

May 12, 2017

**Proposal for Capital Efficiency Optimization Committee**  
**Implementation of Capital Efficiency Optimization Management: Management**  
**for Value Creation through Optimized Use of Financial and Non-financial Capital**

I: Purpose of This Proposal

In June 2016, Keizai Doyukai (Japan Association of Corporate Executives) made its first proposal on capital efficiency optimization: Implementation of Business Restructuring for Stronger Profitability. The next challenge for Japanese companies is investing profits generated from increased profitability into innovations to achieve sustainable growth through the creation of social value. To that end, Japanese companies need to make optimal use of capital in the broad sense of the word. This proposal includes the action declaration of corporate executives for the optimal use of capital.

II: Definition of Capital Efficiency Optimization Management and Three Steps to Achieve It

1. What is capital efficiency optimization management?

Corporate executives should aim to achieve both an improvement in social sustainability and corporate growth. More specifically, we should execute a value creation business process to provide products and services in response to social challenges and needs, using internal financial and non-financial capital and external capital as needed. In this proposal, we define capital efficiency optimization management as management that will sustain this process through the optimal use of capital and will increase corporate value not only for shareholders but also for all stakeholders in the medium- to long-term by helping to increase social value through the creation of innovation.

2. Three steps for capital efficiency optimization management

(1) Achieving ROE in excess of the cost of equity

To ensure the sustainability of management, we will first increase profitability and will achieve ROE in excess of the cost of equity, the yield that investors require.

(2) Investing profits in innovations and pursuing optimum ROE

Continuing to create new businesses that will be sources of future revenue is believed to increase ROE in the medium- to long-term. We thus need to invest profits in research and development, which is needed for innovation, acquisition of new business, and cultivation of human resources, among other purposes. If ROE

exceeds the cost of equity, we will pursue optimum ROE for sustainable growth instead of just continuing to increase ROE.

(3) Continuing to execute a good value creation business process to increase corporate value

A company that has a good value creation business process using internal capital consisting of financial and non-financial capital, as well as vision and governance, will contribute more to increases in social value and the accumulation of social capital, which will be used for the value creation that follows, by generating innovative goods and services for society and customers. To increase corporate value in the medium- to long-term, companies need to achieve ROE expected by investors and at the same time maintain a business process that will create high social value. This is the goal of the use of capital by capital efficiency optimization management.

3. Action declaration of corporate executives to promote capital efficiency optimization management

To promote capital efficiency optimization management, we will take the following actions.

(1) Creating and communicating appealing visions to change society

To create social value and receive compensation by providing goods and services that will meet social challenges and needs, we will first understand the social changes and trends of technological innovations in the medium- to long-term and will then create and communicate, internally and externally, visions of society that we would like to realize through our business.

(2) Establishing highly effective corporate governance

We will manage the company with a sense of pressure for its short-term business performance and long-term perspective. To this end, we will implement further governance reform, which consists of strengthening the supervisory function of the board of directors, speeding up decision making and utilizing the functions of outside directors. We will downsize or abolish the advisor system, which is said to be likely to affect management's decision making. If any corporate executives who have resigned from their top position remain in the company as an advisor, we will actively disclose the roles and treatment for them.

(3) Promoting business restructuring

To increase profitability, we will carry out the restructuring of low-profit businesses

that are not expected to grow in our companies, while we will promote investments in innovation and the creation of new businesses in the medium- to long-term. In businesses where the concentration of a variety of management resources is required, we will promote open innovation in the collaboration areas and alliances with venture companies involved in prompt commercialization.

(4) Sharing financial and non-financial capital targets with employees

We set targets that link financial and non-financial indicators to operations in different divisions so that employees can realize that ingenuity on the frontline contributes to an improvement in management objectives. We will set workplace targets in each division and back-office operations that are connected to target financial indicators, including ROE. We will also set targets for non-financial indicators for each operation and will recognize the achievement of targets and treat the people involved accordingly.

(5) Communicating with investors for enhancing corporate value in the medium- to long-term

We will explain our business activities to investors in an easy-to-understand manner, linking them to management philosophy and visions, non-financial indicators, and financial indicators. Moreover, we will promote investors' understanding of the link between the creation of social value through business and companies' sustainable growth. We will accumulate data so that we will be able to quantitatively show the correlation between non-financial indicators and financial indicators in the medium- to long-term.

### III: System Reform for Efficient Disclosure of Corporate Information

For the timely and efficient disclosure of corporate information, the government should focus on the following system changes:

- Limit the items for disclosure in the securities report and the internal control report and consolidate the information into the business report and financial statements. Ensure the digitization of documents for shareholders' meetings.
- Consolidate non-financial items for disclosure and provide guidance. Sort out and review governance rules.
- Review forms for disclosure so that companies can comment more freely, also using qualitative expressions.

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