

# **IIRF Presentation - IR in Mergers & Acquisitions**

## **The Present Situation of Shareholders Meetings and Anti-Takeover Defense Measures in Japan**



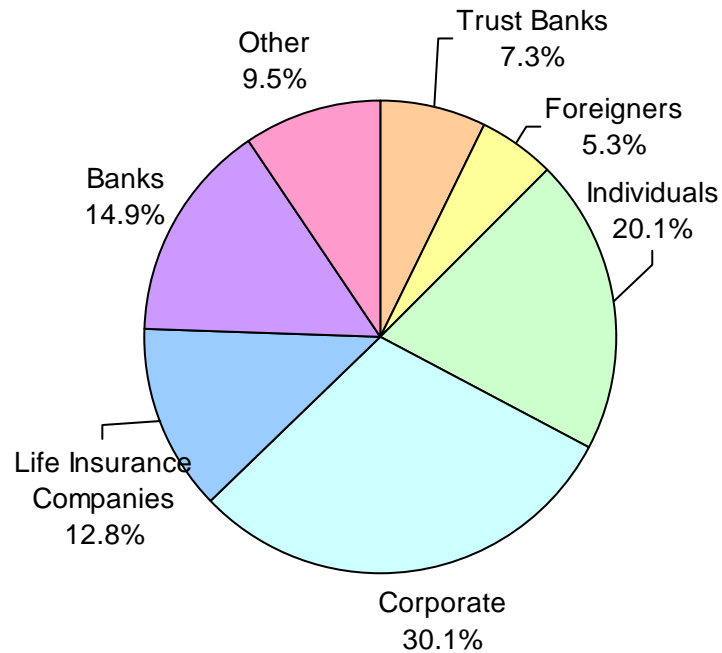
Mr. Shirou Terashita, EVP and COO  
IR Japan, Inc.

December 4, 2007

© IR Japan, Inc. 2007 Analysis of the content and subject matter provided within this presentation represents solely the opinion of IR Japan, Inc. Neither the commentary or opinions regarding the subject matter and content contained herein is intended as legal, accounting or professional advice. All rights reserved.

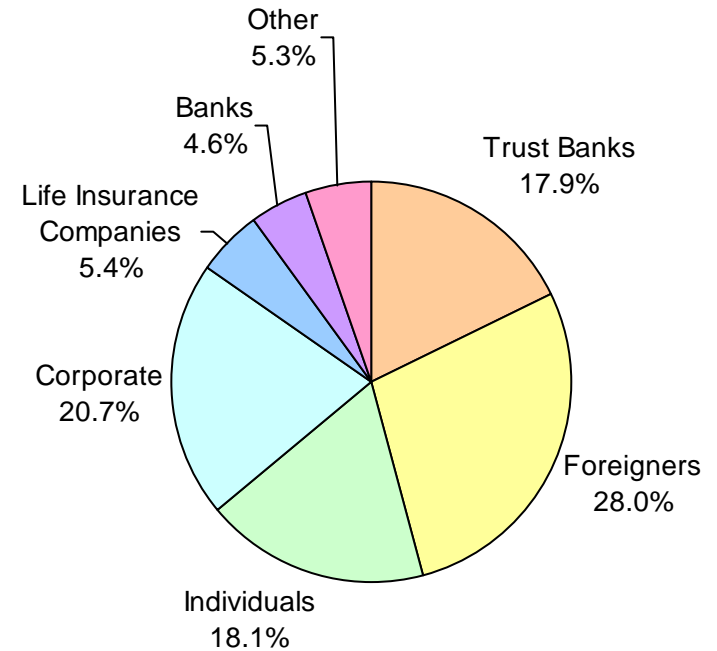
# The Composition of Shareholders of "Corporate Japan"

Shareholder Composition as of March 1987



Cross-shareholdings\* : 67.3%  
Investments\*\* : 32.7%

Shareholder Composition as of March 2007



Cross-shareholdings\* : 36.0%  
Investments\*\* : 64.0%

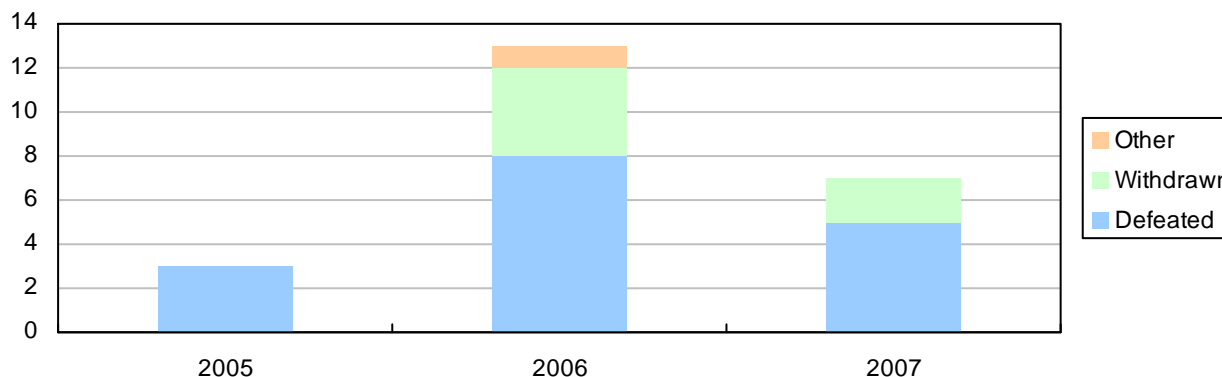
Trust Banks: +10.6pts  
Foreigners: +22.7pts

Due to the unwinding of cross-shareholdings, the presence of institutional investors has grown  
 ↓  
 unwinding of "friendly" shareholder base  
 ↓  
 opportunity for merger and acquisitions

\* Cross-shareholdings : Corporate, Life Insurance Companies, Banks, Other  
 IR Japan, Inc. \*\* Investments : Trust Banks, Foreigners, Individuals

