

# Rules of Corporate Accounting

(Ordinance of the Ministry of Justice No. 13 of February 7, 2006)

## Table of Contents

Part I General Provisions (Articles 1 to 3)

Part II Accounting Books

Chapter I General Provisions (Article 4)

Chapter II Assets and Liabilities

Section 1 Valuation of Assets and Liabilities

Subsection 1 General Rules (Articles 5 and 6)

Subsection 2 Valuation of Assets and Liabilities upon Entity Conversion,  
etc. (Articles 7 to 10)

Section 2 Goodwill (Article 11)

Section 3 Special Accounts for Shares and Equity Interests (Article 12)

Chapter III Net Assets

Section 1 Shareholders' Equity in Stock Companies

Subsection 1 Delivery of Shares, etc. (Articles 13 to 21)

Subsection 2 Dividends of Surplus (Articles 22 and 23)

Subsection 3 Treasury Shares (Article 24)

Subsection 4 Increases or Decreases in the Amount of Stated Capital, etc.  
of a Stock Company (Articles 25 to 29)

Section 2 Members' Equity in Membership Companies (Articles 30 to 32)

Section 3 Shareholders' and Members' Equity upon Entity Conversion  
(Articles 33 and 34)

Section 4 Shareholders' and Members' Equity upon an Absorption-Type  
Merger, Absorption-Type Company Split, and Share Exchange

Subsection 1 Absorption-Type Merger (Articles 35 and 36)

Subsection 2 Absorption-Type Company Split (Articles 37 and 38)

Subsection 3 Share Exchange (Article 39)

Section 5 Disposal of Treasury Shares of a Company Splitting in an  
Absorption-Type Split, etc. (Articles 40 to 42)

Section 6 Shareholders' and Members' Equity at the Time of Incorporation

Subsection 1 Ordinary Incorporation (Articles 43 and 44)

Subsection 2 Consolidation-Type Merger (Articles 45 to 48)

Subsection 3 Incorporation-Type Company Split (Articles 49 to 51)

Subsection 4 Share Transfer (Article 52)

Section 7 Valuation and conversion differences, etc. (Articles 53 and 54)

Section 8 Share Options (Article 55)

Chapter IV Special Provisions on Calculations Pertaining to Acts Based on

- Reorganization Plans (Article 56)
- Part III Accounting Documents
  - Chapter I General Provisions
    - Section 1 Principles of Presentation (Article 57)
    - Section 2 Stock Companies' Financial Statements (Articles 58 to 60)
    - Section 3 Consolidated Stock Companies' Financial Statements (Articles 61 to 69)
    - Section 4 Membership Companies' Financial Statements (Articles 70 and 71)
  - Chapter II Balance Sheets, etc. (Articles 72 to 86)
  - Chapter III Profit and Loss Statements, etc. (Articles 87 to 95)
  - Chapter IV Statements of Changes in Net Assets, etc. (Article 96)
  - Chapter V Tables of Explanatory Notes (Articles 97 to 116)
  - Chapter VI Annexed Detailed Statements (Article 117)
  - Chapter VII Miscellaneous Provisions (Articles 118 to 120)
- Part IV Audits of Accounting Documents
  - Chapter I General Rules (Article 121)
  - Chapter II Audits in Stock Companies Other Than Companies with Financial Auditors (Articles 122 to 124)
  - Chapter III Audits in Companies with Financial Auditors (Articles 125 to 132)
- Part V Provision to Shareholders of Financial Statements, and Requirements Related to the Special Provisions on Approval of Financial Statements
  - Chapter I Provision to Shareholders of Financial Statements, etc. (Articles 133 and 134)
  - Chapter II Requirements Related to the Special Provisions on Approval of Financial Statements, etc. (Article 135)
- Part VI Public Notice, etc. of Financial Statements
  - Chapter I Public Notice of Financial Statements (Article 136)
  - Chapter II Public Notice of Outlines of Financial Statements
    - Section 1 General Provisions (Article 137)
    - Section 2 Balance Sheet Outlines (Articles 138 to 142)
    - Section 3 Outlines of Profit and Loss Statements (Article 143)
    - Section 4 Miscellaneous Provisions (Articles 144 to 146)
  - Chapter III Miscellaneous Provisions (Articles 147 and 148)
- Part VII Matters Related to Figures, etc. in Accounting for Stock Companies
  - Chapter I Amount of Surplus in a Stock Company (Articles 149 and 150)
  - Chapter II Reductions in the Amount of Stated Capital, etc. (Articles 151 and 152)
  - Chapter III Appropriation of Surplus (Article 153)
  - Chapter IV Right to Demand Distribution of Monies upon Payment of Dividends of Surplus (Article 154)
  - Chapter V Requirements Related to the Special Provisions on Bodies That

Decides Distributions of Surplus (Article 155)  
Chapter VI Distributable Amounts (Articles 156 to 161)  
Part VIII Matters Related to Figures, etc. in Accounting for Membership  
Companies (Articles 162 to 166)

Based on the provisions of the Companies Act (Act No. 86 of 2005), the Rules of Corporate Accounting are established as follows.

## **Part I General Provisions**

(Purpose)

Article 1 The purpose of this Ministerial Ordinance is to provide for the necessary regulations regarding the matters related to the accounting of companies and other matters delegated to an Ordinance of the Ministry of Justice pursuant to the provisions of the Companies Act (Act No. 86 of 2005; hereinafter referred to as "the Act").

(Definitions)

Article 2 (1) In this Ministerial Ordinance, "Company," "Foreign Company," "Subsidiary Company," "Parent Company," "Public Company," "Company with Board of Directors," "Company with Accounting Advisors," "Company with Company Auditors," "Company with Board of Company Auditors," "Company with Financial Auditors," "Company with Committees," "Company with Class Shares," "Shares with Put Options," "Shares Subject to Call," "Share Options," "Bonds with Share Options," "Bonds," "Dividend Property," "Entity Conversion," "Absorption-Type Company Split," "Incorporation-Type Company Split," and "Electronic Public Notice" mean a Company, Foreign Company, Subsidiary Company, Parent Company, Public Company, Company with Board of Directors, Company with Accounting Advisors, Company with Company Auditors, Company with Board of Company Auditors, Company with Financial Auditors, Company with Committees, Company with Class Shares, Shares with Put Options, Shares Subject to Call, Share Options, Bonds with Share Options, Bonds, Dividend Property, Entity Conversion, Absorption-Type Company Split, Incorporation-Type Company Split, and Electronic Public Notice as provided in Article 2 of the Act, respectively.

(2) In this Ministerial Ordinance, the meanings of the terms listed in the following items are as prescribed respectively in those items:

- (i) "Issued Shares" means issued shares as provided in Article 2, item (xxxix) of the Act;
- (ii) "Electronic or Magnetic Means" means an electronic or magnetic method as provided in Article 2, item (xxxiv) of the Act;

- (iii) "Shares Issued at Incorporation" means shares issued at incorporation as provided in Article 25, paragraph (1), item (i) of the Act;
- (iv) "Electronic or Magnetic Records" means the electronic or magnetic records as provided in Article 26, paragraph (2) of the Act;
- (v) "Treasury Shares" means treasury shares as provided in Article 113, paragraph (4) of the Act;
- (vi) "Parent Company's Shares" means a parent company's shares as provided in Article 135, paragraph (1) of the Act;
- (vii) "Monies, etc." means the monies, etc. as provided in Article 151 of the Act;
- (viii) "Shares Subject to Class-Wide Call" means shares subject to class-wide call as provided in Article 171, paragraph (1) of the Act;
- (ix) "Allotment of Shares without Contribution" means the allotment of shares without contribution as provided in Article 185 of the Act;
- (x) "Demand to Be Sold Less than One Unit of Shares" means a demand to be sold less than one unit of shares as provided in Article 194, paragraph (1) of the Act;
- (xi) "Shares for Subscription" means shares for subscription as provided in Article 199, paragraph (1) of the Act;
- (xii) "Share Options for Subscription" means share options for subscription as provided in Article 238, paragraph (1) of the Act;
- (xiii) "Treasury Share Options" means its own share options as provided in Article 255, paragraph (1) of the Act;
- (xiv) "Share Options Subject to Call" means share options subject to call as provided in Article 273, paragraph (1) of the Act;
- (xv) "Allotment of Share Options without Contribution" means the allotment of share options without contribution as provided in Article 277 of the Act;
- (xvi) "Remuneration, etc." means remuneration as provided in Article 361, paragraph (1) of the Act;
- (xvii) "Provisional Financial Statements" means provisional financial statements as provided in Article 441, paragraph (1) of the Act;
- (xviii) "Provisional Account Closing Date" means a provisional account closing date as provided in Article 441, paragraph (1) of the Act;
- (xix) "Consolidated Financial Statements" means consolidated financial statements as provided in Article 444, paragraph (1) of the Act;
- (xx) "Reserves" means reserves as provided in Article 445, paragraph (4) of the Act;
- (xxi) "Distributable Amount" means the distributable amount as provided in Article 461, paragraph (2) of the Act;
- (xxii) "Membership Company" means a membership company as provided in Article 575, paragraph (1) of the Act;
- (xxiii) "Amount of Return of Equity Interests" means the returned amount of

- equity interests as provided in Article 635, paragraph (1) of the Act;
- (xxiv) "Membership Company after Entity Conversion" means a membership company after entity conversion as provided in Article 744, paragraph (1), item (i) of the Act;
- (xxv) "Stock Company after Entity Conversion" means a stock company after entity conversion as provided in Article 746, item (i) of the Act;
- (xxvi) "Bonds, etc." means bonds, etc. as provided in Article 746, item (vii) (d) of the Act;
- (xxvii) "Company succeeding in an Absorption-Type Split" means a company succeeding in an absorption-type split in Article 757 of the Act;
- (xxviii) "Company Splitting in an Absorption-Type Split" means a company split in an absorption-type split as provided in Article 758, item (i) of the Act;
- (xxix) "Company Incorporated in an Incorporation-Type Split" means a company incorporated in an incorporation-type split as provided in Article 763 of the Act;
- (xxx) "Company Splitting in an Incorporation-Type Split" means the company splitting in an incorporation-type split as provided in Article 763, item (v) of the Act.
- (3) In this Ministerial Ordinance, the meanings of the terms listed in the following items are prescribed respectively in those items:
- (i) "Most Recent Business Year" means the most recent business year as provided in the following item (a) or (b) in accordance with the categories of Companies listed therein:
- (a) stock companies: the Most Recent Business Year as provided in Article 2, item (xxiv) of the Act;
- (b) membership companies: where financial statements pertaining to each business year have been prepared, the most recent among the business years;
- (ii) "Financial Statements" means financial statements as provided in the following item (a) or (b), in accordance with the categories of Companies listed therein:
- (a) stock companies: the Financial Statements as provided in Article 435, paragraph (2) of the Act;
- (b) membership companies: the Financial Statements as provided in Article 617, paragraph (2) of the Act;
- (iii) "Accounting Documents" means the following items:
- (a) the balance sheet on the date of formation;
- (b) the Financial Statements and the annexed detailed statements thereof pertaining to each business year;
- (c) Provisional Financial Statements;
- (d) Consolidated Financial Statements;

- (iv) "Absorption-Type Merger" means an absorption-type merger as provided in Article 2, item (xxvii) of the Act (including one in which a Company merges with a corporation which is not a Company, and the Company survives the merger);
- (v) "Consolidation-Type Merger" means a consolidation-type merger as provided in Article 2, item (xxviii) of the Act (including one in which a Company merges with a corporation which is not a Company, and the Company is incorporated in the merger);
- (vi) "Share Exchange" means a share exchange as provided in Article 2, item (xxxix) of the Act (including a share exchange upon entity conversion as provided in Article 96-5, paragraph (1) of the Insurance Business Act (Act No. 105 of 1995));
- (vii) "Share Transfer" means a share transfer as provided in Article 2, item (xxxix) of the Act (including a share transfer upon entity conversion as provided in Article 96-8, paragraph (1) of the Insurance Business Act);
- (viii) "Company Surviving an Absorption-Type Merger" means any Company surviving an Absorption-Type Merger as provided in Article 749, paragraph (1) of the Act (including a Company that survives after an Absorption-Type Merger with a corporation that is not a Company);
- (ix) "Company Disappearing in an Absorption-Type Merger" means any Company Disappearing in an Absorption-Type Merger as provided in Article 749, paragraph (1) item (i) of the Act (including a corporation that is not a Company and disappears in an Absorption-Type Merger with a corporation that is not a Company);
- (x) "Company Incorporated in a Consolidation-Type Merger" means any Company Incorporated in a Consolidation-Type Merger as provided in Article 753, paragraph (1) of the Act (including a Company that is incorporated through a Consolidation-Type Merger with a corporation that is not a Company);
- (xi) "Company Disappearing in a Consolidation-Type Merger" means any company disappearing in a consolidation-type merger as provided in Article 753, paragraph (1), item (i) of the Act (including a corporation which is not a Company and which is consolidated through a Consolidation-Type Merger with a corporation which is not a Company);
- (xii) "Wholly Owning Parent Company Resulting from a Share Exchange" means any wholly owning parent company resulting from a share exchange as provided in Article 767 of the Act (including the wholly owning parent company resulting from a share exchange upon entity conversion as provided in Article 96-5, paragraph (1) of the Insurance Business Act);
- (xiii) "Wholly Owned Subsidiary Company Resulting from a Share Exchange" means any wholly owned subsidiary company resulting from a share

- exchange as provided in Article 768, paragraph (1), item (i) of the Act (including stock companies of which the wholly owning parent company resulting from the share exchange upon entity conversion as provided in Article 96-5, paragraph (1) of the Insurance Business Act is to acquire all of the shares);
- (xiv) "Wholly Owning Parent Company Incorporated in a Share Transfer" means the wholly owning parent company incorporated in a share transfer as provided in Article 773, paragraph (1), item (i) of the Act (including the wholly owning parent company incorporated in a share transfer upon entity conversion as provided in Article 96-8, paragraph (1) of the Insurance Business Act);
- (xv) "Wholly Owned Subsidiary Company Resulting from a Share Transfer" means a wholly owned subsidiary company resulting from a share transfer as provided in Article 773, paragraph (1), item (v) of the Act (including stock companies of which the wholly owning parent company incorporated in a share transfer upon entity conversion as provided in Article 96-8, paragraph (1) of the Insurance Business Act is to acquire all of the shares the stock companies issue);
- (xvi) "Company, etc." means a company (including a Foreign Company), partnership (including entities equivalent to a partnership in foreign countries), or other business entities equivalent thereto;
- (xvii) "Shareholders, etc." means shareholders and members of Membership Companies, and other persons corresponding thereto;
- (xviii) "Affiliated Company" means, when a Company can exert material influence on another Company's decisions on financial and business policies, that other Company (excluding a Subsidiary Company);
- (xix) "Consolidated Subsidiary Company" means a Subsidiary Company that falls within the scope of a consolidation;
- (xx) "Unconsolidated Subsidiary Company" means a Subsidiary Company that is outside the scope of a consolidation;
- (xxi) "Consolidated Company" means the relevant stock company and its Consolidated Subsidiary Companies;
- (xxii) "Associated Company" means a Company that is the relevant stock company's Parent Company, Subsidiary Companies Affiliated Companies, as well as a Company, etc. of which the relevant stock company is an Affiliated Company;
- (xxiii) "Equity Method" means the method used by an investing company to amend the amount of its investment in another company each business year due to changes in the portion owned by the investing company with regard to the net assets, profits and losses of the other company;
- (xxiv) "Tax Effect Accounting" means, when there is a variance between the

- amounts of assets and liabilities recorded in the Balance Sheet or the Consolidated Balance Sheet and the amount of assets and liabilities calculated on the taxable income accounts results, accounts processing for the purposes of reasonably homologizing the amount of net profit for the current period before Corporation Tax, etc. (meaning corporation tax, residents tax and Business Tax (meaning business tax subject to a tax base which is an amount affiliated with profit); the same applies hereinafter) is deducted, and the amount of Corporation Tax, etc., through appropriate allocation of the amount of Corporation Tax, etc. pertaining to the variance;
- (xxv) "Hedge Accounting" means accounts processing for the purposes of recognizing, in the same accounting period, profit and loss pertaining to hedging instruments (meaning transactions that aim to abate the risk of loss due to price fluctuations, interest rate fluctuations and currency exchange rate fluctuations concerning assets (including those which are reliably expected to be issued in future transactions; the same applies hereinafter in this item) or liabilities (including those which are reliably expected to be issued in future transactions; the same applies hereinafter in this item), or derivative transactions, and which are obviously recognized as abating the risk of loss; the same applies hereafter) and profit and loss pertaining to Hedging Subjects (meaning assets, or liabilities, or derivative transactions that are the subject of hedging instruments);
- (xxvi) "Trading Securities" means securities held for the purpose of financial gain through changes in market value;
- (xxvii) "Bond Certificates Held to Maturity" means bond certificates held with the intention of ownership until maturity;
- (xxviii) "Reacquired Bonds" means a Company's bonds that the Company itself holds;
- (xxix) "Tender Offer, etc." means a tender offer as provided in Article 27-2, paragraph (6) of the Financial Instruments and Exchange Act (Act No. 25 of 1948) (including as applied mutatis mutandis pursuant to Article 27-22-2, paragraph (2) of that Act), and systems based on foreign laws and regulations which correspond thereto;
- (xxx) "Shareholders' Equity, etc." means the stated capital, capital surplus and retained earnings of a stock company or Membership Company;
- (xxxii) "Acquisition of Control" means a first Company's acquisition of control over a second Company (excluding cases where the first Company and the second Company are Under Common Control; the same applies hereafter in this item) or the second Company's business;
- (xxxii) "Under Common Control" means a relationship in which two or more persons (including those without legal personality; the same applies hereinafter in this item) are controlled by the same person (excluding



temporary control; the same applies hereinafter in this item), or a relationship in which, among two or more persons, one of such persons controls all other persons;

(xxxiii) "Absorption-Type Restructuring" means the acts listed below:

- (a) Absorption-Type Merger;
- (b) Absorption-Type Company Split;
- (c) Share Exchange;

(xxxiv) "Acts of Acceptance Related to Absorption-Type Restructuring" means the acts listed below:

- (a) assumption, through an Absorption-Type Merger, of all of the rights and obligations of a Company Disappearing in an Absorption-Type Merger;
- (b) assumption, through an Absorption-Type Company Split, by the Company Splitting in an Absorption-Type Split, of all or part of the existing rights and obligations related to that business;
- (c) acquisition, through a Share Exchange, of all of the Issued Shares of a Wholly Owned Subsidiary Company Resulting from a Share Exchange;

(xxxv) "Assets Subject to Absorption-Type Restructuring" means assets as provided in the following item (a) or (b) in accordance with the categories of Absorption-Type Restructuring listed therein:

- (a) Absorption-Type Merger: assets succeeded to through an Absorption-Type Merger by the Company Surviving the Absorption-Type Merger;
- (b) Absorption-Type Company Split: assets succeeded to through an Absorption-Type Company Split by the Company Succeeding in the Absorption-Type Split;

(xxxvi) "Consideration in Absorption-Type Restructuring" means assets as provided in the following items (a) through (c) in accordance with the categories of Absorption-Type Restructuring listed therein:

- (a) Absorption-Type Merger: assets delivered to Shareholders, etc. of the Company Disappearing in an Absorption-Type Merger by the Company Surviving the Absorption-Type Merger when an Absorption type Merger is effected;
- (b) Absorption-Type Company Split: assets delivered to the Company Splitting in an Absorption-Type Split by the Company Succeeding in the Absorption-Type Split when an Absorption-Type Company Split is effected;
- (c) Share Exchange: assets delivered to the shareholders of a Wholly Owned Subsidiary Company Resulting from a Share Exchange by the Wholly Owing Parent Company Resulting from the Share Exchange when a share exchange is effected;

(xxxvii) "Market Value of Consideration in Absorption-Type Restructuring" means the market value of the Consideration in Absorption-Type Restructuring or other value of the Consideration in Absorption-Type

- Restructuring calculated by appropriate method;
- (xxxviii) "Treasury Shares Used as Consideration" means Treasury Shares disposed of as Consideration in Absorption-Type Restructuring;
- (xxxix) "Previously Acquired Shares, etc." means shares as provided in the following (a) or (b) in accordance with the categories of cases listed therein:
- (a) in the case of an Absorption-Type Merger: Shares or equity interests of the Company Disappearing in an Absorption-Type Merger which are held by the Company Surviving the Absorption-Type Merger immediately prior to the Absorption-Type Merger, or shares of the relevant Company Disappearing in an Absorption-Type Merger which are held by the Company Disappearing in the Absorption-Type Merger immediately prior to the Absorption-Type Merger;
- (b) in the case of a Consolidation-Type Merger: Shares of the relevant Companies Disappearing in a Consolidation-Type Merger and the shares or equity interests of other Companies Disappearing in a Consolidation-Type Merger that each Company Disappearing in a Consolidation-Type Merger holds;
- (xl) "Company Split by Absorption-Type Split-Off" means, among Absorption-Type Company Splits, those in which, in the absorption-type company split agreement, the matters listed in Article 758, item (viii) or Article 760, item (vii) of the Act are specified, and the Company Splitting in an Absorption-Type Split, in accordance with the provisions of those items, delivers to its shareholders all of the Consideration in Absorption-Type Restructuring;
- (xli) "Consolidation-Type Restructuring" means the acts listed below:
- (a) Consolidation-Type Merger;
- (b) Incorporation-Type Company Split;
- (c) Share Transfer;
- (xlii) "Assets Subject to Consolidation-Type Restructuring" means assets as provided in the following (a) or (b) in accordance with the categories of Consolidation-Type Restructuring listed therein:
- (a) Consolidation-Type Merger: assets succeeded to through a Consolidation-Type Merger by the Company Incorporated in a Consolidation-Type Merger;
- (b) Incorporation-Type Company Split: assets succeeded to through an Incorporation-Type Company Split by the Company Incorporated in an Incorporation-Type Split;
- (xliii) "Consideration in Consolidation-Type Restructuring" means the assets as provided in the following (a) through (c) in accordance with the categories of Consolidation-Type Restructuring listed therein:
- (a) Consolidation-Type Merger: assets delivered to Shareholders, etc. of the Company Disappearing in a Consolidation-Type Merger by the Company

- Incorporated in a Consolidation-Type Merger when a Consolidation-Type Merger is effected;
- (b) Incorporation-Type Company Split: assets delivered to the Company Splitting in an Incorporation-Type Split by the Company Incorporated in an Incorporation-Type Split when an Incorporation-Type Company Split is effected;
- (c) Share Transfer: assets delivered to the shareholders of a Wholly Owned Subsidiary Company Resulting from a Share Transfer by a Wholly Owning Parent Company Incorporated in the Share Transfer when a Share Transfer is effected;
- (xliv) "Market Value of Consideration in Consolidation-Type Restructuring" means the market value of the Consideration in Consolidation-Type Restructuring or other value of the Consideration in Consolidation-Type Restructuring calculated by appropriate method;
- (xlv) "Acquiring Company in a Consolidation-Type Merger" means, among the Companies Disappearing in a Consolidation-Type Merger, the company that acquires control through the Consolidation-Type Merger;
- (xlvi) "Consolidated Company Succeeding to Shareholders' Equity" means a Company Disappearing in a Consolidation-Type Merger, when such a Company is specified as being a Consolidated Company Succeeding to Shareholders' Equity as provided in this item, where all of the Consideration in Consolidation-Type Restructuring that is delivered to the Shareholders, etc. of the Company Disappearing in a Consolidation-Type Merger is shares or equity interests of the Company Incorporated in a Consolidation-Type Merger;
- (xlvii) "Company Consolidated without Delivering Consideration" means a Company Disappearing in a Consolidation-Type Merger when no Consideration in Consolidation-Type Restructuring is delivered to the Shareholders, etc. of the Company Disappearing in a Consolidation-Type Merger;
- (xlviii) "Company Consolidated without Delivering Shares" means a Company Disappearing in a Consolidation-Type Merger or a Company Consolidated without Delivering Consideration when all of the Consideration in Consolidation-Type Restructuring that is delivered to the Shareholders, etc. of the Company Disappearing in a Consolidation-Type Merger is Bonds, etc. of the Company Incorporated in a Consolidation-Type Merger;
- (xlix) "Consolidated Company Not Succeeding to Shareholders' Equity" means a Company Disappearing in a Consolidation-Type Merger which is not a Consolidated Company Succeeding to Shareholders' Equity or a Company Consolidated without Delivering Shares;
- (l) "Company Split by Incorporation-Type Split-Off" means, among

Incorporation-Type Company Splits, those in which, in the incorporation-type company split plan, the matters listed in Article 763, item (xii) or Article 765, paragraph (1), item (viii) of the Act are specified, and the Company Splitting in an Incorporation-Type Split, in accordance with the provisions of those items, delivers to its shareholders all of the Consideration in Consolidation-Type Restructuring;

- (li) "Company to Which Consolidated Dividend Regulations Apply" means a stock company (limited to those which are preparing Consolidated Financial Statements for a given business year) which, when preparing Financial Statements pertaining to the given business year, specifies the intention to apply the provisions of Article 158, item (iv) with respect to calculations for the Distributable Amount for the relevant stock company between the time when the last day of a given business year becomes the last day of the Most Recent Business Year, to the time when the last day of the business year following the relevant business year becomes the last day of the Most Recent Business Year;
- (lii) "Leased Object" means an object used through a lease contract;
- (liii) "Finance Lease" means the leasing of an object under a lease contract that cannot be canceled during the period of the lease contract or equivalent leasing of an object, for which the lessee of the Leased Object is able to enjoy the substantial economic profit generated from the Leased Object, and for which the lessee bears substantial expenses that arise as a result of the use of the Leased Object;
- (liv) "Finance Lease Under Which Ownership Is Transferred" means, among Finance Leases, those for which it is found that the terms and conditions under the lease contract make clear that ownership of the Leased Object is to transfer to the lessee;
- (lv) "Finance Lease Under Which Ownership Is Not Transferred" means, among Finance Leases, those which are not a Finance Lease Under Which Ownership Is Transferred;
- (lvi) "Asset Removal Obligations" means the legal obligations related to the removal of tangible fixed assets that have arisen through the acquisition, construction, development or ordinary use of the tangible fixed assets, and the equivalent thereto;
- (lvii) "Construction Contract" means, among service contracts, one for which the basic specifications and operational contents pertaining to civil engineering, architecture, ship building, the manufacture of mechanical equipment or other work are based on the instructions of the ordering party;
- (lviii) "Financial Instruments" means Financial Assets (meaning claims arising from monetary claims, securities and derivative transactions (including equivalent matters)) and Financial Liabilities (meaning obligations arising

from monetary debt or derivative transactions (including equivalent matters));

(lix) "Leased Real Property" means real property owned for the purposes of profit or financial gain through lease or transfer, and which is real property which is not classified as an inventory asset.

(4) The "case where a Company can exert material influence on another Company's decisions on financial and business policies" as provided in the preceding paragraph, item (xviii), means the cases (excluding cases where it is found that there is evidence that, in light of its financial or business relationship, one Company cannot exert an important influence on the financial or business policy decisions of another Company, etc.) listed below:

(i) cases where the percentage of the number of voting rights owned on a first Company's own account (including its Subsidiary Companies; the same applies hereinafter in this paragraph), with respect to the total number of voting rights in a second Company, etc. (excluding Companies, etc. listed below that are recognized as being unable to exert an important influence on the financial or business policy decisions of a second Company, etc.; the same applies hereinafter in this paragraph), is 20 percent or more:

(a) a Company, etc. that has been issued a ruling on the commencement of rehabilitation proceedings pursuant to the provisions of the Civil Rehabilitation Act (Act No. 225 of 1999);

(b) a stock company that has been issued a ruling on the commencement of reorganization proceedings pursuant to the provisions of the Corporate Reorganization Act (Act No. 154 of 2002);

(c) a Company, etc. that has been issued a ruling on the commencement of bankruptcy proceedings pursuant to the provisions of the Bankruptcy Act (Act No. 75 of 2004);

(d) any other Company, etc. equivalent to any one of those listed in (a) through (c);

(ii) cases where the percentage of the number of voting rights owned on a first Company's own account is 15 percent or more (except for cases listed in the preceding item) with respect to the total number of voting rights of a second Company, etc., and cases that fall under any of the requirements listed below:

(a) that a person listed below (limited to those who can exert an influence on the decisions on financial and business policies of the second Company, etc.) has assumed the office of a representative director, a director, or an equivalent title at the second Company, etc.:

1. an officer of the first Company;

2. a member executing the business of the first Company;

3. an employee of the first Company;

- 4. a person who was a person listed in 1 through 3;
- (b) that the first Company carries out important financing with respect to the second Company, etc.;
- (c) that the first Company provides important technology to the second Company, etc.;
- (d) that there are important sales, purchasing or other business-related transactions between the first Company and the second Company, etc.;
- (e) that other facts exist from which it can be inferred that the first Company can exert material influence on the decisions on financial and business policies of the second Company, etc.;
- (iii) cases where the percentage of the Own and Equivalent Voting Rights (meaning the total number of the number of voting rights listed below) in a second Company, etc. is 20 percent or more (including when the voting rights are not owned on the first Company's own account, except when listed in the preceding two items), and when meeting any of the requirements listed in (a) through (e) of the preceding item:
  - (a) the voting rights owned by the first Company on its own account;
  - (b) the voting rights owned by persons who it is known will exercise their voting rights in the manner intended by the first Company, due to a close relationship with the first Company in terms of contribution, personnel affairs, funds, technology, and transactions, etc.;
  - (c) the voting rights owned by persons who have consented to exercise their voting rights in the manner intended by the first Company;
- (iv) cases where, based on a contract, or the equivalent thereto, between one Company and an independent party, these parties jointly control another Company, etc.

(Allowances for Accounting Practices)

Article 3 Regarding the interpretation of the terms and the application of the provisions found in this Ministerial Ordinance, the standards of corporate accounting and other corporate accounting practices that are generally accepted as fair and appropriate must be taken into consideration.

## **Part II Accounting Books**

### **Chapter I General Provisions**

Article 4 (1) Matters related to the value of assets, liabilities, and net assets that are to be entered to accounting books to be prepared by the Company pursuant to the provisions of Article 432, paragraph (1) and Article 615, paragraph (1) of the Act and other matters relating the preparation of accounting books (including matters that are to be prescribed by the Ordinance

of the Ministry of Justice pursuant to the provisions of Article 445, paragraph (4) and paragraph (5) of the Act) are as provided in the provisions of this Part.

(2) Accounting books must be prepared in writing or by means of Electronic or Magnetic Records.

## **Chapter II Assets and Liabilities**

### **Section 1 Valuation of Assets and Liabilities**

#### **Subsection 1 General Rules**

(Valuation of Assets)

- Article 5 (1) With regard to assets, unless otherwise provided in laws and regulations other than this Ministerial Ordinance or the Act, the acquisition values thereof must be entered to the accounting books.
- (2) With regard to assets to be depreciated, a reasonable amount of depreciation must be carried out on the last day of the business year (when valuation is to be carried out on a day other than the last day of the business year, that day; the same applies hereinafter in this Part).
- (3) With regard to the assets listed in the following items, when the price provided in each respective item is to be entered on the last day of the business year, the price provided in each respective item must be entered:
- (i) assets whose market value on the last day of the business year is significantly lower than the cost at acquisition (excluding assets whose market value it is known will recover to the cost at acquisition): the market value on the last day of the business year;
  - (ii) assets for which a reduction in value has arisen which could not be predicted, or assets which should be recognized as an impairment loss on the last day of the business year: an amount reduced a reasonable amount from the cost at the time of acquisition.
- (4) With regard to claims for which there is a risk of non-collection, the amount which is forecast to remain uncollected on the last day of the business year must be deducted.
- (5) With regard to claims, when there is a difference between the acquisition value and the claim amount, or when there is another reasonable ground, the proper price may be entered.
- (6) With regard to the assets listed below, the market value or the proper price at the time may be entered on the last day of the business year:
- (i) assets whose market value on the last day of the business year is lower than the cost at acquisition;
  - (ii) assets with a market price (except shares of a Subsidiary Company and shares of an Affiliated Company, as well as Bond Certificates Held to Maturity);

(iii) assets other than those listed in the preceding two items, for which it is appropriate to enter the market value or the proper price at the time on the last day of the business year.

(Valuation of Liabilities)

Article 6 (1) With regard to liabilities, unless otherwise provided in laws and regulations other than this Ministerial Ordinance or the Act, the amount of liabilities must be entered in the accounting books.

(2) With regard to the liabilities listed below, the market value or the proper price at the time may be entered on the last day of the business year:

(i) allowances (including allowances that are to be recorded when services are provided to Shareholders, etc.) that are to be recorded due to the carrying over, as an expense or loss, a monetary amount corresponding to the reasonably expected expense and loss that belongs to the burden of the relevant business year, in preparation for the occurrence of future expenses or losses (including deductions from revenue; the same applies hereinafter in this item) beyond those listed below:

(a) Allowances for Retirement Benefits (meaning allowances that are to be carried over on the last day of the business year if payment of a retirement lump sum, a retirement pension or other similar property to an employee after that employee's retirement is to be made);

(b) Allowance for Loss on Returned Goods (meaning allowances that are to be carried over on the last day of the business year if a special agreement is entered into pertaining to the redemptions of sold Inventories, at all times, at the value of sales);

(ii) Bonds for which the amount of payment received is different to the liability amount;

(iii) liabilities other than those listed in the preceding two items, for which it is appropriate to enter the market value or the proper price at the time on the last day of the business year.

