JCGR Corporate Governance Survey 2008

－Final Report－

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PART ONE

Summary and Recommendations

I. 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.

The framework of joint-stock company requires shareholders to take responsibility for the companies in the form of exercising their voting right. In the face of the business environment of the 21st century, with its intensifying global competition and rapid technological change, shareholders have made efforts to enhance the ability of the board of directors to monitor the management by electing independent directors at the shareholders' meeting in the past decade. Hence, 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. In May 2005, the Companies Act was newly established and took effect with the aim to strengthen corporate governance by introducing two types of basic governance system for large public companies (companies with committees and companies with board of 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 August and October 2008, we surveyed Tokyo Stock Exchange First Section Firms. While the number of the respondents had steadily increased before, it decreased to 252 firms (14.7% of the total) this year from 311 firms (18.0%) of the last year. Nonetheless, 45 firms responded to our survey for the first time, this year, reflecting a solid interest in corporate governance. One firm is omitted for analysis because it was downgraded to the Second Section of the Tokyo Stock Exchange during the analysis. 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 and ROE; however, unlike in the past results, low JCGIndex firms present higher return on common stock than high JCGIndex firms.

Still, it would be fair to conclude from the findings of the JCGIndex surveys from 2002 to 2008 that there is a positive correlation between the JCGIndex and corporate performance, implying 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.

Since we started the survey, the environment surrounding the Japanese companies has been drastically changing: Revision of the Companies Act and Financial Instruments and Exchange Act, ever more globalization, etc. To address these changes, this time too, we modified questions, options, and proportions. Knowing that making changes every year is undesirable with regard to the survey's consistency, we strongly believe that handling with the perpetually changing environment is much more important. Therefore, a company's JCGIndex may increase or decrease by about 10 points. We would appreciate your understanding.

II. Seven Important Results

1. Response rate indicates a continued increase in interest in corporate governance

From August to November 2008, the Japan Corporate Governance Research Institute surveyed all firms listed on the First Section of the Tokyo Stock Exchange (1,719 firms as of July 29, 2008), and received responses from 252 firms. Survey questions were based on the "JCGR Corporate Governance Principles." The JCGIndex is based on these questions.

This is the seventh consecutive year that we have carried out the survey, to which a cumulative total of 1981 companies have responded. In 2002, we received responses from 159 firms. In 2003, 201 firms responded, 129 for the first time. In 2004, 341 firms responded, 189 for the first time. In 2005, 405 firms responded, 112 for the first time. In 2006, 312 firms responded, 70 for the first time. In 2007, 311 firms responded, 71 for the first time. In 2008, 45 firms responded for the first time. Over the past seven years, we have received responses from 778 firms (equal to 44% of the firms currently listed on the First Section). Of the 252 firms that responded to the survey this year, one is omitted for analysis because it was downgraded to the Second Section of the Tokyo Stock Exchange during the analysis.

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 2003-2007) was more than 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 6.80%, compared to 6.42% for all listed firms: ROE was 7.66% versus 7.26%, and return on common stock was 16.09% versus 14.99%.

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

This year, the average JCGIndex for the 251 responding firms is 51.9 (standard deviation 13.2), compared to an average of 49.4 (standard deviation 13.5) for last year.

Now that matters concerning takeover bids are discussed from the viewpoint of interest of shareholders, it is fair to say that the state of corporate governance in Japan continues to advance. However, the average JCGIndex is 51.9 points, only slightly greater 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 the previous years. This year, the highest JCGIndex was 85 and the lowest was 22. Last year, the highest JCGIndex was 89 and the lowest 17. The standard deviation slightly decreased to 13.2 from the previous 13.5.

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). Categories Ⅰ and Ⅱ are related to corporate governance system, and Ⅲ and Ⅳ are about corporate management system.

The following table reports the average points in each category for the 251 responding firms. The better results in Categories I to III than last year pushed up the average of the JCGIndex. However, while 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.

As a whole, firms have focused on corporate management reform after 'the Decade Lost', 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	Mean/point allocated (A)	Percent expression of (A)
I Corporate objectives and CEO responsibility	10.6/28	37.9% (36.9%)
II Structure and function of board of directors	10.7/25	42.8% (35.9%)
III Management system	17.2/27	63.7% (61.7%)
IV Transparency and communication with shareholders	13.4/20	67.0% (67.3%)

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

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 38 firms with a JCGIndex of 66 or more points (over one standard deviation above the mean) and the low JCGIndex group consists of the 39 firms with a JCGIndex of 38 or less (over one standard deviation below the mean). JCGR regards companies in the high JCGIndex group as companies with good governance.

(1) Characteristics of high and low JCGIndex firms: The percentage of foreign ownership is higher

The average percentage of shares held by foreigners in the high JCGIndex group is 30.9%, while the average for responding firms is 21.7%, and the average for low JCGIndex firms is even lower at 12.7%. Every year, our survey has illustrated that companies with good governance generally enjoy strong performance. It is not certain whether good governance defines high foreign ownership or vice versa.

There is no statistically significant difference in the average age of the CEO between high JCGIndex firms (61.7) and low JCGIndex firms (61.6).

(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.

	Category I	Category II	Category III	Category IV
High JCGIndex firms	16.1	19.8	20.8	16.9
Low JCGIndex firms	6.5	5.6	12.3	9.0

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 2008 JCGIndex survey, as well as in surveys for previous years, we found a close relationship between the two.

(1) High JCGIndex firms enjoy superior performance on most dimensions

Based on 5-year averages, ROA (7.20% versus 7.00%) and ROE (8.91% versus 7.12%) are higher in the high JCGIndex firms than in the low JCGIndex firms. However, return on common stock was lower in the high JCGIndex firms than in the low JCGIndex firms, both the 3-year average (15.02% versus 15.76%) and the 5-year average (14.17% versus 20.01%).

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

Based on the 3-year average (2005-2007) of growth of employment, high JCGIndex firms have a lower growth rate than low JCGIndex firms (5.68% versus 5.98%). In the past 6 surveys, high JCGIndex firms had a higher growth rate than low JCGIndex firms. We need to examine each company's employment growth rate to identify the reason of this reversal.

While it is often said that in order to increase profits it is necessary to sacrifice employment, our past results suggest 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 the surveys for previous years, the groups with high points in each category had higher performance (averaged over the past 5 years) than firms with low points. This year, however, we found no clear differences across categories in the relationship to performance. Still, points in Categories II (board of directors) and IV (transparency) seem to be relevant for performance.

The generally positive relationship between the JCGIndex as a whole and performance explained above indicates that corporate governance is not a question of a single category, but rather, of all the categories taken together.

III. Recommendation

<Conclusion: **Corporate governance reform is key to the revival of the Japanese economy>**

The JCGR surveys over the past 7 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, we have received 1,981 responses for 778 distinct firms, and each year shows a similar relationship between JCGIndex and performance (although there are a few exceptions). 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.

Investors 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 investors, 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 investors 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, in 2004, we started to ask all responding companies to disclose their JCGIndex results. As part of the survey, we ask firms to give us permission to disclose their name if they were in the top 50% of the JCGIndex. Fortunately, most of the companies have answered "yes." Thus, we have been 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】Firms with 60 or higher JCGIndex

Toshiba Corp. (*)	85	**************	68
Daiwa Securities Group Inc. (*)	83	Kao Corp.	67
Sony Corp. (*)	81	Hitachi Information Systems, Ltd. (*)	67
Sumida Corp. (*)	81	Santen Pharmaceutical Co., Ltd.	66
Aeon Co., Ltd. (*)	81	Terumo Corp.	66
Sojitz Corp.	78	Tokyo Electron Ltd.	66

Teijin Ltd.	77	Showa Denko K. K.	65
Omron Corp.	77	Ube Industries, Ltd.	65
Nissen Holdings Co., Ltd.	77	TDK Corp.	65
Parco Co., Ltd. (*)	77	Marubeni Corp.	65
Benesse Corp.	77	Sumitomo Corp.	65
Asahi Breweries, Ltd.	76	Meitec Corp.	65
Eisai Co., Ltd. (*)	76	**************	65
Hitachi, Ltd. (*)	76	Nidec Corp.	64
Resona Holdings, Inc. (*)	76	Yamaha Motor Co., Ltd.	64
Shoei Co., Ltd. (*)	75	Tokyo Gas Co., Ltd.	64
Konica Minolta Holdings, Inc. (*)	75	ITOCHU Techno-Solutions Corp.	63
Mitsubishi Corp.	75	Yokogawa Electric Corp.	63
Asahi Glass Co., Ltd.	74	Taiyo Yuden Co., Ltd.	63
Orix Corp. (*)	74	Takashimaya Co., Ltd.	63
Tokio Marine Holdings, Inc.	73	VANTEC Group Holdings Corp.	63
**************	73	**************	63
**************	73	**************	63
Cosmo Oil Co., Ltd.	71	**************	63
Mitsubishi Electric Corp. (*)	71	**************	63
Anritsu Corp.	71	Sekisui House, Ltd.	62
Ricoh Co., Ltd.	71	**************	62
Mitsui & Co., Ltd.	70	**************	62
Sompo Japan Insurance Inc.	70	Nippon Mining Holdings, Inc.	62
NSK Ltd. (*)	69	Mitsubishi Chemical Holdings Corp.	61
Japan Wool Textile Co., Ltd.	68	MEC Co., Ltd.	61
**************	68	Fuji Electric Holdings Co., Ltd.	61

The Sumitomo Trust and Banking Co., Ltd.	61	Asahi Kasei Corp.	60
East Japan Railway Co.	61	Sekisui Chemical Co., Ltd.	60
Chubu Electric Power Co., Inc.	61	Advantest Corp.	60
**************	61	Toyota Tsusho Corp.	60
**************	61	**************	60

(note) (*) firms adopting board with committees

PART TWO

I. Outline of JCGIndex survey

1. An overview of the JCGIndex survey

Between August and October 2008, the Japan Corporate Governance Research Institute (JCGR) sent its seventh annual survey to all Tokyo Stock Exchange First Section firms (1,719 firms as of July 29, 2008). We received responses from 252 firms. The names of these firms are listed in the Appendix. This report omits 1 firm for analysis.

159 firms responded in 2002, 201 firms in 2003, 341 firms in 2004, 405 firms in 2005, 312 firms in 2006, and 311 firms in 2007. 733 firms responded in one or all of the six years. Of the 252 firms that responded to the survey in 2008, 45 firms responded for the first time. Over the seven years that we have administered the survey, we have received 1,981 responses from a total of 778 firms.

2. The objective of the JCGIndex survey

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. We believe that in the process of responding to the questions in the JCGIndex survey, Japanese companies will gain a deeper understanding of our corporate governance model and hope that the JCGIndex is helpful to Japanese firms in realizing the corporate governance that they desire.

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 about 50 questions, derived from the “JCGR Corporate Governance Principles.” These 50 questions can be divided into the following nine groups:

1. governance from the perspective of shareholders
2. clear and measurable corporate goals
3. a system to assure the responsibility of CEO and top management team for realizing the goals
4. an independent board with capability to monitor and motivate management
5. systems for managerial decision-making and implementation to achieve performance targets
6. risk-management to fulfill compliance, internal control, and social responsibilities
7. accountability to shareholders
8. provision of appropriate information to shareholders through investor relations activities

9. maintenance of transparency through disclosure to all stakeholders

The 50 questions are further reclassified into the following four categories, and the score for each category is calculated.

I. Corporate objectives and CEO responsibility

II. Structure and function of board of directors

III. Management system

IV. Transparency and communication with shareholders

The JCGIndex is the sum of the four category scores. If all points in all four categories are achieved, a firm receives a JCGIndex of 100. The fewer the points achieved, the closer the JCGIndex is to 0.

II. Characteristics of responding companies and the JCGIndex

1. A comparison of responding companies to all listed companies

The 251 responding companies represent 14.3% of the 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 (2003-2007). 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 larger for responding companies than for the average listed companies and their variance was smaller than that for all listed companies. The differences in these measures of size and performance for responding firms and all listed firms were significant in all cases.

Some performance indicators (Consolidated; 5-year average)

Total assets	No of Firms	Mean	Minimum	Maximum	Standard deviation
All listed firms	1,444	427,624.55	2,125.40	28,027,986.60	1,385,770.00
Responding firms	226	1,121,800.00	9,460.20	18,845,914.40	2,283,420.00

(million yen)

Sales	No of Firms	Mean	Minimum	Maximum	standard deviation
All listed firms	1,444	390,038.66	493.60	21,424,105.20	1,271,480.00
Responding firms	226	1,088,200.00	7,119.00	19,001,296.00	2,340,390.00

(million yen)

ROA	No of Firms	Mean	Minimum	Maximum	Standard deviation
All listed firms	1,384	6.415	-14.80	50.21	4.83
Responding firms	218	6.804	-0.55	27.45	4.26

(%)

ROE	No of Firms	Mean	Minimum	Maximum	Standard deviation
All listed firms	1,379	6.260	-109.73	54.24	10.51
Responding firms	218	7.663	-16.32	30.80	6.05

(%)

Employees	No of Firms	Mean	Minimum	Maximum	Standard deviation
All listed firms	1,443	7,352.34	15.20	331,015.60	21,760.00
Responding firms	226	17,626.19	114.60	331,015.60	36,098.09

(number of employees)

Stock return	No of Firms	Mean	Minimum	Maximum	Standard deviation
All listed firms	1,377	14.991	-33.70	100.80	14.47
Responding firms	213	16.094	-9.60	69.30	12.80

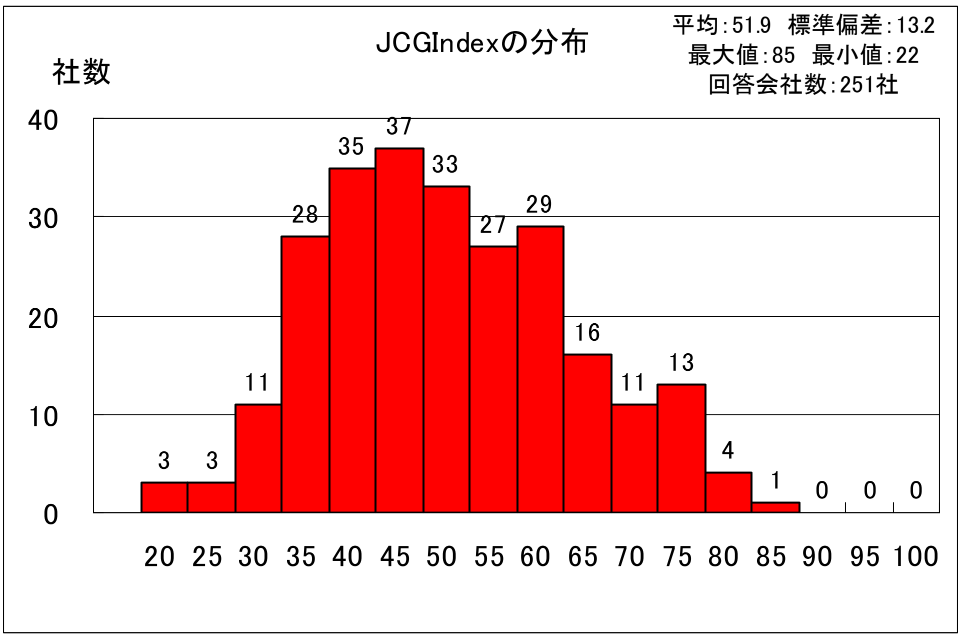
(%)

2. Distribution of the JCGIndex

The JCGIndex for individual companies was distributed widely, ranging from a maximum of 85 to a minimum of 22. Given that the model that JCGR adopts is an ideal one, companies achieving 80 or higher scores effectively achieve a maximum level of corporate governance. Unfortunately, some companies score less than 30; it cannot be helped that they fail to achieve even a minimum level of management, let alone governance.