## Management Proposals Defeated or Withdrawn Between 2005-2007

Number of companies at which management proposals were defeated or withdrawn



2005

Ticker	Company Name	Listed Market	Management Proposal	Results
6841	Yokogawa Electric Corporation	TSE	Changes to Articles of Incorporation (Increase in authorized capital)	Defeated
6954	Fanuc Ltd	TSE	Changes to Articles of Incorporation (Increase in authorized capital)	Defeated
8035	Tokyo Electron	TSE	Changes to Articles of Incorporation (Increase in authorized capital)	Defeated

2006

Ticker	Company Name	Listed Market	Management Proposal	Results
7518	Net One Systems Co., Ltd.	TSE	Changes to Articles of Incorporation (Director authorization to allocate income - right to make shareholder proposal eliminated)	Defeated
7602	Livedoor Auto Co. Ltd.	TSE 2nd	Election of Directors	Defeated
7873	ARRK Corporation	JASDAQ	Changes to Articles of Incorporation (Director authorization to make share buybacks)	Defeated
7974	Nintendo Company, Ltd.	TSE	Changes to Articles of Incorporation (Director authorization to allocate income - right to make shareholder proposal eliminated)	Defeated
8518	Japan Asia Investment Co., Ltd.	JASDAQ	Changes to Articles of Incorporation (Director authorization to allocate income)	Defeated
8868	Urban Corporation	TSE	Issue of Stock Options	Defeated
8896	Ryowa Life Create Co., Ltd.	TSE 2nd	Election of Directors	Defeated
9962	MISUMI Group, Inc.	TSE	Issue of Stock Options	Defeated

## Management Proposals Defeated or Withdrawn (2005 - 2007)

2006

Ticker	Company Name	Listed Market	Management Proposal	Results
4815	Japan Digital Contents Trust,	Mothers	Issue of Stock Options	Withdrawn
6767	Mitsumi Electric Co., Ltd.	TSE	Changes to Articles of Incorporation (Director authorization to allocate income - right to make shareholder proposal eliminated)	Withdrawn
8253	Credit Saison Co., Ltd.	TSE	Payment of Retirement Bonuses	Withdrawn
9831	Yamada-Denki Co., Ltd.	TSE	Changes to Articles of Incorporation (Increase in authorized capital)	Withdrawn
4797	i-cf, Inc.	Mothers	Reduction of Capital, Changes to Articles, Election of Directors	Failure to reach Quorum

2007

Ticker	Company Name	Listed Market	Management Proposal	Results
7771	Nihon Seimitsu Co., Ltd.	JASDAQ	1) Changes to Articles of Incorporation (Increase in authorized capital) 2) Election of Directors 3) Election of Independent Auditor	1) Defeated 2) Motion Approved 3) Motion Approved
9885	Ten Arrows Co., Ltd.	OSE	Election of Directors	Motion Approved
4901	FUJIFILM Holdings Corporation	TSE	Changes to Articles of Incorporation (Increase in authorized capital)	Defeated
6825	Patlite Corporation	TSE	Election of Directors	Defeated
6976	Taiyo Yuden Co., Ltd.	TSE	Changes of Articles of Incorporation (Issues Regarding Anti-takeover Defense Measures)	Defeated
1872	Azel Corporation	TSE	Changes to Articles of Incorporation (Add Business Purposes, Decrease Number of	Withdrawn
9832	Autobacs Seven Co., Ltd.	OSE	Changes to Articles of Incorporation (Issues Regarding Classified Shares)	Withdrawn

## Requirements to Make a Shareholder Proposal - US vs Japan

	United States	Japan
Relevant Laws	Securities Exchange Act of 1934 Section 14(a), Rule 14a-8	Company Law Article 303
Companies Subject to the Regulation	Listed Companies (More than 500 shareholders + Asset Value over USD 5 Mil)	All companies
Criteria for Shareholder Proposal	1) Shareholder must continuously hold at least \$2,000 in market value, or 1%, of the company's securities entitled to be voted on the proposal at the meeting for at least one year 2) Each shareholder may submit no more than one proposal 3) The proposal, including any accompanying supporting statement, may not exceed 500 words	1) Shareholder must hold at least 1% or 300 units over 6 months 2) Shareholder may submit more than one proposal 3) The statement of the proposal may be of any length
Procedure	The proposal must be received at the company's principal executive offices not less than 120 calendar days before the date of the company's proxy statement released to shareholders in connection with the	The proposal must be submitted to the board of directors not less than 8 weeks before the shareholders meeting
Proposals that can be excluded from the Proxy Statement	1) Proposals that are improper under state law 2) Proposals that violate state, federal, or foreign law 3) Proposals that Violate proxy rules 4) Proposals based on personal grievance, special interest 5) Proposals that are not significantly related to the company's business (less than 5% of the company's total asset, less than 5% of its net earnings and gross sales) 6) The company lacks the power or authority to implement the proposal 7) Proposals relating to the company's ordinary business operations 8) Proposals relating to election of directors 9) Proposals that conflict with the company's proposal 10) Company has already substantially implemented the proposal 11) Proposals that substantially duplicate another proposal previously submitted to the company by another proponent that will be included in the company's proxy materials for the same meeting 12) Proposals dealing with substantially the same subject matter as another proposal which did not receive certain "for" votes	1) Proposals that violate the law 2) Previously submitted proposals not receiving more than 10% support and having been defeated within in the last three years

There are numerous shareholder proposal items that can be excluded from the proxy card of US companies. Additionally, the proponent has to prepare their own proxy card at their own expense. In contrast, it is possible to make proposals regarding a wide range of items to Japanese companies. The shareholder proposal is printed on the company's proxy card at the company's expense.

