## 1. Basis of Presenting Consolidated Financial Statements

The Company and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code, the Securities and Exchange Law, and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Significant Accounting Policies

**Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries (together with the Company, the "Group") which the Company controls through majority voting right or existence of certain conditions. Investments in affiliates of which the Company has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method.

In the elimination of investments in subsidiaries, the portion of assets and liabilities of a subsidiary attributable to the subsidiary's shares acquired by the Company are recorded based on the fair value as of the respective dates when such shares were acquired. The amounts of assets and liabilities attributable to minority shareholders of the subsidiary are determined using the financial statements of the subsidiary.

Material intercompany balances, transactions and profits have been eliminated in consolidation.

The difference between the cost and underlying fair value of the net equity of investments in subsidiaries at acquisition is included in other assets and is amortized on a straight-line basis over five years.

**Cash flow statements**

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

**Foreign currency translation**

All monetary assets and liabilities denominated in foreign currencies are translated at the current exchange rates at the balance sheet date, and the translation gains and losses are credited or charged to income.

Assets and liabilities of foreign subsidiaries are translated into yen at the current exchange rate at the balance sheet date while their revenue and expenses are translated at the average exchange rate for the period. Differences arising from such translation are included in minority interests and shareholders' equity as foreign currency translation adjustments.

**Securities**

Debt securities designated as held-to-maturity are carried at amortized cost. Other securities except for trading securities (hereafter, "available-for-sale securities") for which market value is readily determinable are stated at market value as of the end of the period with unrealized gains and losses, net of applicable deferred tax assets or liabilities, not reflected in earnings but directly reported as a separate component of shareholders' equity. The cost of such securities sold is determined primarily by the moving-average method. Available-for-sale securities for which market value is not readily determinable are stated primarily at moving-average cost except for debt securities, which are stated at amortized cost.

**Derivatives and hedge accounting**

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Group uses forward foreign currency contracts and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuations of foreign currency exchange rates with respect to foreign currency assets and liabilities and of interest rate increases with respect to cash management.

Forward foreign currency and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Company's Finance Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

**Allowance for doubtful accounts**

The allowance for doubtful accounts is provided at an amount sufficient to cover probable losses on the collection of receivables. For the Group, the amount of the allowance is determined based on past write-off experience and an estimated amount of probable bad debt based on a review of the collectibility of individual receivables.

**Inventories**

Inventories are stated principally at the lower of cost (first-in, first-out) or market (replacement cost or net realizable value).

**Property, plant and equipment**

Property, plant and equipment is stated at cost. Depreciation is principally determined by the declining-balance method at rates based on estimated useful lives except for the following buildings. The building of the head office of the Company and buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method.

Effective from the year ended March 31, 2005, the Company and its domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003) with early adoption permitted from the year ended March 31, 2004 or thereafter.

As a result, income before income taxes and minority interests decreased by ¥1,494 million for the year ended March 31, 2005, compared with what would have been reported if the new accounting standard had not been adopted early.

Accumulated loss from impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

**Software costs**

Software is categorized by the following purposes and amortized using the following two methods.

Software for market sales: The production costs for the master product are capitalized and amortized over no more than 3 years on a projected revenue basis.

Software for internal use: The acquisition costs of software for internal use are amortized over 5 years using the straight-line method.

The amount of software costs capitalized is included in other assets in the consolidated balance sheets.

**Stock issuance expenses**

Stock issuance expenses are charged to income as incurred. Stock issuance expenses are included in other expenses in the consolidated statements of income.

**Bond issuance expenses and bond premium**

Bond issuance expenses are charged to income as incurred. Bond issuance expenses are included in other expenses in the consolidated statements of income.

Bond premium is amortized using the straight-line method over the life of the bond (6 years and 10 months).

**Employees' severance and retirement benefits**

Under the terms of the employees' severance and retirement plan, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to severance payments based on compensation at the time of severance and years of service.

Employees' severance and retirement benefits of the Company and some of its consolidated subsidiaries are covered by two kinds of pension plans which are employees' pension fund plan and tax-qualified pension plan. And those of some of its consolidated subsidiaries in Japan are covered by lump-sum indemnities.

The Company and its domestic consolidated subsidiaries received the permission from the Minister of Health, Labor and Welfare, for release from the obligation of paying benefits for employees' prior services relating to the substitutional portion of the Welfare Pension Insurance Scheme. Concurrently, employees' pension fund plan was changed to defined benefit corporate pension fund plan.

The Company and its domestic consolidated subsidiaries provide defined contribution plan. In addition, the Company has established an employee retirement benefits trust.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries in Japan provided liabilities for severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation"). The net transition obligation is recognized in expenses in equal amounts over 10 years commencing with the year ended March 31, 2001.

