Notes to Consolidated Financial Statements

Years ended March 31, 2004 and 2003
Casio Computer Co., Ltd. and Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥106 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

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

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

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

Cash flow statements

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

Foreign currency translation

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

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

Securities

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

Derivatives and hedge accounting

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

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

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

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

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

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

Allowance for doubtful accounts

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

Inventories

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

Property, plant and equipment

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

In the year ended March 31, 2004, the Company and its domestic consolidated subsidiaries did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption.

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.

Bond issuance expenses and bond premium

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

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

Employees' severance and retirement benefits

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

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

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") amounted to ¥19,576 million. The net transition obligation is recognized in expenses in equal amounts over 10 years commencing with the year ended March 31, 2001.

Retirement benefits for directors and corporate auditors

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

Accounting for certain lease transactions

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

Income taxes

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

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

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

Appropriations of retained earnings

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

Amounts per share of common stock

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

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

Reclassifications

Certain reclassifications have been made in the 2003 consolidated financial statements to conform to the 2004 presentation.

3. CASH AND CASH EQUIVALENTS AND STATEMENTS OF CASH FLOWS

Cash and cash equivalents at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash and time deposits	¥ 79,977	¥77,183	$ 754,500
Time deposits over three months	(1,336)	(797)	(12,603)
Marketable securities within three months	44,500	20,050	419,811
Cash and cash equivalents	¥123,141	¥96,436	$1,161,708

The amounts of assets and liabilities at September 30, 2002 of Aichi Casio Co., Ltd. and Casio (Malaysia) Sdn. Bhd. excluded from consolidation due to sales of the equity in the companies were as follows:

Aichi Casio Co., Ltd.

	Millions of Yen		Millions of Yen
Current assets	¥9,041	Current liabilities	¥7,154
Long-term assets*	451	Long-term liabilities	177
Total assets	¥9,492	Total liabilities	¥7,331

Casio (Malaysia) Sdn. Bhd.

	Millions of Yen		Millions of Yen
Current assets	¥4,400	Current liabilities	¥2,977
Long-term assets*	1,149		
Total assets	¥5,549	Total liabilities	¥2,977

* Including property, plant and equipment and investments and other assets

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Finished products	¥36,700	¥47,366	$346,226
Work in process	9,780	10,390	92,264
Materials and supplies	15,779	13,107	148,859
Total	¥62,259	¥70,863	$587,349

5. SECURITIES

(1) The following tables summarize acquisition costs, book values and fair values of securities with available fair values at March 31, 2004 and 2003.

(a) Held-to-maturity debt securities

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			2004		
	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	¥2,337	¥107	¥—	¥—	¥—	$21,038	$22,047	$1,009
Securities other than the above	—	—	—	—	—	—	—	—	—
Total	¥2,230	¥2,337	¥107	¥—	¥—	¥—	$21,038	$22,047	$1,009

(b) Available-for-sale securities

Securities with book values exceeding acquisition costs:

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			2004		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥11,339	¥16,617	¥5,278	¥2,678	¥3,588	¥910	$106,972	$156,764	$49,792
Bonds	2,000	2,125	125	2,997	3,002	5	18,868	20,047	1,179
Others	—	—	—	—	—	—	—	—	—
Total	¥13,339	¥18,742	¥5,403	¥5,675	¥6,590	¥915	$125,840	$176,811	$50,971

Others:

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			2004		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 6,763	¥ 5,807	¥ (956)	¥23,351	¥14,225	¥(9,126)	$ 63,802	$ 54,783	$ (9,019)
Bonds	8,821	8,781	(40)	11,921	11,901	(20)	83,217	82,840	(377)
Others	2,448	2,298	(150)	1,449	752	(697)	23,094	21,679	(1,415)
Total	¥18,032	¥16,886	¥(1,146)	¥36,721	¥26,878	¥(9,843)	$170,113	$159,302	$(10,811)

(2) The following tables summarize book values of securities with no available fair values at March 31, 2004 and 2003.

