Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007 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 Financial Instruments 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) 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 Financial Instruments 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 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, 2008, which was ¥100 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 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. 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.

(Changes in Accounting Policies)

In accordance with fiscal 2007 Amend Part of the Corporation Tax Law, the Company and its consolidated subsidiaries have adopted new accounting standards, effective from the year ended March 31, 2008, for the depreciation of property, plant and equipment acquired on April 1, 2007 or after.

The adoption of the new standards causes operating income and income before income taxes and minority interests to be reduced by ¥527 million ($5,270 thousand).

(Additional information)

Accompanying the recent amendment to the Corporation Tax Law, a new method of depreciation has been applied to property, plant and equipment acquired on or prior to March 31, 2007. Under the new method, the difference between the amount equivalent to 5% of the acquisition cost and the remainder value is depreciated over a period of five years in equal amounts, beginning with the term that follows a term during which the book value of the asset is depreciated to 5% of the acquisition cost. The reported figure is included in depreciation expenses.

As a result, operating income and income before income taxes and minority interests for the reporting term were each reduced by ¥636 million ($6,360 thousand) compared with the amount calculated by the previous method.

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).

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 in Japan are covered by two kinds of pension plans which are defined benefit corporate pension fund plan and tax-qualified pension plan. And those of the Company and 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 some of 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") 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). Diluted net income per share is calculated based on the assumption that all dilutive convertible bonds and stock options were converted or exercised at the beginning of year or at the time of issue. 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 2007 consolidated financial statements to conform to the 2008 presentation.

3. Cash and Cash Equivalents and Statements of Cash Flows

Cash and cash equivalents at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cash and time deposits	¥45,688	¥52,768	$456,880
Time deposits over three months	(3,800)	(784)	(38,000)
Marketable securities within three months	35,534	34,605	355,340
Short-term loans receivable with resale agreement	10,535	10,650	105,350
Cash and cash equivalents	¥87,957	¥97,239	$879,570

4. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Finished products	¥33,218	¥39,471	$332,180
Work in process	9,251	7,626	92,510
Materials and supplies	13,474	18,760	134,740
Total	¥55,943	¥65,857	$559,430

5. Securities

(1) The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2008 and 2007.

(a) Held-to-maturity debt securities

	Millions of Yen						Thousands of U.S. Dollars		
	2008			2007			2008		
	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	$ —	$ —	$ —
Securities other than the above	2,230	2,218	(12)	—	—	—	22,300	22,180	(120)
Total	¥2,230	¥2,218	¥(12)	¥2,230	¥2,311	¥81	$22,300	$22,180	$(120)

(b) Available-for-sale securities

Securities with book values exceeding acquisition costs:

	Millions of Yen						Thousands of U.S. Dollars		
	2008			2007			2008		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 8,411	¥17,940	¥9,529	¥11,024	¥25,722	¥14,698	$ 84,110	$179,400	$95,290
Bonds	6,058	6,125	67	11,144	11,265	121	60,580	61,250	670
Others	853	858	5	1,802	1,862	60	8,530	8,580	50
Total	¥15,322	¥24,923	¥9,601	¥23,970	¥38,849	¥14,879	$153,220	$249,230	$96,010

Others:

	Millions of Yen						Thousands of U.S. Dollars		
	2008			2007			2008		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 7,643	¥ 6,212	¥(1,431)	¥3,521	¥3,179	¥(342)	$ 76,430	$ 62,120	$(14,310)
Bonds	10,193	10,118	(75)	925	924	(1)	101,930	101,180	(750)
Others	1,670	1,666	(4)	1,617	1,606	(11)	16,700	16,660	(40)
Total	¥19,506	¥17,996	¥(1,510)	¥6,063	¥5,709	¥(354)	$195,060	$179,960	$(15,100)

(2) The following tables summarize book values of securities with no available fair values at March 31, 2008 and 2007.

