even considering the difference in risk, return on common stock is higher for high JCGIndex firms than for low JCGIndex firms.

(6) JCGIndex and growth in number of employees (consolidated, 3 year)



Growth in employment for high JCGIndex firms is higher than growth in employment for low JCGIndex firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 295*
High JCGIndex firms: 47
Low JCGIndex firms: 46

* We removed one outlier, which reported growth of 395%.

IV: Results by category and firm performance

1. Category specific results and their relationship to the entire JCGIndex

The following table shows the average number of points for each of the 4 categories that make up the JCGIndex for the high and low JCGIndex groups. In the parentheses, we report the contribution of each category expressed as a percentage of the total points. The difference between the high and low JCGIndex groups in the contribution of each category to the total is relatively small, with the exception of Category II, structure and function of board of directors. This indicates that high- and low- JCGIndex groups do not score particularly well or particularly poorly on a single category.

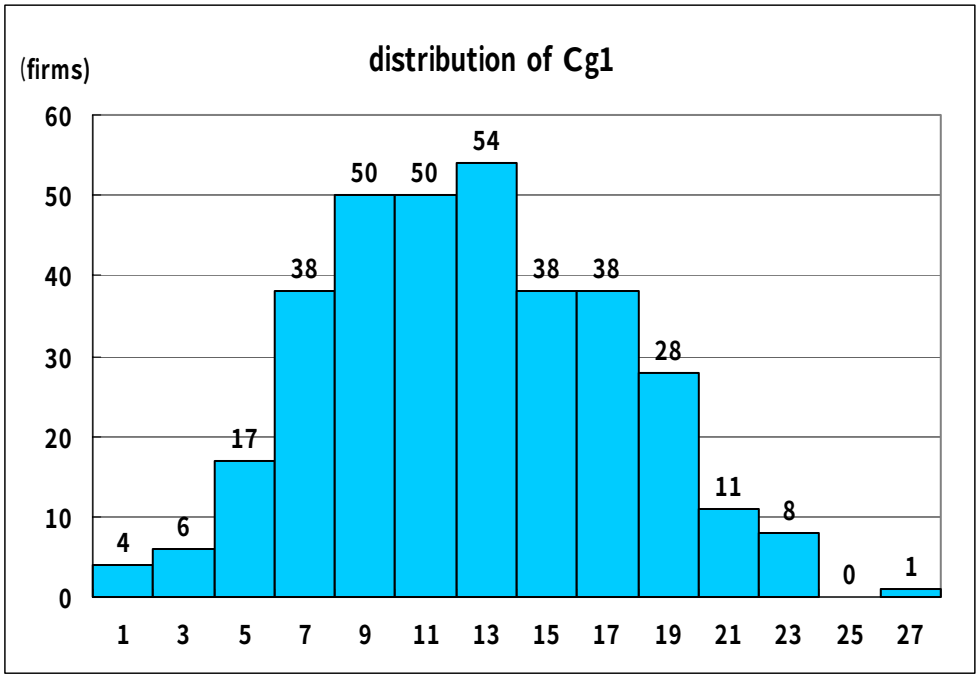
category	I	II	III	IV	JCGIndex
High JCGIndex firms	18.1 (27.2%)	12.4 (18.6%)	20.9 (31.3%)	15.2 (22.9%)	66.6 (100%)
Low JCGIndex firms	6.7 (25.1%)	4.0 (14.9%)	10.1 (37.7%)	6.0 (22.3%)	26.7 (100%)

2. High and low firms by category and performance

In the following section, we create groups of high and low firms for each category, and compare their performance. We calculated the high and low groups in the same way as we calculated the high and low JCGIndex groups. The high groups consist of firms for which the points in a given category are over one standard deviation above the mean for that category, while the low groups consist of firms for which the points in a given category are over one standard deviation below the mean.
We refer to the total points received in categories I, II, III, and IV as Cg1, Cg2, Cg3, Cg4.

3. Category I (Corporate objectives and CEO responsibility)

(1) Distribution of Category I, and definition of high and low Cg1 groups



Distribution of Cg1

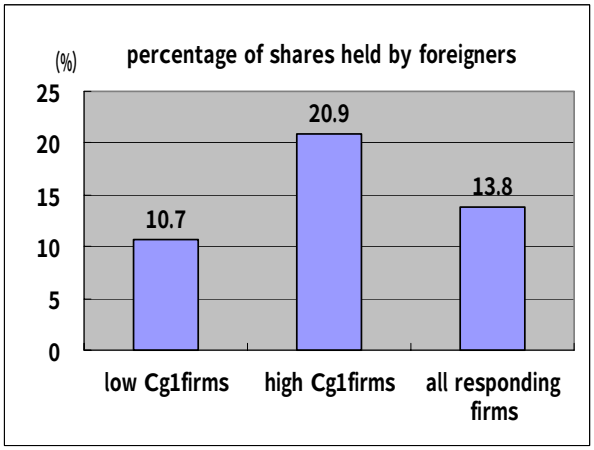
Mean: 11.9, standard deviation: 4.8, maximum, 26, minimum 0

High Cg1 groups: 58 firms for which Cg1 is over 18

Low Cg1 group: 65 firms for which Cg1 is under 7

(2) Cg1 and firm characteristics

a. Percentage foreign ownership



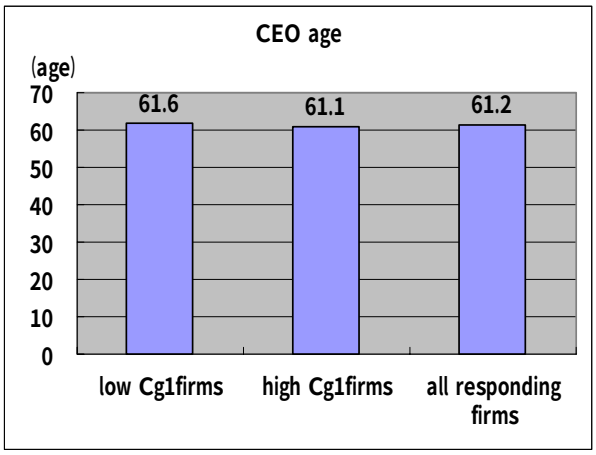
Foreign ownership is higher in high Cg1 firms than in low Cg1 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 306

High JCGIndex firms: 56

Low JCGIndex firms: 56

b. Age of CEO

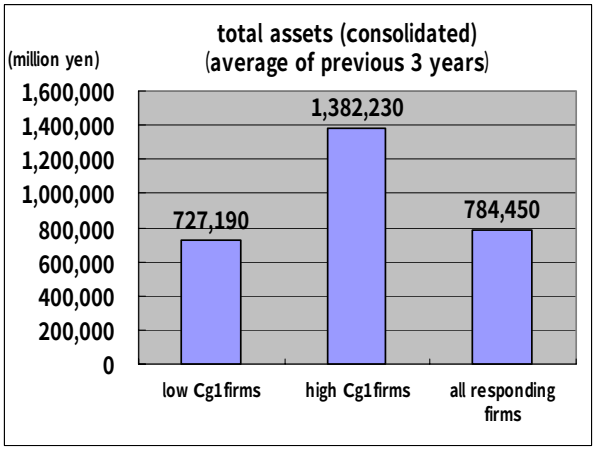


The CEOs of high JCGIndex firms are slightly younger than CEOs of low JCGIndex firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 319
High JCGIndex firms: 57
Low JCGIndex firms: 59

(3) Cg1 and firm size

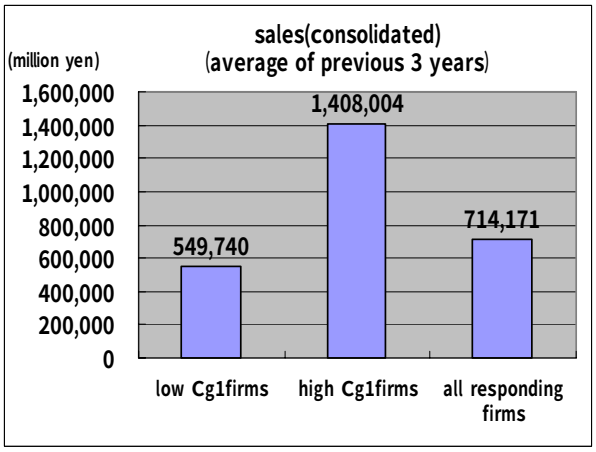
a. Total assets (consolidated, 3 years)



Total assets of high Cg1 firms are greater than total assets of low Cg1 firms, and this difference is statistically significant (at the 10% level).

