Notes to Consolidated Financial Statements

Years ended March 31, 2007 and 2006 Casio Computer Co., Ltd. and Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of CASIO COMPUTER CO., LTD. ("the Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statement of shareholders' equity for 2006) 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. Certain 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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 "Accounting Standard for Presentation of Net Assets in the Balance Sheet," is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 "Accounting Standard for Statement of Changes in Net Assets," the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S. $1. The convenience translation should not be construed as representation 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 net assets (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 net assets (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. The depreciation period ranges from 2 years to 65 years for buildings and structures and 1 year to 20 years for machinery and equipment.

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 was amortized using the straight-line method over the life of the bond (6 years and 10 months) however, bonds with stock acquisition rights had been all converted by October 30, 2006.

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.

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests is included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the long-term liabilities and the shareholders' equity sections.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥225,025 million ($1,906,992 thousand) would have been presented.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

Reclassifications

Certain reclassifications have been made in the 2006 consolidated financial statements to conform to the 2007 presentation.

3. Cash and Cash Equivalents and Statements of Cash Flows

Cash and cash equivalents at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Cash and time deposits	¥52,768	¥ 71,818	$447,186
Time deposits over three months	(784)	(757)	(6,644)
Marketable securities within three months	34,605	29,171	293,263
Short-term loans receivable with resale agreement	10,650	25,000	90,254
Cash and cash equivalents	¥97,239	¥125,232	$824,059

Significant non-cash transactions at March 31, 2007 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Increase in common stock for conversion of bonds with stock acquisition rights	¥ 7,043	$ 59,686
Increase in additional paid-in capital for conversion of bonds with stock acquisition rights	7,042	59,678
Decrease in transfer of treasury stock for conversion of bonds with stock acquisition rights	4,230	35,847
Proceeds from sales of treasury stock for conversion of bonds with stock acquisition rights	1,985	16,822
Others	(128)	(1,084)
Decrease in conversion of bonds with stock acquisition rights	¥20,172	$170,949

4. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Finished products	¥39,471	¥35,792	$334,500
Work in process	7,626	7,733	64,627
Materials and supplies	18,760	14,118	158,983
Total	¥65,857	¥57,643	$558,110

5. Securities

(1) The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2007 and 2006.

(a) Held-to-maturity debt securities

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	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	¥2,311	¥81	¥2,230	¥2,399	¥169	$18,899	$19,585	$686
Securities other than the above	—	—	—	—	—	—	—	—	—
Total	¥2,230	¥2,311	¥81	¥2,230	¥2,399	¥169	$18,899	$19,585	$686

(b) Available-for-sale securities

Securities with book values exceeding acquisition costs:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥11,024	¥25,722	¥14,698	¥13,767	¥28,956	¥15,189	$ 93,424	$217,983	$124,559
Bonds	11,144	11,265	121	4,186	4,293	107	94,441	95,466	1,025
Others	1,802	1,862	60	431	1,860	1,429	15,271	15,780	509
Total	¥23,970	¥38,849	¥14,879	¥18,384	¥35,109	¥16,725	$203,136	$329,229	$126,093

Others:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥3,521	¥3,179	¥(342)	¥ 638	¥ 575	¥ (63)	$29,839	$26,941	$(2,898)
Bonds	925	924	(1)	5,973	5,959	(14)	7,839	7,830	(9)
Others	1,617	1,606	(11)	1,869	1,845	(24)	13,703	13,610	(93)
Total	¥6,063	¥5,709	¥(354)	¥8,480	¥8,379	¥(101)	$51,381	$48,381	$(3,000)

(2) The following tables summarize book values of securities with no available fair values at March 31, 2007 and 2006.

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Certificates of deposit	¥5,130	¥10,000	$43,475

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Unlisted equity securities	¥ 2,955	¥ 3,109	$ 25,042
Commercial paper	29,475	19,171	249,788
Unlisted bonds	1,700	—	14,407
Total	¥34,130	¥22,280	$289,237

(3) Available-for-sale securities sold in the year ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Sales amount	¥3,440	¥198	$29,153
Gross realized gains	1,247	76	10,568
Gross realized losses	—	1	—

(4) Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen									
	2007					2006				
	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	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	—	4,630	100	—	4,730	—	2,230	300	—	2,530
Others	36,323	8,200	1,386	—	45,909	29,174	8,773	1,087	—	39,034
Others:										
Others	—	539	1,000	1,617	3,156	—	—	1,000	872	1,872
Total	¥36,323	¥13,369	¥2,486	¥1,617	¥53,795	¥29,174	¥11,003	¥2,387	¥872	¥43,436