The mean JCGIndex is 51.9 (last year, 49.4), the standard deviation is 13.2 (last year, 13.5) with maximum 85 and minimum 22. The number of responding firms is 251.

Distribution of JCGIndex



(note) The x axis depicts a range of +/- 2.5 around the number indicated. For example, the number 15 depicts a range greater than 12.5 and less than 17.5. Because the JCGIndex is rounded to the nearest integer, the reported range is 13 to 17.

3. Board with three committees and JCGIndex

In April 2003, the Commercial Code was revised to allow the introduction of the Board with Committees structure. This system was developed into the company with committees' structure, which was introduced by the Companies Act in May 2006 along with the board of corporate auditors' structure. The spirit of this new law, 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 company with committee's structure makes it easier to create this kind of governance structure, it is still possible to establish this sort of governance with the board of corporate auditors' system. The JCGIndex is designed so that even if a firm has not introduced the company 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 251 firms that responded to the 2008 JCGIndex survey, 16 firms had introduced the company with committees' structure. Of the top 20 companies in the JCGIndex, 12 companies had introduced the company with committees' structure. Of the top 48 companies, 15 companies had introduced this structure, and 6 of the top 10 firms had introduced it. Thus, while the company 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 company 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 company 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

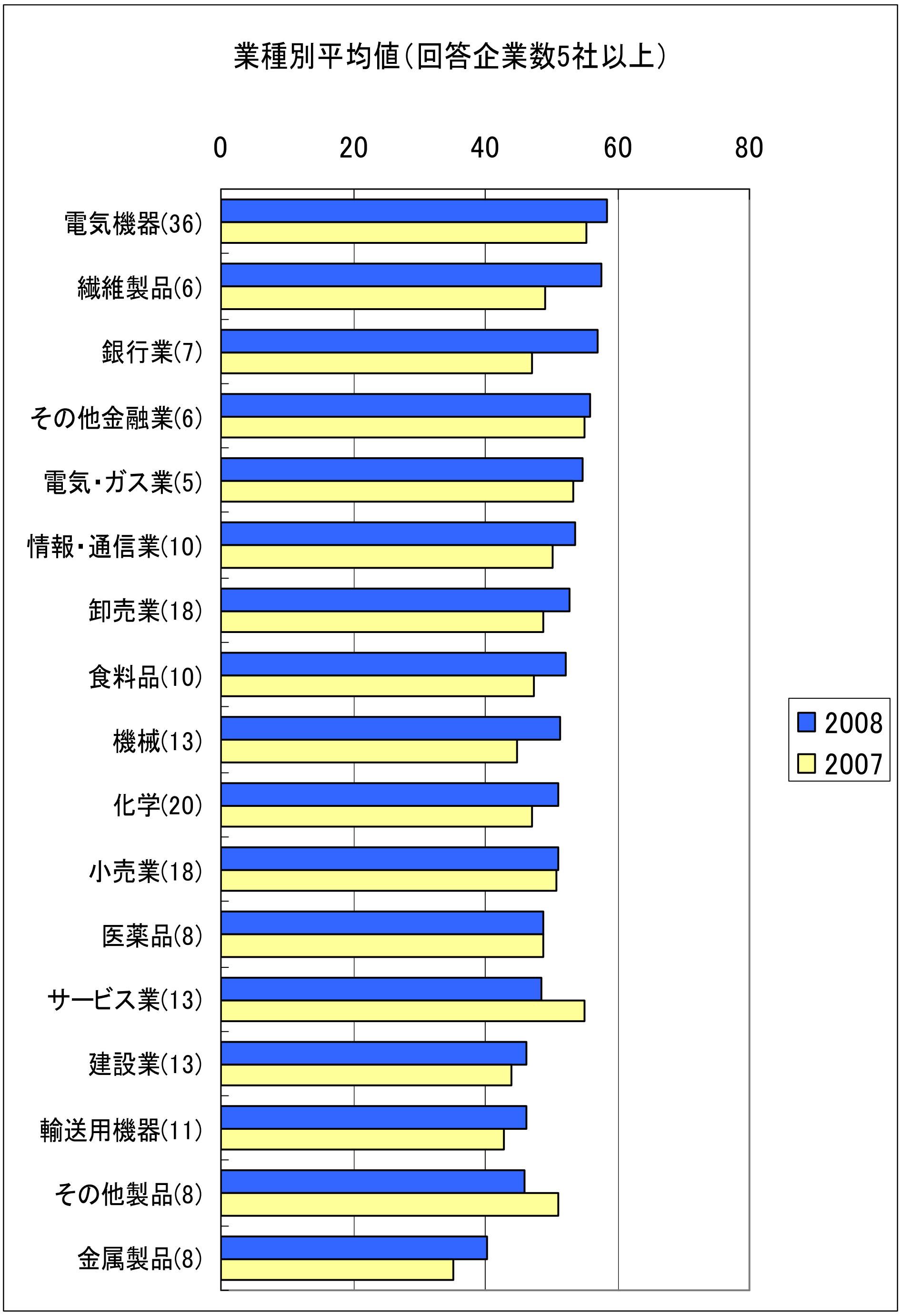
The following table shows the average JCGIndex by industry for 2008 and 2007. We report results only for industries for which 5 companies or more responded.

Note that changes in the average JCGIndex are attributable to the changes in the questionnaire (questions and proportions) and samples, and do not necessarily indicate that corporate governance in a given industry improved or worsened from last year.

In the next figure, the industries are arranged in the following order.

Electric appliances (36)
Fiber products (6)
Banking (7)
Other finance (6)
Electricity and gas (5)
Telecommunications (10)
Wholesale (21)
Food (10)
Machinery (13)
Chemical products (20)
Retail business (18)
Pharmaceutical (8)
Service industry (13)
Construction (13)
Transport equipment (11)
Other manufacturing (8)
Metal products (8)

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



5. Score by category

The following table reports the average points by category for the 251 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. This clearly indicates that the separation between the governance and management through independent boards has yet to be fully accomplished.

Until last year, the achievement rate for Category II was the lowest among the four Categories. This year, however, with the rate for Category I slightly decreased and the rate for Category II increased by 20% from last year, the achievement rate for Category II surpassed Category I. The assumed reason is that even companies with board of corporate auditors have accepted outside directors to ensure the same level of auditing function as the companies with committees.

As for management, the achievement rate for management system slightly improved from last year, probably because we revised questions on internal control.

	Category	Weight (A)	Mean (B)	Achievement rate (B) / (A)
I	Corporate objectives and CEO responsibility	28 (28)	10.6 (10.3)	37.9% (36.9%)
II	Structure and function of board of directors	25 (25)	10.7 (9.0)	42.8% (35.9%)
III	Management system	27 (27)	17.2 (16.7)	63.7% (61.7%)
IV	Transparency and communication to shareholders	20 (20)	13.4 (13.5)	67.0% (67.3%)

*Results in 2007 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 separately compare performance for each of the 4 categories of the JCGIndex between high category point firms and low category point firms. This report presents comparisons of unadjusted data. We have also created a supplementary report that shows comparisons of data adjusted for industry. Just as before, 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 51.9 points, standard deviation is 13.2 points) and low JCGIndex firms, with JCGIndex greater than one standard deviation below the mean.

High JCGIndex firms: 38 firms with JCGIndex of 66 or more (51.9+13.2=65.1)

Low JCGIndex firms: 39 firms with JCGIndex 38 or less (51.9-13.2=38.7)

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, and to compare these to all responding 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 (2005-2007) and 5 years (2003-2007), using consolidated reports. Firms that did not report data for the entire period 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 before payment of interest and tax 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). Thinking of leverage, ROE should be larger than ROA. However, because ROA includes tax and ROE deducts tax, ROA is larger than ROE in some cases.

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.

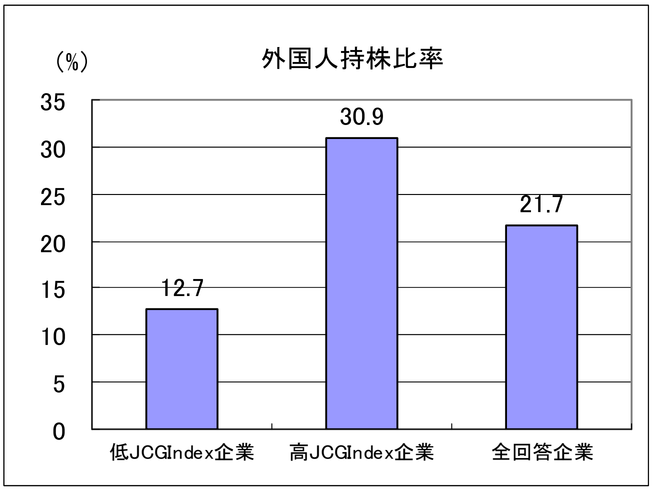
(Note) In the figures below, vertical bars show as follows;

Left bar: Low JCGIndex firms

Middle bar: High JCGIndex firms

Right bar: Total responding firms

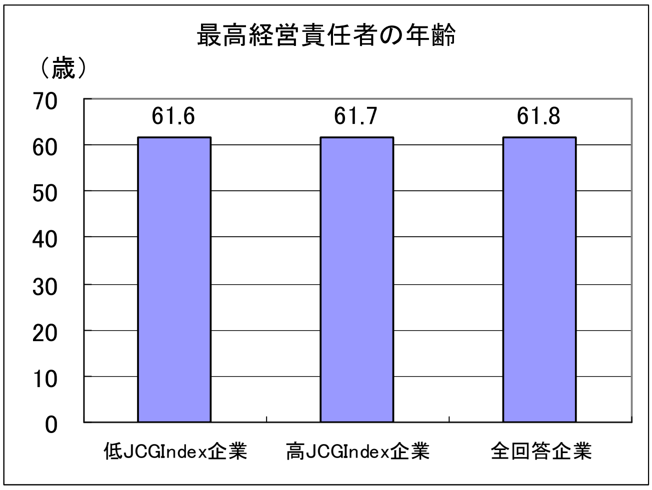
a. Percentage of foreign ownership



Just as 2007, foreign ownership is higher in high JCGIndex firms than in low JCGIndex firms, and this difference is statistically significant (at the 1% level).

Number of firms;
Total responding firms: 235
High JCGIndex firms: 36
Low JCGIndex firms: 36

b. Age of CEO



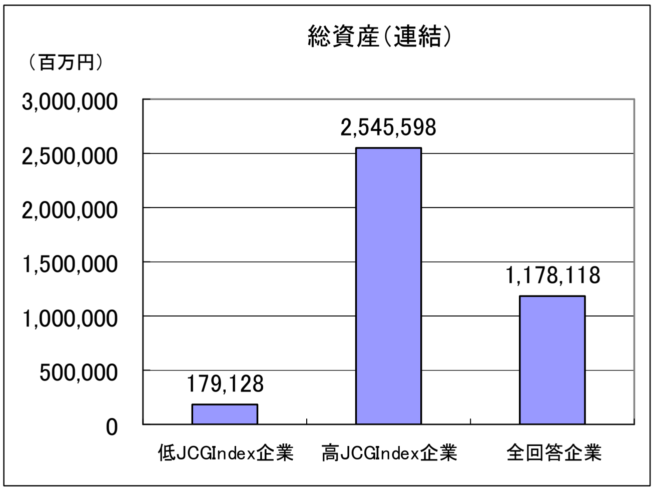
The CEOs of high JCGIndex firms are older than CEOs of low JCGIndex firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 233
High JCGIndex firms: 36
Low JCGIndex firms: 36

(3) JCGIndex and firm size

Just as before, the total assets, sales, and number of employees are far greater in the high JCGIndex firms than the low JCGIndex firms.