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Certificates of deposit	¥9,850	¥5,130	$98,500

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

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Commercial paper	¥25,684	¥29,475	$256,840
Unlisted equity securities	2,950	2,955	29,500
Unlisted bonds	—	1,700	—
Total	¥28,634	¥34,130	$286,340

(3) Available-for-sale securities sold in the year ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Sales amount	¥128	¥3,440	$1,280
Gross realized gains	17	1,247	170
Gross realized losses	2	—	20

(4) Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen									
	2008					2007				
	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	2,230	7,500	—	—	9,730	—	4,630	100	—	4,730
Others	42,734	193	1,367	—	44,294	36,323	8,200	1,386	—	45,909
Others:										
Others	—	354	1,000	1,127	2,481	—	539	1,000	1,617	3,156
Total	¥44,964	¥8,047	¥2,367	¥1,127	¥56,505	¥36,323	¥13,369	¥2,486	¥1,617	¥53,795

	Thousands of U.S. Dollars				
	2008				
	Within one year	Within five years	Within ten years	Over ten years	Total
Bonds:					
Government bonds	$ —	$ —	$ —	$ —	$ —
Corporate bonds	22,300	75,000	—	—	97,300
Others	427,340	1,930	13,670	—	442,940
Others:					
Others	—	3,540	10,000	11,270	24,810
Total	$449,640	$80,470	$23,670	$11,270	$565,050

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, 2008 and 2007 were as follows:

Currency-related derivatives:

	Millions of Yen								Thousands of U.S. Dollars			
	2008				2007				2008			
	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)	$—	$—	$—	$—
Euros	—	—	—	—	16,995	—	18,092	(1,097)	—	—	—	—
Sterling pounds	—	—	—	—	714	—	724	(10)	—	—	—	—
Total	¥—	¥—	¥—	¥—	¥38,952	¥—	¥40,608	¥(1,656)	$—	$—	$—	$—
To buy:												
U.S. dollars	¥—	¥—	¥—	¥—	¥ —	¥—	¥ —	¥ —	$—	$—	$—	$—
Total	¥—	¥—	¥—	¥—	¥ —	¥—	¥ —	¥ —	$—	$—	$—	$—

Interest rate swap and option-related derivatives:

	Millions of Yen								Thousands of U.S. Dollars			
	2008				2007				2008			
	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	¥(734)	¥388	¥20,000	¥20,000	¥(1,121)	¥31	$200,000	$200,000	$(7,340)	$3,880
Total	¥20,000	¥20,000	¥(734)	¥388	¥20,000	¥20,000	¥(1,121)	¥31	$200,000	$200,000	$(7,340)	$3,880

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 1.3% and 0.9% per annum at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
2.575% unsecured bonds due in December 2007	¥ —	¥10,000	$ —
1.42% unsecured bonds due in March 2009	10,000	10,000	100,000
Unsecured loans principally from banks at interest rates of 0.76% to 1.83% maturing through 2012	—	59,450	—
Unsecured loans principally from banks at interest rates of 0.82% to 1.83% maturing through 2012	37,450	—	374,500
Total	47,450	79,450	474,500
Less amount due within one year	26,500	32,000	265,000
	¥20,950	¥47,450	$209,500

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥26,500	$265,000
2010	10,500	105,000
2011	450	4,500
2012	10,000	100,000

The line of credit with the main financial institutions agreed as of March 31, 2008 and 2007 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Line of credit	¥57,580	¥38,500	$575,800
Unused	57,580	38,500	575,800

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, 2008 and 2007.

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, 2008 and 2007:

	2008	2007
Statutory tax rate	40.7%	40.7%
Increase (Reduction) in tax resulting from:		
Nondeductible expenses (Entertainment, etc.)	0.5	0.4
Nontaxable income (Dividends received deduction, etc.)	(3.7)	(2.9)
Difference in statutory tax rate (included in foreign subsidiaries)	(3.2)	(2.0)
Income tax credits	(4.6)	(3.7)
Effect of elimination of dividends income	5.7	3.9
Valuation allowance	21.5	—
Other	0.9	(0.2)
Effective tax rate	57.8%	36.2%

Significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Employees' severance and retirement benefits	¥ 6,033	¥ 6,302	$ 60,330
Intangible fixed assets	4,556	3,529	45,560
Net operating loss carryforwards	4,425	2,521	44,250
Property, plant and equipment	4,206	1,826	42,060
Accrued expenses (bonuses to employees)	3,112	3,142	31,120
Inventories	2,953	2,568	29,530
Other	7,611	10,474	76,110
Gross deferred tax assets	32,896	30,362	328,960
Valuation allowance	(9,015)	(3,881)	(90,150)
Total deferred tax assets	23,881	26,481	238,810
Deferred tax liabilities:			
Unrealized holding gains on securities	(3,907)	(6,029)	(39,070)
Less: valuation allowance	(1,878)	(1,878)	(18,780)
Reserve for deferred income tax of property, plant and equipment	(206)	(219)	(2,060)
Other	(160)	(183)	(1,600)
Total deferred tax liabilities	(6,151)	(8,309)	(61,510)
Net deferred tax assets	¥17,730	¥18,172	$177,300

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, 2008 and 2007 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥67,810	¥63,771	$678,100
Unrecognized prior service costs	9,088	9,996	90,880
Unrecognized actuarial differences	(14,870)	(675)	(148,700)
Less fair value of pension assets*	(53,654)	(62,666)	(536,540)
Less unrecognized net transition obligation	(2,341)	(3,511)	(23,410)
Prepaid pension cost	144	80	1,440
Liabilities for the employees' severance and retirement benefits	¥ 6,177	¥ 6,995	$ 61,770

* Including employee retirement benefit trust

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost—benefits earned during the year	¥3,136	¥3,124	$31,360
Interest cost on projected benefit obligation	1,495	1,463	14,950
Expected return on plan assets	(1,791)	(1,696)	(17,910)
Amortization of prior service costs	(908)	(910)	(9,080)
Amortization of actuarial differences	415	442	4,150
Amortization of net transition obligation	1,170	1,200	11,700
Other	125	122	1,250
Employees' severance and retirement benefit expenses	¥3,642	¥3,745	$36,420

The discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 3.0% in both 2008 and 2007.

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 provide for retirement allowance to directors and corporate auditors at an estimate of the amount which would be required to be paid if all directors and corporate auditors had retired at each balance sheet date.

11. 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, 2008 and 2007 and total lease expenses (including total assumed depreciation cost and total assumed interest cost) as lessee for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	**2008**
Future lease payments:			
Due within one year	**¥ 4,746**	¥ 4,074	**$ 47,460**
Due over one year	**7,873**	7,264	**78,730**
Total	**¥12,619**	¥11,338	**$126,190**
Total lease expenses	**¥ 5,367**	¥ 4,711	**$ 53,670**
Total assumed depreciation cost	**¥ 4,967**	¥ 4,321	**$ 49,670**
Total assumed interest cost	**¥ 377**	¥ 306	**$ 3,770**

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, 2008 and 2007 were summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2008			2007			**2008**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery	**¥16,990**	**¥ 8,194**	**¥ 8,796**	¥15,183	¥ 7,055	¥ 8,128	**$169,900**	**$ 81,940**	**$ 87,960**
Equipment	**5,512**	**2,791**	**2,721**	4,197	2,350	1,847	**55,120**	**27,910**	**27,210**
Other	**2,026**	**1,173**	**853**	2,181	1,096	1,085	**20,260**	**11,730**	**8,530**
Total	**¥24,528**	**¥12,158**	**¥12,370**	¥21,561	¥10,501	¥11,060	**$245,280**	**$121,580**	**$123,700**

(2) Operating leases

The amount of outstanding future lease payments due at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Future lease payments:			
Due within one year	¥113	¥184	$1,130
Due over one year	55	167	550
Total	¥168	¥351	$1,680

13. Segment Information

The business and geographical segment information and overseas sales for the Group for the years ended March 31, 2008 and 2007 were as follows:

(1) Business segments

	Millions of Yen				
For 2008	Electronics	Electronic components and others	Total	Elimination or unallocated amount	Consolidated
Net sales:					
Outside customers	¥526,652	¥ 96,398	¥623,050	¥ —	¥623,050
Inside Group	366	28,185	28,551	(28,551)	—
Total	527,018	124,583	651,601	(28,551)	623,050
Costs and expenses	480,481	127,842	608,323	(23,026)	585,297
Operating income (loss)	¥ 46,537	¥ (3,259)	¥ 43,278	¥ (5,525)	¥ 37,753
Total assets	¥252,316	¥ 90,182	¥342,498	¥109,337	¥451,835
Depreciation	¥ 25,418	¥ 7,866	¥ 33,284	¥ 675	¥ 33,959
Loss on impairment of fixed assets	¥ —	¥ 6,838	¥ 6,838	¥ —	¥ 6,838
Capital expenditures	¥ 24,687	¥ 3,853	¥ 28,540	¥ 496	¥ 29,036

	Thousands of U.S. Dollars				
For 2008	Electronics	Electronic components and others	Total	Elimination or unallocated amount	Consolidated
Net sales:					
Outside customers	$5,266,520	$ 963,980	$6,230,500	$ —	$6,230,500
Inside Group	3,660	281,850	285,510	(285,510)	—
Total	5,270,180	1,245,830	6,516,010	(285,510)	6,230,500
Costs and expenses	4,804,810	1,278,420	6,083,230	(230,260)	5,852,970
Operating income (loss)	$ 465,370	$ (32,590)	$ 432,780	$ (55,250)	$ 377,530
Total assets	$2,523,160	$ 901,820	$3,424,980	$1,093,370	$4,518,350
Depreciation	$ 254,180	$ 78,660	$ 332,840	$ 6,750	$ 339,590
Loss on impairment of fixed assets	$ —	$ 68,380	$ 68,380	$ —	$ 68,380
Capital expenditures	$ 246,870	$ 38,530	$ 285,400	$ 4,960	$ 290,360

	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

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, Electronic dictionaries, Label printers, Digital cameras, Electronic musical instruments, Digital watches, Analog watches, Clocks, Cellular phones, Handy terminals, Electronic cash registers (including POS), Office computers, Page printers, Data projectors.

(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 ¥5,525 million ($55,250 thousand) and ¥5,032 million for the years ended March 31, 2008 and 2007, 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 ¥111,201 million ($1,112,010 thousand) and ¥114,864 million for the years ended March 31, 2008 and 2007, respectively.
5. As explained in Note 2, in accordance with recent revisions to Japanese income tax law, with effect from the reporting period the Company and its consolidated domestic subsidiaries have changed their method of depreciation. Compared with the depreciation method applied hitherto, the application of the new method to the reporting term caused operating expenses recognized to increase by ¥655 million ($6,550 thousand) for the Electronics segment, by ¥496 million ($4,960 thousand) for the Electronic Components and Others segment, and by ¥12 million ($120 thousand) for elimination or unallocated amount. Operating income declined by the corresponding amounts.
6. Impairment loss amounts are included in loss on transfer of business.

(2) Geographical segments

	Millions of Yen						
For 2008	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Net sales:							
Outside customers	¥448,686	¥55,280	¥90,583	¥ 28,501	¥623,050	¥ —	¥623,050
Inside Group	133,354	374	3	130,051	263,782	(263,782)	—
Total	582,040	55,654	90,586	158,552	886,832	(263,782)	623,050
Costs and expenses	549,867	55,870	87,533	156,077	849,347	(264,050)	585,297
Operating income (loss)	¥ 32,173	¥ (216)	¥ 3,053	¥ 2,475	¥ 37,485	¥ 268	¥ 37,753
Total assets	¥409,516	¥17,710	¥32,570	¥ 41,040	¥500,836	¥ (49,001)	¥451,835