	Thousands of U.S. Dollars				
	2007				
	Within one year	Within five years	Within ten years	Over ten years	Total
Bonds:					
Government bonds	$ —	$ —	$ —	$ —	$ —
Corporate bonds	—	39,237	848	—	40,085
Others	$307,822	69,492	11,745	—	389,059
Others:					
Others	—	4,568	8,475	13,703	26,746
Total	$307,822	$113,297	$21,068	$13,703	$455,890

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, 2007 and 2006 were as follows:

Currency-related derivatives:

	Millions of Yen								Thousands of U.S. Dollars			
	2007				2006				**2007**			
	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...	¥21,243	¥—	¥21,792	¥ (549)	¥22,161	¥—	¥22,697	¥(536)	$180,026	$—	$184,678	$ (4,652)
Euros...........	16,995	—	18,092	(1,097)	10,488	—	10,830	(342)	144,025	—	153,322	(9,297)
Sterling pounds ...	714	—	724	(10)	1,565	—	1,590	(25)	6,051	—	6,136	(85)
Total	¥38,952	¥—	¥40,608	¥(1,656)	¥34,214	¥—	¥35,117	¥(903)	$330,102	$—	$344,136	$(14,034)
To buy:												
U.S. dollars...	¥—	¥—	¥—	¥—	¥115	¥—	¥117	¥2	$—	$—	$—	$—
Total	¥—	¥—	¥—	¥—	¥115	¥—	¥117	¥2	$—	$—	$—	$—

Interest rate swap and option-related derivatives:

	Millions of Yen								Thousands of U.S. Dollars			
	2007				2006				**2007**			
	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)
Interest rate swaps:												
Receive fix/ Pay float	¥20,000	¥20,000	¥(1,121)	¥31	¥—	¥—	¥—	¥—	$169,492	$169,492	$(9,500)	$263
Total..............	¥20,000	¥20,000	¥(1,121)	¥31	¥—	¥—	¥—	¥—	$169,492	$169,492	$(9,500)	$263

Notes: 1. Fair values of derivative transactions are determined by prices principally reported by the financial institutions with which the Company engages in derivative transactions.

2. Interest rate swaps that no longer meet hedging criteria are stated separately. Amounts corresponding to fair values are included in "other long-term liabilities" in consolidated balance sheets. The net deferred amounts to be paid or received under the said interest rate swaps are periodically charged to expenses or income over the remaining contract periods.

3. Derivative transactions under hedge accounting are treated as outside scope of disclosure.

7. Short-term Borrowings and Long-term Debt

Short-term borrowings represent unsecured bank loans and its average interest rates were 0.9% and 1.0% per annum at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
2.575% unsecured bonds due in December 2007	¥10,000	¥ 10,000	$84,746
1.42% unsecured bonds due in March 2009	10,000	10,000	84,746
0% unsecured bonds with stock acquisition rights due in September 2010	—	20,000	—
Unsecured loans principally from banks at interest rates of 0.36% to 1.83% maturing through 2012		80,197	
Unsecured loans principally from banks at interest rates of 0.76% to 1.83% maturing through 2012	59,450		503,813
Total..	79,450	120,197	673,305
Less amount due within one year	32,000	20,747	271,186
	¥47,450	¥ 99,450	$402,119

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 ($13.92), subject to change in certain circumstances. In fiscal 2007, 0% unsecured bonds with stock acquisition rights had been all converted.

The annual maturities of long-term debt at March 31, 2007 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥32,000	$271,186
2009	26,500	224,576
2010	10,500	88,983
2011	450	3,814
2012	10,000	84,746

The line of credit with the main financial institutions agreed as of March 31, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Line of credit	¥38,500	¥50,500	$326,271
Unused	38,500	50,500	326,271

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, 2007 and 2006.

