

TSE magazine



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Feature 1:
A New Phase Unfolds
Rapid Globalization
at Japanese Companies



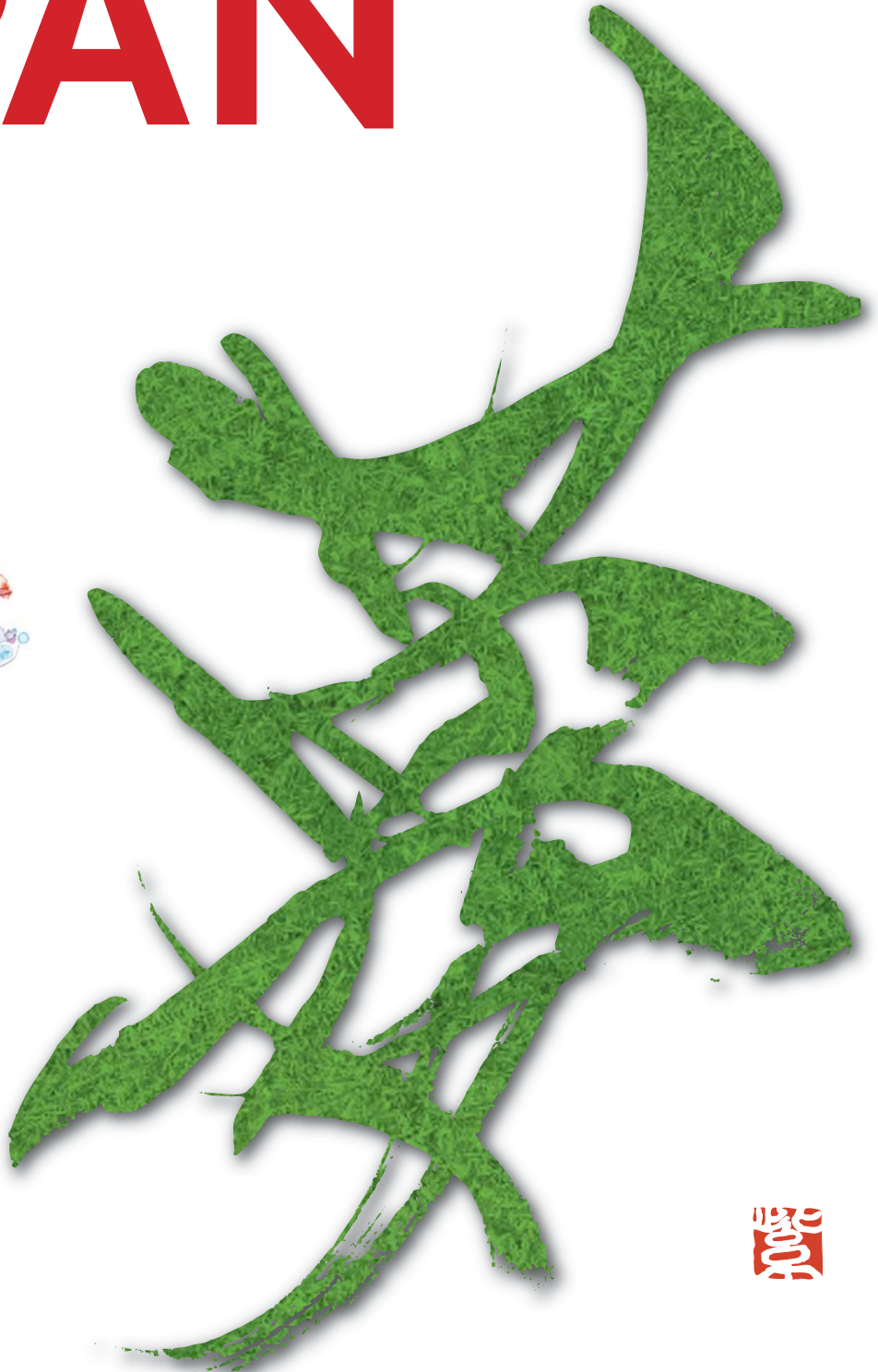
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The Sports Industry's
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Canon:
Managing with a Human Touch
Fujio Mitarai



Strengthening Japanese Corporations
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the second quarterly publication on companies in Japan for 2012, and others.

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A New Phase Unfolds

Rapid Globalization *by Akira Katsumi* at Japanese Companies

What lies ahead for Japanese companies? To find the answer, we need a view of both "the forest and the trees". The trend that should be highlighted is the overall pickup in activity in takeovers of overseas companies and outbound direct investment by Japanese companies, as well as the shift in their strategies toward globalization. There is widespread expectation of seeing the fruits of their labor in the form of a "mini Japanese stocks boom" as early as the latter half of this year. We sought "the forest and the trees" of Japanese companies going through a new phase of evolution.