**Retirement benefits for directors and corporate auditors**

The annual provision for accrued retirement benefits for directors and corporate auditors of the Company and certain subsidiaries is calculated to state the liability at the amount that would be required if all directors and corporate auditors had retired at each balance sheet date. The provisions for the retirement benefits are not funded.

**Accounting for certain lease transactions**

Finance leases, which do not transfer titles to lessees, are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

**Income taxes**

Taxes on income consist of corporation, inhabitants and enterprise taxes.

Deferred income taxes are provided for the items relating to intercompany profit elimination in connection with the calculation of the consolidated results of operations. In addition, some foreign subsidiaries recognize deferred income taxes in accordance with accounting practices prevailing in their respective countries of domicile.

The Group recognizes tax effects of temporary differences between the financial statement and the tax basis of assets and liabilities. The provision for income taxes is computed based on the income before income taxes and minority interests included in the statements of income of each company of the Group. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

**Appropriations of retained earnings**

Appropriations of retained earnings are accounted for and reflected in the accompanying consolidated financial statements when approved by the shareholders.

**Amounts per share of common stock**

Net income per share of common stock has been computed based on the weighted average number of shares of common stock outstanding during each fiscal year (less the treasury stock). For diluted net income per share, the number of shares outstanding is adjusted to assume the conversion of convertible bonds. Related interest expense, net of income taxes, is eliminated.

Cash dividends per share represent the actual amount applicable to the respective years.

**Reclassifications**

Certain reclassifications have been made in the 2005 consolidated financial statements to conform to the 2006 presentation.

## 3. Cash and Cash Equivalents and Statements of Cash Flows

Cash and cash equivalents at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Cash and time deposits | **¥ 71,818** | ¥ 83,528 | **$ 613,829** |
| Time deposits over three months | **(757)** | (617) | **(6,470)** |
| Marketable securities within three months | **29,171** | 44,678 | **249,325** |
| Short-term loans receivable with resale agreement | **25,000** | 20,000 | **213,675** |
| Cash and cash equivalents | **¥125,232** | ¥147,589 | **$1,070,359** |

## 4. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Finished products | **¥35,792** | ¥38,109 | **$305,914** |
| Work in process | **7,733** | 8,234 | **66,094** |
| Materials and supplies | **14,118** | 16,233 | **120,667** |
| Total | **¥57,643** | ¥62,576 | **$492,675** |

## 5. Securities

(1) The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2006 and 2005.

(a) Held-to-maturity debt securities

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | | **2006** | | |
| | Book value | Fair value | Difference | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Securities with available fair values exceeding book values | **¥2,230** | **¥2,399** | **¥169** | ¥2,230 | ¥2,433 | ¥203 | **$19,060** | **$20,504** | **$1,444** |
| Securities other than the above | — | — | — | — | — | — | — | — | — |
| Total | **¥2,230** | **¥2,399** | **¥169** | ¥2,230 | ¥2,433 | ¥203 | **$19,060** | **$20,504** | **$1,444** |

(b) Available-for-sale securities

Securities with book values exceeding acquisition costs:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | | **2006** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | **¥13,767** | **¥28,956** | **¥15,189** | ¥ 8,753 | ¥14,118 | ¥5,365 | **$117,666** | **$247,487** | **$129,821** |
| Bonds | **4,186** | **4,293** | **107** | 4,425 | 4,559 | 134 | **35,778** | **36,692** | **914** |
| Others | **431** | **1,860** | **1,429** | 804 | 1,222 | 418 | **3,684** | **15,898** | **12,214** |
| Total | **¥18,384** | **¥35,109** | **¥16,725** | ¥13,982 | ¥19,899 | ¥5,917 | **$157,128** | **$300,077** | **$142,949** |

Others:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | | **2006** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | **¥ 638** | **¥ 575** | **¥ (63)** | ¥ 4,621 | ¥ 3,869 | ¥(752) | **$ 5,453** | **$ 4,914** | **$(539)** |
| Bonds | **5,973** | **5,959** | **(14)** | 6,627 | 6,622 | (5) | **51,051** | **50,932** | **(119)** |
| Others | **1,869** | **1,845** | **(24)** | — | — | — | **15,975** | **15,769** | **(206)** |
| Total | **¥8,480** | **¥8,379** | **¥(101)** | ¥11,248 | ¥10,491 | ¥(757) | **$72,479** | **$71,615** | **$(864)** |

(2) The following tables summarize book values of securities with no available fair values at March 31, 2006 and 2005.

