

# **Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements, etc.**

(Ordinance of the Ministry of Finance No. 59 of November 27, 1963)

Pursuant to the provisions of Article 193 of the Securities and Exchange Act (Act No. 25 of 1948), a Ministerial Ordinance for fully revising the Rules on the Terminology, Forms, and Preparation Methods of Financial Statements, etc. (Securities and Exchange Commission Rules No. 18 of 1950) is hereby enacted as follows.

Chapter I General Provisions (Articles 1 to 10-3)

Chapter II Balance Sheets

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Section 2 Assets

Division 1 General Provisions (Article 14)

Division 2 Current Assets (Articles 15 to 21)

Division 3 Fixed Assets (Articles 22 to 35)

Division 4 Deferred Assets (Articles 36 to 38)

Division 5 Miscellaneous Provisions (Articles 39 to 44)

Section 3 Liabilities

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Division 2 Shareholders' Equity (Articles 60 to 66-2)

Division 3 Valuation and Translation Adjustments (Article 67)

Division 4 Share Options (Article 68)

Division 5 Miscellaneous Provisions (Articles 68-2 to 68-4)

Chapter III Profit and Loss Statements

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Section 2 Net Sales and Sales Costs (Articles 72 to 83)

Section 3 Selling Expenses and General and Administrative Expenses  
(Articles 84 to 89)

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to 95)

Section 4-2 Extraordinary Income and Extraordinary Losses (Articles 95-2 to 95-5-2)

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Chapter IV Statements of Changes in Shareholders' Equity, etc.

Section 1 General Provisions (Articles 99 and 100)

Section 2 Shareholders' Equity (Articles 101 and 102)

Section 3 Valuation and Translation Adjustments (Articles 103 and 104)

Section 4 Share Options (Article 105)

Section 5 Matters Stated in the Notes (Articles 106 to 109)

Section 6 Miscellaneous Provisions (Article 109-2)

Chapter V Cash Flow Statements

Section 1 General Provisions (Articles 110 to 112)

Section 2 Method of Entry in a Cash Flow Statement (Articles 113 to 116)

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Chapter VI Supplementary Schedules (Articles 120 to 126)

Chapter VII Foreign Companies' Financial Documents (Articles 127 to 131)

Supplementary Provisions

## **Chapter I General Provisions**

(General Principles to Apply)

Article 1 (1) From among the financial and accounting documents (hereinafter referred to as "Financial Documents") that should be submitted pursuant to the provisions of Article 5, Article 7, Article 9, paragraph (1), Article 10, paragraph (1) or Article 24, paragraph (1) or (3) of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as the "Act") (including cases where these provisions are applied mutatis mutandis pursuant to paragraph (5) of that Article) or paragraph (6) of that Article (including cases where any of these provisions are applied mutatis mutandis pursuant to Article 24-2, paragraph (1) of the Act and cases where these provisions are applied mutatis mutandis, pursuant to Article 27 of the Act, to a juridical person which has been designated by the Commissioner of the Financial Services Agency as one to whom this Ordinance should apply (such a juridical person shall hereinafter be referred to as a "Designated Juridical Person")), the terminology, forms, and preparation methods of balance sheets, profit and loss statements, statements of changes in shareholders' equity, Cash Flow statements (including documents equivalent to these Financial Documents that are prepared by a Designated Juridical Person or prepared for Special Trust Property defined in Article 2-2; the same shall apply hereinafter), and supplementary schedules (these documents shall hereinafter be collectively

referred to as "Financial Statements") shall be governed by the provisions of this Chapter to Chapter VI inclusive, excluding the following Article, and any matters that are not provided for under this Ordinance shall be in compliance with business accounting standards that are generally accepted as fair and appropriate.

- (2) The business accounting standards published by the Business Accounting Council prescribed in Article 24, paragraph (1) of the Cabinet Order for Organization of the Financial Services Agency (Cabinet Order No. 392 of 1998) shall be regarded as the business accounting standards that are generally accepted as fair and appropriate, as prescribed in the preceding paragraph.
- (3) Where the Commissioner of the Financial Services Agency has specially published any standards on the preparation methods for specific matters concerning Financial Statements that are to be submitted pursuant to the provisions of the Act, said standards shall be regarded as being equivalent to the provisions of this Ordinance and shall prevail over the business accounting standards that are generally accepted as fair and appropriate prescribed in paragraph (1).

Article 1-2 The terminology, forms, and preparation methods of Financial Documents (excluding interim Financial Documents and quarterly Financial Documents; the same shall apply in Chapter VII) that are to be submitted by a Foreign Company (meaning an issuers of beneficiary securities in foreign investment trusts set forth in Article 2, paragraph (1), item (x) of the Act, foreign investment securities set forth in item (xi) of that paragraph, securities set forth in item (xvii) of that paragraph which have the nature of the securities listed in items (iii) to (ix) inclusive or items (xii) to (xvi) inclusive of that paragraph, securities set forth in item (xviii) of that paragraph, securities set forth in item (xix) or item (xx) of that paragraph (limited to those whose issuer is a foreign person), securities set forth in item (xxi) of that paragraph or rights set forth in paragraph (2), item (ii), (iv) or (vi) of that Article; the same shall apply in Chapter VII) shall be governed by the provisions of Chapter VII.

(Mutatis Mutandis Application of This Ordinance to Companies Engaged in a Specified Business)

Article 2 Where, with regard to the terminology, forms, and preparation methods of Financial Statements which a stock company or Designated Juridical Person that is engaged in a business set forth in the appended list (hereinafter referred to as a "Separately Indicated Business") submits to its governing authority, there are any special provisions of law or regulations or where there are any rules on Financial Statements (hereinafter referred to as "Rules") that

its governing authority has established based on this Ordinance, the terminology, forms, and preparation methods of the Financial Statements that the stock company or Designated Juridical Person engaged in said business submits pursuant to the provisions of the Act shall be governed by the provisions of such law, regulations or Rules, notwithstanding the provisions of Articles 11 to 68-2 inclusive, Articles 68-4 to 77 inclusive, Articles 79 to 109 inclusive and Articles 110 to 121 inclusive; provided, however, that this shall not apply with regard to matters that the Commissioner of the Financial Services finds to be necessary and on which he/she has given instructions, nor shall this apply with regard to matters that are not provided for in such law, regulations or Rules.

(Mutatis Mutandis Application of this Ordinance to Special Trust Property)  
Article 2-2 The terminology, forms, and preparation methods of the Financial Statements that must be prepared with regard to trust property that is subject to the application of the Ordinance on Accounting for Special Purpose Trust Property (Prime Minister's Office Ordinance No. 132 of 2000; hereinafter referred to as the "Special Purpose Trust Property Accounting Ordinance") or the Ordinance on Accounting for Investment Trust Property (Prime Minister's Office Ordinance No. 133 of 2000; hereinafter referred to as the "Investment Trust Property Accounting Ordinance") (such trust property shall hereinafter be referred to as the "Special Trust Property") shall be governed by the Special Purpose Trust Property Accounting Ordinance or the Investment Trust Property Accounting Ordinance, notwithstanding the provisions of Articles 11 to 68-2 inclusive, Articles 68-4 to 77 inclusive, Articles 79 to 109 inclusive and Articles 110 to 121 inclusive; provided, however, that this shall not apply with regard to matters that the Commissioner of the Financial Services Agency finds to be necessary and on which he/she has given instructions, nor shall this apply to matters that are not provided for in the Special Purpose Trust Property Accounting Ordinance or the Investment Trust Property Accounting Ordinance.

Article 3 Financial Statements submitted, pursuant to the provisions of the Act, by a stock company concurrently engaged in two or more businesses that are subject to the application of the provisions of Article 2 shall be governed by the laws, regulations or Rules that apply to whichever of these businesses constitutes the main portion of the operations of said company; provided, however, that matters concerning any business other than said main business or matters for which said company has obtained the approval of the Commissioner of the Financial Services Agency on the finding that they should not be governed by the provisions of said laws, regulations or Rules may be

governed by laws, regulations or Rules that are relevant to any of the businesses other than the main business.

Article 4 Where a stock company is concurrently engaged in a business that is subject to the application of the provisions of Article 2 and any other business, and said other business constitutes the main portion of the operations of said company, the Financial Statements that said company submits pursuant to the provisions of this Act may be exempted from having the provisions of Article 2 applied thereto; provided, however, that matters related to the business that is subject to the application of the provisions of Article 2 may be governed by the relevant laws, regulations or Rules.

Article 4-2 Where a stock company or Designated Juridical Person engaged in Specified Financial Services (meaning Specified Financial Services as defined in Article 2, paragraph (2) of the Cabinet Office Ordinance on Account Management by Specified Financial Companies, etc. (Prime Minister's Office Ordinance/Ordinance of the Ministry of Finance No. 32 of 1999); the same shall apply hereinafter) set forth in Appended List No. 19 is concurrently engaged in any business other than Specified Financial Services, matters concerning the Specified Financial Services shall be governed by that Ordinance, notwithstanding the provisions of the preceding two Articles.

(Preparation Standards and Methods of Presenting Financial Statements)

Article 5 (1) The terminology, forms, and preparation methods of Financial Statements to be submitted pursuant to the provisions of the Act shall comply with the following standards:

- (i) the Financial Statements shall present true information concerning the financial position, operating results, and Cash Flow conditions (meaning Cash Flow as defined in Article 8, paragraph (18); the same shall apply in the following item) of the Company Submitting Financial Statements (meaning the company, Designated Juridical Person, or partnership which is to submit Financial Statements pursuant to the provisions of the Act; the same shall apply hereinafter);
- (ii) the Financial Statements shall clearly present the accounting information necessary for preventing the interested persons of the Company Submitting Financial Statements from reaching erroneous conclusions on its financial, operating, and Cash Flow conditions; and
- (iii) the accounting principles and procedures adopted by the Company Submitting Financial Statements shall be applied continuously throughout each period for preparing Financial Statements, except where a change is implemented based on justifiable grounds.

(2) The same method of presenting matters that must be entered in Financial Statements shall be adopted for matters that have the same content throughout each period for preparing Financial Statements, except where a change is implemented based on justifiable grounds.

Article 6 Deleted.

Article 7 Deleted.

(Definitions)

Article 8 (1) As used in this Ordinance, the term "Within One Year" means a date that falls within one year from the day following the date of the balance sheet.

(2) As used in this Ordinance, the term "Ordinary Transactions" means transactions that occur routinely or that occur repeatedly during a short period, as a part of the operating activities to achieve the business purpose of the Company Submitting Financial Statements.

(3) As used in this Ordinance, the term "Parent Company" means a Company, etc. (meaning a company, Designated Juridical Person, partnership, or any other business entity equivalent thereto (including a business entity equivalent thereto in a foreign state); the same shall apply hereinafter) that has control over the body that decides the financial and operational or business policies of a second Company, etc. (such a body means the ensemble of shareholders at a shareholders' meeting or any body equivalent thereto; hereinafter referred to as a "Decision-Making Body"), and the term "Subsidiary Company" means such second Company, etc. Where a Parent Company and a Subsidiary Company jointly, or a Subsidiary Company alone, has control over the Decision-Making Body of a third Company, etc., said third Company, etc. shall also be deemed as a Subsidiary Company of said Parent Company.

(4) A Company, etc. that has control over a Decision-Making Body of another Company, etc. under the preceding paragraph means any of the Companies, etc. listed in the following items; provided, however, that this shall not apply to a Company, etc. that is found to clearly not have control over the Decision-Making Body of another Company, etc. from the viewpoint of their financial, operational or business relationships:

(i) a Company, etc. that holds, on its own account, the majority of the voting rights in another Company, etc. (excluding a Company, etc. that is subject to a decision for the commencement of rehabilitation proceedings under the provisions of the Civil Rehabilitation Act (Act No. 225 of 1999), a stock company that is subject to a decision for the commencement of corporate reorganization proceedings under the provisions of the Corporate

Reorganization Act (Act No. 154 of 2002), a Company, etc. that is subject to a decision for the commencement of bankruptcy proceedings under the provisions of the Bankruptcy Act (Act No. 75 of 2004), or any other Company, etc. equivalent thereto, which also is found to have no effective parent-subsidiary relationship with said Company, etc.; hereinafter the same shall apply in this paragraph);

- (ii) a Company, etc. that holds, on its own account, not less than forty percent and not more than fifty percent of the voting rights in another Company, etc., and that also satisfies any of the following requirements:
  - (a) that the voting rights held on its own account and the voting rights held by any persons who are found to exercise their voting rights in accordance with the wishes of the Company, etc. due to their close ties with the Company, etc. in terms of investment, personnel, funds, technology, transactions, etc. and those held by any persons who have agreed to exercise their voting rights in accordance with the wishes of the Company, etc., when combined, constitute a majority of the voting rights in the other Company, etc.;
  - (b) that persons who are or were Officers (meaning officers as prescribed in Article 21, paragraph (1), item (i) of the Act (including cases where it is applied mutatis mutandis pursuant to Article 27 of the Act); the same shall apply hereinafter) or employees of the Company, etc. and who are able to exert an influence on the financial and operational or business policy decisions of the other Company, etc. constitute a majority of the members of the board of directors or any other administrative instrument equivalent thereto at the other Company, etc.;
  - (c) that there is a contract, etc. for the Company, etc. to control significant financial and operational or business policy decisions of the other Company, etc.;
  - (d) that the Company, etc. has financed (including guaranteeing debts and providing collateral; hereinafter the same in this item and paragraph (6), item (ii), sub-item (b)) a majority of the total amount of the procured funds (limited to those reported in the liabilities section of the balance sheet) of the other Company, etc. (including cases where the amount financed by the Company, etc. and the amount financed by any persons who have close ties with the Company, etc. in terms of investment, personnel, funds, technology, transactions, etc., when combined, constitute a majority of the total amount of such procured funds); or
  - (e) that there is any other fact implying that the Company, etc. has control over the Decision-Making Body of the other Company, etc.; and
- (iii) a Company, etc. whose voting rights that it holds on its own account, when combined with the voting rights held by any persons who are found to

exercise their voting rights in accordance with the wishes of the Company, etc. due to their close ties with the Company, etc. in terms of investment, personnel, funds, technology, transactions, etc. and with those held by any persons who have agreed to exercise their voting rights in accordance with the wishes of the Company, etc. (including cases where the Company, etc. holds no voting rights on its own account), constitute the majority of the voting rights in another Company, etc., and that also satisfies any of the requirements listed in sub-items (b) to (e) inclusive of the preceding item.

- (5) The term "Affiliated Company" as used in this Ordinance means, where a Company, etc. or its Subsidiary Company is able to exert a significant influence on the financial and operational or business policy decisions of a non-Subsidiary Company, etc., due to their ties in terms of investment, personnel, funds, technology, transactions, etc., the relevant non-Subsidiary Company, etc..
- (6) The cases referred to in the preceding paragraph where a significant influence can be exerted on the financial and operational or business policy decisions of a non-Subsidiary Company, etc. shall be the cases listed in the following items; provided, however, that this shall not apply when it is found that the Company, etc. or its Subsidiary Company of the Company, etc. is clearly unable to exert a significant influence on the financial and operational or business policy decisions of the non-Subsidiary Company, etc., in light of their financial, operational or business relationships:
- (i) where the Company, etc. or its Subsidiary Company holds, on its own account, not less than twenty percent of the voting rights in the non-Subsidiary Company, etc. (excluding a Company, etc. that is subject to a decision for the commencement of rehabilitation proceedings under the provisions of the Civil Rehabilitation Act, a stock company that is subject to a decision for the commencement of corporate reorganization proceedings under the provisions of the Corporate Reorganization Act, a Company, etc. that is subject to a decision for the commencement of bankruptcy proceedings under the provisions of the Bankruptcy Act, or any other Company, etc. equivalent thereto, and where the Company, etc. or its Subsidiary Company is also found to be unable to exert a significant influence on the financial and operational or business policy decisions of such a Company, etc.; hereinafter the same shall apply in this paragraph);
- (ii) where the Company, etc. or its Subsidiary Company of the Company, etc. holds, on its own account, not less than fifteen percent but less than twenty percent of the voting rights in a non-Subsidiary Company, etc., and where any of the following requirements are also satisfied:
- (a) that a person who is or was an Officer or employee of the Company, etc. or its Subsidiary Company and who is able to exert an influence on the

- financial and operational or business policy decisions of the non-Subsidiary Company, etc. has been appointed to the position of representative director, director or any other position equivalent thereto at the non-Subsidiary Company, etc.;
- (b) that the Company, etc. or its Subsidiary Company extends significant financing to the non-Subsidiary Company, etc.;
  - (c) that the Company, etc. or its Subsidiary Company provides significant technology to the non-Subsidiary Company, etc.;
  - (d) that there are significant sales, purchases or any other operational or business transactions between the Company, etc. or its Subsidiary Company and the non-Subsidiary Company, etc.; or
  - (e) that any other fact exists inferring that the Company, etc. or its Subsidiary Company is able to exert a significant influence on the financial and operational or business policy decisions of the non-Subsidiary Company, etc.;
- (iii) where the voting rights held by the Company, etc. or its Subsidiary Company, on its own account, when combined with the voting rights held by any persons who are found to exercise their voting rights in accordance with the wishes of the Company, etc. or its Subsidiary Company due to their close ties with the Company, etc. or its Subsidiary Company in terms of investment, personnel, funds, technology, transactions, etc. and with the voting rights held by any persons who have agreed to exercise their voting rights in accordance with the wishes of the Company, etc. or its Subsidiary Company (including cases where the Company, etc. or its Subsidiary Company holds no voting rights on its own account), constitute not less than twenty percent of the voting rights in a non-Subsidiary Company, etc., and where any of the requirements listed in sub-items (a) to (e) inclusive of the preceding item are also satisfied; and
- (iv) where a non-Subsidiary Company, etc. is an Enterprise (meaning a company or a business entity that is equivalent to a company; the same shall apply hereinafter) that is jointly controlled by multiple independent Enterprises (such a controlled Enterprise shall hereinafter be referred to as a "Jointly Controlled Enterprise").
- (7) When a Special Purpose Company (meaning a specific purpose company as defined in Article 2, paragraph (3) of the Act on the Securitization of Assets (Act No. 105 of 1998; hereinafter referred to as the "Asset Securitization Act" in this paragraph and Article 122, item (viii)) (referred to as a "Specific Purpose Company" in Article 122, item (viii)) and business entities engaged in business similar thereto which are restricted from changing the content of business; hereinafter the same shall apply in this paragraph) has been incorporated for the purpose of allowing the holders of securities issued

thereby (including the creditors of specific purpose borrowings as defined in Article 2, paragraph (12) of the Asset Securitization Act) to enjoy the revenues arising from assets that have been transferred to said Special Purpose Company at a fair value, and when the business of said Special Purpose Company is being appropriately implemented in accordance with the purpose thereof, said Special Purpose Company shall be deemed to be independent from its equity investors and from any Company, etc. that has transferred assets to said Special Purpose Company (hereinafter collectively referred to as "Equity Investors, etc." in this paragraph) and, notwithstanding the provisions of paragraphs (3) and (4), said Special Purpose Company the presumption shall be that it is not a Subsidiary Company of its Equity Investors, etc.