The Wave of "Aggressive M&A" by Japanese Companies

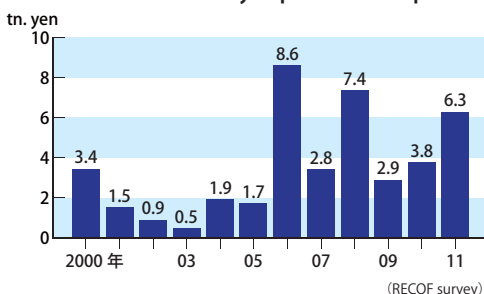
"In the case of Japanese companies, where we could once understand their strategy by simply looking at capital investments, today M&A has also become a key part of their strategy. A look at Japanese companies in the global M&A landscape reveals a distinct change. Strategic moves aimed at the global arena are fully underway."

These are the words of Shoichi Niwa, an executive officer of RECOF DATA Corporation and editor of "MARR", an M&A trade journal. The company is engaged in gathering and providing M&A data related to Japanese companies. According to a survey by the company, the 455 outbound M&A deals by Japanese companies in 2011 was second only to the 463 deals recorded when the bubble economy peaked in 1990. The total value of these deals came to 6.2 trillion yen, a year-on-year increase of 66.7%. With 198 deals targeting Asia making up 43.5% of outbound M&A, there is a clear change in direction toward emerging markets.

Japanese companies have emerged from "restructuring and regeneration" to becoming "aggressive". Niwa says that the paradigm shift in M&As by Japanese companies began sometime between 2005 and 2006.

"Until the first half of the last decade, most M&A deals were companies undergoing restructuring through selection and narrowing down, selling their non-core businesses. The biggest factor behind this dramatic change

Outbound M&A by Japanese Companies



into 'aggressive M&A' was the shrinking domestic market."

Japan entered an era of population decline in 2005. Since companies can no longer look forward to significant domestic growth, they have turned their sights overseas. With streamlining through reducing surplus staff, excess inventories, or debt and the boost from having become cash-rich, Niwa says that "the pace of outbound M&As will continue to accelerate".

"Last year's extremely strong yen conditions also contributed, but it is not the strong yen that accelerated the pace of M&A, but the environment surrounding Japanese companies that forced them to change their direction. The strategies of Japanese companies could be compared to the general electric appliances manufacturing industry, where products from manufacturers were not very different. The term 'general electric appliances' has itself become obsolete and the companies have since employed different strategies. In moving toward their strategic goals, if they could not make progress on their own, they would acquire overseas companies to buy some time. In this aspect, the thoughts of the top executives have also become simple."

Note: Toshiba Corporation concluded an agreement for joint investment in Landis+Gyr AG with Innovation Network Corporation of Japan, and currently owns 60%.



Toshiba is actively engaged in solar power generation and other eco-friendly initiatives. (Solar power generation research facility at Toshiba Fuchu Complex)

Taking the lead in the Smart Community market! Toshiba's acquisition of Landis+Gyr

Let's take a look at some of the major "aggressive M&A" deals by Japanese companies.

Not going alone but using M&A to buy a business and time. Toshiba acquired Landis+Gyr, the Switzerland-based global leader in smart meters, for USD 2.3 billion, equipping itself with a strong partner to overcome global competition. (Note)

Toshiba was once called an "integrated manufacturer of electric and electronics equipment". Today the company is actively transforming its business structure—identifying key growth fields, allocating major resources to these areas, and aiming to establish its position as a "globally competitive, top-level diversified electronics manufacturer". One of its foci is the smart community business. The 'smart community' is a next-generation community in which the integrated management and optimized control of various infrastructures such as electricity, water, transportation, logistics, healthcare, and information are realized.



(Right) Smart community presentation by first-time participants Toshiba Group at "Metering Europe", October 2011
 (Bottom) A Landis+Gyr smart meter



Landis+Gyr
 manage energy better



Asylum for SPLA Lyon Confluence – 2011
 "Lyon Project" (France): Smart community verification test since January 2012 involving, among others, building development that incorporates renewable energy and EV (electronic vehicle) car-sharing. (Toshiba was selected by New Energy and Industrial Technology Development Organization (NEDO) as Japan's overall project manager)

In the smart community, smart grids (next-generation power distribution networks) use IT to effectively monitor and control power supply on both the supply and demand sides, with the aim of achieving optimal electricity

use. Smart meters are essential to a smart grid. Possessing functions that monitor real-time power usage in individual homes, stores or buildings, as well as interactive communication functions, smart meters play a crucial role in bridging the power grid and the information network. Landis+Gyr holds 34% global share (2010) of this key device. Its operations across more than 30 countries serve over 8,000 corporate customers. Reliability is a key attribute of electric appliance makers. All countries and regions around the world have local manufacturers of unshakable reliability in established positions that have been consolidated over the years. M&A is an effective way to gain entry into these markets. Toshiba acquired Landis+Gyr to expand the markets of its business. A key benefit of bringing Landis+Gyr under the umbrella of the Toshiba group lies in rolling out its smart grid business through the former's worldwide network of offices and customers. By starting early, Toshiba will probably be well-positioned to set the global standard for smart meter technology.