Total responding firms: 296
High JCGIndex firms: 53
Low JCGIndex firms: 55

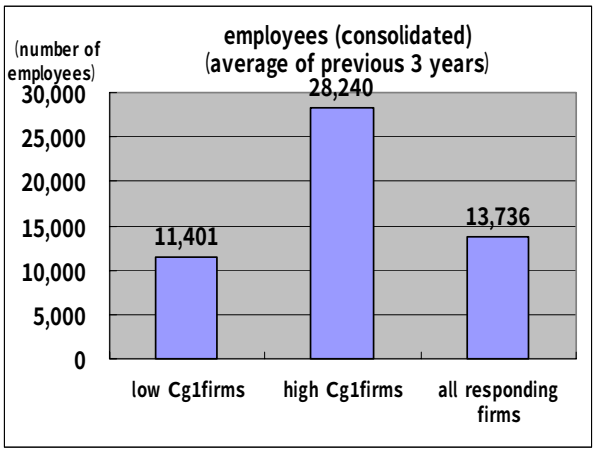
b. Total sales (consolidated, 3 years)



Total sales of high Cg1 firms are greater than total sales of low Cg1 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 296
High JCGIndex firms: 53
Low JCGIndex firms: 55

c. Number of employees (consolidated, 3 years)

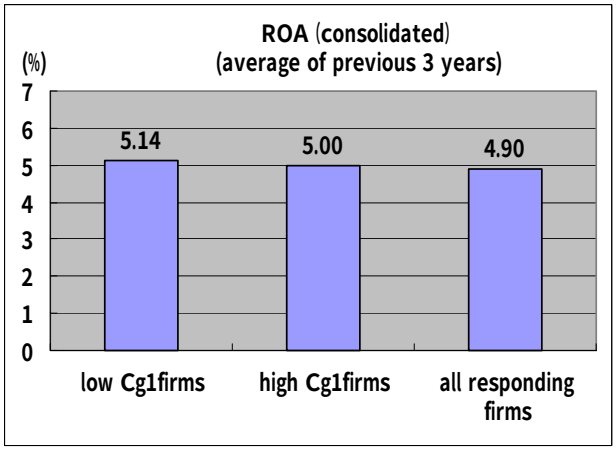


Number of employees of high Cg1 firms is greater than number of employees in low Cg1 firms, but this difference is not significant (at the 10% level).

Total responding firms: 296
High JCGIndex firms: 53
Low JCGIndex firms: 55

(4) Cg1 and firm performance

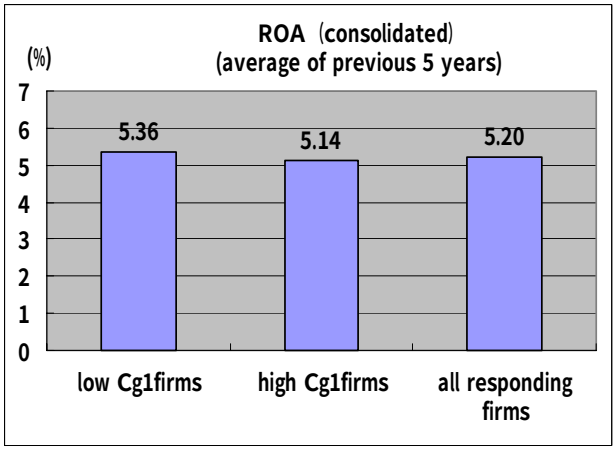
a. ROA (consolidated, 3 years and 5 years)



3 years

ROA for high Cg1 firms is slightly lower than ROA for low Cg1 firms but this difference is not statistically significant (at the 10% level).

Total responding firms: 287
High JCGIndex firms: 52
Low JCGIndex firms: 53

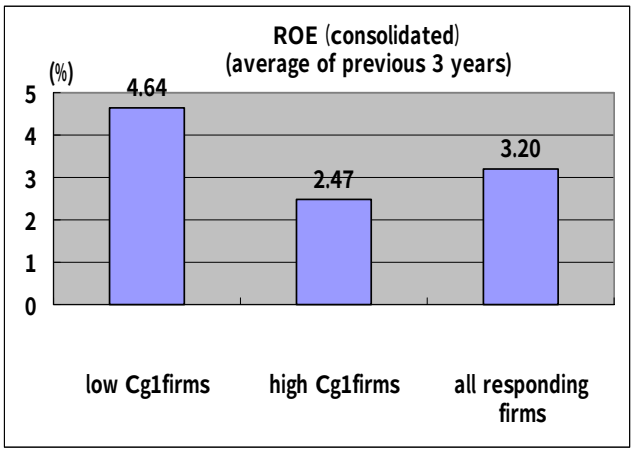


5 years

ROA for high Cg1 firms is slightly lower than ROA for low Cg1 firms but this difference is not statistically significant (at the 10% level).

Total responding firms: 264
High JCGIndex firms: 49
Low JCGIndex firms: 48

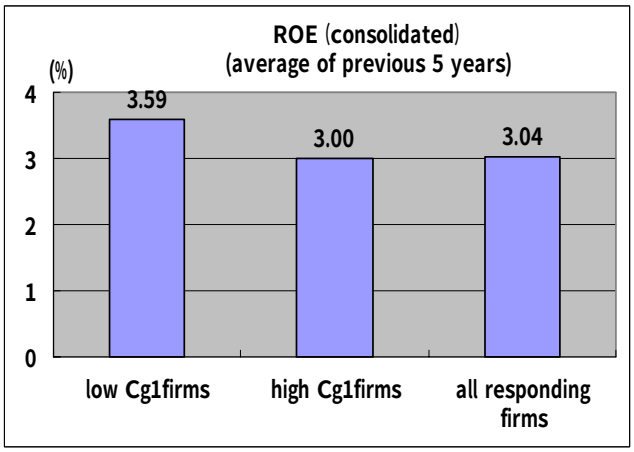
b. ROE (consolidated, 3 years and 5 years)



3 years

ROE for high Cg1 firms is lower than ROE for low Cg1 firms and this difference is statistically significant (at the 10% level).

Total responding firms: 285
High JCGIndex firms: 52
Low JCGIndex firms: 52

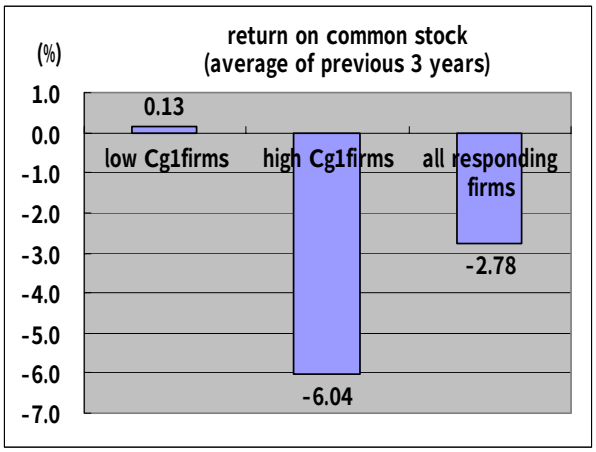


5 years

ROE for high Cg1 firms is lower than ROE for low Cg1 firms but this difference is not statistically significant (at the 10% level).

Total responding firms: 263
High JCGIndex firms: 49
Low JCGIndex firms: 48

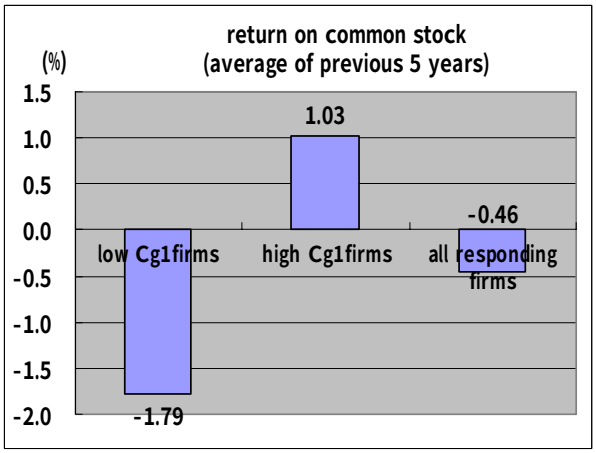
(5) Cg1 and return on common stock (3 years and 5 years)



3 years

Return on common stock for high Cg1 firms is lower than return on common stock for low Cg1 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 297
High JCGIndex firms: 56
Low JCGIndex firms: 57



5 years

Return on common stock for high Cg1 firms is higher than return on common stock for low Cg1 firms, and this difference is statistically significant (at the 10% level).

Total responding firms: 284
High JCGIndex firms: 55
Low JCGIndex firms: 54

The reason that return on common stock over 3 years is lower for the high JCGIndex group is that over half of the firms in the high JCGIndex group had return on common stock in the negative two digits in the year 2003. This appears to be a short-term anomaly, and demonstrates that when evaluating corporate governance and performance, it is important to look at the relationship between the two over the long term.

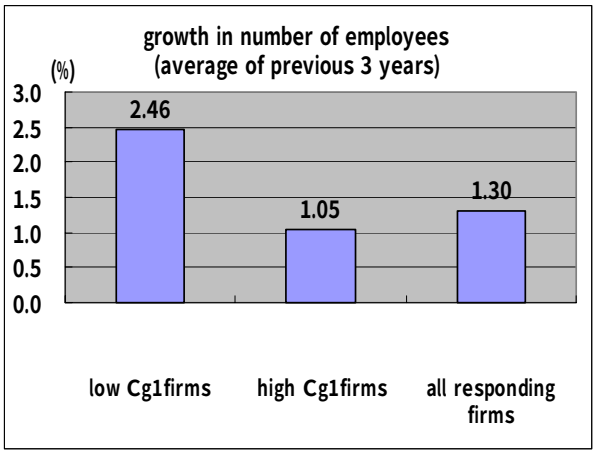
<adjustment for risk>

The following table shows the betas of high and low Cg1 firms for 3 and 5 years. The difference between betas for the two groups is statistically significant in both cases (at the 1% level).