	Thousands of U.S. Dollars						
For 2008	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Net sales:							
Outside customers	$4,486,860	$552,800	$905,830	$ 285,010	$6,230,500	$ —	$6,230,500
Inside Group	1,333,540	3,740	30	1,300,510	2,637,820	(2,637,820)	—
Total	5,820,400	556,540	905,860	1,585,520	8,868,320	(2,637,820)	6,230,500
Costs and expenses	5,498,670	558,700	875,330	1,560,770	8,493,470	(2,640,500)	5,852,970
Operating income (loss)	$ 321,730	$ (2,160)	$ 30,530	$ 24,750	$ 374,850	$ 2,680	$ 377,530
Total assets	$4,095,160	$177,100	$325,700	$ 410,400	$5,008,360	$ (490,010)	$4,518,350

	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

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. As explained in Note 2, in accordance with recent revisions to Japanese income tax law, with effect from the reporting period the Company and its consolidated domestic subsidiaries have changed their method of depreciation. Compared with the depreciation method applied hitherto, the application of the new method to the reporting term caused operating expenses recognized to increase by ¥1,163 million ($11,630 thousand) for the Japan segment. Operating income declined by the same amount.

(3) Overseas sales

For 2008	North America	Europe	Asia	Others	Total
	Millions of Yen				
Overseas net sales	¥80,790	¥94,333	¥86,711	¥33,217	¥295,051
Net sales (consolidated)					623,050
Share of overseas net sales	13.0%	15.2%	13.9%	5.3%	47.4%

For 2008	North America	Europe	Asia	Others	Total
	Thousands of U.S. Dollars				
Overseas net sales	$807,900	$943,330	$867,110	$332,170	$2,950,510
Net sales (consolidated)					6,230,500
Share of overseas net sales	13.0%	15.2%	13.9%	5.3%	47.4%

For 2007	North America	Europe	Asia	Others	Total
	Millions of Yen				
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%

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, 2008, the Group was contingently liable for trade notes and export drafts discounted with banks in the amount of ¥2,429 million ($24,290 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 ($6.99) per share in the period from July 1, 2004 to June 30, 2009, and a total of 129 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 ($12.21) per share in the period from July 1, 2005 to June 30, 2010, and a total of 70 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 ($15.75) per share in the period from July 1, 2006 to June 30, 2011, and a total of 146 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 transfer of business

As a result of the transfer of the Film Device Business of Casio Micronics Co., Ltd., in its consolidated accounts settlement Casio Computer recognized an impairment loss of ¥6,838 million ($68,380 thousand) and a provision to the reserve for loss on transfer of business of ¥829 million ($8,290 thousand), in addition to miscellaneous losses amounting to ¥255 million ($2,550 thousand).

Impairment Losses

The Group has recognized impairment losses for the fiscal term ended March 2008 as set out below.
Purpose: Film device manufacturing facilities
Type: Buildings, machinery, equipment, etc.
Location of facilities: Plant operated by Casio Micronics Co.,Ltd. in Chuo City, Yamanashi Pref., and others

The Group carries out asset grouping principally according to its management accounting categories, which are employed to enable continuous monitoring of the Group's earnings situation.

In line with the transfer of the Film Device Business of Casio Micronics Co., Ltd., book values were reduced to the recoverable amounts, and an impairment amount of ¥6,838 million ($68,380 thousand) was included in the total figure for loss on transfer of business.

This impairment figure breaks down into: ¥5,605 million ($56,050 thousand) for machinery, equipment, and vehicles; ¥922 million ($9,220 thousand) for buildings and other structures; ¥253 million ($2,530 thousand) for tools and fixtures; and ¥58 million ($580 thousand) for miscellaneous items.

The recoverable values of the assets are determined on the basis of net selling prices, which are principally based on selling prices under the business transfer contract, as well as real estate appraisal values.

17. Subsequent Events

1. At the annual shareholders' meeting held on June 27, 2008, the Company's shareholders approved the payment of a cash dividend of ¥33.00 ($0.33) per share aggregating ¥9,107 million ($91,070 thousand) to shareholders of record as of March 31, 2008.

2. At a meeting of the Board of Directors of Casio's consolidated subsidiary Casio Micronics Co., Ltd. (below, Casio Micronics) held on March 28, 2008, it was decided that the Film Device Business of Casio Micronics shall be split off as a new entity, and its shares transferred to Hitachi Cable, Ltd. (below, Hitachi Cable). A share transfer contract to this effect was signed with Hitachi Cable.