Toshiba estimates the potential market for its smart community business at JPY8 trillion in 2015, and its sales at JPY900 billion. Toshiba is looking forward to a boost from the synergies generated by its acquisition of Landis+Gyr.

Consolidating footing in China and Oceania Asahi Group Holdings' overseas ventures

Companies traditionally dependent on local demand have also gone global like their export-reliant counterparts. Asahi Breweries, a part of Asahi Group Holdings, holds the top share in the Japanese beer industry. Last year, Asahi Group Holdings went on a series of M&As, buying the juice and mineral water businesses of Australia's third-largest beverage company, P&N Beverages (now Asahi Beverages Australia), New Zealand's leading alcoholic drink maker, Independent Liquor, and Charlie's, a new beverage maker. It also went on to acquire Malaysia's third-ranked beverage company Permais.

In 1994, Asahi invested in breweries in China and began local production of its core "Super Dry" brand in 1998. The 1990s was a period when Asahi greatly expanded its share in the Japanese market and overseas operations remained a secondary concern. Since China became the top beer consumer in the world after it surpassed the US in 2003, the Chinese beer market has continued to expand. Osamu Ishizaka of Asahi's IR Section speaks of his experience of transforming his company's approach to overseas operations.

"Beer is an acquired taste that is subject to cultural differences. A top Japanese brand is not guaranteed worldwide popularity. Our overseas approach is to first acquire or invest in a domestic leader and support the growth of the local brand with our know-how. On top of that, we adopt a style in which we work to generate synergies with Asahi brands. In China, we bought 20% of Tsingtao Brewery stocks, making it an equity-method affiliate. Tsingtao Brewery holds the No. 2 share in the domestic market. The return on our investment continues to grow as we support the development of quality control and other aspects at Tsingtao Brewery, and also generate synergies with Asahi's local subsidiary."

Asahi is also engaged in soft drinks and other



Creating "The Best Steel Maker with World-Leading Capabilities" in both quality and quantity
Nippon Steel's vision for further globalization

Toshiba and Asahi are cases of globalization through outbound M&As. However, within Japan, globalization is also progressing in the form of corporate consolidation.

A typical example of this is the merger between Nippon Steel Corporation and Sumitomo Metal Industries, the top and 3rd-ranked steel producers in Japan, which is planned for later this year in October. The merger is aimed at intensifying and accelerating globalization. We spoke to Shunsuke Miyake, a general manager of overseas business development at Nippon Steel.

"Our global growth strategy can be said to comprise three core principles: establishing a worldwide supply network for high-grade automotive steel sheet, developing Usiminas (our Brazilian group company) in the Americas, and expanding our operational bases in emerging markets. We are developing this strategy based on our strong manufacturing foundation in Japan and its global expansion, accompanied by alliances with our strong partners overseas as well.

China accounted for almost half of the world's steel consumption in 2011, and with Asia making up almost two-thirds, the medium-term outlook is that global consump-



Baosteel & NSC Automotive Steel Sheets Co., Ltd. (BNA)'s Continuous Annealing and Processing Line



Independent Liquor Group Pty. Ltd. acquired by Asahi Group Holdings. Independent Liquor is the No.1 and No.3 in low-alcohol content ready-to-drink (ARTD) beverage sales respectively in New Zealand and Australia.



Tsingtao Brewery Company Limited (Tsingtao Brewery), China's No. 2 beer brewer 20% owned by Asahi Group Holdings

beverage businesses. In 2006, China's number two beverage company Tingyi-Asahi Beverages Holding (Kangshifu) became an equity-method affiliate. In 2012, its capital and business tie-ups with Kangshifu made Asahi the top beverage company in China with 31% market share, far ahead of its nearest competitor The Coca-Cola Company with 23%.

"In Australia, the No.2 beverage company Schweppes Australia, whose strength lies in carbonated drinks, became a fully-owned

subsidiary. Our policy is to generate synergies in the local holding company by acquiring 4 other companies in Oceania that possess complementary strengths and integrating operations. Our model of applying the know-how accumulated in the Japanese beverage market to regional management is probably unique and cannot be found elsewhere in other US or European breweries." (Ishizaka)

Asahi will push on in Southeast Asia based around Malaysia's Permanis. Asahi's "Long-term vision 2015" plans to increase sales from overseas operations to between 20% and 30%, and aims to break into the top ten global food and beverage companies.



Usiminas' Itapinga steel works (Brazil), which Nippon Steel has supported since the establishment of the plant.

tion will continue to grow centered around the emerging countries. Our Chinese joint venture (BNA) based in Shanghai began production in 2005. Riding the wave of rapid motorization in China, it has promptly increased production capacity and continues to meet the huge demand for high-grade automotive steel sheet. In order to respond to customer requirements for high quality products and sophisticated services, we will continue to expand and reinforce our network in the growing Asian market.

Usiminas has strengthened its management, and is now working to further increase competitiveness through the optimization of its high-grade steel production and other measures.

In addition to these actions, our planned merger aims to further expand our operations and enable the maximum use of our combined management resources in an expeditious manner."

