

Daiwa Institute of Research Ltd.
IFRS Survey

November, 2009

Dear Sir or Madam:

Financial reporting has been increasingly substantial under globalized capital markets and the recent financial turmoil has expedited its importance. In 2011, the Japanese accounting standard will be converged with the International Financial Reporting Standard (IFRS) and the authority may adopt it in 2015 or 16, which attracts profound attentions from both investors and CEOs, CFOs. However, most of them do not seem to have found yet how it will impact on financial reporting, or the communication between them.

Regarding the impacts of IFRS on stock valuation practices, we propose a hypothesis as shown below. Though we are quite confident that this hypothesis is reasonable, only investors can justify it because capital markets work subject to “beauty contest” principle. Therefore, we have decided to conduct on-site survey to investors, which includes a brief presentation on the hypothesis and an interview through discussions based on it. We believe that the presentation and discussion will be also beneficial to investors. Fortunately, this survey is endorsed by Corporate Finance and Treasury Association of Japan (CFTAJ) whose members are well known Japanese companies and have a sincere interest in this issue. An expert from CFTAJ may also join with us for the interview.

It will be highly appreciated if you understand the above intent and accept our visit and interview for the survey. Please refer to the following for your information.

1) Our hypothesis on IFRS impact study

IFRS will not cause any significant impacts on stock valuation practices.

- i. IFRS puts more emphasis on comprehensive income than net income on which the current Japanese standard often emphasizes. Far most impact from IFRS is expected to be caused from this gap.
- ii. In valuation practices based on IFRS-based financial statements, professional investors will divide the comprehensive income into two components, (a) earnings from their businesses and (b) gains or losses from risk factors, such as pensions and strategic shareholding.
- iii. For most Japanese companies, the gaps between (a) and their recurring profits, defined by the current Japanese standard and referred very often by investors, will be so insignificant that IFRS will not cause any significant changes to the valuation practices of their stocks.
- iv. Only a possible change in the valuation practices caused by IFRS is the impact from (b).

2) About CFTAJ

CFTAJ is founded on 1992 and has the function of lobbying for policies through various institutions so that corporations can be smoothly financed. The next page presents its member list.

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Member companies of CFTAJ (55 companies in total)

[Textile Industry]

Asahi Kasei Corporation

Teijin Limited

Toray Industries, Inc.

[Paper Industry]

Oji Paper Co., Ltd.

Nippon Paper Industries Co., Ltd.

[Petrochemical industry]

Sumitomo Chemical Co., Ltd.

Mitsubishi Chemical Corporation

Mitsui Chemicals, Inc

[Oil Refining Industry]

Nippon Oil Corporation

Nippon Mining Holdings

TonenGeneral Sekiyu K.K.

Showa Shell Sekiyu K.K.

[Steel Industry]

Nippon Steel Corporation

JFE Holdings, Inc.

Sumitomo Metal Industries, Ltd

Kobe Steel, Ltd.

[Industrial Machinery Industry]

IHI Corporation

Kawasaki Heavy Industries, Ltd.

Komatsu Ltd

Mitsubishi Heavy Industries, Ltd.

[Electronic • Electrical Machine Industry]

Hitachi, Ltd.

Fujitsu Limited

NEC Corporation

TOSHIBA Corporation

Mitsubishi Electric Corporation

Oki Electric Industry Co., Ltd

Panasonic Corporation

Sony Corporation

Fuji Xerox Co., Ltd.

IBM Japan, Ltd.

[Automobile Industry]

TOYOTA Motor Corporation

Nissan Motor Co., Ltd.

Honda Motor Co., Ltd.

[Electricity Supply Industry]

Hokkaido Electric Power Co., Inc

Tohoku Electric Power Co., Inc.

Tokyo Electric Power Co., Inc.

Chubu Electric Power Co., Inc.

Hokuriku Electric Power Company

Kansai Electric Power Co., Inc

The Chugoku Electric Power Co.,Inc.

Shikoku Electric Power Co., Inc

Kyusyu Electric Power Co, Inc.

[City Gas Industry]

Tokyo Gas Co., Ltd.

TOHO GAS Co., Ltd.

[General Trading Company]

Mitsubishi Corporation

ITOCHU Corporation

Sumitomo Corporation

Sojitz Corporation

Marubeni Corporation

MITSUI & Co., LTD

[Consumer Credit • Leasing Industry]

Mitsubishi UFJ NICOS Co., Ltd.

ORIX Corporation

Hitachi Capital Corporation

Tokyo Leasing CO., Ltd.

[Transport Industry]

East Japan Railway Company