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Shareholders approved a resolution on June 25, 2003 at the annual general meeting of shareholders to raise our dividend to ¥25.00 from the level of ¥15.00, which had been maintained for 13 years since the fiscal year ended March 31, 1990. Thereafter, the board of directors approved dividends of ¥40.00, ¥90.00 and ¥130.00 at the meetings held on May 20, 2005, May 18, 2006 and May 10, 2007, respectively.

We seek to increase shareholder value by achieving financial stability and steady growth through a policy of reinvesting retained earnings in our businesses, to strengthen our base operations, and targeted growth opportunities that offer to expand profits. As part of this strategy, our current dividend policy is to increase shareholder value through medium- and long-term profit growth while maintaining a steady dividend. We also consider share repurchases after taking into account a variety of factors including our level of retained earnings, our overall financial condition, stock price trends and the general economic environment.

We currently intend to continue to pay annual cash dividends on the Shares. In the future, however, we may decide not to pay dividends for any of the following reasons:

- in response to a decline in our earnings or financial condition;
- to maintain our debt-to-equity ratios at a desired level; or
- if any of our lenders with the right to review our dividend plan and approve our payment of dividends objects to a planned dividend.

Pursuant to the amendment to the Special Taxation Measures Law, dividends paid to US holders of Shares or ADSs are generally subject to a Japanese withholding tax at the rate of 7% for the period from January 1, 2004 to March 31, 2009.

### **TAXATION**

#### **JAPANESE TAXATION**

The following is a summary of the principal Japanese tax consequences for owners of the Shares or ADSs who are non-resident individuals of Japan or non-Japanese corporations without a permanent establishment in Japan to which the relevant income is attributable (“non-resident Holders”). The statements regarding Japanese tax laws set forth below are based on the laws in force and as interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or conventions for the avoidance of double taxation occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor and potential investors are advised to satisfy themselves as to:

- the overall tax consequences of the acquisition, ownership and disposition of Shares or ADSs, including specifically the tax consequences under Japanese law;
- the laws of the jurisdiction of which they are resident; and
- any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

#### **Shares**

Generally, a non-resident Holder is subject to Japanese withholding tax on dividends on Shares or ADSs paid by us. Stock splits are not subject to Japanese income or corporation tax.

Pursuant to the Special Taxation Measures Law, the Japanese withholding tax rate applicable to dividends on Shares or ADSs paid to non-resident Holders by us is 7% for dividends due and payable on or before March 31, 2008. Japan has entered into income tax treaties, conventions and agreements where this withholding tax rate is, in some cases, reduced to a lower percentage for portfolio investors. Non-resident Holders in the countries who are entitled to this reduced Japanese withholding tax rate are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends in advance through us to the relevant Japanese tax authority before the payment of dividends. A standing proxy for a

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non-resident Holder may provide such application service. Non-resident Holders who do not submit an application in advance will be entitled to claim the refund from the relevant Japanese tax authority of those withholding taxes withheld in excess of the rate of an applicable tax treaty.

The Convention between the United States of America and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, or the Tax Convention, provides for a maximum rate of Japanese withholding tax which may be imposed on dividends paid to a United States resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate is generally limited to 10% of the relevant dividends.

Gains derived from the sale outside Japan of Shares or ADSs, or from the sale of Shares or ADSs within Japan by a non-resident Holder, are, in general, not subject to Japanese income or corporation taxes.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired Shares or ADSs as legatee, heir or donee.

### **UNITED STATES TAXATION**

The following discussion describes the material United States federal income tax consequences of ownership and disposition of Shares or ADSs held as capital assets by United States Holders (as defined below).

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of their particular circumstances or to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;
- dealers and traders in securities or foreign currencies;
- persons holding Shares or ADSs as part of a hedge, straddle, conversion transaction or other integrated transaction;
- persons whose functional currency for US federal income tax purposes is not the dollar;
- partnerships or other entities classified as partnerships for US federal income tax purposes;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- persons that own or are deemed to own 10% or more of the voting stock of the Company;
- persons carrying on a trade or business in Japan through a permanent establishment; or
- person who acquired Shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

This summary is based on the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this annual report may affect the tax consequences described herein. It is also based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreements will be performed in accordance with its terms.

As used herein, the term "United States Holder" means a beneficial owner of Shares or ADSs that is for United States federal income tax purposes:

- a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for US federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to United States federal income taxation regardless of our source.

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We believe that we will be considered a passive foreign investment company, or a PFIC, for United States federal income tax purposes in the year to which this annual report relates and for the foreseeable future by reason of the composition of our assets and the nature of our income.

Persons considering the purchase of Shares or ADSs should consult their tax advisors with regard to the PFIC rules described below as well as the application of other United States federal income tax laws relevant to their particular situations and any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

### **Shares or ADSs**

In general, a United States Holder of ADSs will be treated as the owner of the underlying shares represented by those ADSs for US federal income tax purposes. Accordingly, no gain or loss will be recognized if the United States Holder exchanges ADSs for the underlying shares represented by those ADSs.