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Certificates of deposit	¥4,500	¥—	$42,453

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Unlisted equity securities (excluding over-the-counter securities)	¥ 2,262	¥ 2,290	$ 21,340
Short-term treasury bonds	40,000	20,050	377,358
Total	¥42,262	¥22,340	$398,698

(3) Available-for-sale securities sold in the year ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Sales amount	¥9,049	¥113	$85,368
Gross realized gains	1,107	—	10,443
Gross realized losses	1	189	9

(4) Available-for-sale securities with maturities and held-to-maturity debt securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen									
	2004					2003				
	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	¥40,000	¥ —	¥ —	¥—	¥40,000	¥20,050	¥ —	¥ —	¥—	¥20,050
Corporate bonds	—	2,230	—	—	2,230	5	—	—	—	5
Others	4,500	10,321	500	—	15,321	6,000	3,800	5,121	—	14,921
Total	¥44,500	¥12,551	¥500	¥—	¥57,551	¥26,055	¥3,800	¥5,121	¥—	¥34,976

	Thousands of U.S. Dollars				
	2004				
	Within one year	Within five years	Within ten years	Over ten years	Total
Bonds:					
Government bonds	$377,358	$ —	$ —	$—	$377,358
Corporate bonds	—	21,038	—	—	21,038
Others	42,453	97,368	4,717	—	144,538
Total	$419,811	$118,406	$4,717	$—	$542,934

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, 2004 and 2003 were as follows:

Currency-related derivatives:

	Millions of Yen								Thousands of U.S. Dollars			
	2004				2003				**2004**			
	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...	**¥16,063**	**¥—**	**¥15,657**	**¥406**	¥13,000	¥—	¥13,282	¥ (282)	**$151,538**	**$—**	**$147,708**	**$3,830**
Euros............	**10,528**	**—**	**10,760**	**(232)**	9,855	—	10,627	(772)	**99,321**	**—**	**101,509**	**(2,188)**
Sterling pounds ...	**1,235**	**—**	**1,285**	**(50)**	1,449	—	1,451	(2)	**11,651**	**—**	**12,123**	**(472)**
Total	**¥27,826**	**¥—**	**¥27,702**	**¥124**	¥24,304	¥—	¥25,360	¥(1,056)	**$262,510**	**$—**	**$261,340**	**$1,170**
To buy:												
U.S. dollars...	**¥55**	**¥—**	**¥53**	**¥(2)**	¥—	¥—	¥—	¥—	**$519**	**$—**	**$500**	**$(19)**
Total	**¥55**	**¥—**	**¥53**	**¥(2)**	¥—	¥—	¥—	¥—	**$519**	**$—**	**$500**	**$(19)**

Interest rate swap and option-related derivatives:

The Group has entered into interest rate swap agreements to reduce its exposure resulting from adverse fluctuations in interest rate on underlying debt instruments. They are all designated as hedges meeting certain hedging criteria and there are no transactions that need to disclose contract amount, fair value and realized gain or loss to be reported for the years ended March 31, 2004 and 2003.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings represent unsecured bank loans and its average interest rates were 1.06% and 1.23% per annum at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
1.9% unsecured convertible bonds due in 2004	**¥ —**	¥ 23,811	**$ —**
0.55% unsecured bonds due in 2004	**1,000**	2,000	**9,434**
2.15% unsecured bonds due in 2004	**10,000**	10,000	**94,340**
2.05% unsecured bonds due in 2005	**30,000**	30,000	**283,019**
2.575% unsecured bonds due in 2007	**10,000**	10,000	**94,340**
1.42% unsecured bonds due in 2009	**10,000**	10,000	**94,340**
0% unsecured bonds with stock acquisition rights due in 2010	**20,000**	—	**188,679**
Unsecured loans principally from banks at interest rates of 0.34% to 1.83% maturing through 2011	**84,102**	86,825	**793,414**
Total...	**165,102**	172,636	**1,557,566**
Less amount due within one year	**12,792**	26,500	**120,679**
	¥152,310	¥146,136	**$1,436,887**

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 ($15.49), subject to change in certain circumstances.