(a) Book value of held-to-maturity debt securities

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Certificates of deposit | **¥10,000** | ¥6,500 | **$85,470** |

(b) Book value of available-for-sale securities

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Unlisted equity securities | **¥ 3,109** | ¥ 3,224 | **$ 26,572** |
| Commercial paper | **19,171** | 23,598 | **163,855** |
| Short-term treasury bonds | **—** | 14,580 | **—** |
| Total | **¥22,280** | ¥41,402 | **$190,427** |

(3) Available-for-sale securities sold in the year ended March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Sales amount | **¥198** | ¥472 | **$1,692** |
| Gross realized gains | **76** | 206 | **650** |
| Gross realized losses | **1** | 1 | **9** |

(4) Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | | | | | 2005 | | | | |
| | Within one year | Within five years | Within ten years | Over ten years | Total | Within one year | Within five years | Within ten years | Over ten years | Total |
| Bonds: | | | | | | | | | | |
| Government bonds | **¥ —** | **¥ —** | **¥ —** | **¥ —** | **¥ —** | ¥14,580 | ¥ — | ¥ — | ¥— | ¥14,580 |
| Corporate bonds | **—** | **2,230** | **300** | **—** | **2,530** | — | 2,230 | — | — | 2,230 |
| Others | **29,174** | **8,773** | **1,087** | **—** | **39,034** | 30,100 | 9,643 | 1,409 | — | 41,152 |
| Others: | | | | | | | | | | |
| Others | **—** | **—** | **1,000** | **872** | **1,872** | — | — | — | — | — |
| Total | **¥29,174** | **¥11,003** | **¥2,387** | **¥872** | **¥43,436** | ¥44,680 | ¥11,873 | ¥1,409 | ¥— | ¥57,962 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | **2006** | | | | |
| | Within one year | Within five years | Within ten years | Over ten years | Total |
| Bonds: | | | | | |
| Government bonds | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| Corporate bonds | **—** | **19,060** | **2,564** | **—** | **21,624** |
| Others | **249,350** | **74,983** | **9,291** | **—** | **333,624** |
| Others: | | | | | |
| Others | **—** | **—** | **8,547** | **7,453** | **16,000** |
| Total | **$249,350** | **$94,043** | **$20,402** | **$7,453** | **$371,248** |

## 6. Derivative Transactions

### Status of derivative transactions

The Group utilizes interest rate swap and swaption contracts as derivative transactions to hedge interest rate risks arising from normal business transactions and improve the efficiency of the utilization of available funds.

The Group also utilizes forward foreign currency contracts and currency options to hedge currency fluctuation risks arising from the export of products and materials for products in addition to hedging through increases in overseas production and the overseas procurement of materials.

The derivative transactions are solely made with highly rated financial institutions; therefore, the Group does not expect any credit risks.

The Group utilizes derivatives following the internal regulation for derivatives, which stipulates policy, objective, scope, organization, procedures and financial institutions to deal with, and has a reporting system for derivative transactions reflecting proper internal control functions.

### Fair value of derivative transactions

The aggregate amounts contracted to be paid or received and the fair values of derivative transactions of the Group at March 31, 2006 and 2005 were as follows:

Currency-related derivatives:

| | Millions of Yen | | | | | | | | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | | | | 2005 | | | | **2006** | | | |
| | Contract amount | | | | Contract amount | | | | Contract amount | | | |
| | Total | Due after one year | Fair value | Realized gain (loss) | Total | Due after one year | Fair value | Realized gain (loss) | Total | Due after one year | Fair value | Realized gain (loss) |
| Forward contracts: | | | | | | | | | | | | |
| To sell: | | | | | | | | | | | | |
| U.S. dollars... | **¥22,161** | **¥—** | **¥22,697** | **¥(536)** | ¥18,610 | ¥— | ¥19,228 | ¥ (618) | **$189,410** | **$—** | **$193,991** | **$(4,581)** |
| Euros............ | **10,488** | **—** | **10,830** | **(342)** | 26,953 | — | 27,350 | (397) | **89,641** | **—** | **92,564** | **(2,923)** |
| Sterling pounds ... | **1,565** | **—** | **1,590** | **(25)** | 1,680 | — | 1,714 | (34) | **13,376** | **—** | **13,590** | **(214)** |
| Total ............ | **¥34,214** | **¥—** | **¥35,117** | **¥(903)** | ¥47,243 | ¥— | ¥48,292 | ¥(1,049) | **$292,427** | **$—** | **$300,145** | **$(7,718)** |
| To buy: | | | | | | | | | | | | |
| U.S. dollars... | **¥115** | **¥—** | **¥117** | **¥2** | ¥— | ¥— | ¥— | ¥— | **$983** | **$—** | **$1,000** | **$17** |
| Total ............ | **¥115** | **¥—** | **¥117** | **¥2** | ¥— | ¥— | ¥— | ¥— | **$983** | **$—** | **$1,000** | **$17** |

Interest rate swap and option-related derivatives:

The Group has entered into interest rate swap agreements to reduce its exposure resulting from adverse fluctuations in interest rate on underlying debt instruments. They are all designated as hedges meeting certain hedging criteria and there are no transactions that need to disclose contract amount, fair value and realized gain or loss to be reported for the years ended March 31, 2006 and 2005.