# Voting Trends of Domestic Institutional Shareholders

All votes were Carte Blanche in favor of management

Formulation of Proxy Voting Guidelines by Major Pension Funds

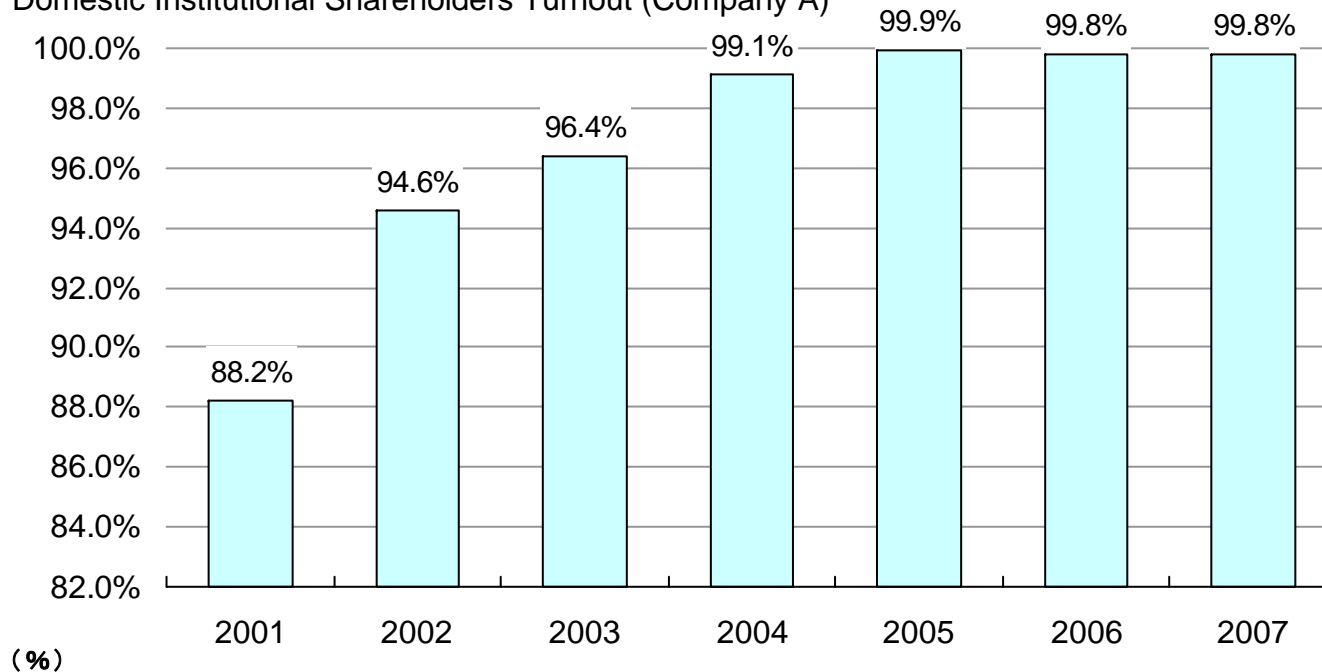
Government Pension Investment Fund (Feb 2003)

Pension Fund Association (PFA) (Feb 2003) -> Major impact on managers with mandate from PFA

Pension Fund Association for Local Government Officials (April 2004)

Increase of proxy voting at shareholders meetings (both turnouts and against votes)

Domestic Institutional Shareholders Turnout (Company A)



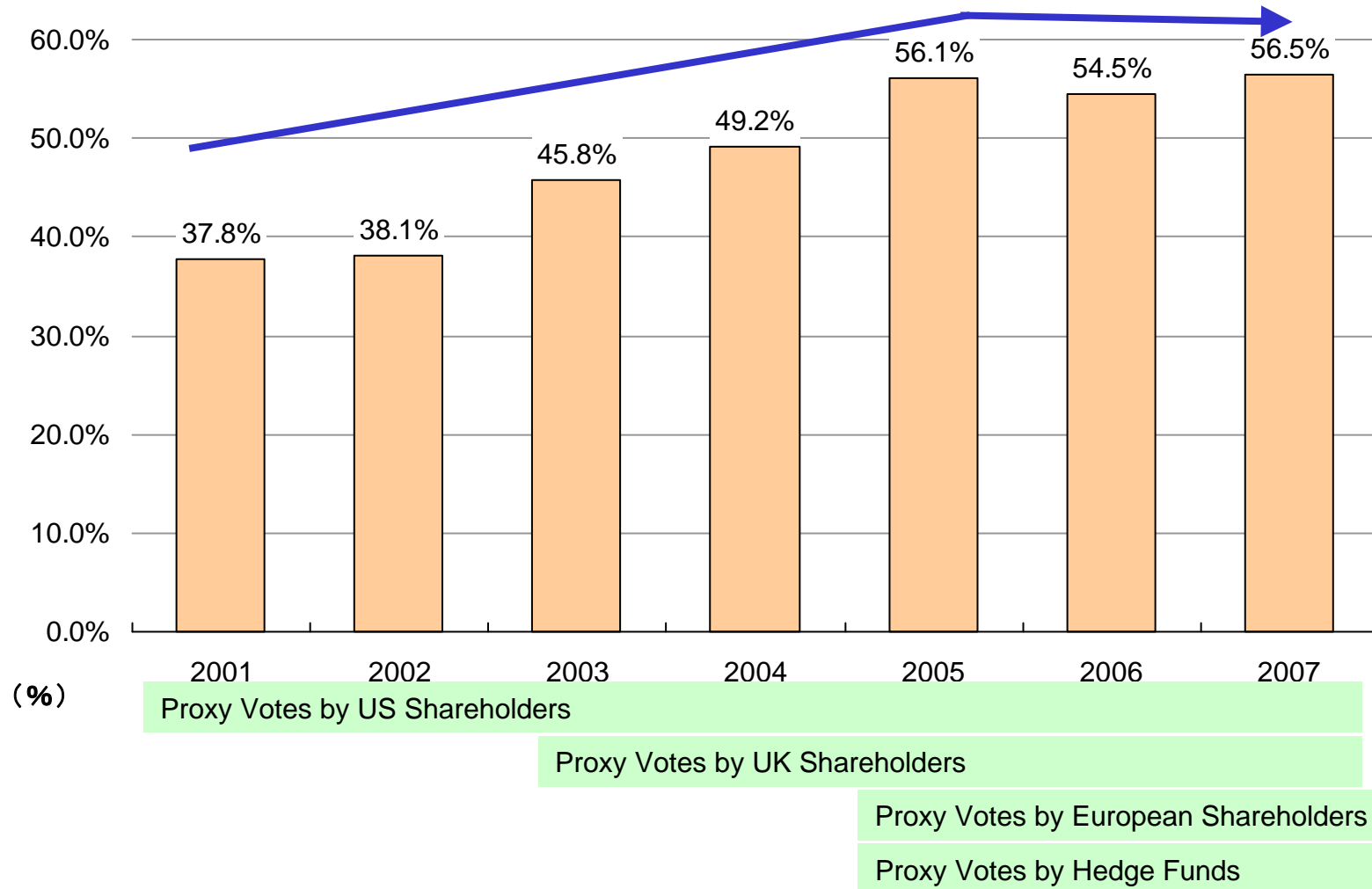
## What is the PFA?