### **Subsection 2 Valuation of Assets and Liabilities upon Entity Conversion, etc.**

(Prohibition of Revaluation of Assets and Liabilities upon Entity Conversion)

Article 7 When a Company performs an Entity Conversion, it may not change the book value of assets and liabilities it holds on the grounds that the Entity Conversion is being performed.

(Valuation of Assets and Liabilities in Organization Restructuring Actions)

Article 8 (1) For the Companies listed in the following items, except cases where



the Absorption-Type Merger or Absorption-Type Company Split constitutes an Acquisition of Control on the part of the Company, or other cases where the market value of the Assets Subject to Absorption-Type Restructuring is to be entered, the book value of the Company provided in each respective item immediately prior to the Absorption-Type Merger or Absorption-Type Company Split must be entered for the Assets Subject to Absorption-Type Restructuring:

- (i) Company Surviving an Absorption-Type Merger: Company Disappearing in the Absorption-Type Merger;
- (ii) Company Succeeding in an Absorption-Type Split: Company Splitting in an Absorption-Type Split.

(2) The provisions of the preceding paragraph apply mutatis mutandis to Consolidation-Type Mergers and Incorporation-Type Company Split.

(Rights of Membership Companies to Claim Contributions)

Article 9 (1) When a Membership Company performs an Entity Conversion, and when the Membership Company is, immediately prior to the Entity Conversion, recording as assets, claims pertaining to the right of a Membership Company to demand that contributions should be performed by its members, it is deemed that the Membership Company has determined that it will not record those claims as assets immediately prior to the Entity Conversion.

(2) The provisions of the preceding paragraph apply mutatis mutandis to cases where the Membership Company recording as assets, claims pertaining to the right to demand that contributions should be performed by its members becomes a Company Disappearing in an Absorption-Type Merger or a Company Disappearing in a Consolidation-Type Merger.

(Valuation of Assets and Liabilities When a Corporation That Is Not a Company Becomes a Company)

Article 10 When a corporation which is not a Company becomes a Company pursuant to the provisions of the Acts listed below, the book values to be entered by the Company to the assets and liabilities the Company holds are the book values entered for the relevant assets and liabilities of the corporation immediately prior to becoming the Company, except cases where otherwise as provided in other laws and regulations:

- (i) Agricultural Co-operatives Act (Act No. 132 of 1947);
- (ii) Financial Instruments and Exchange Act;
- (iii) Commodity Exchange Act (Act No. 239 of 1950);
- (iv) Act on the Organization of Small and Medium-sized Enterprise Association (Act No. 185 of 1957);
- (v) Act on Financial Institutions' Merger and Conversion (Act No. 86 of 1968);
- (vi) Insurance Business Act.

## **Section 2 Goodwill**

Article 11 When a Company is performing an Absorption-Type Restructuring, a Consolidation-Type Restructuring, or an acceptance of assignment of business, it may record the appropriate amount of goodwill as assets or liabilities.

## **Section 3 Special Accounts for Shares and Equity Interests**

Article 12 When a Company acquires shares or equity interests as consideration for an Absorption-Type Company Split, a Share Exchange, an Incorporation-Type Company Split, a Share Transfer or an assignment of business, it may record the appropriate amount as a special allowance pertaining to the shares or equity interests as Liabilities.

## **Chapter III Net Assets**

### **Section 1 Shareholders' Equity in Stock Companies**

#### **Subsection 1 Delivery of Shares, etc.**

(General Rules)

Article 13 (1) The Maximum Amount of Increase in Stated Capital of a stock company (meaning the amount of property that persons who are shareholders as provided in Article 445, paragraph (1) of the Act have paid or delivered to the stock company, the same applies hereinafter in this Section) through share delivery occurring after the formation of the stock company (excluding share delivery upon performance of the actions listed in the same Article, paragraph (5) of the Act), the amount of other capital surplus and other retained earnings, and the Amount of Consideration for Treasury Shares (meaning the amount of consideration for the Treasury Shares as provided in Article 150, paragraph (2), item (viii) and Article 158, item (viii) (b) hereof, and Article 446, item (ii) and Article 461, paragraph (2), item (ii) (b) and item (iv) of the Act; the same applies hereinafter in this Chapter) are as provided in this Subsection.

(2) The phrase "share delivery occurring after the formation of a stock company" as provided in the preceding paragraph means the issuance of shares and the disposition of Treasury Shares (in the cases listed in item (viii), item (ix), item (xii), item (xiv) and item (xv), the disposition of Treasury Shares) that occurs after the formation of a stock company in the cases listed below:

- (i) cases where, pursuant to the provisions of Part II, Chapter II, Section 8 of the Act, subscribers for Shares for Subscription are solicited;
- (ii) cases where Shares with Put Options (limited to those for which there are provisions with respect to the matters listed in Article 108, paragraph (2),

- item (v) (b) of the Act; the same applies hereinafter in this Chapter) are acquired;
- (iii) cases where Shares Subject to Call (limited to those for which there are provisions with respect to the matters listed in Article 108, paragraph (2), item (vi) (b) of the Act; the same applies hereinafter in this Chapter) are acquired;
- (iv) cases where Shares Subject to Class-Wide Call (limited to the Shares Subject to Class-Wide Call if provisions have been made with respect to the matters listed in Article 171, paragraph (1), item (i) (a) of the Act at acquisition of the Shares Subject to Class-Wide Call; the same applies hereinafter in this Chapter) are acquired;
- (v) cases where an Allotment of Shares without Contribution is made;
- (vi) cases where Share Options have been exercised;
- (vii) cases where Share Options Subject to Call (limited to those for which there are provisions with respect to the matters listed in Article 236, paragraph (1), item (vii) (d) of the Act; the same applies hereinafter in this Chapter) are acquired;
- (viii) cases where the stock company has received a Demand to Be Sold Less than One Unit of Shares;
- (ix) cases where the stock company is to deliver shares corresponding to the shares acquired from a shareholder (including persons who bear the obligations jointly and severally with the shareholder) who performs the obligations as provided in Article 462, paragraph (1) of the Act that arise due to the fact that the shareholder has acquired shares of the stock company;
- (x) cases where the stock company survives an Absorption-Type Merger (including mergers in which a stock company survives after a merger with a corporation which is not a Company);
- (xi) cases where, as a result of an Absorption-Type Company Split, another Company succeeds to all or part of the rights and obligations related to the stock company's business;
- (xii) cases where, through an Absorption-Type Company Split, the Company Splitting in an Absorption-Type Split (limited to a stock company) allows the Company Succeeding in the Absorption-Type Split to succeed to its Treasury Shares;
- (xiii) cases where, through a Share Exchange, the stock company acquires all the Issued Shares of another stock company;
- (xiv) cases where, in a Share Exchange, the Wholly Owning Parent Company Resulting from the Share Exchange acquires the stock company's Treasury Shares;
- (xv) cases where, in a Share Transfer, the Wholly Owning Parent Company Incorporated in the Share Transfer acquires the stock company's Treasury

Shares.

(Cases Where Subscribers Are Solicited for Shares for Subscription)

Article 14 (1) When the subscribers are solicited for Shares for Subscription pursuant to the provisions of Part II, Chapter II, Section 8 of the Act, the Maximum Amount of Increase in Stated Capital is the amount obtained by subtracting the amount listed in item (iv) from the amount obtained by multiplying by the Share Issue Rate (meaning the rate obtained by dividing the number of shares issued at the solicitation by the sum of the number of shares issued and the number of Treasury Shares disposed of at the solicitation; the same applies hereinafter in this Article) the amount obtained by subtracting the amount listed in item (iii) from the sum of the amounts listed in item (i) and item (ii) (when this is less than zero; zero):

- (i) the amount of monies received as payment pursuant to the provisions of Article 208, paragraph (1) of the Act (for the monies listed respectively as follows in (a) or (b), the respective amounts provided therein):
  - (a) cases where payment of monies has been received in the currency of a foreign country (excluding the cases listed in (b)): an amount calculated based on the exchange rate for the foreign currency on the date set forth in Article 199, paragraph (1), item (iv) of the Act (if the period set forth in the same item has been determined, the day on which payment is received pursuant to the provisions of Article 208, paragraph (1) of the Act);
  - (b) cases where the calculations for the Maximum Amount of Increase in Stated Capital through the amount of monies received as payment (including the amount as provided in (a)) are incorrect: the book value of the monies immediately prior to the payment according to the person who has made the payment;
- (ii) if, pursuant to the provisions of Article 208, paragraph (2) of the Act, the tendering of Properties Contributed in Kind (meaning the Properties Contributed in Kind as provided in Article 207, paragraph (1) of the Act ; the same applies hereinafter in this Article) has been received, the value of the Properties Contributed in Kind (for the Properties Contributed in Kind listed in (a) or (b) below, the amount provided in (a) or (b) below) on the date set forth in Article 199, paragraph (1), item (iv) of the Act (if the period set forth in the same item has been determined, the day on which the delivery is received pursuant to Article 208, paragraph (2) of the Act):
  - (a) cases where the relevant stock company and the person who has delivered the relevant Properties Contributed in Kind are Under Common Control (excluding cases where a market value is to be entered for the Properties Contributed in Kind): the book value of the Properties Contributed in Kind immediately prior to the tendering according to the person who has

- tendered;
- (b) in cases other than that listed in (a), when the calculations for the Maximum Amount of Increase in Stated Capital through the value of Properties Contributed in Kind received through the tendering are incorrect: the book value as provided in (a);
  - (iii) among the amounts of expenses pertaining to the delivery of Shares for Subscription taken as the matters listed in Article 199, paragraph (1) item (v) of the Act, the amount determined by the stock company as the amount to be subtracted from the Maximum Amount of Increase in Stated Capital; or
  - (iv) when the amount obtained by subtracting the amount listed in (b) from the amount listed in (a) is equal to or greater than zero, the relevant amount:
    - (a) the book value of Treasury Shares disposed of at the solicitation;
    - (b) the amount obtained by multiplying by the Treasury Share Disposal Rate (meaning the rate obtained by subtracting the Share Issue Rate from one; the same applies hereinafter in this Article) the amount obtained by subtracting the amount listed in the preceding item from the sum of the amounts listed in item (i) and item (ii) (when this is less than zero; zero).
- (2) In the cases prescribed in the preceding paragraph, the amounts after the acts set forth in the same paragraph listed in the following items are the amounts obtained by adding the amounts provided in those items to the amounts respectively immediately prior to the act set forth in the same paragraph:
- (i) the amount of other capital surplus: the amount obtained by subtracting the amount listed in (c) from the sum of the amounts listed in (a) and (b):
    - (a) the amount obtained by multiplying by the Treasury Share Disposal Rate the amount obtained by subtracting the amount listed in item (iii) of the preceding paragraph from the sum of the amounts listed in item (i) and item (ii) of the same paragraph;
    - (b) whichever of the amounts listed below is the smallest:
      1. the amount listed in item (iv) of the preceding paragraph;
      2. the amount obtained by multiplying by the Share Issue Rate the amount obtained by subtracting the amount listed in item (iii) of the preceding paragraph from the sum of the amounts listed in item (i) and item (ii) of the same paragraph (when this is less than zero; zero);
    - (c) the book value of Treasury Shares disposed of at the solicitation; or
  - (ii) the amount of Other Retained Earnings: when the amount obtained by subtracting the amount listed in item (iii) of the preceding paragraph from the sum of the amounts listed in item (i) and item (ii) of the same paragraph is less than zero, the amount obtained by multiplying the amount by the Share Issue Rate.
- (3) In the cases prescribed in paragraph (1), the Amount of Consideration for

Treasury Shares is the amount obtained by multiplying by the Treasury Share Disposal Rate the amount obtained by subtracting the amount listed in item (iii) of the same paragraph from the sum of the amounts listed in paragraph (1), item (i) and item (ii).

- (4) The amount listed in paragraph (2), item (i) (b), with respect to the application of the provisions of Article 150, paragraph (2), item (viii) and Article 158, item (viii) (b) hereof, and Article 446, item (ii), and Article 461, paragraph (2), item (ii) (b) and item (iv) of the Act, is also deemed to be included in the Amount of Consideration for Treasury Shares.
- (5) With respect to the application of the provisions of paragraph (1), item (ii), the amount listed in Article 199, paragraph (1), item (ii) of the Act, and the value listed in the same paragraph, item (iii) regarding Properties Contributed in Kind, and the book value of the Properties Contributed in Kind (including the amounts of Stated Capital and Capital Reserves pertaining to the contributions), must not be interpreted as having to be the same amount.

(Cases Where Shares Are Issued upon Share Acquisition)

Article 15 (1) In the cases listed below, the Maximum Amount of Increase in Stated Capital is zero:

- (i) cases where Shares with Put Options are acquired;
  - (ii) cases where Shares Subject to Call are acquired;
  - (iii) cases where Shares Subject to Class-Wide Call are acquired.
- (2) In the cases listed in each item of the preceding paragraph, the Amount of Consideration for Treasury Shares is the book value of the Treasury Shares disposed of in the cases listed respectively in those items.

(Cases Where an Allotment of Shares without Contribution Is Made)

Article 16 (1) When an Allotment of Shares without Contribution is made, the Maximum Amount of Increase in Stated Capital is zero.

- (2) In the cases prescribed in the preceding paragraph, the amount of other capital surplus after an Allotment of Shares without Contribution is the amount obtained by subtracting the book value of Treasury Shares disposed of in the Allotment of Shares without Contribution from the amount of other capital surplus immediately prior to the Allotment of Shares without Contribution.
- (3) In the cases prescribed in paragraph (1), the Amount of Consideration for Treasury Shares is zero.

(Cases Where Share Options Have Been Exercised)

Article 17 (1) If Share Options have been exercised, the Maximum Amount of Increase in Stated Capital is the amount obtained by subtracting the amount

listed in item (v) from the amount obtained by multiplying by the Share Issue Rate (meaning the rate obtained by dividing the number of shares issued at exercising by the sum of the number of shares issued and the number of Treasury Shares disposed of at exercising; the same applies hereinafter in this Article) the amount obtained by subtracting the amount listed in item (iv) from the sum of the amounts listed in item (i) through item (iii) (when this is less than zero; zero):

- (i) the book value of the Share Options at the time of exercising;
- (ii) in the cases prescribed in Article 281, paragraph (1) of the Act, or in the cases as provided in the second sentence of paragraph (2) of the same Article, the amount of monies received as payment pursuant to those provisions (for monies in the cases listed in (a) or (b) below, the amount as provided in (a) or (b) below):
  - (a) cases where payment has been received of monies in the currency of a foreign country (excluding the cases listed in (b)): an amount calculated based on the exchange rate for the foreign currency at the time of exercising;
  - (b) cases where the calculations for the Maximum Amount of Increase in Stated Capital through the amount of monies received as payment (including the amount prescribed in (a)) are incorrect: the book value of monies immediately prior to the payment according to the person who has made the payment;
- (iii) if the Properties Contributed in Kind (meaning the Properties Contributed in Kind as provided in Article 284, paragraph (1) of the Act; the same applies hereinafter in this Article) have been received pursuant to the provisions of the first sentence of Article 281, paragraph (2) of the Act, the value of the Properties Contributed in Kind at the time of exercising (for Properties Contributed in Kind in the cases listed in (a) or (b) below, the amount as provided in (a) or (b) below):
  - (a) cases where the relevant stock company and the person who has delivered the relevant Properties Contributed in Kind are Under Common Control (excluding cases where a market value is to be entered for the Properties Contributed in Kind): the book value of the Properties Contributed in Kind immediately prior to the delivery according to the person who has tendered;
  - (b) in cases other than that listed in (a), when the calculations for the Maximum Amount of Increase in Stated Capital through the value of the Properties Contributed in Kind received through the relevant delivery are incorrect: the book value as provided in (a);
- (iv) among the amounts of expenses pertaining to the delivery of shares taking place upon the exercising of Share Options taken as the matters listed in

Article 236, paragraph (1) item (v) of the Act, the amount determined by a stock company as the amount to be subtracted from the Maximum Amount of Increase in Stated Capital;

- (v) when the amount obtained by subtracting the amount listed in (b) from the amount listed in (a) is equal to or greater than zero, the relevant amount:
  - (a) the book value of Treasury Shares disposed of at exercising;
  - (b) the amount obtained by multiplying by the Treasury Share Disposal Rate (meaning the rate obtained by subtracting the Share Issue Rate from one; the same applies hereinafter in this Article) the amount obtained by subtracting the amount listed in the preceding item from the sum of the amounts listed in item (i) through item (iii) (when this is less than zero; zero).
- (2) In the cases prescribed in the preceding paragraph, the amounts after exercising of Share Options listed in the following items are the amounts obtained by adding the amounts as provided in those items to the amounts respectively immediately prior to the exercising:
  - (i) the amount of other capital surplus: the amount obtained by subtracting the amount listed in (c) from the sum of the amounts listed in (a) and (b):
    - (a) the amount obtained by multiplying by the Treasury Share Disposal Rate the amount obtained by subtracting the amount listed in item (iv) of the preceding paragraph from the sum of the amounts listed in item (i) through item (iii) of the same paragraph;
    - (b) whichever of the amounts listed below is the smallest:
      - 1. the amount listed in item (v) of the preceding paragraph;
      - 2. the amount obtained by multiplying by the Share Issue Rate the amount obtained by subtracting the amount listed in the item (iv) of the preceding paragraph from the sum of the amounts listed in item (i) through item (iii) of the same paragraph (when this is less than zero; zero);
    - (c) the book value of Treasury Shares disposed of at exercising;
  - (ii) the amount of Other Retained Earnings: when the amount obtained by subtracting the amount listed in item (iv) of the preceding paragraph from the sum of the amounts listed in item (i) through item (iii) of the same paragraph is less than zero, the amount obtained by multiplying the amount by the Share Issue Rate.
- (3) In the cases prescribed in paragraph (1), the Amount of Consideration for Treasury Shares is the amount obtained by multiplying by the Treasury Share Disposal Rate the amount obtained by subtracting the amount listed in item (iv) of the preceding paragraph from the sum of the amounts listed in item (i) through item (iii) of the same paragraph.
- (4) The amount listed in paragraph (2), item (i) (b), with respect to the



application of the provisions of Article 150, paragraph (2), item (viii) and Article 158, item (viii) (b) hereof, and Article 446, item (ii) and Article 461, paragraph (2), item (ii) (b) and item (iv) of the Act, is also deemed to be included in the Amount of Consideration for Treasury Shares.

- (5) With respect to the application of the provisions of paragraph (1), item (i), the matters listed in Article 238, paragraph (1), item (ii) and item (iii) of the Act regarding the relevant Share Options for Subscription when Share Options are Share Options for Subscription and the book value set forth in paragraph (1), item (i) must not be interpreted as having to be the same.
- (6) With respect to the application of the provisions of paragraph (1), item (iii), the values listed in Article 236, paragraph (1), item (ii) and item (iii) of the Act regarding Properties Contributed in Kind, and the book value of the Properties Contributed in Kind (including the amounts of Stated Capital and Capital Reserves pertaining to the contributions), must not be interpreted as having to be the same amount.

(Cases Where Share Options Subject to Call Are Acquired)

Article 18 (1) When Share Options Subject to Call are acquired, the Maximum Amount of Increase in Stated Capital is the amount obtained by subtracting the amount listed in item (iv) from the amount obtained by multiplying by the Share Issue Rate (meaning the rate obtained by dividing the number of shares issued at the acquisition by the sum of the number of shares issued and the number of Treasury Shares disposed of at the acquisition; the same applies hereinafter in this Article) the amount obtained by subtracting the sum of the amounts listed in item (ii) and item (iii) from the amount listed in item (i) (when this is less than zero; zero):

- (i) the value of the relevant Share Options Subject to Call (including, if the relevant Share Options Subject to Call have been entered for Bonds with Share Options (including those equivalent to same; the same applies hereinafter in this item), Bonds with respect to the Bonds with Share Options (including those equivalent to same); the same applies hereinafter in this paragraph) at the time of the acquisition;
- (ii) among the amounts of expenses pertaining to the delivery of shares carried out in exchange for the acquisition of Share Options Subject to Call, the amount determined by a stock company as the amount to be subtracted from the Maximum Amount of Increase in Stated Capital;
- (iii) the sum total of the book value of the property that a stock company delivers in exchange for acquiring the relevant Share Options Subject to Call (except for shares of the stock company) (when the property is Bonds (except for Reacquired Bonds) or Share Options (except for the stock company's Treasury Share Options), the amount to be entered to the accounting books);

- (iv) when the amount obtained by subtracting the amount listed in (b) from the amount listed in (a) is equal to or greater than zero, the relevant amount:
  - (a) the book value of Treasury Shares disposed of at the acquisition;
  - (b) the amount obtained by multiplying by the Treasury Share Disposal Rate (meaning the rate obtained by subtracting the Share Issue Rate from one; hereinafter the same applies in this Article) the amount obtained by subtracting the sum of the amounts listed in item (ii) and the preceding item from the amount listed in item (i) (when this is less than zero; zero).
- (2) In the cases prescribed in the preceding paragraph, the amounts after the acquisition of Share Options Subject to Call listed in the following items are the amounts obtained by adding the amounts as provided in those items to the amounts respectively immediately prior to the acquisition of Share Options Subject to Call:
  - (i) the amount of other capital surplus: the amount obtained by subtracting the amount listed in (c) from the sum of the amounts listed in (a) and (b):
    - (a) the amount obtained by multiplying by the Treasury Share Disposal Rate the amount obtained by subtracting the sum of the amounts listed in item (ii) and item (iii) of the preceding paragraph from the amount listed in item (i) of the same paragraph;
    - (b) whichever of the amounts listed below is the smallest:
      1. the amount listed in item (iv) of the preceding paragraph;
      2. the amount obtained by multiplying by the Share Issue Rate the amount obtained by subtracting the sum of the amounts listed in item (ii) and item (iii) of the preceding paragraph from the amount listed in item (i) of the same paragraph (when this is less than zero; zero);
    - (c) the book value of Treasury Shares disposed of at the acquisition;
  - (ii) the amount of Other Retained Earnings: when the amount obtained by subtracting the sum of the amounts listed in item (ii) and item (iii) of the preceding paragraph from the amount listed in item (i) of the same paragraph is less than zero, the amount obtained by multiplying the Share Issue Rate by the relevant amount.
- (3) In the cases prescribed in paragraph (1), the Amount of Consideration for Treasury Shares is the amount obtained by multiplying by the Treasury Share Disposal Rate the amount obtained by subtracting the sum of the amounts listed in item (ii) and item (iii) of the preceding paragraph from the amount listed in item (i) of the same paragraph.
- (4) The amount listed in paragraph (2), item (i) (b), with regard to the application of the provisions of Article 150, paragraph (2), item (viii) and Article 158, item (viii) (b) hereof, and Article 446, item (ii) and Article 461, paragraph (2), item (i) (b) and item (iv) of the Act, is also deemed to be included in the Amount of Consideration for Treasury Shares.

(Cases Where a Demand to Be Sold Less than One Unit of Shares Has Been Received)

- Article 19 (1) If a Demand to Be Sold Less than One Unit of Shares has been received, the Maximum Amount of Increase in Stated Capital is zero.
- (2) In the case prescribed in the preceding paragraph, the amount of other capital surplus after the Demand to Be Sold Less than One Unit of Shares is the amount obtained by subtracting the amount listed in item (iii) from the sum of the amounts listed in item (i) and item (ii):
- (i) the amount of other capital surplus immediately prior to Demand to Be Sold Less than One Unit of Shares;
  - (ii) the amount of charges pertaining to the Demand to Be Sold Less than One Unit of Shares;
  - (iii) the book value of Treasury Shares disposed of in response to the Demand to Be Sold Less than One Unit of Shares.
- (3) In the case prescribed in paragraph (1), the Amount of Consideration for Treasury Shares is the amount of charges pertaining to Demand to Be Sold Less than One Unit of Shares.

(Cases Where Shares Are to Be Delivered to a Shareholder Who Has Fulfilled the Obligations as Provided in Article 462, Paragraph (1) of the Act)

- Article 20 (1) When a stock company is to deliver shares corresponding to the shares acquired from a shareholder (including persons who bear the obligations jointly and severally with the shareholder) who performs the obligations as provided in Article 462, paragraph (1) of the Act that arise due to the fact that the shareholder acquired shares of the stock company, the Maximum Amount of Increase in Stated Capital is zero.
- (2) In the cases prescribed in the preceding paragraph, the amount of other capital surplus after the act set forth in the same paragraph is the amount obtained by subtracting the amount listed in item (iii) from the sum of the amounts listed in item (i) and item (ii):
- (i) the amount of other capital surplus immediately prior to the act set forth in the preceding paragraph;
  - (ii) the amount of monies paid to the stock company by the shareholder(s) (including persons who bear obligations jointly and severally with a shareholder) set forth in the preceding paragraph;
  - (iii) the book value of Treasury Shares disposed of at the delivery.
- (3) In the cases prescribed in paragraph (1), the Amount of Consideration for Treasury Shares is the amount of monies paid to a stock company by the shareholder(s) (including persons who bear obligations jointly and severally with a shareholder) set forth in the same paragraph.

(Cases Where Obligations Concerning the Delivery of Shares at the Time of Incorporation or after Formation Have Been Performed)

Article 21 If the obligations listed below have been performed, the amount of other capital surplus held by a stock company is increased by the amount paid to the stock company through the performing of the obligations:

- (i) the obligation to pay all or part of the amount as provided in Article 52, paragraph (1) of the Act pursuant to the provisions of the same paragraph (limited to such obligation where the person who has performed such obligation is an incorporator who delivered the property of Article 28, item (i) of the Act);
- (ii) the obligation to pay all or part of the amount as provided in the cases listed respectively in each item of Article 212, paragraph (1) of the Act, pursuant to the provisions of the same paragraph;
- (iii) the obligation to pay all or part of the amount as provided in the cases listed respectively in each item of Article 285, paragraph (1) of the Act, pursuant to the provisions of the same paragraph.

### **Subsection 2 Dividends of Surplus**

(Recording of Reserves Pursuant to the Provisions of Article 445, Paragraph (4) of the Act)

Article 22 (1) When a stock company distributes dividends of surplus, the amount of Capital Reserves after distribution of dividends of surplus is the amount obtained by adding to the amount of Capital Reserves immediately prior to the distribution of dividends of surplus the amount as provided in the following items in accordance with the categories of cases listed therein:

- (i) cases where the amount of Reserves on the day of the relevant distribution of dividends of surplus is equal to or greater than the Standard Amount of Capital (meaning the amount obtained by multiplying the amount of Stated Capital by one quarter; the same applies hereinafter in this Article) on the relevant day: zero;
- (ii) cases where the amount of Reserves on the day of the relevant distribution of dividends of surplus is less than the Standard Amount of Capital on the relevant day: the amount obtained by multiplying by the Capital Surplus Distribution Rate (meaning the rate obtained by dividing the amount listed in item (i) (a) of the following Article by the amount listed in Article 446, item (vi) of the Act) whichever amount is the smallest from the amounts listed in (a) and (b):
  - (a) the Maximum Amount of Appropriation from Reserves (meaning the amount obtained by subtracting the amount of Reserves from the Standard

- Amount of Capital; the same applies hereinafter in this Article) on the day of the relevant distribution of dividends of surplus;
- (b) the amount obtained by multiplying by one-tenth the amount listed in Article 446, item (vi) of the Act.
- (2) When a stock company distributes dividends of surplus, the amount of Retained Earnings Reserves after distribution of dividends of surplus is the amount obtained by adding to the amount of Retained Earnings Reserves immediately prior to the distribution of dividends of surplus the amount as provided in the following items in accordance with the categories of cases listed therein:
- (i) cases where the amount of Reserves on the day of the distribution of dividends of surplus is equal to or greater than the Standard Amount of Capital on the relevant day: zero;
  - (ii) cases where the amount of Reserves on the day of the distribution of dividends of surplus is less than the Standard Amount of Capital on the relevant day: the amount obtained by multiplying by the Retained Earnings Distribution Rate (meaning the rate obtained by dividing the amount listed in item (ii) (a) of the following Article by the amount listed in Article 446, item (vi) of the Act) by whichever amount is the smallest from the amounts listed in (a) and (b):
    - (a) the Maximum Amount of Appropriation from Reserves on the day of the distribution of dividends of surplus;
    - (b) the amount obtained by multiplying by one-tenth the amount listed in Article 446, item (vi) of the Act.

(Amounts of Deduction from Surplus)

Article 23 When a stock company distributes dividends of surplus, the amounts after distribution of dividends of surplus listed in the following items are the amounts obtained by subtracting the amounts as provided in those items from the amount of the distribution of surplus immediately prior to it;

- (i) the amount of other capital surplus: the sum of the amounts listed below:
  - (a) among the amounts listed in Article 446, item (vi) of the Act, the amount determined by a stock company as the amount to be subtracted from other capital surplus;
  - (b) at the time listed in paragraph (1), item (ii) of the preceding Article, the amount as provided in the same item;
- (ii) the amount of Other Retained Earnings: the sum of the amounts listed below:
  - (a) among the amounts listed in Article 446, item (vi) of the Act, the amount determined by a stock company as the amount to be subtracted from Other Retained Earnings;

- (b) in the cases listed in paragraph (2), item (ii) of the preceding Article, the amount as provided in the same item.

### **Subsection 3 Treasury Shares**

Article 24 (1) When a stock company acquires its own shares, the acquisition value is the amount of Treasury Shares that are to increase.

(2) When a stock company disposes of or cancels Treasury Shares, the book value is the amount of Treasury Shares that are to be reduced.

(3) When a stock company cancels Treasury Shares, the amount of other capital surplus after the cancellation of Treasury Shares is the amount obtained by subtracting the book value of the cancelled Treasury Shares from the amount of the Treasury Shares immediately prior to cancellation.

### **Subsection 4 Increases or Decreases in the Amount of Stated Capital, etc. of a Stock Company**

(Amount of Stated Capital)

Article 25 (1) Otherwise than specified in Subsection 1 and Section 4, the amount of stated capital of a stock company is increased by the amounts listed respectively in the following items only in the cases listed in those items:

(i) cases where the amount of Reserves is reduced pursuant to the provisions of Article 448 of the Act (limited to the cases where the matters listed in paragraph (1), item (ii) of the same Article have been determined): an amount corresponding to the amount taken as the Stated Capital set forth in the same item;

(ii) cases where the amount of surplus is reduced pursuant to the provisions of Article 450 of the Act: an amount corresponding to the amount of reduced surplus set forth in paragraph (1), item (i) of the same Article.

(2) The amount of Stated Capital of a stock company is to be reduced by an amount corresponding to the amount set forth in Article 447, paragraph (1), item (i) of the Act, only in cases pursuant to the provisions of the same Article. In such cases, the amount of Stated Capital must not be interpreted as being reduced in the cases listed below:

(i) cases where a judgment upholding a claim seeking invalidation of the issue of new shares becomes final and binding;

(ii) cases where a judgment upholding a claim seeking invalidation of the disposition of Treasury Shares becomes final and binding;

(iii) cases where a judgment upholding a claim seeking invalidation of an Absorption-Type Merger, Absorption-Type Company Split or Share Exchange of a Company becomes final and binding;

(iv) cases where a manifestation of intention pertaining to subscription to Shares Issued at Incorporation or Shares for Subscription, or any other manifestation of intention pertaining to the issuing of shares or the disposition of Treasury Shares, has been invalidated or rescinded.

(Amount of Capital Reserves)

Article 26 (1) Otherwise than specified in Subsections 1 and 2, and Section 4, the amount of capital reserves of a stock company is to be increased by the amounts listed respectively in the following items only in the cases listed in those items:

(i) cases where the amount of Stated Capital is reduced pursuant to the provisions of Article 447 of the Act (limited to the cases where the matters listed in paragraph (1), item (ii) of the same Article have been determined): an amount corresponding to the amount taken as the Reserves set forth in the same item;

(ii) cases where the amount of surplus is reduced pursuant to the provisions of Article 451 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (limited to amounts pertaining to other capital surplus).

(2) The amount of capital reserves of a stock company is to be reduced by an amount corresponding to the amount (limited to amounts pertaining to capital reserves) set forth in Article 448, paragraph (1), item (i) of the Act, only in cases pursuant to the provisions of the same Article. In such cases, the provisions of the second sentence of paragraph (2) of the preceding Article apply *mutatis mutandis*.

(Amount of Other Capital Surplus)

Article 27 (1) Otherwise than specified in Subsection 1 and Section 4, the amount of other capital surplus of a stock company is to be increased by the amounts listed respectively in the following items only in the cases listed in those items:

(i) cases where the amount of stated capital is reduced pursuant to the provisions of Article 447 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (in the cases prescribed in item (ii) of the same paragraph, the amount obtained by subtracting the amount set forth in the same item from the relevant amount);

(ii) cases where the amount of Reserves is reduced pursuant to the provisions of Article 448 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (limited to amounts pertaining to capital reserves, in the cases prescribed in item (ii) of the same paragraph,

- the amount obtained by subtracting the amount set forth in the same item with respect to capital reserves from the relevant amount);
- (iii) beyond what is listed in the preceding two items, cases where the amount of other capital surplus is to be increased: the correct amount by which to increase the amount of other capital surplus.
- (2) Otherwise than specified in preceding three Subsections and Section 4, the amount of other capital surplus of a stock company is to be reduced by the amounts listed respectively in the following items only in the cases listed in those items:
- (i) cases where the amount of surplus is reduced pursuant to the provisions of Article 450 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (limited to amounts pertaining to other capital surplus);
- (ii) cases where the amount of surplus is reduced pursuant to the provisions of Article 451 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (limited to amounts pertaining to other capital surplus);
- (iii) beyond what is listed in the preceding two items, cases where the amount of other capital surplus is to be reduced: the correct amount by which to reduce the amount of other capital surplus.
- (3) In the cases set forth in the preceding paragraph, in the preceding three Subsections and in Section 4, when it is necessary and appropriate that all or part of the amount of other capital surplus to be reduced pursuant to those provisions should not be reduced, then notwithstanding those provisions, with regard to amounts for which non-reduction is appropriate, the amount of other capital surplus may not be reduced.

