

The introduction of a leading-edge system will lead to the further development of securities markets in Japan.

CHANGE

Dematerialization is scheduled for January 2009

The joint-stock company system was introduced into Japan more than 100 years ago. Stock certificates have long represented ownership rights of shareholders. The function of stock certificates, however, is soon to be eliminated, and physical certificates will be phased out.

In January 2009, the stock certificates of listed companies in Japan will become null and void. In turn, electronic records registered on computer systems will prove share ownership. This process is referred to as dematerialization of stock certificates. As an organization responsible for developing and maintaining Japan's stock clearing and settlement system, JASDEC has been cooperating with other relevant institutions for the conversion to the new system.

In this special feature, we will explain why the dematerialization of stock certificates is needed and its merits, as well as provide an overview of the new book-entry transfer system.



Why dematerialize stock certificates?

Stock certificates, with their watermarked paper and delicate ink, are part of the traditional world of stock ownership. The weight and texture of the certificates in their hands remind shareholders of the value of their rights. The paper certificates, however, require the cost of printing, the security needed to ensure their safekeeping, and the insurance required at the time of transfer, as well as the risks associated with their loss, theft or forgery. So long as stocks exist as physical certificates, they involve inherent costs and risks.

Dematerialization of stock certificates can eliminate such costs and risks. Under the new system, shareholders' rights are recorded electronically on the ledger of the book-entry transfer accounts. This system totally removes the risk of forgeries or loss (due to the lack of information regarding their place of storage) at the time of inheritance. For issuing companies, dematerialization of stock certificates not only results in cost reduction, but also improves the management of shareholder ledgers and allows for the easy recognition of the composition of shareholders, enabling the companies to use shareholder information effectively for IR activities and flexible capital policy.

In the 1990s, following the burst of Japan's economic bubble, the bankruptcy of large financial institutions caused a temporary halt in securities settlements, revealing various problems in Japan's securities clearing and settlement system. Since then, it has taken 10 years to reform the system; JASDEC, a key player of the reform, introduced a Delivery versus Payment (DVP) system that links the delivery of stocks with payments and a Straight-through-processing (STP) system, where entire trade processes and payment transactions are processed electronically without manual handling. In addition, we introduced book-entry transfer systems for dematerialized commercial papers, corporate bonds, and investment trusts. In January 2009, dematerialization of stock certificates will be commenced, as a further significant step for the securities clearing and settlement systems reform. Such initiatives provide higher levels of efficiency for system users, thereby lowering administrative costs and dramatically reducing the number of errors by manual processing.

October	1991	JASDEC commenced depository and book-entry transfer system initially for 50 stocks listed on the Tokyo Stock Exchange.
October	1992	JASDEC began full-scale services of depository and book-entry transfer.
September	2001	JASDEC launched its Pre-Settlement Matching System (PSMS) for domestic trades by domestic institutional investors.
November	2001	JASDEC started handling convertible bonds (CBs).
March	2003	JASDEC inaugurated its electronic book-entry system for dematerialized commercial paper (CP).
May	2004	JASDEC commenced DVP settlement services for NETDs.
January	2006	JASDEC debuted its book-entry transfer system for corporate bonds.
May	2006	JASDEC launched its depository and book-entry transfer system for foreign stocks.
January	2007	JASDEC introduced its book-entry transfer system for investment trusts.
January	2008	JASDEC commenced its dematerialized Exchange-Traded Funds (ETFs) book-entry transfer system.
January	2009	JASDEC will implement dematerialization of stock certificates.