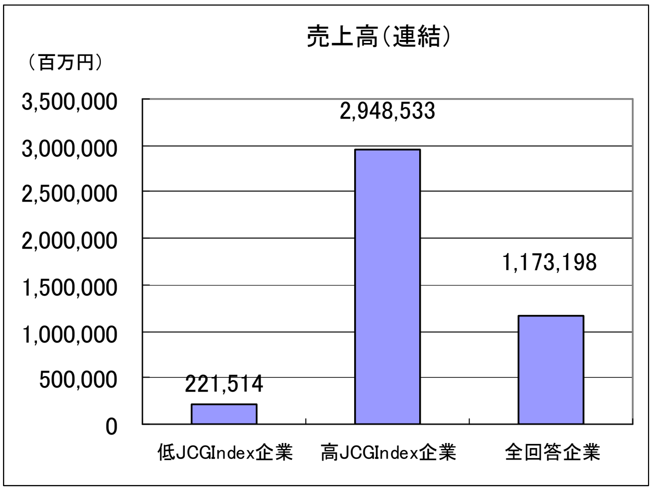
a. **Total assets (consolidated, average of 3 years)**



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: 231
High JCGIndex firms: 34
Low JCGIndex firms: 34

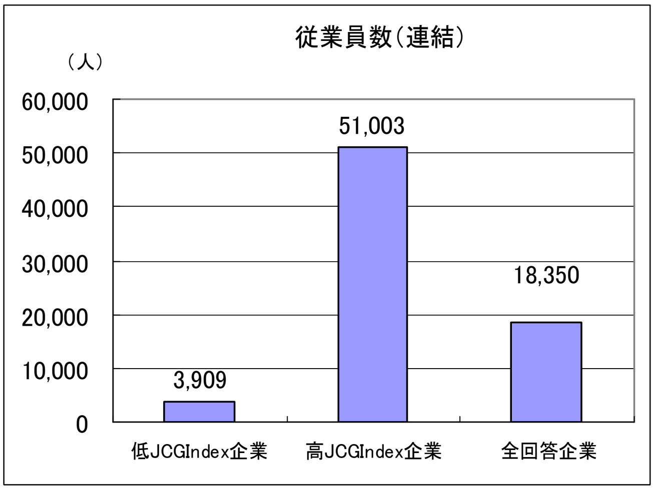
b. Total sales (consolidated, average of 3 years)



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: 231
High JCGIndex firms: 34
Low JCGIndex firms: 34

c. Number of employees (consolidated, average of 3 years)



Number of employees of high JCGIndex firms is greater than number of employees in low JCGIndex firms, and this difference is statistically significant (at the 1% level). This result is the same for the 5-year average of number of employees.

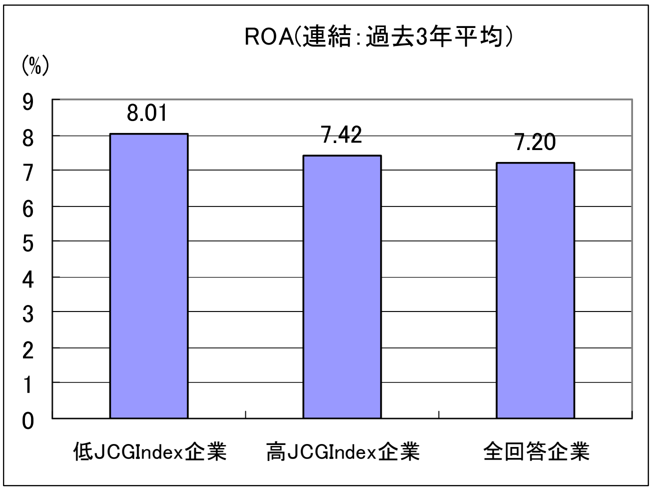
Total responding firms: 231
High JCGIndex firms: 34
Low JCGIndex firms: 34

(4) JCGIndex and rate of return on capital

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, but the difference is not statistically significant.

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

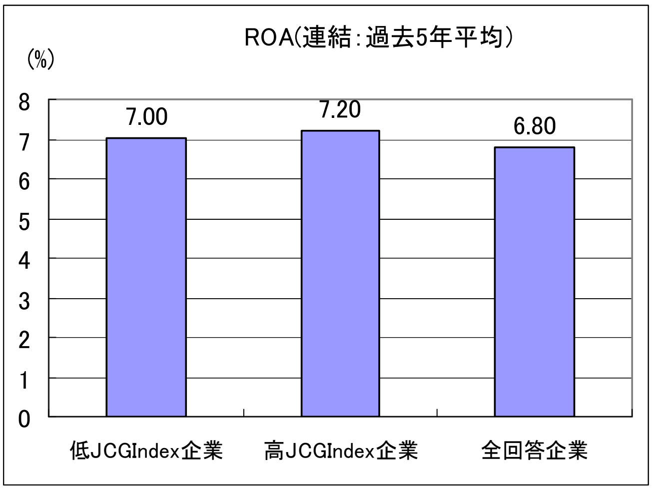
<3 years>



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

Total responding firms: 225
High JCGIndex firms: 33
Low JCGIndex firms: 34

<5 years>

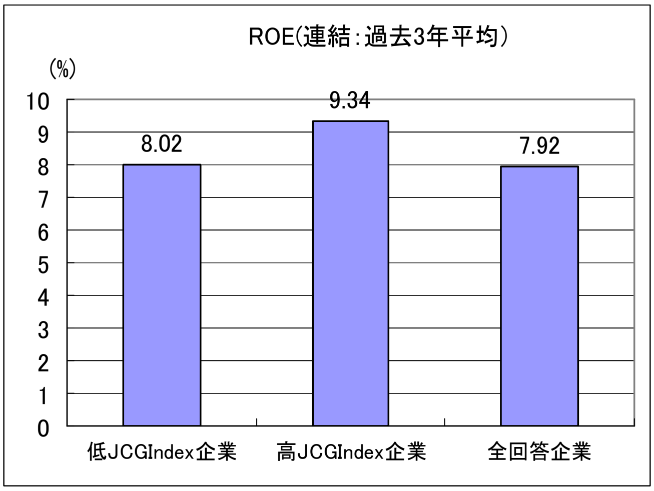


ROA for high JCGIndex firms is higher than ROA for low JCGIndex firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 32
Low JCGIndex firms: 32

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

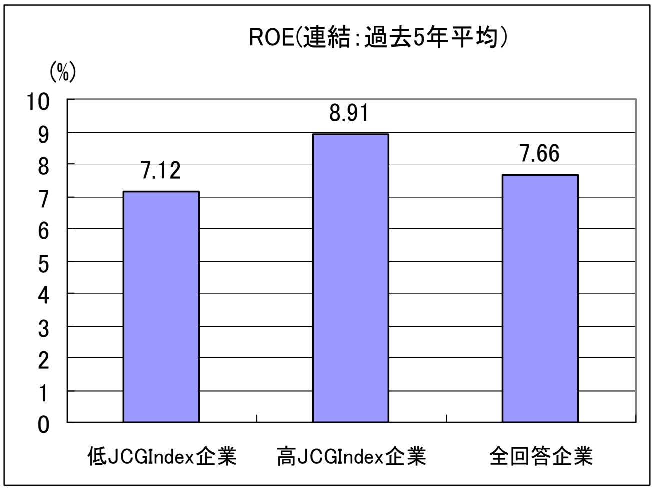
<3 years>



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

Total responding firms: 225
High JCGIndex firms: 33
Low JCGIndex firms: 34

<5 years>



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

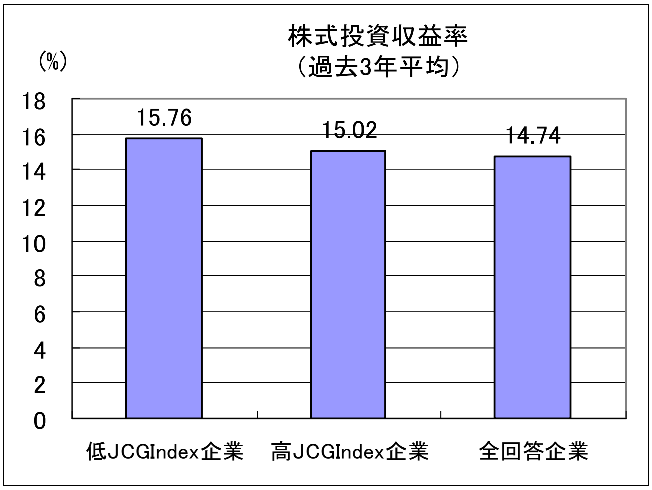
Total responding firms: 218
High JCGIndex firms: 32
Low JCGIndex firms: 32

(5) JCGIndex and rate of on equity investment (average of 3 years and 5 years)

In the surveys from 2002 to 2004, taking into consideration the measure of investment risk, beta (β), high JCGIndex firms had higher returns on investment. This pattern has reversed since 2005. This reversal can be attributable to the fact that several companies that reformed the governance in the aftermath of the poor performance have now scored high JCGIndex. Further analysis is required to examine this hypothesis.

The JCGIndex should be compared with the future performance (ROA, ROE, and return on common stock), but as of now, we are unable to conduct analysis from this perspective because the history of our survey is short, and the size of the samples is too small. Now that we have enough data, we will be able to analyze the relationship between the JCGIndex and the future performance next time.

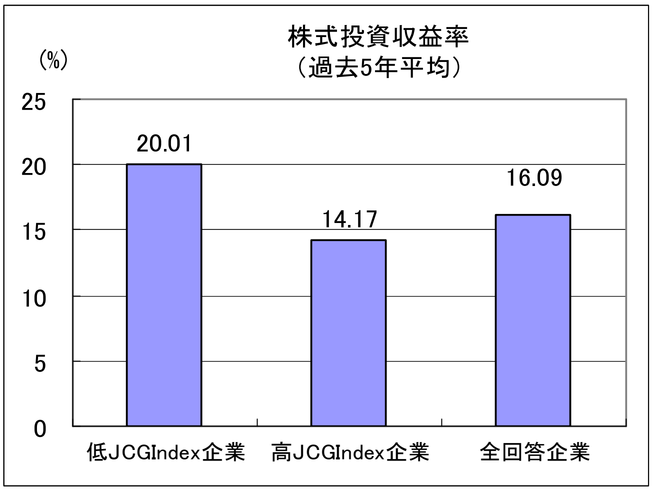
<3 years>



Return on common stock is lower in the high JCGIndex firms than in the low JCGIndex firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 228
High JCGIndex firms: 38
Low JCGIndex firms: 35

<5 years>



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

Total responding firms: 213
High JCGIndex firms: 35
Low JCGIndex firms: 34

<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:

Expected return = interest rate + β× (expected market return - 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.

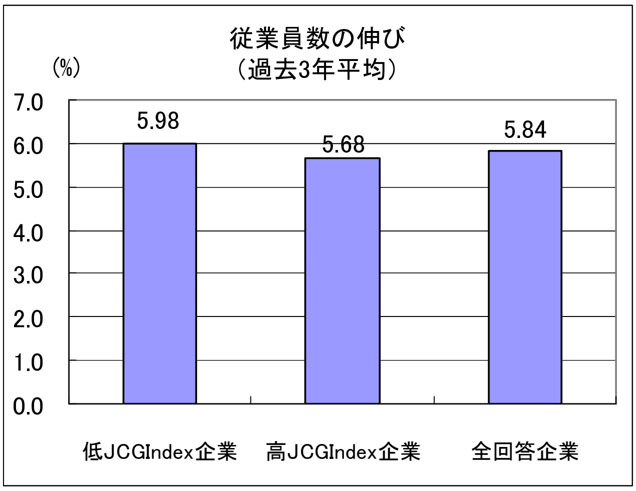
The CAPM represents the trade-off between return and risk (high risk, high return; low risk, low return). The following table shows the betas of high and low JCGIndex firms for 3 and 5 years. The beta (risk) for high JCGIndex firms is smaller than the beta for low JCGIndex firms, so return on common stock of high JCGIndex firms should be smaller than return on common stock of low JCGIndex firms. Assuming the return for stocks in the market in excess of the risk-free interest rate to be 5%, the difference in return on common stock between the two groups should be 0.5%, since the difference of the betas is less than 0.1. The actual difference in return turn out to be larger than the value the CAPM predicts (0.74% for 3 years, 4.84% for 5 years). Further analysis is required to determine what factors other than lower risk contributed to the lower return on stock of high JCGIndex firms.

	3-year β	5-year β
High JCGIndex firms	0.971	1.035
Low JCGIndex firms	1.058	1.101
All responding firms	0.914	0.983

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

Japanese companies seem to have secured profit through laying off employees in the past decade, but this is not the case when looking at our survey for seven years: High JCGIndex firms, which enjoy better performance, increase the employees. Note that the difference between high JCGIndex firms and low JCGIndex firms is not statistically significant.

Above all, it would be fair to say that companies with good governance establish high performance without reducing employment.



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

Total responding firms: 252*
High JCGIndex firms: 34
Low JCGIndex firms: 34
*1 outlier was removed.

IV. Category score and financial 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 evident. While each category contributes to the total to roughly the same degree in the high JCGIndex firms, the contribution of Categories I and II is significantly smaller than Categories III and IV in the low JCGIndex firms. This indicates that the JCGIndex reflects the quality of a company's governance.

category	I	II	III	IV	JCGIndex
High JCGIndex firms	16.1 (21.9%)	19.8 (26.9%)	20.8 (28.3%)	16.9 (23.0%)	73.7 (100%)
Low JCGIndex firms	6.5 (19.5%)	5.6 (16.7%)	12.3 (37.0%)	9.0 (26.9%)	33.4 (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.