(Amount of Retained Earnings Reserves)

- Article 28 (1) Otherwise than specified in Subsection 2 and Section 4, the amount of retained earnings reserves of a stock company is to be increased by an amount corresponding to the amount set forth in Article 451, paragraph (1), item (i) of the Act (limited to amounts pertaining to Other Retained Earnings), only when the amount of surplus is reduced pursuant to the provisions of the same Article.
- (2) The amount of retained earnings reserves of a stock company is to be reduced by an amount corresponding to the amount set forth in Article 448, paragraph (1), item (i) of the Act (limited to amounts pertaining to retained earnings reserves), only in the cases prescribed in the same Article.

(Amount of Other Retained Earnings)

- Article 29 (1) Otherwise than specified in Section 4, the amount of other



retained earnings of a stock company is to be increased by the amounts listed respectively in the following items only in the cases listed in those items:

- (i) cases where the amount of Reserves is reduced pursuant to the provisions of Article 448 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (limited to amounts pertaining to Retained Earnings Reserves, in the cases prescribed in item (ii) of the same paragraph, the amount obtained by subtracting the amount set forth in the same item with respect to Retained Earnings Reserves from the relevant amount);
  - (ii) cases where an Amount of Net Profit for the Current Period has arisen: the Amount of Net Profit for the Current Period;
  - (iii) beyond what is listed in the preceding two items, cases where the amount of Other Retained Earnings is to be increased: the correct amount by which to increase the amount of Other Retained Earnings.
- (2) Otherwise than specified in the following paragraph, the amount of other retained earnings of a stock company is to be reduced by the amounts listed respectively in the following items only in the cases listed in those items:
- (i) cases where the amount of surplus is reduced pursuant to the provisions of Article 450 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (limited to amounts pertaining to other retained earnings);
  - (ii) cases where the amount of surplus is reduced pursuant to the provisions of Article 451 of the Act: an amount corresponding to the amount set forth in paragraph (1), item (i) of the same Article (limited to amounts pertaining to other retained earnings);
  - (iii) cases where an amount of net loss for the current period has arisen: the amount of net loss for the current period;
  - (iv) beyond what is listed in the preceding three items, cases where the amount of other retained earnings is to be reduced: the correct amount by which to reduce the amount of other retained earnings.
- (3) When there is an amount of other capital surplus to be reduced which may not be reduced pursuant to the provisions of Article 27, paragraph (3), an amount equal to the relevant amount that may not be reduced is to be subtracted from that other retained earnings amount.

## **Section 2 Members' Equity in Membership Companies**

(Amount of Stated Capital)

Article 30 (1) Otherwise than specified in Section 4, the amount of stated capital of a Membership Company is to be increased by an amount determined by the Membership Company to be included in the calculation of the amount of stated

capital from within the scope of the amounts as provided respectively in the following items only in the cases listed in those items:

- (i) cases where a member has made a contribution (excluding cases where the claims set forth in the following item pertaining to contributions made have been recorded as assets): an amount obtained by subtracting the sum of the amounts listed in (c) from the sum of the amounts listed in (a) and (b) (when this is less than zero; zero):
    - (a) the value of property (excluding the property when the property falls under the category of property prescribed in (b)) paid or delivered to the Membership Company through contributions made by the member;
    - (b) the sum of the book values of property (limited to the property when the book value of the relevant payment or delivery immediately prior to it according to the person who paid or delivered the property is to be entered as the book value of the property according to the Membership Company) paid or delivered to the Membership Company through contributions made by the member immediately prior to the payment or delivery according to the person who made the payment or delivery;
    - (c) among the amounts of expenses pertaining to the receipt of the contributions, the amount determined by the Membership Company as the amount to be subtracted from its stated capital or capital surplus;
  - (ii) cases where a Membership Company has determined claims pertaining to its right to demand contributions from its members are to be recorded as assets: the value of the claims;
  - (iii) cases where a Membership Company has determined that all or part of the amount of its capital surplus is to be taken as an amount of its stated capital: the amount of the capital surplus.
- (2) The amount of stated capital of a Membership Company is to be reduced by the amounts listed respectively in the following items only in the cases listed in those items:
- (i) cases where a Membership Company makes a return of equity interests to a withdrawing member (for limited liability companies, limited to the cases where procedures pursuant to the provisions of Article 627 of the Act have been undertaken): the amount which was included in the calculation of the amount of stated capital with respect to the withdrawing member's contributions;
  - (ii) cases where a Membership Company makes a return of contributions to a member (for limited liability companies, limited to the cases where procedures pursuant to the provisions of Article 627 of the Act have been undertaken): the amount determined as the amount to be subtracted from the amount of stated capital, from within the scope of the value of contributions refunded through the return of contributions (limited to

amounts equal to or less than the amount which was included in the calculation of the amount of Stated Capital with respect to the withdrawing member's contributions);

- (iii) cases where a Membership Company (excluding limited liability companies) has determined that the claims recorded as assets set forth in item (ii) of the preceding paragraph are not recorded as assets: the amount included in the calculation of the stated capital with respect to the claims;
- (iv) cases where a Membership Company (excluding limited liability companies) has determined that all or part of the amount of its Stated Capital is to be taken as an amount of its capital surplus: an amount corresponding to the amount determined as the amount of the capital surplus;
- (v) cases where losses are compensated (for limited liability companies, limited to the cases where procedures pursuant to the provisions of Article 627 of the Act have been undertaken): an amount from within the scope of the amount of its Stated Capital which a Membership Company has determined to be for the compensation of losses.

(Amount of Capital Surplus)

Article 31 (1) Otherwise than specified in Section 4, the amount of capital surplus of a Membership Company is to be increased by the amounts listed respectively in the following items only in the cases listed in those items:

- (i) cases where members have made contributions (excluding cases where claims set forth in the following item pertaining to contributions made have been recorded as assets): an amount obtained by subtracting the amount listed in (b) from the amount listed in (a):
  - (a) the amount obtained by subtracting the amount listed in paragraph (1), item (i) (c) of the preceding Article from the sum of the amounts listed in (a) and (b);
  - (b) the amount included in the calculation of the amount of stated capital after the relevant contributions;
- (ii) cases where a Membership Company has determined that claims pertaining to its right to demand that its members make contributions are to be recorded as assets: the amount obtained by subtracting the amount listed in (b) from the amount listed in (a):
  - (a) the amount as provided in paragraph (1), item (ii) of the preceding Article;
  - (b) the amount included in the calculation of the amount of stated capital at the decision;
- (iii) cases where a Membership Company (excluding limited liability companies) has determined that all or part of the amount of its stated capital

- is to be taken as the amount of its capital surplus: an amount determined to be the amount of the capital surplus;
- (iv) cases where losses are compensated (for limited liability companies, limited to cases where procedures pursuant to the provisions of Article 627 of the Act have been undertaken): an amount from within the scope of the amount of its stated capital which a Membership Company has determined to be for the compensation of losses;
  - (v) beyond what is listed in the preceding items, cases where it is appropriate to increase the amount of capital surplus was correct: the appropriate amount.
- (2) Otherwise than specified in Section 4, the amount of capital surplus of a Membership Company is to be reduced by the amounts prescribed respectively in the following items only in the cases listed in those items; provided, however, that an amount corresponding to the book value of property refunded through the distribution of profits is not to be deducted from the amount of capital surplus:
- (i) cases where a Membership Company makes a return of equity interests to a withdrawing member: the amount included in the calculation of the capital surplus with respect to the withdrawing member's contribution;
  - (ii) cases where a Membership Company makes a return of contributions to a member: the amount obtained by subtracting the amount by which the amount of stated capital is reduced pursuant the provisions of paragraph (2) of the preceding Article when the return of contribution is made from the value of contribution refunded through the return of contributions;
  - (iii) cases where a Membership Company (excluding limited liability companies) has determined that the claims recorded as assets set forth in item (ii) of the preceding paragraph are not recorded as assets: the amount included in the calculation of capital surplus with respect to the claims;
  - (iv) cases where a Membership Company has determined that all or part of the amount of its capital surplus is to be taken as the amount of its stated capital: an amount corresponding to the amount determined as the amount of stated capital;
  - (v) cases where a limited liability company is deemed to have determined, pursuant to the provisions of Article 9, paragraph (1) (including as applied mutatis mutandis pursuant to paragraph (2) of the same Article), not to record the claims recorded as assets as set forth in item (ii) of the preceding paragraph as assets: the amounts included in the calculation of the stated capital and capital surplus with respect to the claims;
  - (vi) beyond what is listed in the preceding items, cases where it is appropriate to reduce the amount of capital surplus: the appropriate amount.

(The Amount of Retained Earnings)

Article 32 (1) Otherwise than prescribed in Section 4, the amount of retained earnings of a Membership Company is to be increased by the amounts listed respectively in the following items only in the cases listed in those items:

- (i) cases where an amount of net profit for the current period has arisen: the amount of net profit for the current period;
- (ii) cases where a Membership Company makes a return of equity interests to a withdrawing member: the amount obtained by subtracting the amount listed in (b) from the amount listed in (a) (when this is less than zero, zero):
  - (a) the sum of the amounts included in the calculation of the amounts of stated capital and capital surplus with respect to the contributions of the members receiving the relevant return of equity interests;
  - (b) the book value of property refunded through the relevant return of equity interests;
- (iii) beyond what is listed in the preceding two items, cases where it is appropriate to increase the amount of retained earnings : the appropriate amount.

(2) Otherwise than prescribed in Section 4, the amount of retained earnings of a Membership Company is to be reduced by the amounts prescribed respectively in the following items only in the cases listed in those items; provided, however, that an amount corresponding to the book value of the property refunded through the return of contributions is not to be deducted from the amount of retained earnings:

- (i) cases where an amount of net loss for the current period has arisen: the amount of net loss for the current period;
- (ii) cases where a Membership Company makes a return of equity interests to a withdrawing member: the amount obtained by subtracting the amount listed in (b) from the amount listed in (a) (when this is less than zero, zero):
  - (a) the book value of the property refunded through the relevant return of equity interests;
  - (b) the sum of the amounts included in the calculation of the amounts of stated capital and capital surplus with respect to the contributions of the members receiving the relevant return s of equity interests;
- (iii) cases where members make contributions (limited to the cases where the sum of the amounts listed in Article 30, paragraph (1), item (i) (a) and (b) is less than zero): the sum;
- (iv) beyond what is listed in the preceding three items, cases where it is appropriate to reduce the amount of Retained Earnings was correct: the appropriate amount.

**Section 3 Shareholders' and Members' Equity upon Entity Conversion**

(Members' Equity in a Membership Company after Entity Conversion)

Article 33 When a stock company performs an Entity Conversion, the relevant amounts listed in the following items for the Membership Company after Entity Conversion listed in the following items are as provided respectively in those items:

- (i) the amount of stated capital: the amount of stated capital of the stock company immediately prior to the Entity Conversion;
- (ii) the amount of capital surplus: the amount obtained by subtracting the sum of the amounts listed in (b) and (c) from the amount listed in (a):
  - (a) the sum of the amount of capital reserves and the amount of other capital surplus of the stock company immediately prior to the Entity Conversion;
  - (b) the book value of Treasury Shares held by the stock company performing the Entity Conversion;
  - (c) among the book values of property other than equity interests of the Membership Company after Entity Conversion delivered to shareholders of the stock company performing an Entity Conversion (in the case of Bonds of the Membership Company after Entity Conversion (excluding Reacquired Bonds; the same applies in (b) of the following item), the book value to be entered for the Bonds), the amount determined by the stock company as the amount to be subtracted from the amount of capital surplus; or
- (iii) the amount of retained earnings: the amount obtained by subtracting the amount listed in (b) from the amount listed in (a):
  - (a) the sum of the amount of Retained Earnings Reserves and the amount of other retained earnings of the stock company immediately prior to the Entity Conversion;
  - (b) among the book values of property other than equity interests of the Membership Company after Entity Conversion delivered to shareholders of the stock company performing an Entity Conversion (in the case of Bonds of the Membership Company after Entity Conversion, the book value to be entered for the Bonds), the amount determined by the stock company as the amount to be subtracted from the amount of retained earnings.

(Shareholders' Equity in a Stock Company after Entity Conversion)

Article 34 When a Membership Company performs an Entity Conversion, the amounts of the Stock Company after Entity Conversion listed in the following items are the amounts as provided respectively in those items:

- (i) the amount of stated capital: the amount of stated capital of the Membership Company immediately prior to the Entity Conversion;
- (ii) the amount of capital reserves: zero;

- (iii) the amount of other capital surplus: the amount obtained by subtracting the amount listed in (b) from the amount listed in (a):
  - (a) the amount of capital surplus of the Membership Company immediately prior to the Entity Conversion;
  - (b) among the book values of property other than shares of the Stock Company after Entity Conversion delivered to members of the Membership Company performing an Entity Conversion (in the case of Bonds, etc. of the Stock Company after Entity Conversion (excluding Reacquired Bonds; the same applies in item (v) (b)), the book value to be entered for the Bonds, etc.), the amount determined by the Membership Company performing an Entity Conversion as the amount to be subtracted from the amount of capital surplus;
- (iv) the amount of retained earnings reserves: zero;
- (v) the amount of other retained earnings: the amount obtained by subtracting the amount listed in (b) from the amount listed in (a):
  - (a) the amount of retained earnings of the Membership Company immediately prior to the Entity Conversion;
  - (b) among the book values of property other than shares of the Stock Company after Entity Conversion delivered to members of the Membership Company performing an Entity Conversion (in the case of Bonds, etc. of the Stock Company after Entity Conversion, the book value to be entered for the Bonds, etc.), the amount determined by the Membership Company performing an Entity Conversion as the amount to be subtracted from the amount of other retained earnings.

**Section 4 Shareholders' and Members' Equity upon an Absorption-Type Merger, Absorption-Type Company Split, or Share Exchange**  
**Subsection 1 Absorption-Type Merger**

(Amount of Changes in Shareholders' Equity, etc. in a Company Surviving an Absorption-Type Merger When All or Part of the Consideration in Absorption-Type Restructuring Is Shares or Equity Interests of the Company Surviving the Absorption-Type Merger)

Article 35 (1) When all or part of the Consideration in Absorption-Type Restructuring is shares or equity interests of the Company Surviving the Absorption-Type Merger, the total amount of changes in Shareholders' Equity, etc. in the Company Surviving the Absorption-Type Merger (referred to as the "Amount of Changes in Shareholders' Equity, etc." in the following paragraph) is determined according to the methods as provided in the following items in accordance with the categories of cases listed therein:

- (i) cases where the relevant Absorption-Type Merger is an Acquisition of

Control (excluding cases of Acquisition of Control by the Company Disappearing in the Absorption-Type Merger): a method of calculation that takes as its basis the Market Value of Consideration in Absorption-Type Restructuring or the market value of the Assets Subject to Absorption-Type Restructuring;

- (ii) cases where the Company Surviving the Absorption-Type Merger and the Company Disappearing in the Absorption-Type Merger are Under Common Control: a method of calculation that takes as its basis the book value of the Assets Subject to Absorption-Type Restructuring immediately prior to the Absorption-Type Merger (when there is a portion that should be calculated according to the method prescribed in preceding item, that method);
- (iii) cases other than those listed in the preceding two items: the method prescribed in the preceding item.

- (2) In the cases set forth in the preceding paragraph, the amount of increase in the stated capital and the capital surplus of a Company Surviving an Absorption-Type Merger is to be each determined by the Company Surviving the Absorption-Type Merger in accordance with the provisions of the Absorption-Type Merger agreement, within the scope of the Amount of Changes in Shareholders' Equity, etc., and the amount of retained earnings is not to change; provided, however, that in cases when the Amount of Changes in Shareholders' Equity, etc. is less than zero, within the Amount of Changes in Shareholders' Equity, etc., the amount of loss arising from the disposal of Treasury Shares Used as Consideration is to be the amount of decrease in other capital surplus (when the Company Surviving the Absorption-Type Merger is a Membership Company, the capital surplus; the same applies in the following Article), and any remaining amount is to be from the amount of decrease in other retained earnings (when the Company Surviving the Absorption-Type Merger is a Membership Company, the retained earnings; the same applies in the following Article); the amounts of the stated capital, the capital reserves, and the retained earnings reserve are not to change.

(Amount of Changes in Shareholders' Equity, etc. in a Company Surviving an Absorption-Type Merger When Shareholders' Equity, etc. Is Carried Over)

- Article 36 (1) Notwithstanding the provisions of the preceding Article, when all of the Consideration in Absorption-Type Restructuring is shares or equity interests of the Company Surviving the Absorption-Type Merger, when it is appropriate to calculate the Shareholders' Equity, etc. of the Company Disappearing in the Absorption-Type Merger immediately prior to the Absorption-Type Merger as being carried over, the amounts of stated capital, capital surplus and retained earnings of the Company Disappearing in the Absorption-Type Merger immediately prior to the Absorption-Type Merger may



each be taken as amounts of changes in stated capital, capital surplus and retained earnings of the Company Surviving the Absorption-Type Merger; provided, however, that when there are Treasury Shares Used as Consideration or Previously Acquired Shares, etc., the amount obtained by subtracting the book value of the Treasury Shares Used as Consideration or the Previously Acquired Shares, etc. from the amount of other capital surplus of the Company Disappearing in the Absorption-Type Merger immediately prior to the Absorption-Type Merger is the amount of changes in other capital surplus of the Company Surviving the Absorption-Type Merger.

- (2) When there is no Consideration in Absorption-Type Restructuring, and when it is appropriate to calculate the Shareholders' Equity, etc. of the Company Disappearing in an Absorption-Type Merger immediately prior to the Absorption-Type Merger as being carried over, the sum of the amounts of stated capital and capital surplus of the Company Disappearing in the Absorption-Type Merger immediately prior to the Absorption-Type Merger may be taken as the amount of changes in other capital surplus of the Company Surviving the Absorption-Type Merger, and the amount of retained earnings immediately prior to the Absorption-Type Merger may be taken as the amount of changes in other retained earnings of the Company Surviving the Absorption-Type Merger; provided, however, that when there are Previously Acquired Shares, etc., the amount obtained by subtracting the book value of the Previously Acquired Shares, etc. from the sum of stated capital and capital surplus of the Company Disappearing in the Absorption-Type Merger immediately prior to the Absorption-Type Merger is the amount of changes in other capital surplus of the Company Surviving the Absorption-Type Merger.

### **Subsection 2 Absorption-Type Company Split**

(Amount of Changes in Shareholders' Equity, etc. in a Company Succeeding in an Absorption-Type Split When All or Part of the Consideration in Absorption-Type Restructuring Is Shares or Equity Interests of the Company Succeeding in the Absorption-Type Split)

Article 37 (1) When all or part of the Consideration in Absorption-Type Restructuring is shares or equity interests of the Company Succeeding in an Absorption-Type Split, the total amount of changes in Shareholders' Equity, etc. in the Company Succeeding in an Absorption-Type Split (referred to as "Amount of Changes in Shareholders' Equity, etc." in the following paragraph) is determined according to the methods as provided in the following items in accordance with the categories of cases listed therein:

- (i) cases where the relevant Absorption-Type Split falls under the category of an Acquisition of Control (excluding cases of an Acquisition of Control by the

- Company Splitting in an Absorption-Type Split): a method of calculation that takes as its basis the Market Value of the Consideration in Absorption-Type Restructuring or the market value of the Assets Subject to Absorption-Type Restructuring;
- (ii) cases other than those listed in the preceding item, when a market value is to be entered for the Assets Subject to Absorption-Type Restructuring: a method as prescribed in the preceding item;
  - (iii) cases where the Company Succeeding in the Absorption-Type Split and the Company Splitting in the Absorption-Type Split are Under Common Control (excluding the cases listed in the preceding items): a method of calculation taking as its basis the book value of the Assets Subject to Absorption-Type Restructuring immediately prior to the Absorption-Type Company Split (when there is a portion that should be calculated according to the method prescribed in item (i), that method);
  - (iv) cases other than those listed in the preceding three items: a method as prescribed in the preceding item.
- (2) In cases set forth in the preceding paragraph, the amount of increase of the stated capital and the capital surplus of a Company Succeeding in an Absorption-Type Split is to be each determined by the Company Succeeding in the Absorption-Type Split in accordance with the provisions of the absorption-type company split agreement, within the scope of the Amount of Changes in Shareholders' Equity, etc., and the amount of Retained Earnings is not to change; provided, however, that when the Amount of Changes in Shareholders' Equity, etc. is less than zero, within the Amount of Changes in Shareholders' Equity, etc., the amount of loss arising from the disposal of Treasury Shares Used as Consideration is to be deducted from other capital surplus (when the Company Succeeding in an Absorption-Type Split is a Membership Company, the capital surplus; the same applies in the following Article), and any remaining amount is to be deducted from other retained earnings (when the Company Succeeding in an Absorption-Type Split is a Membership Company, the retained earnings; the same applies in the following Article); the amounts of the stated capital, the capital reserves, and the retained earnings reserves are not to be change.

(Amount of Changes in Shareholders' Equity, etc. in a Company Succeeding in an Absorption-Type Split When Shareholders' Equity, etc. Is Carried Over)

Article 38 (1) Notwithstanding the provisions of the preceding Article, when all of the Consideration in Absorption-Type Restructuring in a Company Split by Absorption-Type Split-Off is shares or equity interests of the Company Succeeding in the Absorption-Type Split, and when it is appropriate to calculate all or part of the Shareholders' Equity, etc. of the Company Splitting

in an Absorption-Type Split immediately prior to the Absorption-Type Company Split as being carried over, the amounts of stated capital, capital surplus and Retained Earnings of the Company Splitting in an Absorption-Type Split that change due to the Company Split by Absorption-Type Split-Off may each be taken as amounts of changes in stated capital, capital surplus and retained earnings of the Company Succeeding in the Absorption-Type Split; provided, however, that when there are Treasury Shares Used as Consideration, the amount obtained by subtracting the book value of the Treasury Shares Used as Consideration from the amount of other capital surplus of the Company Splitting in an Absorption-Type Split that change due to the Absorption-Type Company Split is the amount of changes in other capital surplus of the Company Succeeding in the Absorption-Type Split.

- (2) When Consideration in Absorption-Type Restructuring does not exist, and when it is appropriate to calculate all or part of the Shareholders' Equity, etc. of the Company Splitting in an Absorption-Type Split immediately prior to the Absorption-Type Company Split as being carried over, the sum of the amounts of stated capital and capital surplus of the Company Splitting in an Absorption-Type Split that change due to the Absorption-Type Company Split may be taken as the amount of changes in other capital surplus of the Company Succeeding in the Absorption-Type Split, and the amount of retained earnings of the Company Splitting in an Absorption-Type Split that change due to the Absorption-Type Company Split may be taken as the amount of changes in other retained earnings of the Company Succeeding in the Absorption-Type Split.
- (3) Regarding changes to the amounts of stated capital, capital surplus or retained earnings upon Absorption-Type Company Split of the Company Splitting in an Absorption-Type Split in the cases set forth in the preceding two paragraphs, these are to be governed by the provisions of Part II, Chapter V, Section 3, Subsection 2 of the Act and any other provisions of the Act.

### **Subsection 3 Share Exchange**

Article 39 (1) When all or part of the Consideration in Absorption-Type Restructuring is shares or equity interests of a Wholly Owing Parent Company Resulting from a Share Exchange, the total amount of changes in Shareholders' Equity, etc. in the Wholly Owing Parent Company Resulting from the Share Exchange (hereinafter referred to as "Amount of Changes in Shareholders' Equity, etc." in this Article) is determined according to the methods as provided in the following items in accordance with the categories of cases listed therein:

- (i) cases where the relevant Share Exchange is an Acquisition of Control

- (excluding cases where the Wholly Owned Subsidiary Company Resulting from the Share Exchange acquires control): a method of calculation that takes as its basis the market value of the Consideration in Absorption-Type Restructuring or the market value of the shares of the Wholly Owned Subsidiary Company Resulting from the Share Exchange;
- (ii) cases where the Wholly Owing Parent Company Resulting from the Share Exchange and the Wholly Owned Subsidiary Company Resulting from the Share Exchange are Under Common Control: a method of calculation that takes as its basis the book value of the property of the Wholly Owned Subsidiary Company Resulting from the Share Exchange immediately prior to the Share Exchange (when there is a portion that should be calculated according to the method prescribed in preceding item, that method);
- (iii) cases other than those listed in the preceding two items: a method as prescribed in the preceding item.
- (2) In the cases set forth in the preceding paragraph, the amounts of increase of the stated capital and capital surplus of a Wholly Owing Parent Company Resulting from a Share Exchange are to be determined by the Wholly Owing Parent Company Resulting from the Share Exchange in accordance with the provisions of the Share Exchange agreement, within the scope of the Amount of Changes in Shareholders' Equity, etc., and the amount of retained earnings is not to change; provided, however, that in cases other than those where procedures pursuant to the provisions of Article 799 of the Act (including as mutatis mutandis by replacing terms pursuant to Article 802, paragraph (2) of the Act) are undertaken, the amounts of increase of the stated capital and capital reserves of the Wholly Owing Parent Company Resulting from the Share Exchange are each amounts that are determined by the Wholly Owing Parent Company Resulting from the Share Exchange (when the Wholly Owing Parent Company Resulting from the Share Exchange is a Membership Company, the Amount of Changes in Shareholders' Equity, etc.) in accordance with the provisions of the Share Exchange agreement, within a scope ranging from the amount obtained by multiplying by the Share Issue Rate (meaning the rate obtained by dividing the number of shares issued at the Share Exchange by the sum of the number of the shares and the number of Treasury Shares Used as Consideration) the amount obtained by adding the book value of Treasury Shares Used as Consideration to the Amount of Changes in Shareholders' Equity, etc. to the Amount of Changes in Shareholders' Equity, etc. (when the amount obtained by multiplying by the Share Issue Rate the amount obtained by adding the book value of Treasury Shares Used as Consideration to the Amount of Changes in Shareholders' Equity, etc. exceeds the Amount of Changes in Shareholders' Equity, etc., the Amount of Changes in Shareholders' Equity, etc.), and the amounts obtained by subtracting the

sum of the increased amounts from the Amount of Changes in Shareholders' Equity, etc. are the amount of changes in other capital surplus.

- (3) Notwithstanding the provisions of the preceding paragraph, when the Amount of Changes in Shareholders' Equity, etc. is less than zero, within the Amount of Changes in Shareholders' Equity, etc., the amount of losses arising from the disposal of Treasury Shares Used as Consideration is to be deducted from other capital surplus (when the Wholly Owing Parent Company Resulting from the Share Exchange is a Membership Company, the capital surplus), and any remaining amount is to be deducted from other retained earnings (when the Wholly Owing Parent Company Resulting from the Share Exchange is a Membership Company, the retained earnings); the amounts of the stated capital, the capital reserves, and the retained earnings reserves are not to change.

#### **Section 5 Disposal of Treasury Shares of a Company Splitting in an Absorption-Type Split, etc.**

(Disposal of Treasury Shares of a Company Splitting in an Absorption-Type Split)

Article 40 (1) When, through an Absorption-Type Company Split, a Company Splitting in an Absorption-Type Split (limited to stock companies) allows the Company Succeeding in the Absorption-Type Split to succeed to its Treasury Shares, the amount of other capital surplus of the Company Splitting in an Absorption-Type Split after the Absorption-Type Company Split is the amount obtained by subtracting the amount listed in item (iii) from the sum of the amounts listed in item (i) and item (ii):

- (i) the amount of other capital surplus of the Company Splitting in an Absorption-Type Split immediately prior to the Absorption-Type Company Split;
- (ii) among the book values to be entered for the Consideration in Absorption-Type Restructuring whose delivery is received by the Company Splitting in an Absorption-Type Split, the amount pertaining to the part which is to become the consideration for the Treasury Shares set forth in the following item;
- (iii) the book value of the Treasury Shares succeeded to by the Company Succeeding in the Absorption-Type Split.

- (2) In the cases prescribed in the preceding paragraph, the Amount of Consideration for Treasury Shares is the amount listed in item (ii) of the same paragraph.

(Disposal of Treasury Shares of a Wholly Owned Subsidiary Company)

Resulting from a Share Exchange)

Article 41 (1) When, upon a Share Exchange, a Wholly Owned Subsidiary Company Resulting from the Share Exchange allows the Wholly Owing Parent Company Resulting from the Share Exchange to acquire its Treasury Shares, the amount of other capital surplus of the Wholly Owned Subsidiary Company Resulting from the Share Exchange after the Share Exchange is the amount obtained by subtracting the amount listed in item (iii) from the sum of the amounts listed in item (i) and item (ii):

- (i) the amount of other capital surplus of the Wholly Owned Subsidiary Company Resulting from the Share Exchange immediately prior to the Share Exchange;
- (ii) the book value to be entered as the Consideration in Absorption-Type Restructuring whose delivery is received by the Wholly Owned Subsidiary Company Resulting from the Share Exchange;
- (iii) the book value of Treasury Shares acquired by the Wholly Owing Parent Company Resulting from the Share Exchange.

(2) In the cases prescribed in the preceding paragraph, the Amount of Consideration for Treasury Shares is the amount listed in item (ii) of the same paragraph.

(Disposal of Treasury Shares of a Wholly Owned Subsidiary Company Resulting from a Share Transfer)

Article 42 (1) When, upon a Share Transfer, a Wholly Owned Subsidiary Company Resulting from a Share Transfer allows the Wholly Owing Parent Company Incorporated in the Share Transfer to acquire its Treasury Shares, the amount of other capital surplus of the Wholly Owned Subsidiary Company Resulting from the Share Transfer after the Share Transfer is the amount obtained by subtracting the amount listed in item (iii) from the sum of the amounts listed in item (i) and item (ii):

- (i) the amount of other capital surplus of the Wholly Owned Subsidiary Company Resulting from the Share Transfer immediately prior to Share Transfer;
- (ii) among the book values to be entered as Consideration in Consolidation-Type Restructuring whose delivery is received by the Wholly Owned Subsidiary Company Resulting from the Share Transfer, the amount pertaining to the part which is to become the consideration for the Treasury Shares set forth in the following item;
- (iii) the book value of Treasury Shares acquired by the Wholly Owing Parent Company Incorporated in the Share Transfer.

(2) In the cases prescribed in the preceding paragraph, the Amount of Consideration for Treasury Shares is the amount listed in item (ii) of the same

paragraph.

**Section 6 Shareholders' and Members' Equity at the Time of  
Incorporation  
Subsection 1 Ordinary Incorporation**

(Shareholders' Equity at the Time of Incorporation of a Stock Company)

Article 43 (1) The amount of property paid or delivered to the relevant stock company by a person who is the shareholder prescribed by Article 445, paragraph (1) of the Act pertaining to the issuance of shares taking place at the time of incorporation of a stock company when a stock company is incorporated through the methods listed in each item of Article 25, paragraph (1) of the Act is the amount obtained by subtracting the amount listed in item (iii) from the sum of the amounts listed in item (i) and item (ii) (when this is less than zero; zero):

- (i) the amount of monies received as payment pursuant to the provisions of Article 34, paragraph (1) or Article 63, paragraph (1) of the Act (for the monies in the cases listed respectively in the following (a) or (b), the amount as provided therein):
  - (a) cases where payment has been received of monies in the currency of a foreign country (excluding the cases listed in (b)): an amount calculated based on the exchange rate of the foreign currency on the date of payment;
  - (b) cases where calculations for the amount to be recorded as the amount of stated capital or capital reserves through the amount of monies received as the payment (including the amount prescribed in (a)) are incorrect: the book value of the monies immediately prior to the payment according to the person who has made the payment;
- (ii) if properties other than monies (hereinafter referred to as "Properties Contributed in Kind" in this Article) have been received pursuant to the provisions of Article 34, paragraph (1) of the Act, the value of the Properties Contributed in Kind on the day of tendering (for Properties Contributed in Kind in the cases listed in (a) or (b) below, the amount as provided in (a) or (b) below):
  - (a) cases where the stock company and the person who has delivered the Properties Contributed in Kind are to come Under Common Control (excluding the cases where a market value is to be entered for the Properties Contributed in Kind): the book value of the Properties Contributed in Kind immediately prior to the delivery according to the person who has tendered;
  - (b) in cases other than those listed in (a), when calculations for the amount to be recorded as the amount of stated capital or capital reserves through

- the value of Properties Contributed in Kind received as the relevant delivery are incorrect: the book value prescribed in (a);
- (iii) as the matters listed in Article 32, paragraph (1), item (iii) of the Act, among the amounts of expenses required at incorporation, the amount which has been determined as the amount to be subtracted from the amount to be recorded as the amount of stated capital or capital reserves at incorporation.
- (2) The amount of other capital surplus of a stock company at the time of incorporation (limited to the methods listed in each item of Article 25, paragraph (1) of the Act; the same applies hereinafter in this Article) is zero.
  - (3) The amount of retained earnings reserves of a stock company at the time of incorporation is zero.
  - (4) The amount of other retained earnings of a stock company at the time of incorporation is zero (when the amount obtained by subtracting the amount listed in item (iii) of paragraph (1) from the sum of the amounts listed in item (i) and item (ii) of the same paragraph is less than zero, the relevant amount).
  - (5) With respect to the application of the provisions of paragraph (1), item (ii), the amount determined in the articles of incorporation regarding Properties Contributed in Kind, and the book value of the Properties Contributed in Kind (including the amounts of stated capital and capital reserves pertaining to the contributions), must not be interpreted as having to be the same amount.