## 7. Short-term Borrowings and Long-term Debt

Short-term borrowings represent unsecured bank loans and its average interest rates were 1.0% and 0.7% per annum at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| 2.05% unsecured bonds due in 2005 | **¥ —** | ¥ 30,000 | **$ —** |
| 2.575% unsecured bonds due in 2007 | **10,000** | 10,000 | **85,470** |
| 1.42% unsecured bonds due in 2009 | **10,000** | 10,000 | **85,470** |
| 0% unsecured bonds with stock acquisition rights due in 2010 | **20,000** | 20,000 | **170,940** |
| Unsecured loans principally from banks at interest rates of 0.36% to 1.83% maturing through 2012 | **80,197** | | **685,445** |
| Unsecured loans principally from banks at interest rates of 0.35% to 1.83% maturing through 2011 | | 83,810 | |
| Total | **120,197** | 153,810 | **1,027,325** |
| Less amount due within one year | **20,747** | 39,655 | **177,325** |
| | **¥ 99,450** | ¥114,155 | **$ 850,000** |

0% unsecured bonds with stock acquisition rights provide, among other conditions, for conversion into shares of common stock at the conversion prices per share of ¥1,642 ($14.03), subject to change in certain circumstances.

The annual maturities of long-term debt at March 31, 2006 were as follows:

| Year ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2007 | ¥20,747 | $177,325 |
| 2008 | 32,000 | 273,504 |
| 2009 | 26,500 | 226,496 |
| 2010 | 10,500 | 89,744 |
| 2011 | 20,450 | 174,786 |
| Thereafter | 10,000 | 85,470 |

The line of credit with the main financial institutions agreed as of March 31, 2006 and 2005 was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Line of credit | **¥50,500** | ¥60,300 | **$431,624** |
| Unused | **50,500** | 60,300 | **431,624** |

## 8. Income Taxes

The Company and consolidated domestic subsidiaries used the statutory income tax rate of 40.7% for calculation of deferred income tax assets and liabilities at March 31, 2006 and 2005.

The following table summarizes the significant differences between statutory tax rate and the Group's tax rate for financial statement purposes for the years ended March 31, 2006 and 2005:

| | **2006** | 2005 |
|---|---|---|
| Statutory tax rate | **40.7%** | 40.7% |
| Increase (Reduction) in tax resulting from: | | |
| Nondeductible expenses (Entertainment, etc.) | **0.3** | 0.4 |
| Nontaxable income (Dividends received deduction, etc.) | **(1.5)** | (1.2) |
| Difference in statutory tax rate (included in foreign subsidiaries) | **(1.9)** | (1.3) |
| Income tax credits | **(4.4)** | (5.6) |
| Effect of elimination of dividends income | **2.6** | — |
| Other | **(0.1)** | (1.5) |
| Effective tax rate | **35.7%** | 31.5% |

Significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Deferred tax assets: | | | |
| Employees' severance and retirement benefits | **¥ 6,433** | ¥ 6,015 | **$ 54,983** |
| Accrued expenses (bonuses to employees) | **3,042** | 2,972 | **26,000** |
| Inventories | **2,402** | 3,444 | **20,530** |
| Net operating loss carryforwards | **2,229** | — | **19,051** |
| Intangible fixed assets | **2,181** | 1,549 | **18,641** |
| Property, plant and equipment | **1,670** | 1,705 | **14,273** |
| Other | **9,274** | 11,070 | **79,265** |
| Gross deferred tax assets | **27,231** | 26,755 | **232,743** |
| Valuation allowance | **(2,772)** | (1,872) | **(23,692)** |
| Total deferred tax assets | **24,459** | 24,883 | **209,051** |
| Deferred tax liabilities: | | | |
| Unrealized holding gains on securities | **(6,775)** | (2,402) | **(57,906)** |
| Effect of valuation difference | **(1,878)** | (1,878) | **(16,051)** |
| Property, plant and equipment | **(233)** | (283) | **(1,991)** |
| Other | **(217)** | (181) | **(1,855)** |
| Total deferred tax liabilities | **(9,103)** | (4,744) | **(77,803)** |
| Net deferred tax assets | **¥15,356** | ¥20,139 | **$131,248** |