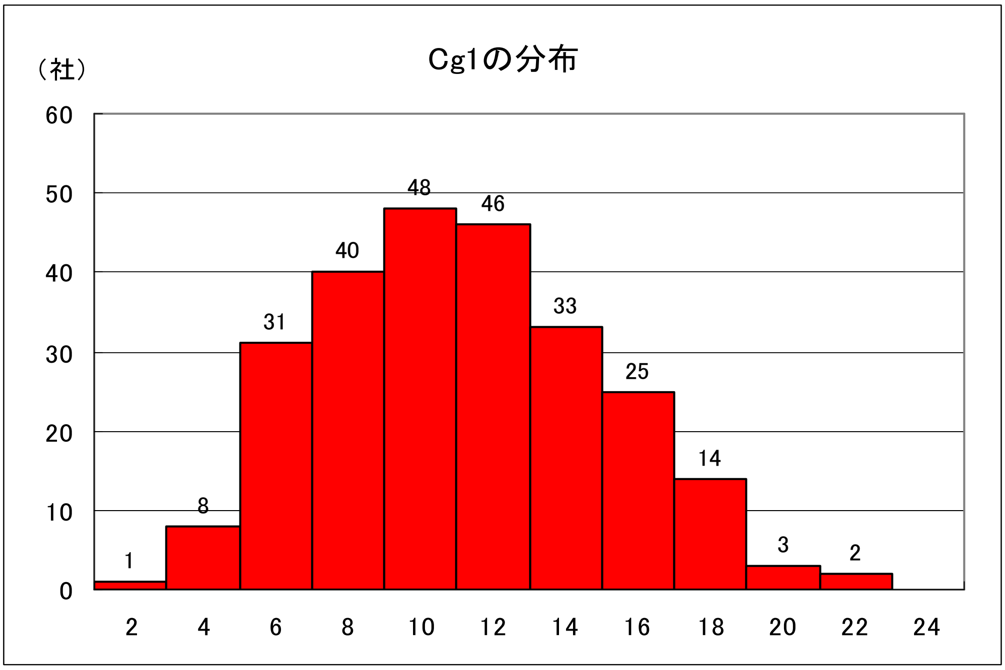
3. Category I (Corporate objectives and CEO responsibility)

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

High and low Cg1 firms are defined as follows;

High Cg1 group: 44 firms for which Cg1 is 15 or more

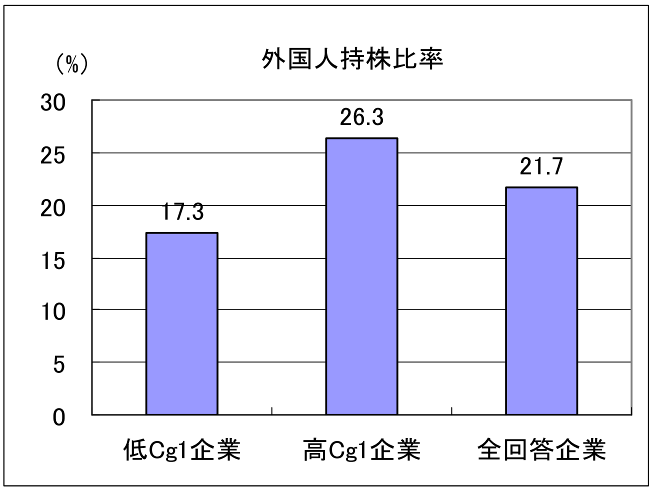
Low Cg1 group: 40 firms for which Cg1 is 6 or less



Mean: 10.6, Standard deviation: 3.9, Maximum, 22, Minimum 2

(2) Cg1 and firm characteristics

a. Foreign ownership ratio



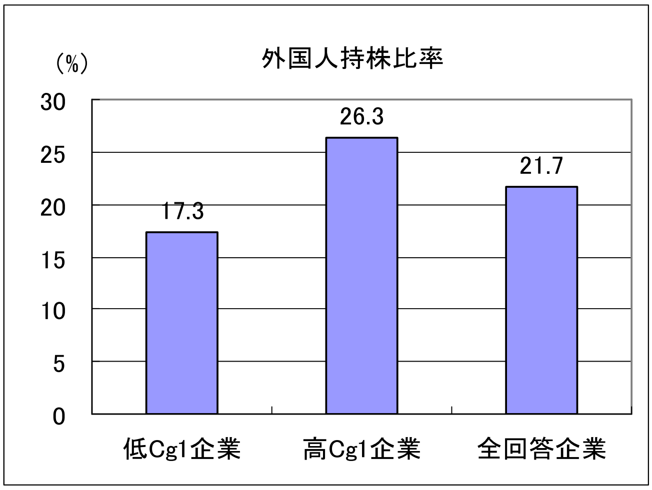
Foreign ownership is higher in high Cg1 firms than in low Cg1 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 235

High JCGIndex firms: 41

Low JCGIndex firms: 35

b. Age of CEO

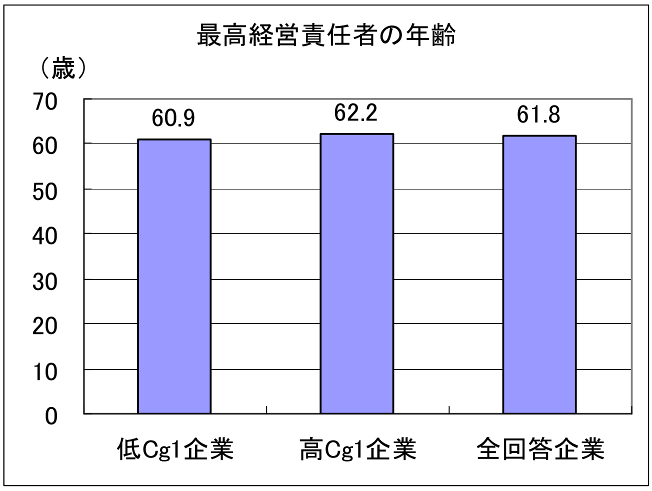


The CEOs of high Cg1 firms are older than CEOs of low Cg1 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 233
High JCGIndex firms: 41
Low JCGIndex firms: 36

(3) Cg1 and firm size

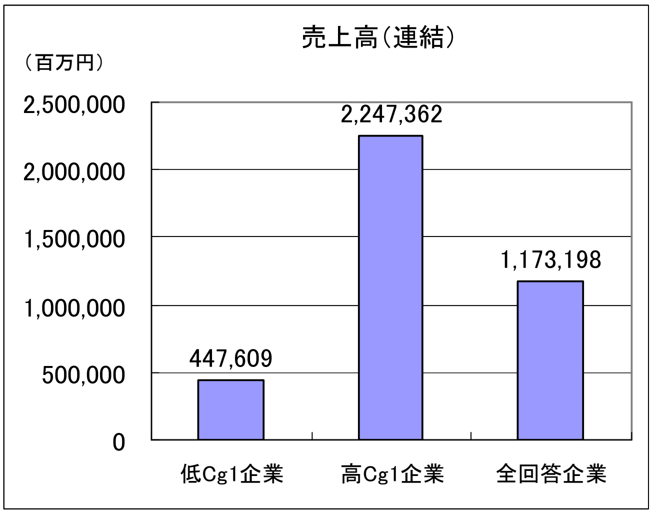
a. Total assets (consolidated, average of 3 years)



Total assets of high Cg1 firms are greater than total assets of low Cg1 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 41
Low JCGIndex firms: 37

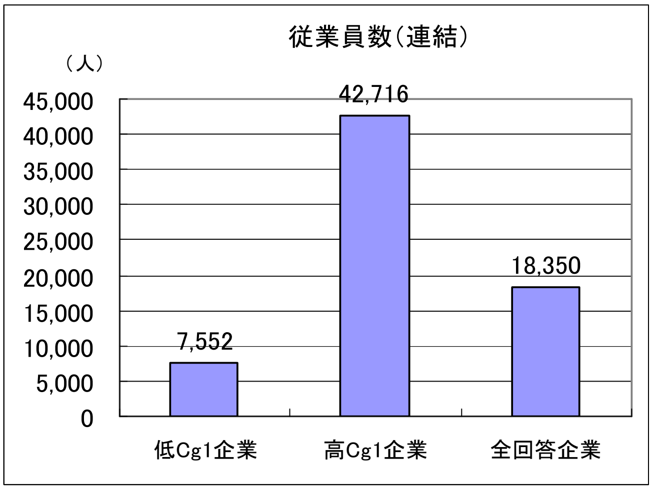
b. Total sales (consolidated, average of 3 years)



Total sales of high Cg1 firms are greater than total sales of low Cg1 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 41
Low JCGIndex firms: 37

c. Number of employees (consolidated, 3 years)



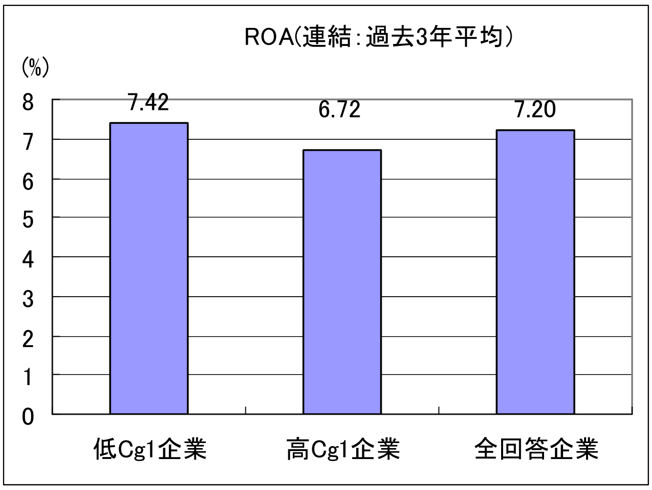
Number of employees of high Cg1 firms is greater than number of employees in low Cg1 firms, and this difference is significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 41
Low JCGIndex firms: 37

(4) Cg1 and rate of return on capital

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

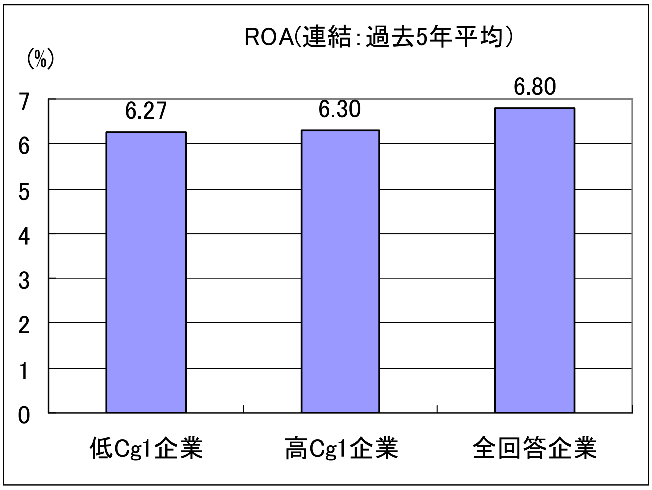
<3 years>



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

Total responding firms: 225
High JCGIndex firms: 39
Low JCGIndex firms: 36

<5 years>

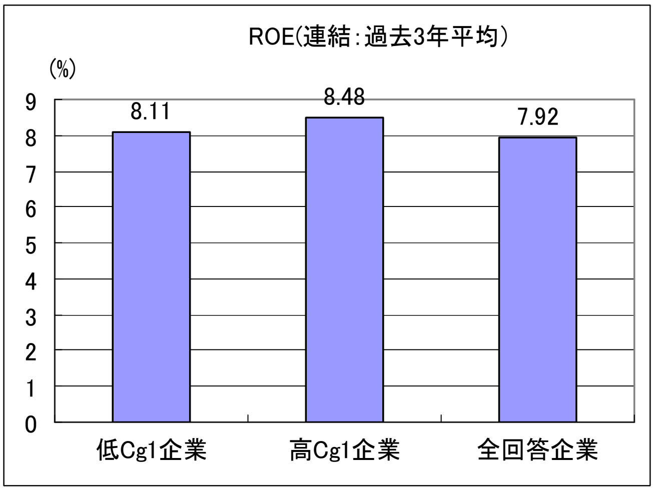


ROA for high Cg1 firms is higher than ROA for low Cg1 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 37
Low JCGIndex firms: 33

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

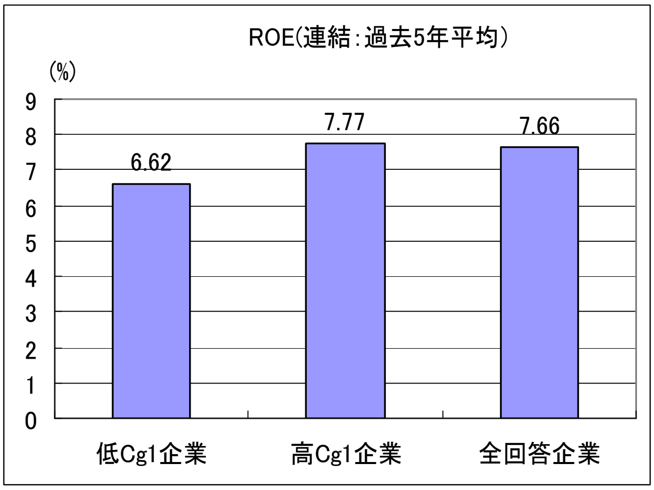
<3 years>



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

Total responding firms: 225
High JCGIndex firms: 39
Low JCGIndex firms: 36

<5 years>

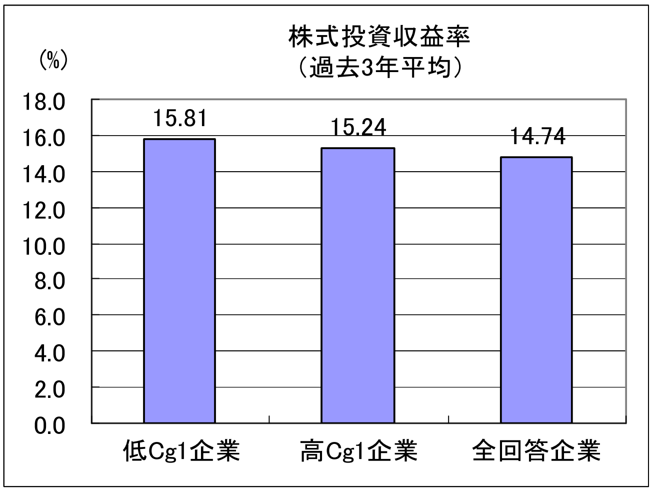


ROE for high Cg1 firms is higher than ROE for low Cg1 firms, and this difference is statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 37
Low JCGIndex firms: 33

(5) Cg1 and rate of return on equity investment (average of 3 years and 5 years)

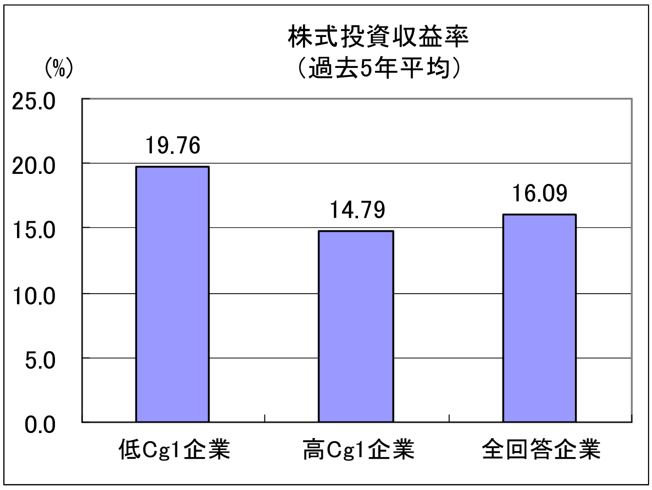
<3 years>



Return on common stock for low Cg1 firms is higher than for high Cg1 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 228
High JCGIndex firms: 43
Low JCGIndex firms: 36

<5 years>



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

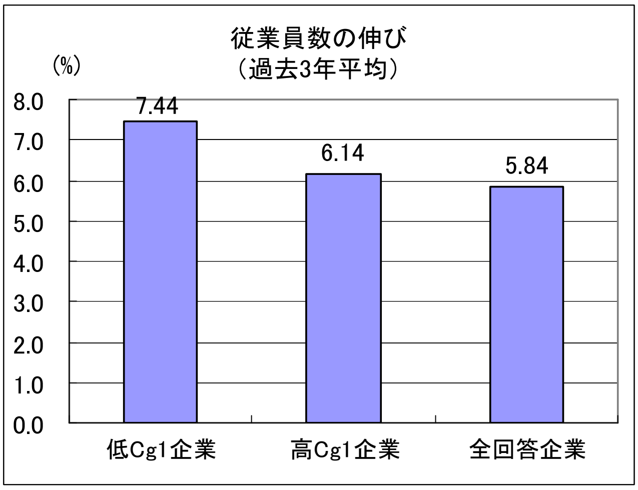
Total responding firms: 213
High JCGIndex firms: 40
Low JCGIndex firms: 34

<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 not statistically significant in both cases (at the 10% level). During these periods, some of the downside risk of the high Cg1 firms is seen; even though the five-year risk is higher for high Cg1 firms, the five-year return on common stock was lower for these firms.