The US Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits for United States Holders of ADSs. Accordingly, the analysis of the creditability of Japanese taxes, described below, could be affected by actions taken by parties to whom the ADSs are pre-released.

### *Taxation of Distributions*

Subject to the passive foreign investment company rules described below, distributions paid on Shares or ADSs, other than certain pro rata distributions of common shares, will be treated as a dividend to the extent paid out of our current or accumulated earnings and profits (as determined under United States federal income tax principles). Because we expect to be treated as a passive foreign investment company, dividends paid by us will not be eligible for the reduced 15% dividend tax rate otherwise available to certain non-corporate United States Holders. The amount of a dividend will include any amounts withheld by us or our paying agent in respect of Japanese taxes, as discussed above under "Taxation—Japanese Taxation—Shares." The amount of the dividend will be treated as foreign source dividend income to United States Holders and will not be eligible for the dividends received deduction generally allowed to US corporations under the Code.

Dividends paid in yen will be included in the income of a United States Holder in a US dollar amount calculated by reference to the exchange rate in effect on the date of the United States Holder's (or, in the case of ADSs, the depository's) receipt of the dividend, regardless of whether the payment is in fact converted into US dollars. If the dividend is converted into US dollars on the date of receipt, a United States Holder generally should not be required to recognize a foreign currency gain or loss in respect of the dividend income. A United States Holder may have a foreign currency gain or loss if such holder does not convert the amount of such dividend into US dollars on the date of its receipt.

Subject to applicable limitations that may vary depending upon the United States Holder's circumstances and subject to the discussion above regarding concerns expressed by the US Treasury, Japanese taxes withheld from dividends on Shares or ADSs not in excess of the rate provided by the Tax Convention will be creditable against the United States Holder's US federal income tax liability. Japanese taxes withheld in excess of the rate allowed by the US treaty will not be eligible for credit against a United States Holder's federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex and, therefore, United States Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, United States Holders may, upon election, deduct such otherwise creditable Japanese taxes in computing taxable income, subject to generally applicable limitations under US law.

### *Passive Foreign Investment Company Rules*

If, as expected, we are treated as a PFIC for any year during a United States Holder's holding period of the Shares or ADSs, and the United States Holder has not made the mark-to-market election for the Shares or ADSs,

as described below, the holder will be subject to special rules generally intended to eliminate any benefits from the deferral of US federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Upon a disposition of Shares or ADSs, including, under proposed Treasury regulations, a disposition pursuant to an otherwise tax-free reorganization, gain recognized by a United States Holder would be allocated ratably over its holding period for the Shares or ADSs. The amounts allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations for such year, as appropriate, and an interest charge would be imposed on the tax liability allocated to such taxable year. Further, any distribution in respect of Shares or ADSs in excess of 125 percent of the average of the annual distributions on Shares received during the preceding three years or the United States Holder's holding period, whichever is shorter, would be subject to taxation as described above with respect to the sale or other disposition of Shares.

If the Shares or ADSs are considered regularly traded on a "qualified exchange," a United States Holder of Shares or ADSs would be eligible to make a mark-to-market election. A "qualified exchange" includes the NYSE and a foreign exchange that is regulated by a governmental authority in which the exchange is located and with respect to which certain other requirements are met. The Internal Revenue Service, or IRS, has not yet identified specific foreign exchanges that are "qualified" for this purpose.

If a United States Holder is eligible and makes the mark-to-market election, the United States Holder will include each year, as ordinary income, the excess, if any, of the fair market value of the Shares or ADSs at the end of the taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a United States Holder validly makes the election, the holder's basis in the Shares or ADSs will be adjusted to reflect any such income or loss amounts. Any gain recognized on the sale or other disposition of Shares or ADSs will be treated as ordinary income.

We do not intend to comply with the requirements necessary for a United States Holder to make a different election (the qualified electing fund election), which is sometimes available to shareholders of a PFIC.

Special rules apply to determine the foreign tax credit with respect to withholding taxes imposed on distributions on shares in a PFIC.

If a United States Holder owns Shares during any year in which we are a PFIC, the holder must file IRS Form 8621 with the IRS.

We urge United States Holders to consult their tax advisors concerning our status as a PFIC and the tax considerations relevant to an investment in a PFIC, including the availability and consequences of making the mark-to-market election discussed above.

#### *Backup Withholding and Information Reporting*

Information returns may be filed with the IRS in connection with payments of dividends on the Shares or ADSs and on the proceeds from a sale or other disposition of Shares or ADSs. A United States Holder, other than exempt recipients such as all corporations, will be subject to United States backup withholding tax on these payments if the United States Holder fails to provide our taxpayer identification number to the paying agent and comply with certain certification procedures or otherwise establish an exemption from backup withholding.

The amount of any backup withholding from a payment to a United States Holder will be allowed as a credit against the such holder's United States federal income tax liability and may entitle such holder to a refund, provided that the required information is furnished to the IRS.