- (Members' Equity in a Membership Company at the Time of Incorporation)
- Article 44 (1) The amount of Stated Capital of a Membership Company at the time of incorporation (excluding incorporation through Consolidation-Type Mergers or Incorporation-Type Company Splits; the same applies hereinafter in this Article) is, from within the scope of the amounts obtained by subtracting the amounts listed in (ii) from the amounts listed in (i) (when this is less than zero; zero), the amount determined by persons desiring to become members (limited to amounts equal to or greater than zero):
- (i) the value of property at the time of incorporation that is paid or received as contributions made (hereinafter referred to as "Properties Contributed" in this Article) to the Membership Company (for Properties Contributed in the cases listed in (a) or (b) below, the amount as provided in (a) or (b) below):
    - (a) cases where the Membership Company and the person delivering the relevant Properties Contributed are to come Under Common Control (excluding the cases where a market value is to be entered for the Properties Contributed): the book value of the Properties Contributed immediately prior to the payment or delivery according to the person making the payment or tendering;
    - (b) in cases other than those listed in (a), when calculations for the amount to be recorded as the amount of stated capital or capital surplus through



- the value of Properties Contributed received as the delivery are incorrect:  
the book value prescribed in (a);
- (ii) among the amounts of expenses required at incorporation, the amount which has been determined by persons desiring to become members at the time of incorporation as the amount to be subtracted from the amount to be recorded as the amount of Stated Capital or Capital Surplus at incorporation.
- (2) The amount of Capital Surplus at the time of incorporation of a Membership Company is the amount obtained by subtracting the amount listed in item (ii) from the amount listed in item (i):
- (i) the value of Properties Contributed;
  - (ii) the amount of stated capital at the time of incorporation.
- (3) The amount of retained earnings at the time of incorporation of a Membership Company is zero (when the amount obtained by subtracting the amount listed in item (ii) of paragraph (1) from the amount listed in item (i) of the same paragraph is less than zero, the relevant amount).

### **Subsection 2 Consolidation-Type Merger**

(Shareholders' Equity, etc. in a Company Incorporated in a Consolidation-Type Merger in Cases of Acquisition of Control)

Article 45 (1) When a Consolidation-Type Merger is an Acquisition of Control, the total amount of Shareholders' Equity, etc. at the time of incorporation of the Company Incorporated in a Consolidation-Type Merger is the sum of the amounts as provided in the following items (referred to as "Amount of Changes in Shareholders' Equity, etc." in the following paragraph) in accordance with the categories of the portions listed therein:

- (i) the portion pertaining to the Acquiring Company in the Consolidation-Type Merger: an amount determined through a method of calculation taking as its basis the book value of the property of the Acquiring Company in the Consolidation-Type Merger immediately prior to the Consolidation-Type Merger;
  - (ii) the portion pertaining to the Company Disappearing in a Consolidation-Type Merger that is not the Acquiring Company in the Consolidation-Type Merger: an amount determined through a method of calculation taking as its basis the Market Value of Consideration in Consolidation-Type Restructuring or the market value of Assets Subject to Consolidation-Type Restructuring delivered to Shareholders, etc. of the Company Disappearing in a Consolidation-Type Merger.
- (2) In the cases set forth in the preceding paragraph, the amount of Stated Capital and Capital Surplus at the time of incorporation of the Company Incorporated in a Consolidation-Type Merger is determined by the Company

Disappearing in a Consolidation-Type Merger in accordance with the provisions of the Consolidation-Type Merger agreement, within the scope of the Amount of Changes in Shareholders' Equity, etc., and the amount of retained earnings is zero; provided, however, that when the Amount of Changes in Shareholders' Equity, etc. is less than zero, the amount is the amount of other retained earnings at the time of incorporation (when the Company Incorporated in a Consolidation-Type Merger is Membership Company, the Retained Earnings; the same applies in Article 47, paragraph (2)), and the amounts of stated capital, capital surplus and retained earning reserves are zero.

(3) Notwithstanding the provisions of the preceding two paragraphs, in the cases set forth in paragraph (1), when all of the Consideration in Consolidation-Type Restructuring delivered to Shareholders, etc. of the Acquiring Company in the Consolidation-Type Merger is shares or equity interests of the Company Incorporated in a Consolidation-Type Merger, the amounts of stated capital, capital surplus and retained earnings at the time of incorporation of the Company Incorporated in a Consolidation-Type Merger may be taken as the sum of the amounts calculated through mutatis mutandis application of the provisions of each of the following items in accordance with the categories of the portions listed therein:

- (i) the portion pertaining to the Acquiring Company in the Consolidation-Type Merger: Article 47;
- (ii) the portion pertaining to Company Disappearing in a Consolidation-Type Merger which is not the Acquiring Company in the Consolidation-Type Merger: paragraph (1) (excluding portions pertaining to item (i) of the same paragraph) and the preceding paragraph.

(Shareholders' Equity, etc. in a Company Incorporated in a Consolidation-Type Merger in Cases of Being under Common Control)

Article 46 (1) When all of the Companies Disappearing in a Consolidation-Type Merger are Under Common Control, the total amount of Shareholders' Equity, etc. at the time of incorporation of the Company Incorporated in a Consolidation-Type Merger is the amount determined in accordance with a method of calculation (for portions that rely on the method prescribed in paragraph (1), item (ii) of the preceding Article, the relevant method) taking as its base the book value of Assets Subject to Consolidation-Type Restructuring immediately prior to the Consolidation-Type Merger.

(2) In the cases set forth in the preceding paragraph, the amounts of stated capital, capital surplus and retained earnings at the time of incorporation of a Company Incorporated in a Consolidation-Type Merger is the sum of the amounts calculated through mutatis mutandis application of the provisions of

the following items in accordance with the categories of the portions listed therein:

- (i) the portion pertaining to a Consolidated Company Succeeding to Shareholders' Equity: paragraph (1) of the following Article;
- (ii) the portion pertaining to a Consolidated Company Not Succeeding to Shareholders' Equity: paragraph (2) of the preceding Article.

(Shareholders' Equity, etc. in a Company Incorporated in a Consolidation-Type Merger When Shareholder's Equity, etc. Is Carried Over)

- Article 47 (1) In the cases set forth in paragraph (1) of the preceding Article, when all of the Consideration in Consolidation-Type Restructuring is shares or equity interests of the Company Incorporated in a Consolidation-Type Merger, and when it is appropriate to calculate the Shareholders' Equity, etc. of the Companies Disappearing in a Consolidation-Type Merger immediately prior to the Consolidation-Type Merger as being carried over, the sum of each of the amounts of stated capital, capital surplus and retained earnings of each of the Companies Disappearing in a Consolidation-Type Merger immediately prior to the Consolidation-Type Merger may each be taken as the amounts of stated capital, capital surplus and retained earnings at the time of incorporation of the Company Incorporated in a Consolidation-Type Merger; provided, however, that when there are Previously Acquired Shares, etc., the amount obtained by subtracting the book value of the Previously Acquired Shares, etc. from the sum of other capital surplus (when the Company Incorporated in a Consolidation-Type Merger is a Membership Company, the capital surplus; hereinafter the same applies in this Article) of each of the Companies Disappearing in a Consolidation-Type Merger immediately prior to the Consolidation-Type Merger is the amount of other capital surplus at the time of incorporation of the Company Incorporated in a Consolidation-Type Merger.
- (2) Notwithstanding the provisions of the preceding paragraph, in the cases set forth in the same paragraph, when there is a Company Consolidated without Delivering Consideration, the sum of the stated capital and capital surplus of the Company Consolidated without Delivering Consideration is deemed to be the amount of other capital surplus of the Company Consolidated without Delivering Consideration, the amount of Retained Earnings of the Company Consolidated without Delivering Consideration is deemed to be the amount of Other Retained Earnings of the Company Consolidated without Delivering Consideration, and the provisions set forth in the same paragraph apply.

(Shareholders' Equity, etc. in Companies Incorporated in a Consolidation-Type Merger in Other Cases)

- Article 48 In cases other than the cases prescribed in Article 45, paragraph (1)

and Article 46, paragraph (1), the amounts of stated capital, capital surplus and retained earnings at the time of incorporation of a Company Incorporated in a Consolidation-Type Merger are calculated pursuant to the provisions of those Articles and the preceding Article.

### **Subsection 3 Incorporation-Type Company Split**

(Shareholders' Equity, etc. in Companies Incorporated in an Incorporation-Type Split in the Case of Company Split by Independent Incorporation)

- Article 49 (1) The total amount of Shareholders' Equity, etc. at the time of incorporation of a Company Incorporated in an Incorporation-Type Split (except for a Company Incorporated in an Incorporation-Type Split when two or more Companies effect an Incorporation-Type Company Split; the same applies hereinafter in this Article and the following Article) is an amount (referred to as the "Amount of Changes in Shareholders' Equity, etc." in the following paragraph) determined in accordance with a method of calculation taking as its base the book value of Assets Subject to Consolidation-Type Restructuring immediately prior to the Incorporation-Type Company Split according to the Company Splitting in an Incorporation-Type Split (when the market value is to be entered for the Assets Subject to Consolidation-Type Restructuring, a method of calculation taking as its basis the Market Value of Consideration in Consolidation-Type Restructuring or the market value of the Assets Subject to Consolidation-Type Restructuring).
- (2) In the cases set forth in the preceding paragraph, the amount of stated capital and capital surplus at the time of incorporation of a Company Incorporated in an Incorporation-Type Split is determined by the Company Splitting in an Incorporation-Type Split in accordance with the provisions of the plan for the Incorporation-Type Company Split, within the scope of the Amount of Changes in Shareholders' Equity, etc.; the amount of retained earnings is zero; provided, however, that when the Amount of Changes in Shareholders' Equity, etc. is less than zero, the Amount of Changes in Shareholders' Equity, etc. is the amount of other retained earnings (when the Company Incorporated in an Incorporation-Type Split is a Membership Company, the retained earnings); the amounts of stated capital, capital surplus and retained earning reserves are zero.

(Shareholders' Equity, etc. in Companies Incorporated in an Incorporation-Type Split When Shareholders' Equity, etc. Is Carried Over)

- Article 50 (1) Notwithstanding the provisions of the preceding Article, when all of the Consideration in Consolidation-Type Restructuring of an Incorporation-Type Company Split-off is shares or equity interests of the Company

Incorporated in an Incorporation-Type Split, and when it is appropriate to calculate all or part of the Shareholders' Equity, etc. of the Company Splitting in an Incorporation-Type Split immediately prior to the Incorporation-Type Company Split as being carried over, the amounts of stated capital, capital surplus and retained earnings of the Company Splitting in an Incorporation-Type Split that change due to the Incorporation-Type Company Split may each be taken as the amounts of stated capital, capital surplus and retained earnings at the time of incorporation of the Company Incorporated in an Incorporation-Type Split.

- (2) Regarding changes to the amounts of stated capital, capital surplus or retained earnings upon Incorporation-Type Company Split in the Company Splitting in an Incorporation-Type Split in cases set forth in the preceding paragraph, these are to be governed by the provisions of Part II, Chapter V, Section 3, Subsection 2 of the Act and any other provisions of the Act.

(Shareholders' Equity, etc. in a Company Incorporated in an Incorporation-Type Split in Cases of a Joint Incorporation-Type Company Split)

Article 51 When two or more Companies effect an Incorporation-Type Company Split, the shareholders' equity or members' equity of the Companies Incorporated in an Incorporation-Type Split is to be calculated in accordance with what is listed in the following items:

- (i) provisionally, each Company Splitting in an Incorporation-Type Split is deemed to have incorporated a Company through an Incorporation-Type Company Split not jointly with any other Company Splitting in an Incorporation-Type Split, and the calculations for the relevant Company (hereinafter referred to as the "Provisional Company" in this Article) are then performed;
- (ii) a Company incorporated through a Consolidation-Type Merger of the Provisional Companies is deemed to become a Company Incorporated in an Incorporation-Type Split, and the calculations for the Company Incorporated in an Incorporation-Type Split are then performed by each Provisional Company.

#### **Subsection 4 Share Transfer**

Article 52 (1) The total amount of shareholders' equity at the time of incorporation of a Wholly Owning Parent Company Incorporated in a Share Transfer is the sum of the amounts listed in the items below (referred to as "Amount of Changes in Shareholders' Equity" in the following paragraph) for in accordance with the categories of the portions listed therein:

- (i) the portion pertaining to other Wholly Owned Subsidiary Companies

- Resulting from the Share Transfer when the Share Transfer is an Acquisition of Control by the Wholly Owned Subsidiary Company Resulting from the Share Transfer: an amount determined through a method of calculation that takes as its base the Market Value of Consideration in Consolidation-Type Restructuring delivered to shareholders of those other Wholly Owned Subsidiary Companies Resulting from the Share Transfer or the market value of the shares of those other Wholly Owned Subsidiary Companies Resulting from the Share Transfer;
- (ii) the portion pertaining to the relevant Wholly Owned Subsidiary Companies Resulting from the Share Transfer when all of the Wholly Owned Subsidiary Companies Resulting from the Share Transfer are Under Common Control: an amount determined through a method of calculation taking as its base the book value of the property of the Wholly Owned Subsidiary Companies Resulting from the Share Transfer (when there is a portion that should be calculated according to the method prescribed in preceding item, that method);
- (iii) portions other than portions listed in the preceding two items: a method as prescribed in the preceding item.
- (2) In the cases set forth in the preceding paragraph, the amount of stated capital and capital surplus at the time of incorporation of the Wholly Owing Parent Company Incorporated in the Share Transfer is each determined by the Wholly Owned Subsidiary Company Resulting from the Share Transfer in accordance with the provisions of the Share Transfer plan, within the scope of the Amount of Changes in Shareholders' Equity, and the amount of retained earnings is zero; provided, however, that when the Amount of Changes in Shareholders' Equity is less than zero, the amount is the amount of other capital surplus at the time of incorporation, and the amounts of stated capital, capital surplus, and retained earnings reserves are zero.

### **Section 7 Valuation and Conversion Differences.**

(Valuation and Conversion Differences)

Article 53 Even when any other assets, liabilities or items that are listed below are not Shareholders' Equity or Members' Equity, those for which the recording as an entry in the section on net assets is found to be appropriate may be recorded as net assets:

- (i) the valuation difference (excluding valuation differences included in the calculation of profits or losses and the valuation differences listed in the following item and item (iii)) of the relevant assets or liabilities when a market value is entered with respect to assets or liabilities (including net assets or liabilities that arise through derivative transactions; the same

- applies hereinafter in this Article);
- (ii) profit and loss or valuation differences pertaining to hedging instruments when Hedge Accounting is applied;
  - (iii) the revaluation difference prescribed in Article 7, paragraph (1) of the Act on Revaluation of Land (Act No. 34 of 1998).

(Special Provisions on Organization Restructuring Actions Where a Company Recording a Land Revaluation Difference Is a Party)

Article 54 (1) When, in an Absorption-Type Merger or Absorption-Type Company Split, or in a Consolidation-Type Merger or Incorporation-Type Company Split (hereinafter referred to as "Merger/Company Split" in this paragraph), land recorded as the revaluation difference listed in item (iii) of the preceding Article is included in the Assets Subject to Absorption-Type Restructuring or the Assets Subject to Consolidation-Type Restructuring (hereinafter referred to as the "Subject Assets" in this paragraph), and when the book value to be entered with regard to the Subject Assets by the Company Surviving an Absorption-Type Merger, Company Succeeding in an Absorption-Type Split, Company Incorporated in a Consolidation-Type Merger or Company Incorporated in an Incorporation-Type Split is to be the book value immediately prior to the Merger/Company Split, the book value before revaluation pursuant to the provisions of the Act on Revaluation of Land pertaining to the land is deemed to be the book value of the land, and the provisions on calculation of Shareholders' Equity, etc. pertaining to the Merger/Company Split apply.

(2) When, in a Share Exchange or Share Transfer (hereinafter referred to as the "Exchange/Transfer" in this paragraph), land recorded as the revaluation difference listed in item (iii) of the preceding Article is included in the assets of the relevant Wholly Owned Subsidiary Company Resulting from a Share Exchange or Wholly Owned Subsidiary Company Resulting from a Share Transfer (hereinafter referred to as the "Wholly Owned Subsidiary Company Formed in Exchange/Transfer" in this paragraph), and when the book value to be entered by the Wholly Owing Parent Company Resulting from a Share Exchange or the Wholly Owing Parent Company Incorporated in the Share Transfer with respect to the shares of the Wholly Owned Subsidiary Company Formed in Exchange/Transfer is to be calculated with the amount obtained by subtracting the book value pertaining to liabilities (including obligations pertaining to Share Options) from the book value pertaining to the assets (including the Treasury Share Options) of the Wholly Owned Subsidiary Company Formed in Exchange/Transfer on the day on which the book value of the property of the Wholly Owned Subsidiary Company Formed in Exchange/Transfer that is to be the basis for calculations is to be evaluated,

the book value before revaluation pursuant to the provisions of the Act on Revaluation of Land pertaining to the relevant land is deemed to be the book value of the land, and the provisions on calculation of Shareholders' Equity, etc. pertaining to the Exchange/Transfer apply.

- (3) When, in a business transfer or acceptance or delivery of shares or equity interests in exchange for assets other than monies (hereinafter referred to as "Contributions in Kind, etc." in this paragraph), land included in the calculation of the revaluation difference listed in item (iii) of the preceding Article is included in the assets that are the subject of a Contribution in Kind, etc. (hereinafter referred to as "Subject Assets" in this paragraph), and when the book value to be entered with regard to the Subject Assets by the person acquiring the Subject Assets is to be the book value of the Contribution in Kind, etc. immediately prior thereto, the book value before revaluation pursuant to the provisions of the Act on Revaluation of Land pertaining to the relevant land is deemed to be the book value of the land, and the provisions on calculation of Shareholders' Equity, etc. pertaining to the Contribution in Kind, etc. apply.

### **Section 8 Share Options**

Article 55 (1) When a stock company issues Share Options, the amount of monies paid in exchange for the Share Options, the amount of the delivery of property other than monies, or the amount set-off against claims against the stock company, or any other appropriate prices, is the amount by which Share Options are to be increased.

(2) The phrase "cases where a stock company issues Share Options" prescribed in the preceding paragraph means the cases where Share Options are issued in the cases listed below:

- (i) cases where subscribers for Share Options for Subscription are solicited pursuant to the provisions of Part II, Chapter III, Section 2 of the Act;
- (ii) cases where Shares with Put Options (limited to those for which there are provisions with regard to the matters listed in Article 107, paragraph (2), item (ii) (c) or (d) of the Act) are acquired;
- (iii) cases where Shares Subject to Call (limited to those for which there are provisions with regard to the matters listed in Article 107, paragraph (2), item (iii) (e) or (f) of the Act) are acquired;
- (iv) cases where Shares Subject to Class-Wide Call (limited to the Shares Subject to Class-Wide Call if provisions have been made with regard to the matters listed in Article 171, paragraph (1), item (i) (c) or (d) of the Act at the acquisition of the Shares Subject to Class-Wide Call) are acquired;
- (v) cases where an Allotment of Share Options without Contribution is made;



- (vi) cases where Share Options Subject to Call (limited to those for which there are provisions with regard to the matters listed in Article 236, paragraph (1), item (vii) (f) or (g) of the Act) are acquired;
  - (vii) cases where the stock company survives an Absorption-Type Merger,;
  - (viii) cases where another Company succeeds to all or part of the rights and obligations related to that business through an Absorption-Type Company Split;
  - (ix) cases where all of the Issued Shares of another stock company are acquired through a Share Exchange.
- (3) When a stock company incorporated through a Consolidation-Type Merger, Incorporation-Type Company Split or Share Transfer issues Share Options at incorporation, the proper price of the Share Options is the amount of Share Options at the time of incorporation.
- (4) In the cases listed respectively in the following items, the amounts as provided therein are the amounts by which Share Options are to be reduced:
- (i) cases where a stock company cancels its Treasury Share Options: the book value of Share Options equivalent to its Treasury Share Options;
  - (ii) cases where Share Options have been exercised or have expired: the book value of the Share Options.
- (5) When a stock company acquires Share Options in the stock company, the value of that acquisition is the amount by which its Treasury Share Options are to be increased.
- (6) With respect to Treasury Share Options listed respectively in the following items (limited to those acquired at a value exceeding the book value of the Share Options), the price as provided therein must be entered:
- (i) Treasury Share Options whose market value on the last day of the business year is significantly lower than the cost at acquisition (excluding the Treasury Share Options listed in the following item): whichever of the amounts listed in (a) or (b) is the highest:
    - (a) the market value on the last day of the business year;
    - (b) the book value of Share Options equivalent to its Treasury Share Options;
  - (ii) Treasury Share Options found not to be disposed of: the book value of Share Options equivalent to its Treasury Share Options.
- (7) When a stock company disposes of or cancels its Treasury Share Options, or if its Treasury Share Options have expired, the book value is the amount by which Share Options are to be reduced.
- (8) The provisions of paragraph (1) and paragraph (3) to the preceding paragraph apply mutatis mutandis to Share Delivery Claims (meaning rights other than Share Options to receive delivery of shares of the relevant stock company through exercising against the stock company; the same applies hereinafter in this Article).

- (9) With respect to the application of the provisions of Article 14, paragraph (1) when shares issued or Treasury Shares disposed of at solicitation of subscribers for Shares for Subscription are shares issued or Treasury Shares disposed of through the exercising of Share Delivery Claims, the phrase "sum of the amounts listed in item (i) and item (ii)" in that paragraph reads "the sum of the book value at the time of the exercising of the Share Delivery Claims prescribed in Article 55, paragraph (8), and the sum of the amounts listed in item (i) and item (ii)."

#### **Chapter IV Special Provisions on Calculations Pertaining to Acts Based on Reorganization Plans**

- Article 56 (1) Matters related to goodwill, net assets and other accounts to be recorded by a Reorganizing Company (meaning a Reorganizing Company as prescribed in Article 2, paragraph (7) of the Corporate Reorganization Act; hereinafter the same applies in this Article) with regard to acts carried out based on a Reorganization Plan (meaning a Reorganization Plan as prescribed in Article 2, paragraph (2) of the same Act; hereinafter the same applies in this Article) by the Reorganizing Company are governed by the provisions of the Reorganization Plan, notwithstanding the provisions of this Ministerial Ordinance.
- (2) When it is determined in a Reorganization Plan (including a Reorganization Plan as prescribed in Article 4, paragraph (2) and Article 169, paragraph (2) of the Act on Special Treatment of Corporate Reorganization Proceedings and Other Insolvency Proceedings of Financial Institutions (Act No. 95 of 1996); hereinafter referred to as the "Act on Special Treatment of Reorganizations" in this Article); the same applies hereinafter in this Article) that a stock company will be incorporated (excluding cases where it is determined that a stock company will be incorporated through a Consolidation-Type Merger, Incorporation-Type Company Split or Share Transfer), matters related to goodwill, net assets and other accounts at the time of incorporation of the stock company are governed by the provisions of the Reorganization Plan, notwithstanding the provisions of this Ministerial Ordinance.
- (3) If, in the Reorganization Plan, a Company (excluding a Reorganizing Company) has allotted Monies, etc. to be delivered to the Reorganization Obligees, etc. (meaning the Reorganization Obligees, etc. as prescribed in Article 2, paragraph (13) of the Corporate Reorganization Act together with Article 4, paragraph (13) and Article 169, paragraph (13) of the Act on Special Treatment of Reorganizations; the same applies hereinafter in this Article) of the Reorganizing Company, etc. (meaning the Reorganizing Cooperative Financial Institution as prescribed in Article 4, paragraph (7) of the Act on

Special Treatment of Reorganizations, and the Reorganizing Company as prescribed in Article 169, paragraph (7) of the Act on Special Treatment of Reorganizations; the same applies hereinafter in this Article) upon an Absorption-Type Merger or Share Exchange, the price of the Monies, etc. delivered to the Reorganization Obligees, etc. is also considered to be the Consideration in Absorption-Type Restructuring pertaining to the Absorption-Type Merger or Share Exchange.

- (4) If, in the Reorganization Plan, a Company incorporated through a Consolidation-Type Merger or Share Transfer has allotted shares, equity interests or Bonds, etc. to be delivered to the Reorganization Obligees, etc. of the Reorganizing Company upon a Consolidation-Type Merger or Share Transfer, the price of the shares, equity interests or Bonds, etc. delivered to the Reorganization Obligees, etc. is also considered to be the Consideration in Consolidation-Type Restructuring pertaining to the Consolidation-Type Merger or Share Transfer.

### **Part III Accounting Documents**

#### **Chapter I General Provisions**

##### **Section 1 Principles of Presentation**

Article 57 (1) The amounts of matters pertaining to the Accounting Documents are to be presented in units of 1 yen, 1,000 yen, or 1,000,000 yen.

(2) Accounting Documents are to be presented in Japanese; provided, however, that this does not apply when presentation of such documents in another language is not unreasonable.

(3) With regard to the preparation of Accounting Documents (excluding annexed detailed statements to Financial Statements for each business year), all of the constituent items in the Balance Sheet, Profit and Loss Statement and any other Accounting Documents, must not be interpreted as having to be prepared as one document or other material.

##### **Section 2 Stock Companies' Financial Statements**

(Balance Sheet on the Day of Formation)

Article 58 The balance sheet to be prepared pursuant to the provisions of Article 435, paragraph (1) of the Act must be prepared based on the accounting books of the stock company on the day of its formation.

(Financial Statements for Each Business Year)

Article 59 (1) What is prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 435, paragraph (2) of the Act, is the statements of changes

in net assets and tables of explanatory notes on unconsolidated financial statements prepared in accordance with the provisions of this Part.

- (2) The period pertaining to the preparation of Financial Statements for each business year and annexed detailed statements thereof is the period from the day following the last day of the business year prior to the relevant business year (if there is no business year prior to the relevant business year, the day of formation) to the last day of the relevant business year. In such cases, the period may not exceed one year (with regard to the first business year after changes are made if the last day of the business year is changed, one year and six months).
- (3) Financial Statements for each business year and annexed detailed statements thereof that are to be prepared pursuant to the provisions of Article 435, paragraph (2) of the Act must be prepared based on the accounting books pertaining to the relevant business year.

(Provisional Financial Statements)

Article 60 (1) The period pertaining to the preparation of Provisional Financial Statements (referred to as the "Provisional Fiscal Year" in the following paragraph) is the period from the day following the last day of the business year prior to the relevant business year (if there is no business year prior to the relevant business year, the day of formation) to the Provisional Account Closing Date.

- (2) Provisional Financial Statements must be prepared based on the accounting books pertaining to the Provisional Fiscal Year.
- (3) When a stock company intends to prepare Provisional Financial Statements, and when there is no Most Recent Business Year with respect to the stock company, within the period from the day of formation of the stock company to the day on which the first business year is concluded, a fixed day within the first business year may be deemed to be the Provisional Account Closing Date, and the provisions of Article 441 of the Act may be applied.

### **Section 3 Consolidated Stock Companies' Financial Statements**

(Consolidated Financial Statements)

Article 61 What is prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 444, paragraph (1) of the Act, is those listed below to be prepared in accordance with the provisions of this Part:

- (i) consolidated balance sheets;
- (ii) consolidated profit and loss statements;
- (iii) consolidated statements of changes in net assets;
- (iv) tables of explanatory notes on Consolidated Financial Statements.

(Consolidated Fiscal Year)

Article 62 The period pertaining to the preparation of Consolidated Financial Statements for each business year (hereinafter referred to as a "Consolidated Fiscal Year" in this Part) is the period from the day following the last day of the business year prior to the relevant business year (if there is no business year prior to the relevant business year, the day of formation) to the last day of the relevant business year.

(Scope of Consolidation)

Article 63 (1) A stock company must include all of its Subsidiary Companies in the scope of a consolidation; provided, however, that any Subsidiary Companies falling under any of the following categories are not to be included in the scope of a consolidation:

(i) Subsidiary Companies that are found to be in temporary control of a Body That Decides Financial and Business Policies (meaning a shareholders' meeting or a body equivalent thereto);

(ii) Subsidiary Companies for which it is found that inclusion in the scope of a consolidation would carry the risk causing the interested parties of the relevant stock company to reach a seriously mistaken valuation.

(2) Among Subsidiary Companies to be included in the scope of a consolidation pursuant to the provisions of the preceding paragraph, those which, judging by their assets and net sales (including service revenues; the same applies hereinafter), etc., are of such low importance that their exemption from the scope of a consolidation would not preclude a reasonable valuation of assets, profits and losses of the group of enterprises, may be exempted from the scope of the consolidation.

(Subsidiary Companies with Different Periods as Their Business Years)

Article 64 (1) Consolidated Subsidiary Companies for which the last day of the business year is different from the last day of the stock company's business year must, on the last day of the stock company's business year, perform settlements of accounts which are necessary for the preparation of financial statements that are to be the basis for preparation of Consolidated Financial Statements; provided, however, that this does not apply if the difference between the last day of the business year of the Consolidated Subsidiary Company and the last day of the business year of the stock company does not exceed three months, and when Consolidated Financial Statements are prepared taking as their basis financial statements for the business year of the Consolidated Subsidiary Company.

(2) When Consolidated Financial Statements are prepared pursuant to the

provisions of the proviso to the preceding paragraph, with respect to serious disagreements in accounting records pertaining to transactions between mutually Consolidated Companies arising due to a difference between the last day of the business year of a Consolidated Subsidiary Company and the last day of the business year of the relevant stock company, adjustment must be carried out.

(Consolidated Balance Sheets)

Article 65 Consolidated balance sheets must be prepared taking as their basis the amounts of assets, liabilities and net assets in the balance sheets of Consolidated Companies pertaining to a period corresponding to the stock company's Consolidated Fiscal Year (with regard to the balance sheet of the relevant Consolidated Subsidiary Company when a settlement of accounts is performed by a Consolidated Subsidiary Company pursuant to the provisions of the main clause of paragraph (1) of the preceding Article, the balance sheet pertaining to the settlement of accounts). In such cases, the amounts of assets, liabilities and net assets recorded in the balance sheets of the Consolidated Companies may be recorded in the appropriate entries in the consolidated balance sheet.

(Consolidated Profit and Loss Statements)

Article 66 Consolidated profit and loss statements must be prepared taking as their basis the amounts of revenue or expenses, or profits or losses in the profit and loss statements of Consolidated Companies pertaining to a period corresponding to the stock company's Consolidated Fiscal Year (with regard to Profit and Loss Statements of the relevant Consolidated Subsidiary Company when a settlement of accounts is performed by a Consolidated Subsidiary Company pursuant to the provisions of the main clause of Article 64, paragraph (1), the profit and loss statement pertaining to the settlement of accounts). In such cases, the amounts of revenue or expenses, or profits or losses recorded in the profit and loss statements of Consolidated Companies may be recorded in the appropriate entries of the consolidated profit and loss statement.

(Consolidated Statements of Changes in Net Assets)

Article 67 Consolidated statements of changes in net assets must be prepared taking as their basis the Shareholders' Equity, etc. (meaning the Shareholders' Equity and any other net assets of a Company, etc.; the same applies hereinafter in this Article) in the statements of changes in net assets of Consolidated Companies pertaining to a period corresponding to the stock company's Consolidated Fiscal Year (with regard to statements of changes in

net assets of the relevant Consolidated Subsidiary Company when a settlement of accounts is performed by a Consolidated Subsidiary Company pursuant to the provisions of the main clause of Article 64, paragraph (1), the statements of changes in net assets pertaining to the settlement of accounts). In such cases, amounts pertaining to the Shareholders' Equity, etc. presented in the statements of changes in net assets of Consolidated Companies may be recorded in the appropriate entries of the consolidated statements of changes in net assets.

(Valuation of Assets and Liabilities of a Consolidated Subsidiary Company)

Article 68 On preparation of Consolidated Financial Statements, the valuation of Consolidated Subsidiary Company's assets and liabilities as well as the stock company's investment in the Consolidated Subsidiary Company must be offset by the capital of the Consolidated Subsidiary Company that corresponds thereto, and any other entries mutual to Consolidated Companies must be offset as necessary.

(Application of Equity Method)

Article 69 (1) With regard to investments in Unconsolidated Subsidiary Companies and Affiliated Companies, values calculated through the Equity Method must be recorded in the Consolidated Balance Sheet; provided, however, that with regard to investments in Unconsolidated Subsidiary Companies and Affiliated Companies which fall under any of the following categories, the Equity Method is not to be applied:

- (i) Affiliated Companies that are found to have a temporary effect on the decisions of financial or business policies;
- (ii) Unconsolidated Subsidiary Companies and Affiliated Companies for which it is found that application of the Equity Method would carry the risk causing the interested parties of the stock company to reach a seriously mistaken valuation.