## 9. Employees' Severance and Retirement Benefits

The liabilities for the employees' severance and retirement benefits included in the liability section of the consolidated balance sheets at March 31, 2006 and 2005 consists of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Projected benefit obligation | ¥62,265 | ¥55,771 | $532,179 |
| Unrecognized prior service costs | 10,935 | 11,846 | 93,461 |
| Unrecognized actuarial differences | (1,611) | (12,260) | (13,769) |
| Less fair value of pension assets* | (59,323) | (42,286) | (507,034) |
| Less unrecognized net transition obligation | (4,920) | (6,150) | (42,051) |
| Prepaid pension cost | 56 | 40 | 479 |
| Liabilities for the employees' severance and retirement benefits | ¥ 7,402 | ¥ 6,961 | $ 63,265 |

* Including employee retirement benefit trust

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are employees' severance and retirement benefit expenses comprised of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Service cost—benefits earned during the year | ¥2,932 | ¥2,829 | $25,060 |
| Interest cost on projected benefit obligation | 1,329 | 1,263 | 11,359 |
| Expected return on plan assets | (1,217) | (878) | (10,402) |
| Amortization of prior service costs | (912) | (844) | (7,795) |
| Amortization of actuarial differences | 1,135 | 1,049 | 9,701 |
| Amortization of net transition obligation | 1,230 | 1,230 | 10,513 |
| Other | 121 | 119 | 1,034 |
| Employees' severance and retirement benefit expenses | ¥4,618 | ¥4,768 | $39,470 |

The discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 3.0% in both 2006 and 2005.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are to be recognized in expenses using the straight-line method over 9–15 years (a certain period not exceeding the average of the estimated remaining service lives commencing with the next period). Prior service costs are to be recognized in expenses using the straight-line method over 9–15 years (a certain period not exceeding the average of the estimated remaining service lives).

## 10. Retirement Benefits for Directors and Corporate Auditors

Effective April 1, 2002, the Company changed its accounting policy for retirement benefits for directors and corporate auditors.

Previously, retirement benefits to directors and corporate auditors were recognized after the approval at the shareholders' meeting and charged to income when paid.

Under the new policy, the Company and certain subsidiaries fully accrue retirement benefits if all directors and corporate auditors had retired at each balance sheet date.

The cumulative effect of ¥2,295 million at the beginning is amortized on a straight-line basis over five years as other expenses.

## 11. Shareholders' Equity

Under the Japanese laws and regulations, the entire amount of payment for new shares is required to be designated as common stock, although, generally, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital.

Japanese Company Law ("the Law") became effective on May 1, 2006, and, at the same time, the Japanese Commercial Code was repealed ("the Code").

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases when dividends are paid, an amount equal to 10% of the dividends or the excess of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, whichever is the smaller, must be set aside as additional paid-in capital or legal earnings reserve. Under the Code, additional paid-in capital and legal earnings reserve were available for distribution by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, even when the total amount of additional paid-in capital and legal earnings reserve is less than 25% of common stock, additional paid-in capital and legal earnings reserve may be available for dividends if there are sufficient distributable surplus. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or may be capitalized by a resolution of the Board of Directors. Under the Law, both of those appropriations require a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

## 12. Lease Transactions

(1) Finance leases

The amounts of outstanding future lease payments due at March 31, 2006 and 2005 and total lease expenses (including total assumed depreciation cost and total assumed interest cost) as lessee for the years ended March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Future lease payments: | | | |
| Due within one year | **¥ 4,132** | ¥ 4,473 | **$35,316** |
| Due over one year | **5,898** | 7,288 | **50,410** |
| Total | **¥10,030** | ¥11,761 | **$85,726** |
| Total lease expenses | **¥ 5,194** | ¥ 5,192 | **$44,393** |
| Total assumed depreciation cost | **¥ 4,746** | ¥ 4,725 | **$40,564** |
| Total assumed interest cost | **¥ 387** | ¥ 470 | **$ 3,308** |

Assumed data as to acquisition cost, accumulated depreciation and net book value of the leased assets under the finance lease contracts as lessee at March 31, 2006 and 2005 were summarized as follows:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | | **2006** | | |
| | Acquisition cost | Accumulated depreciation | Net book value | Acquisition cost | Accumulated depreciation | Net book value | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery | **¥17,712** | **¥11,604** | **¥6,108** | ¥17,620 | ¥ 9,524 | ¥ 8,096 | **$151,385** | **$ 99,180** | **$52,205** |
| Equipment | **4,272** | **1,958** | **2,314** | 3,732 | 1,647 | 2,085 | **36,513** | **16,735** | **19,778** |
| Other | **2,077** | **834** | **1,243** | 1,921 | 770 | 1,151 | **17,752** | **7,128** | **10,624** |
| Total | **¥24,061** | **¥14,396** | **¥9,665** | ¥23,273 | ¥11,941 | ¥11,332 | **$205,650** | **$123,043** | **$82,607** |