	3-year β	5-year β
High Cg1 firms	0.984	1.076
Low Cg1 firms	1.136	1.159
All responding firms	0.914	0.983

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



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: 230*
High JCGIndex firms: 41
Low JCGIndex firms: 36*
*1 outlier was removed.

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

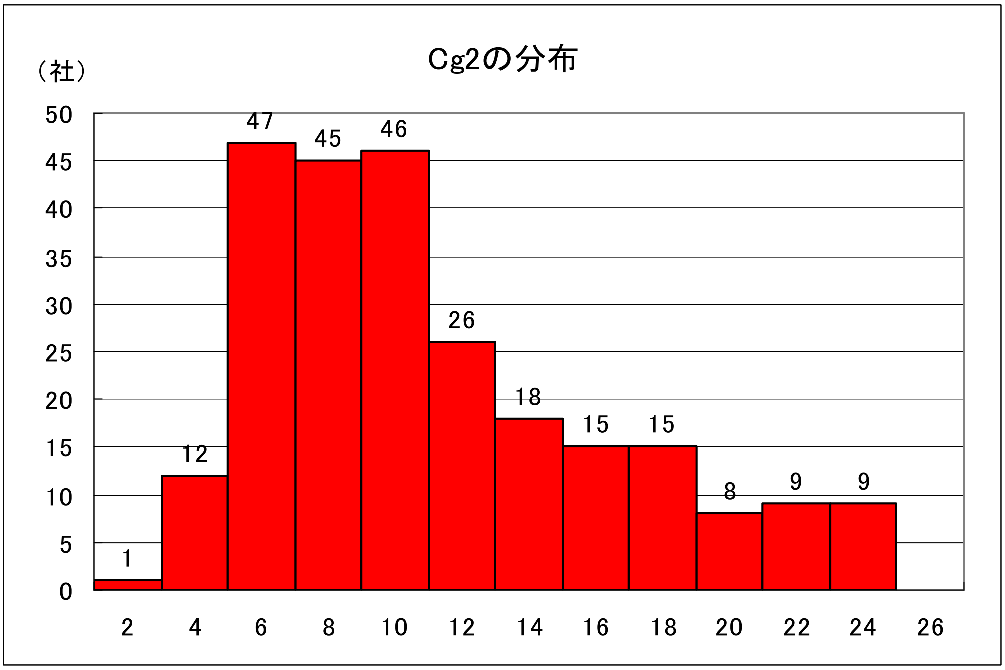
(1) Distribution of category score (Cg2), and definition of high and low Cg2 firms

Definition of high and low firms is as follows;

High Cg2 group: 52 firms for which Cg2 is 16 or over

Low Cg2 group: 30 firms for which Cg2 is 5 or under

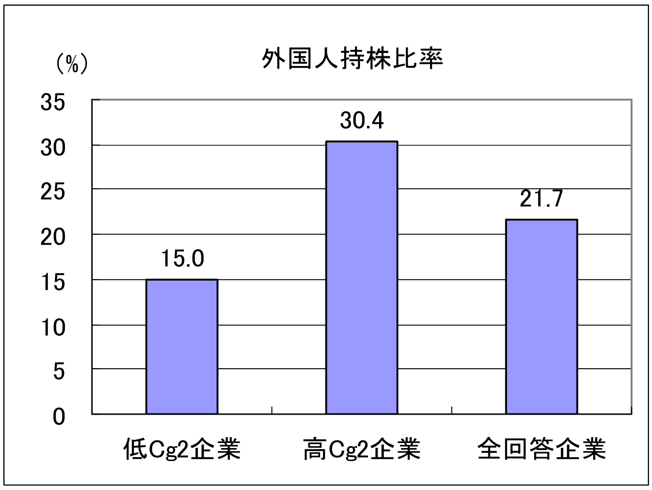
Distribution of Cg2



Mean: 10.7, Standard deviation: 5.2, Maximum, 24, Minimum 2

(2) Cg2 and firm characteristics

a. Foreign ownership Ratio



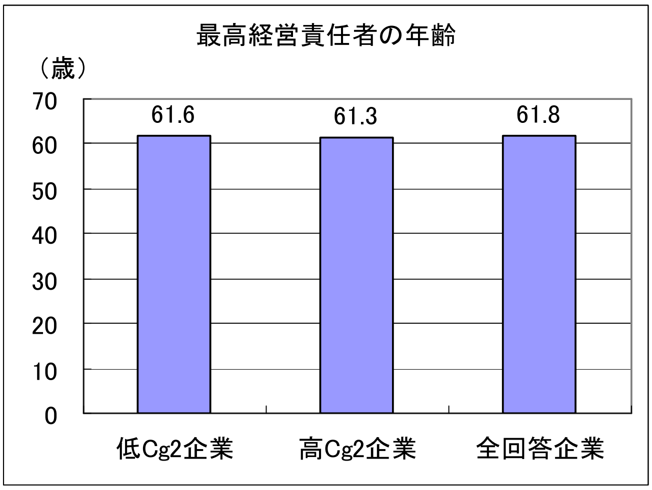
Foreign ownership is higher in high Cg2 firms than in low Cg2 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 235

High JCGIndex firms: 50

Low JCGIndex firms: 30

b. Age of CEO

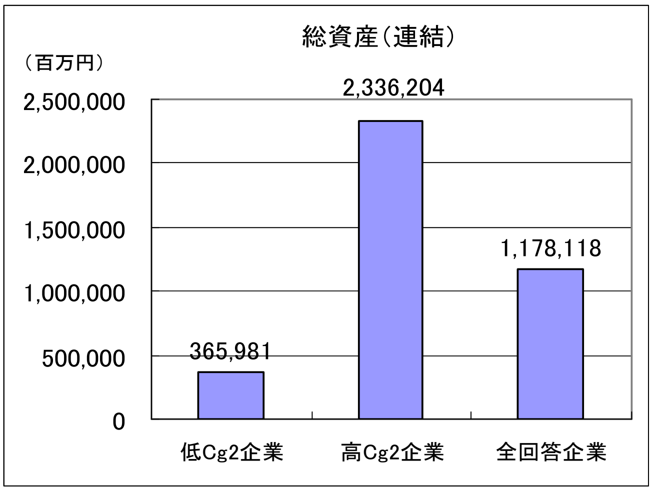


The CEOs of high Cg2 firms are younger than CEOs of low Cg2 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 233
High JCGIndex firms: 49
Low JCGIndex firms: 27

(3) Cg2 and firm size

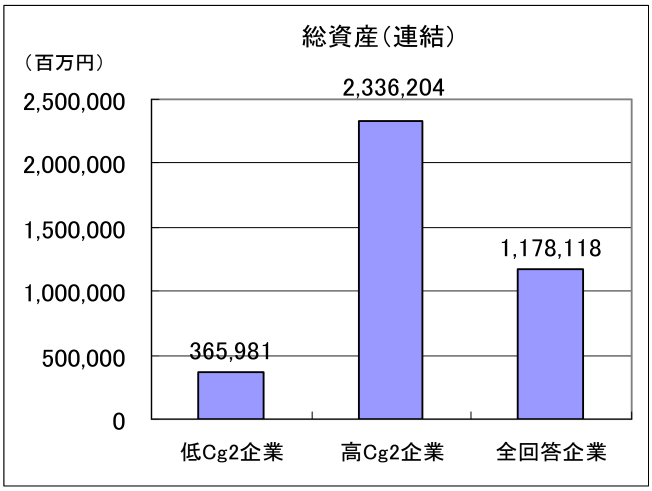
a. Total assets (consolidated, average of 3 years)



Total assets of high Cg2 firms are greater than total assets of low Cg2 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 47
Low JCGIndex firms: 28

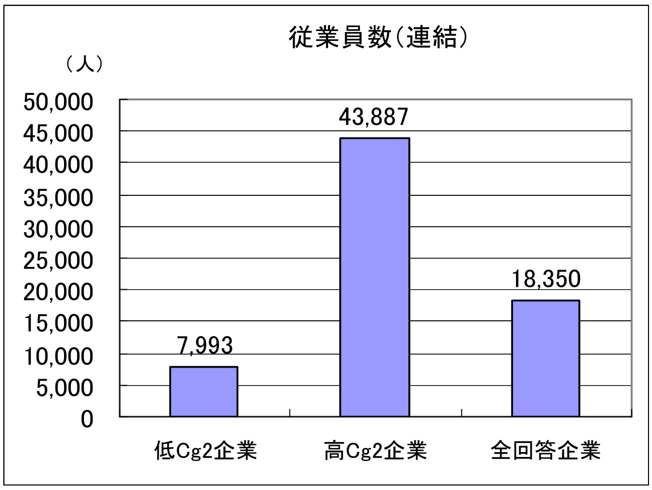
b. Total sales (consolidated, average of 3 years)



Total sales of high Cg2 firms are greater than total sales of low Cg2 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 47
Low JCGIndex firms: 28

c. **Number of employees (consolidated, average of 3 years)**



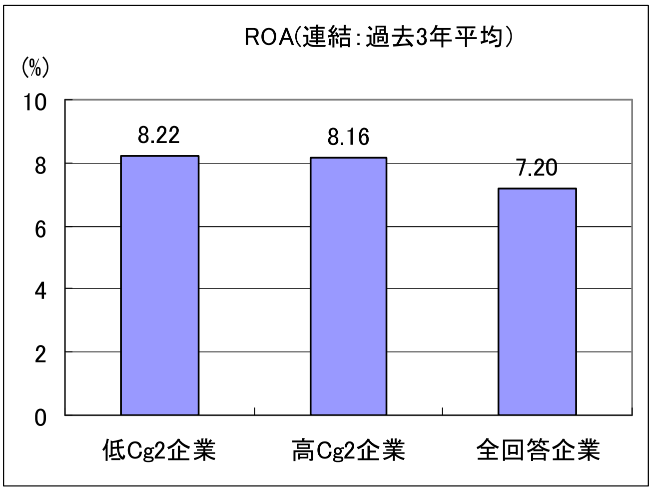
Number of employees of high Cg2 firms is greater than number of employees in low Cg2 firms, and this difference is significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 47
Low JCGIndex firms: 28

(4) Cg2 and rate of return on capital

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

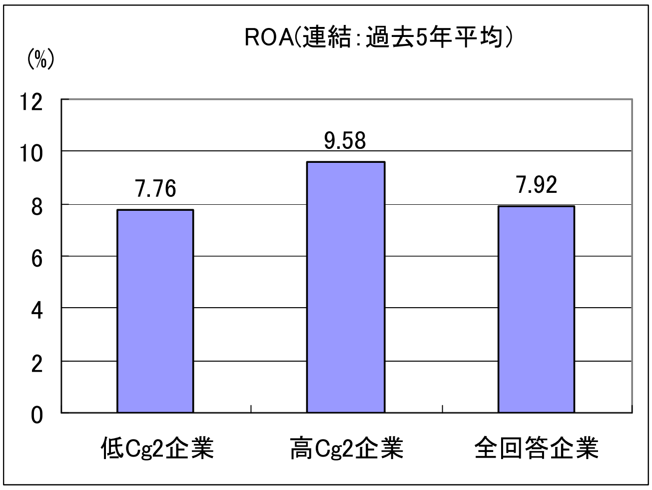
<3 years>



ROA for low Cg2 firms is higher than ROA for high Cg2 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 225
High JCGIndex firms: 45
Low JCGIndex firms: 27

<5 years>

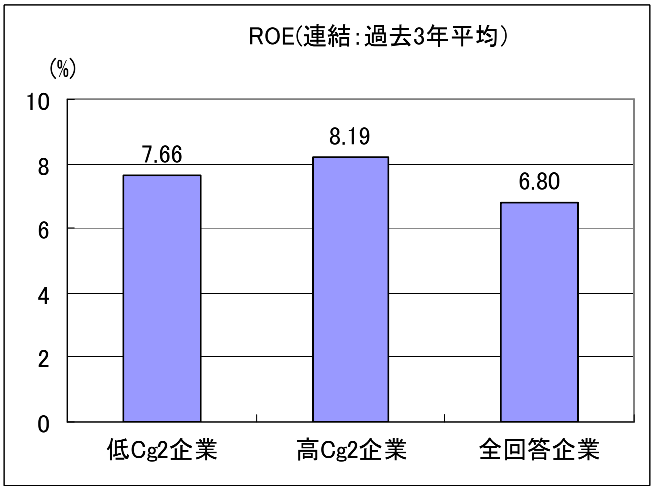


ROA for high Cg2 firms is higher than ROA for low Cg2 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 44
Low JCGIndex firms: 26