	β 3 year	β 5 year
High Cg1 firms	1.102	0.939
Low Cg1 firms	0.821	0.658
All responding firms	0.887	0.766

This table shows that some of the difference between the average past returns for high and low JCGIndex firms must be attributed to differences in risk. The difference in betas is about .3, and when this is multiplied by 3% to 5%, returns attributable to difference in risk are .9% to 1.5%. Looking at the 5 year results, which are more reliable as they measure returns over a longer time period, the difference between high and low JCGIndex firm returns is 2.82%. Thus, even considering the difference in risk, return on common stock is higher for high JCGIndex firms than for low JCGIndex firms. (See page 21 for a description of risk adjustment).

(6) Cg1 and growth in number of employees (consolidated, 3 year)



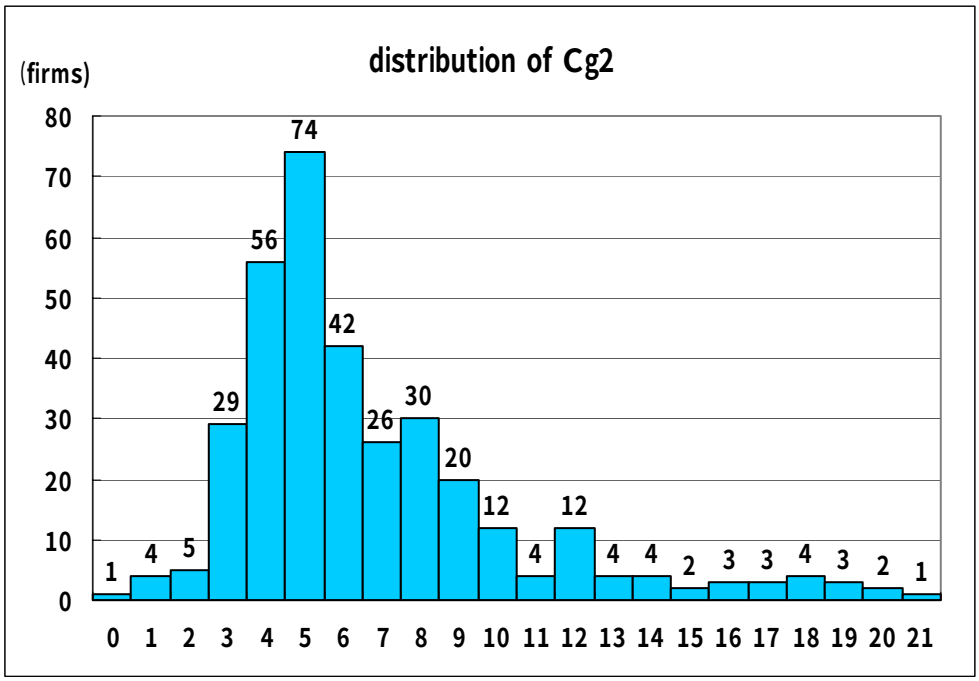
Growth in employment for high Cg1 firms is lower than growth in employment for low Cg1 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 295*
High JCGIndex firms: 53
Low JCGIndex firms: 54*

*one outlier was removed

4. Category II (Structure and function of board of directors)

(1) Distribution of Cg2, and definition of high and low Cg2 groups



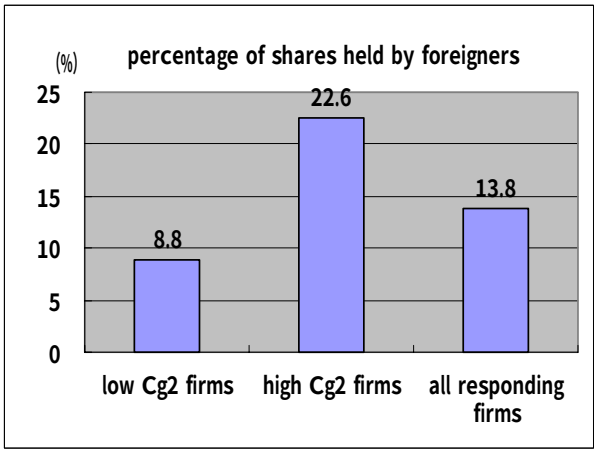
Mean: 6.7, standard deviation: 3.7, maximum, 21, minimum 0

High Cg2 group: 42 firms for which Cg2 is over 11

Low Cg2 group: 39 firms for which Cg2 is under 3

(2) Cg2 and firm characteristics

a. Percentage foreign ownership



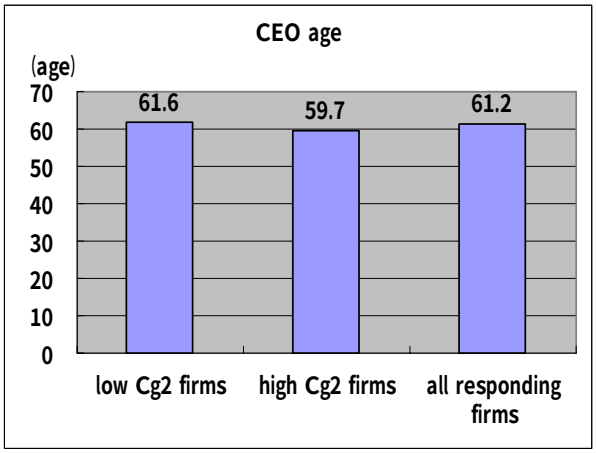
Foreign ownership is higher in high Cg2 firms than in low Cg2 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 306

High JCGIndex firms: 37

Low JCGIndex firms: 33

b. Age of CEO

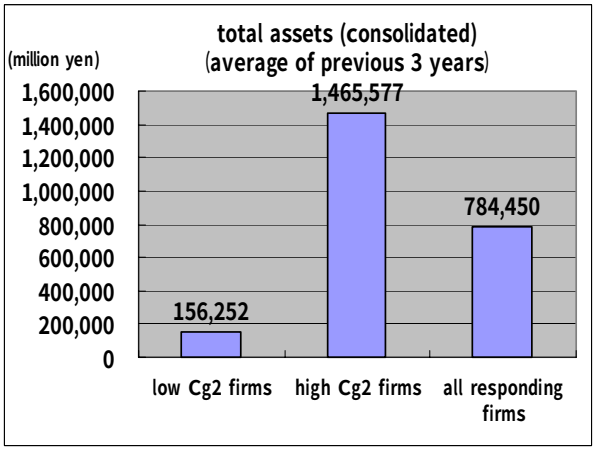


The CEOs of high Cg2 firms are slightly younger than CEOs of low Cg2 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 319
High JCGIndex firms: 39
Low JCGIndex firms: 37

(3) Cg2 and firm size

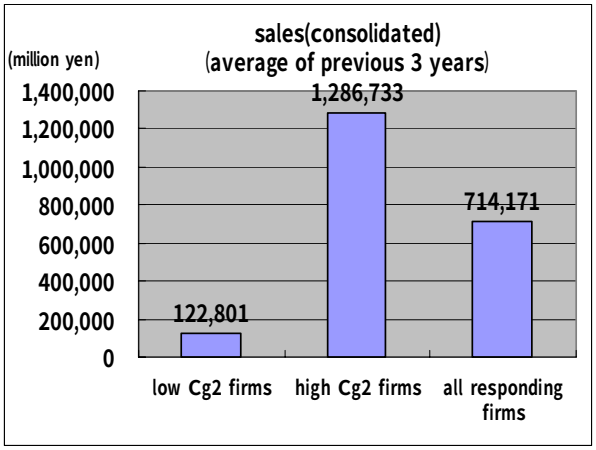
a. Total assets (consolidated, 3 years)



Total assets of high Cg2 firms are greater than total assets of low Cg2 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 296
High JCGIndex firms: 36
Low JCGIndex firms: 37

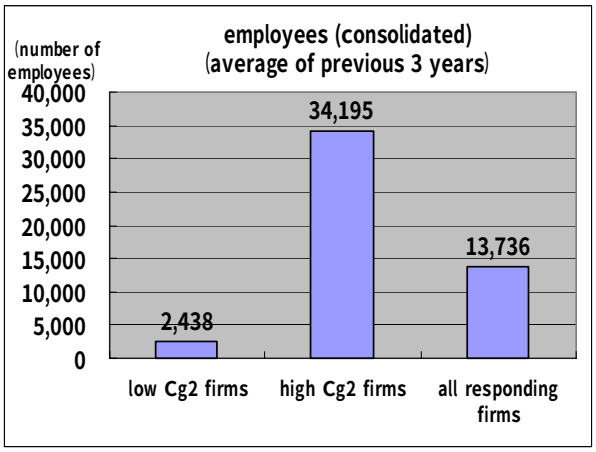
b. Total sales (consolidated, 3 years)



Total sales of high Cg2 firms are greater than total sales of low Cg2 firms, and this difference is statistically significant (at the 10% level).

Total responding firms: 296
High JCGIndex firms: 36
Low JCGIndex firms: 37

c. Number of employees (consolidated, 3 years)

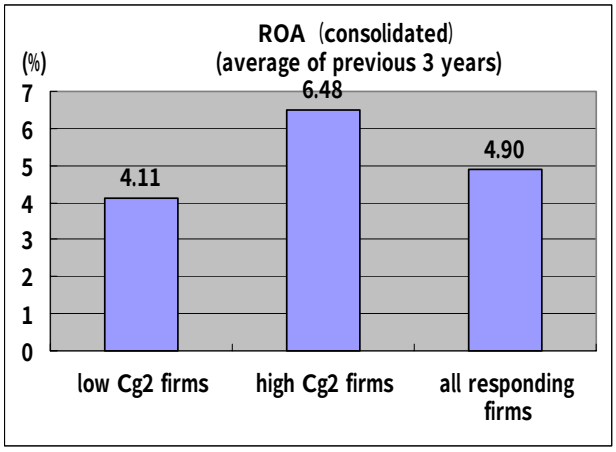


Number of employees of high Cg2 firms is greater than number of employees in low Cg2 firms, but this difference is not significant (at the 10% level).