The current combined production volume of both companies is about 50 million tons, which ranks second globally. Following the merger, the company plans to increase global

production to between 60 to 70 million tons.

Nippon Steel and Sumitomo Metals have both stated that the management target of the new combined entity is to become the "The Best Steel Maker with World-Leading Capabilities". The essential base for achieving this is advanced technology. For example, as cars are made lighter to improve fuel efficiency, there are increasing requirements for automotive steel to possess both high tensile strength and formability. By combining the technological capabilities of these two world-class industrial leaders, it will be possible to provide high-grade steel and improve the ability to provide solutions that respond to the needs of increasingly sophisticated customers.

Moreover, by reorganizing and expanding the overseas business, the company will strengthen and establish manufacturing and sales bases, including integrated production plants, in order to provide high value-added solutions worldwide.

The company also expects significant benefits in terms of enhanced cost competitiveness. By reducing costs through improved production efficiency and optimization, the



Nippon Steel Corporation President Shoji Muneoka (left) and Sumitomo Metal Industries President Hiroshi Tomono shaking hands at the press conference announcing their planned merger in October 2012.

merger is expected to generate synergies of JPY 150 billion annually approximately three years after the merger. According to Miyake, "We will remain a winner and sustain corporate growth in this era of global mega-competition, even in the face of a strong yen."

Gaining momentum from resistance to strong yen

Besides globalization through M&A, another trend that we should pay attention to is Japanese capital investments overseas. Japanese companies for which sales in the Asian region make up a high proportion are pouring funds into local capital investment, building up resistance to the strong yen and "raising profitability even in extremely strong yen conditions", says Barclay's Capital Securities, Equities Strategist, Fumiyuki Takahashi. He points out the role reversal between Japanese companies and their US and European counterparts.

"US and European companies used to be proactive toward investment, but after the Lehman Shock, the economic slowdown made them use their funds for dividends and buyback programs aimed at investors instead of on investments for growth. On the other hand, previously risk-averse lowly-leveraged Japanese companies began to take a contrary move to the world, making local capital



investments and launching M&A deals. This 'Japanization' of US and European companies and 'de-Japanization' of Japanese companies is a complete role reversal. This indicates that the diminishing competitiveness of Japanese companies has led to an extremely strong sense of crisis." (Takahashi)

According to a Barclay's Capital survey, the annual rate of increase of planned capital investments by TOPIX500 Japanese manufacturers for fiscal year 2011 is expected to be the largest since 2000. With growing demand in emerging countries, these funds are being channeled into developing and expanding production facilities and sales networks.

"Even in the market, the stock prices of companies whose planned capital investment value for the year show a high rate of increase and have generated strong cash flows have risen. What we should take note of is the latter half of this year. If aggressive outbound activities such as M&A and capital investments leads to a significant boost to the ROE (return on equity) of Japanese companies, then we might see investment money flowing back to Japanese stocks, and perhaps even a 'Japanese stocks boom'." (Takahashi)

From a totally different perspective, a turnaround in the ROE of Japanese stocks is essential to sustained gains. Globalization strategies focus on investing overseas, raising

capital efficiency, and generating profit. The shift toward such strategies is in itself a highly pertinent and urgent issue to improve ROE. How far will Japanese companies be able to cope with this issue?

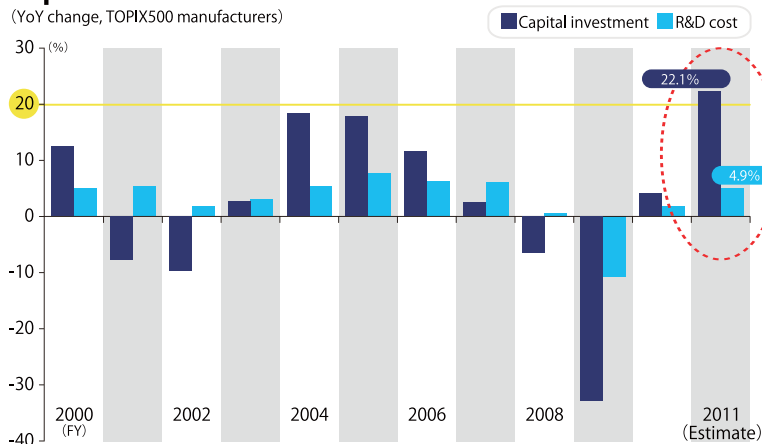
Japanese companies enter a new phase

World famous historian Arnold Toynbee observed that history is created through challenges and responses. When an organization is able to create a "response" to an external "challenge", it develops and thrives.

"Whenever the yen appreciated, Japanese companies always did something to improve their profit margins. In contrast, when there was a lull in yen strength, we sometimes even saw that they would relax, leading to a drop in profit margins," says Takahashi. Are top caliber Japanese companies that exhibit resilience when faced with external challenges embedded with the DNA to respond to challenges? Japanese companies are faced with a spectrum of challenges in the form of the shrinking domestic market, persistent yen strength, and escalating global competition with rapidly growing companies from emerging countries. Now is the time for the response of full-scale globalization to take center stage.