- (8) As used in this Ordinance, the term "Associated Company" means the Parent Company, Subsidiary Company, or Affiliated Company of the Company Submitting Financial Statements and, where the Company Submitting Financial Statements is the Affiliated Company of another Company, etc., said other Company, etc. (referred to as "Any Other Associated Company" in paragraph (17), item (iv)).
- (9) As used in this Ordinance, the term "Futures Transactions" means the following transactions:
- (i) exchange-traded derivatives transactions as defined in Article 2, paragraph (21) of the Act (limited to the transactions set forth in items (i) and (ii) of that paragraph) and exchange-traded derivatives transactions in a foreign market as defined in paragraph (23) of that Article (limited to transactions that are similar to the transactions set forth in paragraph (21), items (i) and (ii) of that Article); and
  - (ii) Futures Transactions defined in Article 2, paragraph (8) of the Commodity Exchange Act (Act No. 239 of 1950) (limited to the transactions set forth in items (i) to (iii) inclusive of that paragraph) and similar transactions on a market in a foreign state that is equivalent to a Commodity Market (meaning a commodity market as defined in paragraph (9) of that Article; the same shall apply in item (iii) of the following paragraph) (such market in a foreign state shall be referred to as a "Foreign Commodity Market" in items (ii) and (iii) of that paragraph).
- (10) As used in this Ordinance, the term "Options Transactions" means the following transactions:
- (i) exchange-traded derivatives transactions as defined in Article 2, paragraph (21) of the Act (limited to the transactions set forth in item (iii) of that paragraph), over-the-counter derivatives transactions as defined in paragraph (22) of that Article (limited to the transactions set forth in items (iii) and (iv) of that paragraph), and exchange-traded derivatives transactions in a foreign market as defined in paragraph (23) of that Article

- (limited to transactions similar to the transactions set forth in paragraph (21), item (iii) of that Article);
- (ii) Futures Transactions as defined in Article 2, paragraph (8) of the Commodity Exchange Act (limited to the transactions set forth in item (iv) of that paragraph), transactions on a Commodity Market as defined in paragraph (10) of that Article (limited to the transactions set forth in item (i), sub-item (e) of that paragraph) and similar transactions on a Foreign Commodity Market; and
  - (iii) transactions similar to the transactions set forth in the preceding two items (including transactions other than transactions on a Financial Instruments Exchange Market (meaning a financial instruments exchange market as defined in Article 2, paragraph (17) of the Act), Foreign Financial Instruments Market (meaning a foreign financial instruments market as defined in paragraph (8), item (iii), sub-item (b) of that Article), a Commodity Market, or a Foreign Commodity Market (transactions on such markets shall be collectively referred to as "Market Transactions" in item (ii) of the following paragraph and Article 8-8, paragraph (2))).
- (11) As used in this Ordinance, the term "Forward Transactions" means the following transactions:
- (i) over-the-counter derivatives transactions defined in Article 2, paragraph (22) of the Act (limited to the transactions set forth in items (i) and (ii) of that paragraph); and
  - (ii) transactions other than those set forth in the preceding item, which are similar to Futures Transactions (limited to transactions other than Market Transactions).
- (12) As used in this Ordinance, the term "Swap Transactions" means the following transactions:
- (i) exchange-traded derivatives transactions as defined in Article 2, paragraph (21) of the Act (limited to the transactions set forth in item (iv) of that paragraph), over-the-counter derivatives transactions as defined in paragraph (22) of that Article (limited to the transactions set forth in item (v) of that paragraph), and exchange-traded derivatives transactions in a foreign market as defined in paragraph (23) of that Article (limited to transactions similar to those set forth in paragraph (21), item (iv) of that Article);
  - (ii) transactions wherein the parties mutually agree to the payment of monies based on a price that they have arranged with each other, for a certain transaction quantity of a commodity that has been specified by said parties as the subject of the transaction; and
  - (iii) transactions similar to those set forth in the preceding two items.
- (13) As used in this Ordinance, the term "Any Other Derivative Transactions"

means the following transactions:

- (i) exchange-traded derivatives transactions as defined in Article 2, paragraph (21) of the Act (limited to the transactions set forth in items (v) and (vi) of that paragraph), over-the-counter derivatives transactions as defined in paragraph (22) of that Article (limited to the transactions set forth in items (vi) and (vii) of that paragraph), and exchange-traded derivatives transactions in a foreign market as defined in paragraph (23) of that Article (limited to transactions similar to those set forth in paragraph (21), items (v) and (vi) of that Article); and
  - (ii) transactions similar to those set forth in the preceding item.
- (14) As used in this Ordinance, the term "Derivative Transactions" means transactions as defined in paragraph (9) through the preceding paragraph.
- (15) As used in this Ordinance, the term "Consolidated Financial Statements" means consolidated financial statements as defined in Article 1 of the Ordinance on the Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as the "Ordinance on Consolidated Financial Statements").
- (16) As used in this Ordinance, the term "Equity Method" means the method defined in Article 2, item (viii) of the Ordinance on Consolidated Financial Statements.
- (17) As used in this Ordinance, the term "Related Party" means any of the following persons:
- (i) the Parent Company of the Company Submitting Financial Statements;
  - (ii) the Subsidiary Companies of the Company Submitting Financial Statements;
  - (iii) Companies, etc. with the same Parent Company as the Company Submitting Financial Statements;
  - (iv) the Parent Company and the Subsidiary Companies of Any Other Associated Company of the Company Submitting Financial Statements;
  - (v) the Affiliated Companies of the Company Submitting Financial Statements, and the Subsidiary Companies of said Affiliated Companies;
  - (vi) the Major Shareholders (meaning major shareholders as defined in Article 163, paragraph (1) of the Act; the same shall apply hereinafter) of the Company Submitting Financial Statements and the Close Relatives (meaning relatives within the second degree of kinship; the same shall apply in the following item and item (viii)) thereof;
  - (vii) the Officers of the Company Submitting Financial Statements and the Close Relatives thereof;
  - (viii) the Officers of the Parent Company of the Company Submitting Financial Statements and the Close Relatives thereof;

- (ix) a Company, etc., whose majority of voting rights are held by any of the persons set forth in the preceding three items, on their own accounts, and the Subsidiary Companies of such a Company, etc.; and
- (x) a corporate pension fund for the workers of the Company Submitting Financial Statements (limited to where such corporate pension fund engages in significant transactions (excluding the contribution of premiums) with the Company Submitting Financial Statements).
- (18) As used in this Ordinance, the term "Cash Flow" means any increase or decrease in the Funds defined in the following paragraph.
- (19) As used in this Ordinance, the term "Funds" means the combined total of cash (including any current deposits, ordinary deposits and other deposits which the depositor is able to withdraw without waiting for a certain period to elapse; the same shall apply in Chapter V) and Cash Equivalents (meaning short-term investments which can be easily converted into cash and which involve a low risk of fluctuations in value; the same shall apply in Chapter V).
- (20) As used in this Ordinance, the term "Trading Securities" means securities held for the purpose of making a profit from fluctuations in market prices.
- (21) As used in this Ordinance, the term "Bonds Held to Maturity" means corporate bond certificates or other bond certificates that are retained with the intention of holding them until maturity.
- (22) As used in this Ordinance, the term "Other Securities" means securities other than Trading Securities, Bonds Held to Maturity, shares in a Subsidiary Company, or shares in an Affiliated Company.
- (23) As used in this Ordinance, the term "Treasury Shares" means the shares of a Company Submitting Financial Statements that said Company Submitting Financial Statements holds itself.
- (24) As used in this Ordinance, the term "Shares in the Company" means shares in the Company Submitting Financial Statements.
- (25) As used in this Ordinance, the term "Share Options in the Company" means Call Options (meaning the rights to acquire the Shares in the Company that constitute the underlying assets thereof, by paying a certain amount of money) whose underlying assets are Shares in the Company.
- (26) As used in this Ordinance, "Stock Options" means Share Options in the Company which a Company Submitting Financial Statements grants to its Workers, etc. (meaning employees hired by the Company Submitting Financial Statements and Officers of the Company Submitting Financial Statements; hereinafter the same shall apply in this paragraph) as Remuneration (meaning what the Company Submitting Financial Statements pays or delivers to its Workers, etc. as consideration for their work, administration business, etc.).
- (27) As used in this Ordinance, the term "Business Combination" means integration of a certain Enterprise or a business segment of a certain

- Enterprise and another Enterprise(s) or a business segment(s) of another Enterprise(s) into a single reporting unit.
- (28) As used in this Ordinance, the term "Acquiring Enterprise" means an Enterprise which gains control over another Enterprise or a business segment of another Enterprise to form a single reporting unit.
- (29) As used in this Ordinance, the term "Acquired Enterprise" means an Enterprise which is controlled by an Acquiring Enterprise.
- (30) As used in this Ordinance, the term "Surviving Company" means a company surviving an absorption-type merger.
- (31) As used in this Ordinance, the term "Combiner" means an Enterprise that receives another Enterprise(s) or a business segment(s) of another Enterprise(s) and pays a consideration therefor.
- (32) As used in this Ordinance, the term "Combinee" means an Enterprise that is received into the Combiner or an Enterprise whose business segment is received into the Combiner.
- (33) As used in this Ordinance, the term "Combined Enterprise" means an Enterprise which is a single reporting unit resulting from an integration by Business Combination.
- (34) As used in this Ordinance, the term "Constituent Enterprises" means the Enterprises involved in a Business Combination.
- (35) As used in this Ordinance, the term "Purchase Method" means a method wherein the acquisition costs for the assets and liabilities that the Combiner takes on from a Combinee(s) is the market prices of the cash delivered as consideration and its shares, etc.
- (36) As used in this Ordinance, the term "Pooling of Interest Method" means a method wherein the assets, liabilities, and net assets of all Constituent Enterprises are succeeded to at each of their fair book values.
- (37) As used in this Ordinance, the term "Common Control Transaction, etc." means a Business Combination wherein all of the Constituent Enterprises or businesses are ultimately controlled by the same shareholders before and after the Business Combination, and where such control is not temporary, as well as transactions wherein the Enterprise which ultimately controls the Business Group (meaning a Company Submitting Consolidated Financial Statements and its Subsidiary Companies; hereinafter the same shall apply in this paragraph) exchanges its shares in a Subsidiary Company with any of said Subsidiary Company's shareholders who do not belong to the Business Group.
- (38) As used in this Ordinance, the term "Business Divestiture" means the transfer of a certain Enterprise's business segment to another Enterprise (including a newly incorporated Enterprise).
- (39) As used in this Ordinance, the term "Divesting Enterprise" means the Enterprise that transfers its business segment in a Business Divestiture.

- (40) As used in this Ordinance, the term "Divested Enterprise" means the Enterprise (including a newly incorporated Enterprise) that receives a business segment from a Divesting Enterprise in a Business Divestiture.
- (41) As used in this Ordinance, "Financial Instruments" means Financial Assets (meaning monetary claims, securities, and claims arising from Derivative Transactions (including equivalents thereof); the same shall apply in Article 8-6-2, paragraph (3)) and Financial Liabilities (meaning monetary debts and debts arising from Derivative Transactions (including equivalents thereof); the same shall apply in that paragraph).
- (42) As used in this Ordinance, the term "Asset Retirement Obligations" means legal obligations or the equivalent thereof with regard to the retirement of tangible fixed assets, which arise through the acquisition, construction, development, or ordinary use of tangible fixed assets.
- (43) As used in this Ordinance, the term "Construction Contract" is a contract wherein the basic specifications and work details for civil engineering, building, shipbuilding, the manufacture of machinery and equipment, or any other work, are based on instructions from the person ordering the work.

(Entry of Significant Accounting Policies)

Article 8-2 Any accounting principles, procedures, or methods of presenting information that are adopted in the preparation of Financial Statements, and any other matters that serve as the basis for the preparation of Financial Statements (referred to as "Accounting Policies" in the following Article) which are listed in the following items shall be entered immediately after the Cash Flow statement; provided, however, that such entries may be omitted for matters of little significance:

- (i) the valuation basis and valuation method for securities;
- (ii) the valuation basis and valuation method for inventory assets;
- (iii) the depreciation method for fixed assets;
- (iv) the disposition method for deferred assets;
- (v) the basis for the translation of foreign currency assets and liabilities into Japanese currency;
- (vi) standards for reporting allowances;
- (vii) standards for reporting revenues and expenses;
- (viii) the method of Hedge Accounting (meaning the accounting method used for recognizing, within a same accounting period, the profit and loss pertaining to Hedging Instruments (transactions aimed at diminishing the risk of losses from price fluctuations, interest-rate fluctuations, and exchange-rate fluctuations pertaining to assets (including those that are expected to definitely arise through future transactions; hereinafter the same shall apply in this item), liabilities (including those that are expected to

definitely arise through future transactions; hereinafter the same shall apply in this item), or Derivative Transactions, which are objectively recognized as diminishing the risk of such losses; hereinafter the same shall apply in this item and Article 67, paragraph (1), item (ii) and the profit and loss pertaining to Hedged Items (meaning the assets, liabilities, or Derivative Transactions that are the subject of Hedging Instruments; the same shall apply in Article 8-8, paragraph (3) and Article 67, paragraph (1), item (ii)); the same shall apply in Article 8-8, paragraphs (1) and (3));

(ix) the scope of Funds in the Cash Flow statement; and

(x) any other significant matters that serve as the basis for preparation of Financial Statements.

(Entry of Changes in Accounting Policies)

Article 8-3 Where any Accounting Policies have changed, entries shall be made for the following matters immediately after the entries under the preceding Article:

(i) where any accounting principles or procedures have changed, an entry to that effect, the reason for the change, and details of the influence of said change on the Financial Statements;

(ii) where any of the methods of presenting information have changed, the details of such change; and

(iii) where the scope of Funds in the Cash Flow statement has changed, an entry to that effect, the reason for the change, and details of the influence of said change on the Cash Flow statement.

(Notes on Significant Post-Balance Sheet Events)

Article 8-4 If any events that will exert a significant influence on the financial position and operating results of a Company Submitting Financial Statements in and/or after the following business year occur after the balance sheet date (such events shall hereinafter be referred to as "Significant Post-Balance Sheet Events"), said events shall be mentioned in the notes.

(Notes on Additional Information)

Article 8-5 In addition to the notes specifically specified under this Ordinance, if there are any matters that are found to be necessary in order for interested parties to reach an adequate conclusion on the financial and operating conditions of the company, said matters shall be mentioned in the notes.

(Notes on Lease Transactions)

Article 8-6 (1) With regard to Finance Lease Transactions (meaning lease transactions under a lease contract that may not be cancelled before the

- expiration of the lease period under said lease contract, or lease transactions equivalent thereto (referred to as "Non-cancelable Lease Transactions" in the following paragraph), wherein the lessee of the property that is being used under said lease contract (hereinafter referred to as the "Leased Property") is able to materially enjoy an economic benefit brought about by said Leased Property, and, also, that the lessee materially bears the expenses, etc. that arise in line with the use of said Leased Property; the same shall apply hereinafter), the matters specified in the following items for the each of the categories of cases listed in those items shall be mentioned in the notes; provided, however, that notes may be omitted for matters of little significance:
- (i) where the Company Submitting Financial Statements is the lessee of the Leased Property:
    - (a) the contents of the leased assets as of the end of the current business year; and
    - (b) the method of depreciation of the leased assets;
  - (ii) where the Company Submitting Financial Statements is the lessor of the Leased Property:
    - (a) the amount of the Lease Payment Receivables (meaning the right to receive future lease payments; hereinafter the same shall apply in this item) and the amount of the Estimated Residual Value (meaning the residual value that is estimated for the time of expiration of the lease period, which is not guaranteed by the lessee nor a third party), and the amount equivalent to interest income on lease investment assets as of the end of the current business year; and
    - (b) for the amount of lease receivables and of Lease Payment Receivables on lease investment assets as of the end of the current business year, the amount that is to be collected in each year up to five years from the balance sheet date and the amount that is to be collected after five years from the balance sheet date.
- (2) With regard to Operating Lease Transactions (meaning lease transactions other than Finance Lease Transactions) that are Non-cancelable Lease Transactions as of the end of the current business year, the amounts of future lease payments in said Non-cancelable Lease Transactions shall be entered in the notes, by categorizing them into amounts for the portion of the lease period that is Within One Year and amounts for other portions of the lease period; provided, however, that notes may be omitted for matters of little significance.
- (3) For Sublease Transactions (meaning transactions where one party is leased a property by the owner of the Leased Property, and further leases out said property to a third party under nearly the same conditions; hereinafter the same shall apply in this paragraph) wherein the lease transactions that a Company Submitting Financial Statements carries out as the lessee and the

lease transactions said Company Submitting Financial Statements carries out as the lessor both fall under the category of Finance Lease Transactions, if the Company Submitting Financial Statements has reported, on the balance sheet, lease receivables or lease investment assets, or lease obligations under such Sublease Transactions at their amounts before the deduction of amounts equivalent to interest expenses, the amounts of said lease receivables or lease investment assets, or lease obligations shall be entered in the notes; provided, however, that notes may be omitted for matters of little significance.

(Notes on Financial Instruments)

Article 8-6-2 (1) With regard to Financial Instruments, the following matters shall be entered in the notes; provided, however, that notes may be omitted for matters of little significance:

(i) the following matters concerning the status of the Financial Instruments:

- (a) the policy for dealing with Financial Instruments;
- (b) contents of Financial Instruments and the risks involved in said Financial Instruments; and
- (c) the risk management system for Financial Instruments;

(ii) the following matters concerning the market prices of the Financial Instruments:

- (a) the amounts reported on the balance sheet for each of the account titles on the balance sheet as of the balance sheet date;
- (b) the market prices for each of the account titles on the balance sheet as of the balance sheet date;
- (c) the differences between the amounts reported on the balance sheet for each of the account titles on the balance sheet as of the balance sheet date and the market prices for each of the account titles on the balance sheet as of the balance sheet date;
- (d) the method of calculating the market prices for each of the account titles on the balance sheet; and
- (e) explanations on the matters listed in sub-items (b) to (d) inclusive.

(2) The matters listed in item (ii), sub-items (b) to (e) inclusive of the preceding paragraph need not be entered in the notes, if it is difficult to identify the market prices. In this case, an entry to that effect and the reason therefor shall be set down in the notes.

(3) For a Company Submitting Financial Statements whose Financial Assets and Financial Liabilities constitute most of the total amount of assets and the total amount of liabilities and are also important in light of the business purpose of the company, if there are significant rates of fluctuation in the values of said Financial Assets and Financial Liabilities in response to fluctuations in the numerical values of the indicators that are the cause of major Market Risks

(meaning risks of losses incurred by fluctuations in money rates, currency values, quotations on a Financial Instruments Market (meaning a financial instruments market as defined in Article 2, paragraph (14) of the Act; hereinafter the same shall apply in this paragraph and paragraph (3) of the following Article) or any other indicators; hereinafter the same shall apply in this paragraph and the following paragraph) for said Financial Assets and Financial Liabilities, the matters specified in the following items shall be entered in the notes for each of the categories of Financial Instruments listed in those items:

- (i) Financial Instruments whose risk management uses quantitative analyses on Market Risks: the quantitative information based on said analyses and information related thereto; or
- (ii) Financial Instruments whose risk management does not use quantitative analyses on Market Risks: the matters listed in sub-items (a) and (b) below:
  - (a) the fact that quantitative analyses on Market Risks are not used in their risk management; and
  - (b) increases and decreases in market prices that have been calculated by assuming a reasonable scope of fluctuations in the numerical values of money rates, currency values, quotations on Financial Instruments Markets and any other indicators that serve as the causes of Market Risks, and information related thereto.
- (4) Where the matters set forth in item (ii), sub-item (b) of the preceding paragraph do not appropriately reflect the actual conditions of Market Risks associated with the Company Submitting Financial Statements, an entry to that effect and the reason therefor shall be set down in the notes.
- (5) With regard to monetary claims (excluding those held for the purpose of gaining a profit from fluctuations in the market price) and securities (excluding Trading Securities) that have maturity periods, the total amount of such claims or securities to be redeemed within a certain period shall be stated in the notes.
- (6) With regard to corporate bonds, long-term borrowings, lease obligations, and any other debts which require the payment of interest, the total amount of such debts to be repaid within a certain period shall be entered in the notes; provided, however, that where said amount has been entered in the schedule of corporate bonds prescribed in Article 121, paragraph (1), item (iii) or in the schedule of borrowings, etc. prescribed in item (iv) of that paragraph, an entry to that effect may be set down in the notes in lieu of entering said amount.
- (7) The matters specified in the preceding paragraphs need not be entered where a Company Submitting Financial Statements has prepared Consolidated Financial Statements.