Total responding firms: 296
High JCGIndex firms: 36
Low JCGIndex firms: 37

(4) Cg2 and firm performance

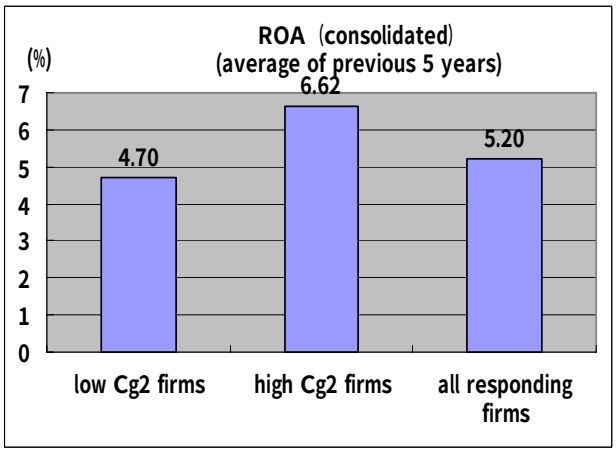
a. ROA (consolidated, 3 years and 5 years)



3 years

ROA for high Cg2 firms is higher than ROA for low Cg2 firms and this difference is statistically significant (at the 5% level).

Total responding firms: 287
High JCGIndex firms: 35
Low JCGIndex firms: 36

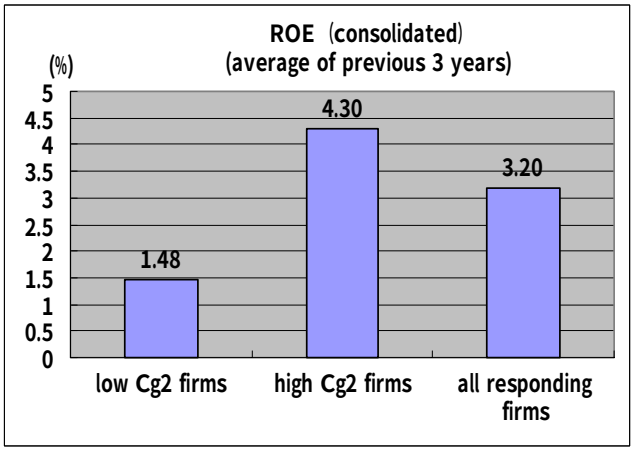


5 years

ROA for high Cg2 firms is higher than ROA for low Cg2 firms and this difference is statistically significant (at the 5% level).

Total responding firms: 264
High JCGIndex firms: 34
Low JCGIndex firms: 30

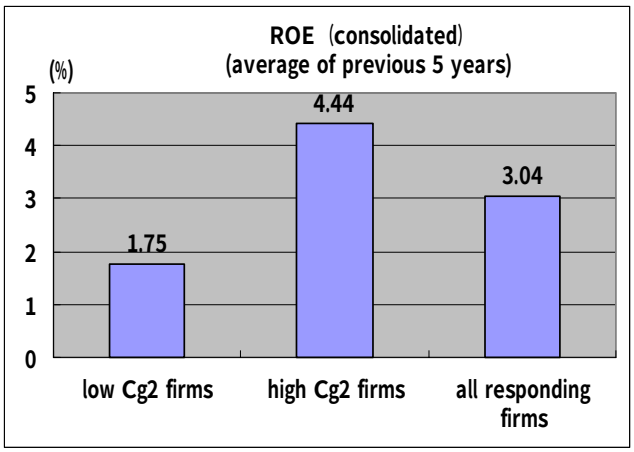
b. ROE (consolidated, 3 years and 5 years)



3 years

ROE for high Cg2 firms is higher than ROE for low Cg2 firms and this difference is statistically significant (at the 10% level).

Total responding firms: 285
High JCGIndex firms: 35
Low JCGIndex firms: 35

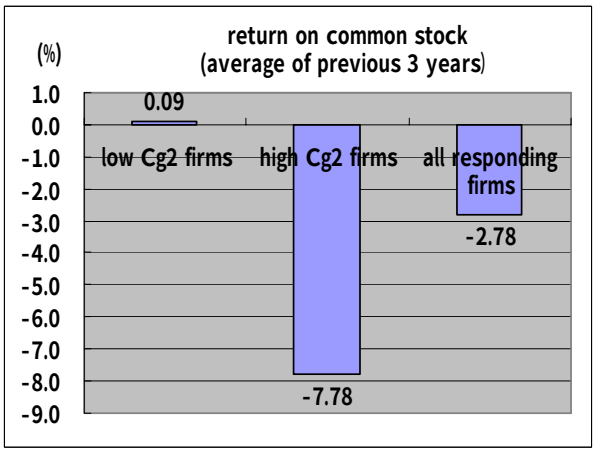


5 years

ROE for high Cg2 firms is higher than ROE for low Cg2 firms and this difference is statistically significant (at the 5% level).

Total responding firms: 263
High JCGIndex firms: 34
Low JCGIndex firms: 30

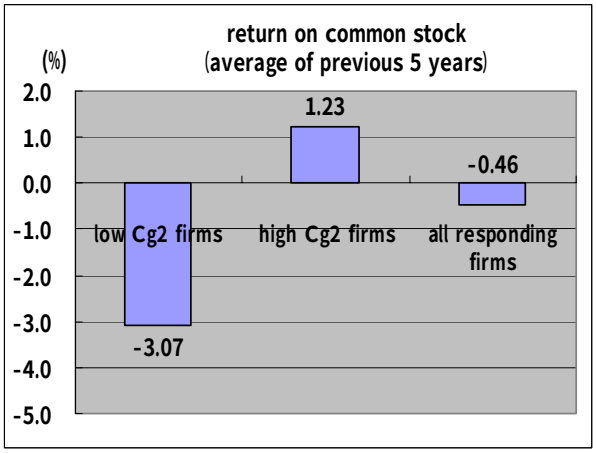
(5) Cg2 and return on common stock (3 years and 5 years)



3 years

Return on common stock for high Cg2 firms is lower than return on common stock for low Cg2 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 297
High JCGIndex firms: 33
Low JCGIndex firms: 34



5 years

Return on common stock for high Cg2 firms is higher than return on common stock for low Cg2 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 284
High JCGIndex firms: 32
Low JCGIndex firms: 32

The reason that return on common stock over 3 years is lower for the high JCGIndex group is that over half of the firms in the high JCGIndex group had return on common stock in the negative two digits in the year 2003. This appears to be a short-term anomaly, and demonstrates that when evaluating corporate governance and performance it is important to look at the relationship between the two over the long term.

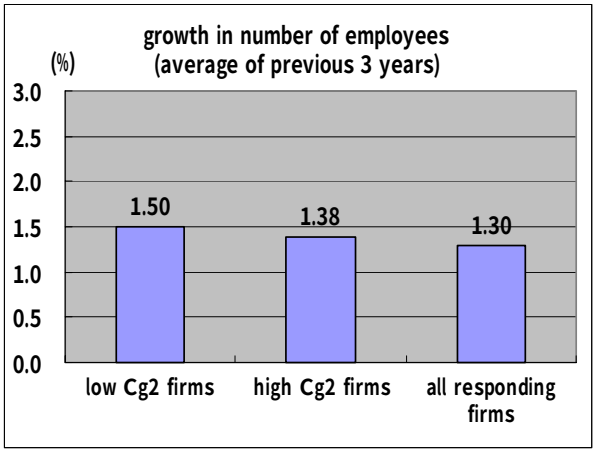
<adjustment for risk>

The following table shows the betas of high and low Cg2 firms for 3 and 5 years. The difference between betas for the two groups is statistically significant in both cases (at the 1% level).

	β 3 year	β 5 year
High Cg2 firms	1.109	.991
Low Cg2 firms	.706	.608
All responding firms	.887	.766

This table shows that some of the difference between the average past returns for high and low JCGIndex firms must be attributed to differences in risk. The difference in betas is about .4, and when this is multiplied by 3% to 5%, returns attributable to difference in risk are 1.2% to 2.0%. Looking at the 5 year results, which are more reliable as they measure returns over a longer time period, the difference between between high and low JCGIndex firm returns is 4.30%. Thus, even considering the difference in risk, return on common stock is higher for high JCGIndex firms than for low JCGIndex firms. (See page 21 for a description of risk adjustment).