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

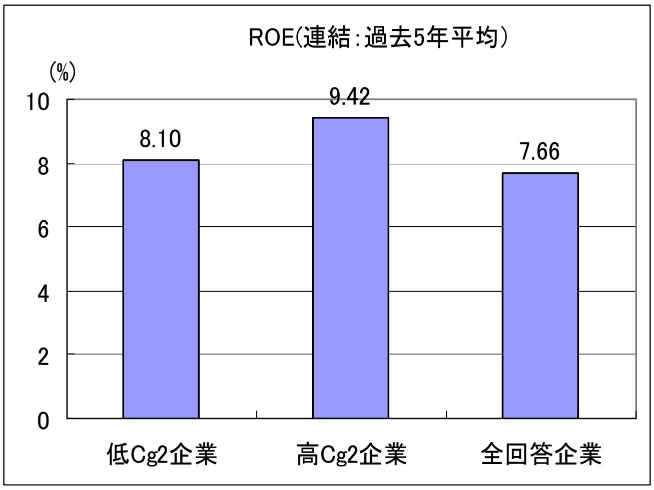
<3 years>



ROE for high Cg2 firms is higher than ROE for low Cg2 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 225
High JCGIndex firms: 45
Low JCGIndex firms: 27

<5 years>

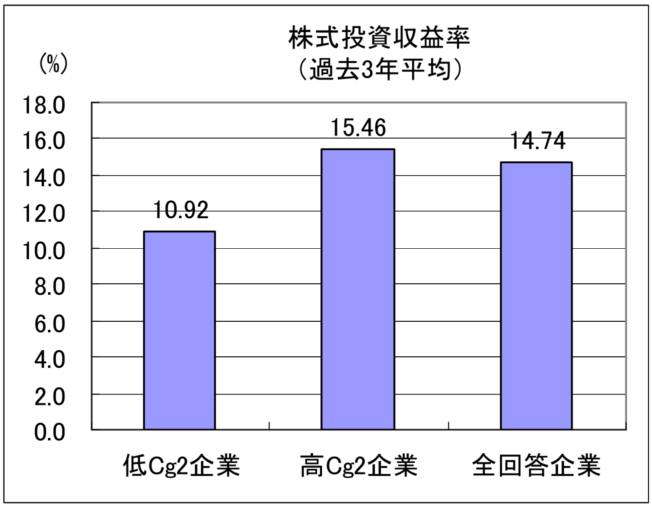


ROE for high Cg2 firms is higher than ROE for low Cg2 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 44
Low JCGIndex firms: 26

(5) Cg2 and rate of return on equity investment (average of 3 years and 5 years)

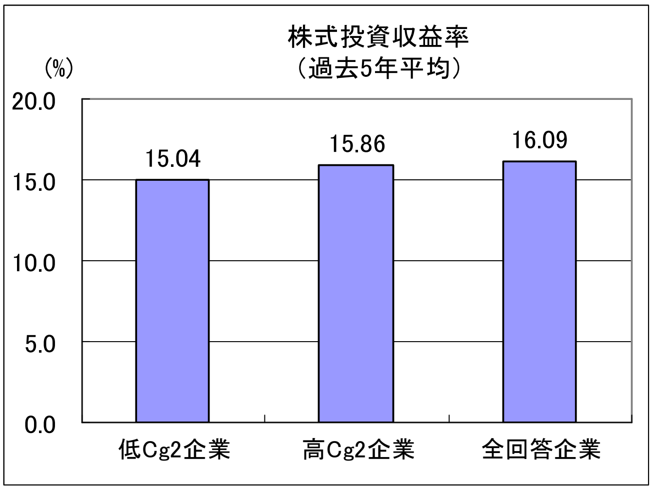
<3 years>



Return on common stock for high Cg2 firms is higher than return on common stock for low Cg2 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 228
High JCGIndex firms: 50
Low JCGIndex firms: 26

<5 years>



Return on common stock for high Cg2 firms is higher than return on common stock for low Cg2 firms, but this difference is not statistically significant (at the 10% level).

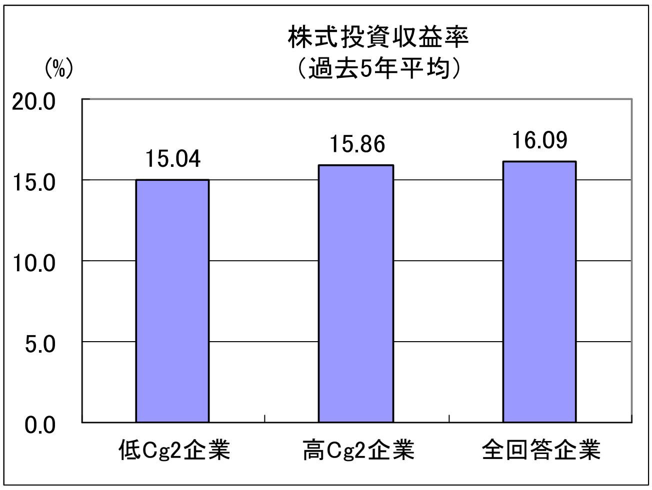
Total responding firms: 213
High JCGIndex firms: 46
Low JCGIndex firms: 24

<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 (at the 5% level). The beta for high Cg2 firms is 20% higher than the beta for low Cg2 firms. However, high Cg2 firms do not provide enough return relative to risk; return on common stock for high Cg2 firms is higher than return on common stock for low Cg2 firms, but this difference is not statistically significant (at the 10% level).

	3-year β	5-year β
High Cg2 firms	0.931	1.043
Low Cg2 firms	0.743	0.845
All responding firms	0.914	0.983

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



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

Total responding firms: 230*
High JCGIndex firms: 47
Low JCGIndex firms: 28
*1 outlier was removed.

5. Category III (Management system)

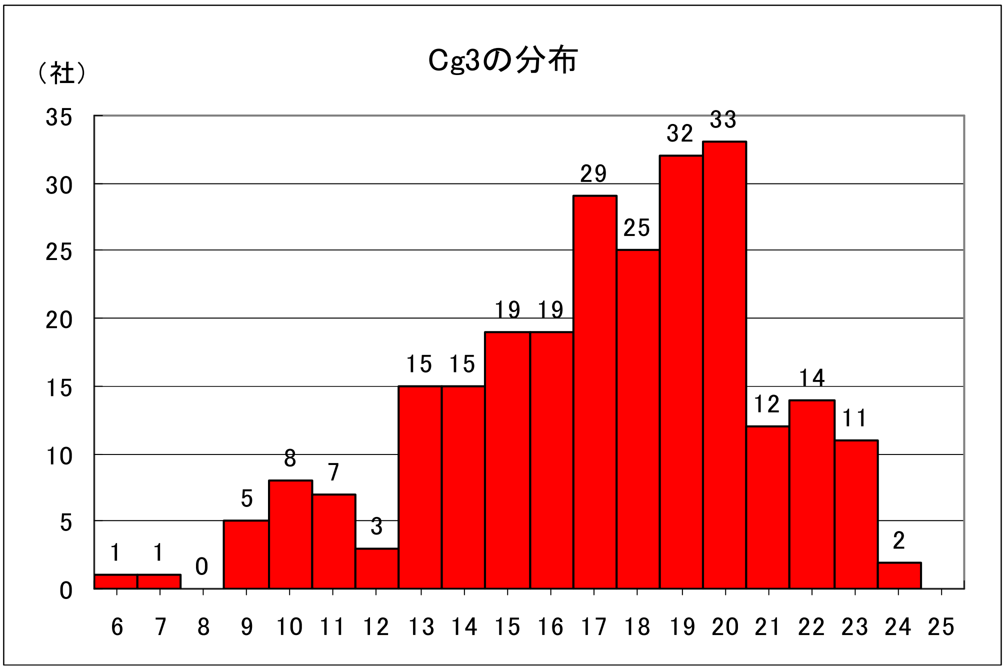
(1) Distribution of category III score (Cg3), and definition of high and low Cg3 groups

High and low Cg1 firms are defined as follows;

High Cg3 group: 39 firms for which Cg3 is 21 or more

Low Cg3 group: 40 firms for which Cg3 is 13 or less

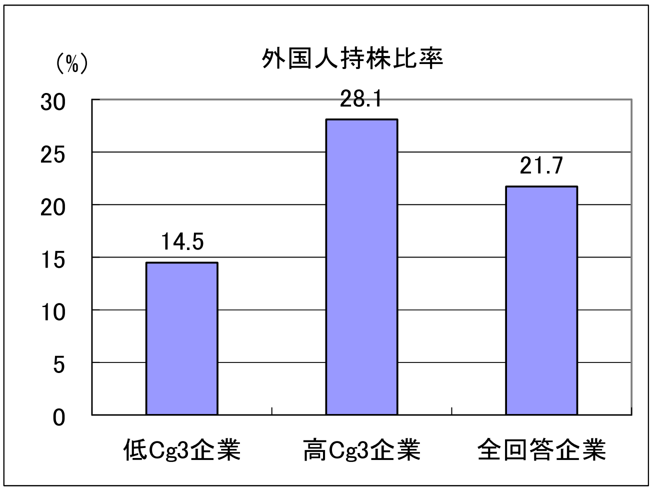
Distribution of Cg3



Mean: 17.2, standard deviation: 3.6, maximum, 24, minimum 6

(2) Cg3 and firm characteristics

a. Foreign ownership ratio



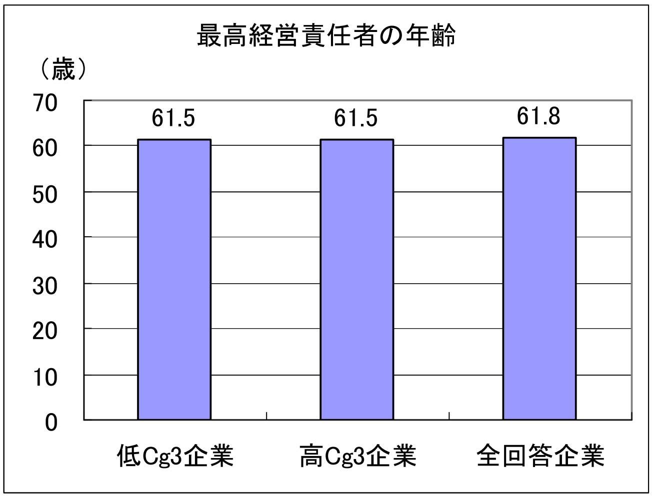
Foreign ownership is higher in high Cg3 firms than in low Cg3 firms, and this difference is statistically significant (at 1% level).

Total responding firms: 235

High JCGIndex firms: 39

Low JCGIndex firms: 35

b. Age of CEO

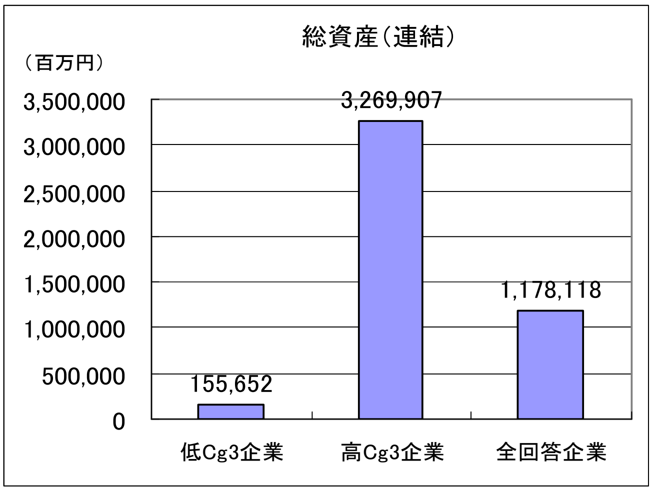


There is no age difference between CEO's of high Cg3 firms and CEO's of low Cg3 firms.

Total responding firms: 233
High JCGIndex firms: 39
Low JCGIndex firms: 37

(3) Cg3 and firm size

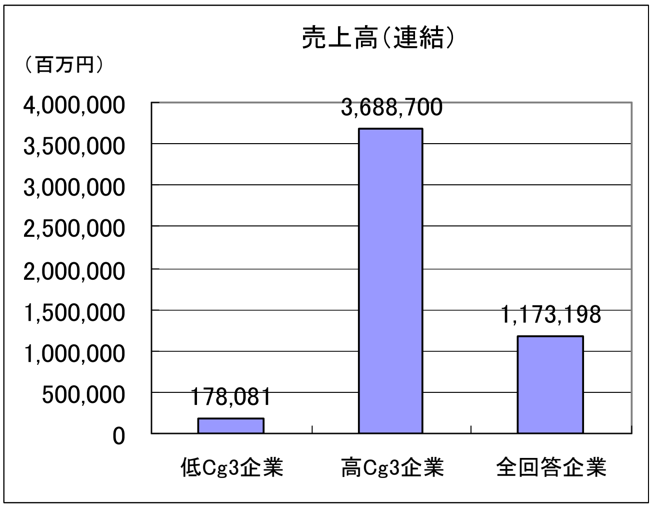
a. Total assets (consolidated, average of 3 years)



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: 231
High JCGIndex firms: 37
Low JCGIndex firms: 34

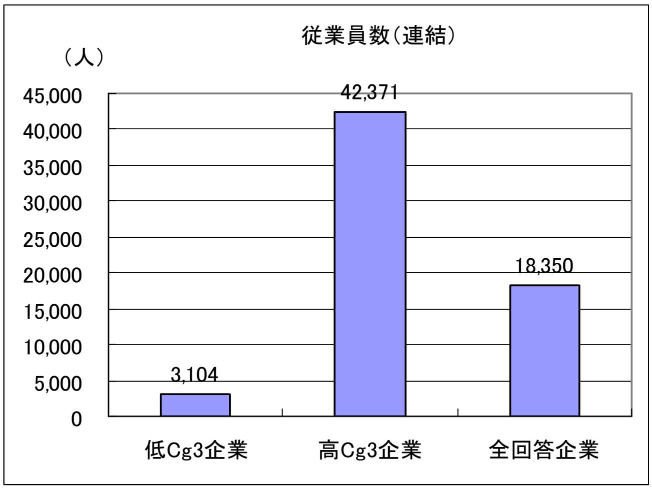
b. Total sales (consolidated, average of 3 years)



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: 231
High JCGIndex firms: 37
Low JCGIndex firms: 34

c. Number of employees (consolidated, average of 3 years)