The annual maturities of long-term debt at March 31, 2004 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥12,792	$120,679
2006	39,655	374,104
2007	20,705	195,330
2008	30,500	287,736
2009	30,500	287,736
Thereafter	30,950	291,981

The line of credit with the main financial institutions agreed as of March 31, 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Line of credit	¥59,010	¥35,000	$556,698
Unused	59,010	35,000	556,698

8. INCOME TAXES

The statutory income tax rate used for calculation of deferred income tax assets and liabilities was 42.1% for the year ended March 31, 2002. Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the statutory income tax rates of 42.1% and 40.5% for current items and non-current items, respectively, at March 31, 2003.

As a result of the change in the statutory tax rates, deferred income tax assets for the year ended March 31, 2003 decreased by ¥548 million and net unrealized holding losses on securities decreased by ¥139 million and provision for deferred income taxes increased by ¥409 million compared with what would have been recorded under the previous local tax law.

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, 2004.

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, 2004:

	2004
Statutory tax rate	42.1%
Increase (Reduction) in tax resulting from:	
Nondeductible expenses (Entertainment, etc.)	0.6
Nontaxable income (Divdends received deduction, etc.)	(1.2)
Inhabitants' per capita taxes and other	0.5
Effect of change in statutory tax rate	1.2
Prior periods adjustment of income tax	(5.5)
Difference in statutory tax rate (included in foreign subsidiaries)	(1.7)
Other	(1.2)
Effective tax rate	34.8%

Due to the difference of tax rate between statutory tax rate and the Group's tax rate for financial statement purpose being less than 5% for the year ended March 31, 2003, reconciliation of tax rate between statutory tax rate and effective tax rate is not disclosed.

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Employees' severance and retirement benefits	¥ 5,738	¥ 5,190	$ 54,132
Net operating loss carryforwards	3,413	8,017	32,198
Unrealized holding losses on securities	—	3,984	—
Accrued expenses (bonuses to employees)	2,764	2,525	26,075
Inventories	2,459	2,403	23,198
Property, plant and equipment	1,113	—	10,500
Other	10,754	12,035	101,453
Gross deferred tax assets	26,241	34,154	247,556
Valuation allowance	(3,305)	(5,436)	(31,179)
Total deferred tax assets	22,936	28,718	216,377
Deferred tax liabilities:			
Unrealized holding gains on securities	(2,192)	(369)	(20,679)
Effect of valuation difference	(1,878)	(2,018)	(17,717)
Property, plant and equipment	(331)	(396)	(3,123)
Other	(125)	(90)	(1,179)
Total deferred tax liabilities	(4,526)	(2,873)	(42,698)
Net deferred tax assets	¥18,410	¥25,845	$173,679

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, 2004 and 2003 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥59,572	¥97,229	$562,000
Unrecognized prior service costs	4,961	—	46,802
Unrecognized actuarial differences	(12,228)	(29,469)	(115,358)
Less fair value of pension assets	(30,668)	(40,567)	(289,321)
Less unrecognized net transition obligation	(7,380)	(13,698)	(69,623)
Prepaid pension cost	35	13	330
Liabilities for the employees' severance and retirement benefits	¥14,292	¥13,508	$134,830

Included in the consolidated statements of income for the years ended March 31, 2004 and 2003 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost—benefits earned during the year	¥3,736	¥4,561	$35,245
Interest cost on projected benefit obligation	2,244	2,586	21,170
Expected return on plan assets	(1,551)	(1,929)	(14,632)
Amortization of prior service costs	(363)	—	(3,425)
Amortization of actuarial differences	2,074	1,482	19,566
Amortization of net transition obligation	1,780	1,957	16,793
Employees' severance and retirement benefit expenses	7,920	8,657	74,717
Gain on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme	(2,753)	—	(25,972)
Total	¥5,167	¥8,657	$48,745

The discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 4.5% in 2004 and 2.8% and 4.5% in 2003, respectively.

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 13–15 years (a certain period not exceeding the average of the estimated remaining service lives).

