

ASBJ Statement No. 1 (revised 2005)

Accounting Standard for Treasury Shares and Appropriation of Legal Reserve”

ASBJ Guidance No. 2 (revised 2005)

Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve

December 27, 2005

Accounting Standards Board of Japan (ASBJ)

Remarks on the Release

In line with the promulgation of the Corporate Law (Law No. 86 of 2005), the Accounting Standards Board of Japan (ASBJ) has deliberated for the purpose of making requisite amendments to ASBJ Statement No. 1 “Accounting Standard for Treasury Shares and Reversal of Legal Reserve” issued by the ASBJ on February 21, 2002 (hereinafter referred to as “ the Pre-amendment Standard”), ASBJ Guidance No. 2 “Guidance on Accounting Standard for Treasury Shares and Reversal of Legal Reserve” issued on the same day (hereinafter referred to as “ the Pre-amendment Guidance”), and ASBJ Guidance No. 5 “Guidance on Accounting Standard for Treasury Shares and Reversal of Legal Reserve (Part 2)” issued on September 25, 2002 (hereinafter referred to as “ the Guidance No. 5”).

The ASBJ released exposure drafts on August 10, 2005 to seek comments and revised it based on the comments received. The ASBJ hereby issue the above-captioned ASBJ Statement (hereinafter referred to as “the amended Standard”) and Guidance (hereinafter referred to as “the amended Guidance”), which were approved in the 94th ASBJ meeting held on December 2, 2005.

Outline of the amended Standard and amended Guidance

The following outline describes significant relationships between the amended Standard and amended Guidance, and the Corporate Law and other accounting standards, as well as the effective date.

Significant Relationships with the Corporate Law and Other Accounting Standards

The amended Standard and amended Guidance make requisite changes to the Pre-amendment Standard and Pre-amendment Guidance in line with the promulgation on July 26, 2005 of the Corporate Law, which has among others developed the procedures for acquisition and disposal of treasury shares, clarified the procedures for retirement of shares, and established unified regulation of the financial resources for returning company property to shareholders by way of dividend payments. The amended Guidance contains requisite amendments to the Guidance No. 5.

In the amended Standard and amended Guidance, part of the provisions concerning disclosure, which were contained in the Pre-amendment Standard, are deleted. This is because of the scheduled enforcement of ASBJ Statement No. 6 “Accounting Standard for Statement of Changes in Net Assets” issued on December 27, 2005 and the following resultant changes.

- The Statement of Appropriation of Retained Earnings (or the Statement of Disposal of Accumulated Losses) and the Statement of Consolidated Surplus will be abolished.
- The calculation of unappropriated retained earnings (or undisposed accumulated losses) will not be shown at the bottom of the income statement.
- The total number of shares issued and treasury shares is disclosed in notes of the statement of changes in net assets.

The amended Standard and amended Guidance delete the provisions concerning the components of equity section in the balance sheet contained in the Pre-amendment Standard and Pre-amendment Guidance. This is because ASBJ Statement No. 5 “Accounting Standard for Presentation of Net Assets in the Balance Sheet” issued on December 9, 2005 deals with the presentation of net assets section in the balance sheet.

In the amended Guidance, provisions concerning the accounting for the following items contained in the Pre-amendment Guidance and Guidance No. 5 are deleted.

- (1) Disposal of treasury shares and the extinction of tie-in shares at the time of corporate reorganizations.
- (2) Disposal of treasury shares when subscription rights to shares are exercised.

Accounting for (1) above is stipulated in ASBJ Guidance No. 10 “Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestiture” issued on December 27, 2005, and accounting for (2) above is stipulated in ASBJ Guidance No. 11 “Guidance on Accounting Standard for Share-based Payment,” which was issued on the same day.

As the Corporate Law has made it clear that the consideration for acquisition of treasury shares can be non-monetary and dividend in kind is allowed, it was decided to deal with accounting for these cases in the amended Guidance. The amended Guidance stipulates accounting for dividend payers, and ASBJ Statement No. 7 “Accounting Standard for Business Divestiture,” which was issued on December 27, 2005, stipulates accounting for dividend payees when dividend in kind is paid out.

Effective date, etc.

The amended Standard and amended Guidance will be applied to matters to which the provisions of the Corporate Law will be applied. The Pre-amendment Standard, Pre-amendment Guidance and Guidance No. 5 have been applied until the application of the amended Standard and amended Guidance. With the enforcement of the amended Guidance, Guidance No. 5 will be abolished.