The Pension Fund Association (PFA) of Japan is one of the country's largest institutional investors. Initially created in 1947, the PFA came to its present form in 2004 following changes to Japanese pension law. The PFA manages the public pensions portion of certain corporations and assets under management are in excess of \$100bn.

The PFA is notable in Japan for its strong leadership on corporate governance issues. Notable policies include voting against managements that do not meet minimum ROE targets over a period of time and against directors that implement defense measures without a shareholder vote..

# Voting Trends of Overseas Institutional Shareholders

Overseas Institutional Shareholders Turnout (Average of all IRJ Clients)



# The Changing Environment for Proxy Voting in Japan

The Conventional perception of Japan's Equity Market and Shareholder Meetings:  
*"Because the ratio of friendly shareholders is high, it is extremely difficult for minority shareholders to influence the outcome of shareholder meetings"*

## The Changing Environment

Changes in the shareholder base

- Increase of the institutional shareholder base
- Increase of against votes from institutional holders; increase of management proposals voted down

Management proposals that disregard shareholder rights

- Anti-Takeover Defense Measures (2005 - 2007)
- Amendment of the Articles of Incorporation to determine the allocation of income by the board's discretion (2006)

### Proactive proxy voting and shareholder proposals

Hedge Funds, Activists

Shareholder proposals  
FOR votes on shareholder proposals  
AGAINST votes on management proposals

↑  
Individuals

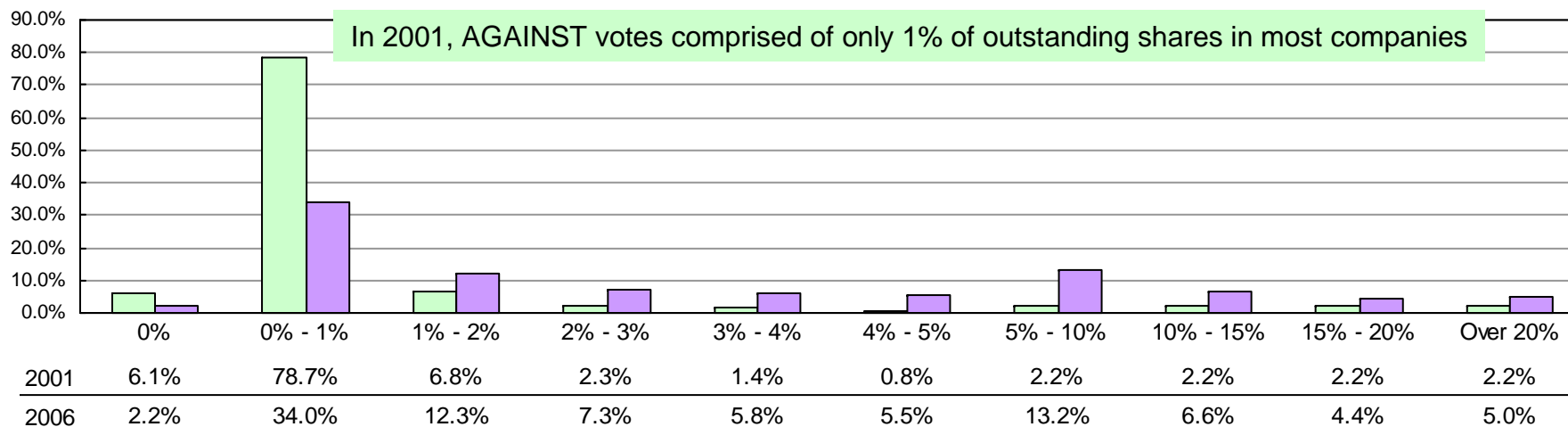
Increasingly paying attention to voting

Traditional Institutional Shareholders

Shareholder proposals  
FOR votes on shareholder proposals  
AGAINST votes on management proposals

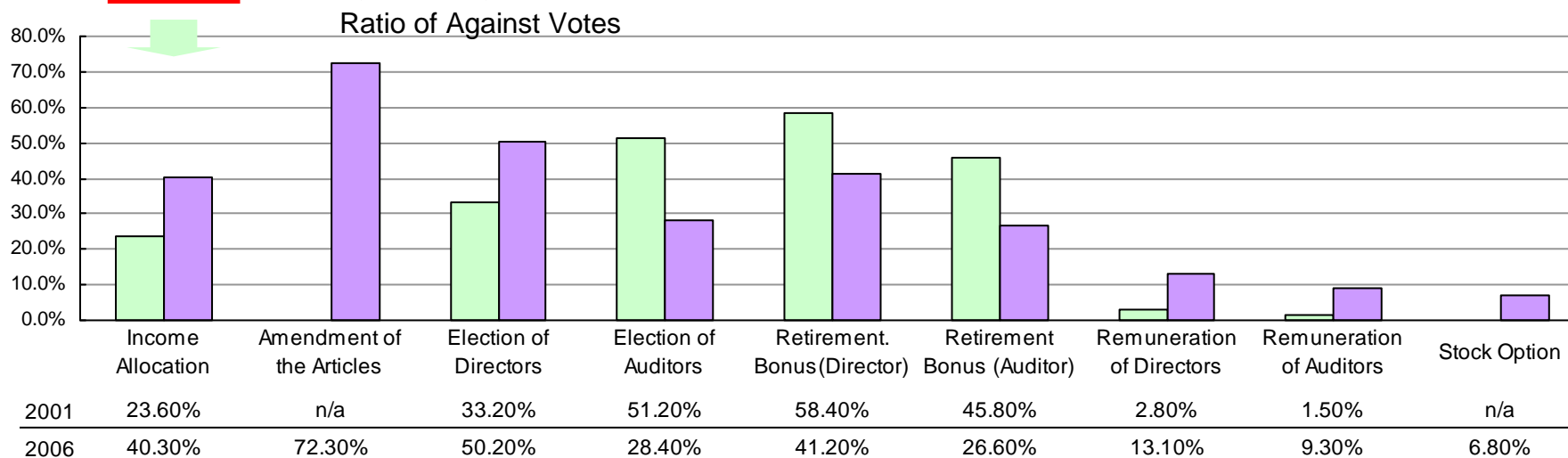
# Increase of AGAINST Votes at Shareholder Meetings