(2) Operating leases

The amount of outstanding future lease payments due at March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Future lease payments: | | | |
| Due within one year | **¥279** | ¥161 | **$2,385** |
| Due over one year | **79** | 170 | **675** |
| Total | **¥358** | ¥331 | **$3,060** |

## 13. Segment Information

The business and geographical segment information and overseas sales for the Group for the years ended March 31, 2006 and 2005 were as follows:

(1) Business segments

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| For 2006 | Electronics | Electronic components and others | Total | Elimination or unallocated amount | Consolidated |
| Net sales: | | | | | |
| Outside customers | ¥473,420 | ¥106,889 | ¥580,309 | ¥ — | ¥580,309 |
| Inside Group | 453 | 33,477 | 33,930 | (33,930) | — |
| Total | 473,873 | 140,366 | 614,239 | (33,930) | 580,309 |
| Costs and expenses | 432,114 | 133,181 | 565,295 | (28,100) | 537,195 |
| Operating income (loss) | ¥ 41,759 | ¥ 7,185 | ¥ 48,944 | ¥ (5,830) | ¥ 43,114 |
| Total assets | ¥257,759 | ¥106,591 | ¥364,350 | ¥137,610 | ¥501,960 |
| Depreciation | ¥ 18,988 | ¥ 7,327 | ¥ 26,315 | ¥ 314 | ¥ 26,629 |
| Capital expenditures | ¥ 22,128 | ¥ 9,013 | ¥ 31,141 | ¥ 385 | ¥ 31,526 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| For 2006 | Electronics | Electronic components and others | Total | Elimination or unallocated amount | Consolidated |
| Net sales: | | | | | |
| Outside customers | $4,046,325 | $ 913,581 | $4,959,906 | $ — | $4,959,906 |
| Inside Group | 3,872 | 286,128 | 290,000 | (290,000) | — |
| Total | 4,050,197 | 1,199,709 | 5,249,906 | (290,000) | 4,959,906 |
| Costs and expenses | 3,693,282 | 1,138,299 | 4,831,581 | (240,171) | 4,591,410 |
| Operating income (loss) | $ 356,915 | $ 61,410 | $ 418,325 | $ (49,829) | $ 368,496 |
| Total assets | $2,203,068 | $ 911,034 | $3,114,102 | $1,176,154 | $4,290,256 |
| Depreciation | $ 162,291 | $ 62,624 | $ 224,915 | $ 2,683 | $ 227,598 |
| Capital expenditures | $ 189,128 | $ 77,034 | $ 266,162 | $ 3,291 | $ 269,453 |

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| For 2005 | Electronics | Electronic components and others | Total | Elimination or unallocated amount | Consolidated |
| Net sales: | | | | | |
| Outside customers | ¥447,843 | ¥111,163 | ¥559,006 | ¥ — | ¥559,006 |
| Inside Group | 1,107 | 32,363 | 33,470 | (33,470) | — |
| Total | 448,950 | 143,526 | 592,476 | (33,470) | 559,006 |
| Costs and expenses | 412,798 | 134,865 | 547,663 | (27,697) | 519,966 |
| Operating income (loss) | ¥ 36,152 | ¥ 8,661 | ¥ 44,813 | ¥ (5,773) | ¥ 39,040 |
| Total assets | ¥248,809 | ¥103,956 | ¥352,765 | ¥142,978 | ¥495,743 |
| Depreciation | ¥ 16,117 | ¥ 6,570 | ¥ 22,687 | ¥ 240 | ¥ 22,927 |
| Loss on impairment of fixed assets | ¥ 267 | ¥ 1,227 | ¥ 1,494 | ¥ — | ¥ 1,494 |
| Capital expenditures | ¥ 19,293 | ¥ 7,382 | ¥ 26,675 | ¥ 294 | ¥ 26,969 |

Notes: 1. Business segments were classified by the application or nature of each product, method of manufacturing and sales, profit management and related assets.

2. Major products in each business segment:

(1) Electronics:

Electronic calculators, Label printers, Electronic dictionaries, Digital cameras, Electronic musical instruments, Digital watches, Analog watches, Clocks, Cellular phones, Electronic cash registers, Office computers, Page printers, Data projectors, etc.

(2) Electronic components and others:

LCDs, Bump processing consignments, TCP assembly and processing consignments, Carrier tape, Factory automation, Molds, Toys, etc.