(6) Cg2 and growth in number of employees (consolidated, 3 year)



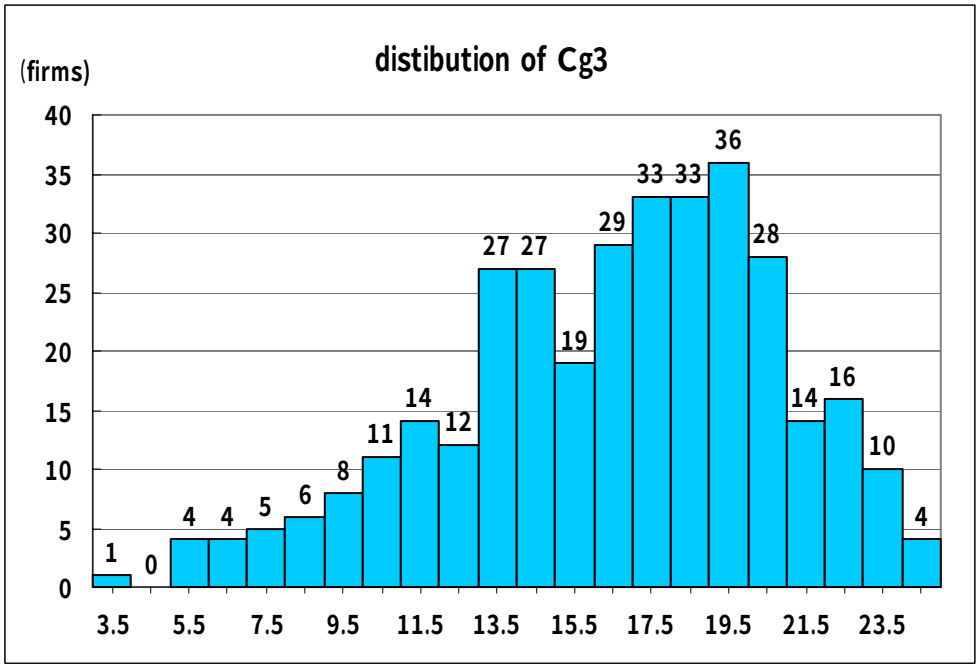
Growth in employment for high Cg2 firms is slightly lower than growth in employment for low Cg2 firms, but this difference is not statistically significant at the 10% level.

Total responding firms: 296*
High JCGIndex firms: 36
Low JCGIndex firms: 37

*one outlier was removed

5. Category III (Management system)

(1) Distribution of Cg3, and definition of high and low Cg3 groups



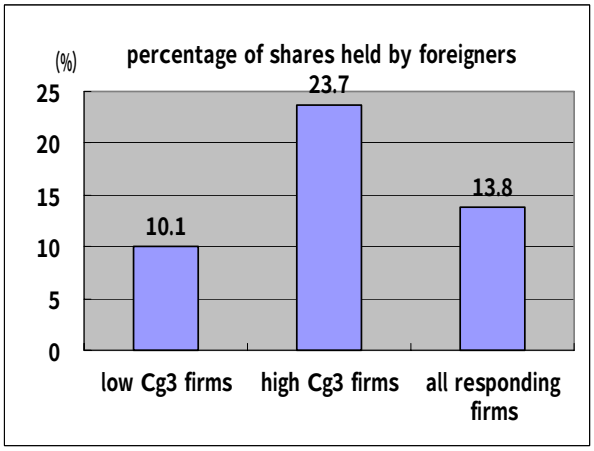
Mean: 16.0, standard deviation: 4.2, maximum, 25, minimum 3

High Cg3 group: 44 firms for which Cg3 is over 21

Low Cg3 group: 53 firms for which Cg3 is under 11

(2) Cg3 and firm characteristics

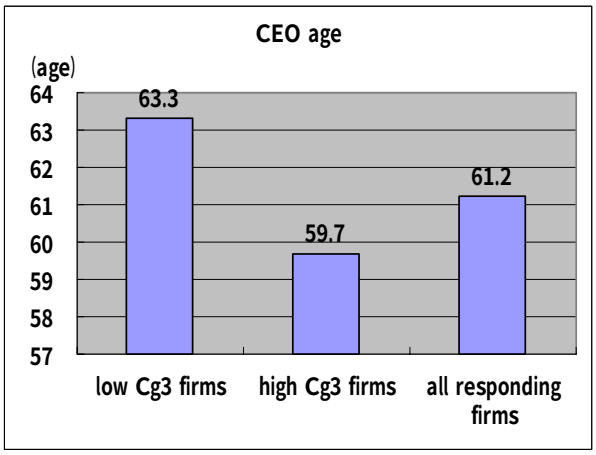
a. Percentage foreign ownership



Foreign ownership is higher in high Cg3 firms than in low Cg3 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 306
High JCGIndex firms: 39
Low JCGIndex firms: 45

b. Age of CEO

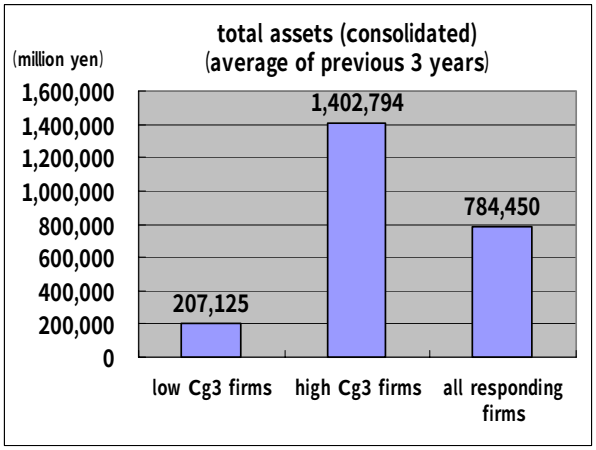


The CEO's of high Cg3 firms are younger than CEO's of low Cg3 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 319
High JCGIndex firms: 42
Low JCGIndex firms: 51

(3) Cg3 and firm size

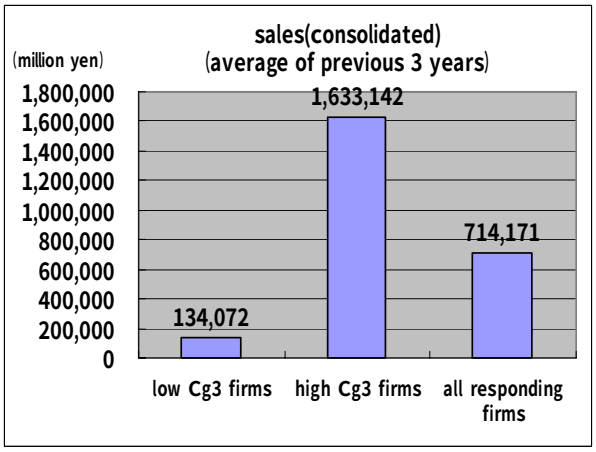
a. Total assets (consolidated, 3 years)



Total assets of high Cg3 firms are greater than total assets of low Cg3 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 296
High JCGIndex firms: 41
Low JCGIndex firms: 47

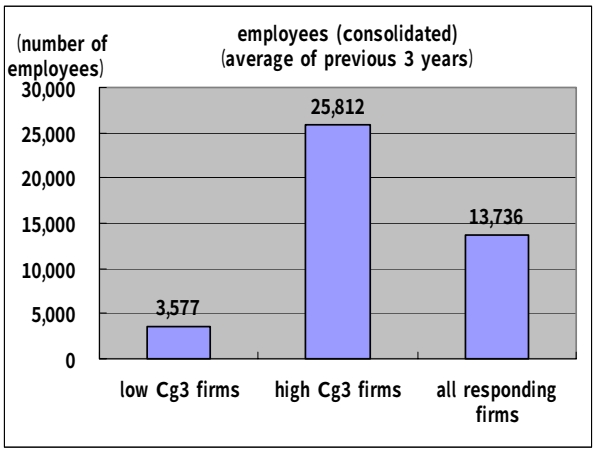
b. Total sales (consolidated, 3 years)



Total sales of high Cg3 firms are greater than total sales of low Cg3 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 296
High JCGIndex firms: 41
Low JCGIndex firms: 47

c. Number of employees (consolidated, 3 years)

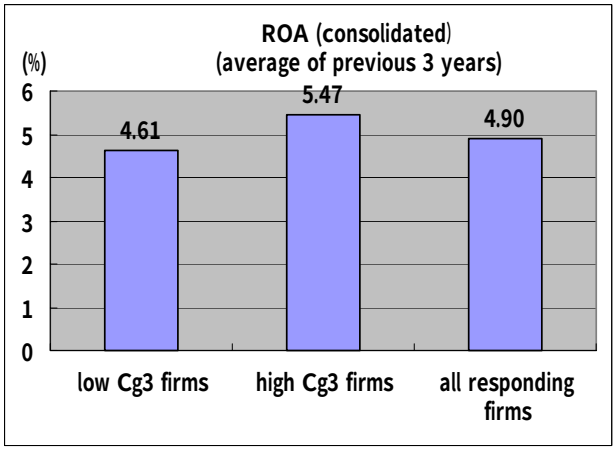


Number of employees of high Cg3 firms is greater than number of employees in low Cg3 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 296
High JCGIndex firms: 41
Low JCGIndex firms: 47

(4) Cg3 and firm performance

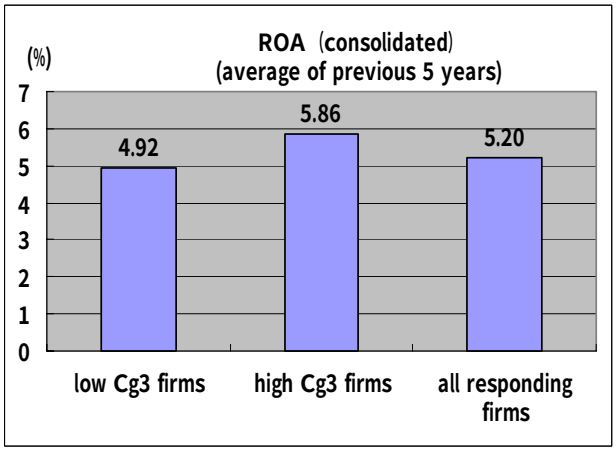
a. ROA (consolidated, 3 years and 5 years)



3 years

ROA for high Cg3 firms is higher than ROA for low Cg3 firms but this difference is not statistically significant (at the 10% level).