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and its domestic consolidated subsidiaries decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. (The permission date of The Company and a part of its domestic consolidated subsidiaries was January 26, 2004 and the permission date of other its domestic consolidated subsidiaries was February 25, 2004.)

The Company and its domestic consolidated subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)," and the effect of transferring the substitutional portion was recognized on the date permission was received from the Ministry of Health, Labor and Welfare. As a result, in the year ended March 31, 2004, the Company and its consolidated domestic subsidiaries recorded gains on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥2,753 million ($25,972 thousand), which was calculated based on the amount of the substitutional portion of the projected benefit obligations as of the permission date, the related pension assets determined pursuant to the government formula, and the related unrecognized items. The amount of pension plan assets expected to be transferred back to the government approximated ¥20,326 million ($191,755 thousand) as at March 31, 2004.

10. RETIREMENT BENEFITS FOR DIRECTORS AND CORPORATE AUDITORS

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

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

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

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

The provision incurred during the current year ended March 31, 2003 was charged as selling, general and administrative expenses.

As a result of this accounting change, operating income and income before income taxes and minority interests for the year ended March 31, 2003 decreased by ¥139 million and ¥598 million, respectively, compared with what would have been recorded under the previous accounting policy.

11. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

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 the Commercial Code.

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was not material.

12. LEASE TRANSACTIONS

(1) Finance leases

The amounts of outstanding future lease payments due at March 31, 2004 and 2003 and total lease expenses (including total assumed depreciation cost and total assumed interest cost) as lessee for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Future lease payments:			
Due within one year	**¥ 4,416**	¥ 3,741	**$ 41,660**
Due over one year	**8,814**	9,249	**83,151**
Total	**¥13,230**	¥12,990	**$124,811**
Total lease expenses	**¥ 4,551**	¥ 4,602	**$ 42,934**
Total assumed depreciation cost	**¥ 4,121**	¥ 4,145	**$ 38,877**
Total assumed interest cost	**¥ 495**	¥ 589	**$ 4,670**

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, 2004 and 2003 were summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			**2004**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery	**¥16,346**	**¥6,980**	**¥ 9,366**	¥14,414	¥4,482	¥ 9,932	**$154,208**	**$65,849**	**$ 88,359**
Equipment	**4,723**	**2,236**	**2,487**	3,711	1,709	2,002	**44,556**	**21,094**	**23,462**
Other	**1,577**	**627**	**950**	1,400	707	693	**14,877**	**5,915**	**8,962**
Total	**¥22,646**	**¥9,843**	**¥12,803**	¥19,525	¥6,898	¥12,627	**$213,641**	**$92,858**	**$120,783**

(2) Operating leases

The amount of outstanding future lease payments due at March 31, 2004 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Future lease payments:		
Due within one year	¥ 57	$ 538
Due over one year	89	839
Total	¥146	$1,377

13. SEGMENT INFORMATION

The business and geographical segment information and overseas sales for the Group for the years ended March 31, 2004 and 2003 were as follows:

(1) Business segments

	Millions of Yen				
For 2004	Electronics	Electronic components and others	Total	Elimination or unallocated amount	Consolidated
Net sales:					
Outside customers	**¥405,602**	**¥117,926**	**¥523,528**	**¥ —**	**¥523,528**
Inside Group	**1,316**	**32,777**	**34,093**	**(34,093)**	**—**
Total	**406,918**	**150,703**	**557,621**	**(34,093)**	**523,528**
Costs and expenses	**381,692**	**143,637**	**525,329**	**(29,292)**	**496,037**
Operating income (loss)	**¥ 25,226**	**¥ 7,066**	**¥ 32,292**	**¥ (4,801)**	**¥ 27,491**
Total assets	**¥243,691**	**¥109,293**	**¥352,984**	**¥143,055**	**¥496,039**
Depreciation	**¥ 12,445**	**¥ 6,804**	**¥ 19,249**	**¥ 216**	**¥ 19,465**
Capital expenditures	**¥ 15,863**	**¥ 7,014**	**¥ 22,877**	**¥ 188**	**¥ 23,065**