Capital Investment and R&D Cost

(YoY change, TOPIX500 manufacturers)



Note : Estimated amount for 2011 based on data from Toyo Keizai
Source: Factset, Barclay's Capital

Toshiba Corporation

<http://www.toshiba.co.jp/worldwide/>

By launching many "world first" and "world No. 1" products and services through its digital products, electronic devices, social infrastructure and home appliance businesses, and promoting further "focus and selection" in its operations, Toshiba aims to overcome global competition and become a top-level diversified electronics manufacturer.

- TSE/6502 Bloomberg/6502: JP REUTERS/6502.T
- Total Outstanding Shares(Jan. '12): 4,237,602,026 shares
- Shares per Trading Unit: 1,000 shares
- Date of listing: May 16 1949

(MMil.)	Sales	Operating Profit	Ordinary Profit	Net Income
'11.3	6,398,505	240,273	195,549	137,845
'12.3*	6,200,000	200,000	125,000	65,000
	Earnings per share(¥)	Dividend per share(¥)	ROE(%)	ROA(%)
'11.3	32.55	5.00	15.9	2.6
'12.3*	15.35	8.00		

Asahi Group Holdings, Ltd.

<http://www.asahigroup-holdings.com/en/>

The Asahi group's pure holding company that includes Asahi Breweries whose flagship "Asahi Super Dry" brand makes it Japan's No.1 beer maker, Asahi Soft Drinks, and Asahi Food & Healthcare.

- TSE/2502 Bloomberg/2502: JP REUTERS/2502.T
- Total Outstanding Shares(Dec. '11): 483,585,862 shares
- Shares per Trading Unit: 100 shares
- Date of listing: Oct. 31 1949

(MMil.)	Sales	Operating Profit	Ordinary Profit	Net Income
'11.12	1,462,736	107,190	110,909	55,093
'12.12*	1,560,000	118,000	119,000	65,000
	Earnings per share(¥)	Dividend per share(¥)	ROE(%)	ROA(%)
'11.12	118.36	25.00	8.6	3.6
'12.12*	139.59	28.00		

Nippon Steel Corporation

<http://www.nsc.co.jp/en/>

In terms of crude steel production, Nippon Steel is the top domestic producer and a global leader, second only to Arcelor-Mittal and its Chinese peers. The company possesses top-class technology for high-grade, high value-added steel that is used in a variety of industries centered around automobiles, shipbuilding, household appliances, construction, energy, and others.

- TSE/5401 Bloomberg/5401: JP REUTERS/5401.T
- Total Outstanding Shares(Mar. '12): 6,806,980,977 shares
- Shares per Trading Unit: 1,000 shares
- Date of listing: Oct. 2 1950

(MMil.)	Sales	Operating Profit	Ordinary Profit	Net Income
'11.3	4,109,774	165,605	226,335	93,199
'12.3*	4,050,000	70,000	120,000	0
	Earnings per share(¥)	Dividend per share(¥)	ROE(%)	ROA(%)
'11.3	14.81	3.00	5.0	1.9
'12.3*	0.00	1.50		

*Forecast

Skytree Panorama:

The View from the World's Tallest Self-Supported Communications Tower



The design employs the traditional Japanese aesthetics of *sori* (concave curves) and *mukuri* (convex curves) to create a silhouette that changes with angle and position. The tower is the subtle indigo-white found in indigo dyes (*aizome*), a traditional Japanese craft. Stylish and elegant lighting illuminates theme colors of pale blue and bluish-purple. A total of 1995 lights are used in the 6 types of LED fixtures adorning the tower.

Photo: Kouichirou Ishimaru

Durability Proved in the Great East Japan Earthquake

Towers hold a mysterious power to fascinate people all over the world and Tokyo Skytree is no exception. With 634 soaring meters, it is the tallest self-supported communications tower in the world and is scheduled to open its doors to the world on May 22nd. Already, over 300,000 people have made observation deck reservations.

While still under construction, Japan was struck by the unprecedented Great East Japan Earthquake which rocked the Tokyo Skytree with shakes registering 5-upper on the Japanese Shindo scale of intensity. Because of its responsibility to continue broadcasting without fail in any disaster, the durability of the tower was a topic of great interest.

Tokyo Skytree was planned from the start with the most careful attention given to its resistance to wind and earthquakes. Lessons were taken from the wooden beams of traditional 5-story pagodas, which have historically survived large earthquakes, when planning the anti-earthquake measures for the tower. The system, the Added Mass Control Mechanism, employs center-weights on a core column which reduce shaking of the whole tower by offsetting their timing with the main structure.

These central pillars were incomplete at the time the earthquake struck. However, wall-shaped piles driven 50m into the

ground ensured the Skytree's integrity against wind and earthquakes by acting like the structure's own roots, thus protecting both the building and the 800 people working there from any harm.