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, 2007 and 2006:

	2007	2006
Statutory tax rate	40.7%	40.7%
Increase (Reduction) in tax resulting from:		
Nondeductible expenses (Entertainment, etc.)	0.4	0.3
Nontaxable income (Dividends received deduction, etc.)	(2.9)	(1.5)
Difference in statutory tax rate (included in foreign subsidiaries)	(2.0)	(1.9)
Income tax credits	(3.7)	(4.4)
Effect of elimination of dividends income	3.9	2.6
Other	(0.2)	(0.1)
Effective tax rate	36.2%	35.7%

Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Employees' severance and retirement benefits	¥ 6,302	¥ 6,433	$ 53,407
Intangible fixed assets	3,529	2,181	29,907
Accrued expenses (bonuses to employees)	3,142	3,042	26,627
Inventories	2,568	2,402	21,763
Net operating loss carryforwards	2,521	2,229	21,364
Property, plant and equipment	1,826	1,670	15,475
Other	10,474	9,274	88,762
Gross deferred tax assets	30,362	27,231	257,305
Valuation allowance	(3,881)	(2,772)	(32,890)
Total deferred tax assets	26,481	24,459	224,415
Deferred tax liabilities:			
Unrealized holding gains on securities	(6,029)	(6,775)	(51,093)
Effect of valuation difference	(1,878)	(1,878)	(15,915)
Property, plant and equipment	(219)	(233)	(1,856)
Other	(183)	(217)	(1,551)
Total deferred tax liabilities	(8,309)	(9,103)	(70,415)
Net deferred tax assets	¥18,172	¥15,356	$154,000

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, 2007 and 2006 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥63,771	¥62,265	$540,432
Unrecognized prior service costs	9,996	10,935	84,712
Unrecognized actuarial differences	(675)	(1,611)	(5,720)
Less fair value of pension assets*	(62,666)	(59,323)	(531,068)
Less unrecognized net transition obligation	(3,511)	(4,920)	(29,754)
Prepaid pension cost	80	56	678
Liabilities for the employees' severance and retirement benefits	¥ 6,995	¥ 7,402	$ 59,280

* Including employee retirement benefit trust

Included in the consolidated statements of income for the years ended March 31, 2007 and 2006 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost—benefits earned during the year	¥3,124	¥2,932	$26,475
Interest cost on projected benefit obligation	1,463	1,329	12,398
Expected return on plan assets	(1,696)	(1,217)	(14,373)
Amortization of prior service costs	(910)	(912)	(7,712)
Amortization of actuarial differences	442	1,135	3,746
Amortization of net transition obligation	1,200	1,230	10,169
Other	122	121	1,034
Employees' severance and retirement benefit expenses	¥3,745	¥4,618	$31,737

The discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 3.0% in both 2007 and 2006.

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 at the beginning is amortized on a straight-line basis over five years as other expenses.

11. Shareholders' Equity / Net Assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, 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, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount 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 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 could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

12. Lease Transactions

(1) Finance leases

The amounts of outstanding future lease payments due at March 31, 2007 and 2006 and total lease expenses (including total assumed depreciation cost and total assumed interest cost) as lessee for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Future lease payments:			
Due within one year	¥ 4,074	¥ 4,132	$34,526
Due over one year	7,264	5,898	61,559
Total	¥11,338	¥10,030	$96,085
Total lease expenses	¥ 4,711	¥ 5,194	$39,924
Total assumed depreciation cost	¥ 4,321	¥ 4,746	$36,619
Total assumed interest cost	¥ 306	¥ 387	$ 2,593

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, 2007 and 2006 were summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2007			2006			2007		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery	¥15,183	¥ 7,055	¥ 8,128	¥17,712	¥11,604	¥6,108	$128,670	$59,788	$68,882
Equipment	4,197	2,350	1,847	4,272	1,958	2,314	35,568	19,916	15,652
Other	2,181	1,096	1,085	2,077	834	1,243	18,483	9,288	9,195
Total	¥21,561	¥10,501	¥11,060	¥24,061	¥14,396	¥9,665	$182,721	$88,992	$93,729

(2) Operating leases

The amount of outstanding future lease payments due at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Future lease payments:			
Due within one year	¥184	¥279	$1,560
Due over one year	167	79	1,415
Total	¥351	¥358	$2,975

13. Segment Information

The business and geographical segment information and overseas sales for the Group for the years ended March 31, 2007 and 2006 were as follows:

(1) Business segments

	Millions of Yen				
For 2007	Electronics	Electronic components and others	Total	Elimination or unallocated amount	Consolidated
Net sales:					
Outside customers	¥527,216	¥ 93,553	¥620,769	¥ —	¥620,769
Inside Group	673	34,648	35,321	(35,321)	—
Total	527,889	128,201	656,090	(35,321)	620,769
Costs and expenses	473,998	128,986	602,984	(30,289)	572,695
Operating income (loss)	¥ 53,891	¥ (785)	¥ 53,106	¥ (5,032)	¥ 48,074
Total assets	¥287,998	¥124,427	¥412,425	¥113,058	¥525,483
Depreciation	¥ 23,692	¥ 7,520	¥ 31,212	¥ 401	¥ 31,613
Capital expenditures	¥ 29,331	¥ 14,225	¥ 43,556	¥ 1,197	¥ 44,753