(2) Among Unconsolidated Subsidiary Companies and Affiliated Companies to which the Equity Method is to apply pursuant to the provisions of the preceding paragraph, those which, judging by their profits and losses, etc., would not have any serious effect on the Consolidated Financial Statements were they to be exempted as from application of the Equity Method may be exempted from the application of the Equity Method.

#### **Section 4 Membership Companies' Financial Statements**

(Balance Sheet of the Day of Formation)

Article 70 The balance sheet to be prepared pursuant to the provisions of Article

617, paragraph (1) of the Act must be prepared based on the accounting books of the Membership Company on the day of its formation.

(Financial Statements for Each Business Year)

Article 71 (1) What is prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 617, paragraph (2) of the Act, is those which are as provided in the following items in accordance with the categories of Membership Company listed therein:

- (i) general partnership companies and limited partnership companies: profit and loss Statements, statements of changes in net assets of Membership Companies or tables of explanatory notes on unconsolidated financial statements prepared in accordance with the provisions of this Part if the relevant general partnership company and limited partnership company has determined that all or part of its profit and loss statements, statements of changes in net assets of Membership Companies or tables of explanatory notes on unconsolidated financial statements are to be prepared in accordance with the provisions of this Part;
  - (ii) limited liability companies: profit and loss statements, statements of changes in net assets of Membership Companies and tables of explanatory notes on unconsolidated financial statements prepared in accordance with the provisions of this Part.
- (2) The period pertaining to the preparation of financial statements for each business year is the period from the day following the last day of the business year prior to the relevant business year (if there is no business year prior to the relevant business year, the day of formation) to the last day of the relevant business year. In such cases, the period may not exceed one year (with regard to the first business year after changes are made if the last day of the business year is changed, one year and six months).
- (3) Financial statements for each business year that are to be prepared pursuant to the provisions of Article 617, paragraph (2) of the Act must be prepared based on the accounting books pertaining to the relevant business year.

## **Chapter II Balance Sheets, etc.**

(General Rules)

Article 72 Balance Sheets, etc. (meaning balance sheets and consolidated balance sheets; the same applies hereinafter in this Part) are as provided in this Chapter.

(Categories in the Balance Sheet, etc.)

Article 73 (1) Balance Sheets, etc. must be classified into and presented under



the sections listed below:

- (i) assets;
  - (ii) liabilities;
  - (iii) net assets.
- (2) Each entry in the section on Assets and the section on Liabilities must have an appropriate title given to it which indicates the asset or liability pertaining to the entry.
- (3) When a Consolidated Company is undertaking two or more different types of business, the sections on assets and the sections on liabilities in its consolidated balance sheet may be categorized according to the type of business it is engaged in.

(Categories in the Section on Assets)

Article 74 (1) The section on Assets must be classified under the following entries; in such cases, each entry (excluding the entry listed in item (ii)) must be subdivided into appropriate entries:

- (i) current assets;
  - (ii) fixed assets;
  - (iii) deferred assets.
- (2) The entries pertaining to Fixed Assets must be classified under the following entries; in such cases, each entry must be subdivided into appropriate entries:
- (i) tangible fixed assets;
  - (ii) intangible fixed assets;
  - (iii) investments and other assets.
- (3) The Assets listed respectively in the following items are to belong to the categories as provided therein:
- (i) assets listed below: current assets:
    - (a) cash and deposits (excluding deposits whose deadline will not arrive within one year);
    - (b) Bills Receivable (meaning bill claims (excluding Bankruptcy/Reorganization Claims, etc. (meaning bankruptcy claims, rehabilitation claims, reorganization claims and any other equivalent claims; the same applies hereinafter in this item) for which it is clear that payment may not be received within one year) arising out of Ordinary Transactions (meaning transactions that arise routinely or cyclically in short periods through the operating activities the relevant Company carries out in pursuit of its business; the same applies hereinafter in this Chapter));
    - (c) Accounts Receivable (meaning business accounts receivable (excluding the relevant accounts receivable when claims pertaining to the accounts receivable are Bankruptcy/Reorganization Claims, etc. for which it is clear

- that payment may not be received within one year) arising out of Ordinary Transactions);
- (d) among lease claims in a Finance Lease Under Which Ownership Is Transferred, those which arise out of Ordinary Transactions (excluding those which are Bankruptcy/Reorganization Claims, etc. for which it is clear that collection will not be received within one year) and those which arise out of transactions that are not Ordinary Transactions and whose deadline will arrive within one year;
  - (e) among lease investment assets in a Finance Lease Under Which Ownership Is Not Transferred, those which arise out of Ordinary Transactions (excluding those which are Bankruptcy/Reorganization Claims, etc. for which it is clear that collection will not be received within one year) and those which arise out of transactions that are not Ordinary Transactions and whose deadline will arrive within one year;
  - (f) Trading Securities and securities that will reach maturity within one year;
  - (g) commodities (including land, buildings or other real property owned for the purposes of sale);
  - (h) manufactured goods, by-products and waste;
  - (i) semi-finished goods (including self-made components);
  - (j) raw ingredients and materials (including purchased components);
  - (k) goods in process and partly-finished work;
  - (l) consumable goods, consumable tools, utensils and equipment, and any other inventory goods above a considerable value;
  - (m) Advances (meaning advances (excluding the advances when claims pertaining to the advances are Bankruptcy/Reorganization Claims, etc. for which it is clear that payment may not be received within one year) for the purpose of the purchase of commodities and raw materials (including equivalents thereof);
  - (n) expenses paid in advance that are to become expenses within one year;
  - (o) uncollected income;
  - (p) deferred tax assets listed below:
    - 1. deferred tax assets associated with Assets belonging to the current assets or liabilities belonging to the current liabilities;
    - 2. deferred tax assets unassociated with specified assets or liabilities that it is found will be reversed within one year;
  - (q) other assets for which it is found that they may be realized within one year;
  - (ii) assets listed below (provided, however, that with respect to the assets listed in (a) through (h), limited to those which will be used for business operations): tangible fixed assets:

- (a) buildings and accessory equipment for heating, illumination, ventilation, etc.;
  - (b) Structures (meaning docks, bridges, quays, piers, tramways, reservoirs, tunnels, chimneys and any other civil engineering equipment or constructions fixed in the ground);
  - (c) machinery and apparatuses as well as equipment for moving hoists, conveyors, cranes, etc. and the accessory components thereof;
  - (d) ships and vessels and water transportation equipment;
  - (e) railway vehicles, automobiles and any other surface transportation equipment;
  - (f) tools, utensils and fixtures (limited to those with a useful life of one year or more);
  - (g) land;
  - (h) leased assets (limited to those for which the relevant Company is the lessee of the Leased Object under a Finance Lease, when the Leased Object is one of those listed in (a) through (g), and (j));
  - (i) construction in Progress (meaning expenditures arising when those Assets listed in (a) through (g) which are to be used for business operations are constructed, and raw materials appropriated for the purposes of the construction);
  - (j) any other tangible assets which should belong to the tangible fixed assets;
- (iii) assets listed below: intangible fixed assets:
- (a) patent rights;
  - (b) land lease rights (including superficies rights);
  - (c) trademark rights;
  - (d) utility model rights;
  - (e) design rights;
  - (f) mining rights;
  - (g) fishing rights (including common of piscary);
  - (h) software;
  - (i) goodwill;
  - (j) leased assets (limited to those for which the relevant Company is the lessee of the Leased Object under a Finance Lease, when the Leased Object is one of those listed in (a) through (h), and (k));
  - (k) any other Intangible Assets which should belong to the Intangible Fixed Assets;
- (iv) Assets listed below: Investments and Other Assets:
- (a) shares of a Associated Company (excluding shares that fall under the category of Trading Securities; the same applies hereinafter), and any other securities not belonging to the current assets;
  - (b) contributions to capital;

- (c) long-term loans;
  - (d) deferred tax assets listed below:
    1. deferred tax assets associated with Assets belonging to the tangible fixed assets, intangible fixed assets, or investments and other Assets, or liabilities belonging to the fixed liabilities;
    2. deferred tax assets unassociated with specified assets or liabilities that it is not found will be reversed within one year;
  - (e) among lease claims in a Finance Lease Under Which Ownership Is Transferred, those which are not listed in item (i) (d);
  - (f) among lease investment assets in a Finance Lease Under Which Ownership Is Not Transferred, those which are not listed in item (i) (e);
  - (g) other assets which are to belong to the investments and other assets;
  - (h) other assets that are not to belong to the current assets, tangible fixed assets, intangible fixed assets or deferred tax assets;
  - (v) that for which the recording as deferred assets is found to be appropriate: deferred assets.
- (4) The term "within one year" prescribed in the preceding paragraph means a day within one year commencing from the day as provided in the following items in accordance with the categories of Balance Sheets, etc. listed therein (the same applies hereinafter in this Part):
- (i) the balance sheet on the day of formation: the day of formation of the Company;
  - (ii) the balance sheet for a business year: the day following the last day of the business year;
  - (iii) balance sheets for Provisional Financial Statements: the day following the Provisional Account Closing Date;
  - (iv) consolidated balance sheets: the day following the last day of the Consolidated Fiscal Year.

(Categories in the Section on Liabilities)

Article 75 (1) The section on liabilities must be classified under the following entries; in such cases, each entry must be subdivided into appropriate entries:

- (i) current liabilities;
  - (ii) fixed liabilities.
- (2) The liabilities listed respectively in the following items are to belong to the categories as provided therein:
- (i) liabilities listed below: current liabilities:
    - (a) Bills Payable (meaning obligations on negotiable instruments arising from Ordinary Transactions);
    - (b) Accounts Payable (meaning business arrears arising out of Ordinary Transactions);

- (c) Advances Received (meaning advances for work orders received, goods orders received, etc.);
- (d) allowances (excluding those pertaining to assets, and those which it is found will not be exercised within one year);
- (e) arrears or deposits received arising through association with Ordinary Transactions that will be paid through regular trading practices within a short period after arising;
- (f) accrued expenses;
- (g) deferred revenue;
- (h) deferred tax liabilities listed below:
  1. deferred tax liabilities associated with assets belonging to the current assets or liabilities belonging to the current liabilities;
  2. deferred tax liabilities unassociated with specified assets or liabilities that it is found will be reversed within one year;
- (i) among lease obligations in Finance Leases, those for which the deadline will arrive within one year;
- (j) among Asset Removal Obligations, those which it is found will be performed within one year;
- (k) other liabilities which it is found will be paid or repaid within one year;
- (ii) liabilities listed below: fixed liabilities:
  - (a) Bonds;
  - (b) long-term borrowings;
  - (c) allowances (excluding those pertaining to assets, and those listed in (d) of the preceding item);
  - (d) deferred tax liabilities listed below:
    1. deferred tax liabilities associated with Assets belonging to tangible fixed assets, intangible fixed assets, or the investments and other assets, or liabilities belonging to fixed liabilities;
    2. deferred tax liabilities unassociated with specified assets or liabilities that it is not found will be reversed within one year;
  - (e) goodwill;
  - (f) among lease obligations in Finance Leases, those which are not listed in (i) of the preceding item;
  - (g) among Asset Removal Obligations, those which are not listed in (j) of the preceding item;
  - (h) other liabilities that do not belong to the Current Liabilities.

(Categories in the Section on Net Assets)

Article 76 (1) The section on net assets must be classified as provided in the following items in accordance with the categories of Balance Sheets, etc. listed therein:

- (i) the balance sheet of a stock company: the entries listed below:
  - (a) shareholders' equity;
  - (b) valuation and conversion differences, etc.;
  - (c) Share Options;
- (ii) the consolidated balance sheet of a stock company: the entries listed below:
  - (a) shareholders' equity;
  - (b) valuation and conversion differences, etc.;
  - (c) Share Options;
  - (d) minority interests;
- (iii) the balance sheet of a Membership Company: the entries listed below:
  - (a) members' equity;
  - (b) valuation and conversion differences, etc.
- (2) The entries pertaining to Shareholders' Equity must be classified under the following entries; in such cases, the entry listed in item (v) is a deduction:
  - (i) stated capital;
  - (ii) deposits for subscriptions to shares;
  - (iii) capital surplus;
  - (iv) retained earnings;
  - (v) treasury shares;
  - (vi) deposits for subscriptions to treasury shares.
- (3) The entries pertaining to members' equity must be categorized into the following entries:
  - (i) stated capital;
  - (ii) deposits for capital subscriptions;
  - (iii) capital surplus;
  - (iv) retained earnings.
- (4) The entries pertaining to the capital surplus in the balance sheet of a stock company must be categorized into the following entries:
  - (i) capital reserves;
  - (ii) other capital surplus.
- (5) The entries pertaining to retained earnings in the balance sheet of a stock company must be categorized into the following entries:
  - (i) retained earnings reserves;
  - (ii) other retained earnings.
- (6) The entries listed in paragraph (4), item (ii) and item (ii) of the preceding paragraph may be subdivided into entries with appropriate titles.
- (7) The entries pertaining to valuation and conversion differences, etc. must be subdivided into the entries listed below, or into any other entries with appropriate titles; provided, however, that the entries listed in item (iv) are limited to consolidated balance sheets:
  - (i) other securities valuation difference;

- (ii) deferred gains or losses on hedges;
  - (iii) land revaluation differences;
  - (iv) exchange conversion adjustment accounts.
- (8) The entries pertaining to Share Options may be categorized as deductions from the entries pertaining to its Treasury Share Options.
- (9) In the Consolidated Balance Sheet, matters to be included in the calculation of the matters listed in each of the following items are as provided therein:
- (i) the Treasury Shares set forth in paragraph (2), item (v): the sum of the amounts listed below:
    - (a) the book value of shares of the relevant stock company held by the stock company;
    - (b) among the book values of shares of the relevant stock company held by Consolidated Subsidiary Companies, as well as Unconsolidated Subsidiary Companies and Affiliated Companies applying the Equity Method, an amount corresponding to the equity interests of those companies held by the stock company;
  - (ii) the exchange conversion adjustment accounts set forth in paragraph (7), item (iv): conversion differences arising due to a difference between the exchange rate used in conversions of Assets or Liabilities of Subsidiary Companies or Affiliated Companies in foreign countries, and the exchange rate used in conversions of net assets.

(Presentation of Inventories and Allowances for Construction Losses)

Article 77 When there are inventories and allowances for construction losses pertaining to the same Construction Contract, the amount of difference set off by both entries may be presented as inventories or allowances for construction losses in the current assets or current liabilities.

(Presentation of Allowances for Bad Debts)

Article 78 (1) Allowances pertaining to each asset must, beyond cases pursuant to the provisions of the following paragraph, be shown as deductions in the entries for each asset, in entries with titles that present the intended purpose of Allowances for bad debts and any other Allowances; provided, however, that this does not preclude these deductions for assets in accordance with the categories of current assets, tangible fixed assets, intangible fixed assets, investments and other assets, or deferred assets, from being presented as deductions collectively.

(2) Allowances pertaining to each asset may be directly deducted from the amount of each asset, and any balance remaining after deduction may then be presented as the amount of each asset.

(Presentation of the Accumulated Depreciation of Tangible Fixed Assets)

Article 79 (1) The accumulated depreciation of each tangible fixed asset must, beyond cases pursuant to the provisions of the following paragraph, be presented as deductions in the entries for each tangible fixed asset, in entries for accumulated depreciation; provided, however, that this does not preclude these deductions for tangible fixed asset from being presented as deductions collectively.

(2) The accumulated depreciation of each tangible fixed asset may be directly deducted from the amount of each tangible fixed asset, and any balance remaining after deduction may then be presented as the amount of each tangible fixed asset.

(Presentation of Accumulated Impairment Loss on Tangible Fixed Assets)

Article 80 (1) The accumulated impairment loss on each tangible fixed asset must, beyond cases pursuant to the provisions of the following paragraph and paragraph (3), be directly deducted from the amount of each tangible fixed asset (when deducting the accumulated depreciation of a tangible fixed asset pursuant to the provisions of paragraph (2) of the preceding Article, the amount after the deduction), and any balance remaining after deduction must then be presented as the amount of each tangible fixed asset.

(2) The accumulated impairment loss on each tangible fixed asset undergoing depreciation may be presented as a deduction in the entry for each such tangible fixed asset under accumulated impairment loss; provided, however, that this does not preclude these deductions for tangible fixed assets from being presented as deductions collectively.

(3) When accumulated depreciation and accumulated impairment loss are presented as deductions pursuant to the provisions of paragraph (1) of the preceding Article and the preceding paragraph, the accumulated depreciation and accumulated impairment loss may be combined and presented in entries for accumulated depreciation.

(Presentation of Intangible Fixed Assets)

Article 81 The accumulated depreciation and accumulated impairment loss of each intangible fixed asset must be directly deducted from the amount of each intangible fixed asset, and any amount remaining after deduction must be presented as the amount of each Intangible fixed asset.

(Presentation of Shares of Associated Companies )

Article 82 (1) Shares or Capital Contributions of Associated Companies must be presented separately in entries for shares of Associated Companies or contributions to capital in Associated Companies.



(2) The provisions of the preceding paragraph do not apply to Consolidated Balance Sheets or balance sheets of Membership Companies.

(Presentation of Deferred Tax Assets)

Article 83 (1) With regard to amounts of deferred tax assets belonging to the current assets and amounts of deferred tax liabilities belonging to the current liabilities, only the difference must be presented in current assets or current liabilities as deferred tax assets or deferred tax liabilities.

(2) With regard to amounts of deferred tax assets belonging to the fixed assets and deferred tax Liabilities belonging to the fixed liabilities, only the difference must be presented in fixed assets or fixed liabilities as deferred tax assets or deferred tax liabilities.

(3) With regard to the application of the provisions of the preceding two paragraphs pertaining to consolidated balance sheets, the phrase "the difference" means "the difference, except that pertaining to different taxable entities."

(Presentation of Deferred Assets)

Article 84 The accumulated depreciation of each deferred asset must be directly deducted from the amount of each deferred assets, and any amount remaining after deduction must be presented as the amount of each deferred asset.

(Goodwill in Consolidated Balance Sheets)

Article 85 Goodwill presented in consolidated balance sheets is to include goodwill arising when there is a difference between the amount of investment pertaining to a Consolidated Subsidiary Company and the equivalent amount of capital in Consolidated Subsidiary Company.

(Presentation of Share Options)

Article 86 The amount of Treasury Share Options must be directly deducted from the amount of Share Options, and any balance remaining after deduction must be presented as the amount of Share Options; provided, however, that this does not preclude the presentation of Treasury Share Options as deductions.

### **Chapter III Profit and Loss Statements, etc.**

(General Rules)

Article 87 Profit and Loss Statements, etc. (meaning profit and loss statements and consolidated profit and loss statements; the same applies hereinafter in this Part) are as provided in this Chapter.

(Categories in the Profit and Loss Statement, etc.)

Article 88 (1) Profit and Loss Statements, etc. must be categorized into and presented under the entries listed below; in such cases, when subdivisions with regard to each entry are appropriate, appropriate subdivisions may be made:

- (i) net sales;
  - (ii) cost of sales;
  - (iii) selling expenses, and general and administrative expenses;
  - (iv) non-operating revenues;
  - (v) non-operating expenses;
  - (vi) special profits;
  - (vii) special losses.
- (2) Profits belonging to the special profits must be subdivided in accordance with the categories of gains from sale of fixed assets, gains from prior period adjustment, gains on negative goodwill and any other entries.
- (3) Losses belonging to special losses must be subdivided into losses from sale of fixed assets, impairment losses, losses due to disaster, losses from prior period adjustment, and any other entries.
- (4) Notwithstanding the provisions of the preceding two paragraphs, among each profit and loss set forth in the preceding two paragraphs, with regard to the amounts that are not important, the profits and losses may not be subdivided.
- (5) When a Consolidated Company is undertaking two or more different types of business, the revenues and expenses on its consolidated profit and loss statement listed in item (i) through item (iii) of paragraph (1) may be categorized according to its type of business.
- (6) Consolidated profit and loss statements in the cases listed in each of the following items may indicate the amounts after the amounts as provided in each of the following items have been offset:
- (i) cases where amortization of goodwill included in the calculations in the section on assets and where amortization of goodwill included in the calculations in the section on liabilities, in the consolidated balance sheet arise (excluding cases where the amortization is important): the amortization of goodwill included in the calculations in the section on assets and the amortization of goodwill included in the calculation in the section on liabilities in the consolidated balance sheet;
  - (ii) cases where investment profits and investment losses arise through the Equity Method: investment profits and investment losses.
- (7) Each entry of the Profit and Loss Statements, etc. must have an appropriate title given to it that indicates the revenue or expense, or profit or loss, pertaining to the entry.

(Amount of Gross Profit and Loss)

Article 89 (1) The amount obtained by subtracting the cost of sales from net sales (hereinafter referred to as the "Amount of Gross Profit and Loss") must be presented as the amount of gross profit.

(2) Notwithstanding the provisions of the preceding paragraph, when the Amount of Gross Profit and Loss is less than zero, the amount obtained by subtracting the Amount of Gross Profit and Loss from zero must be presented as the amount of gross loss.

(Amount of Operating Profit and Loss)

Article 90 (1) The amount obtained by subtracting the sum of the selling expenses, and general and administrative expenses from the Amount of Gross Profit and Loss (hereinafter referred to as the "Amount of Operating Profit and Loss") must be presented as the amount of operating profit.

(2) Notwithstanding the provisions of the preceding paragraph, when the Amount of Operating Profit and Loss is less than zero, the amount obtained by subtracting the Amount of Operating Profit and Loss from zero must be presented as the amount of operating loss.

(Amount of Ordinary Profit and Loss)

Article 91 (1) The amount obtained by subtracting the non-operating expenses from the amount obtained by adding the non-operating revenues to the Amount of Operating Profit and Loss (hereinafter referred to as the "Amount of Ordinary Profit and Loss") must be presented as the amount of ordinary profit.

(2) Notwithstanding the provisions of the preceding paragraph, when the Amount of Ordinary Profit and Loss is less than zero, the amount obtained by subtracting the Amount of Ordinary Profit and Loss from zero must be presented as the amount of ordinary loss.

(Amount of Net Profit and Loss Before Taxation)

Article 92 (1) The amount obtained by subtracting any special losses from the amount obtained by adding any special profits to the Amount of Ordinary Profit and Loss (hereinafter referred to as the "Amount of Net Profit and Loss Before Taxation") must be presented as the amount of Net Profit Before Taxation (in a consolidated profit and loss statement, the amount of net profit before income tax adjustment).

(2) Notwithstanding the provisions of the preceding paragraph, when the Amount of Net Profit and Loss Before Taxation is less than zero, the amount obtained by subtracting the Amount of Net Profit and Loss Before Taxation from zero must be presented as the amount of net loss before taxation (in a consolidated profit and loss statement, the amount of net loss before income tax adjustment).

(3) Notwithstanding the provisions of the preceding two paragraphs, with regard to the presentation of the Amount of Net Profit and Loss Before Taxation in a profit and loss statement in Provisional Financial Statements, an appropriate title may be given.

(Taxes)

Article 93 (1) The amounts in the entries listed below must be presented after the amount of net profit before taxation or the amount of net loss before taxation (in a consolidated profit and loss statement, the amount of net profit before income tax adjustment, or the amount of net loss before income tax adjustment), in entries with titles that present their contents; provided, however, that the entries listed in item (iii) through item (v) are limited to consolidated profit and loss statements:

(i) Corporation Tax, etc. for the relevant business year (in consolidated profit and loss statements, the Consolidated Fiscal Year);

(ii) the amount of corporation tax adjustment (meaning adjustments for the Corporation Tax, etc. listed in the preceding item recorded through the application of Tax Effect Accounting);

(iii) the amount obtained by adding or subtracting the amount listed in item (i) or the preceding item to or from the presented amount of net profit before income tax adjustment or the amount of net loss before income tax adjustment;

(iv) when there are amounts presented as net profit before income tax adjustment, that which belongs to any minority interest among the amounts;

(v) when there are amounts presented as net loss before income tax adjustment, that which belongs to any minority interest among the amounts.

(2) When there are amounts of taxes paid or taxes refunded due to reassessment or determination, etc. of Corporation Tax, etc., entries with titles which present their contents are to be presented after the entry listed in item (i) of the preceding paragraph; provided, however, that if those amounts are of little importance, they may be included in the amount presented in the entry listed in the same item.

(Amount of Net Profit or Loss for the Current Period)

Article 94 (1) The amount obtained by subtracting the sum of the amounts listed in item (iv) and item (v) from the sum of the amounts listed in item (i) through item (iii) (hereinafter referred to as the "Amount of Net Profit or Loss for the Current Period") must be presented as the amount of net profit for the current period:

(i) the amount of net profit and loss before taxation;

(ii) the amounts listed in paragraph (1), item (v) of the preceding Article;

- (iii) in the cases prescribed in paragraph (2) of the preceding Article (excluding the cases set forth in the proviso to the same paragraph), when there are amounts of taxes refunded, the amounts of taxes refunded;
  - (iv) the amounts in the entries listed in item (i), item (ii), and item (iv) of paragraph (1) of the preceding Article;
  - (v) in the cases prescribed in paragraph (2) of the preceding Article (excluding the cases prescribed in the proviso to the same paragraph), when there are amounts of taxes paid, the amounts of taxes paid.
- (2) Notwithstanding the provisions of the preceding paragraph, when the Amount of Net Profit or Loss for the Current Period is less than zero, the amount obtained by subtracting the Amount of Net Profit and Loss for the Current Period from zero must be presented as the amount of net loss for the current period.
- (3) Notwithstanding the provisions of the preceding two paragraphs, with regard to the presentation of the Amount of Net Profit or Loss for the Current Period in a profit and loss statement in Provisional Financial Statements, an appropriate title may be given.

(Comprehensive Income)

Article 95 The matters related to comprehensive income may be presented in Profit and Loss Statements, etc.

#### **Chapter IV Statements of Changes in Net Assets, etc.**

Article 96 (1) Statements of Changes in Net Assets, etc. (meaning statements of changes in net assets, consolidated statements of changes in net assets, and statements of changes in net assets of Membership Companies; the same applies hereinafter in this Part), are as provided by the provisions of this Article.

- (2) Statements of Changes in Net Assets, etc. must be classified into and presented under entries as provided in the following items in accordance with the categories of Statements of Changes in Net Assets, etc. listed therein:
- (i) statements of changes in net assets: the entries listed below:
    - (a) shareholders' equity;
    - (b) valuation and conversion differences, etc.;
    - (c) Share Options;
  - (ii) consolidated statements of changes in net assets: the entries listed below:
    - (a) shareholders' equity;
    - (b) valuation and conversion differences, etc.;
    - (c) Share Options;
    - (d) minority interests;

- (iii) statements of changes in net assets of Membership Companies: the entries listed below:
  - (a) members' equity;
  - (b) valuation and conversion differences, etc.
- (3) The entries listed in each of the following items must be categorized into the entries as provided therein:
  - (i) shareholders' equity in statements of changes in net assets: the entries listed below:
    - (a) stated capital;
    - (b) deposits for subscriptions to shares;
    - (c) capital surplus;
    - (d) retained earnings;
    - (e) treasury shares;
    - (f) deposits for subscriptions to Treasury Shares;
  - (ii) Shareholders' Equity in consolidated statements of changes in net assets: the entries listed below:
    - (a) stated capital;
    - (b) deposits for subscriptions to shares;
    - (c) capital surplus;
    - (d) retained earnings;
    - (e) Treasury Shares;
    - (f) deposits for subscriptions to Treasury Shares;
  - (iii) members' equity in statements of changes in net assets of Membership Companies: the entries listed below:
    - (a) stated capital;
    - (b) capital surplus;
    - (c) retained earnings.
- (4) The entries for statements of changes in net assets listed in each of the following entries must be classified into entries as provided in each item; in such cases, the entries listed in item (i) (b) and item (ii) (b) may be subdivided into entries with appropriate titles:
  - (i) capital surplus: the entries listed below:
    - (a) capital reserves;
    - (b) other capital surplus;
  - (ii) retained earnings: the entries listed below:
    - (a) retained earnings reserves;
    - (b) other retained earnings.
- (5) The entries pertaining to valuation and conversion differences, etc. may be subdivided into the entries listed below, or into other entries with appropriate titles:
  - (i) other securities valuation difference;

- (ii) deferred gains or losses on hedges;
  - (iii) land revaluation difference;
  - (iv) exchange conversion adjustment accounts.
- (6) The entries pertaining to Share Options may be categorized as deductions in entries pertaining to Treasury Share Options.
- (7) The entries pertaining to stated capital, capital surplus, retained earnings and Treasury Shares must each disclose what is listed below; in such cases, what is listed in item (ii) must disclose the change amount for the current period and the reason for the change for each reason for the change:
- (i) balance at the end of the previous period;
  - (ii) change amount for the current period;
  - (iii) balance at the end of the current period.
- (8) The entries pertaining to valuation and conversion differences, etc., Share Options and minority interests must each disclose the balance at the end of the previous period and the balance at the end of the current period, and the difference. In such cases, concerning the main change amount for the current period, clarifying these by giving the reason for the change is not precluded.
- (9) In the consolidated statements of changes in net assets, matters to be included in the calculation of the matters listed in each of the following items are as provided therein:
- (i) Treasury Shares set forth in paragraph (3), item (ii) (e): the sum of the amounts listed below:
    - (a) the book value of shares of the relevant stock company held by the stock company;
    - (b) among the book values of shares of the relevant stock company held by Consolidated Subsidiary Companies, as well as Unconsolidated Subsidiary Companies and Affiliated Companies applying the Equity Method, an amount corresponding to the equity interests of those companies held by the stock company;
  - (ii) exchange conversion adjustment accounts set forth in paragraph (5), item (iv): conversion differences arising due to a difference between the exchange rate used in conversions of assets and liabilities of Subsidiary Companies or Affiliated Companies in foreign countries, and the exchange rate used in conversions of net assets.

## **Chapter V Tables of Explanatory Notes**

(General Rules)

Article 97 Tables of Explanatory Notes (meaning tables of explanatory notes on unconsolidated financial statements and tables of explanatory notes on Consolidated Financial Statements; the same applies hereinafter in this Part)

are as provided in this Chapter.

(Categories in the Tables of Explanatory Notes)

Article 98 (1) Tables of Explanatory Notes must be categorized into and presented under the entries listed below:

- (i) explanatory notes on the going concern assumption;
  - (ii) explanatory notes on important matters pertaining to accounting policy (for tables of explanatory notes on Consolidated Financial Statements, important matters that are to become the basis for preparation of Consolidated Financial Statements);
  - (iii) explanatory notes on the Balance Sheets, etc.;
  - (iv) explanatory notes on the profit and loss statement;
  - (v) explanatory notes on statements of changes in net assets (for tables of explanatory notes on Consolidated Financial Statements, consolidated statements of changes in net assets);
  - (vi) explanatory notes on Tax Effect Accounting;
  - (vii) explanatory notes on fixed assets exercised through lease;
  - (viii) explanatory notes on Financial Instruments;
  - (ix) explanatory notes on Leased Real Property;
  - (x) explanatory notes on Equity Method profit and loss, etc.;
  - (xi) explanatory notes on transactions with Affiliated Parties;
  - (xii) explanatory notes on per share information;
  - (xiii) explanatory notes on important subsequent events;
  - (xiv) explanatory notes on Company to Which Consolidated Dividend Regulations Apply;
  - (xv) other explanatory notes.
- (2) For the Tables of Explanatory Notes listed in the following items, there is no requirement to indicate the entries as provided therein:
- (i) tables of explanatory notes on unconsolidated financial statements in stock companies (excluding Public Companies) other than Companies with Financial Auditors: the entries listed in item (i), item (iii), item (iv) and item (vi) through item (xiv) of the preceding paragraph;
  - (ii) tables of explanatory notes on unconsolidated financial statements in Public Companies other than Companies with Financial Auditors: the entries listed in item (i), item (x) and item (xiv) of the preceding paragraph;
  - (iii) tables of explanatory notes on unconsolidated financial statements in stock companies that are Companies with Financial Auditors other than those prescribed in Article 444, paragraph (3) of the Act: the entry listed in item (x) of the preceding paragraph;
  - (iv) tables of explanatory notes on Consolidated Financial Statements: the entries listed in item (iv), item (vi), item (vii), item (x), item (xi) and item



- (xiv) of the preceding paragraph;
- (v) tables of explanatory notes on unconsolidated financial statements in Membership Companies: the entries listed in item (i) and item (iii) through item (xiv) of the preceding paragraph.

(Method of Notation)

Article 99 With regard to explanatory notes given in association with specified entries in Balance Sheets, etc., Profit and Loss Statements, etc. or Statements of Changes in Net Assets, etc., that association must be made clear.

(Explanatory Notes on the Going Concern Assumption)

Article 100 Explanatory notes on the assumption of going concern, when events occur or a situation exists on the last day of the business year which causes serious doubts to arise over the assumption that the relevant stock company will continue its business operations in the future (hereinafter referred to as a "Going Concern Assumption" in this Article), and when it is found that, even where countermeasures to resolve or ameliorate the events or situation have been undertaken, there remains serious uncertainty over the Going Concern Assumption (excluding the cases where it is no longer found that the serious uncertainty will exist after the last day of the business year), comprise the following matters:

- (i) the fact that the events have occurred or that the situation exists, and the nature thereof;
- (ii) countermeasures taken to resolve or ameliorate the events or situation;
- (iii) the fact that a serious uncertainty has been found, and the reasons therefor;
- (iv) whether or not the effects of the serious uncertainty will be reflected in the Financial Statements (for tables of explanatory notes on Consolidated Financial Statements, the Consolidated Financial Statements).