The joy of looking upon a sprawling metropolis

The real charm of Tokyo Skytree is the sweeping panorama it offers of the Japanese capital city. Its shuttle elevators, the fastest in Japan, can lift up to 40 people at a time to the observation deck in a mere 50 seconds. At a height of 350m, the deck can accommodate 2000 visitors and features a glass floor for a truly thrilling experience.

A see-through elevator will ferry visitors even higher up the tree, to the second observation deck. Upon arrival at the "Tokyo Skytree Observation Hallway", they will be able to take a walk 450m above the ground and enjoy the sights surrounding the tower. There is also a "Sora Kara Point" from which visitors can experience the wide open sky for themselves.

The magnificent view from Tokyo Skytree will stretch from traditional Shinto shrines, Buddhist temples and modern skyscrapers to Mt. Fuji and Sagami Bay on clear days. From these heights, people will be able to take in the nighttime beauty of the world's busiest metropolis. The countdown has already begun until this world-class scenery is open for everyone to enjoy.

TOP
MANAGEMENT
INTERVIEW



Canon: Managing with a Human Touch

Canon Inc.
Chairman & CEO

Fujio Mitarai

Canon Inc., a company that is promoting its "Excellent Global Corporation Plan," is once again working toward reaching a phase of expansion. At the helm is Chairman & CEO Fujio Mitarai, who has led innovation and reform at the company for the past 17 years. Just what is an "excellent corporation?" Japan's renowned executive shared with us his personal management philosophy of maintaining lifetime employment while pursuing globalization.

"Revere heaven, love people." This favorite saying of Takamori Saigo, a great man from my home island of Kyushu, has also become my own personal motto. Heaven provides humans with a path to walk by, and so they must live according to destiny. As heaven loves all people equally, we must also love ourselves and one another.

Takamori Saigo followed his destiny to do away with the old system and bring about a new age in Japanese history. Although it's humbling to compare myself to a hero of the Meiji Restoration, becoming president in 1995 may also have been part of my destiny. I assumed the position when my cousin, the eldest son of Canon's first president, suddenly passed away after only two and a half years as president. Because I was older than my cousin at that time, and serving as vice president, I had thought I would never be president. However, despite the many issues facing Canon at the time, I decided to fulfill my destiny.

In 1996, we launched the five-year "Excellent Global Corporation Plan." After completing Phases I through III, we entered into Phase IV in 2011. I would like to discuss what Canon has done up until now, where we are headed, and the reforms and innovations that will help Canon to evolve into an "excellent corporation."

Dispelling the Evils of Autonomous Divisions

At the time of assuming the presidency, I confronted the issue of autonomous business divisions. Initially founded as a dedicated camera business in 1937, Canon has since expanded into office equipment during the high-growth period of the 1960s in a move toward diversification. In the 70s, the company also expanded

into semiconductor production, which was known as the core of industry at the time. In order to support this diversification, Canon introduced an autonomous division system, providing each division with decentralized responsibility and authority, under which business performance gradually improved.

However, after working for 23 years in the U.S. and returning to Japan as an executive officer in 1989, the various divisions had become bloated "companies within the company." Each division was placing priority on its own profits while paying no attention to overall corporate success. For example, personnel surpluses occurred in unprofitable divisions while successful sections ran understaffed, with no efforts made to correct such imbalances. Furthermore, wasteful investment and fund-raising were also occurring under the extremely inefficient management structure.

How could this be reformed? After clearly laying out the two goals of total optimization and a focus on profit, I created a structure to achieve them. First, in order to eliminate the walls which had formed between the autonomous divisions, I established company-wide committees based on reform themes. Division heads were also assigned as board members, making it so the organization's walls would need to be removed if reform was to be achieved.



The Cinema EOS System offers high-quality images and diverse expressive power while achieving compactness and mobility. It is being utilized in a range of creative works, from Hollywood movies to TV shows and advertising.

Key Locations ■ Research & Development ▲ Production ● Sales

* Net sales figures and employee numbers for each region are based on consolidated financial statements for the fiscal year ended Dec. 2011

Based on respect for people: developing the company through the development of human resources



Additionally, there were lateral divisions in the company, such as divisions pushing inappropriate inventory stockpiles onto sales subsidiaries. For this, we implemented consolidated earnings reports and management evaluations for each division. This caused staff members to support the operations of global sales subsidiaries.

At the time, taking on large interest-bearing liabilities led to a deterioration of balance sheets. In order to reinforce our cash-flow management, I pushed through manufacturing innovations. We changed from a conveyor belt-based production approach and introduced a "cell" system wherein small teams of workers oversee the entire manufacturing process for a single product. Productivity increased, base costs were reduced, and cash flow greatly improved.

Reason for Maintaining Lifetime Employment

Although we withdrew from such loss-making businesses as PCs and liquid-crystal displays, we did not layoff staff. Conversely, we announced that Canon would be maintaining its system of lifetime employment in Japan. This move arose from our firm belief that per-



Canon U.S.A., Inc.



Canon Europe Ltd.