(Notes on Securities)

Article 8-7 (1) In addition to the matters specified in the preceding Article (excluding paragraph (7)), with regard to securities, the matters specified in the following items shall be entered in the notes for each of the categories of securities listed in those items; provided, however, that notes may be omitted for matters of little significance:

- (i) Trading Securities: the valuation difference included in the profit or loss for the relevant business year (with regard to specified securities prescribed in Article 23, item (ii) of the Cabinet Office Ordinance on Disclosure of Information, etc. on Specified Securities (Ordinance of the Ministry of Finance No. 22 of 1993) for which a method has been adopted whereby the valuation amount as of the end of an accounting period is entered as the beginning book value of said securities for the following accounting period, this shall be the valuation difference included in the profit or loss for the latest accounting period);
- (ii) Bonds Held to Maturity: the following matters by category, after bonds have been classified into those whose market price as of the balance sheet date exceeds the amount reported on the balance sheet as of the balance sheet date and those whose market price does not exceed the amount reported on the balance sheet:
  - (a) the amount reported on the balance sheet as of the balance sheet date;
  - (b) the market price as of the balance sheet date; and
  - (c) the difference between the amount reported on the balance sheet as of the balance sheet date and the market price as of the balance sheet date;
- (iii) shares in a Subsidiary Company (excluding shares categorized as Trading Securities) and shares in an Affiliated Company (excluding shares categorized as Trading Securities):
  - (a) the amount reported on the balance sheet as of the balance sheet date;
  - (b) the market price as of the balance sheet date; and
  - (c) the difference between the amount reported on the balance sheet as of the balance sheet date and the market price as of the balance sheet date;
- (iv) Other Securities: the following matters by category, after each class of Securities (meaning shares, bonds and any other securities; the same shall apply in item (vi)) has been classified into those for which the amount reported on the balance sheet as of the balance sheet date exceeds the acquisition cost and those for which such amount does not exceed the acquisition cost:
  - (a) the amount reported on the balance sheet as of the balance sheet date;
  - (b) the acquisition cost; and
  - (c) the difference between the amount reported on the balance sheet as of the balance sheet date and the acquisition cost;

- (v) Bonds Held to Maturity that were sold off during the relevant business year: the cost of the bonds sold, the sale price, the profit or loss on the sale, and the reason for the sale, for each class of bonds; and
  - (vi) Other Securities that were sold off during the relevant business year: the sale price, the total amount of profit on the sale, and the total amount of loss on the sale, for each class of securities.
- (2) Where the purpose of holding Trading Securities, Bonds Held to Maturity, shares in a Subsidiary Company, shares in a Affiliated Company, or Other Securities has changed during the relevant business year, an entry to that effect, the reason for the change (limited where the purpose of holding Bonds Held to Maturity has changed), and details of the influence of said change on the Financial Statements shall be entered in the notes; provided, however, that notes may be omitted for matters of little significance.
- (3) Notwithstanding the provisions of the preceding paragraph, where, for a considerable period of time, it is difficult to sell off securities at their market prices on a Financial Instruments Market due to low liquidity or any other reason, if Trading Securities have changed into Bonds Held to Maturity or Other Securities, or Other Securities have changed into Bonds Held to Maturity during the relevant business year, the matters specified in the following items for each of the categories of cases listed in those items shall be entered in the notes; provided, however, that notes may be omitted for matters of little significance:
- (i) where Trading Securities have changed into Bonds Held to Maturity: the following matters pertaining to the securities whose holding purpose has changed:
    - (a) a summary thereof;
    - (b) the date on which the holding purpose changed, and the reason therefor;
    - (c) the profit or loss for the relevant business year;
    - (d) the market price and the amount reported on the balance sheet as of the balance sheet date; and
    - (e) the amount of influence that the change in the holding purpose has on the Financial Statements;
  - (ii) where Trading Securities have changed into Other Securities: the following matters in regard to the securities whose holding purpose has changed:
    - (a) the matters listed in sub-items (a) to (c) inclusive of the preceding item;
    - (b) the amount reported on the balance sheet as of the balance sheet date; and
    - (c) the amount of influence that the change in the holding purpose has on the Financial Statements; and
  - (iii) where Other Securities have changed into Bonds Held to Maturity: the following matters pertaining to the securities whose holding purpose has

changed:

- (a) the matters listed in item (i), sub-items (a) and (b);
  - (b) the market price and the amount reported on the balance sheet as of the balance sheet date; and
  - (c) the amount of the Valuation Difference on Other Securities (meaning the valuation difference on Other Securities as reported in the net assets section) reported on the balance sheet as of the balance sheet date.
- (4) With regard to securities whose holding purpose has changed prior to the relevant business year, the matters specified in the following items shall be entered in the notes for the categories of cases listed in each of those items for the relevant business year; provided, however, that notes may be omitted for matters of little significance:
- (i) the cases set forth in item (i) of the preceding paragraph: the matters set forth in sub-items (d) and (e) of that item;
  - (ii) the cases set forth in item (ii) of the preceding paragraph: the matters set forth in sub-items (b) and (c) of that item; and
  - (iii) the cases set forth in item (iii) of the preceding paragraph: the matters set forth in sub-items (b) and (c) of that item.
- (5) Where an impairment loss on securities during the relevant business year has been recognized, an entry to that effect and the amount of the impairment losses shall be set down in the notes; provided, however, that notes may be omitted for matters of little significance.
- (6) The matters specified in the preceding paragraphs (excluding paragraph (1), item (iii)) need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes on Derivative Transactions)

Article 8-8 (1) In addition to the matters specified in Article 8-6-2 (excluding paragraph (7)), with regard to Derivative Transactions, the matters specified in the following items for each of the categories of transactions listed in those items shall be entered in the notes; provided, however, that notes may be omitted for matters of little significance:

- (i) Derivative Transactions to which Hedge Accounting is not applied: the following matters for each type of subject matter of said transactions (meaning currencies, money rates, shares, bonds, commodities, and any other subject matter of those transactions; the same shall apply in the following item):
  - (a) the contract amount as of the balance sheet date or the principal equivalent amount specified in the contract;
  - (b) the market price and valuation gain or loss as of the balance sheet date;and

- (c) the calculation method for the market price; and
- (ii) Derivative Transactions to which Hedge Accounting is applied: the following matters for each type of subject matter of said transactions:
  - (a) the contract amount as of the balance sheet date or the principal equivalent amount specified in the contract;
  - (b) the market price as of the balance sheet date; and
  - (c) the calculation method for the market price.
- (2) The matters specified in item (i) of the preceding paragraph shall be entered by classifying them by transaction types (meaning Futures Transactions, Options Transactions, Forward Transactions, Swap Transactions, and Any Other Derivative Transactions; the same shall apply in the following paragraph), into Market Transactions and transactions other than Market Transactions, into transactions on purchase contracts and those on sale contracts, and into the period from the balance sheet date to the settlement date of the transaction or from said date to the time of termination of the contract, and other matters.
- (3) The matters specified in paragraph (1), item (ii) shall be entered by classifying them by the method of Hedge Accounting, the type of Transaction, the Hedged Items, and other matters.
- (4) The matters specified in paragraph (1) need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes on Profit or Loss, etc. under the Equity Method)

Article 8-9 For a company that does not prepare Consolidated Financial Statements, the matters specified in the following items shall be entered in the notes for each of the categories of cases listed in those items; provided, however, that, with regard to the matters specified in item (i), any Affiliated Company that is of little significance in terms of its profit or loss the retained earnings may be excluded:

- (i) where there is any Affiliated Company: the amount of investment in the Affiliated Company, the amount of investment where the Equity Method is applied to said investment, and the amount of investment return or investment loss; and
- (ii) where there is any Special Purpose Company Subject to Disclosure (meaning a Special Purpose Company (limited to one that is presumed not to be classified as the Subsidiary Company of its Equity Investors, etc. (meaning investors who have invested in said Special Purpose Company or a Company, etc. that has transferred assets to said Special Purpose Company) pursuant to the provisions of that paragraph) under the provisions of Article 8, paragraph (7); hereinafter the same shall apply in this item): an outline of the Special Purpose Company Subject to Disclosure, an outline of

transactions with the Special Purpose Company Subject to Disclosure, the transaction amounts, and any other significant matters.

(Notes on Transactions with Related Parties)

Article 8-10 (1) Where a Company Submitting Financial Statements carries out transactions with any Related Party (such transactions include any transactions which said Related Party carries out with the Company Submitting Financial Statements for the benefit of a third party and any transactions carried out between the Company Submitting Financial Statements and a third party wherein said Related Party exerts a significant influence on the Company Submitting Financial Statements with regard to said transactions), the following matters shall be entered in the notes for each Related Party, with regard to any of such transactions that are significant; provided, however, that this shall not apply where the Company Submitting Financial Statements prepares Consolidated Financial Statements:

- (i) where said Related Party is a Company, etc., its name, location, and stated capital or capital contribution, a description of its business, and the share of voting rights in said Related Party held by the Company Submitting Financial Statements, or the share of voting rights in the Company Submitting Financial Statements held by said Related Party;
- (ii) where said Related Party is an individual, his/her name and occupation, and the share of voting rights in the Company Submitting Financial Statements held by said Related Party;
- (iii) the relationship between the Company Submitting Financial Statements and said Related Party;
- (iv) the details of the transactions;
- (v) the transaction amount by type of transaction;
- (vi) conditions of the transactions and the policy for deciding the conditions of the transactions;
- (vii) the ending balances of the separate major account titles pertaining to claims and obligations arising from transactions;
- (viii) where there have been any changes in the conditions of the transactions, an entry to that effect, the details of the change, and the details of the influence of said change on the Financial Statements;
- (ix) where claims against the Related Party are classified as Claims with a Possibility of Default (meaning claims against debtors who have not yet reached a state of business failure, but who face or are very likely to face serious problems in repaying their debts) or as Claims in Bankruptcy, Reorganization, etc. (meaning claims in bankruptcy, claims in rehabilitation, claims in reorganization, and other equivalent claims; the same shall apply hereinafter), the following matters:

- (a) the balance of the allowance for doubtful accounts as of the end of the current business year;
  - (b) additions to the allowance for doubtful accounts, etc. reported for the current business year; and
  - (c) the bad debt losses, etc. (including any bad debt losses incurred where the claims were classified as General Claims (meaning claims against debtors who are not facing serious problems in their management conditions)); and
  - (x) where any allowance other than the allowance for doubtful accounts has been established for transactions with the Related Party, matters equivalent to those set forth in the preceding items regarding any such allowances that are found appropriate to be entered in the notes.
- (2) Notwithstanding the provisions of the main clause of the preceding paragraph, the matters set forth in items (ix) and (x) of that paragraph may be entered as a combined amount for each type of Related Party set forth in the items of Article 8(17).
- (3) With regard to any of the transactions with a Related Party that are specified in the following items, the notes prescribed in paragraph (1) are not required:
- (i) transactions based on general competitive bidding, receipt of interest on deposits and dividends, and other transactions whose conditions are clearly similar to those of general transactions in light of the nature of the transactions; and
  - (ii) payment of remuneration, bonuses, and severance packages to Officers.
- (4) The matters set forth in paragraph (1) shall be entered in the notes in accordance with Form No. 1.

(Notes on the Parent Company or any Significant Affiliated Company)

Article 8-10-2 (1) Where any of the entities listed in the following items exist for a Company Submitting Financial Statements, the matters specified in each of those items shall be entered in the notes; provided, however, that this shall not apply where the Company Submitting Financial Statements prepares Consolidated Financial Statements:

- (i) a Parent Company: the name of the Parent Company and, where securities issued by the Parent Company are listed on a Financial Instruments Exchange (meaning a financial instruments exchange as defined in Article 2, paragraph (16) of the Act, including one established outside Japan which is of the same nature; hereinafter the same shall apply in this item), an entry to that effect and the name of said Financial Instruments Exchange, and where securities issued by the Parent Company are not listed on a Financial Instruments Exchange, an entry to that effect; and
- (ii) a Significant Affiliated Company: the name of any such Affiliated Company, and the amounts of the following items on its balance sheet and profit and

loss statement, on which the amount of investment returns or investment losses has been calculated, where the Equity Method has been applied:

- (a) Balance Sheet Items (meaning total current assets, total fixed assets, total current liabilities, total fixed liabilities, total net assets, and any other significant items); and
- (b) Profit and Loss Statement Items (meaning net sales (including revenue from service operations; the same shall apply hereinafter), the amount of net income for the period before taxes or the amount of net loss for the period before taxes, the amount of net income for the period or the amount of net loss for the period, and any other significant items).

(2) The amounts for the items set forth in item (ii), sub-items (a) and (b) of the preceding paragraph may, notwithstanding the provisions of said paragraph, be entered in either of the following ways; in this case, an entry to that effect shall be made:

- (i) by entering the combined amounts for the significant Affiliated Companies; or
- (ii) by entering the combined amounts for Affiliated Companies on which the amount of investment returns or investment losses has been calculated, where the Equity Method was applied.

#### (Application of Tax Effect Accounting)

Article 8-11 With regard to corporate taxes and any other taxes that are imposed with amounts related to profits as the tax base (hereinafter referred to as "Corporate Tax, etc."), Financial Statements shall be prepared by applying Tax Effect Accounting (meaning an accounting method which, where there are differences between the amounts of assets and liabilities reported on the balance sheet and the amounts of assets and liabilities derived as a result of calculating the taxable income, reasonably matches the amount of net income for the period before deducing Corporate Tax, etc. with the applicable amount of Corporate Tax, etc. through an appropriate inter-period allocation of the amount of Corporate Tax, etc. pertaining to such differences; the same shall apply hereinafter).

#### (Notes on Tax Effect Accounting)

Article 8-12 (1) When Tax Effect Accounting is applied pursuant to the provisions of the preceding Article, the matters listed in the following items shall be entered in the notes:

- (i) a breakdown of the major causes for the occurrence of Deferred Tax Assets (meaning the amount reported as assets as a result of applying Tax Effect Accounting; the same shall apply hereinafter) and Deferred Tax Liabilities (meaning the amount reported as liabilities as a result of applying Tax Effect

- Accounting; the same shall apply hereinafter);
- (ii) if there is a difference between the tax rate used for calculating the Corporate Tax, etc. for the relevant business year (hereinafter referred to as the "Normal Effective Statutory Tax Rate" in this Article) and the ratio of Corporate Tax, etc. (including deferred Corporate Tax, etc. reported as a result of applying Tax Effect Accounting) to the net income for the period before Corporate Tax, etc. is deducted (hereinafter referred to as the "Corporate Tax Burden Rate, etc. after the Application of Tax Effect Accounting" in this Article), the breakdown of the causes for said difference, by major item;
  - (iii) if the amount of Deferred Tax Assets and the amount of Deferred Tax Liabilities have been revised as a result of a change in the tax rate of any Corporate Tax, etc., an entry to that effect and the amounts as revised; and
  - (iv) where there was a change in the tax rate of any Corporate Tax, etc. after the closing date, the details of such change and the influence thereof.
- (2) Where any amount has been deducted from Deferred Tax Assets when calculating the Deferred Tax Assets, said amount shall be entered in the notes in addition to the matters set forth in item (i) of the preceding paragraph.
- (3) With regard to the matters set forth in paragraph (1), item (ii), the notes may be omitted if the difference between the Normal Effective Statutory Tax Rate and the Corporate Tax Burden Rate, etc. after the Application of Tax Effect Accounting is not more than five percent of the Normal Effective Statutory Tax Rate.

(Notes on Post-Employment Benefits)

Article 8-13 (1) With regard to Post-Employment Benefits (meaning one-time post-employment payments and retirement pensions paid to workers from the time when they have ceased to be employed; the same shall apply hereinafter), the following matters shall be entered in the notes:

- (i) an outline of the Post-Employment Benefit plan adopted;
- (ii) the amount of Post-Employment Benefit Obligations (meaning the amount obtained by first calculating the amount that constitutes the portion of Post-Employment Benefits (excluding those that have already been paid) projected to be paid to each worker (including any person who is no longer employed at the relevant company; hereinafter the same shall apply in this item) that has arisen based on each worker's service between the date of hire and the balance sheet date (for a worker who is no longer employed, between the date of hire until the date he/she ceased to be employed at the relevant company), this amount having been discounted based on a computation period that runs from the balance sheet date until the day on which Post-Employment Benefits are projected to be paid to each worker, by using a rate specified by

the Company Submitting Financial Statements based on the yields of national government bonds, government agency bond certificates, or any other bonds with a high credit rating which have a long period from the balance sheet date until the time of maturity (such rate shall hereinafter be referred to as the "Discount Rate" in this paragraph), and then calculating the total amount for all workers; the same shall apply hereinafter), the amount of Pension Assets (meaning the amount equivalent to assets that are accumulated for allocation to Post-Employment Benefits based on an employees' pension fund contract or a qualified retirement pension contract, etc.), the amount of Post-Employment Benefit reserves, and any other matters concerning Post-Employment Benefit Obligations;

- (iii) the amount of Post-Employment Benefit expenses, the amount of Service Costs (meaning an amount obtained by first calculating the amount that constitutes the portion of the Post-Employment Benefits projected to be paid to each worker that has arisen based on each worker's service between the day of commencement of the relevant business year and the balance sheet date, this amount having been discounted based on a computation period that runs from the balance sheet date until the day on which Post-Employment Benefits are projected to be paid to each worker, by using the Discount Rate, and then calculating the total amount for all workers), the amount of Interest Costs (meaning an amount equivalent to the interest generated during the relevant business year for the Post-Employment Benefit Obligations as of the end of the immediately preceding business year, calculated by using the Discount Rate), and any other matters concerning Post-Employment Benefit expenses; and
- (iv) the Discount Rate, the expected rate of return, the period allocation method for projected Post-Employment Benefits, the number of years over which the amount of Past Service Liabilities (meaning the amount of Post-Employment Benefit Obligations that arise as a result of the Post-Employment Benefit policy being adopted or the amount of increase or decrease in the Post-Employment Benefit Obligations resulting from the level of Post-Employment Benefits being revised) is amortized, and any other matters concerning the basis for the calculation of Post-Employment Benefits, etc.

- (2) The matters specified in the preceding paragraph need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes on the Granting or Delivery of Stock Options, Share Options in the Company, or Shares in the Company)

Article 8-14 (1) Where a Company Submitting Financial Statements has granted

Stock Options or Share Options in the Company or delivered Shares in the Company, the following matters shall be entered in the notes; provided, however, that this shall not apply if it is otherwise provided for:

- (i) where services were received, the amount reported as expenses for the relevant business year and the account title thereof;
  - (ii) where goods were acquired, the initial amount reported as assets or amount reported as expenses for such a transaction, and the account title thereof; and
  - (iii) where unexercised Stock Options have been forfeited, the amount reported as profit.
- (2) The matters listed in the preceding paragraph need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes on Stock Options)

Article 8-15 (1) In addition to the provisions of the preceding Article, the following matters shall be entered in the notes as the details of the Stock Options, the volume of Stock Option activity, and changes thereto:

- (i) the number of persons granted Stock Options, for each category, such as Officers and workers;
- (ii) the number of Stock Options by share class:
  - (a) the number of Stock Options granted;
  - (b) the number of forfeitures of non-vested Stock Options in the current business year;
  - (c) the number of vested Stock Options in the current business year;
  - (d) the number of Stock Options yet to be vested as of the end of the previous business year and as of the end of the current business year;
  - (e) the number of Stock Options exercised in the current business year;
  - (f) the number of forfeitures of unexercised Stock Options in the current business year; and
  - (g) the number of vested Stock Options yet to be exercised as of the end of the previous business year and as of the end of the current business year;
- (iii) the grant date;
- (iv) vesting conditions (if there are no vesting conditions, an entry to that effect);
- (v) the requisite service period (if there is no requisite service period, an entry to that effect);
- (vi) the exercise period;
- (vii) the exercise price;
- (viii) the fair unit value as of the grant date; and
- (ix) the average stock price at the time of exercise of the Stock Options that

- were exercised during the current business year.
- (2) The notes set forth in the preceding paragraph shall be entered in either of the following ways:
    - (i) by entering such notes individually for each contract; or
    - (ii) by entering such notes collectively for multiple contracts.
  - (3) Notwithstanding the provisions of the preceding paragraph, notes for the following Stock Options shall not be entered collectively for multiple contracts:
    - (i) Stock Options that cannot be regarded generally similar in their classification of persons subject to grants thereof, in the details of their vesting conditions, in their requisite service periods, and in their exercise periods;
    - (ii) Stock Options granted before a public offering of shares, and Stock Options granted after a public offering of shares; and
    - (iii) Stock Options with considerably different methods for setting the exercise prices.
  - (4) With regard to Stock Options granted during the current business year and Stock Options whose fair unit value has changed due to changes in conditions during the current business year, the calculation technique used as the method for estimating the fair unit value and the main basic numerical values used along with the method for estimating said values; provided, however, that the calculation technique used and the method for estimating the main basic numerical values used may be entered collectively for Stock Options that have used the same methods.
  - (5) The method for estimating the number of Stock Options forfeited due to non-attainment of service conditions or performance conditions shall be entered as the method for estimating the number of Stock Options vested.
  - (6) Where an unlisted enterprise has granted Stock Options, it shall state the valuation method for the Shares in the Company on which the calculation of the fair unit value is based, as the method for estimating the fair unit value.
  - (7) Where a calculation was made based on the per-unit Intrinsic Value (meaning the per-unit value assuming the exercise of Stock Options, comprised of the difference between the amount at which the Shares in the Company that constitute the underlying assets of the Stock Options are valued as of that point in time and the exercise price; hereinafter the same shall apply in this paragraph) of the Stock Options, the total amount of the Intrinsic Value as of the end of the business year, and the total amount of the Intrinsic Value as of the exercise dates of the Stock Options that were exercised during the relevant business year shall be entered in the notes.
  - (8) Where there has been a change in the matters entered in the notes as the details of Stock Options as a result of the conditions of the Stock Options having changed, the details of such a change shall be entered in the notes.

Where the fair unit value has not been reviewed because the fair unit value of the Stock Options as of the date that the conditions changed was lower than the fair unit value as of the grant date, an entry to that effect shall be set down in the notes.

- (9) The matters specified in paragraph (1) through the preceding paragraph need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes on Transactions in which the Consideration Consists of Share Options in the Company or Shares in the Company)

Article 8-16 (1) In addition to what is provided for in Article 8-14, where Share Options in the Company have been granted or Shares in the Company have been delivered as the consideration for services received or goods acquired, any matters listed in the items of paragraph (1) of the preceding Article which are relevant shall be entered in an equivalent manner as under said Article. In this case, the details of the services received or the goods acquired, and, if the consideration for the services or the acquisition price of the goods was calculated based on the fair unit value of said services or goods, an entry to that effect shall be set down in the notes.