   At a meeting of the Casio Micronics Board of Directors held on April 10, 2008, it was decided that Casio Micronics would enter an absorption-type split contract with its new subsidiary, to be known as Film Device Business Development Preparation Co., Ltd. The contract was signed the same day. On April 30, 2008, a meeting of Casio Micronics shareholders approved a resolution for use of the absorption-type split contract. The divestiture of the Film Device Business occurred on June 1, 2008, and Casio Micronics transferred all shares in the new entity to Hitachi Cable.

(1) Purpose of the divestiture and transfer of shareholding

Without collaboration with other companies, Casio Micronics had only limited capabilities in terms of raising funds, cutting costs, enhancing price competitiveness and strengthening marketing in its various businesses. It was judged necessary to consider ways of reducing the costs of investment and strengthening the fundamentals of the Film Device Business, such as alliances with other companies including a transfer of the business.

After close consultations with Hitachi Cable, it was recognized that synergies could be maximized through a business integration since both companies had separate customer bases but complementary technological competencies. In discussing how to effect this integration it was decided that the best option was to transfer to Hitachi Cable all Film Device Business operations, that is to say its chip-on-film (COF) businesses (chip-on-film for LCD, and COF semiconductor mounting). A final contract on the transfer of the Film Device Business was then signed.

(2) Nature of business and scale of operations of the new entity

Business of departments to be split off:
Film Device Business (development, manufacturing, marketing and subcontracted processing of chip-on-film for LCD)
Sales: ¥11,259 million ($112,590 thousand) (year ended March 31, 2008)
Assets and liabilities: Total assets ¥6,571 million ($65,710 thousand), Total liabilities ¥604 million ($6,040 thousand)

* On June 1, 2008, the date of effect for the divestiture of the new entity, Casio Micronics and Hitachi Cable fine-tuned their final decisions regarding agreed rights and obligations pertaining to certain assets and liabilities and the legal status of both parties in the contract. After such fine-tuning, fixed amounts of assets and liabilities may differ from amounts shown above.

(3) The new entity at a glance

Registered trading name: Film Device Business Development Preparation Co., Ltd.
Paid-in capital: ¥250,000 ($2,500)
Number of employees: 375 as of June 1, 2008
Nature of business:

1) Research, development, manufacturing and marketing of electronic parts for computers, electronic system equipment and electronic application systems (for development, manufacturing, marketing and subcontracted processing of chip-on-film for LCD)
2) Research, development, manufacturing and marketing of electrical, electronic and other scientific instruments and their components and accessories (in relation to development, manufacturing, marketing and subcontracted processing of chip-on-film for LCD)
3) All businesses ancillary to the above (development, manufacturing, marketing and subcontracted processing of chip-on-film for LCD)

(4) Method and nature of the corporate split

Method:

Absorption-type split in which Casio Micronics split off its Film Device Business as the Film Device Business Development Preparation Co., Ltd.

Schedule for the divestiture: The divestiture was effective June 1, 2008

Allocation of shares:

When the divestiture took effect, the new entity issued and allocated to Casio 3,999 shares of common stock.

Rights and obligations of the new entity:

On the date of entry into effect of the divestiture, June 1, 2008, the new entity assumed rights and obligations relating to certain assets and liabilities agreed by Casio Micronics and Hitachi Cable, and to these companies' legal status under the contract, as they pertain to the Film Device Business operated by Casio Micronics.

(5) Shares to be transferred to:

Name of recipient: Hitachi Cable, Ltd.

Nature of business:

Manufacturing and marketing of electrical wire and cable, IT network systems, wireless systems, compound semiconductors, materials for semiconductor sealants, wrought copper products, automotive components, etc.

(6) Schedule for share transfer: Date of transfer of shares: June 1, 2008

(7) Value of transfer: ¥6,000 million ($60,000 thousand)

Based on an appraisal of the value of the Film Device Business as of March 31, 2008, the value of the transfer was finally settled when Casio Micronics and Hitachi Cable reach agreement on the rights and obligations relating to part of the assets and liabilities and their legal status under the contract on June 1, 2008, the date of entry into effect of the divestiture. The planned method of settlement is cash payment.