2011 Consolidated Sales JPY 3,557.4 billion 2011 Consolidated Net Income JPY 248.6 billion 2011 Consolidated Subsidiaries 277

Americas Net sales: JPY 962.0 billion No. of Employees: 19,205 **Europe** Net sales: JPY 1,113.1 billion No. of Employees: 22,739

sonnel and organizational management should be localized. We believe that it is logical for the human resource aspects of corporate management to essentially be conducted in a manner born from the characteristics and culture of the country in which the operations are located.

In the United States, with its multiculturalism and high workforce turnover, it is logical to exercise control through disciplinary rules.

In Japan, however, people share a single culture and work with a feeling of trust through communication. It is an environment in which rules are not necessary in order to produce a team spirit. In a company, order is born from a shared sense of trust and solidarity, which creates a cultural structure. A cooperative and supportive climate brings out the strength of a working team. This makes the system of lifetime employment, where employees spend their entire lives at the same company, the most logical system for Japan. On top of this we reformed the system by eliminating age-based promotion and embracing a merit-based structure.

Since its founding, Canon has placed emphasis on "health first," "meritocracy" and "familism," and adopted as a guiding principle the "Three Selfs" Spirit: "self-motivation," "self-management" and "self-awareness." We are firmly rooted in the belief of respecting human beings, and that nurturing human resources nurtures our company. This is true to the words of Takamori Saigo, when he spoke of loving people.

What is Globally Optimized Production in the Next Generation?

At the same time as diversification, we also promoted globalization to the point that sales outside of Japan



Canon (China) Co., Ltd.



Canon Inc.



Canon Marketing Japan Inc.



Canon Australia Pty.Ltd.

2011 No. of Employees
198,307

Asia & Oceania Net sales: JPY 1,482.4 billion
No. of Employees: 156,363

grew to encompass 80% of overall sales on a consolidated basis. We experienced 8 years of consecutive growth beginning in 2000.

As Canon made strides to become an excellent corporation, I gained confidence. The role of a manager is to envision an ideal balance sheet and aim to achieve it. Profit-loss statements only display short-term performance, but a balance sheet shows cumulative results. It is by far the best measure of corporate value. The goal for management is to devise the most logical course of action to realize this ideal balance sheet under the given circumstances and execute it. That is what makes a truly excellent corporation.

Following the collapse of Lehman Brothers, our business performance suffered a temporary downturn. We

have positioned Phase IV as a growth period, aiming for sound growth in order to realize our goal of over JPY 5 trillion in sales in 2015. However, the surrounding climate has drastically changed, which means our strategy also needs revision.

For example, establishing a globally optimized production framework, which is one of the key strategies in Phase IV, is no exception. Many Japanese corporations have proceeded with the relocation of production facilities to countries and regions with low labor costs, primarily in Asia. But now, the conditions for deciding upon a production framework are completely changing. One large factor is increasing shipping charges due to the rise in oil prices. Conditions have shifted so that even when production is conducted in Asia, shipping costs to export products to the United States and Europe present a sizable obstacle to profits. EPA and FTA issues between countries have also become an important factor.

The most logical solution is to conduct production and sales in the target consumer region and collect whatever can be recycled. Wage levels in developed countries may be relatively high, but what's vital is not simply the wages of each employee, but also the ratio of labor costs to production costs. Here at Canon, we have introduced fully automated production systems employing robots and a man-machine cell production system, which also utilizes automation. We have already achieved unmanned production of printer cartridges in the U.S.

In Japan, if we develop and produce products with high added value, I believe that Japan's manufacturing will be able to sustain itself. We will continue with the global optimization of our production processes and further improve our balance sheet. To proceed on this path, we will need the collective wisdom and abilities of every one of our employees. The work of all the people here at Canon is guided by the ideal balance sheet, and the results of our efforts will connect directly to that balance sheet. What is important is the spirit of respecting people. Canon will overcome changing market conditions by "revering heaven, and loving people." This is the last destiny I have vowed to follow.

Canon Inc.

<http://www.canon.com/>

■ TSE/7751 Bloomberg/7751:JP REUTERS/7751.T

■ Shares Issued (Dec.31'11): 1,333,763,464 shares

■ Round lot: 100 shares

■ Date of listing: May 16 1949

(¥Mil.)	Sales	Operating Profit	Net Income Before Taxes	Net Income
'11.12	3,557,433	378,071	374,524	248,630
'12.12*	3,750,000	390,000	390,000	250,000
	Earnings per share(¥)	Dividend per share(¥)	ROE (%)	ROA (%)
'11.12	204.49	120.00	9.7	6.3
'12.12*	208.07	—		

* Forecast

A look into development at Dutch-based Océ N.V., which was acquired by Canon in 2010.



The cell-production system realizes further advancements with machine cells positioned between human assembly workers (Canon Hi-Tech Thailand).



Ballerina **MIYAKO**
YOSHIDA



PROFILE

Miyako Yoshida began ballet at the age of 9. In 1983, she won the Prix de Lausanne competition and went on to study abroad at the Royal Ballet School in Britain. She joined the Sadler's Wells Royal Ballet (now Birmingham Royal Ballet) in 1984, and was promoted to principal dancer in 1988. She transferred to The Royal Ballet in 1995, where she performed as principal for 11 years. She returned to Japan in 2006 before retiring from The Royal Ballet in 2010. Ms. Yoshida is currently active as a freelance dancer.