Total responding firms: 287
High JCGIndex firms: 38
Low JCGIndex firms: 45

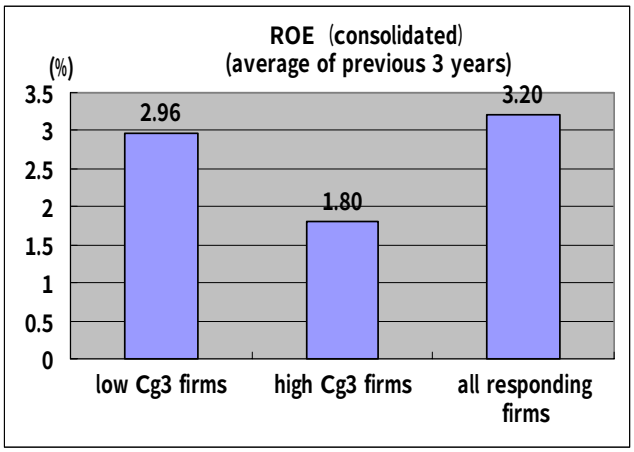


5 years

ROA for high Cg3 firms is higher than ROA for low Cg3 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 264
High JCGIndex firms: 37
Low JCGIndex firms: 39

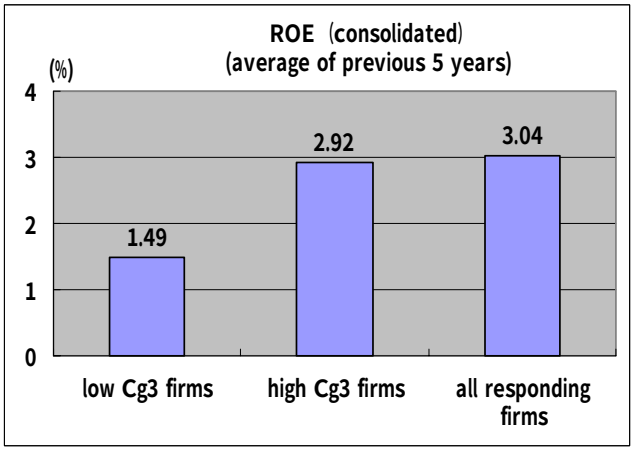
b. ROE (consolidated, 3 years and 5 years)



3 years

ROE for high Cg3 firms is lower than ROE for low Cg3 firms but this difference is not statistically significant (at the 10% level).

Total responding firms: 285
High JCGIndex firms: 38
Low JCGIndex firms: 44

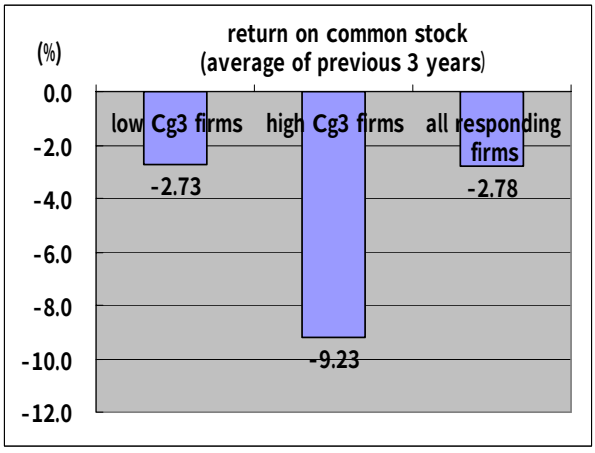


5 years

ROE for high Cg3 firms is higher than ROE for low Cg3 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 263
High JCGIndex firms: 37
Low JCGIndex firms: 39

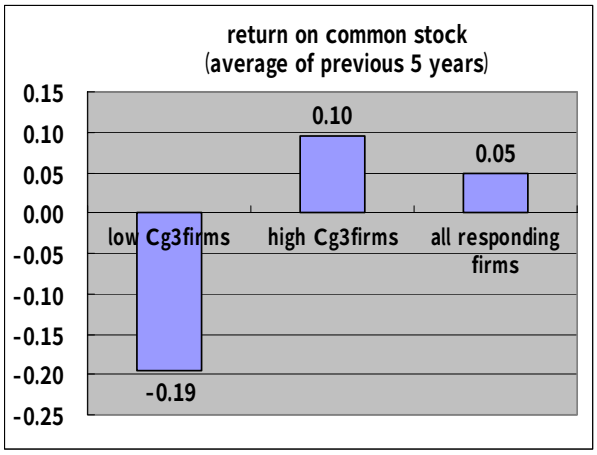
(5) Cg3 and return on common stock (3 years and 5 years)



3 years

Return on common stock for high Cg3 firms is lower than return on common stock for low Cg3 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 297
High JCGIndex firms: 39
Low JCGIndex firms: 44



5 years

Return on common stock for high Cg3 firms is higher than return on common stock for low Cg3 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 284
High JCGIndex firms: 38
Low JCGIndex firms: 42

The reason that return on common stock over 3 years was lower for the high JCGIndex group is that over half of the firms in the high JCGIndex group had return on common stock in the negative two digits in the year 2003. This appears to be a one-year anomaly, and demonstrates that when evaluating corporate governance and performance it is important to look at the relationship between the two over the long term.

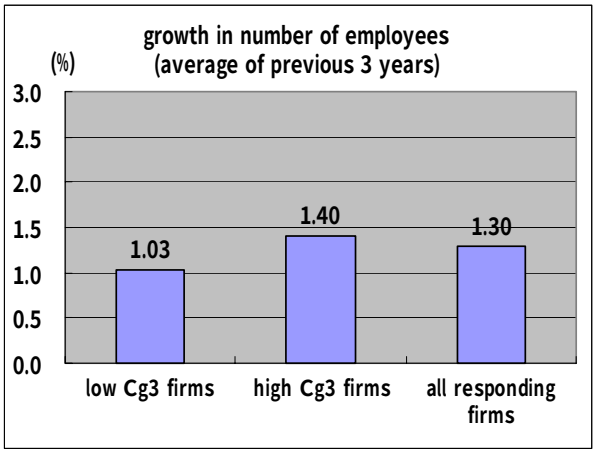
<adjustment for risk>

The following table shows the betas of high and low Cg3 firms for 3 and 5 years. The difference between betas for the two groups is statistically significant in both cases (at the 1% level).

	β 3 year	β 5 year
High Cg3 firms	1.135	.957
Low Cg3 firms	.913	.776
All responding firms	.887	.766

This table shows that some of the difference between the average past returns for high and low JCGIndex firms must be attributed to differences in risk. The difference in betas is about .2, and when this is multiplied by 3% to 5%, returns attributable to difference in risk are .6% to 1%. Looking at the 5 year results, which are more reliable as they measure returns over a longer time period, the difference between high and low JCGIndex firm returns is 4.21%. Thus, even considering the difference in risk, return on common stock is higher for high JCGIndex firms than for low JCGIndex firms. (See page 21 for a description of risk adjustment).

(6) Cg3 and growth in number of employees (consolidated, 3 year)



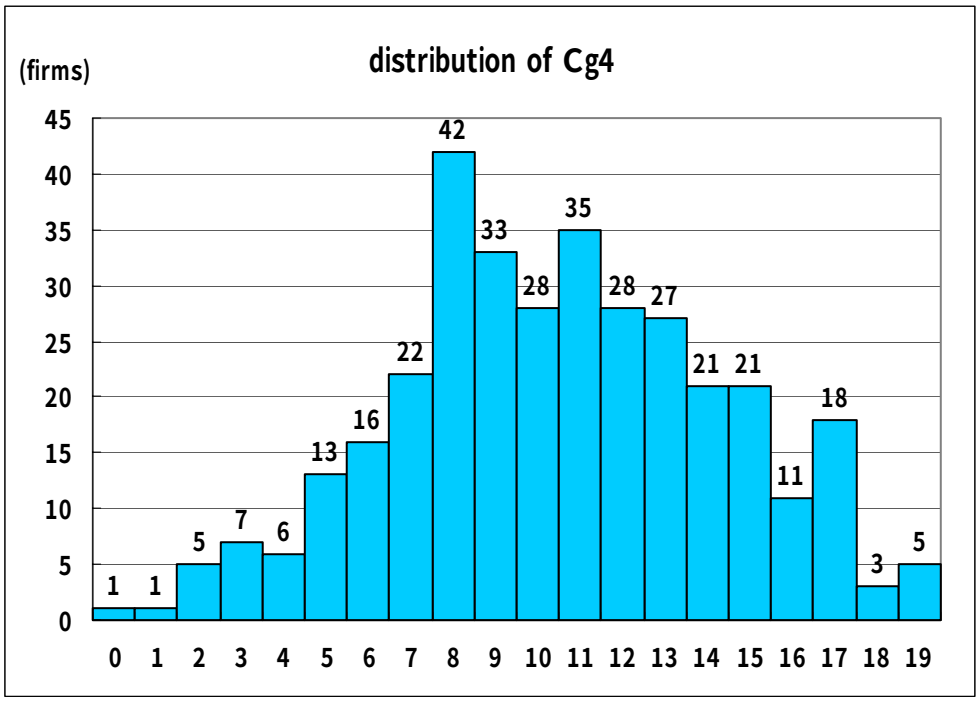
Growth in employment for high Cg3 firms is slightly higher than growth in employment for low Cg3 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 295*
High JCGIndex firms: 41
Low JCGIndex firms: 47