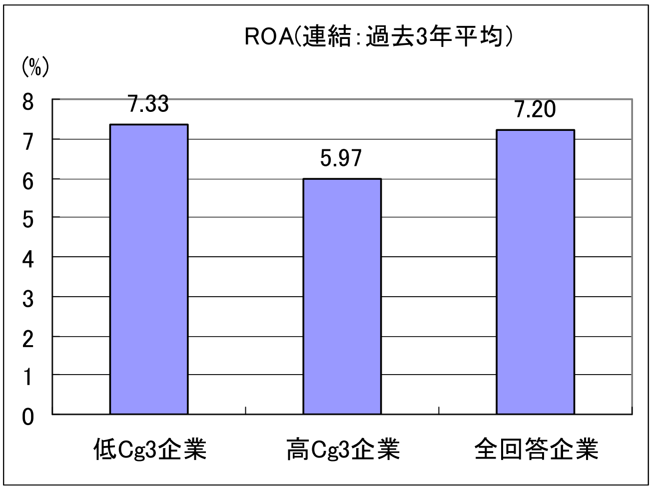
Number of employees of high Cg3 firms is greater than number of employees in low Cg3 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 37
Low JCGIndex firms: 34

(4) Cg3 and rate of return on capital

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

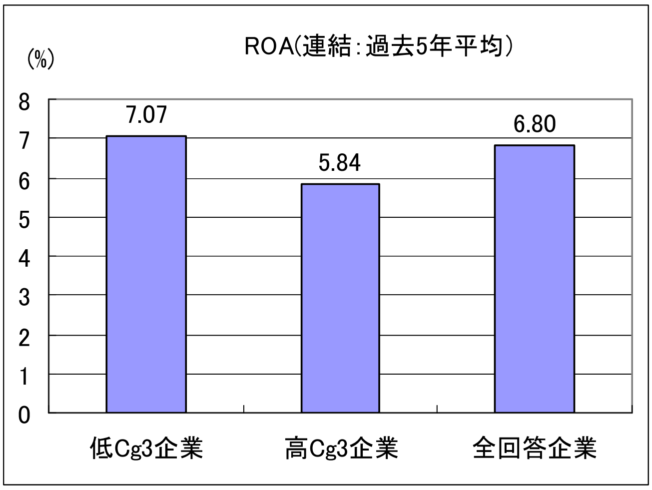
<3 years>



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

Total responding firms: 225
High JCGIndex firms: 36
Low JCGIndex firms: 34

<5 years>

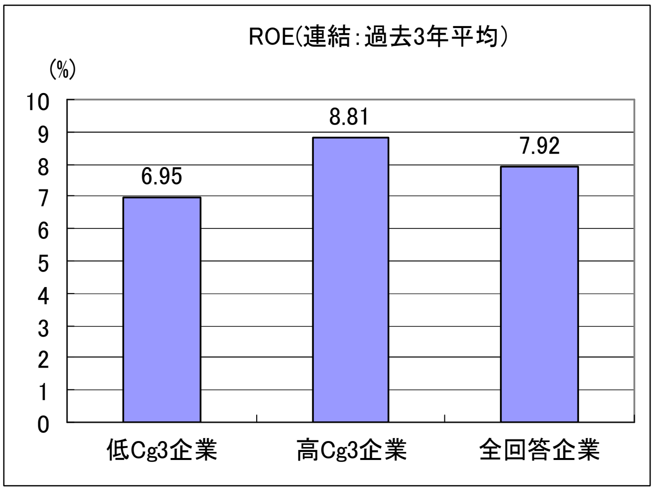


ROA for low Cg3 firms is higher than ROA for high Cg3 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 35
Low JCGIndex firms: 33

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

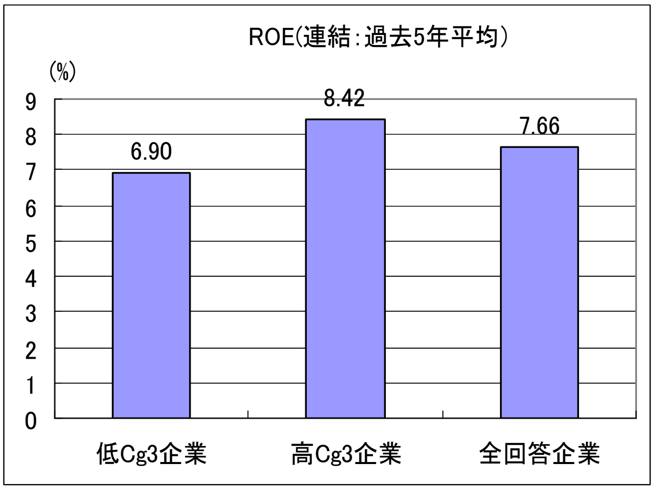
<3 years>



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: 225
High JCGIndex firms: 36
Low JCGIndex firms: 34

<5 years>

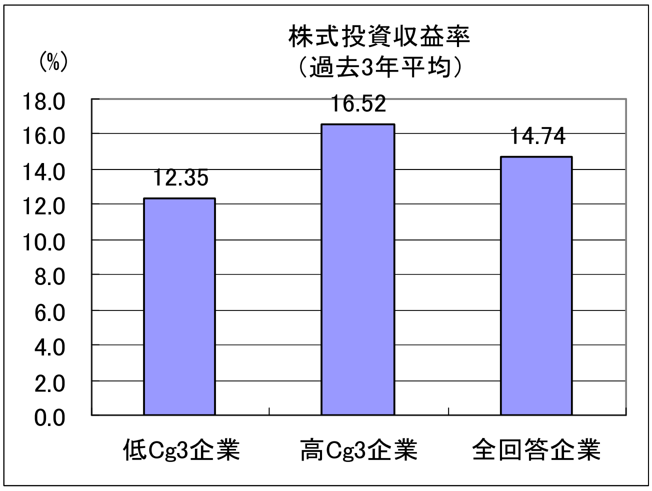


ROE for high Cg3 firms is higher than ROE for low Cg3 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 35
Low JCGIndex firms: 33

(5) Cg3 and rate of return on equity investment (3 years and 5 years)

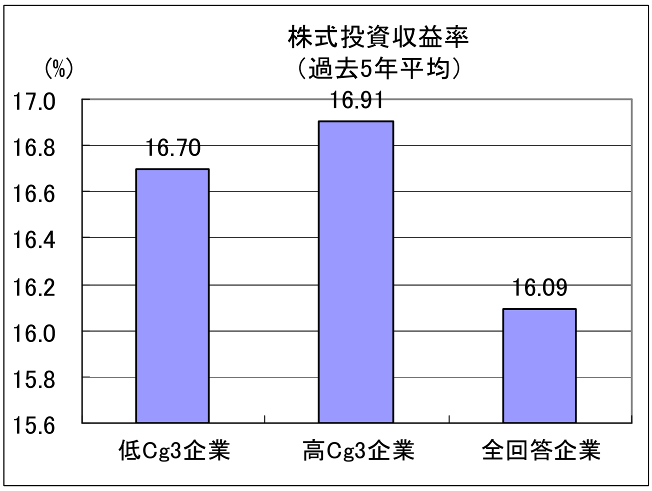
<3 years>



Return on common stock for high Cg3 firms is higher than return on common stock for low Cg3 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 228
High JCGIndex firms: 38
Low JCGIndex firms: 34

<5 years>



Return on common stock for high Cg3 firms is higher than return on common stock for low Cg3 firms, but this difference is not statistically significant (at the 10% level).

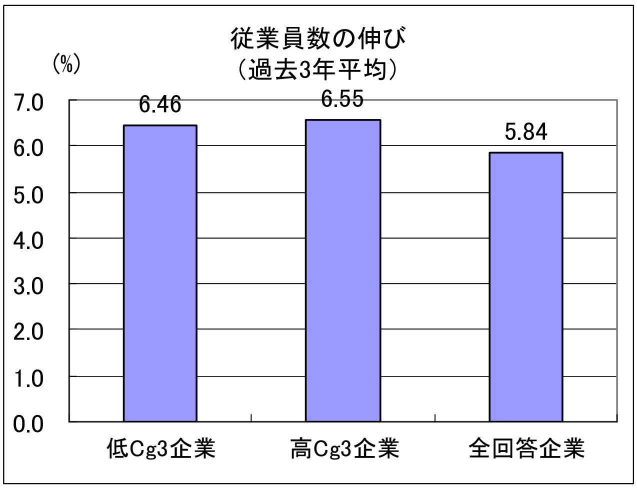
Total responding firms: 213
High JCGIndex firms: 36
Low JCGIndex firms: 32

<adjustment for risk>

The following table shows the betas of high and low Cg3 firms for 3 and 5 years. High Cg3 firms seemingly provide higher return and higher risk than low Cg3 firms. However, the difference between betas for the two groups is not statistically significant (at the 10% level), and difference in return on common stock is not statistically significant, either (at the 10% level).

	3-year β	5-year β
High Cg3 firms	0.972	1.092
Low Cg3 firms	0.911	1.046
All responding firms	0.914	0.983

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



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

Total responding firms: 230*
High JCGIndex firms: 37
Low JCGIndex firms: 34
*1 outlier was removed.

6. Category IV (Transparency and communication with shareholders)

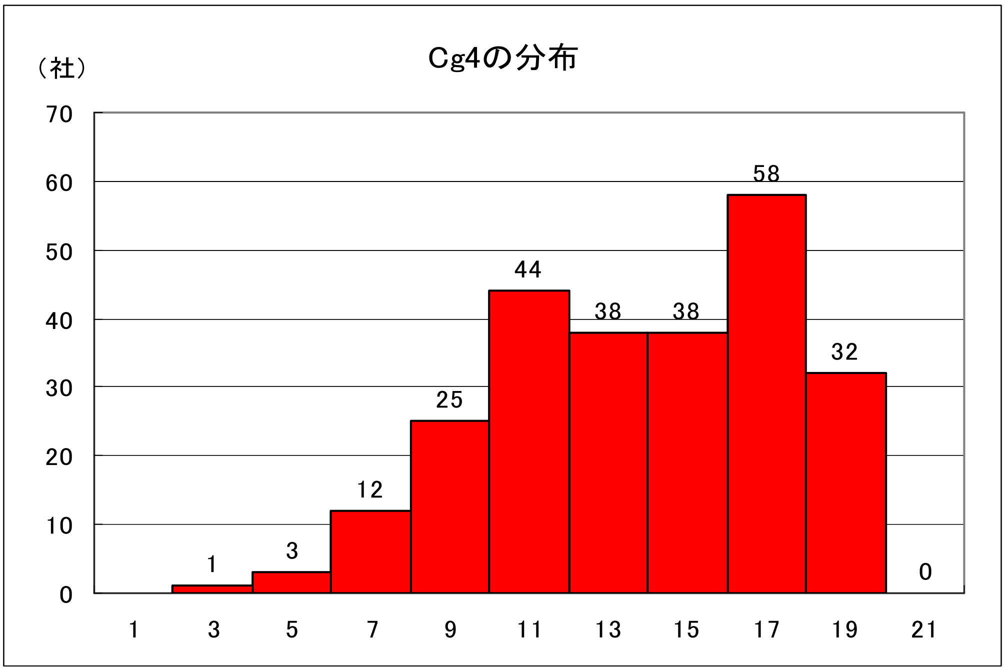
(1) Distribution of category IV score (Cg49, and definition of high and low Cg4 firms

High and low Cg4 firms are defined as follows;

High Cg4 group: 32 firms for which Cg4 is 18 or over

Low Cg4 group: 41 firms for which Cg4 is 9 or under

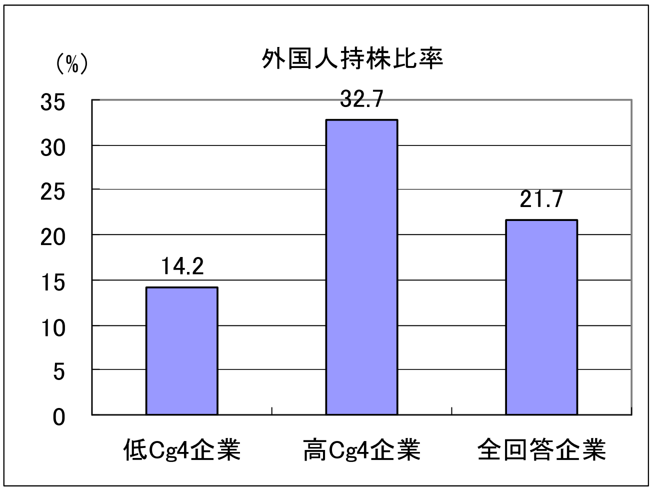
Distribution of Cg4



Mean: 13.4, standard deviation: 3.7, maximum, 19, minimum 3

(2) Cg4 and firm characteristics

a. Foreign ownership ratio



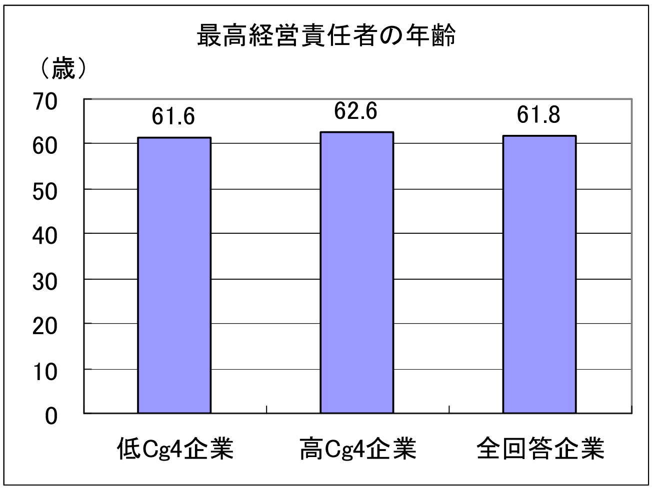
Foreign ownership is higher in high Cg4 firms than in low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 235