3. Elimination or unallocated amounts of costs and expenses principally consisted of administrative expenses and R&D expenses for fundamental research of the parent company, which amounted to ¥5,830 million ($49,829 thousand) and ¥5,773 million for the years ended March 31, 2006 and 2005, respectively.

4. Elimination or unallocated amounts of total assets principally consisted of cash and time deposits, marketable securities, investments in securities and administrative assets of the parent company, which amounted to ¥139,714 million ($1,194,137 thousand) and ¥147,145 million for the years ended March 31, 2006 and 2005, respectively.

(2) Geographical segments

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| **For 2006** | Japan | North America | Europe | Asia | Total | Elimination | Consolidated |
| Net sales: | | | | | | | |
| Outside customers | **¥438,321** | **¥50,779** | **¥70,997** | **¥ 20,212** | **¥580,309** | **¥ —** | **¥580,309** |
| Inside Group | **103,434** | **28** | **125** | **91,553** | **195,140** | **(195,140)** | **—** |
| Total | **541,755** | **50,807** | **71,122** | **111,765** | **775,449** | **(195,140)** | **580,309** |
| Costs and expenses | **504,783** | **48,696** | **69,853** | **109,450** | **732,782** | **(195,587)** | **537,195** |
| Operating income (loss) | **¥ 36,972** | **¥ 2,111** | **¥ 1,269** | **¥ 2,315** | **¥ 42,667** | **¥ 447** | **¥ 43,114** |
| Total assets | **¥463,403** | **¥23,475** | **¥26,123** | **¥ 39,034** | **¥552,035** | **¥(50,075)** | **¥501,960** |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| **For 2006** | Japan | North America | Europe | Asia | Total | Elimination | Consolidated |
| Net sales: | | | | | | | |
| Outside customers | **$3,746,333** | **$434,009** | **$606,812** | **$172,752** | **$4,959,906** | **$ —** | **$4,959,906** |
| Inside Group | **884,051** | **239** | **1,069** | **782,504** | **1,667,863** | **(1,667,863)** | **—** |
| Total | **4,630,384** | **434,248** | **607,881** | **955,256** | **6,627,769** | **(1,667,863)** | **4,959,906** |
| Costs and expenses | **4,314,385** | **416,205** | **597,034** | **935,470** | **6,263,094** | **(1,671,684)** | **4,591,410** |
| Operating income (loss) | **$ 315,999** | **$ 18,043** | **$ 10,847** | **$ 19,786** | **$ 364,675** | **$ 3,821** | **$ 368,496** |
| Total assets | **$3,960,709** | **$200,641** | **$223,274** | **$333,624** | **$4,718,248** | **$ (427,992)** | **$4,290,256** |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| For 2005 | Japan | North America | Europe | Asia | Total | Elimination | Consolidated |
| Net sales: | | | | | | | |
| Outside customers | ¥437,461 | ¥38,734 | ¥67,592 | ¥15,219 | ¥559,006 | ¥ — | ¥559,006 |
| Inside Group | 90,021 | 35 | 79 | 73,181 | 163,316 | (163,316) | — |
| Total | 527,482 | 38,769 | 67,671 | 88,400 | 722,322 | (163,316) | 559,006 |
| Costs and expenses | 492,869 | 37,738 | 66,720 | 86,470 | 683,797 | (163,831) | 519,966 |
| Operating income (loss) | ¥ 34,613 | ¥ 1,031 | ¥ 951 | ¥ 1,930 | ¥ 38,525 | ¥ 515 | ¥ 39,040 |
| Total assets | ¥464,742 | ¥18,385 | ¥23,087 | ¥28,898 | ¥535,112 | ¥ (39,369) | ¥495,743 |

Notes: 1. Segments of countries and areas were classified by the geographical factor.
2. The main countries and the areas which belong to each segment except for Japan were as follows:
(1) North America .........U.S.A., Canada, Mexico
(2) Europe.....................U.K., Germany, France
(3) Asia .........................Taiwan, Hong Kong, South Korea, Malaysia, Singapore, China, India, Indonesia, Thailand

(3) Overseas sales

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| **For 2006** | North America | Europe | Asia | Others | Total |
| Overseas net sales | **¥58,868** | **¥78,822** | **¥70,370** | **¥27,519** | **¥235,579** |
| Net sales (consolidated) | | | | | **580,309** |
| Share of overseas net sales | **10.2%** | **13.6%** | **12.1%** | **4.7%** | **40.6%** |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| **For 2006** | North America | Europe | Asia | Others | Total |
| Overseas net sales | **$503,145** | **$673,693** | **$601,453** | **$235,205** | **$2,013,496** |
| Net sales (consolidated) | | | | | **4,959,906** |
| Share of overseas net sales | **10.2%** | **13.6%** | **12.1%** | **4.7%** | **40.6%** |