*one outlier was removed

6. Category IV (Transparency and communication with shareholders)

(1) Distribution of Cg4, and definition of high and low Cg4 groups



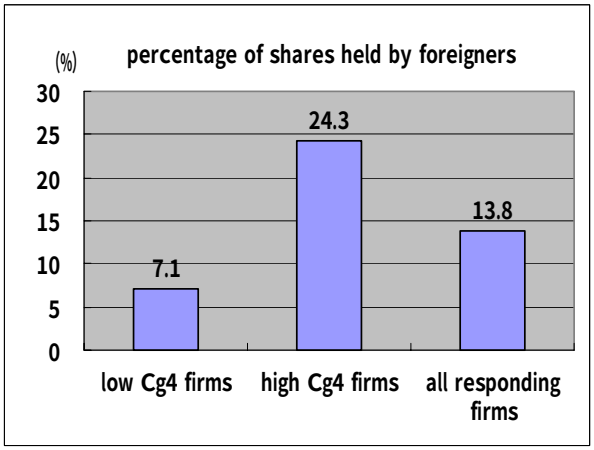
Mean: 10.4, standard deviation: 3.8, maximum, 19, minimum 0

High Cg4 group: 56 firms for which Cg4 is over 15

Low Cg4 group: 49 firms for which Cg4 is under 6

(2) Cg4 and firm characteristics

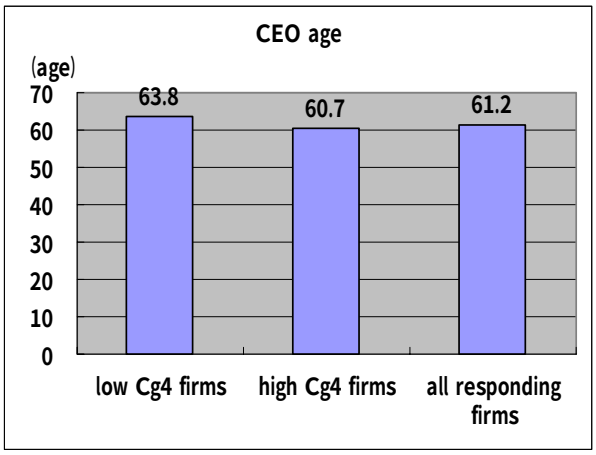
a. Percentage foreign ownership



Foreign ownership is higher in high Cg4 firms than in low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms:	306
High JCGIndex firms:	53
Low JCGIndex firms:	44

b. Age of CEO

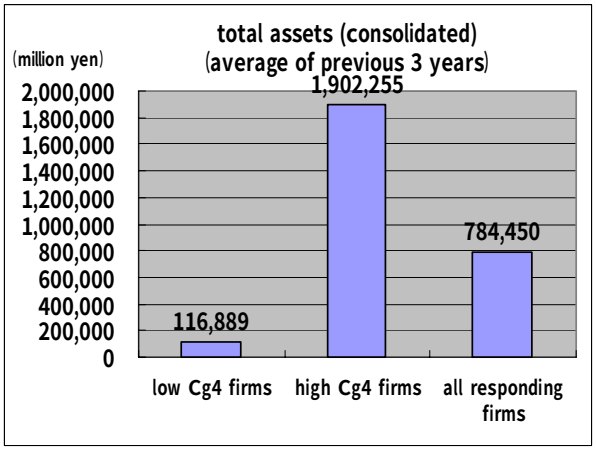


The CEOs of high Cg4 firms are younger than CEOs of low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 319
High JCGIndex firms: 53
Low JCGIndex firms: 46

(3) Cg4 and firm size

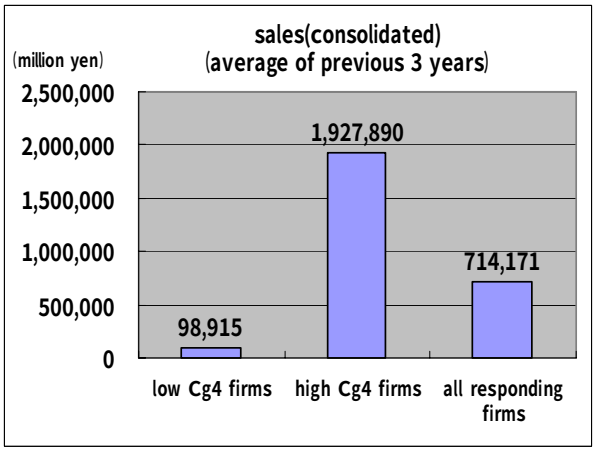
a. Total assets (consolidated, 3 years)



Total assets of high Cg4 firms are greater than total assets of low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 296
High JCGIndex firms: 45
Low JCGIndex firms: 42

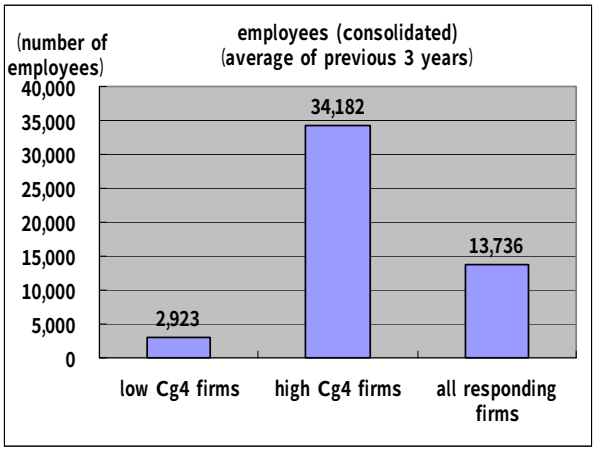
b. Total sales (consolidated, 3 years)



Total sales of high Cg4 firms are greater than total sales of low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 296
High JCGIndex firms: 45
Low JCGIndex firms: 42

c. Number of employees (consolidated, 3 years)

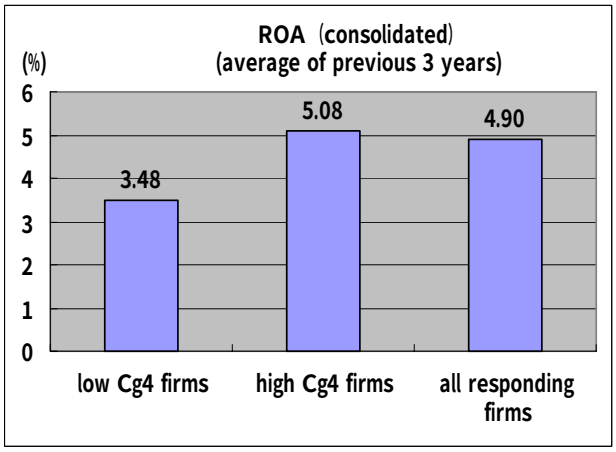


Number of employees of high Cg4 firms is greater than number of employees in low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 296
High JCGIndex firms: 45
Low JCGIndex firms: 42

(4) Cg4 and firm performance

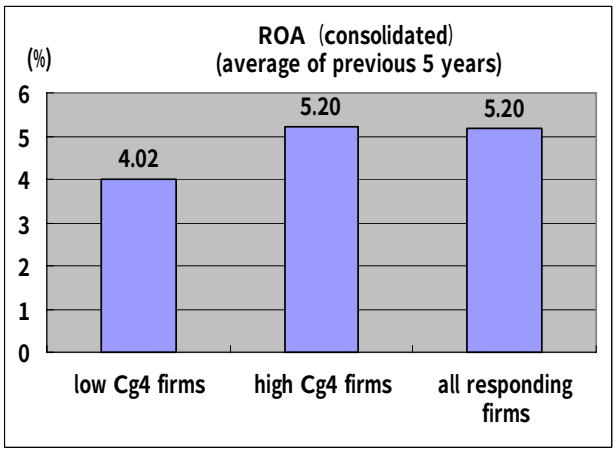
a. ROA (consolidated, 3 years and 5 years)



3 years

ROA for high Cg4 firms is higher than ROA for low Cg4 firms and this difference is statistically significant (at the 1% level).

Total responding firms: 287
High JCGIndex firms: 42
Low JCGIndex firms: 42

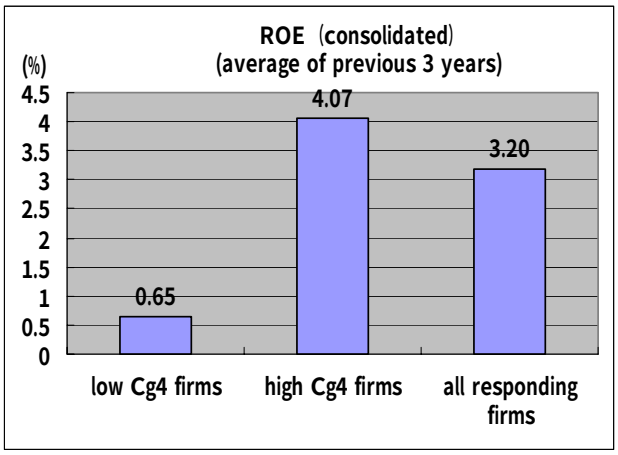


5 years

ROA for high Cg4 firms is higher than ROA for low Cg4 firms, and this difference is statistically significant (at the 5% level).