- (2) Where the granting of Share Options in the Company or the delivery of Shares in the Company does not have the nature of consideration, an entry to that effect and the grounds for determining that it does not have the nature of consideration shall be entered.
- (3) The matters specified in the preceding two paragraphs need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes for Where the Purchase Method Has Been Applied)

Article 8-17 (1) Where a Business Combination applying the Purchase Method has been carried out during the current business year, the following matters shall be entered in the notes:

- (i) the name of the Acquired Enterprise and description of its business, and if a business has been acquired, the name of the other Enterprise and the details of the acquired business, the main reason for carrying out the Business Combination, the date of the Business Combination, the legal form of the Business Combination, the name of the Combined Enterprise, and the share of voting rights acquired;
- (ii) the period of performance of the Acquired Enterprise or the acquired business included in the Financial Statements;
- (iii) the costs of acquiring the Acquired Enterprise or the acquired business, and the breakdown thereof;

- (iv) where shares have been delivered as the consideration for an acquisition, the exchange ratio and the calculation method thereof, the number of shares delivered or to be delivered, and the valuation amount thereof, by share class;
  - (v) where shares have been delivered as the consideration for an acquisition, if the acquisition cost has been calculated based on the share price as of the date of delivery of the shares, an entry to that effect;
  - (vi) the amount of goodwill or negative goodwill that occurred, the cause for its occurrence, the amortization method, and the amortization period;
  - (vii) the amount of assets accepted and liabilities assumed on the date of the Business Combination, and the major breakdown thereof;
  - (viii) the details of Contingent Consideration (meaning consideration for the acquisition that is additionally delivered or transferred depending on future events or transaction results that occur after the conclusion of the Business Combination, which is specified in the Business Combination contract) provided for in the Business Combination contract and the accounting policy for the relevant business year and thereafter;
  - (ix) the amount of acquisition costs which were allocated to research and development costs, etc. and were reported as expenses, along with the account title thereof;
  - (x) where most of the acquisition costs have been allocated to intangible fixed assets other than goodwill, the amount that has been allocated to intangible fixed assets other than goodwill, the breakdown thereof by major type, and the weighted average amortization period for the entirety thereof and that by major type;
  - (xi) where the allocation of acquisition costs has yet to be completed, an entry to that effect and the reason therefor, and if the initially allocated amounts of the acquisition costs were significantly revised in or after the business year following the business year in which the Business Combination was carried out, the details of such revision and the amounts as revised;
  - (xii) for a company that does not prepare Consolidated Financial Statements, where an accounting method equivalent to the Pooling of Interest Method has been applied to a Business Combination in which the Acquiring Enterprise is not the Surviving Company, the estimated amount of influence that would have been exerted on the balance sheet and the profit and loss statement if the Purchase Method had been applied; and
  - (xiii) for a company that does not prepare Consolidated Financial Statements, the estimated amount of influence that would have been exerted on the profit and loss statement for the current business year if the Business Combination had been completed on the day of commencement of the business year.
- (2) Notwithstanding the provisions of the preceding paragraph, where the

Business Combination and the estimated amount of influence set forth in items (xii) and (xiii) of the preceding paragraph are of little significance, the notes may be omitted; provided, however, that where, despite the little significance of individual Business Combinations, the Business Combinations carried out during a business year have significance as a whole, the matters listed in item (i) and items (iii) to (xi) inclusive of the preceding paragraph shall be entered in the notes for such Business Combinations as a whole.

(3) The estimated amount of influence set forth in paragraph (1), item (xii) shall be any of the following amounts; in this case, matters equivalent to the matters listed in items (ii) to (xi) inclusive of that paragraph shall be entered in the notes:

(i) the difference between the amounts for the following items on the balance sheet and the profit and loss statement if the Purchase Method had been applied and the amounts for the following items on the balance sheet and the profit and loss statement pertaining to the Surviving Company:

(a) Balance Sheet Items (meaning total assets, total current assets, total fixed assets, total liabilities, total current liabilities, total fixed liabilities, total net assets, and goodwill or negative goodwill); and

(b) Profit and Loss Statement Items (meaning net sales, the amount of operating income or the amount of operating loss, the amount of ordinary income or the amount of ordinary loss, the amount of net income for the period before taxes or the amount of net loss for the period before taxes, the amount of net income for the period or the amount of net loss for the period, the amortized amount of goodwill or the amortized amount of negative goodwill, and the per-share amount of net income for the period or per-share amount of net loss for the period); or

(ii) the amounts for the items on the balance sheet and the profit and loss statement listed in the preceding item if the Purchase Method had been applied.

(4) The matters set forth in paragraph (1), item (xii) shall continue to be entered in the notes in and after the business year following the business year in which the Business Combination was carried out; provided, however, that the notes may be omitted if the estimated amount of influence loses significance in or after said following business year.

(5) the estimated amount of influence set forth in paragraph (1), item (xiii) shall be any of the following amounts, while the method for calculating the estimated amounts and the significant assumptions shall also be entered and, where said notes have yet to receive an audit certification, an entry to that effect shall be made:

(i) the difference between net sales and profit and loss information, calculated as if the Business Combination had been completed on the day of

commencement of the business year, and the amount of sales and profit and loss information on the profit and loss statement of the Acquiring Enterprise;  
or

- (ii) the net sales and the profit and loss information calculated as if the Business Combination had been completed on the day of commencement of the business year.
- (6) The matters specified in paragraph (1) (excluding items (xii) and (xiii)) and paragraph (2) need not be entered where the same contents are to be entered in Consolidated Financial Statements. In this case, an entry to that effect shall be set down in the notes.

(Notes for Where the Pooling of Interest Method Has Been Applied)

Article 8-18 (1) Where a Business Combination applying the Pooling of Interest Method has been carried out during the current business year, the following matters shall be entered in the notes:

- (i) the names of the Constituent Enterprises and a business description thereof, the purpose of the Business Combination, the date of the Business Combination, the legal form of the Business Combination, and the name of the Combined Enterprise;
  - (ii) the exchange ratio of voting shares and the calculation method thereof, the number of shares delivered or to be delivered, the share of voting rights after the Business Combination, and the reason for determining said Business Combination to be a combining of interests;
  - (iii) the period of performance of the Combinees included in the Financial Statements;
  - (iv) the breakdown of the assets, liabilities and net assets succeeded to from the Combinees;
  - (v) unification of accounting policies, details of elimination of transactions, etc. carried out before the Business Combination, and the amount of expenditure required for the Business Combination along with the account title thereof; and
  - (vi) a description of any business that it has been decided to dispose of as a result of the Business Combination, the time of disposal, the method of disposal, and the reason for the disposal.
- (2) Where multiple accounting policies cannot be unified during a single business year, an entry to that effect and the reason therefor shall be set down in the notes on the matters set forth in item (v) of the preceding paragraph.
- (3) When entering the matters set forth in paragraph (1), item (vi), the amounts reported on the balance sheet for the business year in which it has been decided to dispose of the relevant business, the net sales and the amount of operating income or the amount of operating losses, etc. that were reported for

said business in the immediately preceding business year shall be entered; provided, however, that, where it is difficult to state the amounts, an entry to that effect and the reason therefor shall be entered.

- (4) The matters specified in the preceding three paragraphs need not be entered where the same contents are entered in Consolidated Financial Statements. In this case, an entry to that effect shall be made.

Article 8-19 (1) Where a merger applying the Pooling of Interest Method has been carried out during the current business year, the following matters shall be entered in the notes, in addition to the matters specified in the preceding Article:

- (i) where the amounts of transactions between the Constituent Enterprises during the period from the day of commencement of the business year until the day immediately preceding the date of the Business Combination are significant, said transaction amounts; and
  - (ii) the estimated amount of influence on major items on the profit and loss statement, calculated by deeming that the merger was carried out on the day of commencement of the business year.
- (2) Where the Combined Enterprise prepares Consolidated Financial Statements, the matters set forth in item (ii) of the preceding paragraph need not be entered.

(Notes on Common Control Transactions, etc.)

Article 8-20 (1) Where a Common Control Transaction, etc. has been carried out during the current business year, the following matters shall be entered in the notes:

- (i) the names of the Constituent Enterprises or the target business and a description of the relevant business, the legal form of the Business Combination, the name of the Combined Enterprise, and an outline of the transaction, including the purpose thereof;
  - (ii) an outline of the accounting implemented; and
  - (iii) where shares in a Subsidiary Company have additionally been acquired, the matters equivalent to those set forth in Article 8-17, paragraph (1), items (iii) to (vi) inclusive, items (viii) and (ix).
- (2) Notwithstanding the provisions of the preceding paragraph, notes on said matters may be omitted where the Common Control Transaction, etc. has little significance; provided, however, that where, despite the little significance of individual Common Control Transactions, etc., the Common Control Transactions, etc. carried out during the business year in which the Business Combinations were implemented have significance as a whole, the matters set forth in that paragraph shall be entered in the notes for such Common Control

Transactions, etc. as a whole.

- (3) The matters specified in the preceding two paragraphs need not be entered where the same contents are entered in Consolidated Financial Statements. In this case, an entry to that effect shall be made.

(Notes for Where a Subsidiary Company Has Absorbed Its Parent Company through an Absorption-Type Merger)

Article 8-21 (1) Where a Subsidiary Company has absorbed its Parent Company through an absorption-type merger, if the Subsidiary Company, which is the Company Submitting Financial Statements, does not prepare Consolidated Financial Statements, the estimated amount of influence that would have been exerted during the current business year if the Parent Company were to have become the Surviving Company shall be entered in the notes; provided, however, that where the estimated amount of influence has little significance, the notes may be omitted.

- (2) The estimated amount of influence set forth in the preceding paragraph shall be any of the following amounts:
- (i) the difference between the amounts of the following items that would appear on the balance sheet and the profit and loss statement if the Parent Company were to have absorbed the Subsidiary Company through an absorption-type merger, and the amounts of the following items on the balance sheet and the profit and loss statement pertaining to the Surviving Company:
    - (a) Balance Sheet Items (meaning total assets, total current assets, total fixed assets, total liabilities, total current liabilities, total fixed liabilities, total net assets, and goodwill or negative goodwill); and
    - (b) Profit and Loss Statement Items (meaning net sales, the amount of operating income or the amount of operating loss, the amount of net income for the period before taxes or the amount of net loss for the period before taxes, the amount of net income for the period or the amount of net loss for the period, the amortized amount of goodwill or the amortized amount of negative goodwill, and the per-share amount of net income for the period or per-share amount of net loss for the period); or
  - (ii) the amounts that would appear in the items on the balance sheet and the profit and loss statement listed in the preceding item if the Parent Company were to have absorbed the Subsidiary Company through an absorption-type merger.
- (3) The matters set forth in the preceding paragraph shall continue to be entered in the notes in and after the business year following the business year in which the Business Combination was carried out; provided, however, that the notes may be omitted if the estimated amount of influence loses significance in or

after said following business year.

(Notes on the Formation of Jointly Controlled Enterprises)

Article 8-22 (1) Where a Jointly Controlled Enterprise has been formed during the current business year, matters equivalent to those set forth in Article 8-20, paragraph (1), items (i) and (ii) shall be entered in the notes. With regard to an outline of the accounting implemented, the reason for determining said Business Combination to be the formation of a Jointly Controlled Enterprise shall be entered.

(2) Notwithstanding the provisions of the preceding paragraph, notes on said matters may be omitted where the formation of the Jointly Controlled Enterprise has little significance; provided, however, that where, despite the little significance of individual formations of Jointly Controlled Enterprises, the formations of the Jointly Controlled Enterprises carried out during the business year in which the Business Combinations were implemented have significance as a whole, the matters set forth in that paragraph shall be entered in the notes for such Business Combinations as a whole.

(3) The matters specified in the preceding two paragraphs need not be entered where the same contents are entered in Consolidated Financial Statements. In this case, an entry to that effect shall be made.

(Notes on Business Divestitures)

Article 8-23 (1) Where a Business Divestiture has been carried out during the current business year, and said Business Divestiture is neither categorized as a Common Control Transaction, etc. nor as the formation of a Jointly Controlled Enterprise, the following matters shall be entered in the notes:

(i) the name of the Divested Enterprise, a description of the divested business, the main reason for carrying out the Business Divestiture, the date of the Business Divestiture, and an outline of the Business Divestiture including the legal form thereof;

(ii) an outline of the accounting implemented:

(a) where any gain or loss on transfer has been recognized, the amount thereof, the fair book values of the assets and liabilities of the transferred business, and the major breakdown thereof; or

(b) where no gain or loss on transfer has been recognized, an entry to that effect, the type of consideration received, the fair book values of the assets and liabilities of the transferred business, and the major breakdown thereof;

(iii) the estimated amount of profit or loss of the divested business, which is reported on the profit and loss statement for the relevant business year; and

(iv) if, for a Business Divestiture for which a gain or loss on transfer has been

recognized, there is any continuing involvement other than Divested Enterprise shares being held as shares in a Subsidiary Company or shares in an Affiliated Company, an outline of such continuing involvement.

- (2) The entry of the matters set forth in item (iv) of the preceding paragraph may be omitted where said continuing involvement is insignificant.
- (3) Notwithstanding the provisions of paragraph (1), notes on said matters may be omitted where the Business Divestiture has little significance; provided, however, that where, despite the little significance of individual transactions, the transactions carried out during the business year in which the Business Divestitures were implemented have significance as a whole, the matters set forth in items (i) and (ii) of that paragraph shall be entered in the notes for such transactions as a whole.
- (4) The matters specified in paragraph (1) (excluding items (iii) and (iv)) and the preceding paragraph need not be entered where the same contents are entered in Consolidated Financial Statements. In this case, an entry to that effect shall be made.

(Notes on the Divested Enterprise)

Article 8-24 Even where a Business Divestiture is not categorized as a Business Combination, the Divested Enterprise shall state matters equivalent to those set forth in Article 8-18, paragraph (1), items (i) and (iv) in the notes.

(Notes on Significant Post-Balance Sheet Events, etc. Related to Business Combinations)

- Article 8-25 (1) Where a Business Combination that has been completed after the balance sheet date is categorized as a Significant Post-Balance Sheet Event, etc., the matters equivalent to those set forth in Article 8-17, paragraph (1) (excluding item (ii) and items (xi) to (xiii) inclusive) and (2), Article 8-18, paragraph (1) (excluding items (iii) and (v)) and paragraph (3), Article 8-20, and Article 8-22 shall be entered in the notes; provided, however that any matters that have yet to be determined are not required to be entered.
- (2) Where an agreement has been reached on the major conditions of a Business Combination, but the Business Combination has not been completed by the balance sheet date, or where an agreement is reached on major conditions of a Business Combination after the balance sheet date, matters equivalent to those set forth in the preceding paragraph shall be entered.
  - (3) The matters specified in the preceding two paragraphs need not be entered where the same contents are entered in Consolidated Financial Statements. In this case, an entry to that effect shall be made.

(Notes on Significant Post-Balance Sheet Events, etc. Related to Business

Divestitures)

Article 8-26 (1) Where a Business Divestiture that is completed after the balance sheet date is categorized as a Significant Post-Balance Sheet Event, the Divesting Enterprise shall state matters equivalent to those set forth in Article 8-23 in the notes; provided, however that any matters that have yet to be determined are not required to be entered.

(2) Where an agreement has been reached on the major conditions of a Business Divestiture, but the Business Divestiture has not been completed by the balance sheet date, or where an agreement is reached on major conditions of a Business Divestiture after the balance sheet date, the Divesting Enterprise shall enter the matters equivalent to those set forth in Article 8-23, paragraph (1), item (i) in the notes.

(3) The matters specified in the preceding two paragraphs need not be entered where the same contents are entered in Consolidated Financial Statements. In this case, an entry to that effect shall be made.

(Notes on the Going Concern Assumption)

Article 8-27 Where, as of the balance sheet date, there is a trend of deterioration in any financial indicator, such as excessive debts, or a possibility for financial failure, such as a significant debt default, or any other event or circumstance that raises significant doubt about the assumption that the company will stay in business in the future (hereinafter referred to as the "Going Concern Assumption"), the following matters shall be entered in the notes:

- (i) an entry to the effect that said event or circumstance exists, and details thereof;
- (ii) the existence of significant doubt about the Going Concern Assumption;
- (iii) the business manager's measures and the business plan for eliminating or drastically improving said event or circumstance; and
- (iv) whether or not the influence of said significant doubt is reflected in the Financial Statements.

(Notes on Asset Retirement Obligations)

Article 8-28 With regard to Asset Retirement Obligations, the matters specified in the following items for each of the categories of Asset Retirement Obligations listed in those items shall be entered in the notes; provided, however, that notes may be omitted for matters of little significance:

- (i) any Asset Retirement Obligations that are reported on the balance sheet: the matters listed in sub-items (a) to (d) below:
  - (a) an outline of such Asset Retirement Obligations;
  - (b) the calculation method of the amounts of such Asset Retirement Obligations;

- (c) the increase or decrease in the total amount of such Asset Retirement Obligations during the relevant business year; and
- (d) if an estimated amount of Asset Retirement Obligations has been changed, an entry to that effect, the details of such a change, and its amount of influence;
- (ii) Asset Retirement Obligations other than those set forth in the preceding item: the matters listed in sub-items (a) to (c) below:
  - (a) an entry to the effect that the amounts of such Asset Retirement Obligations are not reported on the balance sheet;
  - (b) the reason for not reporting the amounts of such Asset Retirement Obligations; and
  - (c) an outline of such Asset Retirement Obligations.

(Notation Method)

- Article 9 (1) The notes to be entered pursuant to the provisions of this Ordinance shall be entered immediately after the entries under the provisions of Articles 8-2 and 8-3, except for those that are found appropriate to be entered as Footnotes (meaning the entry of notes at the end of the table or account statement contained in the Financial Statements in which the matters pertaining to said notes are entered; the same shall apply hereinafter); provided, however, that matters related to the matters that are entered pursuant to the provisions of Article 8-2 may be entered together therewith.
- (2) Notwithstanding the provisions of the preceding paragraph, the notes under the provisions of Article 8-27 shall be entered immediately after the Cash Flow statement. In this case, notwithstanding the provisions of Article 8-2, the matters entered under the provisions of that Article shall be entered immediately after the notes under the provisions of Article 8-27.
- (3) Where notes that are related to a specific account title are entered pursuant to the provisions of this Ordinance, the association between said account title and said notes shall be made clear by appending a symbol to said account title or by another similar method.

Article 10 Where, for Financial Statements that are to be submitted pursuant to the provisions of the Act by a stock company or a Designated Juridical Person engaged in a business to which the provisions of Article 2 apply, there are matters that are identical to those that must be entered in the notes pursuant to the provisions of this Ordinance, notes under the provisions of this Ordinance shall be entered for said matters, notwithstanding the provisions of laws, regulations, or Rules where there are special provisions of law or regulations as provided for in the main clause of Article 2; provided, however, that this shall not apply to matters that the Commissioner of the Financial

Services Agency finds inappropriate to enter in the notes with regard to a specific business, and in regard to which he/she has given special instructions to that effect.

Article 10-2 Where, for Financial Statements to be prepared for Special Trust Property, there are matters that are identical to those that must be entered in the notes pursuant to the provisions of this Ordinance, notes under the provisions of this Ordinance shall be entered for said matters, notwithstanding the provisions of the Special Purpose Trust Property Accounting Ordinance or the Investment Trust Property Accounting Ordinance; provided, however, that this shall not apply to matters that the Commissioner of the Financial Services Agency finds inappropriate to state in the notes, and in regard to which he/she has given special instructions to that effect.

(Units for Presenting Amounts)

Article 10-3 The amounts for the account titles and any other matters contained in Financial Statements shall be presented in units of million yen or thousand yen.

## **Chapter II Balance Sheets**

### **Section 1 General Provisions**

(Method of Entry in a Balance Sheet)

Article 11 (1) The method of entry in a balance sheet shall be in accordance with the provisions of this Chapter.

(2) Entries shall be made in the balance sheet in accordance with Form No. 2.

(Classification into Assets, Liabilities, and Net Assets)

Article 12 Assets, liabilities, and net assets shall be entered by classification into the assets section, liabilities section, and net assets section, respectively.

Article 13 The arrangement of account titles for assets and liabilities shall be done by current arrangement.

## **Section 2 Assets**

### **Division 1 General Provisions**

(Classification of Assets)

Article 14 Assets shall be entered by classification into current assets, fixed assets, and deferred assets, and assets categorized as fixed assets shall be

further classified into tangible fixed assets, intangible fixed assets, investments, and any other assets.

## **Division 2 Current Assets**

(Scope of Current Assets)

Article 15 The following assets shall be categorized as current assets:

- (i) cash and deposits; provided, however, that this shall exclude deposits that will not mature Within One Year.
- (ii) Negotiable Instruments Receivable (meaning claims on negotiable instruments that have arisen based on Ordinary Transactions; provided, however, that this shall exclude Claims in Bankruptcy, Reorganization, etc. that are clearly not collectible Within One Year; the same shall apply hereinafter);
- (iii) Accounts Receivable (meaning amounts receivable in the course of business, which have arisen based on Ordinary Transactions; provided, however, that this shall exclude Claims in Bankruptcy, Reorganization, etc. that are clearly not collectible Within One Year; the same shall apply hereinafter);
- (iv) Trading Securities, and securities which will mature Within One Year;
- (v) merchandise (including land, buildings, and any other real property owned for the purpose of sale; the same shall apply hereinafter);
- (vi) manufactured goods, by-products, and scraps;
- (vii) semi-finished goods (including self-made parts);
- (viii) raw materials and materials (including purchased parts);
- (ix) work in progress and partly-finished work;
- (x) consumable goods, consumable tools, instruments, equipment, and other supplies of reasonable value;
- (xi) Advance Payments (meaning advance payments for purchasing merchandise and raw materials (including any equivalents thereof); provided, however, that this shall exclude Claims in Bankruptcy, Reorganization, etc. that are clearly not collectible Within One Year; the same shall apply in Article 17, paragraph (1), item (x)); and
- (xii) any other assets that are recognized as being convertible into cash Within One Year.

Article 16 Prepaid expenses that should be expended Within One Year and accrued revenues shall be categorized as current assets.