The Ratio of Shareholders Voting Against Management (measured versus total outstanding shares)



Ratio of Companies where Institutional Shareholders Voted Against Management

	Yes	No	Don't Know
2001	22.9%	68.1%	7.7%
2006	63.5%	24.0%	11.3%



## Pension Fund Association's Change and IR

### ◆ 2007 Topics ⇒ Criteria "ROE 8%" added to Proxy Voting Guidelines

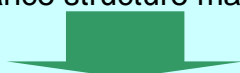
Companies with ROE below 8% for three consecutive years must persuade the PFA that their business plan, capital strategy and other factors that will bring ROE up past the 8% level. If the PFA is not persuaded by the argument of the company, the PFA will cast a vote AGAINST the reelection of directors.



The PFA's approach is to pursue corporate value using proxy voting as a tool  
271 Portfolio companies did not meet the PFA Criteria



Companies engaged in direct dialogue with the PFA explaining their mid-term business plan (20-30 companies)  
Companies with positive points such as good governance structure may get a FOR vote



The PFA had voted against approximately 100 companies management proposals for the re-election of directors

#### Against Votes on Ordinary Agenda Items

Agenda Items	2006	2007	Change
Distribution of Retained Earnings	14.50%	0.20%	-14.30%
Changes in Articles of Incorporation	25.00%	3.50%	-21.50%
Election of Directors	38.00%	38.80%	0.80%
Election of Auditor	6.60%	4.50%	-2.10%
Payment of Bonuses to Retiring Directors	53.50%	50.40%	-3.10%
Changes to Remuneration	0.00%	3.80%	3.80%
Stock Option	21.10%	16.30%	-4.80%

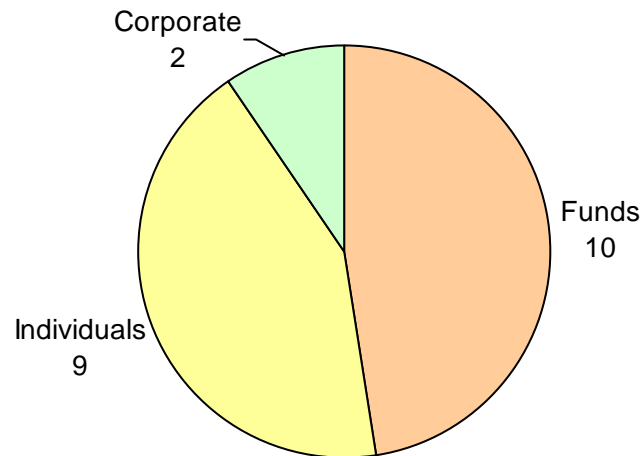
#### Against Votes on Anti-Takeover Defense Measures

Agenda Items	2006	2007	Change
Advanced Warning Type Takeover Defense	8.50%	1.40%	-7.10%
Endorsed by Shareholders Meeting	7.90%	1.50%	-6.40%
Endorsed by Board of Directors	3.80%	0.00%	-3.80%
Trust Type Rights Plan	0.00%	0.00%	0.00%

## Shareholder Proposals Presented at 2007 AGMs

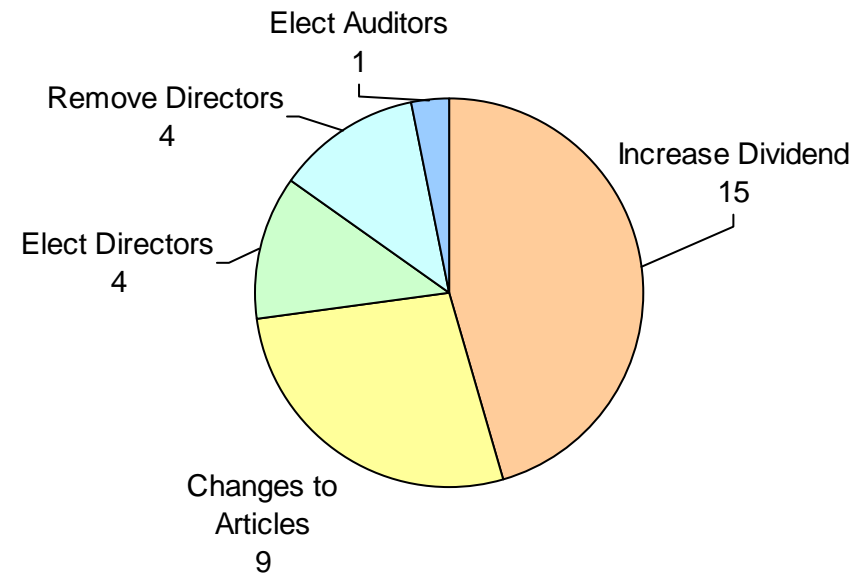
There were 33 shareholders proposals presented to shareholders at AGMs held in June of 2007, the highest number in Japanese history

**Profile of Proponents (21)**



Funds : Steel Partners, TCI, Brandes, SafeHarbor  
Individual : Includes Ombudsman  
Corporate : Rakuten, etc

**Content of the Proposal**



There were than 33 shareholder proposals submitted at the AGMs held in June of 2007. This is the highest number of such proposals presented in the history of Japanese shareholder meetings (number of proposals is derived from publicly available information)