Special Feature on Dematerialization

The New System and JASDEC's Role

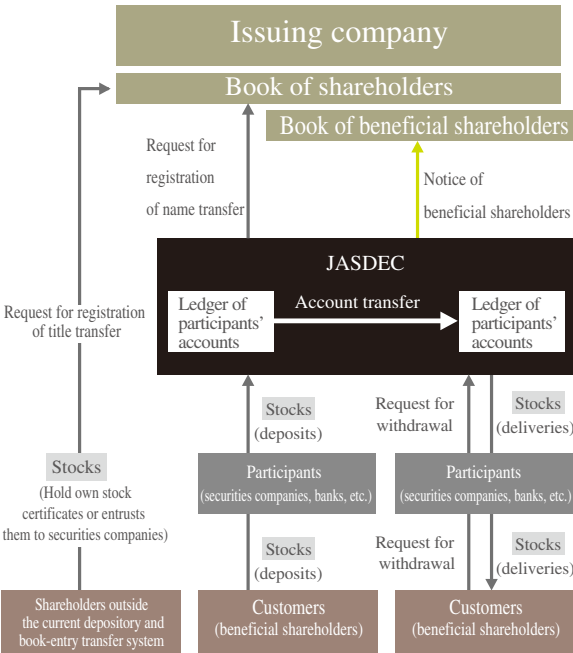
Under the current depository and book-entry transfer system, JASDEC, as the sole provider of central securities depository, accepts orders for securities deposits and withdrawals. JASDEC also holds the securities in custody and operates the book-entry transfer of the securities traded. In the event that shareholders, through securities companies, banks and other participants of the depository and book-entry transfer system, deposit their stock certificates with JASDEC, the certificates are managed in the ledger of book-entry transfer accounts provided by the participants. Under the current system, shareholders are allowed to keep stock certificates outside of the depository and book-entry transfer system. Therefore, issuing companies are required to keep two kinds of books: one of shareholders and the other of beneficial shareholders. This creates the additional task of identification of shareholders' names on both books ahead of the record date.

After conversion to dematerialization of stock certificates, stock certificates will become invalidated, being replaced by electronic records

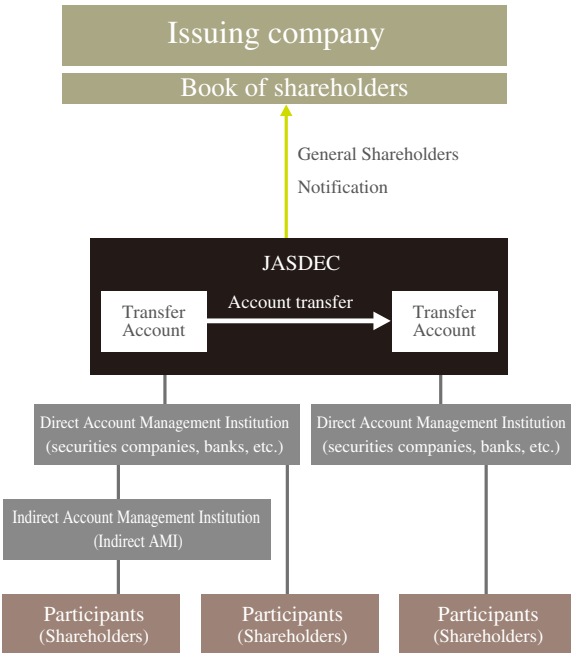
on the customer accounts at account management institutions such as securities companies and banks. The new system will consolidate two separate books of shareholders at issuing companies into a single book of shareholders. When a shareholder has accounts at more than one account management institution, name identification (which is currently carried out by individual issuing companies) will be conducted in JASDEC's system. Under the new system, shareholders information which is already identified by JASDEC will be delivered to issuing companies as "General Shareholders Notification" sooner than under the current system. It will greatly streamline the administrative procedures at issuing companies.

Moreover, the new system allows for a multitiered account structure for account management institutions, which is not recognized under the current system, and thus, further innovations in the system can be expected.

Current Depository and Book-Entry Transfer System



New Dematerialized Book-Entry Transfer System



Enhancing the flexibility of corporate financing policies

The stock market is by far Japan's largest securities market, both in terms of the number of participants and the value of trading. The market comprises a broad spectrum of participants, including approximately 4,000 listed companies, and around 50 million shareholders. To convert this large market to a fully electronic system, large investment was required. The dematerialization of stock certificates, however, provides tremendous efficiencies, much more than the investment. By taking advantage of the opportunities offered by this new environment, JASDEC is preparing a variety of new services.