Article 16-2 Deferred Tax Assets associated with assets categorized as current assets or liabilities categorized as current liabilities shall be categorized as current assets. The same shall apply to Deferred Tax Assets that are not

associated with particular assets or liabilities, which it is recognized will be reversed Within One Year.

Article 16-3 (1) Lease receivables in ownership-transfer Finance Lease

Transactions (meaning Finance Lease Transactions wherein the ownership of the Leased Property is recognized as being transferred to the lessee in light of the conditions under the lease contract; the same shall apply hereinafter) and lease investment assets in non-ownership-transfer Finance Lease Transactions (meaning Finance Lease Transactions other than ownership-transfer Finance Lease Transactions; the same shall apply hereinafter) that have arisen based on Ordinary Transactions (excluding Claims in Bankruptcy, Reorganization, etc. that are clearly not collectible Within One Year) shall be categorized as current assets.

(2) Lease receivables in ownership-transfer Finance Lease Transactions and lease investment assets in non-ownership-transfer Finance Lease Transactions that have arisen based on transactions other than Ordinary Transactions and that will mature Within One Year shall be categorized as current assets.

(Separate Presentation of Current Assets)

Article 17 (1) Assets categorized as current assets shall be set down under account titles with names that are indicative of said assets, in accordance with the following classification of items:

(i) cash and deposits;

(ii) Negotiable Instruments Receivable;

(iii) Accounts Receivable;

(iv) lease receivables (limited to those that have arisen based on Ordinary Transactions, and excluding Claims in Bankruptcy, Reorganization, etc. that are clearly not collectible Within One Year);

(v) lease investment assets (limited to those that have arisen based on Ordinary Transactions, and excluding Claims in Bankruptcy, Reorganization, etc. that are clearly not collectible Within One Year);

(vi) securities;

(vii) merchandise and manufactured goods (including semi-finished goods);

(viii) work in progress;

(ix) raw materials and supplies;

(x) Advance Payments;

(xi) prepaid expenses;

(xii) Deferred Tax Assets; and

(xiii) others.

(2) Where it is found appropriate to present assets categorized under any of the items set forth in the items of the preceding paragraph separately, the

provisions of that paragraph shall not preclude said assets from being set down separately under an account title with a name that is indicative of said assets.

(3) Notwithstanding the provisions of paragraph (1), assets categorized under the items listed in items (vii) to (ix) inclusive of said paragraph may be set down collectively under the account title of inventory assets. In this case, the account titles of the assets categorized under said items and the amounts thereof shall be entered in the notes.

Article 18 Shares in the Parent Company (limited to those acquired pursuant to the provisions of Article 135, paragraph (2) and Article 800, paragraph (1) of the Companies Act (Act No. 86 of 2005); the same shall apply in Article 31, item (i) and Article 32-2) that are recognized as shares that will be disposed of Within One Year shall be set down separately under the account title of Shares in the Parent Company in current assets; provided, however, that such shares may be entered in the notes where the amount of such shares is insignificant.

Article 19 Among assets categorized under the item set forth in Article 17, paragraph (1), item (xiii), any accrued revenue, short-term loans (including a finance negotiable instrument), short-term receivable from a shareholder, Officer, or worker, or any other asset whose amount exceeds one percent of the total amount of assets shall be set down under an account title with a name that is indicative of said asset.

(Presentation of Allowances for Current Assets)

Article 20 (1) Allowances for the assets categorized as current assets shall be, as contra-asset account titles corresponding to the relevant account titles, set down under the account title of allowances for doubtful accounts, or under any other account title with a name that is indicative of the purpose of said allowance's establishment, for each of said account titles; provided, however, that this shall not preclude such allowances from being presented in any of the following ways:

(i) by setting down said allowances collectively as a contra-asset account title corresponding to said asset account titles; or

(ii) by directly deducting said allowances from the amounts of the relevant assets, and presenting the balances after the deduction as the amounts of each of said assets.

(2) In the cases referred to in item (ii) of the preceding paragraph, the allowances shall be entered in the notes, either for each of the relevant asset account titles or collectively.

Article 21 Deleted.

### **Division 3 Fixed Assets**

#### **(Scope of Tangible Fixed Assets)**

Article 22 The following assets (provided, however, that the assets listed in items (i) to (viii) inclusive shall be limited to those provided for use in business) shall be categorized as tangible fixed assets:

- (i) buildings and the equipment attached thereto, such as heating, illumination, and ventilation;
- (ii) Structures (meaning docks, bridges, quays, piers, tracks, reservoirs, tunnels, chimneys, and other public works facilities or structures fixed on land; the same shall apply hereinafter);
- (iii) machinery and devices, as well as conveyance equipment such as conveyors, hoists, and cranes, and any other equipment attached thereto;
- (iv) vessels and water delivery equipment;
- (v) railway vehicles, cars, and other land delivery equipment;
- (vi) tools, instruments, and equipment; provided, however, that they shall be limited to those durable for one year or more;
- (vii) land;
- (viii) leased assets (limited to assets for which the Company Submitting Financial Statements is the lessee of the Leased Property in Finance Lease Transactions, and where said Leased Property is any of the objects set forth in the preceding items or in item (x));
- (ix) Construction in Progress (meaning expenditures in the case of constructing an object to be provided for use in business by using any of the assets listed in items (i) to (vii), and the materials that have been allocated for the purpose of said construction; the same shall apply in the following Article); and
- (x) any other tangible assets that are not categorized as current assets or assets that are investments.

#### **(Separate Presentation of Tangible Fixed Assets)**

Article 23 (1) Assets categorized as tangible fixed assets shall be set down under account titles with names that are indicative of said assets, in accordance with the following classification of items:

- (i) buildings (including the equipment attached thereto; the same shall apply hereinafter);
- (ii) structures;
- (iii) machinery and devices (including the equipment attached thereto; the same shall apply hereinafter);
- (iv) vessels (including water delivery equipment; the same shall apply

- hereinafter);
- (v) vehicles and other land delivery equipment;
  - (vi) tools, instruments, and equipment;
  - (vii) land;
  - (viii) leased assets (limited to assets for which the Company Submitting Financial Statements is the lessee of the Leased Property in Finance Lease Transactions, and where said Leased Property is any of the objects set forth in the preceding items or in item (x));
  - (ix) Construction in Progress; and
  - (x) others.
- (2) The provisions of Article 17, paragraph (2) shall apply mutatis mutandis to the case set forth in the preceding paragraph.
- (3) Notwithstanding the provisions of paragraph (1), assets categorized as the leased assets set forth in item (viii) of that paragraph may be included in any of the items listed in the items of that paragraph (excluding items (viii) and (ix)).

Article 24 Among the assets set forth in paragraph (1), item (x) of the preceding Article, any asset whose amount exceeds one percent of the total amount of assets shall be set down under an account title with a name that is indicative of said asset.

(Presentation of Amounts of Accumulated Depreciation)

Article 25 Apart from case set forth in the following Article, the amounts of accumulated depreciation for the buildings, structures, machinery, and devices, vessels, vehicles, and other land delivery equipment, tools, instruments, and equipment, leased assets, or any other tangible fixed assets listed in the items of Article 23, paragraph (1) shall be set down under account titles for accumulated depreciation, as the cross-asset account titles corresponding to the relevant account titles; provided, however, that this shall not preclude them from being set down collectively as the cross-asset account title corresponding to said fixed assets.

Article 26 The amounts of accumulated depreciation for the buildings, structures, machinery and devices, vessels, vehicles, and other land delivery equipment, tools, instruments, and equipment, leased assets, or any other tangible fixed assets listed in the items of Article 23, paragraph (1) may be directly deducted from the amounts of said respective assets, and the balances after those deductions may be presented as the amounts of each of said assets. In this case, the amounts of accumulated depreciation shall be entered in the notes, either for the asset account title of each of said assets or collectively.

(Presentation of Amounts of Accumulated Impairment Loss)

Article 26-2 (1) Apart from the cases set forth in the provisions of the following paragraph and paragraph (3), the amounts of accumulated impairment loss for tangible fixed assets shall be directly deducted from the amounts of each of the relevant assets (if the amounts of accumulated depreciation for tangible fixed assets have been directly deducted from the amounts of said assets pursuant to the provisions of the preceding Article, the amounts after such deduction), and the balances after said deductions shall be presented as the amounts of each of said assets.

(2) The amounts of accumulated impairment loss for tangible fixed assets to be depreciated may be set down as contra-asset account titles corresponding to each of the relevant account titles, under the account title of amounts of accumulated impairment loss; provided, however, that this shall not preclude them from being set down collectively as a cross-asset account title corresponding to said fixed assets.

(3) Where the amounts of accumulated depreciation and the amounts of accumulated impairment loss are set down pursuant to the provisions of Article 25 and the preceding paragraph as contra-asset account titles, the amounts of accumulated impairment loss may be combined with the amounts of accumulated depreciation, and be set down under the account title of amounts of accumulated depreciation.

(4) In the cases set forth in the preceding paragraph, an entry to the effect that the amounts of accumulated impairment loss are included in the amounts of accumulated depreciation shall be set down in the notes.

(Scope of Intangible Fixed Assets)

Article 27 The following assets shall be categorized as intangible fixed assets:

- (i) goodwill;
- (ii) patent rights;
- (iii) leasehold rights;
- (iv) surface rights;
- (v) trademark rights;
- (vi) utility model rights;
- (vii) design rights;
- (viii) mining rights;
- (ix) fishing rights;
- (x) commons of piscary;
- (xi) software;
- (xii) leased assets (limited to assets for which the Company Submitting Financial Statements is the lessee of the Leased Property in a Finance Lease

Transaction, and where said Leased Property is any of the objects set forth in item (ii) through the preceding item and the following item); and (xiii) any other intangible assets that are not categorized as current assets or assets that are investments.

(Separate Presentation of Intangible Fixed Assets)

Article 28 (1) Assets categorized as intangible fixed assets shall be set down under account titles with names that are indicative of said assets, in accordance with the following classification of items:

- (i) goodwill;
- (ii) patent rights;
- (iii) leasehold rights (including surface rights);
- (iv) trademark rights;
- (v) utility model rights;
- (vi) design rights;
- (vii) mining rights;
- (viii) fishing rights (including commons of piscary);
- (ix) software;
- (x) leased assets (limited to assets for which the Company Submitting Financial Statements is the lessee of the Leased Property in a Finance Lease Transaction and where said Leased Property is any of the objects set forth in item (ii) to the preceding item and the following item); and
- (xi) others.

(2) The provisions of Article 17, paragraph (2) shall apply mutatis mutandis to the cases set forth in the preceding paragraph.

(3) Notwithstanding the provisions of paragraph (1), assets categorized as the leased assets set forth in item (x) of that paragraph may be included in any of the items listed in the items of that paragraph (excluding items (i) and (x)).

Article 29 Among the assets set forth in paragraph (1), item (xi) of the preceding Article, any asset whose amount exceeds one percent of the total amount of assets shall be set down under an account title with a name that is indicative of said asset.

Article 30 The amounts of accumulated amortization and the amounts of accumulated impairment loss for intangible fixed assets shall be directly deducted from the amounts of said intangible fixed assets, and the balances after those deductions shall be presented as the amounts of each of said intangible fixed assets.

(Scope of Investments and Other Assets)

Article 31 The following assets shall be categorized as investments and other assets:

- (i) shares in an Associated Company (excluding shares categorized as Trading Securities, and excluding Shares in the Parent Company; the same shall apply hereinafter) and securities that are not categorized as current assets;
- (ii) capital investments;
- (iii) long-term loans; and
- (iv) in addition to what is provided for in the preceding items, long-term assets other than those categorized as current assets, tangible fixed assets, intangible fixed assets, or deferred assets.

Article 31-2 Prepaid expenses other than those prescribed in Article 16 shall be categorized as investments and other assets.

Article 31-3 Deferred Tax Assets other than those prescribed in Article 16-2 shall be categorized as investments and other assets.

Article 31-4 Lease receivables in ownership-transfer Finance Lease Transactions and lease investment assets in non-ownership-transfer Finance Lease Transactions other than those prescribed in Article 16-3 shall be categorized as investments and other assets.

(Separate Presentation of Investments and Other Assets)

Article 32 (1) Assets categorized as investments and other assets shall be set down under account titles with names that are indicative of said assets, in accordance with the following classification of items:

- (i) investment securities; provided, however, that this shall exclude shares in an Associated Company, bonds in an Associated Company, and other Securities in an Associated Company (meaning Securities in an Associated Company that are other than shares in an Associated Company and bonds in an Associated Company; hereinafter the same shall apply in this paragraph);
- (ii) shares in an Associated Company;
- (iii) bonds in an Associated Company;
- (iv) other Securities in an Associated Company;
- (v) capital investments; provided, however, that this shall exclude capital investments in Associated Companies;
- (vi) capital investments in Associated Companies;
- (vii) long-term loans; provided, however, that this shall exclude long-term loans to shareholders, Officers, workers, or Associated Companies;
- (viii) long-term loans to shareholders, Officers, and workers;
- (ix) long-term loans to Associated Companies;

- (x) Claims in Bankruptcy, Reorganization, etc.;
- (xi) long-term prepaid expenses;
- (xii) Deferred Tax Assets; and
- (xiii) Others.

(2) The provisions of Article 17, paragraph (2) shall apply mutatis mutandis to the cases set forth in the preceding paragraph.

Article 32-2 Shares in the Parent Company other than those prescribed in Article 18 shall be set down separately in investments and other assets under the account title of shares in the Parent Company; provided, however, that such shares may be entered in the notes where the amount of such shares is insignificant.

Article 32-3 Deferred Tax Assets related to a revaluation as prescribed in Article 7, paragraph (1) of the Act on Revaluation of Land (Act No. 34 of 1998; hereinafter referred to as the "Land Revaluation Act") shall be set down separately in investments and other assets under the account title of Deferred Tax Assets related to revaluation.

Article 33 Among the assets set forth in Article 32, paragraph (1), item (xiii), any Real Property for Investment (meaning land, buildings, or any other real property owned for the purpose of investment), deposits that will not mature Within One Year, or any other asset whose amount exceeds one percent of the total amount of assets shall be set down under an account title with a name that is indicative of said asset.

(Presentation of Allowances for Investments and Other Assets)

Article 34 The provisions of Article 20 shall apply mutatis mutandis to allowances for assets categorized as investments and other assets.

Article 35 Deleted.

#### **Division 4 Deferred Assets**

(Scope of Deferred Assets)

Article 36 Deferred organization expenses, business commencement expenses, stock issuance expenses, corporate bond issuance expenses, and development expenses shall be categorized as deferred assets.

(Separate Presentation of Deferred Assets)

Article 37 (1) Assets categorized as deferred assets shall be set down under

account titles with names that are indicative of said assets, in accordance with the following classification of items:

- (i) deferred organization expenses;
- (ii) business commencement expenses;
- (iii) stock issuance expenses;
- (iv) corporate bond issuance expenses; and
- (v) development expenses.

(2) The provisions of Article 17, paragraph (2) shall apply mutatis mutandis to the cases set forth in the preceding paragraph.

Article 38 The amounts of accumulated amortization for deferred assets shall be directly deducted from the amounts of said deferred assets, and the balances after those deductions shall be presented as the amounts of each of said deferred assets.

#### **Division 5 Miscellaneous Provisions**

(Notes on Assets Receivable from Associated Companies)

Article 39 (1) Where the combined total of Negotiable Instruments Receivable and Accounts Receivable that have arisen based on transactions with Associated Companies exceeds one percent of the total amount of assets, the amount of said Negotiable Instruments Receivable and the amount of said Accounts Receivable shall be each entered in the notes; provided, however, that where either the amount of Negotiable Instruments Receivable or the amount of Accounts Receivable from Associated Companies is no more than one percent of the total amount of assets, it is permissible to enter only the combined total of these amounts in the notes.

(2) With regard to claims (excluding Negotiable Instruments Receivable, Accounts Receivable, and claims that are set down by classifications under the provisions of Article 32, paragraph (1)), goods in transit, consignments, prepaid expenses, or accrued revenues that have arisen based on transactions with Associated Companies whose amount exceeds one percent of the total amount of assets, the amount thereof shall be entered in the notes.

(3) Where the total amount of the assets receivable from Associated Companies prescribed in the preceding two paragraphs other than those that have been entered in the notes pursuant to the provisions of the preceding two paragraphs exceeds one percent of the total amount of assets, an entry to that effect and the amount thereof shall be set down in the notes.

Article 40 Deleted.

Article 41 Deleted.

(Notes on the Revaluation of Fixed Assets)

Article 42 (1) Where a revaluation of tangible fixed assets or intangible fixed assets has been carried out (excluding where a revaluation of land for business use was carried out pursuant to the Land Revaluation Act; hereinafter the same shall apply in this Article), an entry to that effect, the reason therefor, the date of said revaluation, the book value of said assets before the revaluation, and the method of accounting for the revaluation value and the revaluation difference shall be set down in the notes.

(2) Where any tangible fixed assets or intangible fixed assets have been revaluated, an entry to that effect and the date of said revaluation shall be set down in the notes; provided, however, that this shall not apply if five years have elapsed from the business year in which revaluation was carried out or if the amount thereof is insignificant.

(Notes on the Revaluation of Land for Business Use)

Article 42-2 (1) Where a revaluation of land for business use has been carried out pursuant to the provisions of the Land Revaluation Act, an entry to that effect, the method of revaluation prescribed in Article 3, paragraph (3) of that Act, the date of said revaluation, and the book values of said land for business use before and after the revaluation shall be set down in the notes.

(2) Where a Company, etc. has land for business use that has been revaluated pursuant to the provisions of the Land Revaluation Act, an entry to that effect, the method of revaluation prescribed in Article 3, paragraph (3) of that Act, the date of said revaluation, and the difference prescribed in Article 10 of that Act shall be set down in the notes.

(Notes on Collateral Assets)

Article 43 If any assets have been provided as collateral, an entry to that effect shall be set down in the notes.

Article 44 Deleted.

### **Section 3 Liabilities**

#### **Division 1 General Provisions**

(Classification of Liabilities)

Article 45 Liabilities shall be entered by classifying them into current liabilities and fixed liabilities.

Article 46 Deleted.

## **Division 2 Current Liabilities**

(Scope of Current Liabilities)

Article 47 The following liabilities shall be categorized as current liabilities:

- (i) Negotiable Instruments Payable (meaning debts on negotiable instruments that have arisen based on Ordinary Transactions; the same shall apply hereinafter);
- (ii) Accounts Payable (meaning amounts payable in the course of business that have arisen based on Ordinary Transactions; the same shall apply hereinafter);
- (iii) Advances Received (meaning advances received in relation to orders received for construction work, orders received for goods, etc.; the same shall apply hereinafter);
- (iv) allowances (excluding allowances for assets; hereinafter the same shall apply in this Division and Division 3); provided, however, that this shall exclude those that it is recognized will not be used Within One Year;
- (v) amounts payable or deposits received that have arisen in relation to Ordinary Transactions, which are, as a general trade practice, paid within a short period after arising; and
- (vi) any other liabilities that it is recognized will be paid or repaid Within One Year.

Article 48 Accrued expenses and unearned revenues shall be categorized as current liabilities.

Article 48-2 Deferred Tax Liabilities that are associated with assets categorized as current assets or with liabilities categorized as current liabilities shall be categorized as current liabilities. The same shall apply to Deferred Tax Liabilities that are not associated with particular assets or liabilities, which it is recognized will be reversed Within One Year.

Article 48-3 Lease obligations under Finance Lease Transactions that will mature Within One Year shall be categorized as current liabilities.

Article 48-4 Asset Retirement Obligations that it is recognized will be performed Within One Year shall be categorized as current liabilities.

(Separate Presentation of Current Liabilities)

Article 49 (1) Liabilities categorized as current liabilities shall be set down under account titles with names that are indicative of said liabilities, in accordance with the following classification of items; provided, however, that any dividends payable or past-due outstanding corporate bonds whose amount exceeds one percent of the combined total of liabilities and net assets shall be set down separately under an account title with a name that is indicative of said liability:

- (i) Negotiable Instruments Payable;
  - (ii) Accounts Payable;
  - (iii) short-term borrowings (including finance negotiable instruments and overdrafts; the same shall apply hereinafter); provided, however, that this shall exclude short-term borrowings from shareholders, Officers, or workers;
  - (iv) lease obligations;
  - (v) amounts payable;
  - (vi) accrued expenses;
  - (vii) accrued Corporate Tax, etc.;
  - (viii) Deferred Tax Liabilities;
  - (ix) Advances Received;
  - (x) deposits received; provided, however, that this shall exclude deposits received from shareholders, Officers, or workers;
  - (xi) unearned revenues;
  - (xii) allowances;
  - (xiii) Asset Retirement Obligations; and
  - (xiv) others.
- (2) Where it is found to be appropriate to present liabilities categorized under any of the items set forth in the items of the preceding paragraph separately, the provisions of that paragraph shall not preclude said liabilities from being set down separately under an account title with a name that is indicative of said liabilities.
- (3) Accrued Corporate Tax, etc. as set forth in paragraph (1), item (vii) means accrued amounts of corporate tax, Inhabitants Tax (meaning prefectural inhabitants tax and municipal inhabitants tax; the same shall apply hereinafter), and enterprise tax.
- (4) The allowances set forth in paragraph (1), item (xii) shall be set down under the account title of reserves for repairs, or any other account title with a name that is indicative of the purpose of establishment of said allowance.