	Thousands of U.S. Dollars				
For 2004	Electronics	Electronic components and others	Total	Elimination or unallocated amount	Consolidated
Net sales:					
Outside customers	**$3,826,434**	**$1,112,509**	**$4,938,943**	**$ —**	**$4,938,943**
Inside Group	**12,415**	**309,217**	**321,632**	**(321,632)**	**—**
Total	**3,838,849**	**1,421,726**	**5,260,575**	**(321,632)**	**4,938,943**
Costs and expenses	**3,600,868**	**1,355,066**	**4,955,934**	**(276,340)**	**4,679,594**
Operating income (loss)	**$ 237,981**	**$ 66,660**	**$ 304,641**	**$ (45,292)**	**$ 259,349**
Total assets	**$2,298,972**	**$1,031,066**	**$3,330,038**	**$1,349,575**	**$4,679,613**
Depreciation	**$ 117,405**	**$ 64,189**	**$ 181,594**	**$ 2,038**	**$ 183,632**
Capital expenditures	**$ 149,651**	**$ 66,170**	**$ 215,821**	**$ 1,773**	**$ 217,594**

	Millions of Yen				
For 2003	Electronics	Electronic components and others	Total	Elimination or unallocated amount	Consolidated
Net sales:					
Outside customers	¥350,145	¥ 90,422	¥440,567	¥ —	¥440,567
Inside Group	1,827	29,571	31,398	(31,398)	—
Total	351,972	119,993	471,965	(31,398)	440,567
Costs and expenses	334,161	115,180	449,341	(26,688)	422,653
Operating income (loss)	¥ 17,811	¥ 4,813	¥ 22,624	¥ (4,710)	¥ 17,914
Total assets	¥234,729	¥106,606	¥341,335	¥117,778	¥459,113
Depreciation	¥ 11,928	¥ 7,540	¥ 19,468	¥ 305	¥ 19,773
Capital expenditures	¥ 10,592	¥ 4,989	¥ 15,581	¥ 112	¥ 15,693

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, 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 ¥4,801 million ($45,292 thousand) and ¥4,710 million for the years ended March 31, 2004 and 2003, 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 ¥145,722 million ($1,374,736 thousand) and ¥118,621 million for the years ended March 31, 2004 and 2003, respectively.
5. As explained in Note 10, effective April 1, 2002, the Company provided accrued retirement benefits for directors and corporate auditors of the Company. The effect of this change was to increase costs and expenses in Electronics by ¥116 million and in Electronic components and others by ¥23 million and to decrease operating income of such segments by the same amounts.

(2) Geographical segments

	Millions of Yen						
For 2004	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Net sales:							
Outside customers	**¥407,038**	**¥43,935**	**¥61,969**	**¥10,586**	**¥523,528**	**¥ —**	**¥523,528**
Inside Group	**84,304**	**114**	**100**	**63,768**	**148,286**	**(148,286)**	**—**
Total	**491,342**	**44,049**	**62,069**	**74,354**	**671,814**	**(148,286)**	**523,528**
Costs and expenses	**468,940**	**41,492**	**60,839**	**73,173**	**644,444**	**(148,407)**	**496,037**
Operating income (loss)	**¥ 22,402**	**¥ 2,557**	**¥ 1,230**	**¥ 1,181**	**¥ 27,370**	**¥ 121**	**¥ 27,491**
Total assets	**¥468,476**	**¥18,310**	**¥21,510**	**¥26,936**	**¥535,232**	**¥ (39,193)**	**¥496,039**

	Thousands of U.S. Dollars						
For 2004	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Net sales:							
Outside customers	**$3,839,981**	**$414,481**	**$584,613**	**$ 99,868**	**$4,938,943**	**$ —**	**$4,938,943**
Inside Group	**795,321**	**1,075**	**944**	**601,585**	**1,398,925**	**(1,398,925)**	**—**
Total	**4,635,302**	**415,556**	**585,557**	**701,453**	**6,337,868**	**(1,398,925)**	**4,938,943**
Costs and expenses	**4,423,962**	**391,434**	**573,953**	**690,311**	**6,079,660**	**(1,400,066)**	**4,679,594**
Operating income (loss)	**$ 211,340**	**$ 24,122**	**$ 11,604**	**$ 11,142**	**$ 258,208**	**$ 1,141**	**$ 259,349**
Total assets	**$4,419,585**	**$172,736**	**$202,924**	**$254,113**	**$5,049,358**	**$ (369,745)**	**$4,679,613**