3. Concerning underwriting of the capital increase through private placement by Casio Micronics, and conversion of Casio Micronics into a wholly owned subsidiary of Casio through share exchange.

A meeting of the Board of Directors of Casio held on May 16, 2008 approved a capital increase for Casio Micronics through private placement, and an exchange of shares that would make Casio Micronics into a wholly owned subsidiary of Casio. On the same day, an underwriting contract for the capital increase through private placement and a contract for the share exchange were signed. Casio made full payment for the capital increase by May 30, 2008.

(1) Significance of the capital increase and the exchange of shares

Casio believes that (1) improvement of Casio Micronics's financial position and stabilization of its operating base through a capital increase by private placement underwritten by Casio, and (2) after conversion of Casio Micronics into a wholly owned Casio subsidiary, creation of a framework for rapid and flexible operational reform including possible alliances with other companies in the Bump-processing business, would benefit the enterprise value of the entire group.

(2) Key details of the capital increase

1) Method of offer or allocation: Private placement
2) Type and number of shares to be issued: 6,400,000 shares of common stock
3) Issue price: ¥540 ($5.4) per share
4) Total value of share issue: ¥3,456 million ($34,560 thousand)
5) Total sum to be paid: ¥3,456 million ($34,560 thousand)
6) Total amount incorporated in paid-in capital: ¥1,728 million ($17,280 thousand)
7) Deadline for payment: June 1, 2008
8) Intended use of funding: Allocation for repayment of affiliates' borrowings (full amount)

(3) Key details of the exchange of shares

1) Method and timing of share exchange

Based on the share exchange contract signed on May 16, 2008, Casio will, with August 1, 2008, as date of entry into effect, arrange the transfer to Casio of all Casio Micronics shares held by Casio Micronics shareholders as of July 31 (excluding Casio). In return, Casio Micronics's shareholders (excluding Casio) shall receive allocations of common shares in Casio, and Casio Micronics will become a wholly owned subsidiary of Casio.

2) Terms of the share exchange

Casio will allocate 0.4 shares of common stock for every one share of Casio Micronics common stock. There will be no allocation of common stock in Casio Micronics held by Casio.

3) Concerning parties involved in the share exchange

Registered trade name: Casio Micronics Co., Ltd.
Address: 3-10-6 Imai, Ome, Tokyo
Name of representative (president): Yoshio Ono
Paid-in capital: ¥2,992 million ($29,920 thousand) (as of March 31, 2008)
Net assets: ¥(3,108) million ($(31,080) thousand) (liabilities in excess of assets; March 31, 2008)
Total assets: ¥18,403 million ($184,030 thousand) (as of March 31, 2008)
Nature of business: research, development, manufacturing and marketing of electronic parts

4. At a meeting of the Board of Directors at Casio held on June 3, 2008, it was decided to issue euro-denominated convertible bonds falling due in 2015, with the following terms.
   (1) Total amount of issue: ¥50,000 million ($500,000 thousand)
   (2) Value of issue: 100% of face value amount (face value of bonds: ¥10 million ($100 thousand))
   (3) Issue price (offer price), 102.5% of the face value of the bond
   (4) Date of issue: June 19, 2008
   (5) Interest rate: Not applicable
   (6) Method of redemption: Redemption at 100% of face value
   (7) Due date March 31, 2015
   (8) Conversion price ¥1,952 ($19.52)
   (9) Period of conversion: July 3, 2008 to March 17, 2009
   (10) Amounts incorporated in paid-in capital: ¥976 ($9.76) (par value portion)
   (11) Details of collateral: None
   (12) Use of funds
   The funds raised through the business transfer will be principally applied to strengthening the earnings capabilities of the Company's Electronics segment through research and development as well as investment in facilities. A portion of the funds will be applied to the future redemption of corporate bonds and the repayment of bank borrowings.