Until now, issuing companies have had to bear substantial administrative costs for name identification, delivery of dividend payments, and procedures involving corporate actions, such as capital increase and exercise of voting rights.

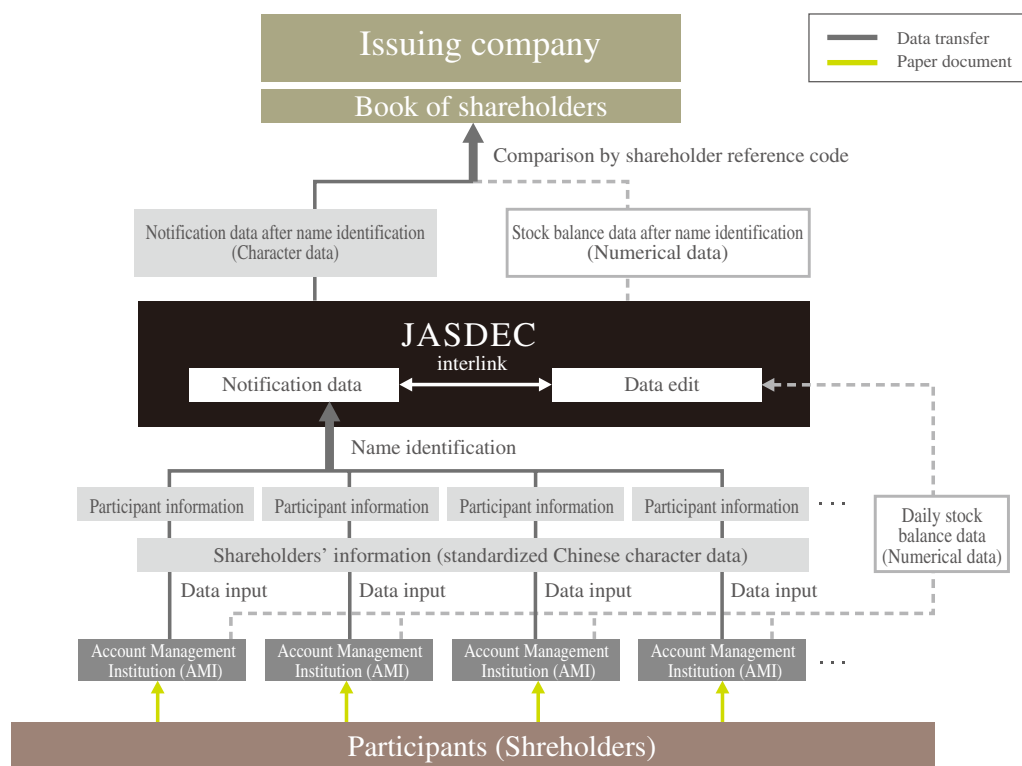
In contrast, with the dematerialization of stock certificates, names and addresses of a total of 50 million shareholders' data will be recorded

electronically in JASDEC's database. JASDEC will consolidate the management of the data which is currently tracked by each issue and each custodian, respectively. Under the new system, General Shareholders Notification can be sent to issuing companies within three business days after the record date, thereby streamlining administrative procedures to identify shareholders more quickly and efficiently.

Moreover, under the new system, issuing companies are able to request JASDEC for General Shareholders Notification, thereby promptly recognizing the composition of their shareholders. Thus, it leads to greater flexibility for issuing companies for their IR activities and corporate finance policy formulation.

In addition, issuing companies are able to request JASDEC to submit information on whether a certain individual or organization is on Transfer Account Book. Shareholders, for their parts, are entitled to request JASDEC to send

Outline of General Shareholders Notification



Special Feature on Dematerialization

notifications to the relevant issuing companies to confirm the number of shares they hold, thereby allowing them to exercise their rights as minority shareholders.

The dematerialization of stock certificates thus streamlines not only administrative tasks of issuing companies but also shareholders' procedures for the exercise of their rights.