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| For 2005 | North America | Europe | Asia | Others | Total |
| Overseas net sales | ¥46,698 | ¥74,796 | ¥75,400 | ¥25,749 | ¥222,643 |
| Net sales (consolidated) | | | | | 559,006 |
| Share of overseas net sales | 8.3% | 13.4% | 13.5% | 4.6% | 39.8% |

Notes: 1. Segments of countries and areas were classified by the geographical factor.
2. The main countries and the areas which belong to each segment were as follows:
(1) North America .........U.S.A., Canada
(2) Europe.....................U.K., Germany, France
(3) Asia .........................Hong Kong, Singapore, China, South Korea, Taiwan
3. The above overseas net sales represent net sales made outside Japan by the parent company and consolidated subsidiaries.

## 14. Contingent Liabilities

At March 31, 2006, the Group was contingently liable for trade notes and export drafts discounted with banks in the amount of ¥2,504 million ($21,402 thousand) and as guarantor of others for bank loans in the amount of ¥220 million ($1,880 thousand).

## 15. Stock Option

By special resolution at the 46th annual shareholders' meeting held on June 27, 2002, the Company introduced a stock option plan in accordance with Article 280-20, 21 of the Commercial Code in Japan, and granted stock purchase rights at advantageous terms to directors, corporate auditors and employees of the Company and subsidiaries, as of June 27, 2002.

The stock purchase rights can be exercised at a price of ¥699 ($5.97) per share in the period from July 1, 2004 to June 30, 2009, and a total of 303 thousand shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price.

By special resolution at the 47th annual shareholders' meeting held on June 27, 2003, the Company introduced a stock option plan in accordance with Article 280-20, 21 of the Commercial Code in Japan, and granted stock purchase rights at advantageous terms to directors, corporate auditors and employees of the Company and subsidiaries, as of June 27, 2003.

The stock purchase rights can be exercised at a price of ¥1,221 ($10.44) per share in the period from July 1, 2005 to June 30, 2010, and a total of 140 thousand shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price.

By special resolution at the 48th annual shareholders' meeting held on June 29, 2004, the Company introduced a stock option plan in accordance with Article 280-20, 21 of the Commercial Code in Japan, and granted stock purchase rights at advantageous terms to directors, corporate auditors and employees of the Company and subsidiaries, as of June 29, 2004.

The stock purchase rights can be exercised at a price of ¥1,575 ($13.46) per share in the period from July 1, 2006 to June 30, 2011, and a total of 264 thousand shares of common stock could be issued by the exercise of these rights. The exercise price of stock purchase rights would be adjusted, if the Company issues new shares at a price below the market price.

## 16. Loss on Impairment of Fixed Assets

During the fiscal year ended March 31, 2005, the Company and its domestic consolidated subsidiaries recognized loss on impairment of fixed assets on following group of assets.

| Use | Type of assets | Location |
|---|---|---|
| Warehouse used for other business | Buildings, land | Kojimachi Bussan Co., Ltd.<br>(Saitama City, Saitama) |
| Idle properties | Buildings and structures, machinery and equipment, land, and other | Public health facilities of Casio Computer Co., Ltd.<br>(Tachikawa City, Tokyo), and other |

The Company and its domestic consolidated subsidiaries classified fixed assets into groups mainly by the type of managerial accounting segments whose cash flows were grasped continually, and classified idle properties into groups by the type of respective properties.

Carrying amounts of other warehouse used for business were devalued to their recoverable amounts, owing to substantial decline in the fair market value. Carrying amounts of idle properties were devalued to their recoverable amounts, owing to no possibilities of using in the future.

As a result, the Company and its domestic consolidated subsidiaries recognized loss on impairment of fixed assets in the amount of ¥1,494 million, which consisted of land ¥1,007 million, buildings and structures ¥257 million, machinery and equipment ¥189 million and other ¥41 million.

Recoverable amounts of this group of assets were the amount of net selling price (fair value less costs to sell). The Company and its domestic consolidated subsidiaries mainly used estimated value of the respective firms and appraisal value prepared by real estate appraisers for calculating net selling price.

## 17. Subsequent Events

At the annual shareholders' meeting held on June 29, 2006, the Company's shareholders approved the payment of a cash dividend of ¥20.00 ($0.17) per share aggregating ¥5,319 million ($45,462 thousand) to shareholders of record as of March 31, 2006 and the payments of bonuses to directors and corporate auditors totaling ¥155 million ($1,325 thousand).