Article 50 Among the liabilities set forth in paragraph (1), item (xiii) of the preceding Article, any short-term debt such as short-term borrowing from a shareholder, Officer, or worker, or any other liability whose amount exceeds one percent of the combined total of liabilities and net assets shall be set down

under an account title with a name that is indicative of said liability.

### **Division 3 Fixed Liabilities**

(Scope of Fixed Liabilities)

Article 51 Corporate bonds, long-term borrowings, long-term borrowings from Associated Companies, allowances (excluding the allowances set forth in Article 47, item (iv)), negative goodwill, and any other liabilities that are not categorized as current liabilities shall be categorized as fixed liabilities.

Article 51-2 Deferred Tax Liabilities other than those prescribed in Article 48-2 shall be categorized as fixed liabilities.

Article 51-3 Lease obligations under Finance Lease Transactions other than those prescribed in Article 48-3 shall be categorized as fixed liabilities.

Article 51-4 Asset Retirement Obligations other than those prescribed in Article 48-4 shall be categorized as fixed liabilities.

(Separate Presentation of Fixed Liabilities)

Article 52 (1) Liabilities categorized as fixed liabilities shall be set down under account titles with names that are indicative of said liabilities, in accordance with the following classification of items:

(i) corporate bonds;

(ii) long-term borrowings (including finance negotiable instruments; the same shall apply hereinafter); provided, however, that this shall exclude long-term borrowings from shareholders, Officers, workers, or Associated Companies;

(iii) long-term borrowings from Associated Companies;

(iv) lease obligations;

(v) Deferred Tax Liabilities;

(vi) allowances;

(vii) Asset Retirement Obligations;

(viii) negative goodwill; and

(ix) others.

(2) The provisions of Article 49, paragraph (2) shall apply mutatis mutandis in the case of the preceding paragraph.

(3) The allowances set forth in paragraph (1), item (vi) shall be set down under the account title of reserves for Post-Employment Benefits or any other account title with a name that is indicative of the purpose for which said allowance was established.

Article 52-2 Deferred Tax Liabilities pertaining to the revaluation prescribed in Article 7, paragraph (1) of the Land Revaluation Act shall be set down separately in fixed liabilities under the account title of Deferred Tax Liabilities pertaining to a revaluation.

Article 53 Among the liabilities classified under the item set forth in Article 52, paragraph (1), item (ix), any long-term borrowings from a shareholder, Officer, or worker, or any other liability whose amount exceeds one percent of the combined total of liabilities and net assets shall be set down under an account title with a name that is indicative of said liability.

#### **Division 4 Miscellaneous Provisions**

(Presentation of Deferred Tax Assets and Deferred Tax Liabilities)

Article 54 (1) Where a Company, etc. has the Deferred Tax Assets set forth in Article 17, paragraph (1), item (xii) and the Deferred Tax Liabilities set forth in Article 49, paragraph (1), item (viii), the difference between them shall be presented as Deferred Tax Assets or Deferred Tax Liabilities under current assets or under current liabilities.

(2) Where a Company, etc. has the Deferred Tax Assets set forth in Article 32, paragraph (1), item (xii) and the Deferred Tax Liabilities set forth in Article 52, paragraph (1), item (v), the difference between them shall be presented as Deferred Tax Assets or Deferred Tax Liabilities under investments and other assets or under fixed liabilities.

(Presentation of Goodwill and Negative Goodwill)

Article 54-2 Where a Company has the goodwill set forth in Article 28, paragraph (1), item (i) and the negative goodwill set forth in Article 52, paragraph (1), item (viii), the difference obtained by offsetting one against the other may be presented as goodwill or negative goodwill under intangible fixed assets or under fixed liabilities.

(Reserves, etc. under Special Laws)

Article 54-3 (1) Reserves or allowances that must be reported under the name of reserves or allowances pursuant to the provisions of laws and regulations and that it is inappropriate to report in the assets section or the liabilities section (hereinafter referred to as "Reserves, etc.") shall be entered under a separate class that has been added immediately after fixed liabilities, notwithstanding the provisions of Articles 13 and 45.

(2) Reserves, etc. shall be set down under an account title with a name that is indicative of the purpose of establishment of said Reserves, etc., and the

provisions of laws or regulations that provide for the reporting thereof shall be entered in the notes.

- (3) The distinction of whether or not it is recognized that Reserves, etc. will be used Within One Year shall be entered in the notes; provided, however, that this shall not apply when it is difficult to make such a distinction.

(Presentation of Inventory Assets and Reserves for Construction Losses)

Article 54-4 (1) Where a Company, etc. has inventory assets and reserves for construction losses with regard to a single Construction Contract, the difference obtained by offsetting one against the other may be presented as inventory assets or reserves for construction losses under current assets or under current liabilities.

- (2) Where a Company, etc. has inventory assets and reserves for construction losses with regard to a single Construction Contract, the matters specified in the following items shall be entered in the notes for each of the categories of cases listed in those items; provided, however, that notes may be omitted for matters of little significance:

(i) where inventory assets and reserves for construction losses with regard to a single Construction Contract are presented without offsetting one against the other: an entry to that effect and the amount of the inventory assets corresponding to the reserves for construction losses; and

(ii) where inventory assets and reserves for construction losses with regard to a single Construction Contract are presented as the amount of the difference obtained by offsetting one against the other pursuant to the provisions of the preceding paragraph: the fact that such offsetting has been carried out and the amount of inventory assets after the offsetting.

- (3) The provisions of Article 17, paragraph (2) shall apply mutatis mutandis to the inventory assets prescribed in item (ii) of the preceding paragraph.

(Note on Liabilities to Associated Companies)

Article 55 (1) Where the combined total of Negotiable Instruments Payable and Accounts Payable that have arisen based on transactions with Associated Companies exceeds one percent of the combined total of liabilities and net assets, the amount of said Negotiable Instruments Payable and the amount of said Accounts Payable shall each be entered in the notes; provided, however, that where either the amount of Negotiable Instruments Payable or the amount of Accounts Payable to Associated Companies is no more than one percent of the combined total of liabilities and net assets, it is permissible to enter only the combined total of these amounts in the notes.

- (2) With regard to debts (excluding Negotiable Instruments Payable, Accounts Payable, and debts that are set down by classification under the provisions of

Article 52, paragraph (1)), accrued expenses, or unearned revenues that have arisen based on transactions with Associated Companies and whose amount exceeds one percent of the combined total of liabilities and net assets, the amount thereof shall be entered in the notes.

(3) Where the total amount of the liabilities to Associated Companies prescribed in the preceding two paragraphs other than those that have been entered in the notes pursuant to the provisions of the preceding two paragraphs exceeds one percent of the combined total of liabilities and net assets, an entry to that effect and the amount thereof shall be set down in the notes.

(Notes on Specified Accounts Related to a Business Combination)

Article 56 Where, for a Business Combination that has been determined to be an acquisition, Specified Accounts related to the Business Combination (meaning any expenses or losses that are predicted to arise within a short period after the acquisition, where the possibility for such expenses or losses to arise is reflected in calculation of the consideration for the acquisition; the same shall apply in Article 95-3-3) are reported under liabilities, the main contents and the amount thereof shall be entered in the notes.

Article 57 Deleted.

(Notes on Contingent Liabilities)

Article 58 Where there are Contingent Liabilities (meaning guarantees of debts (including acts that have the same effect as guarantees of debts), an obligation to compensate in relation to a contentious case, and other liabilities that have not arisen in reality but may be borne by the business in the future), the contents and amounts thereof shall be entered in the notes; provided, however, that notes may be omitted for matters of little significance.

(Notes on the Amount of Discounts on Negotiable Instruments and the Amount of Transfers by Endorsement)

Article 58-2 (1) The amount of discounts on Negotiable Instruments Receivable or the amount of Negotiable Instruments Receivable transferred by endorsement for the purpose of repaying debts shall be entered in the notes along with the name of the discount on Negotiable Instruments Receivable or the name of the Negotiable Instruments Receivable transferred by endorsement.

(2) The provisions of the preceding paragraph shall apply mutatis mutandis to negotiable instruments other than Negotiable Instruments Receivable that have been discounted or that have been transferred by endorsement for the purpose of repaying debts; provided, however, that the notes on the amount of

discount or the amount of transfer by endorsement in such case shall be entered with a name that indicates the cause for the occurrence of said claims on negotiable instruments.

## **Section 4 Net Assets**

### **Division 1 General Provisions**

(Classification of Net Assets)

Article 59 Net assets shall be entered by classifying them into shareholders' equity, valuation and translation adjustments, and share options.

### **Division 2 Shareholders' Equity**

(Classification of Shareholders' Equity)

Article 60 Shareholders' equity shall be entered by classifying it into stated capital, capital surplus, and retained earnings.

(Presentation of Stated Capital)

Article 61 Stated capital shall be set down under the account title of stated capital.

(Presentation of Deposits for Subscriptions to Shares)

Article 62 (1) Notwithstanding the provisions of Article 60, deposits for subscriptions to shares after the offer date shall be set down in a separate classification that has been added immediately after stated capital under the account title of deposits for subscriptions to shares.

(2) In the case set forth in the preceding paragraph, the number of shares issued, the date that the stated capital increased, and the amount of any portion thereof that is scheduled to be transferred to capital reserves shall be entered in the notes.

(Separate Presentation of Capital Surplus)

Article 63 (1) Any surplus classified as capital surplus shall be set down under an account title that bears the name of said surplus, in accordance with the following classification of items:

(i) capital reserves; and

(ii) Other Capital Surplus (meaning capital surplus other than capital reserves and any reserves specified by law that are equivalent to capital reserves).

(2) Any reserves specified by law that are equivalent to capital reserves shall be set down under an account title that bears the name of said reserves by adding

a separate account title immediately after capital reserves.

Article 64 Deleted.

(Separate Presentation of Retained Earnings)

Article 65 (1) Surpluses categorized as retained earnings shall be set down under account titles with names that are indicative of said surpluses, in accordance with the following classification of items:

- (i) retained earnings reserves; and
- (ii) other retained earnings.

(2) Any reserves specified by law that are equivalent to retained earnings reserves shall be set down under an account title that bears the name of said reserves by adding a separate account title immediately after retained earnings reserves.

(3) Other retained earnings shall be set down under an account title that indicates the purpose for which it was established based on a resolution at a shareholders' meeting or by the board of directors, or under the account title of deferred retained earnings.

(Presentation of Treasury Shares)

Article 66 Treasury Shares shall be set down under the account title of Treasury Shares as a contra-asset item corresponding to shareholders' equity immediately after retained earnings.

(Presentation of Deposits for Subscriptions to Treasury Shares)

Article 66-2 Notwithstanding the provisions of Article 60, deposits for subscriptions after the offer date in relation to the disposal of Treasury Shares shall be set down under the account title of deposits for subscriptions to Treasury Shares, immediately after Treasury Shares.

### **Division 3 Valuation and Translation Adjustments**

(Classification and Separate Presentation of Valuation and Translation Adjustments)

Article 67 (1) Valuation and translation adjustments shall be set down in accordance with the following classification of items, under account titles with names that are indicative of said items:

- (i) Valuation Differences on Other Securities (meaning the valuation differences on other securities reported in the net assets section);
- (ii) Deferred Gain or Loss on Hedges (meaning gains or losses or market price valuation differences on Hedging Instruments that are deferred until the

- gains or losses on Hedged Items is recognized); and
- (iii) Land Revaluation Difference (meaning a land revaluation difference as prescribed in Article 7, paragraph (2) of the Land Revaluation Act).
- (2) In addition to the items listed in the preceding paragraph, any item that it is found appropriate to reported as an item in valuation and translation adjustments may be set down under an account title with a name that is indicative of said item.

#### **Division 4 Share Options**

(Presentation of Share Options)

Article 68 (1) Share options shall be set down under the account title of share options.

- (2) Treasury share options shall be deducted from share options; provided, however, that this shall not preclude treasury share options from being set down under the account title of treasury share options, immediately after share options, as a contra-asset item corresponding to share options.

#### **Division 5 Miscellaneous Provisions**

(Notes on Dividend Limitations)

Article 68-2 Where there is any limitation on dividends of surplus under the provisions of a law other than the Companies Act or under a contract, an entry to that effect and the details thereof shall be set down in the notes.

(Entry of a Designated Juridical Person's Net Assets)

Article 68-3 Where a Designated Juridical Person prepares a balance sheet, if it is found inappropriate to enter its net assets pursuant to this Ordinance, said Designated Juridical Person may enter its net assets in an equivalent manner as under the provisions of laws, regulations, or Rules that are applicable to its Financial Statements. In this case, the governing laws, regulations, or Rules shall be entered in the notes.

(Notes on the Per-Share Amount of Net Assets)

Article 68-4 The per-share amount of net assets shall be entered in the notes.

### **Chapter III Profit and Loss Statements**

#### **Section 1 General Provisions**

(Method of Entry in a Profit and Loss Statement)

Article 69 (1) The method of entry in a profit and loss statement shall be in

accordance with the provisions of this Chapter.

(2) A profit and loss statement shall be presented in accordance with Form No. 3.

(Classification of Revenues and Expenses)

Article 70 Revenues and expenses shall be entered by classifying them into account titles with names that are indicative of the following items:

- (i) net sales;
- (ii) cost of sales (including service costs; the same shall apply hereinafter);
- (iii) selling expenses and general and administrative expenses;
- (iv) non-operating revenues;
- (v) non-operating expenses;
- (vi) extraordinary income; and
- (vii) extraordinary loss.

(Method of Entry of the Net Sales, etc. of a Company Engaged in Multiple Types of Business)

Article 71 Where a Company, etc. is engaged in two or more types of business, entries on the net sales and the cost of sales may be set down separately for each type of business.

## **Section 2 Net Sales and Cost of Sales**

(Method of Presenting Net Sales)

Article 72 (1) Net sales shall be set down under an account title with a name that is indicative of net sales; provided, however, that this shall not preclude net sales from being set down under an account title with a name that is indicative of the item set forth in item (i) and under an account title with a name that is indicative of the item set forth in item (ii) that serves as a contra-asset account title corresponding to the former account title:

- (i) gross sales (including gross sales of semi-finished goods, by-products, scraps, etc., processing revenues, and any other operating revenues); and
- (ii) sales allowances and returns.

(2) The net sales set forth in the preceding paragraph shall be entered by classifying them into net sales of manufactured goods and net sales of merchandise; provided, however, that this shall not apply where it is difficult to classify them.

(3) Among the net sales set forth in paragraph (1), net sales of semi-finished goods, by-products, scraps, etc. or revenues from service operations such as processing revenues whose amount exceeds one percent of the total amount of net sales shall be set down separately under an account title with a name that is indicative of said net sales or revenues.

(Method of Presenting the Valuation Difference of Inventory Assets)

Article 72-2 The valuation difference of inventory assets held for the purpose of gaining a profit through fluctuations in market prices shall be entered by including it under the account title with a name that is indicative of net sales; provided, however, that where said amount has little significance, said amount may be entered by including it in non-operating revenues or non-operating expenses.

(Method of Presenting Installment Sales)

Article 73 Where the net sales for installment sales exceed twenty percent of the total amount of net sales, they shall be set down separately under an account title together with the name thereof.

(Notes on Net Sales to Associated Companies)

Article 74 Where net sales to Associated Companies exceed twenty percent of the total amount of net sales, the amount thereof shall be entered in the notes.

(Method of Presenting the Cost of Sales)

Article 75 (1) Items categorized as the cost of sales shall be set down under account titles with names that are indicative of the items set forth in items (i) and (ii) and under account titles with names that are indicative of the item set forth in item (iii) and that serve as a contra-asset account titles corresponding to the former account titles:

- (i) the initial inventory of merchandise or manufactured goods (including semi-finished goods, by-products, scraps, etc.; the same shall apply hereinafter);
- (ii) the cost of merchandise purchased for the period or the cost of goods manufactured for the period; and
- (iii) the ending inventory of merchandise or manufactured goods.

(2) With regard to the cost of goods manufactured for the period set forth in item (ii) of the preceding paragraph, a detailed statement containing the breakdown thereof shall be attached to the profit and loss statement.

Article 76 Where there is any increase or decrease in the merchandise or manufactured goods set forth in paragraph (1) of the preceding Article due to a reason other than sale, production, or purchase, or where there is any other matter to be added as an item constituting the cost of sales, such item shall, in addition to the account titles indicating the items set forth in the respective items of that paragraph, be separately set down under an account title that is indicative of the contents thereof.

(Notes on Additions to Reserves for Construction Losses)

Article 76-2 The amount of additions to reserves for construction losses that are included in the cost of sales shall be entered in the notes.

(Attachment of a Detailed Statement of the Cost of Sales)

Article 77 The provisions of Article 75, paragraph (1) shall not apply where it is found to be difficult or inappropriate to enter the cost of sales by classification into the items set forth in each of the items of that paragraph. In this case, a detailed statement containing a breakdown of the cost of sales shall be attached to the profit and loss statement.

(Detailed Statement of the Costs of a Company Engaged in a Specified Business)

Article 78 (1) Where laws, regulations, or Rules that provide for matters concerning a business that is subject to the application of the provisions of Article 2 prescribes, as a supplementary schedule, a document with the same content as the detailed statement prescribed in Article 75, paragraph (2) or the preceding Article, with regard to Financial Statements to be submitted pursuant to the provisions of the Act by a stock company or a Designated Juridical Person engaged in said business, such a schedule shall be attached to the profit and loss statement, and the statement of the supplementary schedule shall be omitted.

(2) Among the supplementary schedules specified by the laws, regulations, or Rules prescribed in Article 2, those listed below shall be classified as documents with the same content as the detailed statement prescribed in the preceding paragraph:

- (i) a schedule of railway business operating expenses as specified by the Ordinance on Accounting in the Railway Industry (Ordinance of the Ministry of Transport No. 7 of 1987);
- (ii) a schedule of motorway business operating expenses as specified by the Ordinance on Accounting in the Motorway Industry (Ordinance of the Ministry of Transport and the Ministry of Construction No. 3 of 1964);
- (iii) a schedule of telecommunications services operating expenses (expenses by department) as specified by the Ordinance on Accounting in Telecommunications Services (Ordinance of the Ministry of Posts and Telecommunications No. 26 of 1985);
- (iv) a schedule of electric utility operating expenses as specified by the Ordinance on Accounting at Electric Utilities (Ordinance of the Ministry of International Trade and Industry No. 57 of 1965);
- (v) a schedule of operating expenses as specified by the Ordinance on Accounting at Gas Utilities (Ordinance of the Ministry of International Trade

- and Industry No. 15 of 1954);
- (vi) a schedule of expressway business operating expenses, non-operating expenses, extraordinary loss, etc. as specified by the Ordinance on Accounting in the Expressway Industry, etc. (Ordinance of the Ministry of Land, Infrastructure and Transportation No. 65 of 2005);
  - (vii) a schedule of business expenses as specified by the Ordinance on the Terminology, Forms, and Preparation Methods of the Financial Statements of Social Medical Care Corporations That Issue Social Medical Care Corporation Bonds (Ordinance of the Ministry of Health, Labour and Welfare No. 38 of 2007); and
  - (viii) a schedule of business expenses as specified by the Ordinance on the Terminology, Forms, and Preparation Methods of the Financial Statements of Incorporated Educational Institutions That Issue Securities (Ordinance of the Ministry of Education, Culture, Sports, Science and Technology No. 36 of 2007).
- (3) The contents of the supplementary schedules listed in items (i) to (iii) inclusive of the preceding paragraph may be entered by summarizing them into expense items that are found to be appropriate.

(Method of Presenting the Costs of Merchandise Purchased)

Article 79 The cost of merchandise purchased for the period set forth in Article 75, paragraph (1), item (ii) shall be set down under an account title bearing the name of the merchandise purchased for the period; provided, however, that this shall not preclude said cost from being set down, under an account title with a name that is indicative of the total amount of merchandise purchased (including freight-in and expenses related to direct purchases) or under an account title with a name that is indicative of the item of purchase allowance, returns, etc. that serves as a contra-asset account title corresponding to the former account title.

(Entries Related to Write-Downs to the Book Value of Inventory Assets)

Article 80 (1) Where the book value of inventory assets held for the purpose of ordinary sales has been written down due to a decline in profitability, said written-down amount (where the written-down amount that was reported at the end of the previous business year has been reversed in the current business year, this shall be the amount obtained by offsetting said returned amount against the written-down amount reported at the end of the current business year) shall be set down separately under an account title with a name that is indicative of the contents thereof, as a constituent item of the cost of sales or of any other item; provided, however, that this shall not preclude the ending inventory of said inventory assets from being set down as the amount after the

write-down of the book value, with an entry to that effect and said written-down amount set down in the notes.

- (2) Notwithstanding the provisions of the preceding paragraph, where said written-down amount has little significance, the amount may be omitted from being set down separately or being entered in the notes.

Article 81 Deleted.

Article 82 Deleted.

(Presentation of Gross Profit or Loss on Sales)

Article 83 The amount obtained by deducting the cost of sales from net sales (where the cost of sales exceeds net sales, the amount obtained by deducting net sales from the cost of sales) shall be presented as the gross profit on sales or the gross loss on sales.