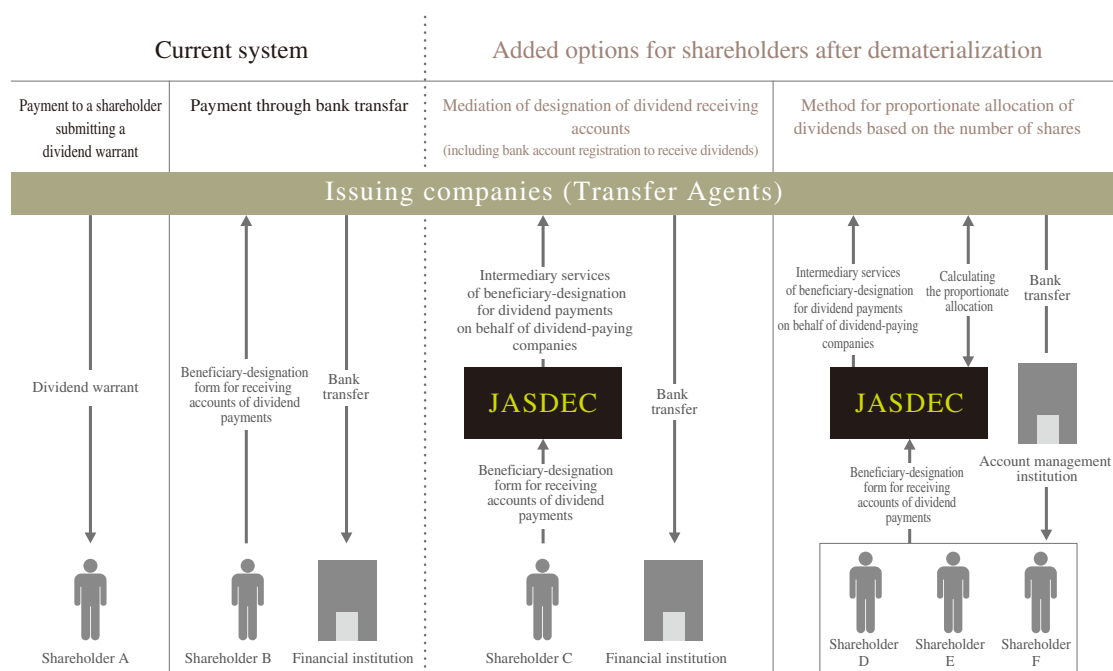
More convenient, efficient dividend payments

By the dematerialization of stock certificates, dividend payments also become more convenient and efficient. Under the current system, dividends are paid through bank transfer into shareholders' accounts at financial institutions or using dividend warrants sent to shareholders. However, the dividend warrants are occasionally lost, and the dividend payment is not properly completed. After implementation of new system, in addition to existing procedures, shareholders could receive dividends from issuing companies through

shareholders' accounts at financial institutions once they designate the accounts via JASDEC to issuing companies.

On top of the previous system, shareholders also receive dividends through their accounts at account management institutions of their securities. In such cases, the issuing companies can pay the total amount of dividends collectively to the account management institutions which deliver the dividends to each shareholder's account, respectively. This new framework of dividend

Dividend payment method under dematerialized system



payment service would reduce cost and administrative procedures for issuing companies.

In this way, dematerialization of stock certificates would consolidate the management of a total of 50 million shareholders and increase efficiency for notification to shareholders by issuing companies and dividend payments.

Other than the new services we have described above, the new systems have possibilities for improving the relationship between issuing

companies and shareholders. JASDEC will continue to further improve convenience for shareholders, issuing companies, and account management institutions.