The Making of the "World's Miyako"

Many gifted Japanese venture abroad to test their talents on the world stage. However, no more than a handful are able to make a name for themselves once deprived of home comforts. Miyako Yoshida is one of the few to overcome the odds, successfully entering the renowned British Royal Ballet and achieving worldwide fame.

We traced the footsteps of this stoic perfectionist to find out how she was able to make her breakthrough in an art form infamously difficult for Japanese.

Life in Britain: Haunted by Doubt

Miyako Yoshida was 17 years-old when she entered the Prix de Lausanne competition, which is often lauded as the gateway to becoming a professional dancer. Her stunning performance won her the competition and a scholarship to the Royal Ballet School in Britain. However, upon arriving in Britain in pursuit of her dreams, she fell headlong into a sea of self-doubt.

"It's often said in ballet that slender bodies have an advantage. Compared to my skinny body, my classmates' were much more impressive. Even with a muscular physique, they had high waists, long limbs, and small heads. The quality of their physiques and muscles, and the grace of their movements ... I could only sigh with jealousy at their proportions."

Without a proper command of the language, Ms. Yoshida quickly became entrapped in her web of worries and longed for home. Without the quiet, wholehearted support of her mother, who kept a close watch on her diet, she could not manage her nutrition properly. She began to gain weight and sink into depression.

"I was puzzled by the differences between Japanese and British instruction methods. In Japan, teachers give detailed instructions like "This is how you dance this solo." Overseas, it's common for such decisions to be left to the dancers themselves. This respects an individual's freedom of expression, but I had never experienced that style and was left feeling lost."

This idea is not limited to ballet either. In the world of art, there is no "right or wrong". Despite Ms. Yoshida's highly refined technical skills, she came to realize emo-

tional expression was her Achilles heel. This would eventually develop into her greatest challenge even after she became a principal dancer.

In Search of a "Miyako" Specialty

Following her graduation from the Royal Ballet School, Ms. Yoshida joined the Sadler's Wells Royal Ballet (now Birmingham Royal Ballet, or "BRB") where she performed as principal for 7 years. In 1995, she was suddenly accepted into The Royal Ballet of Great Britain, one of the 3 great ballet troupes in the world, for reasons she did not expect.

"I was very comfortable with the BRB. It was an excellent atmosphere performing as principal. But, I began to feel that to continue with my growth as a dancer, I needed a new stimulus. I felt like I needed to start over again. With that motivation, I moved on. The Royal Ballet was more challenging than I had ever imagined, and everything I had come to do was brushed aside."

No matter her effort, despite perfecting all the steps, the coaching staff was never satisfied. At a loss for ways to improve, Ms. Yoshida continued to struggle while training harder.

"In the end, the instructors were looking for my own 'special something' from Miyako Yoshida the ballerina, a special appeal that was mine alone. But at the time, I didn't understand that at all. I longed for a Japanese teacher who would give me more concrete directions."

Ms. Yoshida was also faced with people who were more accustomed to self-expression and it materialized



↑
 Sir Peter Wright's "Giselle"
 performed by the Star Dancers Ballet
 © A.I. Co., Ltd.



↑
 Sir Peter Wright's "The
 Nutcracker" performed by the
 Star Dancers Ballet
 © A.I. Co., Ltd.

↑
 "Raimonda" performed by the
 New National Theatre Ballet in
 2004
 Photo: Hidemi Seto

beyond just their dance. The Royal Ballet was greater in both scale and competition than the BRB, and her struggles with expression only compounded her worries.

"I had this fear that I would be overwhelmed if I didn't assert myself, so I tried my best to do so. But I ended up draining myself. It was then that I stepped back, reassessed the situation and decided to abandon this approach and be myself. Instead of wearing myself out with that, I felt it would be better to refocus my energy on rehearsal."

Leaving behind such unnecessary stress, Ms. Yoshida was able to channel her reserved personality into dainty and delicate expression and reshape her self-conscious nature into poise and balance, at one time being recognized as the top principal in the UK. Today, she has retired from The Royal Ballet, but continues to participate with troupes all over the world as a freelance dancer.

This year, Madoka Sugai of Kanagawa Prefecture became the first Japanese in 16 years to win the Prix de Lausanne. No doubt, Ms. Yoshida was cheering her on as she judged this prodigy's performance on the stage that became a personal turning point.

"In January this year, I tried my hand at Russian ballet in the Leningrad National Ballet's production of "Raymonda" and also the vivid movements of George Balanchine, a choreographer often called the founder of American ballet, with his "Walpurgisnacht Ballet" in March. With each, I felt as if I was a student again during rehearsals. It was a fresh experience that I really enjoyed learning from."

Such were the words of the bright-eyed Ms. Yoshida. She is the "world's Miyako" whose desire to improve knows no bounds.

(Meg Michiyuki)