## List of Major Shareholder Proposals (2007 AGM)

Meeting Date	Company Name	Ticker	Market	Mrkt. Cap. (3/07) 100mY	Company making proposal	Type	Nature of Proposal	Result
6/28/2007	Obayashi Corporation	1802	TSE (1)	5,483.5	Ombudsman	Shareholder Proposal	Proposed changes to articles to prevent collusive business practices.	On 4/27/07, company adopted changes to articles to prevent future collusionary practices..
6/28/2007	TTK	1935	TSE (2)	1,935.0	Steel Partners Japan Strategic Fund	Shareholder Proposal	Alternate income distribution plan, increase in dividend	Shareholder proposal defeated. Company received in excess of 80% of votes.
6/27/2007	Santec Corporation	1960	TSE(2)		Eight Shareholders	Shareholder Proposal	Increase in dividend, changes to the articles to require cumulative voting for the election of directors	Shareholder proposal defeated.
6/28/2007	Ezaki Glico	2206	TSE (1)	2,025.0	Steel Partners Japan Strategic Fund	Shareholder Proposal	Alternate income distribution plan, increase in dividend	Just under 80% of shareholders supported company proposal
3/29/2007	Sapporo Holdings	2501	TSE (1)	3,265.9	Steel Partners Japan Strategic Fund	Shareholder Proposal	1) Shareholder Proposal for the Elimination of a poison pill 2) Shareholder proposal to change articles to change the majority necessary to introduce poison pill	Company proposal for new poison pill passed, Shareholder proposals of Steel defeated Company claimed more than 2/3rds of shares supported.
6/28/2007	Ono Pharmaceutical Co., Ltd.	4528	TSE (1)	7,903.4	Brandes Investment Partners	Shareholder Proposal	Increase in dividend	Just under 70% of shareholders supported company proposal
3/29/2007	Noritz	5943	TSE (1)	1,148.0	Fursa Alternative Strategies	Shareholder Proposal	Shareholder proposal for an alternate income distribution plan, increase in dividend	Shareholder proposal defeated. Fursa announces that they will continue to hold shares and press for change.
6/28/2007	SNT Corporation	6319	TSE (1)	221.0	Safe Harbor Master Fund	Shareholder Proposal	Alternate income distribution plan, Increase in dividend, 2 director candidates proposed	Safe Harbor Master Fund proposals were defeated .
6/22/2007	Brother Industries	6448	TSE (1)	4,429.0	Steel Partners Japan Strategic Fund	Shareholder Proposal	Alternate income distribution plan, Increase in dividend	Over 2/3rds of votes cast were in opposition of the shareholder proposal.

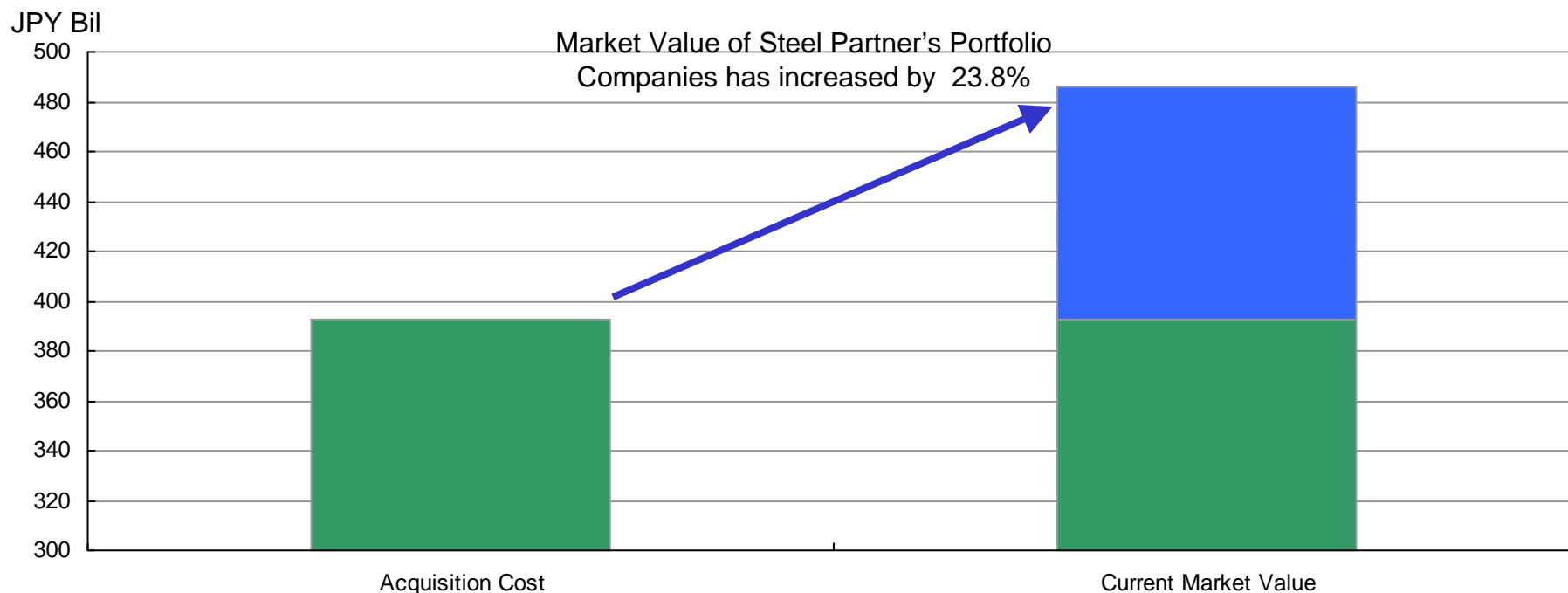
## List of Major Shareholder Proposals (2007 AGM)