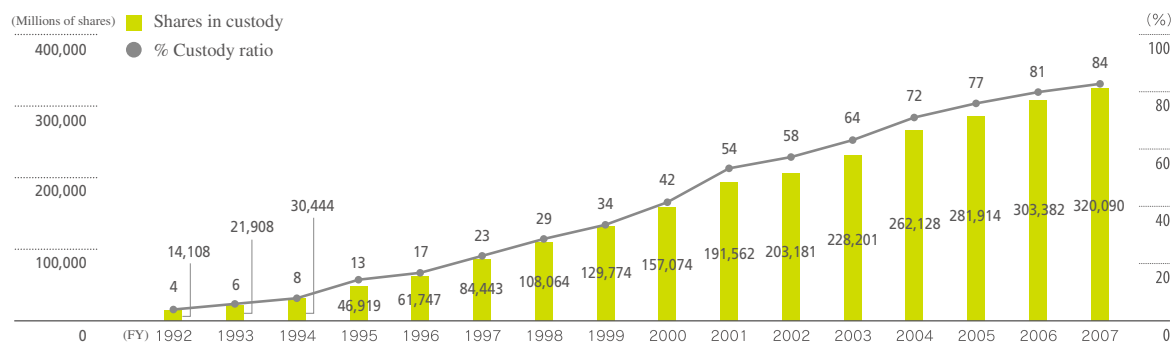
Promotion for shareholders to promptly deposit stock certificates with JASDEC through participants in custody under the new depository system

JASDEC has been developing the new system in collaboration with related parties, including account management institutions, issuing companies, stock exchanges, the Bank of Japan, and regulatory authorities. JASDEC are now taking the final stage of the preparations by drawing texts of various regulations and manuals, and conducting test runs of the system.

The remaining task is to keep every shareholder informed about dematerialization of stock certificates. As of March 31, 2008, the percentage of shares in custody represented 84.3% of all outstanding shares listed on Japanese stock exchanges, but some 46 billion stock certificates are not yet deposited for participants, according to surveys in March 2008. Of them, 13 billion stock certificates

are being held by individuals, while another 12 billion stock certificates are being held by companies in their vaults, respectively. These stock certificates should be deposited with JASDEC through participants by the time of the dematerialization. If these stock certificates are not deposited with JASDEC by the time of dematerialization, through account management institutions, and the shareholders' names are registered on the Book of Shareholders, issuing companies will open special accounts for these shareholders. Therefore, these shareholders will not lose their status as shareholders. But, if shareholders kept stock certificates without registering their own names until implementation date of the dematerialization, issuing companies would open the special accounts by names registered on

Balance of stock certificates in custody



Special Feature on Dematerialization

Book of Shareholders. After the dematerialization, such shareholders would have been involved in complicated process to register their own names and change the shareholders' status. (In some cases, shareholders could actually lose their rights to those shares.)

In order to avoid troubles caused by shareholders who rush to deposit their stock certificates in the last minutes of the dematerialization, JASDEC and regulatory authorities have asked issuing companies and securities companies to send leaflets to shareholders urging them to deposit their stock certificates as soon as possible. Financial institutions and some public organizations are also appealing to shareholders for early deposit by using posters and pamphlets. To publicize the issue of dematerialization among shareholders,