(Explanatory Notes on Important Matters Pertaining to Accounting Policy)

Article 101 (1) Explanatory notes on important matters pertaining to accounting policy comprise the matters listed below (excluding those which are of little importance), being general principles and procedures of accounting practices employed in the preparation of Financial Statements, and methods of presentation and other matters forming the basis for preparation of Financial Statements (referred to as "Accounting Policy" in the following paragraph);

- (i) the valuation criteria and valuation methods for Assets;
- (ii) the depreciation methods for fixed assets;
- (iii) the recording criteria for allowances;
- (iv) the recording criteria for revenue and expenses;

(v) other important matters forming the basis for preparation of Financial Statements.

(2) If the Accounting Policy has been changed, the matters listed below (excluding those which are of little importance) are also explanatory notes on important matters pertaining to the Accounting Policy:

- (i) when the general principles and procedures of accounting practices have been changed, that fact, the reason for the change, and the nature of the effect of the change on the Financial Statements;
- (ii) when the method of presentation has changed, its nature.

(Explanatory Notes on Important Matters That Are to Become the Basis for Preparation of Consolidated Financial Statements)

Article 102 (1) Explanatory notes on important matters that are to become the basis for preparation the Consolidated Financial Statements comprise the matters listed below; in such cases, the notes must be categorized into the matters listed in each item:

- (i) the matters listed below related to the scope of the consolidation:
  - (a) the number of Consolidated Subsidiary Companies and the names of major Consolidated Subsidiary Companies;
  - (b) when there are Unconsolidated Subsidiary Companies, the matters listed below:
    - 1. the names of major Unconsolidated Subsidiary Companies;
    - 2. the reason Unconsolidated Subsidiary Companies were excluded from the scope of the consolidation;
  - (c) when a Company, etc. in which relevant stock company on its own account owns a majority of the voting rights did not become a Subsidiary Company, the name of the Company, etc. and the reason it did not become a Subsidiary Company;
  - (d) when matters related to the property and profit and loss of a Subsidiary Company excluded from the scope of the consolidation pursuant to the provisions of the proviso to Article 63, paragraph (1) are found to have an important effect on the valuation of the status of assets, profits and losses of the relevant group of enterprises, their nature;
  - (e) when there is a Special Purpose Company Subject to Disclosure (meaning the Special Purpose Company prescribed in Article 4 of the Ordinance for Enforcement of the Companies Act (Ordinance of the Ministry of Justice No. 12 of 2006) (limited to those which are presumed not to be investors in the Special Purpose Company or Subsidiary Company of Companies transferring assets to the Special Purpose Company pursuant to the provisions of the same Article)); the same applies hereinafter in this item and in Article 111)), the matters listed below and any other important

- matters:
1. a description of the Special Purpose Company Subject to Disclosure;
  2. a description of any transactions with the Special Purpose Company Subject to Disclosure, and the transacted amounts.
- (ii) the matters listed below related to the application of the Equity Method:
- (a) the number of Unconsolidated Subsidiary Companies or Affiliated Companies applying the Equity Method, and the names of major Companies, etc., among them;
  - (b) when there are Unconsolidated Subsidiary Companies or Affiliated Companies not applying the Equity Method, the matters listed below:
    1. the names of major Companies, etc. among the Unconsolidated Subsidiary Companies or Affiliated Companies;
    2. the reason that the Equity Method is not applied to the Unconsolidated Subsidiary Companies or Affiliated Companies;
  - (c) when a Company, etc. in which the relevant stock company owns between 20 percent and 50 percent of the voting rights on its own account, did not become an Affiliated Company, the name of the Company, etc., and the reason that it did not become an Affiliated Company;
  - (d) when there are matters for which special presentation is found to be necessary with regard to procedures for the application of the Equity Method, the nature thereof.
- (iii) the matters listed below related to accounting practice standards:
- (a) valuation criteria and valuation methods for important assets;
  - (b) depreciation methods for important depreciable assets;
  - (c) recording criteria for important allowances;
  - (d) other important matters forming the basis for preparation of Consolidated Financial Statements.
- (2) If important matters that form the basis for preparation of Consolidated Financial Statements have been changed, the matters listed below (excluding those which are of little importance) are also given as explanatory notes on important matters that are to become the basis for preparation of Consolidated Financial Statements:
- (i) when the scope of the consolidation or the scope of application of the Equity Method has changed, that fact and the reason for the change;
  - (ii) when the general principles and procedures of accounting practices have changed, that fact, the reasons for the change and the nature of the effect of the change on the Consolidated Financial Statements;
  - (iii) when the method of presentation has changed, its nature.

(Explanatory Notes on Balance Sheets, etc.)

Article 103 Explanatory notes on Balance Sheets, etc. comprise the matters

listed below (excluding the matters listed in item (vi) through item (ix) for tables of explanatory notes on Consolidated Financial Statements):

- (i) the matters listed below when assets are held as security:
  - (a) the holding of assets as security;
  - (b) the nature of the assets set forth in (a), and their amount;
  - (c) the amount of the obligation pertaining to the security;
- (ii) the amount of allowances in the separate asset entry for each asset when allowances pertaining to Assets are deducted directly (when collective notation is appropriate, the collective amount of allowances for each asset in the current assets, the tangible fixed assets, the intangible fixed assets, the investments and other assets, or the deferred assets);
- (iii) the amount of accumulated depreciation in the separate asset entry for each asset when accumulated depreciation pertaining to assets is deducted directly (when collective notation is appropriate, the collective amount of accumulated depreciation for each asset);
- (iv) when the amount of accumulated impairment loss and accumulated depreciation pertaining to assets are combined and presented in the entry for accumulated depreciation, the fact that the accumulated impairment loss is included in the accumulated depreciation;
- (v) when there are guarantee obligations, obligations to pay recourse debts on bills, obligations for damages pertaining to important contentious cases, and any other equivalent obligations (excluding those recorded in the section on liabilities), the nature of the obligations and their amounts;
- (vi) when each entry containing monetary claims or monetary liabilities regarding Associated Companies is not separately categorized from other monetary claims or monetary liabilities, the amounts of each entry containing monetary claims or monetary liabilities regarding the Associated Companies, or a collective amount of two or more entries;
- (vii) when there are monetary claims regarding directors, company auditors and executive officers arising through transactions between directors, company auditors and executive officers, the total amount;
- (viii) when there are monetary liabilities regarding directors, company auditors and executive officers arising through transactions between directors, company auditors and executive officers, the total amount;
- (ix) the separate amounts of each of the categories of the Parent Company's Shares of the stock company.

(Explanatory Notes on Profit and Loss Statements)

Article 104 Explanatory notes on profit and loss statements comprise the total amount of volume of trade arising from business transactions with Associated Companies, and the total amount of volume of trade arising from transactions

that are not business transactions with Associated Companies.

(Explanatory Notes on Statements of Changes in Net Assets)

Article 105 Explanatory notes on statements of changes in net assets comprise the matters listed below; in such cases, stock companies preparing tables of explanatory notes on Consolidated Financial Statements may omit matters other than those listed in item (ii):

- (i) the number of Issued Shares on the last day of the relevant business year (for Companies with Class Shares, the number of Issued Shares in each class);
- (ii) the number of Treasury Shares on the last day of the relevant business year (for Companies with Class Shares, the number of Treasury Shares in each class);
- (iii) the matters listed below, and any other matters, related to distribution of dividends of surplus occurring in the relevant business year (including, among distributions of dividends of surplus occurring after the last day of the relevant business year, those for which the record date prescribed in Article 124, paragraph (1) of the Act, for the purposes of determining persons receiving distribution of dividends of surplus came in the relevant business year):
  - (a) when the Dividend Property is monies, the total amount of the monies;
  - (b) the total amount of the book value of the relevant property when the Dividend Property is other than monies (if the market value on the day of distribution of dividends of surplus has been entered, the book value after the entering of market value);
- (iv) the number of shares of the relevant stock company (for Companies with Class Shares, the class and the number in each class) that are intended to be Share Options (excluding those for which the first day of the period set forth in Article 236, paragraph (1), item (iv) of the Act has not arrived) issued by the stock company on the last day of the relevant business year.

(Explanatory Notes on Consolidated Statements of Changes in Net Assets)

Article 106 Explanatory notes on consolidated statements of changes in net assets comprise the following matters:

- (i) the total amount of Issued Shares of the relevant stock company on the last day of the relevant Consolidated Fiscal Year (for Companies with Class Shares, the total amount of Issued Shares in each class);
- (ii) the matters listed below, and any other matters, related to distribution of dividends of surplus occurring in the relevant Consolidated Fiscal Year (including, among distributions of dividends of surplus occurring after the last day of the relevant Consolidated Fiscal Year, those for which the record

date prescribed in Article 124, paragraph (1) of the Act, for the purposes of determining persons receiving distribution of dividends of surplus came in the relevant Consolidated Fiscal Year):

- (a) when the Dividend Property is monies, the total amount of the monies;
- (b) the total amount of the book value of the relevant property when the Dividend Property is other than monies (if the market value on the day of distribution of dividends of surplus has been entered, the book value after the entering of market value);
- (iii) the number of shares of the relevant stock company (for Companies with Class Shares, the class and the number in each class) that are intended to be Share Options (excluding those for which the first day of the period set forth in Article 236, paragraph (1), item (iv) of the Act has not arrived) issued by the stock company on the last day of the relevant Consolidated Fiscal Year.

(Explanatory Notes on Tax Effect Accounting)

Article 107 Explanatory notes on Tax Effect Accounting comprise major causes of the arising of what is listed below (excluding those which are not important):

- (i) deferred tax assets (including the relevant amount when an amount is deducted from deferred tax assets through the calculations for it);
- (ii) deferred tax liabilities.

(Explanatory Notes on Fixed Assets Exercised Through a Lease)

Article 108 Explanatory notes on fixed assets exercised through a lease comprise matters related to Leased Objects (limited to fixed assets; hereinafter the same applies in this Article) when the stock company which is the lessee under a Finance Lease does not perform accounting practices in accordance with methods pertaining to ordinary sales transactions regarding the relevant Finance Lease. This does not preclude the inclusion of the matters listed below (when each Leased Object is to be noted collectively, matters related to Leased Objects which are to be noted collectively) pertaining to all or part of the Leased Object:

- (i) an amount equivalent to the cost at acquisition on the last day of the relevant business year;
- (ii) an amount equivalent to the amount of accumulated depreciation on the last day of the relevant business year;
- (iii) an amount equivalent to the future lease payment on the last day of the relevant business year;
- (iv) any important matters pertaining to the relevant Leased Object, beyond what is listed in the preceding three items.

(Explanatory Notes on Financial Instruments)

Article 109 (1) Explanatory notes on Financial Instruments comprise the following (excluding those which are of little importance):

- (i) the matters related to the status of Financial Instruments;
- (ii) the matters related to the market value, etc. of Financial Instruments.

(2) Stock companies preparing tables of explanatory notes on Consolidated Financial Statements are not required to note the matters set forth in the preceding paragraph in the tables of explanatory notes on unconsolidated financial statements.

(Explanatory Notes on Leased Real Property)

Article 110 (1) Explanatory notes on Leased Real Property comprise the following (excluding those which are of little importance):

- (i) the matters related to the status of Leased Real Property;
- (ii) the matters related to the market value of Leased Real Property.

(2) Stock companies preparing explanatory notes on Consolidated Financial Statements are not required to note the matters set forth in the preceding paragraph in the tables of explanatory notes on unconsolidated financial statements.

(Explanatory Notes on Equity Method Profit and Loss)

Article 111 (1) Explanatory notes on Equity Method profit and loss comprise what is as provided in the following items in accordance with the categories of cases listed therein; provided, however, that the matters as provided in item (i), Affiliated Companies of little importance from the viewpoint of profit and loss and retained earnings may be excluded:

- (i) cases where there are Affiliated Companies: amounts of investments in Affiliated Companies as well as the amounts of investment when the Equity Method has been applied to with respect to the investments, and the amounts of investment profits and investment losses;
- (ii) cases where there are Special Purpose Companies Subject to Disclosure: descriptions of Special Purpose Companies Subject to Disclosure, descriptions of transactions with Special Purpose Companies Subject to Disclosure and the transacted amounts, and any other important matters.

(2) Stock companies preparing Consolidated Financial Statements are not required to note the matters set forth in the preceding paragraph in the tables of explanatory notes on unconsolidated financial statements.

(Explanatory Notes on Transactions with Affiliated Parties)

Article 112 (1) Explanatory notes on transactions with Affiliated Parties comprise important matters listed below when there are transactions between a stock company and Affiliated Parties (including those which are transactions

between the stock company and a third party and which cause a conflict of interest between the stock company and the Affiliated Party); provided, however, that for stock companies other than Companies with Financial Auditors, the matters listed in item (iv) through item (vi), and in item (viii) may be omitted:

- (i) when the Affiliated Party is a Company, etc., the matters listed below:
    - (a) the name;
    - (b) the rate of voting rights held by the relevant stock company out of the total number of voting rights held by all shareholders in the Affiliated Party;
    - (c) the rate of voting rights held by the Affiliated Party out of the total number of voting rights held by all shareholders in the stock company;
  - (ii) when the Affiliated Party is an individual, the matters listed below:
    - (a) the name;
    - (b) the rate of voting rights held by the Affiliated Party out of the total number of voting rights held by all shareholders in the stock company.
  - (iii) the relationship between the stock company and the Affiliated Party;
  - (iv) the nature of any transactions;
  - (v) the transacted amounts for each class of transaction;
  - (vi) the transaction terms and conditions and the transaction terms and conditions decision policy;
  - (vii) the balance on the last day of the relevant business year for each major entry pertaining to obligations or claims arising through any transactions;
  - (viii) when there have been changes to the terms and conditions, that fact, the nature of the change and the nature of the effect of the change on the Financial Statements.
- (2) With regard to transactions listed below among transactions with an Affiliated Party, the notes prescribed in the preceding paragraph are not required:
- (i) transactions based on general competitive bidding, and transactions for which it is clear that, from the viewpoint of the nature of the receipt of deposit interest and dividends and other transactions, the transaction terms are the same as those of general transactions;
  - (ii) payment of Remunerations to directors, accounting advisors, company auditors or executive officers (hereinafter referred to as "Officers" in this Article);
  - (iii) beyond the transactions listed in the preceding two items, the relevant transactions when it is clear that rulings have been made to the effect that the terms and conditions of the transactions are the same as those used in general transactions, taking into account the market price and any other fair values pertaining to the transactions.



- (3) Explanatory notes on transactions with Affiliated Parties must be presented for each Affiliated Party, in accordance with the categories listed in each item of paragraph (1).
- (4) The term "Affiliated Party" prescribed in the preceding three paragraphs means the persons listed below:
- (i) the Parent Company of the relevant stock company;
  - (ii) the Subsidiary Companies of the stock company;
  - (iii) the Subsidiary Company of the Parent Company of the stock company (including anything which corresponds to a Subsidiary Company of the Parent Company when the Parent Company is not a Company);
  - (iv) any Other Associated Companies of the relevant stock company (meaning the relevant other Company when the stock company is an Affiliated Company of other Company; the same applies hereinafter in this item) and the Parent Company (when the relevant Other Associated Company is not a stock company, anything which corresponds to a Parent Company) and Subsidiary Companies (when the relevant Other Associated Company is not a Company, anything which corresponds to a Subsidiary Company) of the relevant Other Associated Company;
  - (v) Affiliated Companies of the stock company, and the Subsidiary Companies of the Affiliated Companies (when the Affiliated Companies are not Companies, anything which corresponds to a Subsidiary Company);
  - (vi) the stock company's Major Shareholders (meaning a shareholder who holds 10 percent or more of the total number of voting rights (excluding the voting rights pertaining to shares listed below) held by all the shareholders in the stock company, in their or another person's name) and their Close Relatives (meaning relatives within the second degree of kinship); the same applies hereinafter in this Article):
    - (a) shares owned as Trust Assets by a person operating a Trust Business (meaning a Trust Business as prescribed in Article 2, paragraph (1) of the Trust Business Act (Act No. 154 of 2004));
    - (b) shares acquired through underwriting or secondary distribution during business operations performed by a person operating a Securities-Related Business (meaning the Securities-Related Business prescribed in Article 28, paragraph (8) of the Financial Instruments and Exchange Act);
    - (c) shares owned by a person operating a business prescribed in Article 156-24, paragraph (1) of the Financial Instruments and Exchange Act as part of those business operations;
  - (vii) Officers of the stock company and their Close Relatives;
  - (viii) Officers of the Parent Company of the stock company or equivalent persons, and their Close Relatives;
  - (ix) when a person listed in the preceding three items on the person's own

account owns a majority of the voting rights of another Company, etc., the relevant Company, etc. and Subsidiary Companies of the Company, etc. (when the Company, etc. is not a Company, anything which corresponds to a Subsidiary Company);

(x) corporate pension for employees (limited to cases of important transactions with the stock company (excluding contributions of premiums)).

(Explanatory Notes on Per Share Information)

Article 113 Explanatory notes on per share information comprise the amounts per share listed below:

(i) the amount of net assets;

(ii) the amount of net profit for the current period or amount of net loss for the current period.

(Explanatory Notes on Important Subsequent Events)

Article 114 (1) Explanatory notes on important subsequent events in tables of explanatory notes on unconsolidated financial statements comprise the relevant events if events arise after the last day of the business year of the relevant stock company which exercise an important effect on property or profit and loss on or after the following business year of the stock company.

(2) Explanatory notes on important subsequent events in tables of explanatory notes on Consolidated Financial Statements comprise the relevant events if events arise after the last day of the business year of the relevant stock company which exercise an important effect on property or profit and loss on or after the following business year of Consolidated Companies and Unconsolidated Subsidiary Companies to which the Equity Method is applied, and Affiliated Companies; provided, however, that with regard to Subsidiary Companies and Affiliated Companies taking a different day to the last day of the business year of the relevant stock company as the last day of their business year, this applies to events arising after the last day of the business year of the Subsidiary Company or Affiliated Company.

(Explanatory Notes on Company to Which Consolidated Dividend Regulations Apply)

Article 115 Explanatory notes on Company to Which Consolidated Dividend Regulations Apply comprise the intention to become a Company to Which Consolidated Dividend Regulations Apply after the time when the last day of the relevant business year becomes the last day of the Most Recent Business Year.

(Other Explanatory Notes)

Article 116 Other explanatory notes, beyond what is listed in Article 100 through the preceding Article, comprise any necessary matters for the accurate judgment of the status of assets or profit and loss of a Company (for tables of explanatory notes on Consolidated Financial Statements, a group of enterprises) through its Balance Sheets, etc., Profit and Loss Statements, etc., and Statements of Changes in Net Assets, etc.

## **Chapter VI Annexed Detailed Statements**

Article 117 Annexed detailed statements pertaining to stock companies' Financial Statements for each business year, beyond the matters listed below (for stock companies that are not Public Companies, the matters listed in item (i) through item (iii)), comprise and indicate any important matters supplementing the contents of the balance sheet, profit and loss statement, statements of changes in net assets and tables of explanatory notes on unconsolidated financial statements of a stock company:

- (i) specifications of tangible fixed assets and intangible fixed assets;
- (ii) specifications of allowances and Provisions;
- (iii) specifications of selling expenses, and general and administrative expenses;
- (iv) when there are matters omitted pursuant to the provisions of the proviso to Article 112, paragraph (1), those matters.

## **Chapter VII Miscellaneous Provisions**

(Special Provisions with Regard to Accounting Documents of a Company Undertaking Appendix-listed Business)

Article 118 (1) With regard to the terminology, forms and methods of preparation of Accounting Documents that a Company (including groups of enterprises; the same applies hereinafter in this Article) engaging in any one of the businesses listed in the appendix (hereinafter referred to as each "Appendix-listed Businesses" in this Article) to the Regulations on Terminology, Forms and Methods of Preparation of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963) submits to the governing agencies of the Appendix-listed Business, when there are specific provisions of applicable laws and regulations, or if the governing agencies for the Appendix-listed Business have enacted rules for Financial Statements in the same manner as this Ministerial Ordinance (hereinafter referred to as the "Rules" in this Article), the terminology, forms and methods of preparation of the Accounting Documents that the Company undertaking the Appendix-listed Businesses is to prepare are as provided by those laws and regulations or the Rules,

notwithstanding the provisions of Chapter I through the preceding Chapter; provided, however, that this does not apply to matters that are not as provided in those laws and regulations or the Rules.

- (2) Notwithstanding the provisions of the preceding paragraph, with regard to terminology, forms and methods of preparation of Accounting Documents that are to be prepared by a Company undertaking two or more categories of Appendix-listed Business (limited to one to which the provisions of the laws and regulations or the Rules under the same paragraph apply, hereinafter the same applies in this Article), the applicable laws and regulations or the Rules applied in relation to business operations from among those categories of Appendix-listed Business that comprises the major part of the Company's business operations (hereinafter referred to as the "Main Business" in this Article) apply; provided, however, that with regard to matters related to Separate Business that is not the Main Business, the applicable laws and regulations or the Rules applied in relation to the Appendix-listed Business that is not the Main Business may be applied.
- (3) When the Main Business of a Company undertaking Appendix-listed Business and any other business operations is not Appendix-listed Business, with regard to terminology, forms and methods of preparation of Accounting Documents that are to be prepared by the Company, the provisions of paragraph (1) need not be applied; provided, however, that with regard to matters related to the Appendix-listed Business, the applicable laws and regulations or the Rules applied in relation to the Separate Business may be applied.
- (4) With regard to Accounting Documents that are to be prepared by a Company to which the provisions of the preceding three paragraphs are being applied (limited to those to which applicable laws and regulations or the Rules applied in relation to Appendix-listed Business with regard to all or part of the terminology, forms and methods of preparation of Accounting Documents that are to be prepared by the Company are applied; hereinafter referred to as a "Company Undertaking Appendix-listed Business"), when there are matters that are not required to be presented pursuant to the provisions of this Ministerial Ordinance, then notwithstanding the provisions of applicable laws and regulations or the Rules applied related to the matters, the indication of those matters may be omitted or those matters may be presented through an appropriate method.

(Reserves, etc., Pursuant to the Provisions of Laws and Regulations Other than the Companies Act)

Article 119 (1) For Reserves or allowances that are to be recorded under the title of Reserves or allowances pursuant to the provisions of laws and regulations other than the Act, those for which the recording in the section on assets or the

section on liabilities is inappropriate (hereinafter referred to as "Reserves, etc." in this paragraph) must be presented in a separate category after the Fixed Liabilities. In such cases, the Reserves, etc. must be presented in entries with titles which present their intended purpose.

- (2) When there are Reserves or allowances that are to be recorded under the titles of Reserves or allowances pursuant to the provisions of laws and regulations other than the Act, the matters listed below (when the categorization set forth in item (ii) would be difficult, the matters listed in item (i)) must be presented in the Tables of Explanatory Notes:
- (i) the provisions of the laws and regulations;
  - (ii) classification of the Reserves or allowances into those which it is found will be exercised within one year and those which will not.

(Special Provisions on Consolidated Financial Statements Prepared to the Standards of the United States of America)

Article 120 (1) Consolidated Financial Statements that are to be prepared by a stock company that it has been determined may be governed by the terminology, forms and methods of preparation requested in relation to the issuance of U.S. Depository Receipts with regard to terminology, forms and methods of preparation of Consolidated Financial Statements, pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976), or of paragraph (3) of the Cabinet Office Ordinance Partially Amending the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Cabinet Office Ordinance No. 11 of 2002), may be governed by the terminology, forms and methods of preparation requested in relation to the issuance of U.S. Depository Receipts. In such cases, any other matters excluding those corresponding to matters that are to be presented in Consolidated Financial Statements pursuant to the provisions of Chapter I through Chapter V may be omitted.

- (2) The terminology, form and methods of preparation governing the relevant Consolidated Financial Statements must be noted to Consolidated Financial Statements pursuant to the provisions of the preceding paragraph.

## **Part IV Audits of Accounting Documents**

### **Chapter I General Rules**

Article 121 (1) Audits (limited to that pertaining to Accounting Documents (excluding the Balance Sheet on the day of formation; the same applies hereinafter in this Part); the same applies hereinafter in this Part) pursuant to Article 436, paragraph (1) and paragraph (2), Article 441, paragraph (2), and

Article 444, paragraph (4) of the Act, are as provided in this Part.

- (2) The audit prescribed in the preceding paragraph is to, beyond the audit prescribed in Article 2, paragraph (1) of the Certified Public Accountants Act (Act No. 103 of 1948), confirm that the information presented in the Accounting Documents and the information that is to be presented in the Accounting Documents is consistent, and include procedures for the communication to interested parties of its results.

## **Chapter II Audits in Stock Companies Other Than Companies with Financial Auditors**

(The Contents of Audit Reports by Company Auditors)

Article 122 (1) Company auditors (excluding company auditors in Companies with Financial Auditors; hereinafter the same applies in this Chapter) must, when receiving Accounting Documents, prepare an audit report containing the matters listed below (for audit reports by company auditors in a Company with Board of Company Auditors, the matters listed in item (i) through item (iv)):

- (i) the method of the audit by company auditor and the contents thereof;
- (ii) an opinion on whether all of the important points regarding the status of the property and profits and losses of the relevant stock company are correctly presented in the Accounting Documents;
- (iii) when necessary investigations for the purposes of the audit could not be carried out, that fact and the reasons therefor;
- (iv) postscript Information;
- (v) the day the audit report was prepared.

(2) The "postscript information" prescribed in item (iv) of the preceding paragraph comprises, among the matters listed below or any other matters, those matters for which there is a necessity to append explanations related to the judgments of the company auditors, or matters that require emphasis among the contents of the Accounting Documents:

- (i) changes to accounting policy due to justifiable reasons;
- (ii) important contingent events;
- (iii) important subsequent events.

(Contents of Audit Reports by Boards of Company Auditors)

Article 123 (1) Boards of company auditors (excluding boards of company auditors in Companies with Financial Auditors; the same applies hereinafter in this Chapter) must prepare audit reports by the board of company auditors (hereinafter referred to as "Board of Company Auditors Audit Reports" in this Article) based on audit reports prepared by company auditors (hereinafter referred to as "Company Auditor Audit Reports" in this Article) pursuant to the

provisions of paragraph (1) of the preceding Article.

- (2) Board of Company Auditors Audit Reports must contain the matters listed below; in such cases, company auditors may, when there is a difference between the contents of the Board of Company Auditors Audit Reports pertaining to those matters and the contents of any Company Auditor Audit Reports by company auditors pertaining to those matters, attach the contents of the Company Auditor Audit Reports by each company auditor pertaining to those matters as supplementary notes to the Board of Company Auditors Audit Reports:
- (i) the matters listed in paragraph (1), item (ii) through item (iv) of the preceding Article;
  - (ii) the method of audits by company auditors and board of company auditors and the contents thereof;
  - (iii) the day the Board of Company Auditors Audit Report was prepared.
- (3) When a board of company auditors is preparing a Board of Company Auditors Audit Report, the board of company auditors must deliberate on the contents of the Board of Company Auditors Audit Report (excluding supplementary notes pursuant to the provisions of the second sentence of the preceding paragraph) on one or more occasions, through the method of holding a meeting or through a method whereby opinions can be exchanged in real time through the transmission of information.

(Notification Deadlines for Audit Reports)

Article 124 (1) Specified Company Auditors must, in accordance with the categories of audit reports listed in the following items (limited to audit reports of boards of company auditors prepared pursuant to the provisions of paragraph (1) of the preceding Article for Companies with Board of Company Auditors; the same applies hereinafter in this Article), give notice of the contents of the relevant audit reports to the Specified Directors by the day as provided therein:

- (i) audit reports on Financial Statements for each business year and the annexed detailed statements thereof: whichever of the days listed below is the latest:
  - (a) the day on which four weeks have passed from the day on which all of the relevant Financial Statements were received;
  - (b) the day on which one week has passed from the day on which the annexed detailed statements to the relevant Financial Statements were received;
  - (c) when there is a day determined through agreement between the Specified Directors and Specified Company Auditors, that day;
- (ii) audit reports on Provisional Financial Statements: whichever of the days listed below is the latest:

- (a) the day on which four weeks have passed from the day on which all of the relevant Provisional Financial Statements were received;
  - (b) when there is a day determined through agreement between the Specified Directors and Specified Company Auditors, that day.
- (2) Accounting Documents are deemed to have been audited by company auditors on the day on which the notice of the contents of the audit report pursuant to the provisions of the preceding paragraph has been received by the Specified Directors.
- (3) Notwithstanding the provisions of the preceding paragraph, if the Specified Company Auditors have not given notice of the contents of an audit report pursuant to the provisions of paragraph (1) by the day on which notice was to be made pursuant to the provisions of the same paragraph, the day on which notice was to be made is deemed to be that on which the Accounting Documents were audited by the company auditors.
- (4) The term "Specified Directors" prescribed in paragraph (1) and paragraph (2) means the persons as provided in the following items (when the relevant stock company is a Company with Accounting Advisors, the persons as provided respectively in the following items and accounting advisors) in accordance with the categories of cases listed therein:
  - (i) cases where persons who are to receive notice pursuant to the provisions of paragraph (1) have been determined: the persons determined as the persons who are to receive the notice;
  - (ii) cases other than that listed in the preceding item: directors who performed duties related to the preparation of the Accounting Documents that were to be audited.
- (5) The "Specified Company Auditors" prescribed in paragraph (1) and paragraph (3) are the persons as provided in the following items in accordance with the categories of stock company listed therein:
  - (i) Company with Company Auditors (including stock companies which have provisions in their articles of incorporation restricting the scope of audits by company auditors to matters related to accounting, and excluding Companies with Board of Company Auditors and Companies with Financial Auditors): the persons as provided in the following items (a) through (c) in accordance with the categories of cases listed therein:
    - (a) cases where there are two or more company auditors and when a decision has been reached on which company auditor is to give notice of the contents of an audit report pursuant to the provisions of paragraph (1): the company auditor decided as the company auditor who is to give the notice;
    - (b) cases where there are two or more company auditors and when no decision has been reached on which company auditor is to give notice of the contents of an audit report pursuant to the provisions of paragraph (1): all



- of the company auditors;
- (c) cases other than those listed in (a) or (b): a company auditor;
- (ii) Company with Board of Company Auditors (excluding Companies with Financial Auditors): the persons as provided in the following items (a) or (b) in accordance with the categories of cases listed therein:
  - (a) cases where the board of company auditors has decided which company auditor is to give notice of the contents of an audit report pursuant to the provisions of paragraph (1): the company auditor decided as the company auditor who is to give the notice;
  - (b) cases other than those listed in (a): all of the company auditors.

### **Chapter III Audits in Companies with Financial Auditors**

#### **(Provision of Accounting Documents)**

Article 125 Directors who have prepared Accounting Documents (for a Company with Committees, executive officers) must, when intending to provide Accounting Documents to financial auditors, also provide Accounting Documents to company auditors (for a Company with Committees, the audit committee members designated by the audit committee).

#### **(Contents of Financial Audit Reports)**

Article 126 (1) Financial auditors must, when receiving Accounting Documents, prepare a financial audit report containing the matters listed below:

- (i) the method of the audit by financial auditors and the contents thereof;
- (ii) when the financial auditor has an opinion on whether all of the important points regarding the status of the property and profits and losses of the relevant stock company are correctly presented in the Accounting Documents, that opinion (when the opinion is one of the opinions listed respectively in the following (a) through (c), the matters as provided therein):
  - (a) unqualified opinion: the fact that the Accounting Documents that were the subject of the audit were in accordance with corporate accounting practices that are generally accepted as fair and appropriate, and all of the important points regarding the status of the property and profits and losses for the period pertaining to the Accounting Documents were correctly presented;
  - (b) qualified opinion with exemptions appended: the fact that the Accounting Documents that were the subject of the audit were, with the exception of the exempted matters, in accordance with corporate accounting practices that are generally accepted as fair and appropriate, and all of the important points regarding the status of the property and profits and losses for the period pertaining to the Accounting Documents were

- correctly presented, and the exempted matters;
  - (c) adverse opinion: the fact that the Accounting Documents that were the subject of the audit were incorrect, and the reason therefor;
  - (iii) when there are none of the opinions set forth in the preceding item, that fact and the reasons therefor;
  - (iv) postscript information;
  - (v) the day on which the financial audit report was prepared.
- (2) The "postscript information" prescribed in item (iv) of the preceding paragraph comprises, among the matters listed below or any other matters, those matters for which there is a necessity to append explanations related to the judgments of the financial auditors, or matters that require emphasis among the contents of the Accounting Documents:
- (i) the matters pertaining to explanatory notes on the going concern assumption;
  - (ii) changes to accounting policy due to justifiable reasons;
  - (iii) important contingent events;
  - (iv) important subsequent events.
- (3) When the Matters in a Past Business Year (meaning matters that were to be presented in Financial Statements for a business year prior to the relevant business year; the same applies hereinafter in this paragraph) at the time of auditing the Financial Statements for the relevant business year (including supplementary schedules thereof; hereinafter the same applies in this paragraph) are revised and differ from what was approved or reported at the annual shareholders meeting for the business year prior to the relevant business year due to a change to accounting policy or other justifiable reasons, and when the Financial Statements for the relevant business year are prepared based on the Matters in Past Business Year after the revision, the financial auditors must also audit the matters pertaining to the revision. The same applies to Provisional Financial Statements and Consolidated Financial Statements.