### **Section 3 Selling Expenses and General and Administrative Expenses**

(Scope of Selling Expenses and General and Administrative Expenses)

Article 84 All expenses that have arisen in relation to the selling operations and general and administrative operations of a company shall be categorized as selling expenses and general and administrative expenses.

(Method of Presenting Selling Expenses and General and Administrative Expenses)

Article 85 (1) Selling expenses and general and administrative expenses shall be classified into expense items that are found to be appropriate, and shall be set down under account titles with names that are indicative of said expenses; provided, however, that this shall not preclude said expenses from being set down under the account title of selling expenses, the account title of general and administrative expenses, or the account title of selling expenses and general and administrative expenses collectively, with the major expense items and amounts thereof entered in the notes.

- (2) The major expense items prescribed in the proviso to the preceding paragraph shall be depreciation/amortization expenses and additions to allowances (excluding such expense items that are of a small amount) and any other expense items whose amount exceeds five percent of the combined total of selling expenses and general and administrative expenses.

(Notes on Research and Development Expenses)

Article 86 With regard to the research and development expenses included in the

general and administrative costs and in the manufacturing expenses for the period, the total amount thereof shall be entered in the notes.

(Method of Presenting Bad Debts Written Off)

Article 87 Additions to the allowance for doubtful accounts or bad debt losses on claims that have arisen based on Ordinary Transactions, excluding those that are extraordinary, shall be separately set down, as selling expenses, under an account title with a name that is indicative of said expenses.

(Notes on Operating Expenses Related to Associated Companies)

Article 88 (1) With regard to the cost of merchandise or raw materials purchased, consignment processing costs, rent expenses on real property, or the Share of Cost (meaning a share of cost under a contract in which the Company Submitting Financial Statements bears a certain proportion of costs that have arisen in an Associated Company during a business year) that has arisen through transactions with Associated Companies in an amount that exceeds twenty percent of the combined total of the cost of sales and the selling expenses and general and administrative expenses, the amount thereof shall be entered in the notes.

(2) Where the total amount of expenses that have arisen through transactions with Associated Companies as prescribed in the preceding paragraph other than those that have been entered in the notes pursuant to the provisions of the preceding paragraph exceeds twenty percent of the combined total of the cost of sales and the selling expenses and general and administrative expenses, an entry to that effect and the amount thereof shall be entered in the notes.

(Presentation of the Amount of Operating Income and Loss)

Article 89 The amount obtained by deducting the combined total of the selling expenses and general and administrative expenses from the gross profit on sales (where the combined total of the selling expenses and general and administrative expenses exceeds the gross profit on sales, the amount obtained by deducting the gross profit on sales from the combined total of the selling expenses and general and administrative expenses) shall be presented as the amount of operating income or the amount of operating loss, or the amount obtained by adding the combined total of the selling expenses and general and administrative expenses to the gross loss on sales shall be presented as the amount of operating loss.

#### **Section 4 Non-operating Revenues and Non-operating Expenses**

(Method of Presenting Non-operating Revenues)

Article 90 Revenues categorized as non-operating revenues shall be set down under account titles with names that are indicative of said revenues, in accordance with the classifications of interest income (excluding interest on securities), interest on securities, dividends income, gains on the sale of securities, purchase discounts, and others; provided, however, that any revenues whose amounts are not more than ten percent of the total amount of non-operating revenue and that it is found appropriate to presented collectively, may be set down under an account title bearing a name that collectively indicates said revenues.

(Notes on Non-operating Revenue Related to Associated Companies)

Article 91 (1) With regard to revenue that has arisen through transactions with Associated Companies that is classified as non-operating revenue and whose amount exceeds ten percent of the total amount of non-operating revenues, the amount thereof shall be entered in the notes.

(2) Where the total amount of revenue related to Associated Companies other than those entered in the notes pursuant to the provisions of the preceding paragraph exceeds ten percent of the total amount of non-operating revenues, an entry to that effect and the amount thereof shall be set down in the notes.

Article 92 Deleted.

(Method of Presenting Non-operating Expenses)

Article 93 Expenses classified as non-operating expenses shall be set down under account titles with names that are indicative of said expenses, in accordance with the classifications of interest expenses, interest on corporate bonds, amortization of bond issuance expenses, amortization of deferred organization expenses, amortization of business commencement expenses, additions to the allowance for doubtful accounts or bad debt losses (excluding those that are entered as selling expenses pursuant to the provisions of Article 87), losses on the sale of securities, sales discounts, and others; provided, however, that any expenses whose amounts are not more than ten percent of the total amount of non-operating expenses and that it is found appropriate to present collectively, may be set down under an account title bearing a name that collectively indicates said expenses.

(Notes on Non-operating Expenses Related to Associated Companies)

Article 94 (1) With regard to expenses that have arisen through transactions with Associated Companies that are classified as non-operating expenses and whose amount exceeds ten percent of the total amount of non-operating expenses, the amount thereof shall be entered in the notes.

(2) Where the total amount of expenses related to Associated Companies other than those entered in the notes pursuant to the provisions of the preceding paragraph exceeds ten percent of the total amount of non-operating expenses, an entry to that effect and the amount thereof shall be entered in the notes.

(Presentation of the Amount of Ordinary Income and Loss)

Article 95 The amount obtained by adjusting the amount of operating income or the amount of operating loss first by adding or subtracting the amount of non-operating revenues, and then by adding or subtracting the amount of non-operating expenses shall be presented as the amount of ordinary income or the amount of ordinary loss.

#### **Section 4-2 Extraordinary Income and Extraordinary Losses**

(Method of Presenting Extraordinary Income)

Article 95-2 Profits categorized as extraordinary income shall be set down under account titles with names that are indicative of said profits, in accordance with the classifications of gains on a prior period adjustment, gains on the sale of fixed assets, and others; provided, however, that any profits whose amounts are not more than ten percent of the total amount of extraordinary income and that it is found appropriate to present collectively, may be set down under an account title bearing a name that collectively indicates said profits.

(Method of Presenting Extraordinary Losses)

Article 95-3 Losses categorized as extraordinary losses shall be set down under account titles with names that are indicative of said losses, in accordance with the classifications of losses on a prior period adjustment, losses on the sale of fixed assets, impairment losses, losses on disaster, and others; provided, however, that any losses whose amounts are not more than ten percent of the total amount of extraordinary losses and that it is found appropriate to present collectively, may be set down under an account title bearing a name that collectively indicates said losses.

(Notes on Impairment Losses)

Article 95-3-2 Where there are assets or asset groups (meaning groups of multiple assets where said assets collectively produce Cash Flow; the same shall apply hereinafter) for which impairment losses have been recognized, the matters listed in the following items shall be entered in the notes for each of said assets or asset groups; provided, however, that the notes may be omitted where they have little significance:

(i) an outline of the following matters concerning said asset or asset group:

- (a) the intended purpose;
- (b) the type;
- (c) the place; and
- (d) where there are other matters that are found to be necessary for understanding the contents of said asset or asset group, the contents of such matters;
- (ii) the circumstances leading up to recognizing the impairment loss;
- (iii) the amount of the impairment loss and the breakdown of the amount by major type of fixed asset;
- (iv) where there is any asset group, the method by which the assets pertaining to said asset group have been grouped; and
- (v) where the recoverable value is the net sales value, an entry to that effect and the method for calculating the market price, and where the recoverable value is the use value, an entry to that effect and the discount rate.

(Notes on Gains on the Reversal of Specified Accounts in Relation to a Business Combination)

Article 95-3-3 Where there has been a gain on the reversal of specified accounts in relation to Business Combination, the contents and the amount thereof shall be entered in the notes, unless they have little significance.

(Presentation of the Amount of Net Income or Net Loss for the Period)

Article 95-4 The amount obtained by adjusting the amount of ordinary income or the amount of ordinary loss by first adding or subtracting the amount of extraordinary income, and then adding or subtracting the amount of extraordinary losses shall be presented as the amount of net income for the period before taxes or the amount of net loss for the period before taxes.

Article 95-5 (1) The amounts of the items listed in the following items shall be entered under account titles with names that are indicative of the contents thereof, immediately after the amount of net income for the period before taxes or the amount of net loss for the period before taxes:

- (i) the corporate tax, Inhabitants Tax, and Enterprise Tax (meaning the enterprise tax imposed on amounts related to profits as the tax base; the same shall apply in the following item) for the relevant business year; and
  - (ii) the Deferred Corporate Tax, etc. (meaning adjustments on the corporate tax, Inhabitants Tax, and Enterprise Tax set forth in the preceding item, which are reported through the application of Tax Effect Accounting).
- (2) The amount obtained by adjusting the amount of net income for the period before taxes or the amount of net loss for the period before taxes by adding or subtracting the amounts of the items listed in the respective items of the

preceding paragraph shall be entered as the amount of net income for the period or the amount of net loss for the period.

- (3) Where there are taxes paid or taxed refunded due to a correction to or determination, etc. on Corporate Tax, etc., they shall be entered under an account title with a name that is indicative of the contents thereof, immediately after the item set forth in paragraph (1), item (i); provided, however, that such amounts may be presented by including them in the amount of the item set forth in paragraph (1), item (i) where such amounts have little significance.

(Notes on the Per-Share Amount of Net Income or Loss for the Period)

Article 95-5-2 (1) The per-share amount of net income for the period or per-share amount of net loss for the period, and the basis for calculation of said amount shall be entered in the notes.

- (2) The Diluted Per-Share Amount of Net Income for the Period (meaning the per-share amount of net income for the period that has been calculated as if the rights comprised of any rights to acquire common shares, rights to request conversion into common shares, or securities or contracts to which rights equivalent thereto are attached (hereinafter referred to as "Potential Shares") have been exercised; hereinafter the same shall apply in this Article) and the basis for calculation of said amount shall be entered immediately after the statement set forth in the preceding paragraph; provided, however, that where no Potential Shares exist, where the Diluted Per-Share Amount of Net Income for the Period is not less than the per-share amount of net income for the period, or where such amount constitutes the per-share amount of net loss for the period, an entry to that effect shall be made, and the Diluted Per-Share Amount of Net Income for the Period need not be entered.

- (3) Where any reverse stock split or stock split has been carried out during the current business year, the following matters shall be entered in the notes; provided, however, that where no Potential Shares existed, where the Diluted Per-Share Amount of Net Income for the Period was not less than the Per-Share Amount of Net Income for the Period, or where such amount constituted the Per-Share Amount of Net Loss for the Period in the previous business year, an entry to that effect shall be made, and the Diluted Per-Share Amount of Net Income for the Period pertaining to the previous business year need not be entered:

- (i) the fact that a reverse stock split or a stock split has been carried out; and
- (ii) what the per-share amount of net income for the period or the per-share amount of net loss for the period, and the Diluted Per-Share Amount of Net Income for the Period pertaining to the previous business year would have been if the reverse stock split or the stock split had occurred on the day of

commencement of the previous business year.

- (4) Where any reverse stock split or stock split was carried out after the balance sheet date, the following matters shall be entered in the notes as Significant Post-Balance Sheet Events; provided, however, that where no Potential Shares exist, or where the Diluted Per-Share Amount of Net Income for the Period is not less than the Per-Share Amount of Net Income for the Period or where such amount constitutes the Per-Share Amount of Net Loss for the Period in the current business year, an entry to that effect shall be made, and the Diluted Per-Share Amount of Net Income for the Period pertaining to the current business year need not be entered:
- (i) the fact that a reverse stock split or a stock split has been carried out;
  - (ii) the matters set forth in item (ii) of the preceding paragraph (excluding where they need not be entered pursuant to the proviso to the preceding paragraph);
  - (iii) what the per-share amount of net income for the period or the per-share amount of net loss and the Diluted Per-Share Amount of Net Income for the Period pertaining to the current business year would be if the reverse stock split or the stock split had occurred on the day of commencement of the current business year.

## **Section 5 Miscellaneous Provisions**

(Method of Presenting Cost Variances)

Article 96 The cost variances reported based on the cost accounting method adopted by a Company Submitting Financial Statements shall be entered by including them in the cost of sales or in the ending inventory of inventory assets, based on the results processed in accordance with cost accounting standards that are generally accepted as fair and appropriate; provided, however, that those that are found not to have the characteristic of costs shall be entered as non-operating revenues or non-operating expenses, or as extraordinary income or extraordinary losses.

(Presentation of the Amortized Amount of Goodwill or Negative Goodwill)

Article 97 Where there is any amortized amount of goodwill reported under selling expenses and general and administrative expenses or any amortized amount of negative goodwill reported under non-operating revenues, if either of these amounts is of little significance, the amount obtained by offsetting one against the other may be presented.

(Separate Presentation of Additions to Allowances)

Article 98 Additions to allowances shall be set down separately under account

titles with names that are indicative of the purposes of said allowances' establishment and of the fact that they indicate additions to said allowances.

(Additions to or Reversal of Reserves, etc. under Special Laws)

Article 98-2 If there has been an addition to or reversal of a Reserve, etc., the amount of the addition or reversal shall be set down as an extraordinary loss or extraordinary income under an account title with a name that is indicative of the fact that the amount results from said addition or reversal.

## **Chapter IV Statement of Changes in Shareholders' Equity, etc.**

### **Section 1 General Provisions**

(Method of Entering Information in Statements of Changes in Shareholders' Equity)

Article 99 (1) The method of entering information in statements of changes in shareholders' equity shall be in accordance with the provisions of this Chapter.  
(2) Information shall be entered in statements of changes in shareholders' equity in accordance with Form No. 4.

(Separate Presentation in Statements of Changes in Shareholders' Equity)

Article 100 (1) Information shall be entered in statements of changes in shareholders' equity by classifying it into shareholders' equity, valuation and translation adjustments, and share options.  
(2) Information in a statement of changes in shareholders' equity shall be classified into appropriate items, and shall be set down under account titles with names that are indicative of said items. Said items and account titles shall be consistent with the items and account titles in the net asset section of the balance sheet at the end of the previous business year and at the end of the current business year.

### **Section 2 Shareholders' Equity**

Article 101 (1) Shareholders' equity shall be entered by classifying it into the balance at the end of the previous business year, the amount of changes during the current business year, and the balance at the end of the current business year.  
(2) The amount of changes during the current business year for the account titles entered under shareholders' equity shall be entered for each cause of those changes.  
(3) Dividends of surplus shall be presented as a cause of changes in Other Capital Surpluses or other retained earnings.

- (4) The amount of net income for the period or the amount of net loss for the period shall be presented as a cause of changes in other retained earnings.

Article 102 Notwithstanding the provisions of Article 100, paragraph (2), other retained earnings may be entered by classifying the total amount of other retained earnings into the balance at the end of the previous business year, the amount of changes during the current business year, and the balance at the end of the current business year, in lieu of entering them for each account title. In this case, the respective amounts for each account title shall be entered in the notes.

### **Section 3 Valuation and Translation Adjustments**

Article 103 (1) Valuation and translation adjustments shall be entered by classifying them into the balance at the end of the previous business year, the amount of changes during the current business year, and the balance at the end of the current business year.

- (2) With regard to the account titles entered under valuation and translation adjustments, the amount of changes during the current business year shall be entered collectively; provided, however, that this shall not preclude such amount from being entered or set down in the notes for each major cause of the changes.

Article 104 Notwithstanding the provisions of Article 100, paragraph (2), valuation and translation adjustments may be entered by classifying the total amount of valuation and translation adjustments into the balance at the end of the previous business year, the amount of changes during the current business year, and the balance at the end of the current business year, in lieu of entering them for each account title. In this case, the respective amounts for each account title shall be entered in the notes.

### **Section 4 Share Options**

Article 105 (1) Share options shall be entered by classifying them into the balance at the end of the previous business year, the amount of changes during the current business year, and the balance at the end of the current business year.

- (2) The amount of changes during the current business year for share options shall be entered collectively; provided, however, that this shall not preclude such amount from being entered or set forth in the notes for each major cause of the changes.

## Section 5 Matters to Be Entered in the Notes

(Notes on Issued Shares)

Article 106 (1) With regard to the classes and the total number of issued shares, the following matters shall be entered in the notes:

- (i) the total number of issued shares at the end of the previous business year and at the end of the current business year, and the number of issued shares that increased or decreased during the current business year, for each class of issued shares; and
- (ii) an outline of the cause of the changes for each class of issued shares.

(2) The matters set forth in the preceding paragraph need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes on Treasury Shares)

Article 107 With regard to the classes and the total number of Treasury Shares, the following matters shall be entered in the notes:

- (i) the total number of Treasury Shares at the end of the previous business year and at the end of the current business year, and the number of Treasury Shares that increased or decreased during the current business year, for each class of Treasury Shares; and
- (ii) an outline of the cause of the changes for each class of Treasury Shares.

(Notes on Share Options, etc.)

Article 108 (1) With regard to share options, the following matters shall be entered in the notes:

- (i) the classes of shares subject to the share options;
- (ii) the total number of shares subject to share options; and
- (iii) the balance of share options at the end of the business year.

(2) Where share options have been granted as Stock Options or Share Options in the Company, the matters set forth in items (i) and (ii) of the preceding paragraph need not be entered.

(3) The number of shares set forth in paragraph (1), item (ii) shall be entered by entering the number of shares subject to the share options at the end of the previous business year and at the end of the current business year, the number of shares that increased or decreased during the current business year, and an outline of the cause for changes, for each class of shares subject to the share option; provided, however, that the notes may be omitted where the number of shares that would increase if the share options were to be exercised constitutes an insignificant proportion of the total number of issued shares (when holding

Treasury Shares, the number of shares after deducting the number of said Treasury Shares) at the end of the current business year.

- (4) The provisions of the preceding three paragraphs shall apply mutatis mutandis to treasury share options.
- (5) The matters specified in paragraph (1) through the preceding paragraph need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

(Notes on Dividends)

Article 109 (1) With regard to dividends, the following matters shall be entered in the notes:

- (i) where the dividend property is money, the total amount of dividends, the amount of dividends per-share, the reference date, and the effective date for each class of shares;
- (ii) where the dividend property is property other than money, the type and the book value (where, on the date of the dividend of surplus, the property was priced at the market price as of said date, this shall be the book value after pricing the property at said market price) of the dividend property, the amount of dividends per-share, the reference date, and the effective date for each class of shares; and
- (iii) with regard to a dividend with a reference date that belongs to the current business year and with an effective date that will belong to the following business year, the dividend's financial source and the matters equivalent to those set forth in the preceding two items.
- (2) The matters set forth in the preceding paragraph need not be entered where a Company Submitting Financial Statements prepares Consolidated Financial Statements.

## **Section 6 Miscellaneous Provisions**

Article 109-2 Where a Designated Juridical Person prepares an entry of changes in shareholders' equity, if it is found inappropriate to enter matters pursuant to this Ordinance, said Designated Juridical Person may enter matters in an equivalent manner as under the provisions of laws, regulations, or Rules applicable to its Financial Statements.

## **Chapter V Cash Flow Statements**

### **Section 1 General Provisions**

(Method of Entering Information in Cash Flow Statements)

Article 110 (1) The method of entering information in a Cash Flow statement

shall be in accordance with the provisions of this Chapter.

(2) A Cash Flow statement shall be presented in accordance with Form No. 5 or Form No. 6.

(Companies Subject to the Preparation of a Cash Flow Statement)

Article 111 A Cash Flow statement shall be prepared by a company that does not prepare Consolidated Financial Statements.

(Separate Presentation in a Cash Flow Statement)

Article 112 In a Cash Flow statement, Cash Flow conditions shall be entered for the following classes:

- (i) Cash Flows from operating activities;
- (ii) Cash Flows from investment activities;
- (iii) Cash Flows from financing activities;
- (iv) translation adjustments on cash and Cash Equivalents;
- (v) increases or decreases in cash and Cash Equivalents;
- (vi) the beginning balances of cash and Cash Equivalents; and
- (vii) the ending balances of cash and Cash Equivalents.

## **Section 2 Method of Entering Information in a Cash Flow Statement**

(Method of Presenting Cash Flows from Operating Activities)

Article 113 In the class of Cash Flows from operating activities set forth in item (i) of the preceding Article, the Cash Flows from transactions that were subject to the calculation of operating income or operating loss and Cash Flows from transactions other than investment activities and financing activities shall be set down under account titles with names that are indicative of the contents thereof, in either of the following ways; provided, however, that such Cash Flows that are of small amounts and that it is found appropriate to present collectively may be set down collectively under an account title bearing an appropriate name:

- (i) by classifying such Cash Flows into operating income, payments for the purchase of raw materials or merchandise, payment of personnel expenses, and other items that are found appropriate, and presenting the total amount of Cash Flow for each major transaction; or
- (ii) by presenting the amount obtained by adding or subtracting the following items to or from the amount of net income for the period before taxes or the amount of net loss for the period before taxes:
  - (a) any items reported as revenues or expenses on a profit and loss statement that do not involve any increase or decrease of Funds;
  - (b) the amount of increase or decrease in notes and accounts receivable,

- inventory assets, notes and accounts payable, or any other assets or liabilities that have arisen from operating activities; and
- (c) any items reported as revenues or expenses on a profit and loss statement that are included in the classes of Cash Flows from investment activities and Cash Flows from financing activities.