Total responding firms: 264
High JCGIndex firms: 42
Low JCGIndex firms: 41

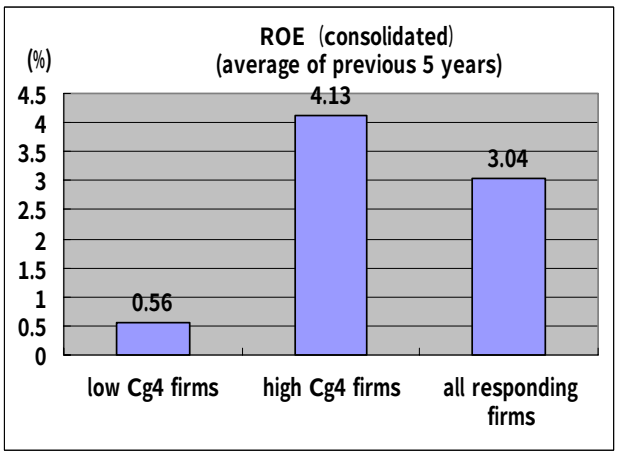
b. ROE (consolidated, 3 years and 5 years)



3 years

ROE for high Cg4 firms is higher than ROE for low Cg4 firms and this difference is statistically significant (at the 5% level).

Total responding firms: 285
High JCGIndex firms: 42
Low JCGIndex firms: 41

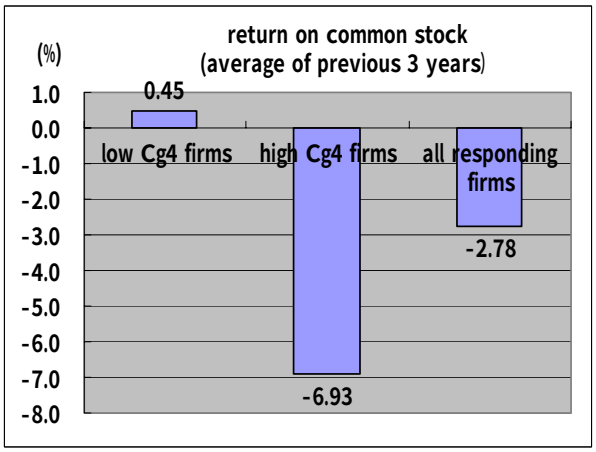


5 years

ROE for high Cg4 firms is higher than ROE for low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 263
High JCGIndex firms: 40
Low JCGIndex firms: 34

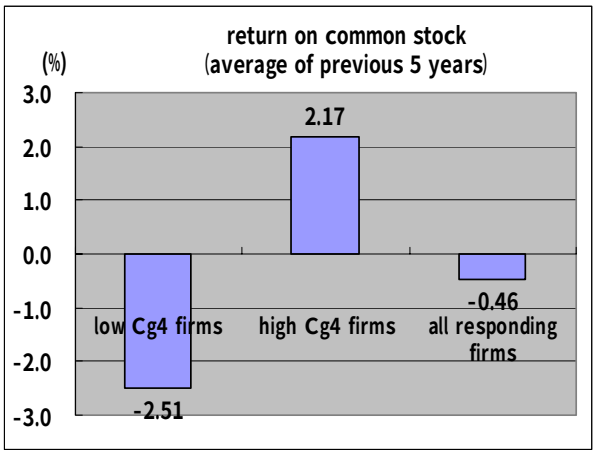
(5) Cg4 and return on common stock (3 years and 5 years)



3 years

Return on common stock for high Cg4 firms is lower than return on common stock for low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 297
High JCGIndex firms: 46
Low JCGIndex firms: 48



5 years

Return on common stock for high Cg4 firms is higher than return on common stock for low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 284
High JCGIndex firms: 44
Low JCGIndex firms: 47

The reason that return on common stock over 3 years was lower for the high JCGIndex group is that over half of the firms in the high JCGIndex group had return on common stock in the negative two digits in the year 2003. This appears to be a short-term anomaly, and demonstrates that when evaluating corporate governance and performance it is important to look at the relationship between the two over the long term.

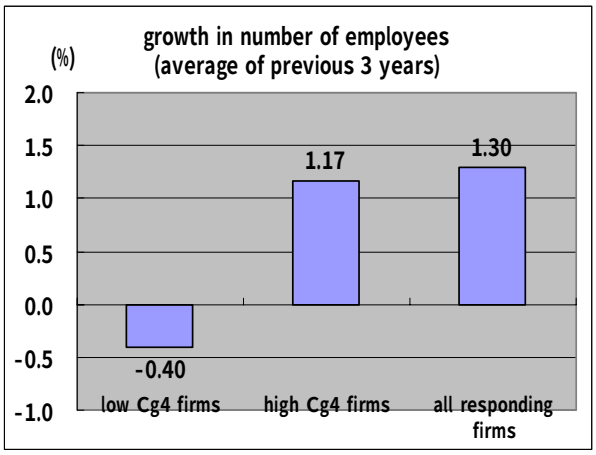
<adjustment for risk>

The following table shows the betas of high and low Cg4 firms for 3 and 5 years. The difference between betas for the two groups is statistically significant in both cases (at the 1% level).

	β 3 year	β 5 year
High Cg4 firms	1.142	1.068
Low Cg4 firms	.790	.643
All responding firms	.887	.766

This table shows that some of the difference between the average past returns for high and low JCGIndex firms must be attributed to differences in risk. The difference in betas is about .4, and when this is multiplied by 3% to 5%, returns attributable to difference in risk are 1.2% to 2%. Looking at the 5 year results, which are more reliable as they measure returns over a longer time period, the difference between high and low JCGIndex firm returns is 4.68%. Thus, even considering the difference in risk, return on common stock is higher for high JCGIndex firms than for low JCGIndex firms. (See page 21 for a description of risk adjustment).

(6) Cg4 and growth in number of employees (consolidated, 3 year)



Growth in employment for high Cg4 firms is higher than growth in employment for low Cg4 firms, but this difference is not statistically significant at the 10% level.

Total responding firms: 295*
High JCGIndex firms: 45
Low JCGIndex firms: 42

*one outlier was removed

Conclusion

Over 3 consecutive years, a total of 477 firms have responded to the JCGIndex survey. In each year, these responses have shown a clear relationship between the JCGIndex and firm performance. High JCGIndex firms enjoy superior performance to low JCGIndex firms. The closer a firm's governance system is to the JCGR corporate governance model, the more value it provides to its shareholders.

Compared to last year, however, the level of statistical significance in comparisons of performance for high and low JCGIndex groups has declined. This is particularly clear in the three year averages. One possible explanation is that firms that have recently been experiencing poor performance have embarked on governance reforms. As a result, the high JCGIndex group mixes firms that have excellent performance and governance with troubled firms that have recently revised their governance systems. We are conducting further research to better understand this phenomenon.

When evaluating the results, it is necessary to keep the following in mind: First, these results reflect past performance and do not necessarily mean a future relationship. Second, while the sample size of 341 is in itself is not small, it represents only 22% of the over 1,500 Tokyo First Section listed firms. However, over the last three years, we have found very similar results among different sets of responding firms (for a total of 477 distinct firms). This suggests that while the annual sample size has been small, our findings are robust. Third, the relationship between the JCGIndex and financial results that we show here is correlation, and not causation, and further research is necessary to establish causal relationships.

An explanation of the data used for analysis

1. Industry classifications

Tokyo Stock Exchange industry classifications

2. Financial data

Source: NEEDS (Nikkei Shinbunsha data bank)

Firms covered: Tokyo Stock Exchange First Section firms (1,596 firms as of October 30, 2004).

Items: Total assets, sales, number of employees, ROA, ROE (firm-based and consolidated)

Period: 1999-2003

3. Return on common stock

Source: Nihon Shoken Keizei Kenkyusho 2003 Kabushiki Toshi Shueki Ritsu

Firms covered: Tokyo Stock Exchange First Section firms (1,596 firms as of October 30, 2004).

Items: Monthly returns on individual stock and market

Period: January 1999-December 2003

4. Beta

Calculated by Fujitsu Research Institute

Source: Toyo Keizai Inc., "Stock Price CD-ROM 2003"

5. Calculation of characteristics of the responding firms

Average, minimum, maximum and standard deviation of the responded firms were compared with those of the Tokyo Stock Exchange First Section firms, based on consolidated financial data for the previous 3 or 5 years.

	item	consolidation	term	data	formula
1	total assets	○	3year-average	NEEDS total assets(FB144)	total assets＝total debts＋total equities
2	sales	○	3year-average	NEEDS sales(FC001)	revenue from sales activities as operating activities
3	ROA	○	3year-average	NEEDS ROA：(FP01034)	return on asset＝（operating income＋interest and discount charge income）／total of debt・minority interest・assets of 2 period-average×100
4	ROE	○	3year-average	NEEDS ROE(FP01147)	return on equity ＝ net income ／ total equities of 2period-average×100
5	employees	○	3year-average	NEEDS employees (FE056)	number of employees at year-end
6	stock return	―	3year-average	Nihon Shoken Keizei Kenkyusho stock return	① Calculated monthly stock return ② Calculated average of period covered （1year、5years、10years）

Note 1) Tokyo Stock Exchange First Section firms: 1,596 firms as of 10/30/2004

Although the number of Tokyo Stock Exchange First Section firms was 1,560 when JCGR sent a mail survey as of 07/02/2004, by 10/30/2004 it had changed.

Note 2) Consolidated accounting takes priority according to SEC accounting requirements.