(Contents of Audit Reports by Company Auditors in a Company with Financial Auditors)

Article 127 Company auditors in Companies with Financial Auditors must, when receiving Accounting Documents and financial audit reports (in the cases prescribed in Article 130, paragraph (3), Accounting Documents), prepare an audit report containing the matters listed below (for audit reports by company auditors in a Company with Board of Company Auditors, the matters listed in item (i) through item (v)):

- (i) the method of the audit by company auditors and the contents thereof;
- (ii) when it has been found that the methods or results of an audit by a

- financial auditor was inappropriate, that fact and the reasons therefor (in the cases prescribed in Article 130, paragraph (3), the fact that the financial audit report has not been received);
- (iii) important subsequent events (excluding those which are in the contents of the financial audit report);
  - (iv) the matters related to systems for ensuring that the performance of the duties of financial auditors are being carried out correctly;
  - (v) when necessary investigations for the purposes of the audit could not be carried out, that fact and the reasons therefor;
  - (vi) the day on which the audit report was prepared.

(Contents of Audit Reports by a Board of Company Auditors in a Company with Financial Auditors)

Article 128 (1) Boards of company auditors in Companies with Financial Auditors must prepare audit reports by boards of company auditors (hereinafter referred to as "Board of Company Auditors Audit Reports" in this Article) based on audit reports prepared by company auditors (hereinafter referred to as "Company Auditor Audit Reports" in this Article) pursuant to the provisions of the preceding Article.

(2) Board of Company Auditors Audit Reports must contain the matters listed below; in such cases, company auditors may, when there is a difference between the contents of the Board of Company Auditors Audit Report pertaining to those matters and the contents of Company Auditor Audit Reports by company auditors pertaining to those matters, attach the contents of the Company Auditor Audit Reports by each company auditor pertaining to those matters as supplementary notes to the Board of Company Auditors Audit Reports:

- (i) the method of audits by company auditors and board of company auditors and the contents thereof;
- (ii) the matters listed in item (ii) through item (v) of the preceding Article;
- (iii) the day on which the Board of Company Auditors Audit Report was prepared.

(3) When a board of company auditors in a Company with Financial Auditors is preparing a Board of Company Auditors Audit Report, the board of company auditors must deliberate on the contents of the Board of Company Auditors Audit Report (excluding supplementary notes pursuant to the provisions of the second sentence of the preceding paragraph) on one or more occasions, through the method of holding a meeting or through a method whereby opinions can be exchanged in real time through the transmission of information.

(Contents of Audit Reports by Audit Committees)

Article 129 (1) Audit committees must, when receiving Accounting Documents and financial audit reports (in the cases prescribed in paragraph (3) of the following Article, Accounting Documents), prepare an audit report containing the matters listed below; in such cases, an audit committee member may, when the contents of the audit report pertaining to those matters differ from the opinion of the audit committee member, attach the opinion as a supplementary note to the audit report:

- (i) the method of the audit by audit committee and the contents thereof;
- (ii) the matters listed in Article 127, item (ii) through item (v);
- (iii) the day on which the audit report was prepared.

(2) The contents of the audit report prescribed in the preceding paragraph (excluding supplementary notes pursuant to the second sentence of the same paragraph) must be determined by a resolution of the audit committee.

(Notification Deadlines for Financial Audit Reports)

Article 130 (1) Financial auditors must give notice of the contents of the relevant financial audit reports to the Specified Company Auditors and the Specified Directors by the day as provided in the following items in accordance with the categories of financial audit reports listed therein:

- (i) financial audit reports on Financial Statements for each business year and the annexed detailed statements thereof: whichever of the days listed below is the latest:
  - (a) the day on which four weeks have passed from the day on which all of the relevant Financial Statements were received;
  - (b) the day on which one week has passed from the day on which the annexed detailed statements to the relevant Financial Statements were received;
  - (c) when there is a day determined through agreement between the Specified Directors, Specified Company Auditors, and financial auditors, that day;
- (ii) financial audit reports on Provisional Financial Statements: whichever of the days listed below is the latest:
  - (a) the day on which four weeks have passed from the day on which all of the relevant Provisional Financial Statements were received;
  - (b) when there is a day determined through agreement between the Specified Directors, Specified Company Auditors, and financial auditors, that day;
- (iii) financial audit reports on Consolidated Financial Statements: the day on which four weeks have passed from the day on which all of the relevant Consolidated Financial Statements were received (when there is a day determined through agreement between the Specified Directors, Specified Company Auditors, and financial auditors, that day).

(2) Accounting Documents are deemed to have been audited by financial auditors on the day on which the notice of the contents of the financial audit report

pursuant to the provisions of the preceding paragraph has been received by the Specified Company Auditors and Specified Directors.

- (3) Notwithstanding the provisions of the preceding paragraph, if the financial auditor has not given notice of the contents of a financial audit report pursuant to the provisions of paragraph (1) by the day on which notice was to be made pursuant to the provisions of the same paragraph, the day on which notice was to be made is deemed to be that on which the Accounting Documents were audited by the financial auditors.
- (4) The term "Specified Directors" prescribed in paragraph (1) and paragraph (2) means the persons as provided in the following items (when the relevant stock company is a Company with Accounting Advisors, the persons as provided respectively therein and accounting advisors) in accordance with the categories of cases listed therein (the same applies in Article 132):
  - (i) cases where persons who are to receive notice pursuant to the provisions of paragraph (1) have been determined: the persons determined as the persons who are to receive the notice;
  - (ii) cases other than that listed in the preceding item: directors and executive officers who performed duties related to the preparation of Accounting Documents that were to be audited.
- (5) The "Specified Company Auditors" prescribed in paragraph (1) and paragraph (2) are the persons as provided in the following items in accordance with the category of stock company listed therein (the same applies hereinafter in this Chapter):
  - (i) Company with Company Auditors (excluding Companies with Board of Company Auditors): the persons as provided in the following items (a) through (c) in accordance with the categories of cases listed therein:
    - (a) cases where there are two or more company auditors and when it has been decided which company auditor is to receive notice of the contents of a financial audit report pursuant to the provisions of paragraph (1): the company auditor determined as the company auditor who is to receive notice;
    - (b) cases where there are two or more company auditors and when it has not been decided which company auditor is to receive notice of the contents of a financial audit report pursuant to the provisions of paragraph (1): all of the company auditors;
    - (c) cases other than those listed in (a) or (b): a company auditor.
  - (ii) Company with Board of Company Auditors: the persons as provided in the following items (a) or (b) in accordance with the categories of cases listed therein:
    - (a) cases where the board of company auditors has decided which company auditor is to receive notice of the contents of a financial audit report

- pursuant to the provisions of paragraph (1): the company auditor decided as the company auditor who is to receive notice;
- (b) cases other than that listed in (a): all of the company auditors;
- (iii) Company with Committees: the persons as provided in the following items
  - (a) or (b) in accordance with the categories of cases listed therein:
    - (a) cases where the audit committee has decided an audit committee member who is to receive notice of the contents of a financial audit report pursuant to the provisions of paragraph (1): the audit committee member decided as the audit committee member who is to receive notice;
    - (b) cases other than that listed in (a): any person from among the audit committee members.

(Matters Related to the Performance of Duties of Financial Auditors)

Article 131 Financial auditors must give notice of the matters listed below with regard to the financial auditors, when giving notice of the contents of a financial audit report to the Specified Company Auditors pursuant to the provisions of paragraph (1) of the preceding Article (if the determinations pertaining to those matters have not been made, the fact that those matters have not been determined); provided, however, that this does not apply when all of the company auditors (in a Company with Committees, the audit committee) are already aware of those matters:

- (i) the matters related to independence and any other matters related to the observance of laws and regulations and rules concerning audits;
- (ii) the matters related to the policy on the undertaking and continuance of contracts for audits, business equivalent to audits and business related thereto;
- (iii) any other matters related to systems for ensuring that the performance of the duties of financial auditors is being carried out correctly.

(Notification Deadlines for Audit Reports by Company Auditors in Companies with Financial Auditors)

Article 132 (1) Specified Company Auditors in Companies with Financial Auditors must give notice of the contents of audit reports (limited to audit reports of boards of company auditors prepared pursuant to the provisions of Article 128, paragraph (1), for Companies with Board of Company Auditors, the same applies hereinafter in this Article) to the Specified Directors and the financial auditors by the day as provided in the following items in accordance with the categories of audit reports listed therein:

- (i) audit reports on Accounting Documents that are not Consolidated Financial Statements: whichever of the days listed below is the latest:
  - (a) the day on which one week has passed from the day on which the

- financial audit report was received (in the cases prescribed in Article 130, paragraph (3), the day which was deemed to be that on which the audit was carried out pursuant to the provisions of the same paragraph; the same applies in the following item);
- (b) when there is a day determined through agreement between the Specified Directors and Specified Company Auditors, that day; or
  - (ii) audit reports on Consolidated Financial Statements: the day on which one week has passed from the day on which the financial audit report was received (if there is a day determined through agreement between the Specified Directors and Specified Company Auditors, that day).
- (2) Accounting Documents are deemed to have been audited by company auditors (for Companies with Committees, the audit committee) on the day on which the notice of the contents of the audit report pursuant to the provisions of the preceding paragraph has been received by the Specified Directors and financial auditors.
- (3) Notwithstanding the provisions of the preceding paragraph, if the Specified Company Auditors have not given notice of the contents of an audit report pursuant to the provisions of paragraph (1) by the day on which notice was to be made pursuant to the provisions of the same paragraph, the day on which notice was to be made is deemed to be that on which the Accounting Documents were audited by the company auditors (for Companies with Committees, the audit committee).

**Part V Provision to Shareholders of Financial Statements, and Requirements  
Related to the Special Provisions on Approval of Financial Statements  
Chapter I Provision to Shareholders of Financial Statements, etc.**

(Provision of Financial Statements)

Article 133 (1) The provision of Financial Statements Being Provided (meaning as provided in the following items in accordance with the category of stock companies listed therein; the same applies hereinafter in this Article) to shareholders pursuant to the provisions of Article 437 of the Act is as provided in this Article:

- (i) stock companies (excluding Companies with Company Auditors (including stock companies which have provisions in their articles of incorporation restricting the scope of audits by company auditors to matters related to accounting, the same applies in the following item) and Companies with Financial Auditors): Financial Statements;
- (ii) Companies with Company Auditors other than Companies with Financial Auditors: that which is listed below:
  - (a) Financial Statements;

- (b) when there is an audit report by company auditors (in Companies with Board of Company Auditors, the board of company auditors) pertaining to the Financial Statements, the audit report (when the contents (excluding the day of preparation of the audit report) of the audit reports by each company auditor in a stock company (excluding Companies with Board of Company Auditors) which has two or more company auditors are the same, one or two or more audit reports by company auditors);
- (c) when it has been deemed that an audit has been carried out pursuant to the provisions of Article 124, paragraph (3), a document or Electronic or Magnetic Record stating or recording that fact;
- (iii) Companies with Financial Auditors: that which is listed below:
  - (a) Financial Statements;
  - (b) when there is a financial audit report pertaining to the Financial Statements, the financial audit report;
  - (c) when there are no financial auditors (excluding the cases where there is a person who is to temporarily perform the duties of a financial auditor as set forth in Article 346, paragraph (4) of the Act), a document or Electronic or Magnetic Record stating or recording that fact;
  - (d) when it has been deemed that an audit has been carried out pursuant to the provisions of Article 130, paragraph (3), a document or Electronic or Magnetic Record stating or recording that fact;
  - (e) when there is an audit report by company auditors (in Companies with Board of Company Auditors, the board of company auditors, and in Companies with Committees, the audit committee) pertaining to the Financial Statements, the audit report (when the contents of the audit reports (excluding the day of preparation of the audit report) by each company auditor in a stock company (excluding Companies with Board of Company Auditors) which has two or more company auditors are the same, one or two or more audit reports by company auditors);
  - (f) when it has been deemed that an audit has been carried out pursuant to the provisions of paragraph (3) of the preceding Article, a document or Electronic or Magnetic Record stating or recording that fact.
- (2) When Notices of Calling of an annual shareholders' meeting (meaning the notice pursuant to the provisions of Article 299, paragraph (2) or paragraph (3) of the Act; the same applies hereinafter) are dispatched by a method listed respectively in the following items, the Financial Statements Being Provided must be provided by the method as provided therein:
  - (i) provision of documents: the method as provided in the following item (a) or
    - (b) in accordance with the categories of cases listed therein:
      - (a) cases where the Financial Statements Being Provided are prepared in the form of a document: the provision of documents stating the matters stated



- in the document;
- (b) cases where the Financial Statements Being Provided are prepared in the form of Electronic or Magnetic Records: the provision of documents stating the matters recorded in the Electronic or Magnetic Records.
- (ii) provision by Electronic or Magnetic Means: a method as provided in the following item (a) or (b) in accordance with the categories of cases listed therein:
- (a) cases where the Financial Statements Being Provided are prepared in the form of a document: provision by Electronic or Magnetic Means of the matters stated in the document;
  - (b) cases where the Financial Statements Being Provided are prepared in the form of Electronic or Magnetic Records: provision by Electronic or Magnetic Means of the matters recorded in the Electronic or Magnetic Records.
- (3) Matters that were to be presented in the balance sheet, profit and loss statement or statements of changes in net assets for a business year prior to the relevant business year (hereinafter referred to as "Matters in Past Business Year" in this paragraph) may be jointly provided with the Financial Statements Being Provided. In such cases, when the Matters in Past Business Year at the time of their provision with the Financial Statements Being Provided differ from what was approved or reported at the annual shareholders' meeting for a business year prior to the business year due to a change of accounting policy or other justifiable reasons, the provision of the Matters in Past Business Year after revision is not precluded.
- (4) With regard to the application of the provisions of paragraph (2) when measures are being taken to make information pertaining to matters that are to be presented in the Financial Statements Being Provided (limited to those pertaining to the tables of explanatory notes on unconsolidated financial statements) available to the shareholders continually by an Electronic or Magnetic Means (limited those, among the methods listed in Article 222, paragraph (1), item (i) (b) of the Ordinance for Enforcement of the Companies Act, that work by utilizing an Automatic Public Transmission Server (meaning a server with a function that automatically transmits to the public information recorded on a part of its recording media which is for use in automatic public transmission, or information that has been input to the server, and which transmits such information through its connection to a telecommunications line for public use; the same applies hereinafter in this Chapter) connected to the Internet) from the time of release of the Notices of Calling of an annual shareholders' meeting to the day on which three months have passed from the day of that annual shareholders' meeting, the matters are deemed to have been provided to the shareholders by the methods as provided in the items of the

same paragraph in accordance with the categories of cases listed therein; provided, however, that this only applies when there are provisions in the articles of incorporation on the taking of the measures set forth in this paragraph.

- (5) In the cases set forth in the preceding paragraph, the directors must notify the shareholders of the letters and symbols or any other code or combination thereof, that are used to identify, on the Internet, from among automatic public transmission servers that are utilized for measures as set forth in that paragraph the part of the server that is being used for the purpose of undertaking the relevant measures, and that allow the person to whom information is being provided to inspect the contents of the information and record the information in a computer file after directly inputting the letters, symbols, or codes into the computer the person is using.
- (6) When part of the matters presented in the Financial Statements are deemed to have been provided to shareholders through the methods as provided in the respective items of paragraph (2) pursuant to the provisions of paragraph (4), and when the company auditors, financial auditors or audit committee have requested of the directors that they notify the shareholders that the Financial Statements actually provided to the shareholders are one part of the Financial Statements audited at the preparation of an audit report or financial audit report, the directors must notify the shareholders of that fact.
- (7) The directors may, if a situation, with respect to matters that are to be the contents of the Financial Statements, has arisen that is to be corrected in the interval from the day of release of the Notice of Calling of an annual shareholders' meeting to the day prior to that annual shareholders' meeting, jointly give the Notice of Calling and notice of a method that disseminates to shareholders the matter after correction.

#### (Provision of Consolidated Financial Statements)

Article 134 (1) When Consolidated Financial Statements are provided to shareholders pursuant to the provisions of Article 444, paragraph (6) of the Act, the Consolidated Financial Statements must be provided by the methods listed respectively in the following items, and when the Notice of Calling of the annual shareholders' meeting is given through the methods listed therein:

- (i) provision of documents: the method as provided in the following item (a) or (b) in accordance with the categories of cases listed therein:
  - (a) cases where the Consolidated Financial Statements are prepared in the form of a document: the provision of documents stating the matters stated in the document;
  - (b) cases where the Consolidated Financial Statements are prepared in the form of Electronic or Magnetic Records: the provision of documents stating

- the matters recorded in the Electronic or Magnetic Records;
- (ii) provision by an Electronic or Magnetic Method: the method as provided in the following item (a) or (b) in accordance with the categories of cases listed therein:
    - (a) cases where the Consolidated Financial Statements are prepared in the form of a document: provision by an Electronic or Magnetic Means of the matters stated in the document;
    - (b) cases where the Consolidated Financial Statements are prepared in the form of Electronic or Magnetic Records: provision by an Electronic or Magnetic Means of the matters recorded in the Electronic or Magnetic Records.
- (2) When there is a financial audit report or an audit report pertaining to the Consolidated Financial Statements set forth in the preceding paragraph, with regard to the application of the provisions of the same paragraph and if it has been determined that the contents of the financial audit report or audit report are also provided to the shareholders, the term "Consolidated Financial Statements" in item (i) (a) and (b), and item (ii) (a) and (b) of the same paragraph reads "Consolidated Financial Statements (including financial audit reports and audit reports pertaining to the Consolidated Financial Statements)".
- (3) When providing Consolidated Financial Statements, matters that were to be presented in the consolidated balance sheet, consolidated profit and loss statement or consolidated statements of changes in net assets for a Consolidated Fiscal Year prior to the relevant Consolidated Fiscal Year (hereinafter referred to as "Matters in Past Business Year" in this paragraph) may be jointly provided. In such cases, when the Matters in a Past Business Year at the time of provision of the Consolidated Financial Statements differ from what was approved or reported at the annual shareholders' meeting for a business year corresponding to the Consolidated Fiscal Year prior to the relevant Consolidated Fiscal Year due to a change of accounting policy or other justifiable reasons, the provision of the Matters in Past Business Year after revision is not precluded.
- (4) With regard to the application of the provisions of paragraph (1) when measures are being taken to make information pertaining to matters that are to be presented in the Consolidated Financial Statements (including financial audit reports and audit reports pertaining to the Consolidated Financial Statements, in the cases prescribed in paragraph (2)) available to the shareholders continually by an Electronic or Magnetic Means (limited to those, among the methods listed in Article 222, paragraph (1), item (i) (b) of the Ordinance for Enforcement of the Companies Act, that work by utilizing an automatic public transmission server connected to the Internet) for the period

from the time of release of the Notice of Calling of an annual shareholders' meeting to the day on which three months have passed from the day of that annual shareholders' meeting, the matters are deemed to have been provided to the shareholders by the methods as provided in the items of the same paragraph in accordance with the categories of cases listed therein; provided, however, that this only applies when there are provisions in the articles of incorporation on the taking of the measures set forth in this paragraph.

- (5) In the cases set forth in the preceding paragraph, the directors must notify the shareholders of the letters and symbols or any other code or combination thereof, that is used to identify, on the Internet, from among the automatic public transmission servers that are utilized for measures as set forth in that paragraph, the part of the server that is being used for the purpose of undertaking the relevant measures, and that allow the person to whom information is being provided to inspect the contents of the information and record the information in a computer file after directly inputting the letters, symbols, or codes into the computer the person is using.
- (6) When part of the matters presented in the Consolidated Financial Statements are deemed to have been provided to shareholders through the methods as provided respectively in the items of paragraph (1) pursuant to the provisions of paragraph (4), and if the company auditors, financial auditors or audit committee have requested of the directors that they notify the shareholders that the Consolidated Financial Statements actually provided to the shareholders are one part of the Consolidated Financial Statements audited at the preparation of an audit report or financial audit report, the directors must notify the shareholders of that fact.
- (7) The directors may, if a situation, with respect to matters that are to be the contents of the Consolidated Financial Statements, has arisen that is to be corrected in the interval from the day of release of the Notice of Calling of an annual shareholders meeting to the day prior to that annual shareholders meeting, jointly give the Notice of Calling and notice of a method that disseminates to shareholders the matter after correction.

## **Chapter II Requirements Related to the Special Provisions on Approval of Financial Statements, etc.**

Article 135 The requirements prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 439 and Article 441, paragraph (4) of the Act (hereinafter referred to as "Special Provisions on Approval" in this Article), are to meet all of the following requirements (excluding item (iii) in stock companies that are Companies with Company Auditors but not Companies with Board of Company Auditors):

- (i) that the matters as provided in Article 126, paragraph (1), item (ii) (a) (when the relevant Accounting Documents are Provisional Financial Statements, including matters corresponding to those matters) are included in the contents of financial audit reports on the Accounting Documents prescribed in the Special Provisions on Approval;
- (ii) that there is no opinion finding a lack of suitability in the methods or results of an audit by financial auditors that forms the contents of an audit report by company auditors, board of company auditors or audit committee (for Companies with Board of Company Auditors, limited to an audit report by board of company auditors prepared pursuant to the provisions of Article 128, paragraph (1)) pertaining to the financial audit report set forth in the preceding item;
- (iii) that the contents of supplementary notes attached to an audit report by board of company auditors or audit committee pertaining to the financial audit report set forth in item (i) pursuant to the provisions of the second sentence of paragraph (2) of Article 128, or the second sentence of paragraph (1) of Article 129, are not the opinion set forth in the preceding item;
- (iv) that it is not deemed that Accounting Documents prescribed in the Special Provisions on Approval have been audited pursuant to the provisions of Article 132, paragraph (3);
- (v) that a board of directors has been established.

## **Part VI Public Notice, etc. of Financial Statements**

### **Chapter I Public Notice of Financial Statements**

Article 136 (1) When a stock company provides public notice pursuant to the provisions of Article 440, paragraph (1) of the Act (including measures pursuant to the provisions of paragraph (3) of the same Article; the same applies hereinafter in this paragraph), it must make known the following matters in the public notice; in such cases, the matters listed in item (i) through item (vii) are to be limited to notes presented in the tables of explanatory notes on unconsolidated financial statements for the relevant business year:

- (i) explanatory notes on the going concern assumption;
- (ii) explanatory notes on important matters pertaining to accounting policy;
- (iii) explanatory notes on the balance sheet;
- (iv) explanatory notes on Tax Effect Accounting;
- (v) explanatory notes on transactions with Affiliated Parties;
- (vi) explanatory notes on per share information;
- (vii) explanatory notes on important subsequent events;
- (viii) the amount of net profit or loss for the current period.

- (2) When a stock company provides public notice of its Profit and Loss Statement pursuant to the provisions of Article 440, paragraph (1) of the Act, with regard to the application of the provisions of the preceding paragraph, the term "the following matters" in the same paragraph reads "the matters listed in item (i) through item (vii)".
- (3) The provisions of the preceding paragraph apply mutatis mutandis when a stock company takes the measures prescribed in Article 440, paragraph (3) of the Act with regard to information contained in the Profit and Loss Statement.

## **Chapter II Public Notice of Outlines of Financial Statements**

### **Section 1 General Provisions**

Article 137 The outline of a balance sheet and the outline of a profit and loss statement when public notice of the outline of a balance sheet or the outline of a profit and loss statement is made pursuant to the provisions of Article 440, paragraph (2) of the Act are as provided in this Chapter.

### **Section 2 Balance Sheet Outlines**

(Categories in the Outline of Balance Sheet)

Article 138 The outline of a Balance Sheet must be categorized into the sections listed below:

- (i) assets;
- (ii) liabilities;
- (iii) net assets.

(Section on Assets)

Article 139 (1) The section on assets must be categorized into the entries listed below:

- (i) current assets;
- (ii) fixed assets;
- (iii) deferred assets.

- (2) Each entry in the section on assets may be subdivided into appropriate entries.
- (3) The entries pertaining to fixed assets in the outline of the balance sheet of a Public Company must be categorized into the entries listed below:
  - (i) tangible fixed assets;
  - (ii) intangible fixed assets;
  - (iii) investments and other assets.
- (4) Each entry in the section on Assets in the outline of the balance sheet of a Public Company must be subdivided into important suitable entries for the

purposes of making clear the status of the property of the Public Company.

- (5) Each entry in the section on assets must have an appropriate title given which indicates the asset pertaining to the entry.

(Section on Liabilities)

Article 140 (1) The section on liabilities must be categorized into the entries listed below:

- (i) current liabilities;
  - (ii) fixed liabilities.
- (2) When there are allowances pertaining to liabilities, the allowances must each be separately categorized from any other liabilities.
- (3) Each entry in the section on liabilities may be subdivided into appropriate entries.
- (4) Each entry in the section on liabilities in the outline of the balance sheet of a Public Company must be subdivided into important suitable entries for the purposes of making clear the status of the property of the Public Company.
- (5) Each entry in the section on liabilities must have an appropriate title given to it which displays the liability pertaining to the entry.

(Section on Net Assets)

Article 141 (1) The section on net assets must be categorized into the entries listed below:

- (i) shareholders' equity;
  - (ii) valuation and conversion differences, etc.;
  - (iii) Share Options.
- (2) The entries pertaining to shareholders' equity must be categorized into the entries listed below; in such cases, the entry listed in item (v) is a deduction:
- (i) stated capital;
  - (ii) deposits for subscriptions to shares;
  - (iii) capital surplus;
  - (iv) retained earnings;
  - (v) Treasury Shares;
  - (vi) deposits for subscriptions to Treasury Shares.
- (3) The entries pertaining to capital surplus must be categorized into the entries listed below:
- (i) capital reserves;
  - (ii) other capital surplus.
- (4) The entries pertaining to retained earnings must be categorized into the entries listed below:
- (i) retained earnings reserves;
  - (ii) other retained earnings.

- (5) The entries listed in item (ii) of paragraph (3) and item (ii) of the preceding paragraph may be subdivided into entries with appropriate titles.
- (6) The entries pertaining to valuation and conversion differences, etc. must be subdivided into the following entries and any other entries with appropriate titles:
  - (i) other securities valuation difference;
  - (ii) deferred gains or losses on hedges;
  - (iii) land revaluation difference.

(Supplementary Matters to Be Appended to the Outline of a Balance Sheet)

Article 142 The amount of net profit or loss for the current period must be attached as supplementary notes to the outline of a balance sheet; provided, however, that this does not apply when public notice is given of the outline of a profit and loss statement pursuant to the provisions of Article 440, paragraph (2) of the Act.

### **Section 3 Outlines of Profit and Loss Statements**

Article 143 (1) The Outline of a profit and loss statement must be categorized into the entries listed below:

- (i) net sales;
  - (ii) cost of sales;
  - (iii) the amount of gross profit or the amount of gross loss;
  - (iv) selling expenses, and general and administrative expenses;
  - (v) non-operating revenues;
  - (vi) non-operating expenses;
  - (vii) special profits;
  - (viii) special losses.
- (2) Notwithstanding the provisions of the preceding paragraph, when the amounts in the entries listed in item (v) or item (vi) of the same paragraph are not important, those entries may not be categorized, and any difference may be categorized as non-operating profit and loss.
- (3) Notwithstanding the provisions of paragraph (1), when the amounts in the entries listed in item (vii) or item (viii) of the same paragraph are not important, those entries may not be categorized, and any difference may be categorized as special profit and loss.
- (4) Each entry in the outline of a profit and loss statement may be subdivided into appropriate entries.
- (5) Each entry in the outline of a profit and loss statement must be subdivided into important suitable entries, when necessary for the purposes of making clear the status of the profit and loss of the stock company.



- (6) Each entry in the outline of a profit and loss statement must have an appropriate title given to it that displays the profit or loss pertaining to the entry.
- (7) When the amounts listed respectively in the following items exist, the amounts must be presented as that which is as provided therein; provided, however, that when an amount listed respectively in the following items (except amounts listed in item (ix) and item (x)) is less than zero, the amount obtained by subtracting the amount from zero must be presented as that which is as provided therein:
- (i) the amount of gross profit and loss (limited to amounts equal to or greater than zero): the amount of gross profit;
  - (ii) the amount of gross profit and loss (limited to amounts less than zero): the amount of gross loss;
  - (iii) the amount of operating profit and loss (limited to amounts equal to or greater than zero): the amount of operating profit;
  - (iv) the amount of operating profit and loss (limited to amounts less than zero): the amount of operating loss;
  - (v) the amount of ordinary profit and loss (limited to amounts equal to or greater than zero): the amount of ordinary profit;
  - (vi) the amount of ordinary profit and loss (limited to amounts less than zero): the amount of ordinary loss;
  - (vii) the amount of net profit and loss before taxation (limited to amounts equal to or greater than zero): the amount of net profit before taxation;
  - (viii) the amount of net profit and loss before taxation (limited to amounts less than zero): the amount of net loss before taxation;
  - (ix) Corporation Tax, etc. for the relevant business year: an entry with a title indicating that content;
  - (x) the amount of corporation tax adjustment: an entry with a title indicating that content;
  - (xi) the amount of net profit or loss for the current period (limited to amounts equal to or greater than zero): the amount of net profit for the current period;
  - (xii) the amount of net profit or loss for the current period (limited to amounts less than zero): the amount of net loss for the current period.

#### **Section 4 Miscellaneous Provisions**

(Measurement Units for Presentation of Amounts)

- Article 144 (1) Amounts for matters pertaining to the outline of a balance sheet or the outline of a profit and loss statement are to be presented in units of 1,000,000 yen or 1,000,000,000 yen.
- (2) Notwithstanding the provisions of the preceding paragraph, when there is the

risk that it will become impossible to precisely judge the state of the property or the profit and loss of a stock company, amounts for matters pertaining to the outline of a balance sheet or the outline of a profit and loss statement must be presented in appropriate units.

(Language of Presentation)

Article 145 The outline of a balance sheet and the outline of a profit and loss statement are to be presented in Japanese; provided, however, that this does not apply when presentation in another language is not unreasonable.

(Separate Business)

Article 146 With regard to matters that are to be presented in the outline of a balance sheet or the outline of a profit and loss statement to be given in a public notice by a Company Undertaking Appendix-listed Business, when it is necessary and appropriate for clarifying the status of the property and profits and losses of the Company Undertaking Appendix-listed Business, notwithstanding the provisions of the preceding two Sections, this may be presented separately in the appropriate sections or entries.

### **Chapter III Miscellaneous Provisions**

(Method of Disclosure of Balance Sheets, etc. through an Electronic or Magnetic Means)

Article 147 Measures taken pursuant to the provisions of Article 440, paragraph (3) of the Act must be done through, among the methods listed in Article 222, paragraph (1), item (i) (b) of the Ordinance for Enforcement of the Companies Act, a method that utilizes an automatic public transmission server (meaning a server with a function that automatically transmits to the public information recorded on a part of its recording media which is for use in automatic public transmission, or information that has been input to the server, and which transmits such information through its connection to a telecommunications line for public use) connected to the Internet.

(Matters Given by Public Notice When There Is an Adverse Opinion)

Article 148 In cases falling under any of the items listed below, when a Company with Financial Auditors gives public notice pursuant to the provisions of Article 440, paragraph (1) or paragraph (2) of the Act (including the measures prescribed in paragraph (3) of the same Article, hereinafter the same applies in this Article), the matters as provided respectively in each of those items must be clarified in the public notice:

(i) cases where there are no financial auditors (excluding cases where there is a

person temporarily performing the duties of a financial auditor as set forth in Article 346, paragraph (4) of the Act): the fact that there are no financial auditors;

- (ii) cases where it has been deemed that an audit has been carried out pursuant to the provisions of Article 130, paragraph (3): that fact;
- (iii) cases where there is an adverse opinion in the financial audit report regarding the Financial Statements pertaining to the public notice: that fact;
- (iv) cases where the matters listed in Article 126, paragraph (1), item (iii) are contained in the financial audit report regarding the Financial Statements pertaining to the public notice: that fact.

## **Part VII Matters Related to Figures, etc. in Accounting for Stock Companies**

### **Chapter I Amount of Surplus in a Stock Company**

(Amount of Deductions on the Last Day of the Most Recent Business Year)

Article 149 The sum of the amounts recorded under each account title prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 446, item (i) (e) of the Act, is the amount obtained by subtracting the sum of the amounts listed in item (ii) through item (iv) from the amount listed in item (i):

- (i) the sum of the amounts listed in Article 446, item (i) (a) and (b) of the Act;
- (ii) the sum of the amounts listed in Article 446, item (i) (c) and (d) of the Act;
- (iii) the amount of other capital surplus;
- (iv) the amount of other retained earnings.