	Millions of Yen						
For 2003	Japan	North America	Europe	Asia	Total	Elimination	Consolidated
Net sales:							
Outside customers	¥341,955	¥41,333	¥49,579	¥ 7,700	¥440,567	¥ —	¥440,567
Inside Group	70,655	380	82	82,032	153,149	(153,149)	—
Total	412,610	41,713	49,661	89,732	593,716	(153,149)	440,567
Costs and expenses	396,653	41,055	48,787	88,817	575,312	(152,659)	422,653
Operating income (loss)	¥ 15,957	¥ 658	¥ 874	¥ 915	¥ 18,404	¥ (490)	¥ 17,914
Total assets	¥433,339	¥15,259	¥20,563	¥27,188	¥496,349	¥ (37,236)	¥459,113

Notes: 1. Segments of countries and areas were classified by the geographical factor.
2. The main countries and the areas which belong to each segment except for Japan were as follows:
(1) North America .........U.S.A., Canada, Mexico
(2) Europe.....................U.K., Germany, France
(3) Asia ....Taiwan, Hong Kong, South Korea, Malaysia, Singapore, China, India, Indonesia, Thailand
3. As explained in Note 10, effective April 1, 2002, the Company provided accrued retirement benefits for directors and corporate auditors of the Company. The effect of this change was to increase costs and expenses in Japan by ¥139 million and to decrease operating income by the same amounts.

(3) Overseas sales

	Millions of Yen				
For 2004	North America	Europe	Asia	Others	Total
Overseas net sales	**¥51,230**	**¥68,132**	**¥82,740**	**¥22,202**	**¥224,304**
Net sales (consolidated)					**523,528**
Share of overseas net sales	**9.8%**	**13.0%**	**15.8%**	**4.2%**	**42.8%**

	Thousands of U.S. Dollars				
For 2004	North America	Europe	Asia	Others	Total
Overseas net sales	**$483,302**	**$642,754**	**$780,566**	**$209,453**	**$2,116,075**
Net sales (consolidated)					**4,938,943**
Share of overseas net sales	**9.8%**	**13.0%**	**15.8%**	**4.2%**	**42.8%**

	Millions of Yen				
For 2003	North America	Europe	Asia	Others	Total
Overseas net sales	¥49,423	¥56,180	¥45,611	¥20,752	¥171,966
Net sales (consolidated)					440,567
Share of overseas net sales	11.2%	12.7%	10.4%	4.7%	39.0%

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
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, 2004, the Group was contingently liable for trade notes and export drafts discounted with banks in the amount of ¥3,116 million ($29,396 thousand) and as guarantor of others for bank loans in the amount of ¥1,032 million ($9,736 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 ($6.59) per share in the period from July 1, 2004 to June 30, 2009, and a total of 1,270 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 ($11.52) per share in the period from July 1, 2005 to June 30, 2010, and a total of 280 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, which is determined by the average of each day closing price during the previous month before the issue of stock options, in the period from July 1, 2006 to June 30, 2011, and a total of 500 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. EARNINGS PER SHARE

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on September 25, 2002).

Earnings per share for the year ended March 31, 2002 would have been reported as follows, if this new accounting standard were applied retroactively.

	Yen
Net loss per share:	
Basic	¥(91.84)
Diluted	—

17. SUBSEQUENT EVENTS

At the annual shareholders' meeting held on June 29, 2004, the Company's shareholders approved the payment of a cash dividend of ¥15.00 ($0.14) per share aggregating ¥3,992 million ($37,660 thousand) to shareholders of record as of March 31, 2004 and the payments of bonuses to directors and corporate auditors totaling ¥141 million ($1,330 thousand).