High JCGIndex firms: 31

Low JCGIndex firms: 36

b. Age of CEO

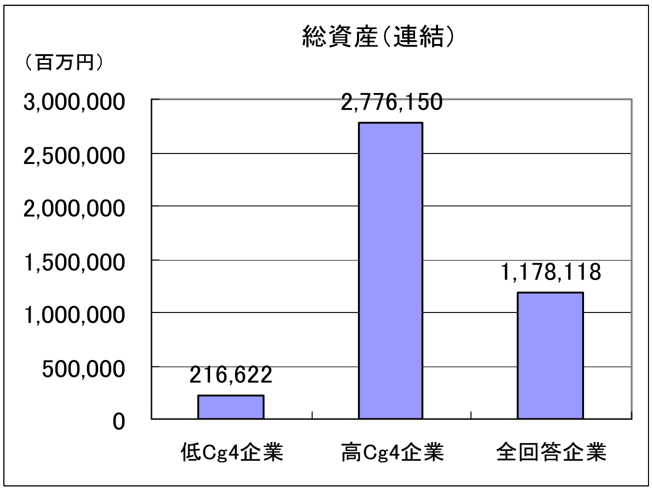


The CEOs of high Cg4 firms are older than CEOs of low Cg4 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 233
High JCGIndex firms: 31
Low JCGIndex firms: 38

(3) Cg4 and firm size

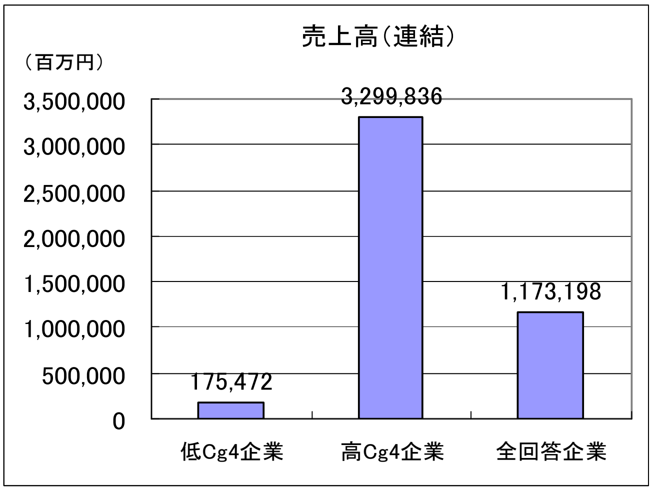
a. Total assets (consolidated, average of 3 years)



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: 231
High JCGIndex firms: 30
Low JCGIndex firms: 38

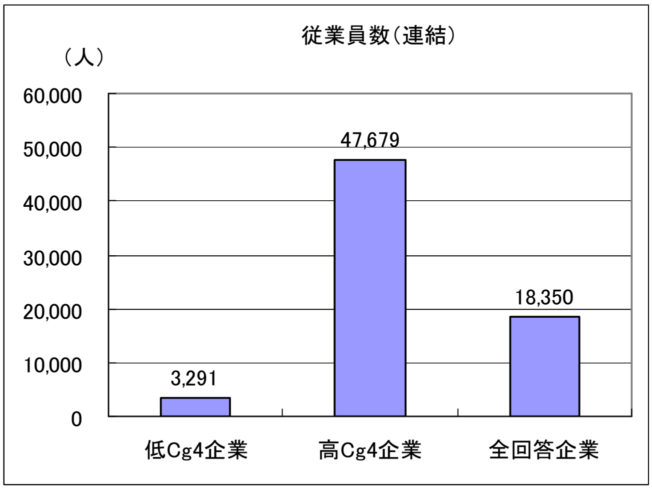
b. Total sales (consolidated, average of 3 years)



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: 231
High JCGIndex firms: 30
Low JCGIndex firms: 38

c. Number of employees (consolidated, average of 3 years)



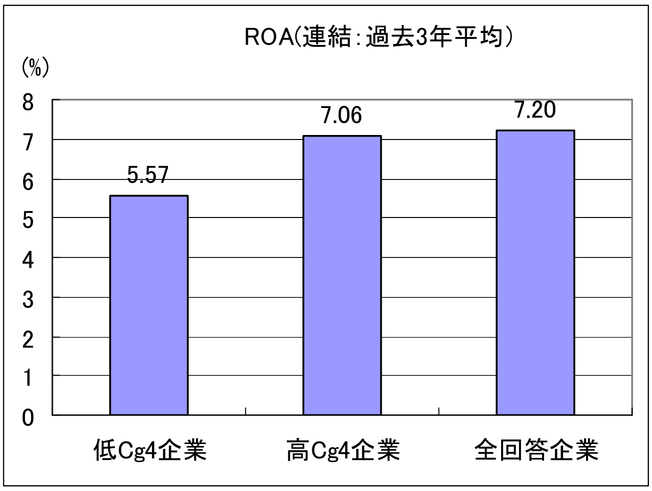
Number of employees of high Cg4 firms is greater than number of employees in low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 231
High JCGIndex firms: 30
Low JCGIndex firms: 38

(4) Cg4 and rate of return on capital

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

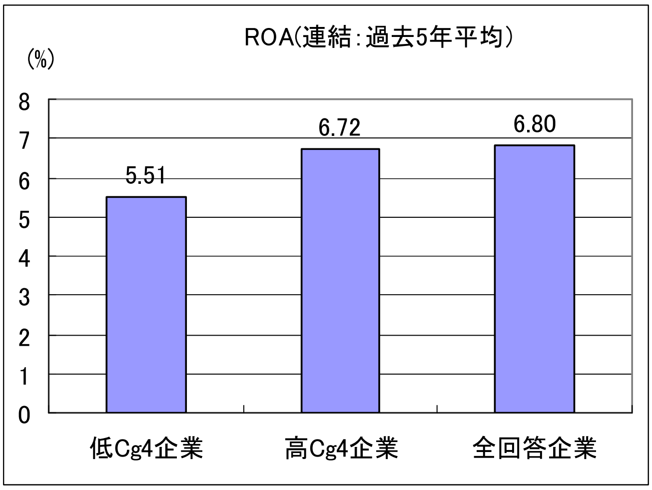
<3 years>



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

Total responding firms: 225
High JCGIndex firms: 29
Low JCGIndex firms: 38

<5 years>

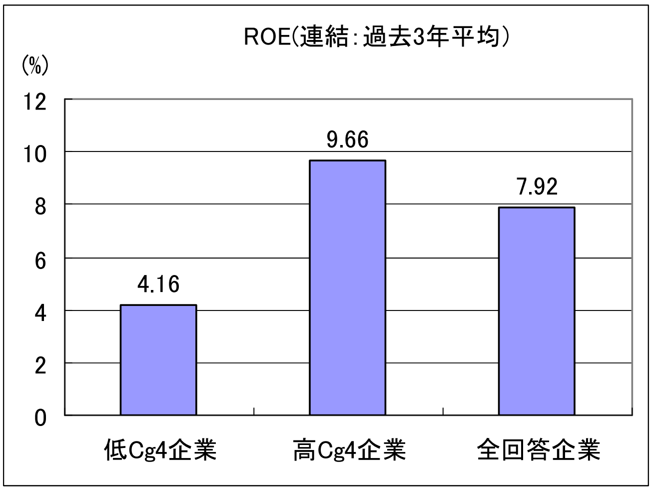


ROA for high Cg4 firms is higher than ROA for low Cg4 firms, and this difference is statistically significant (at the 10% level).

Total responding firms: 218
High JCGIndex firms: 27
Low JCGIndex firms: 38

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

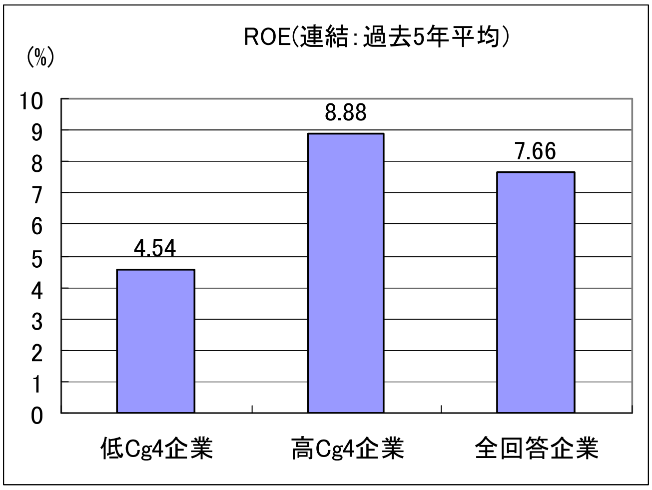
<3 years>



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

Total responding firms: 225
High JCGIndex firms: 29
Low JCGIndex firms: 38

<5 years>

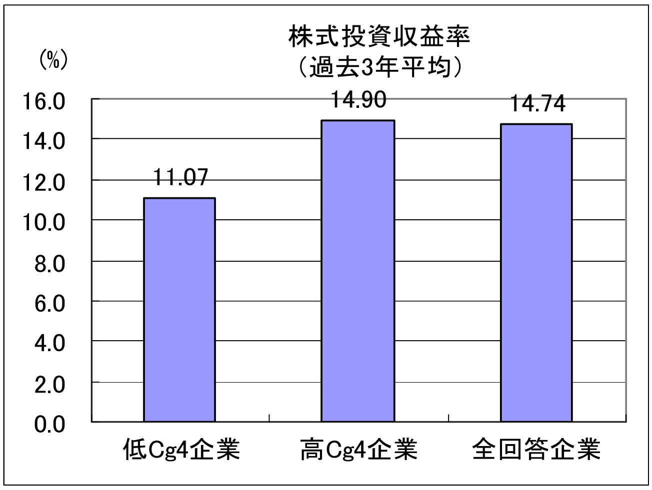


ROE for high Cg4 firms is higher than ROE for low Cg4 firms, and this difference is statistically significant (at the 1% level).

Total responding firms: 218
High JCGIndex firms: 27
Low JCGIndex firms: 38

(5) Cg4 and rate of return on equity investment (average of 3 years and 5 years)

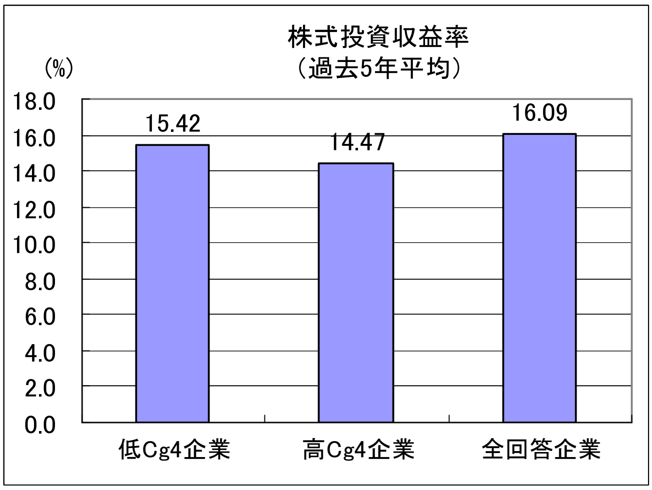
<3 years>



Return on common stock for high Cg4 firms is higher than return on common stock for low Cg4 firms, but this difference is not statistically significant (at the 10% level).

Total responding firms: 228
High JCGIndex firms: 31
Low JCGIndex firms: 37

<5 years>



Return on common stock for low Cg4 firms is higher than return on common stock for high Cg4 firms, but this difference is not statistically significant (at the 10% level).

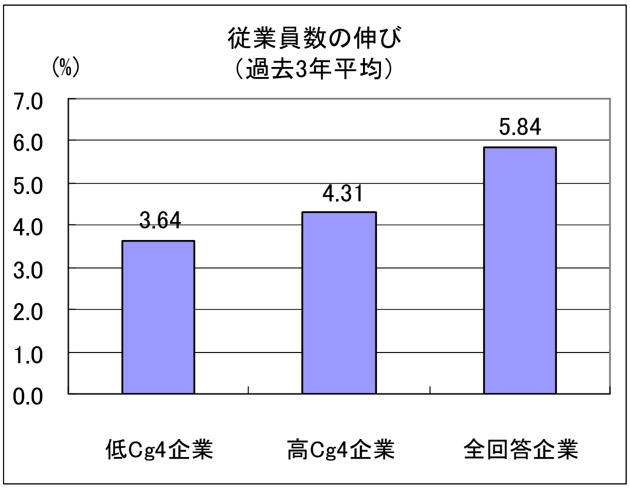
Total responding firms: 213
High JCGIndex firms: 28
Low JCGIndex firms: 36

<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 for both 3 and 5 years (at the 1% level). The beta for high Cg4 firms is higher than the beta for low Cg4 firms. However, high Cg4 firms do not provide enough return relative to risk; the difference in return on common stock is not statistically significant (at the 10% level).

	3-yearβ	5-year β
High Cg4 firms	1.012	1.054
Low Cg4 firms	0.959	1.036
All responding firms	0.914	0.983

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



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: 230*
High JCGIndex firms: 30
Low JCGIndex firms: 38
*1 outlier was removed.

Concluding Remarks

Over 7 consecutive years, a total of 778 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.

However, high JCGIndex firms do not necessarily provide better performance to shareholders. In a given year, low JCGIndex firms are better than high JCGIndex firms in terms of some indicators.

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 251 is in itself is not small, it represents only 15% of the about 1,700 Tokyo First Section listed firms. However, over seven years, we have found very similar results among different sets of responding 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.

We JCGR, an NPO operated by unpaid staff, greatly owe to donors who have a profound understanding on corporate governance. We are all the more obliged to maximize your kind support by continuing the Corporate Governance Survey so that we can offer ever more convincing proposals underpinned by the accumulation of data.

(Note) 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 (1,754 firms as of November 18, 2008).

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

   Period: January 2003 to December 2007
3. Return on common stock

   Source: Nihon Shoken Keizei Kenkyusho 2007 Kabushiki Toshi Shueki Ritsu

   Firms covered: Tokyo Stock Exchange First Section firms (1,754 firms as of November 18, 2008).

   Items: Monthly returns on individual stock and market

   Period: January 2003 to December 2007
4. Beta

   Calculated by Fujitsu Research Institute Source: Toyo Keizai Inc., “Stock Price CD-ROM 2007”
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: 1,754 firms as of 11/18/2008

The number of Tokyo Stock Exchange First Section firms was 1,719 when JCGR sent the mail survey as of 07/29/2008.

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