(Amount of Deductions Arising after the Last Day of the Most Recent Business Year)

Article 150 (1) The sum of the amounts recorded under each account title prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 446, item (vii) of the Act, is the amount obtained by subtracting the sum of the amounts listed in item (v) and item (vi) from the sum of the amounts listed in item (i) through item (iv):

- (i) the amount of the relevant reduction if the amount of Stated Capital or the amount of reserves is increased by reducing the amount of surplus after the last day of the Most Recent Business Year;
- (ii) the amounts listed in Article 23, item (i) (b) and item (ii) (b) if dividend of surplus is paid after the last day of the Most Recent Business Year;
- (iii) the amount listed in Article 446, item (ii) of the Act pertaining to Treasury Shares disposed of by a stock company at the performance of an Act of Acceptance Related to Absorption-Type Restructuring after the last day of the Most Recent Business Year;
- (iv) the amount of the relevant reduction if the amount of surplus is reduced at

- Absorption-Type Company Split or Incorporation-Type Company Split by a stock company that is to become a Company Splitting in an Absorption-Type Split or a Company Splitting in an Incorporation-Type Split after the last day of the Most Recent Business Year;
- (v) the sum of the amounts listed below pertaining to Acts of Acceptance Related to Absorption-Type Restructuring if a stock company performs the Acts of Acceptance Related to Absorption-Type Restructuring after the last day of the Most Recent Business Year:
    - (a) the amount obtained by subtracting the amount of other capital surplus of the stock company immediately prior to the relevant Absorption-Type Restructuring from the amount of other capital surplus of the stock company after the relevant Absorption-Type Restructuring;
    - (b) the amount obtained by subtracting the amount of other retained earnings of the stock company immediately prior to the relevant Absorption-Type Restructuring from the amount of other retained earnings of the stock company after the relevant Absorption-Type Restructuring;
  - (vi) the amount of other capital surplus increased pursuant to the provisions of Article 21 after the last day of the Most Recent Business Year.
- (2) Notwithstanding the provisions of the preceding paragraph, the sum of the amounts recorded under each account title prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 446, item (vii) of the Act, in a stock company which does not have a Most Recent Business Year is the amount obtained by subtracting the sum of the amounts listed in item (vi) through item (xii) from the sum of the amounts listed in item (i) through item (v):
- (i) the book value of Treasury Shares if the Treasury Shares are cancelled pursuant to the provisions of Article 178, paragraph (1) of the Act after the day of formation (for that which has become a stock company pursuant to laws and regulations other than the Act, the day on which the stock company became a stock company; the same applies hereinafter in this paragraph);
  - (ii) the amounts listed in Article 446, item (vi) of the Act pertaining to the payment of dividends of surplus if the dividend of surplus is paid after the day of formation;
  - (iii) the amount of the relevant reduction if the amount of Stated Capital or the amount of Reserves is increased by reducing the amount of surplus after the day of formation;
  - (iv) the amounts listed in Article 23, item (i) (b) and item (ii) (b) if dividend of surplus is paid after the day of formation;
  - (v) the amount of the relevant reduction if the amount of surplus is reduced at Absorption-Type Company Split or Incorporation-Type Company Split by a stock company that is to become a Company Splitting in an Absorption-Type Split or a Company Splitting in an Incorporation-Type Split after the day of

- formation;
- (vi) the amount of other capital surplus on the day of formation;
  - (vii) the amount of other retained earnings on the day of formation;
  - (viii) the amount obtained by subtracting the book value of the relevant Treasury Shares from the amount of consideration for the Treasury Shares if Treasury Shares are disposed of after the day of formation (excluding the cases where Treasury Shares are disposed of at the performance of an Act of Acceptance Related to Absorption-Type Restructuring);
  - (ix) the amount of the relevant reduction if the amount of stated capital is reduced after the day of formation (excluding the amount set forth in Article 447, paragraph (1), item (ii) of the Act);
  - (x) the amount of the relevant reduction if the amount of reserves is reduced after the day of formation (excluding the amount set forth in Article 448, paragraph (1), item (ii) of the Act);
  - (xi) the sum of the amounts listed below pertaining to the relevant Absorption-Type Restructuring if a stock company performs Acts of Acceptance Related to Absorption-Type Restructuring after the day of formation:
    - (a) the amount obtained by subtracting the amount of other capital surplus of the stock company immediately prior to the relevant Absorption-Type Restructuring from the amount of other capital surplus of the stock company after the relevant Absorption-Type Restructuring;
    - (b) the amount obtained by subtracting the amount of other retained earnings of the stock company immediately prior to the relevant Absorption-Type Restructuring from the amount of other retained earnings of the stock company after the relevant Absorption-Type Restructuring.
  - (xii) the amount of other capital surplus increased pursuant to the provisions of Article 21 after the day of formation.
- (3) If a Membership Company has become a stock company after the last day of the Most Recent Business Year, the sum of the amount of other capital surplus and the amount of other retained earnings of the stock company on the day on which it has become a stock company are deemed to be the amount of surplus on the last day of the Most Recent Business Year.

## **Chapter II Reductions in the Amount of Stated Capital, etc.**

(Amount of Deficit)

Article 151 The method prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 449, paragraph (1), item (ii) of the Act, is a method taking the amount of deficit as whichever of the amounts listed below is the highest:

- (i) zero;
- (ii) the amount obtained by subtracting the Distributable Amount from zero.

(Matters Related to Financial Statements)

Article 152 What is prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 449, paragraph (2), item (ii) of the Act, is as provided in the following items in accordance with the categories of cases listed therein on whichever is the earliest of the day of the public notice pursuant to the provisions of the same paragraph, or the day of the demand pursuant to the provisions of the same paragraph:

- (i) cases where a Company Subject to Public Notice (meaning the stock company set forth in Article 449, paragraph (2), item (ii) of the Act; the same applies hereinafter in this Article) gives public notice pursuant to the provisions of Article 440, paragraph (1) or paragraph (2) of the Act of its balance sheet for the Most Recent Business Year or an outline of the same: what is listed below:
  - (a) when giving public notice in an official gazette, the date of the gazette and the page on which the public notice is published;
  - (b) when giving public notice in a daily newspaper that publishes matters on current affairs, the name of the daily newspaper, the date and the page on which the public notice is published;
  - (c) when giving public notice through Electronic Public Notice, the matters listed in Article 911, paragraph (3), item (xxix) (a) of the Act;
- (ii) cases where a Company Subject to Public Notice takes measures prescribed in Article 440, paragraph (3) of the Act with respect to the balance sheet for the Most Recent Business Year: the matters listed in Article 911, paragraph (3), item (xxvii) of the Act;
- (iii) cases where, when a Company Subject to Public Notice is the stock company prescribed in Article 440, paragraph (4) of the Act, the stock company submits securities reports pertaining to the Most Recent Business Year pursuant to the provisions of Article 24, paragraph (1) of the Financial Instruments and Exchange Act: that fact;
- (iv) cases where the provisions of Article 440 of the Act do not apply to a Company Subject to Public Notice, pursuant to the provisions of Article 28 of the Act on Arrangement of Relevant Acts Incidental to Enforcement of the Companies Act (Act no. 87 of 2005): that fact;
- (v) cases where the Company Subject to Public Notice does not have a Most Recent Business Year: that fact;
- (vi) cases other than those listed in the preceding items: the contents of the outline of the balance sheet pertaining to the Most Recent Business Year pursuant to the provisions of Chapter II of the preceding Part.

### **Chapter III Appropriation of Surplus**

Article 153 (1) The matters prescribed by Ordinance of the Ministry of Justice, as mentioned in the second sentence of Article 452 of the Act, are the matters listed below pertaining to the appropriation of surplus prescribed in the first sentence of the same Article (excluding appropriation of surplus when the amount pertaining to the entry for surplus is to be increased or reduced without a resolution at the shareholders' meeting set forth in the first sentence of the same Article):

- (i) entries for increased surplus;
- (ii) entries for reduced surplus;
- (iii) the amount pertaining to each entry for surplus appropriated.

(2) The "cases where the amount pertaining to the entry for surplus is to be increased or reduced without a resolution at the shareholders' meeting" prescribed in the preceding paragraph are the cases listed below:

- (i) cases where the amount pertaining to the entry for surplus is to be increased or reduced pursuant to the provisions of laws and regulations or the articles of incorporation (excluding the provisions of Article 452 of the Act, and provisions that govern matters associated with resolutions at the shareholders' meeting set forth in the first sentence of the same Article (when there are provisions in the articles of incorporation as set forth in Article 459 of the Act, the board of directors; the same applies hereinafter in this paragraph));
- (ii) cases where the amount pertaining to the entry for the relevant surplus is to be increased or reduced without a resolution at the shareholders' meeting set forth in the first sentence of Article 452 of the Act, if an amount pertaining to the entry for surplus has been increased or reduced pursuant to a resolution at the shareholders' meeting set forth in the first sentence of Article 452 of the Act, in accordance with the provisions of the resolution.

#### **Chapter IV Right to Demand Distribution of Monies on Payment of Dividends of Surplus**

Article 154 The method prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 455, paragraph (2), item (i) of the Act, is a method taking the value of the Dividend Property as whichever of the amounts listed below is the highest:

- (i) the most recent value in the market in which the relevant Dividend Property is being transacted on the last day of the period set forth in Article 454, paragraph (4), item (i) of the Act (hereinafter referred to in this Article as the "Exercise Deadline Date") (when there is no sales transaction on the Exercise Deadline Date, or when the Exercise Deadline Date falls on a

- holiday for the relevant market, the execution price of the first sales transaction after that point);
- (ii) when the relevant Dividend Property on the Exercise Deadline Date is the subject of a Tender Offer, etc., the value of the Dividend Property in the contract pertaining to the Tender Offer, etc. on the Exercise Deadline Date.

### **Chapter V Requirements Related to the Special Provisions on Bodies That Decides Distributions of Surplus**

Article 155 The requirements prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 459, paragraph (2) and Article 460, paragraph (2) of the Act (hereinafter referred to as the "Special Provisions on Distribution" in this Article), are to meet all of the following requirements:

- (i) that the matters as provided in Article 126, paragraph (1), item (ii) (a) are included in the contents of financial audit reports on the Financial Statements prescribed in the Special Provisions on Distribution;
- (ii) that there is no opinion finding a lack of suitability in the methods or results of an audit by financial auditors that forms the contents of an audit report by board of company auditors or audit committee pertaining to the financial audit report set forth in the preceding item;
- (iii) that that the contents of supplementary notes attached to an audit report by board of company auditors or audit committee pertaining to the financial audit report set forth in item (i) pursuant to the provisions of the second sentence of paragraph (2) of Article 128, or the second sentence of paragraph (1) of Article 129, are not the opinion set forth in the preceding item;
- (iv) that it is not deemed that Accounting Documents prescribed in the Special Provisions on Distribution have been audited pursuant to the provisions of Article 132, paragraph (3).

### **Chapter VI Distributable Amounts**

(Amount of Profit in Provisional Financial Statements)

Article 156 The amounts recorded under each account title prescribed by Ordinance of the Ministry of Justice, as mentioned in Article 461, paragraph (2), item (ii) (a) of the Act, are the Amounts of Net Profit or Loss for the Current Period recorded in the Profit and Loss Statement in the Provisional Financial Statements (limited to amounts equal to or greater than zero).

(Amount of Loss in Provisional Financial Statements)

Article 157 The sum of the amounts recorded under each account title prescribed by Ordinance of the Ministry of Justice prescribed in Article 461, paragraph (2),



item (v) of the Act, is the amount obtained by subtracting the Amount of Net Profit or Loss for the Current Period (limited to amounts less than zero) recorded in the Profit and Loss Statement in the Provisional Financial Statements from zero.

(Other Amounts to Be Subtracted)

Article 158 The sum of the amounts recorded under each account title prescribed by Ordinance of the Ministry of Justice prescribed in Article 461, paragraph (2), item (vi) of the Act is the amount obtained by subtracting the sum of the amounts listed in item (ix) and (x) from the sum of the amounts listed in item (i) through item (viii):

(i) the amounts as provided in (a) through (c) below if the Goodwill Adjustment Amount (meaning the sum of the amount obtained by dividing the amount of Goodwill recorded in the section on assets by two, and the amount recorded in the section on deferred assets; the same applies hereinafter in this item and item (iv)) on the last day (when there is no Most Recent Business Year (excluding the cases prescribed in Article 461, paragraph (2), item (ii) of the Act), the day of formation; the same applies hereinafter in this item, the following item, item (iii), item (vi) (c), item (viii) (a) and item (ix)) of the Most Recent Business Year (in cases prescribed in Article 461, paragraph (2), item (ii) of the Act, the period of Article 441, paragraph (1), item (ii) of the Act (if there are two or more of those periods, the one in which the last day thereof is the latest day); the same applies in this item, the following item, item (iii), item (vi) (c), item (viii) (a) and item (ix)) falls under the following sub-items (a) through (c):

(a) cases where the relevant Goodwill Adjustment Amount is equal to or less than the Amount of Stated Capital, etc. (meaning the sum of the amount of stated capital and the amount of reserves on the last day of the Most Recent Business Year; the same applies hereinafter in this item): zero;

(b) cases where the relevant Goodwill Adjustment Amount is equal to or less than the sum of the Amount of Stated Capital, etc., and the amount of other capital surplus on the last day of the Most Recent Business Year (except the case listed in (a)): the amount obtained by subtracting the amount of Stated Capital, etc. from the Goodwill Adjustment Amount;

(c) cases where the relevant Goodwill Adjustment Amount exceeds the sum of the Amount of Stated Capital, etc. and the amount of other capital surplus on the last day of the Most Recent Business Year: the amounts as provided in the following items in accordance with the categories of cases listed therein:

1. cases where the amount obtained by dividing the amount of Goodwill on the last day of the Most Recent Business Year by two is equal to or less

than the sum of the Amount of Stated Capital, etc., and the amount of other capital surplus on the last day of the Most Recent Business Year: the amount obtained by subtracting the Amount of Stated Capital, etc. from the Goodwill Adjustment Amount;

2. cases where the amount obtained by dividing the amount of Goodwill on the last day of the Most Recent Business Year by two exceeds the sum of the Amount of Stated Capital, etc., and the amount of other capital surplus on the last day of the Most Recent Business Year: the sum of the amount of other capital surplus on the last day of the Most Recent Business Year, and the amount recorded in the section on Deferred Assets.
  - (ii) the amount obtained by subtracting the amount recorded in the entry for other securities valuation difference in the Balance Sheet on the last day of the Most Recent Business Year (when the amount is equal to or greater than zero, zero) from zero;
  - (iii) the amount obtained by subtracting the amount recorded in the entry for land revaluation difference in the Balance Sheet on the last day of the Most Recent Business Year (when the amount is equal to or greater than zero, zero) from zero;
  - (iv) the amount obtained by subtracting the sum of the amounts listed in (b) and (c) from the amount listed in (a) (when the amount is less than zero; zero), when the stock company is a Company to Which Consolidated Dividend Regulations Apply (limited to the cases where a business year set forth in Article 2, paragraph (3), item (li) is the Most Recent Business Year):
    - (a) the amount obtained by subtracting the amount listed in 4 from the sum of the amounts listed in 1 through 3 in the Balance Sheet on the last day of the Most Recent Business Year:
      1. the amount of Shareholders' Equity;
      2. the amount recorded in the entry for other securities valuation difference (when the amount is equal to or greater than zero, zero);
      3. the amount recorded in the entry for land revaluation difference (in cases where the amount is equal to or greater than zero, zero);
      4. the Goodwill Adjustment Amount (when the Goodwill Adjustment Amount exceeds the sum of the amount of stated capital, the amount of capital surplus and the amount of retained earnings reserves, the sum of the amount of stated capital, the amount of capital surplus and the amount of retained earnings reserves);
    - (b) when shares of the relevant stock company are acquired from a Subsidiary Company after the last day of the Most Recent Business Year, an amount corresponding to the equity interests of the stock company in the Subsidiary Company from among the book value of the shares

- immediately prior to the acquisition according to the relevant Subsidiary Company;
- (c) the amount obtained by subtracting the amount listed in 4 from the sum of the amounts listed in 1 through 3 on a Consolidated Balance Sheet on the last day of the Most Recent Business Year:
1. the amount of Shareholders' Equity;
  2. the amount recorded in the entry for other securities valuation difference (when the amount is equal to or greater than zero, zero);
  3. the amount recorded in the entry for land revaluation difference (when the amount is equal to or greater than zero, zero);
  4. the Goodwill Adjustment Amount (when the Goodwill Adjustment Amount exceeds the sum of the amount of stated capital and the amount of capital surplus, the sum of the amount of stated capital and the amount of capital surplus);
- (v) the amount obtained by subtracting the amount listed in Article 461, paragraph (2), item (v) of the Act from the amount listed in item (ii) of the same paragraph (excluding, among the amounts listed in (b) of the same item, those which pertain to Treasury Shares disposed of on performance of Acts of Acceptance Related to Absorption-Type Restructuring and Specified Solicitations (meaning the solicitation set forth in (b) when all of the following requirements are met; the same applies hereinafter in this Article)), pertaining to Provisional Financial Statements other than the most recent Provisional Financial Statements if two or more Provisional Financial Statements have been prepared after the last day of the Most Recent Business Year (when there is no Most Recent Business Year, the day of formation; the same applies in item (vii) and item (x)):
- (a) the acquisition of shares of the relevant stock company pursuant to the provisions of Article 173, paragraph (1) of the Act having occurred after the last day of the Most Recent Business Year (limited to the acquisitions of shares when only property paid or received to the stock company is delivered pursuant to the solicitation set forth in (b) to shareholders of the shares on the acquisition of those shares);
  - (b) the solicitation of subscribers to all or part of the shares (when the features of the shares acquired change simultaneously with the acquisition of shares, the features of shares after the change) set forth in (a) pursuant to the provisions of Part II, Chapter II, Section 8 of the Act;
  - (c) the fact that the day set forth in Article 171, paragraph (1), item (iii) of the Act pertaining to the acquisition of shares set forth in (a) is the same day as the date set forth in Article 199, paragraph (1), item (iv) of the Act pertaining to the solicitation set forth in (b);
- (vi) the amount obtained by subtracting the sum of the amounts listed below

- (when the amount is less than zero; zero) from the amount of 3,000,000 yen:
- (a) the sum of the amount of stated capital and the amount of reserves;
  - (b) the amount of Share Options;
  - (c) the sum of the amounts recorded in the each entry for valuation and conversion difference, etc. in the balance sheet on the last day of the Most Recent Business Year (when the amounts recorded in the entries are less than zero; zero);
  - (vii) the amount listed in Article 461, paragraph (2), item (ii) (b) of the Act pertaining to Treasury Shares disposed of by a stock company at an Act of Acceptance Related to Absorption-Type Restructuring or a Specified Solicitation after the last day of the Most Recent Business Year;
  - (viii) the sum of the amounts listed below:
    - (a) the amount of other capital surplus increased pursuant to the provisions of Article 21 after the last day of the Most Recent Business Year;
    - (b) the amount of consideration for Treasury Shares if a stock company which has no Most Recent Business Year disposes of the Treasury Shares after the day of formation;
  - (ix) the amount obtained by subtracting the sum of the amounts listed below from the book value of acquired shares if a stock company acquires shares of the stock company after the last day of the Most Recent Business Year (limited to cases where shares of the stock company are delivered to the shareholders of the shares in exchange for the acquisition of shares, in cases other than that listed in Article 155, item (xii) of the Act):
    - (a) the book value of property (excluding Bonds, etc. (excluding Reacquired Bonds and its Treasury Share Options; the same applies in (b))) other than shares of the stock company that is delivered to shareholders of the acquired shares at the acquisition;
    - (b) the book value to be entered for Bonds, etc. of the stock company that are delivered to shareholders of the acquired shares at the acquisition;
  - (x) the amount listed in Article 461, paragraph (2), item (iv) of the Act (when there is no Most Recent Business Year, item (viii)) pertaining to Treasury Shares disposed of by a stock company at an Act of Acceptance Related to Absorption-Type Restructuring or a Specified Solicitation after the last day of the Most Recent Business Year.

(Directors to Take Responsibility for Payment of Dividends of Surplus)

Article 159 What is prescribed by Ordinance of the Ministry of Justice, as mentioned in the part of Article 462, paragraph (1) of the Act not contained in the listed items, is as provided in the following items in accordance with the categories of acts listed therein:

- (i) the acts listed in Article 461, paragraph (1), item (i) of the Act: the persons

listed below:

- (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of purchase of shares;
  - (b) directors and executive officers who provided explanations regarding matters related to purchase of shares at the shareholders meeting set forth in Article 140, paragraph (2) of the Act;
  - (c) when a company auditor (including the audit committee; the same applies hereinafter in this Article) or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (ii) the acts listed in Article 461, paragraph (1), item (ii) of the Act: the persons listed below:
- (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of acquisition of shares;
  - (b) directors and executive officers who provided explanations regarding matters related to acquisition of shares at a shareholders meeting pertaining to a decision pursuant to the provisions of Article 156, paragraph (1) of the Act;
  - (c) directors who gave approval to the acquisition of shares at a board of directors meeting pertaining to a decision pursuant to the provisions of Article 156, paragraph (1) of the Act;
  - (d) when a company auditor or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (iii) the acts listed in Article 461, paragraph (1), item (iii) of the Act: the persons listed below:
- (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of acquisition of shares;
  - (b) directors and executive officers who provided explanations regarding matters related to acquisition of shares at a shareholders meeting pertaining to a decision pursuant to the provisions of Article 157, paragraph (1) of the Act;
  - (c) directors who gave approval for the acquisition of shares at a board of directors meeting pertaining to a decision pursuant to the provisions of Article 157, paragraph (1) of the Act;
  - (d) when a company auditor or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (iv) the acts listed in Article 461, paragraph (1), item (iv) of the Act: the persons listed below:
- (a) directors and executive officers who performed duties related to the

- delivery of Monies, etc. as a result of acquisition of shares;
- (b) directors and executive officers who provided explanations regarding matters related to acquisition of shares at a shareholders meeting set forth in Article 171, paragraph (1) of the Act;
- (c) when a company auditor or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (v) the acts listed in Article 461, paragraph (1), item (v) of the Act: the persons listed below:
  - (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of purchase of shares;
  - (b) directors and executive officers who provided explanations regarding matters related to purchase of shares at the shareholders meeting set forth in Article 175, paragraph (1) of the Act;
  - (c) when a company auditor or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (vi) the acts listed in Article 461, paragraph (1), item (vi) of the Act: the persons listed below:
  - (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of purchase of shares;
  - (b) directors and executive officers who provided explanations regarding matters related to purchase of shares at the shareholders meeting pertaining to a decision pursuant to the provisions of the second sentence of Article 197, paragraph (3) of the Act;
  - (c) directors who gave approval to the purchase of shares at a board of directors meeting pertaining to a decision pursuant to the provisions of the second sentence of Article 197, paragraph (3) of the Act;
  - (d) when a company auditor or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (vii) the acts listed in Article 461, paragraph (1), item (vii) of the Act: the persons listed below:
  - (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of purchase of shares;
  - (b) directors and executive officers who provided explanations regarding matters related to purchase of shares at the shareholders meeting pertaining to a decision pursuant to the provisions of the second sentence of Article 234, paragraph (4) of the Act (including as applied mutatis mutandis pursuant to Article 235, paragraph (2) of the Act);
  - (c) directors who gave approval to the purchase of shares at a board of

- directors meeting pertaining to a decision pursuant to the provisions of the second sentence of Article 234, paragraph (4) of the Act (including as applied mutatis mutandis pursuant to Article 235, paragraph (2) of the Act);
- (d) when a company auditor or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (viii) the acts listed in Article 461, paragraph (1), item (viii) of the Act: the persons listed below:
- (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of payment of dividends of surplus;
  - (b) directors and executive officers who provided explanations regarding matters related to the payment of dividends of surplus at a shareholders meeting pertaining to a decision pursuant to the provisions of Article 454, paragraph (1) of the Act;
  - (c) directors who gave approval for the payment of dividends of surplus at a board of directors meeting pertaining to a decision pursuant to the provisions of Article 454, paragraph (1) of the Act;
  - (d) when a company auditor or a financial auditor requests a report related to calculations of the Distributable Amount, directors and executive officers who gave reports in response to the request;
- (ix) the acquisition of shares in response to a request pursuant to the provisions of Article 116, paragraph (1) of the Act pertaining to the acts set forth in the each item of the same paragraph: directors who performed duties related to the delivery of Monies, etc. as a result of acquisition of shares, and the persons as provided in the following items (a) through (d) in accordance with the categories of acts listed therein:
- (a) a change to the articles of incorporation establishing provisions on the matters listed in Article 107, paragraph (1), item (i) of the Act taken as the features of all shares issued: the persons listed below:
    1. directors who submitted the proposal related to the change to the articles of incorporation at a shareholders' meeting;
    2. directors who consented to a decision on the submission of the proposal set forth in 1 (excluding directors in a Company with Board of Directors);
    3. when the submission of the proposal set forth in 1 was based on a resolution at a board of directors, the directors who gave approval to the resolution at the board of directors;
  - (b) a change to the articles of incorporation establishing provisions on the matters listed in Article 108, paragraph (1), item (iv) or item (vii) of the Act taken as the features of a certain class of shares: the persons listed

below:

1. directors who submitted the proposal related to the change to the articles of incorporation at a shareholders' meeting;
  2. directors who consented to a decision on the submission of the proposal set forth in 1 (excluding directors in a Company with Board of Directors);
  3. when the submission of the proposal set forth in 1 was based on a resolution at a board of directors, the directors who gave approval to the resolution at the board of directors;
- (c) the acts listed in Article 116, paragraph (1), item (iii), (a) through (c) and (f) of the Act, in the cases prescribed in the same item: the persons listed below:

1. when the performance of the act was based on a resolution at a shareholders' meeting, the directors who submitted the proposal related to the relevant act at the shareholders' meeting;
2. directors who consented to a decision on the submission of the proposal set forth in 1 (excluding directors in a Company with Board of Directors);
3. when the submission of the proposal set forth in 1 was based on a resolution at a board of directors, the directors who gave approval to the resolution at the board of directors;
4. when the performance of the act was based on a resolution at a board of directors, the directors who gave approval to the act in the board of directors meeting;

(d) the acts listed in Article 116, paragraph (1), item (iii) (d) and (e) of the Act, in the cases prescribed in the same item: the persons listed below:

1. directors and executive officers who performed duties related to the acts;
2. when the performance of the act was based on a resolution at a shareholders' meeting, the directors who submitted the proposal related to the relevant act at the shareholders' meeting;
3. directors who consented to a decision on the submission of the proposal set forth in 2 (excluding directors in a Company with Board of Directors);
4. when the submission of the proposal set forth in 2 was based on a resolution at a board of directors, the directors who gave approval to the resolution at the board of directors;
5. when the performance of the act was based on a resolution at the board of directors, the directors who gave approval to the resolution at the board of directors;

(x) the acts listed in Article 465, paragraph (1), item (iv) of the Act: directors and executive officers who performed duties related to the delivery of Monies,



- etc. as a result of acquisition of shares;
- (xi) the acts listed in Article 465, paragraph (1), item (v) of the Act: the persons listed below:
- (a) directors and executive officers who performed duties related to the delivery of Monies, etc. as a result of acquisition of shares;
  - (b) when the grounds set forth in Article 107, paragraph (2), item (iii) (a) of the Act have arisen based on a resolution at a shareholders' meeting, the directors who submitted the proposal related to the relevant act at the shareholders' meeting;
  - (c) directors who consented to a decision on the submission of the proposal set forth in (b) (excluding directors in a Company with Board of Directors);
  - (d) when the submission of the proposal set forth in (b) was based on a resolution at a board of directors, the directors who gave approval to the resolution at the board of directors;
  - (e) when the grounds set forth in Article 107, paragraph (2), item (iii) (a) of the Act have arisen based on a resolution at the board of directors, the directors who gave approval to the resolution at the board of directors.

Article 160 The persons prescribed by Ordinance of the Ministry of Justice prescribed in Article 462, paragraph (1), item (i) (a) of the Act are the persons listed below:

- (i) directors who submitted the proposal to the shareholders' meeting;
- (ii) directors who consented to a decision on the submission of the proposal set forth in the preceding item (excluding directors in a Company with Board of Directors);
- (iii) when the submission of the proposal set forth in item (i) was based on a resolution at a board of directors, the directors who gave approval to the resolution at the board of directors in the board of directors meeting.

Article 161 The persons prescribed by Ordinance of the Ministry of Justice prescribed in Article 462, paragraph (1), item (i) (b) of the Act are the directors and executive officers who submitted the proposal to the board of directors meeting.

### **Part VIII Matters Related to Figures, etc. in Accounting for Membership Companies**

(Amount of Losses)

Article 162 The method prescribed by Ordinance of the Ministry of Justice prescribed in Article 620, paragraph (2) of the Act is a method taking the amount calculated pursuant to the provisions of the same paragraph as

whichever of the amounts listed below is the smallest:

- (i) the amount obtained by subtracting the sum of the amount of capital surplus and the amount of retained earnings on the day on which the amount of stated capital is reduced pursuant to the provisions of Article 620, paragraph (1) of the Act from zero (when this is less than zero, zero);
- (ii) the amount of Stated Capital on the day on which the amount of Stated Capital is reduced pursuant to the provisions of Article 620, paragraph (1) of the Act.

(Amount of Profit)

Article 163 The method prescribed by Ordinance of the Ministry of Justice prescribed in Article 623, paragraph (1) of the Act is a method taking the amount of profit of the Membership Company as whichever of the amounts listed below is the smallest (for amounts of profit prescribed in the proviso to Article 629, paragraph (2) of the Act, the amount listed in item (i)):

- (i) the amount of retained earnings on the day on which profit was distributed in response to a request pursuant to the provisions of Article 621, paragraph (1) of the Act;
- (ii) the amount obtained by subtracting the sum of the amounts listed in (b) and (c) from the amount listed in (a):
  - (a) the amount of profit already distributed to members who have made the relevant request pursuant to the provisions of Article 622 of the Act (when there is an amount as provided in Article 32, paragraph (1), item (iii), including the amount);
  - (b) the amount of losses already distributed to members who have made the relevant request pursuant to the provisions of Article 622 of the Act (when there is an amount as provided in Article 32, paragraph (2), item (iv), including the amount);
  - (c) the book value of Monies, etc. already delivered through distribution of profit to members who have made the relevant request.

(Amount of Surplus)

Article 164 The total sum prescribed by Ordinance of the Ministry of Justice prescribed in Article 626, paragraph (4), item (iv) of the Act is the amount obtained by subtracting the sum of the amounts listed in item (ii) and item (iii) from the amount listed in item (i):

- (i) the amount listed in Article 626, paragraph (4), item (i) of the Act;
- (ii) the sum of the amounts listed in Article 626, paragraph (4), item (ii) and item (iii) of the Act;
- (iii) the amounts as provided in (a) through (e) below, in the cases listed in (a) through (e) below:

- (a) cases where the amount of surplus prescribed in Article 626, paragraph (2) of the Act is calculated: the amount recorded to the Capital Surplus regarding contributions made by the relevant members;
- (b) cases where the amount of surplus prescribed in Article 626, paragraph (3) of the Act is calculated: the sum of the amounts listed below:
  - 1. the amount recorded to the Capital Surplus for each contribution made by the relevant members;
  - 2. the amount obtained by subtracting the amount listed in Article 32, paragraph (2), item (ii) (b) from the amount listed in (a) of the same item;
- (c) cases where the amounts of surplus prescribed in Article 632, paragraph (2) of the Act and Article 634, paragraph (1) of the Act are calculated: whichever of the amounts listed below is the smallest:
  - 1. the sum of the amount of Retained Earnings and the amount of capital surplus on the day on which a return of contributions was made in response to a request pursuant to the provisions of Article 624, paragraph (1) of the Act;
  - 2. the amount recorded to the capital surplus regarding contributions made by the relevant members;
- (d) the cases prescribed in the proviso to Article 633, paragraph (2) of the Act: the amount listed in (c) 1;
- (e) cases where the amounts of surplus prescribed in Article 635, paragraph (1), paragraph (2), item (i), and Article 636, paragraph (2) of the Act are calculated: the sum of the amount of Capital Surplus and the amount of Retained Earnings.

(Deficit Amount)

Article 165 The method prescribed by Ordinance of the Ministry of Justice prescribed in Article 631, paragraph (1) of the Act is a method taking the amount obtained by subtracting the sum of the amounts listed in item (ii) and item (iii) from the amount listed in item (i) (when this is less than zero; zero) as the deficit amount of a Membership Company:

- (i) the amount obtained by subtracting the sum of the amount of capital surplus and the amount of retained earnings on the last day of the business year set forth in Article 631, paragraph (1) of the Act from zero;
- (ii) the amount of net loss for the current period pertaining to the business year set forth in Article 631, paragraph (1) of the Act;
- (iii) the amount obtained by subtracting the amount listed in (b) from that listed in (a) if any return of equity interests has occurred in the relevant business year (when this is less than zero, zero):
  - (a) the Amount of Return of Equity Interests pertaining to the refund of the

relevant equity interests;

- (b) the sum of the amount of retained earnings and the amount of capital surplus on the day on which the relevant return of equity interests was made.

(Amount of Net Assets)

Article 166 The method prescribed by Ordinance of the Ministry of Justice prescribed in Article 635, paragraph (2), paragraph (3) and paragraph (5) of the Act is a method taking the sum of the amounts listed below as the amount of net assets of a Membership Company:

- (i) the amount of stated capital;
- (ii) the amount of capital surplus;
- (iii) the amount of retained earnings;
- (iv) the amount pertaining to valuation and conversion differences, etc. on the last day of the Most Recent Business Year (when there is no Most Recent Business Year, the day of formation of the Membership Company).

**Supplementary Provisions [Act No. 28 of March 29, 2006] [Extract]**