	Thousands of U.S. Dollars				
For 2007	Electronics	Electronic components and others	Total	Elimination or unallocated amount	Consolidated
Net sales:					
Outside customers	$4,467,932	$ 792,822	$5,260,754	$ —	$5,260,754
Inside Group	5,703	293,627	299,330	(299,330)	—
Total	4,473,635	1,086,449	5,560,084	(299,330)	5,260,754
Costs and expenses	4,016,932	1,093,102	5,110,034	(256,687)	4,853,347
Operating income (loss)	$ 456,703	$ (6,653)	$ 450,050	$ (42,643)	$ 407,407
Total assets	$2,440,661	$1,054,466	$3,495,127	$958,119	$4,453,246
Depreciation	$ 200,779	$ 63,729	$ 264,508	$ 3,399	$ 267,907
Capital expenditures	$ 248,568	$ 120,551	$ 369,119	$ 10,144	$ 379,263

	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

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 ¥5,032 million ($42,643 thousand) and ¥5,830 million for the years ended March 31, 2007 and 2006, 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 ¥114,864 million ($973,424 thousand) and ¥139,714 million for the years ended March 31, 2007 and 2006, respectively.

(2) Geographical segments

	Millions of Yen						
For 2007	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Net sales:							
Outside customers	¥450,762	¥61,095	¥84,029	¥ 24,883	¥620,769	¥ —	¥620,769
Inside Group	127,274	87	48	120,826	248,235	(248,235)	—
Total	578,036	61,182	84,077	145,709	869,004	(248,235)	620,769
Costs and expenses	538,543	57,986	80,599	143,253	820,381	(247,686)	572,695
Operating income (loss)	¥ 39,493	¥ 3,196	¥ 3,478	¥ 2,456	¥ 48,623	¥ (549)	¥ 48,074
Total assets	¥475,494	¥24,205	¥35,359	¥ 42,977	¥578,035	¥ (52,552)	¥525,483

	Thousands of U.S. Dollars						
For 2007	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Net sales:							
Outside customers	$3,820,017	$517,754	$712,110	$ 210,873	$5,260,754	$ —	$5,260,754
Inside Group	1,078,593	737	407	1,023,949	2,103,686	(2,103,686)	—
Total	4,898,610	518,491	712,517	1,234,822	7,364,440	(2,103,686)	5,260,754
Costs and expenses	4,563,924	491,407	683,042	1,214,008	6,952,381	(2,099,034)	4,853,347
Operating income (loss)	$ 334,686	$ 27,084	$ 29,475	$ 20,814	$ 412,059	$ (4,652)	$ 407,407
Total assets	$4,029,610	$205,127	$299,653	$ 364,212	$4,898,602	$ (445,356)	$4,453,246

	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

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, Spain, Netherlands, Norway
(3) Asia ....Taiwan, Hong Kong, South Korea, Malaysia, Singapore, China, India, Indonesia, Thailand

(3) Overseas sales

	Millions of Yen				
For 2007	North America	Europe	Asia	Others	Total
Overseas net sales	¥83,951	¥90,902	¥70,301	¥29,825	¥274,979
Net sales (consolidated)					620,769
Share of overseas net sales	13.5%	14.7%	11.3%	4.8%	44.3%

	Thousands of U.S. Dollars				
For 2007	North America	Europe	Asia	Others	Total
Overseas net sales	$711,449	$770,356	$595,771	$252,755	$2,330,331
Net sales (consolidated)					5,260,754
Share of overseas net sales	13.5%	14.7%	11.3%	4.8%	44.3%

	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%

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, 2007, the Group was contingently liable for trade notes and export drafts discounted with banks in the amount of ¥1,960 million ($16,610 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 ($5.92) per share in the period from July 1, 2004 to June 30, 2009, and a total of 191 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 ($10.35) per share in the period from July 1, 2005 to June 30, 2010, and a total of 78 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 ($13.35) per share in the period from July 1, 2006 to June 30, 2011, and a total of 148 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. Subsequent Events

At the annual shareholders' meeting held on June 28, 2007, the Company's shareholders approved the payment of a cash dividend of ¥23.00 ($0.19) per share aggregating ¥6,346 million ($53,780 thousand) to shareholders of record as of March 31, 2007.