Meeting Date	Company Name	Ticker	Market	Mrkt. Cap. (3/07) 100mY	Company making proposal	Type	Nature of Proposal	Result
6/28/2007	Denki Kogyo	6706	TSE (1)	735.0	Steel Partners Japan Strategic Fund	Shareholder Proposal	Increase in dividend	Shareholder proposal defeated.
6/21/2007	Sony Corporation	6758	TSE (1)	60,062.3	Ombudsman	Shareholder Proposal	Proposal to change articles to require individual disclosure of executive remuneration for top 5 earning directors	Shareholder proposal was defeated but received 44% of votes. This is up from 27% in 2002 and 42% in 2006 for a similar proposal.
6/28/2007	Fukuda Denshi	6960	JASDAQ	813.0	Steel Partners Japan Strategic Fund	Shareholder Proposal	Increase in dividend	Shareholder proposals defeated. Steel Partners gathered about 16% of vote.
6/27/2007	Moritex Corporation	7714	TSE (1)	95.7	IDEC and ex Moritex Chariman	Shareholder Proposal	Proposed alternate Slate of 8 Directors and 3 Corporate Auditors	Company proposal was passed and IDEC proposal defeated at an extended shareholder meeting.
6/27/2007	Pentax Corporation	7750	TSE (1)	882.7	Sparx Group	Shareholder Proposal	Proposing alternate directors (3, 1 external, 2 internal), 2 statutory auditors	Proposal withdrawn on May 30th. Hoya launches bid to acquire Pentax on July 3.
6/28/2007	Kosaido Co., Ltd.	7868	TSE (1)	175.2	Nippon M&A Management	Shareholder Proposal	Proposing 2 directors	Shareholder proposal withdrawn
5/24/2007	Aderans Co. Ltd.	8170	TSE (1)	1,193.0	Steel Partners Japan Strategic Fund	Shareholder Proposal	Elimination of a poison pill	Company garnered 54.71% of the votes to gain a narrow victory..
6/22/2007	Yuuraku Real Estate Co., Ltd.	8838	TSE (2)		Shareholders	Shareholder Proposal	Increase in Dividend	Shareholder proposal defeated
6/22/2007	East Japan Railway Co.	9020	TSE (1)		253 Shareholders	Shareholder Proposal	Changes to the articles, total of 8 proposals.	Shareholder proposals defeated
12/21/2006	Asia Air Survey Co., Ltd.	9233	TSE (2)	59.2	Dream Technologies	Shareholder Proposal	Proposed 3 director candidates	Proposal Defeated

## List of Major Shareholder Proposals (2007 AGM)

Meeting Date	Company Name	Ticker	Market	Mrkt. Cap. (3/07) 100mY	Company making proposal	Type	Nature of Proposal	Result
6/28/2007	Tokyo Broadcasting System, Inc.	9401	TSE (1)	8,295.3	Rakuten, Inc.	Shareholder Proposal	Proposal of 2 external directors, change articles to change majority required to introduce poison pill	77% of shareholders support introduction of poison pill by TBS and both shareholder proposals are voted down..TBS forms capital alliance with Recruit.
6/26/2007	TEPCO	9501	TSE (1)		671 Shareholders	Shareholder Proposal	Increase in dividend, Changes to the articles (Disclosure of individual director remuneration, scandal prevention, advertising, nuclear generation)	Shareholder proposals defeated
6/27/2007	Chubu Electric Power Co, Inc.	9502	TSE (1)	9,777.3	The Children's Investment Master Fund	Shareholder Proposal	Increase in dividend	Shareholder proposal is defeated. More than 80% of shareholders vote in opposition.
6/28/07	Kansai Electric Power Inc.	9503	TSE (1)		1. 202 shareholders 2. 37 shareholders	Shareholder Proposal	1. Increase in dividend, dismissal of directors, changes to the articles 2. Changes to the articles	Shareholder proposals defeated
6/28/2007	The Chugoku Electric Power Co., Inc.	9504	TSE (1)		Shareholders	Shareholder Proposal	Increase in dividend, dismissal of director, changes to the articles	Shareholder proposals defeated
6/28/2007	Tohoku-Electric Power Inc.	9506	TSE (1)		537 shareholders	Shareholder Proposal	Dismissal of director, changes to the articles	Shareholder proposals defeated
6/28/2007	Kyushu Electric Power Co. Inc.	9508	TSE (1)		147 shareholders	Shareholder Proposal	Changes to the articles	Shareholder proposals defeated
6/28/2007	Electric Power Development Company (J-Power)	9513	TSE (1)	9,877.6	The Children's Investment Master Fund	Shareholder Proposal	Increase in dividend	TCI gets 30% support for proposal which is defeated. Support for the company proposal is cited at 65% by WSJ.
6/22/2007	Inaba Denki Sangyo Co., Ltd.	9934	TSE (1)	1,050.0	Steel Partners Japan Strategic Fund	Shareholder Proposal	Increase in dividend	Only 13.7% of votes cast are in favor of shareholder proposal.
6/27/2007	Azumi Co., Ltd.	9935	TSE (2)	80.0	Estelle	Shareholder Proposal	Alternate Slate of Directors	Proposal Withdrawn