(Method of Presenting Cash Flows from Investment Activities)

Article 114 In the class of Cash Flows from investment activities set forth in Article 112(ii), payments for the acquisition of securities (excluding Cash Equivalents, etc.; hereinafter the same shall apply in this Article), proceeds from the sale of securities, payments for the acquisition of tangible fixed assets, proceeds from the sale of tangible fixed assets, payments for the acquisition of investment securities, proceeds from the sale of investment securities, loan payments, proceeds from the collection of loans, and any other Cash Flows from investment activities shall be set down under account titles with names that are indicative of the contents thereof, through a method whereby the total amount of Cash Flows is presented for each major transaction; provided, however, that such Cash Flows that are of small amounts and that it is found appropriate to present collectively may be set down collectively under an account title bearing an appropriate name.

(Method of Presenting Cash Flows from Financing Activities)

Article 115 In the class of Cash Flows from financing activities set forth in Article 112, item (iii), proceeds from short-term borrowings, payments for the repayment of short-term borrowings, proceeds from long-term borrowings, payments for the repayment of long-term borrowings, proceeds from the issuance of corporate bonds, payments for the redemption of corporate bonds, proceeds from the issuance of shares, payments for the acquisition of Treasury Shares, and any other Cash Flows from financing activities shall be set down under account titles with names that are indicative of the contents thereof, through a method whereby the total amount of Cash Flow is presented for each major transaction; provided, however, that such Cash Flows that are of small amounts and that it is found appropriate to present collectively may be set down collectively under an account title bearing an appropriate name.

(Statement of Translation Adjustments for Cash and Cash Equivalents)

Article 116 (1) In the classification of translation adjustments for cash and Cash Equivalents as set forth in Article 112, item (iv), the difference that occurs from conversion of foreign currency Funds into yen shall be entered.

(2) In the classification of increases or decreases in cash and Cash Equivalents as set forth in Article 112, item (v), the amount obtained by adding or subtracting

the difference that occurs from the conversion of foreign currency Funds into yen as prescribed in the preceding paragraph to or from the combined total of the balance of income and expenditures of Cash Flows from operating activities, Cash Flows from investment activities, and Cash Flows from financing activities, shall be entered.

### **Section 3 Miscellaneous Provisions**

(Method of Presenting Cash Flows from Interests and Dividends)

Article 117 Cash Flows pertaining related to interests and dividends shall be entered in either of the following ways:

- (i) by entering the amount of interest and dividends received and the amount of interest paid under the classification of Cash Flows from operating activities set forth in Article 112, item (i) and entering the amount of dividends paid under the classification of Cash Flows from financing activities set forth in item (iii) of that Article; or
- (ii) by entering the amount of interest and dividends received under the class of Cash Flows from investment activities set forth in Article 112, item (ii) and entering the amount of interest and dividends paid under the class of Cash Flows from financing activities set forth in item (iii) of that Article.

(Method of Presenting Cash Flows from a Takeover or Transfer of Business or a Merger, etc. That Has Cash or Cash Equivalents as the Consideration)

Article 118 Cash Flows from a takeover or transfer of business or a merger, etc. that has cash or Cash Equivalents as the consideration shall be set down under an account title with a name that is indicative of the contents thereof, under the classification of Cash Flow from investment activities as set forth in Article 112, item (ii).

(Matters Entered in the Notes in a Cash Flow Statement)

Article 119 (1) The following matters shall be entered in the notes in a Cash Flow statement; provided, however, that the notes may be omitted for the matters set forth in item (ii) where the amount of assets or liabilities prescribed in that item is of little significance:

- (i) the relationship between the ending balances of cash and Cash Equivalents and the amounts for the account titles set down in the balance sheet;
- (ii) where there has been a takeover or transfer of business or a merger, etc. that had cash or Cash Equivalents as the consideration, a major breakdown of the assets and liabilities that have increased or decreased as a result of such takeover or transfer of business or such merger, etc.; and
- (iii) the contents of significant non-cash transactions.

(2) The non-cash transactions set forth in item (iii) of the preceding paragraph means the exercise of share options attached to corporate bonds with share options in exchange for redemption of the corporate bonds, acquisition of assets (excluding cash and Cash Equivalents) through the issuance, etc. of shares, a merger, or any other transactions that do not involve any increase or decrease in funds, and that have significant influence on Cash Flow in and/or after the following business year.

## **Chapter VI Supplementary Schedules**

(Method of Entering Information in a Supplementary Schedule)

Article 120 The method of entering information in a supplementary schedule shall be in accordance with the provisions of this Chapter.

(Types of Supplementary Schedules)

Article 121 (1) The types of supplementary schedules shall be as follows; provided, however, that the supplementary schedules set forth in items (iii), (iv), and (vi) need not be prepared where a Company Submitting Financial Statements prepares Consolidated Financial Statements:

- (i) a schedule of securities;
- (ii) a schedule of tangible fixed assets, etc.
- (iii) a schedule of corporate bonds;
- (iv) a schedule of borrowings, etc.;
- (v) a schedule of allowances; and
- (vi) a schedule of Asset Retirement Obligations.

(2) The forms for the supplementary schedules set forth in the items of the preceding paragraph shall be in accordance with Form No. 7 through Form No. 12.

(Supplementary Schedules to be Submitted by a Company Engaged in a Specified Business)

Article 122 The terminology, forms, and preparation methods for supplementary schedules that are to be submitted, pursuant to the provisions of the Act, by the stock companies or Designated Juridical Persons engaged in a Separately Indicated Business that are listed in the following items shall be in accordance with the provisions of each of those items; provided, however, that the supplementary schedules set forth in paragraph (1), items (iii), (iv), and (vi) of the preceding Article and supplementary schedules equivalent thereto need not be prepared where said stock company or Designated Juridical Person prepares Consolidated Financial Statements:

- (i) a stock company subject to the application of the Ordinance for Enforcement

of the Construction Business Act (Ordinance of the Ministry of Construction No. 14 of 1949), the Rules on Financial Statements in the Shipbuilding Industry (Public Notice of the Ministry of Transport No. 254 of 1951), the Cabinet Office Ordinance on Financial Instruments Services, etc. (Cabinet Office Ordinance No. 52 of 2007), the Ordinance on Accounting in the Railway Industry, or the Ordinance on Accounting in the Motorway Industry shall prepare the supplementary schedules listed in the items of paragraph (1) of the preceding Article in accordance with the forms specified in paragraph (2) of that Article;

- (ii) a stock company subject to the application of the Ordinance for Enforcement of the Banking Act (Ordinance of the Ministry of Finance No. 10 of 1982), the Ordinance for Enforcement of the Long-Term Credit Bank Act (Ordinance of the Ministry of Finance No. 13 of 1982), the Ordinance for Enforcement of the Shoko Chukin Bank Limited Act Related to the Ministry of Economy, Trade and Industry, the Ministry of Finance, and the Cabinet Office (Ordinance of the Cabinet Office, the Ministry of Finance, and the Ministry of Economy, Trade and Industry No. 1 of 2008), the Ministerial Ordinance on Accounting at the Japan Finance Corporation (Ordinance of the Ministry of Finance, the Ministry of Health, Labour and Welfare, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry No. 3 of 2008), or Ministerial Ordinance on Accounting at the Development Bank of Japan Inc. (Ordinance of the Ministry of Finance No. 60 of 2008) and Designated Juridical Persons subject to the application of the Ordinance for Enforcement of the Norinchukin Bank Act (Ordinance of the Cabinet Office and the Ministry of Agriculture, Forestry and Fisheries No. 16 of 2001), the Ordinance for Enforcement of the Act on Financial Services by Cooperatives (Ordinance of the Ministry of Finance No. 10 of 1993), the Ordinance for Enforcement of the Shinkin Bank Act (Ordinance of the Ministry of Finance No. 15 of 1982), or the Ordinance for Enforcement of the Labor Bank Act (Ordinance of the Ministry of Finance and the Ministry of Labour No. 1 of 1982) shall prepare the supplementary schedules listed in paragraph (1), items (ii) to (vi) inclusive of the preceding Article in accordance with the forms specified in paragraph (2) of that Article;
- (iii) a stock company subject to the application of the Rules on Financial Statements in the Shipping Industry (Public Notice of the Ministry of Transport No. 431 of 1954) shall prepare a schedule of shipping revenues and expenses specified by those Rules, as well as preparing the supplementary schedules listed in the items of paragraph (1) of the preceding Article in accordance with the forms specified in paragraph (2) of that Article;
- (iv) a stock company subject to the application of the Ordinance for Enforcement of the Act on Guaranty Service Related to Advance Payment of

- Public Works (Ordinance of the Ministry of Construction No. 23 of 1952) shall prepare a schedule of securities and a schedule of trust securities specified by that Ordinance, as well as preparing the supplementary schedules listed in paragraph (1), items (ii) to (vi) inclusive of the preceding Article in accordance with the forms specified in paragraph (2) of that Article; provided, however, that the classes and names of securities entered in the schedule of securities and the schedule of trust securities may be entered by summarizing them by the type of business of the issuing companies in the case of shares, and may be entered by summarizing them by the classes of securities prescribed in Article 2, paragraph (1) of the Act in the case of any other securities;
- (v) a stock company or a Designated Juridical Person subject to the application of the Ordinance for Enforcement of the Insurance Business Act (Ordinance of the Ministry of Finance No. 5 of 1996) shall prepare a schedule of business expenses in accordance with the format specified by that Ordinance, as well as prepare the supplementary schedules listed in paragraph (1), items (ii) to (vi) inclusive of the preceding Article in accordance with the forms specified in paragraph (2) of that Article;
  - (vi) a stock company subject to the application of the Ordinance on Accounting in Telecommunications Services shall prepare, from among the supplementary schedules prescribed in that Ordinance, those listed below, as well as preparing the supplementary schedules set forth in paragraph (1), items (iv) and (vi) of the preceding Article in accordance with the forms specified in paragraph (2) of that Article:
    - (a) a schedule of fixed assets, etc.;
    - (b) a schedule of securities;
    - (c) a schedule of corporate bonds; and
    - (d) a schedule of allowances;
  - (vi)-2 a stock company subject to the application of the Ordinance on Accounting at Gas Utilities shall prepare, from among the supplementary schedules prescribed in that Ordinance, those listed below, as well as preparing the supplementary schedules set forth in paragraph (1), items (iii), (iv) and (vi) of the preceding Article in accordance with the forms specified in paragraph (2) of that Article:
    - (a) a schedule of fixed assets, etc.;
    - (b) a schedule of securities; and
    - (c) a schedule of allowances;
  - (vii) a stock company subject to the application of the Ordinance on Accounting at Electric Utilities shall prepare, from among the supplementary schedules prescribed in that Ordinance, those listed below, as well as preparing the supplementary schedules set forth in paragraph (1), item (vi) of the

- preceding Article in accordance with the forms specified in paragraph (2) of that Article:
- (a) a schedule of changes in fixed assets during the period;
  - (b) a schedule of changes in fixed assets during the period (intangible fixed assets);
  - (c) a schedule of depreciation/amortization expenses, etc.;
  - (d) a schedule of long-term investments and short-term investments;
  - (e) a schedule of corporate bonds;
  - (f) a schedule of borrowings, long-term accrued liabilities, lease obligations, other fixed liabilities, and commercial papers; and
  - (g) a schedule of allowances;
- (viii) a Special Purpose Company subject to the application of the Ordinance on Accounting at Special Purpose Companies (Cabinet Office Ordinance No. 44 of 2006) shall prepare the supplementary schedules set forth in the items of paragraph (1) of the preceding Article in accordance with the forms specified in paragraph (2) of that Article; provided, however, that where the supplementary schedule set forth in paragraph (1), item (ii) of that Article is prepared in accordance with the form specified in paragraph (2) of that Article, it shall be prepared by including Specific Assets (meaning the specific assets prescribed in Article 2, paragraph (1) of the Asset Securitization Act; hereinafter the same shall apply in this item and item (i) of the following Article), as a schedule of Specific Assets and tangible fixed assets, etc.;
- (ix) an investment corporation subject to the application of the Ordinance on Accounting at Investment Corporations (Cabinet Office Ordinance No. 47 of 2006) shall prepare a schedule of securities, a table of the status of contract amounts, etc. and market prices for Derivative Transactions and forward exchange transactions, the summary table included in the schedule of real property, etc., a schedule of Other Specific Assets (meaning specific assets defined in Article 2, paragraph (1) of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951); the same shall apply in item (ii) of the following Article), a schedule of investment corporation bonds, and a schedule of borrowings in accordance with the forms specified by that Ordinance;
- (x) a stock company or a Designated Juridical Person subject to the application of the Cabinet Office Ordinance on Accounting Methods at Specified Finance Companies, etc. shall prepare the supplementary schedules set forth in the items of paragraph (1) of the preceding Article in accordance with the forms specified in paragraph (2) of that Article; provided, however, that where it is any of the stock companies or Designated Juridical Persons set forth in the preceding items, it shall prepare supplementary schedules in accordance

- with the provisions of such items;
- (xi) a stock company subject to the application of the Ordinance on Accounting in the Expressway Industry, etc. shall prepare, from among the supplementary schedules prescribed in that Ordinance, a schedule of fixed assets, etc. and a schedule of changes in corporate bonds, long-term borrowings, and short-term borrowings, as well as preparing the supplementary schedules set forth in paragraph (1), item (i), paragraphs (v) and (vi) of the preceding Article in accordance with the forms specified in paragraph (2) of that Article;
  - (xii) a medical care corporation subject to the application of the Ordinance on the Terminology, Forms, and Preparation Methods of the Financial Statements of Social Medical Care Corporations That Issue Social Medical Care Corporation Bonds shall prepare, from among the supplementary schedules prescribed in that Ordinance, those listed below, as well as preparing the supplementary schedule set forth in paragraph (1), item (vi) of the preceding Article in accordance with the form specified in paragraph (2) of that Article:
    - (a) a schedule of securities;
    - (b) a schedule of tangible fixed assets, etc.;
    - (c) a schedule of social medical care corporation bonds;
    - (d) a schedule of borrowings, etc.; and
    - (e) a schedule of allowances; and
  - (xiii) an Incorporated Educational Institution, etc. (meaning an incorporated educational institution as prescribed in Article 3 of the Private Schools Act (Act No. 270 of 1949) and a juridical person as prescribed in Article 64, paragraph (4) of that Act; the same shall apply in Appended List No. 21) subject to the application of the Ordinance on the Terminology, Forms, and Preparation Methods of the Financial Statements of Incorporated Educational Institutions That Issue Securities shall prepare, from among the supplementary schedules prescribed in that Ordinance, those listed below, as well as preparing the supplementary schedule set forth in paragraph (1), item (vi) of the preceding Article in accordance with the form specified in paragraph (2) of that Article:
    - (a) a schedule of tangible fixed assets, etc.;
    - (b) a schedule of securities;
    - (c) a schedule of specific assets;
    - (d) a schedule of school bonds;
    - (e) a schedule of borrowings, etc.; and
    - (f) a schedule of allowances.

(Supplementary Schedule of Special Trust Property)

Article 123 The terminology, forms, and preparation methods for a supplementary schedule of Special Trust Property shall be in accordance with the provisions of the following items:

- (i) with regard to Special Trust Property subject to the application of the Special Purpose Trust Property Accounting Ordinance, the supplementary schedules listed in the items of Article 121, paragraph (1) shall be prepared in accordance with the forms specified in paragraph (2) of that Article; provided, however, that where the supplementary schedule set forth in paragraph (1), item (ii) of that Article is prepared in accordance with the form specified in paragraph (2) of that Article, it shall be prepared as a schedule of Specific Assets and tangible fixed assets, etc., by including Specific Assets; and
- (ii) with regard to Special Trust Property subject to the application of the Investment Trust Property Accounting Ordinance, a schedule of securities, a table of the status of contract amounts, etc. and market prices of Derivative Transactions and forward exchange transactions, a schedule of real property, etc., a schedule of Other Specific Assets, and a schedule of borrowings shall be prepared in accordance with the forms specified by the Investment Trust Property Accounting Ordinance.

(Omission of Preparation of Supplementary Schedules)

Article 124 Where the amount of securities is not more than one percent of the total amount of assets, preparation of the supplementary schedule set forth in Article 121, paragraph (1), item (i) may be omitted.

Article 125 Where the amounts of short-term borrowings, long-term borrowings, lease obligations, and other liabilities at the end of the relevant business year and those at the end of the immediately preceding business year which require payment of interest (excluding corporate bonds) are not more than one percent of the combined total of liabilities and net assets at the end of the respective business years, preparation of the supplementary schedule set forth in Article 121, paragraph (1), item (iv) may be omitted.

Article 125-2 Where the amount of Asset Retirement Obligations at the end of the relevant business year and that at the end of the immediately preceding business year is not more than one percent of the combined total of liabilities and net assets at the end of the respective business years, preparation of the supplementary schedule set forth in Article 121, paragraph (1), item (vi) may be omitted.

Article 126 Where the preparation of any supplementary schedule has been

omitted pursuant to the provisions of Article 124 or Article 125, an entry to that effect shall be set down in the notes.

## **Chapter VII Foreign Companies' Financial Documents**

(Standards for the Preparation of Foreign Companies' Financial Documents)

Article 127 (1) Where the Commissioner of the Financial Services Agency gives his/her approval for a Foreign Company to submit the documents on financial accounting that it discloses in its home country (including the state or any other region where the company is headquartered; the same shall apply hereinafter) as Financial Documents, on finding no risk of this impairing the public interest or the protection of the investors, the terminology, forms, and preparation methods of said Financial Documents shall be, except for the matters that the Commissioner of the Financial Services Agency finds necessary and gives instructions on, the terminology, forms, and preparation methods used in the home country.

(2) Where the documents on financial accounting that a Foreign Company discloses in its home country have not been approved by the Commissioner of the Financial Services Agency based on the provisions of the preceding paragraph, if the Commissioner of the Financial Services Agency gives his/her approval for said Foreign Company to submit the documents on financial accounting that it discloses in an area outside Japan other than its home country as Financial Documents, on finding no risk of this impairing the public interest or the protection of the investors, the terminology, forms, and preparation methods of said Financial Documents shall be, except for the matters that the Commissioner of the Financial Services Agency finds necessary and gives instructions on, the terminology, forms, and preparation methods used in said area outside Japan other than its home country.

(3) Where a Foreign Company that has been approved by the Commissioner of the Financial Services Agency to submit the documents on financial accounting that it discloses in an area outside Japan as Financial Documents pursuant to the provisions of the preceding two paragraphs, submits documents on financial accounting other than those that it discloses in said area, as Financial Documents, the terminology, forms, and preparation methods of such documents on financial accounting shall be in accordance with the instructions of the Commissioner of the Financial Services Agency.

(4) Where the documents on financial accounting that a Foreign Company discloses in its home country or any other area outside Japan have not been approved by the Commissioner of the Financial Services Agency based on the provisions of paragraph (1) or paragraph (2), the terminology, forms, and preparation methods of Financial Documents to be submitted by such Foreign

Company shall be in accordance with the instructions of the Commissioner of the Financial Services Agency.

- (5) Notwithstanding the provisions of the preceding paragraphs, the terminology, forms, and preparation methods of Financial Documents which a Foreign Company that issues Regulated Securities (meaning regulated securities as defined in Article 5, paragraph (1) of the Act) submits with regard to such Regulated Securities shall be in accordance with the instructions of the Commissioner of the Financial Services Agency; provided, however, that where the Commissioner of the Financial Services Agency approves said Foreign Company to submit the documents on financial accounting prepared in its home country as Financial Documents, on finding no risk of impairing the public interest or the protection of the investors, the terminology, forms, and preparation methods of said Financial Documents shall be, except for the matters that the Commissioner of the Financial Services Agency finds necessary and gives instructions on, the terminology, forms, and preparation methods used in the home country.

(Notes on Accounting Standards)

Article 128 Where any accounting principles or procedures adopted by a Foreign Company with regard to Financial Documents under the provisions of paragraphs (1) to (4) inclusive of the preceding Article differ from accounting principles and procedures in Japan, the details thereof shall be entered in the notes to said Financial Documents.

(Methods of Presentation)

Article 129 (1) The provisions of Article 5, paragraph (2) and Article 8-3, item (ii) shall apply mutatis mutandis to Financial Documents submitted by a Foreign Company.

(2) Where the method of presenting the Financial Documents submitted by a Foreign Company differs from the method by which these are presented in Japan, the details thereof shall be entered in the notes in said Financial Documents.

(Presentation of Monetary Amounts)

Article 130 Where the account titles and any other matters set down in Financial Documents submitted by a Foreign Company are presented in monetary amounts in a currency other than Japanese currency, the amounts for major matters shall also be entered in amounts that have been translated into Japanese currency. In this case, the translation standards adopted for the translation into Japanese currency shall be entered in the notes to said Financial Documents.

(Notation Method)

- Article 131 (1) The notes to be entered pursuant to the provisions of Article 128, Article 129, paragraph (2) and the preceding Article shall be entered as Footnotes; provided, however, that notes that it is found inappropriate to enter as Footnotes may be entered in other appropriate places.
- (2) The provisions of Article 9, paragraph (3) shall apply *mutatis mutandis* to where matters are stated in the notes pursuant to the provisions of Article 128 and Article 129, paragraph (2).