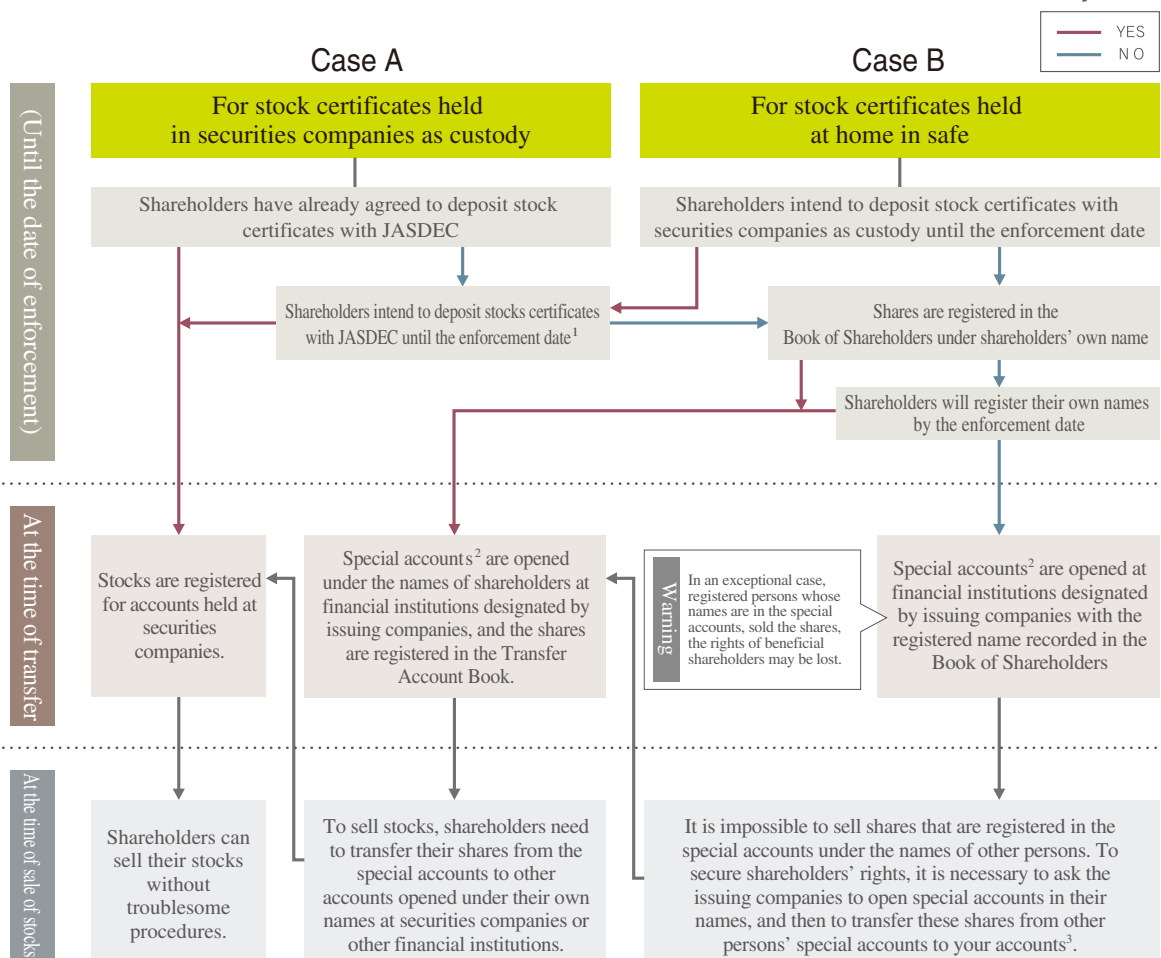
we conducted information meetings all over Japan and utilize media channels (television, radio, newspapers and the newsletters of municipal governments). We are also making efforts to raise awareness of issuing companies regarding shares held in their vaults, and are requesting prompt deposit of these shares.

Valuable infrastructure in Japan's society

Dematerialization of stock certificates will transform Japan's securities markets. In the markets for investment trusts and corporate bonds where fully dematerialized systems already started ahead of the equities market, new products which utilize the new infrastructure have been introduced. As the scale of the equities market is much larger than that of other securities, a number of new products and

services can be expected to be launched rapidly. Dematerialization of stock certificates will serve as a key infrastructure for society, thereby benefiting not only the securities business but also Japan's economy.

Schedule for dematerialization of stock certificates and sale of stocks under the new system



¹ In a special two-week period which ends two weeks plus one business day before the enforcement date, a provision has been made enabling securities companies and other financial institutions to entrust stocks in their custody to JASDEC without approval of shareholders. (Following the entrustment of these stocks to JASDEC, securities companies and other financial institutions must contact the shareholders involved without delay.) After this special period is over, shareholders will be prohibited by law from requesting securities companies and other financial institutions to deposit or withdraw shares. For this reason, it is critical to arrange for prompt deposit.

² In standard practices, shareholders open accounts at financial institutions by submitting application forms. To open special accounts, however, issuing companies have to apply to financial institutions for opening special account on behalf of shareholders.

³ Ways in which requests for share ownership can be made to issuing companies: 1) Submit a request jointly with persons whose names are registered in the special accounts; 2) submit a request simultaneously with an order issued by qualified authorities for the transfer of shares from the special accounts to the persons acquiring those shares; and 3) any other means provided for by the relevant Finance Ministry ordinances.