## Examples of Hostile Takeovers – The Impact Steel Partners had on its Portfolio Companies

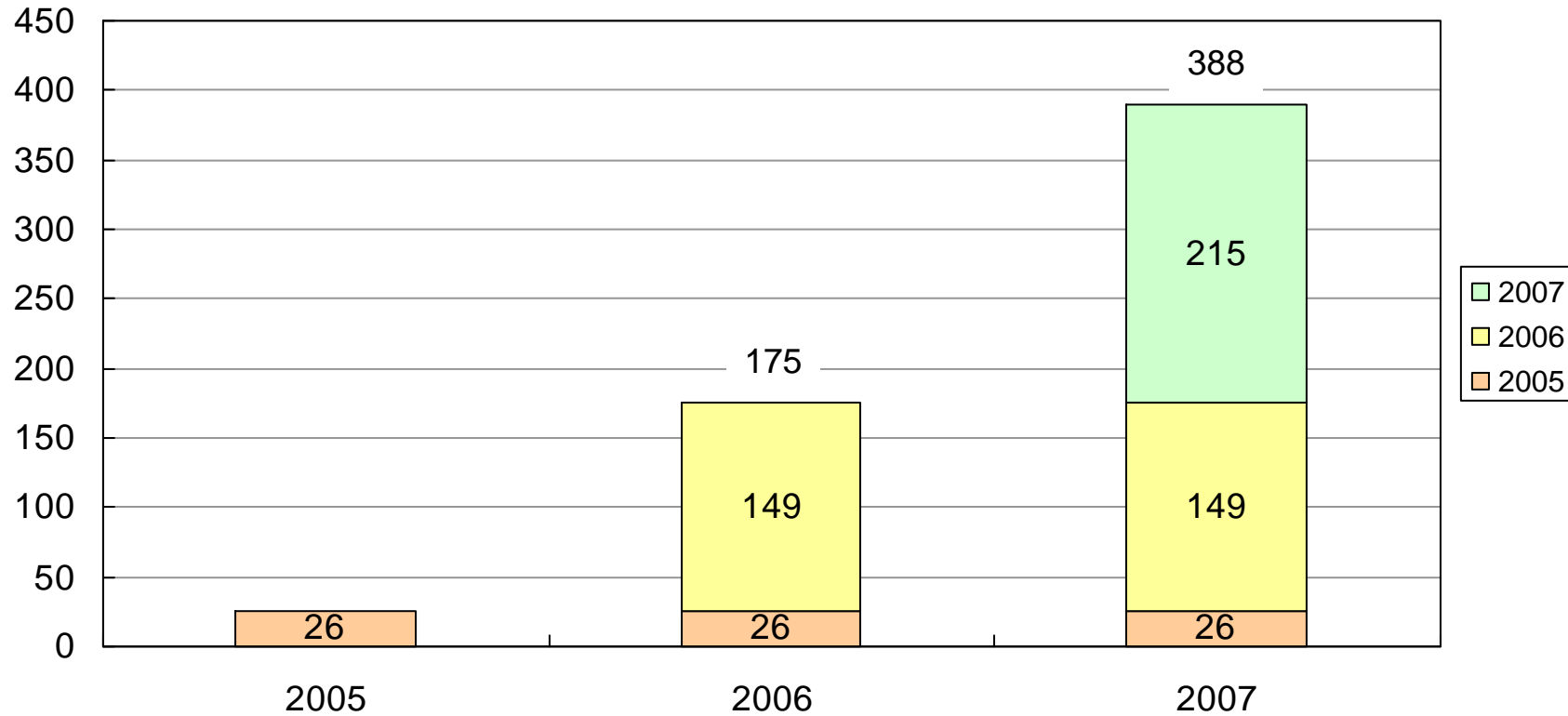


TOP 10 Portfolio Companies with Unrealized Gain

Code	Company Name	Holding Ratio (%)	Initial Cost (JPY Bil)	Unrealized Gain (JPY Bil)	Current Market Value (JPY Bil)
2501	Sapporo Holdings	18.13	30.8	26.7	57.5
5463	Maruichi Steel Tube	14.76	32.4	14.9	47.3
7762	Citizen Holdings	12.62	48.0	11.4	59.5
6448	Brother Industries	11.27	38.5	9.6	48.1
2801	Kikkoman	5.27	10.5	4.6	15.1
6247	Hisaka Works	7.64	1.9	4.5	6.4
2206	Ezaki Glico	14.37	20.6	4.5	25.0
4544	Miraca Holdings	6.57	6.6	4.2	10.8
7014	Namura Shipbuilding	3.84	0.8	3.5	4.3
9934	Inaba Denki Sangyo	7.09	4.4	3.3	7.7

## Trends in the Introduction of Anti-Takeover Defense Measures

### Number of Anti-Takeover Defense Measures introduced since 2005



\* As of September 2007. Companies that have abolished their poison pill are not included.

Examples of companies that have abolished their poison pill:

Uniden (2005), Nireco (2005), Fuji Television (2005), Tsugami (2006), Commseed (2006), Matsuzakaya (2006), Solid Group (2007)

## Profile of Companies that introduced Advanced-Warning Type Poison Pill

### Companies that endorsed Advanced-Warning Type Poison Pills -388Companies

Market Cap (JPY)	Companies introducing Posion Pills				Total - A	Total Companies Listed - B	Ratio Introducing A/B	Ratio of Foreign Shareholders
	TSE(1)	TSE(2)	JASDAQ	Other				
Over 1 Trillion	20	0	0	0	20	112	17.9%	32.7%
500 billion - 1 trillion	18	0	0	0	18	85	21.2%	28.3%
100 billion - 500 billion	106	0	0	3	109	466	23.4%	20.2%
50 billion - 100 billion	55	1	1	1	58	317	18.3%	15.3%
10 billion - 50 billion	89	13	10	15	127	1,226	10.4%	8.8%
Below 10 billion	8	11	21	16	56	1,702	3.3%	3.5%
Total - C	296	25	32	35	388	3,908	9.9%	9.5%
Total Companies Listed - D	1,719	468	958	763	3,908	3,908	—	—
Ration Introducing C/D	17.2%	5.3%	3.3%	4.6%		—	—	—

\* Market Cap as of September 2007

- Out of all listed companies, 9.9% have introduced Advanced-Warning Type Poison Pills
- 17.2% of companies listed on the TSE 1st Section have introduced an Advanced-Warning Type Poison Pill
- 23.4% of companies with market cap between 100 billion - 500 billion JPY have introduced an Advanced-Warning Type Poison Pill
- Companies in which foreign shareholders hold more than 10% of the shares outstanding have a tendency to introduce poison pills

## Issues Related to Poison Pills in Japan to be Resolved Going Forward

### Governance Issues:

- The Bull-Dog Sauce case: This was the first case in Japan that the anti-takeover defense measure was triggered
  - Can a poison pill be triggered by shareholder approval?
- Independence of the “Independent Committee”:
  - Are the committee members independent?
  - The lack of independent directors on the Board of Directors

### Technical Issues:

Maximum share dilution is four times

- Authorized shares of Japanese companies can be set at a maximum of four times of the issued capital



The effect of the dilution when a poison pill is triggered is thus a maximum of up to four times.

Distribution of Cash to hostile shareholders

- In the Bull-dog Sauce case, cash was distributed to hostile shareholder (Steel Partners) instead of newly issued shares

What percentage of shareholders need to vote in favor of a poison pill to make it valid?

- Are the pills in place right now valid?
- Bull-Dog: The Tokyo District Court initially ruled that a Special Resolution was necessary
- Subsequent rulings muddied the waters suggesting a majority vote was enough

# IR Japan



## IR Japan, Inc (Tokyo Headquarters)

Aoyama Building, 11th Floor  
2-3, Kita-Aoyama 1-chome, Minato-ku,  
Tokyo 107-0061, Japan  
Phone: 81-3-3796-1185

## IR Japan New York Branch

330 Madison Avenue, 9th Floor  
New York, NY 10017  
United States  
Phone: 1-646-495-5059

<http://www.irjapan.net/>