

II. Accounting

As the result of above reform, Japanese GAAP is one of the "high quality, internationally recognized accounting standards" mentioned in the G8 Declaration on "Fostering Growth and Promoting a Responsible Market Economy" in June 2003. Now there are few differences between Japanese GAAP and IFRS, except for some relatively minor ones. Financial statements prepared by listed companies in accordance with Japanese GAAP have high comparability for investors with those in accordance with IFRS or US GAAP.

Convergence of accounting standards is an important goal, which is common to all market participants in order to foster confidence and efficiency in global capital markets. This goal is shared by the IASB and each national standards setter aiming to achieve convergence of accounting standards.

In the context of that goal, great importance should be attached to the process towards convergence of accounting standards. Considering the fact that Japanese securities issuers participate in global business and fund-raising activities using financial statements prepared in accordance with Japanese GAAP, they

have strong incentive for the convergence of accounting standards. Convergence process would progress more efficiently by making use of such incentive inherent in market participants.

Convergence of accounting standards should progress through selection and judgment by market participants. The accounting standards currently used in global financial markets, such as Japanese GAAP, can play an important role in the convergence process.

The Accounting Standards Board of Japan ("ASBJ") established in July 2001, has committed continuously to improve Japanese GAAP in line with developments in other major internationally recognized accounting standards including IFRS and US GAAP. As part of this effort, the ASBJ will continue to work together with the IASB to develop high quality accounting standards. Through such process, current differences between Japanese GAAP and IFRS will be reduced.

International Comparison of Accounting Standards-Overview of Major Japanese GAAP, IAS/IFRS, and US GAAP

Accounting Standards	Items	Japanese GAAP	IAS/IFRS	US GAAP
Financial Instruments	Measurement of securities	Fair value or amortised cost (bonds) depending on category	Fair value or amortised cost (bonds) depending on category	Fair value or amortised cost (bonds) depending on category
	Estimating potential credit losses/impairment	Discounted future cash flows	Discounted future cash flows	Discounted future cash flows
	Derecognition of financial assets	Legal isolation required□(Financial-components approach)	Legal isolation not required (Primarily risks and rewards approach)	Legal isolation required□(Financial-components approach)
	Measurement of derivatives	Fair value	Fair value	Fair value
	Hedge accounting	When hedging criteria are met	When hedging criteria are met	When hedging criteria are met
Business Combinations	Basic method	Purchase method	Purchase method	Purchase method
	Pooling of interests method	Exceptionally used only when strict criteria are met	Purchase method only	Purchase method only
	Goodwill	Strictly amortised with impairment	Not amortised, impairment only	Not amortised, impairment only
Impairment of Assets	Grouping	Lowest level (smallest identifiable group of assets) for which cash flows are largely independent of cash flows of other assets	Lowest level (smallest identifiable group of assets) for which cash flows are largely independent of cash flows of other assets	Lowest level (smallest identifiable group of assets) for which cash flows are largely independent of cash flows of other assets
	Indication of impairment	Assessed	Assessed	Assessed
	Recognition test	Undiscounted future cash flows	Recoverable amount (Higher of net selling price and value in use)	Undiscounted future cash flows
	Measurement	Recoverable amount (Higher of net selling price and value in use)	Recoverable amount (Higher of net selling price and value in use)	Fair value
	Reversal of impairment loss	Prohibited	Reversed (excluding goodwill)	Prohibited
Retirement Benefits	Recognition of liability	Retirement benefit obligation adjusted for unrecognised actuarial gains/losses and past service cost, minus plan assets	Retirement benefit obligation adjusted for unrecognised actuarial gains/losses and past service cost, minus plan assets	Retirement benefit obligation adjusted for unrecognised actuarial gains/losses and past service cost, minus plan assets
	Actuarial gains/losses	Strictly amortised without corridor	Corridor amortisation	Corridor amortisation
	Recognition of additional minimum liability	Not recognised	Not recognised	Unfunded Accumulated Benefit Obligation
Income Taxes	Basic method	Asset liability method	Asset liability method	Asset liability method
	Recording of deferred tax assets	Based on recoverability/realizability	Based on recoverability/realizability	Based on recoverability/realizability
Research & Development	Development costs	Expensed when incurred	Capitalised	Expensed when incurred
Consolidated Financial Statements	Scope of subsidiaries	Based on control	Based on control	Based on majority voting interest
	Presentation of minority interests	Between liability and equity	Equity	Between liability and equity (Under deliberation to change to equity)
Investment Property	Measurement	Cost	Fair value or cost	Generally cost

*Consistent treatment :