Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The Company and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. 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.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Ministry of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥121 to U.S.$1.00. 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.

Certain reclassification has been made in the 1998 consolidated financial statements to conform to the 1999 presentation.

2. Significant accounting policies

Consolidation—The consolidated financial statements of the Company include the accounts of its significant subsidiaries (together with the Company, the "Group"). Intercompany transactions and accounts have been eliminated. Investments in affiliated companies (20% to 50% owned) are stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

Foreign currency translation—Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. Long-term receivables and payables denominated in foreign currencies are translated at historical exchange rates, except that the long-term debt covered with forward exchange contracts are translated at the contracted forward rates. Realized exchange gains and losses are reflected in the statements of operations.

Translation of foreign currency financial statements into Japanese yen is made in accordance with the requirement of Japanese accounting standards. Under the requirement, all assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses have been translated at the exchange rates prevailing during the year.

Translation differences arising from the translation of foreign currency balance sheets and statements of operations are stated in the consolidated balance sheets.

Marketable securities—Marketable equity securities included in marketable securities in the current assets and those included in noncurrent assets are carried at the lower of moving average cost or market. Other marketable securities are stated at cost, which approximates market.

Commencing with the year ended March 31, 1999, the Company and its consolidated domestic subsidiaries record recoveries of write-downs of securities in accordance with a revision in the Corporation Tax Law. There was no effect on net loss resulting from adopting this accounting policy.

Allowance for doubtful accounts—The Company and its domestic subsidiaries provide for doubtful accounts principally at an estimated amount of probable bad debt plus the maximum amount deductible under Japanese tax regulations. Foreign subsidiaries provide for doubtful accounts at an estimated amount of probable bad debt.

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 determined by the declining-balance method at rates based on estimated useful lives except for the leased equipment. The leased equipment is depreciated by the straight-line method over the lease term.

In accordance with revisions of the Corporation Tax Law, buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method. The effect of this change was immaterial. Also effective April 1, 1998, in accordance with revisions referred to above, the Company and its consolidated domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change was to decrease operating income and to increase loss before income taxes by ¥92 million ($760 thousand).

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. Remaining consolidated subsidiaries mainly provide for the allowance for employees' severance and retirement benefits in amounts required had all employees retired voluntarily at the balance sheet date. Certain of such consolidated subsidiaries cover a part of employees' severance and retirement benefits by a pension plan. Excess portion of allowance for employees' severance and retirement benefits due to introduction of the pension plan has been amortized on a straight-line basis over the amortization period of prior service costs.

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.

Amortization of goodwill—In accordance with the new disclosure requirements effective from the year ended March 31, 1999, amortization of goodwill is included in selling, general and administrative expenses. Prior years' amounts, which were included in other income (expenses), have been reclassified to conform to the 1999 presentation.

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 calculation of consolidated results of operations. In addition, some foreign subsidiaries recognize the deferred income taxes in accordance with accounting practices prevailing in their respective countries of domicile.

The Company and its subsidiaries provided income taxes at the amounts currently payable for the years ended March 31, 1998 and 1997. Effective April 1, 1998, the Company and its subsidiaries adopted the new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment of ¥6,308 million ($52,132 thousand) to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated. The effect for the year ended March 31, 1999 was to decrease net loss by ¥4,585 million ($37,893 thousand).

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 (loss) 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 the convertible bonds and the exercise of warrants. Related interest expense, net of income taxes, is eliminated.

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

3. Inventories

Inventories at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Finished products	**¥ 55,005**	¥ 65,075	**$454,587**
Work in process	**7,221**	14,153	**59,678**
Materials and supplies	**13,598**	19,548	**112,380**
	¥ 75,824	¥ 98,776	**$626,645**

4. Marketable securities

Book value and market value of marketable equity securities at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current:			
Book value	**¥ 6,272**	¥ 5,358	**$51,834**
Market value	**7,677**	6,815	**63,446**
Unrealized gain	**¥ 1,405**	¥ 1,457	**$11,612**
Noncurrent:			
Book value	**¥ 5,541**	¥ 5,509	**$45,793**
Market value	**6,382**	5,877	**52,743**
Unrealized gain	**¥ 841**	¥ 368	**$ 6,950**

5. Derivative transactions of the Company

Status of derivative transactions—The Company utilizes interest rate swap and swaption contracts as derivative transactions, in order to hedge interest rate risks arising from normal business transactions and to improve efficiency of utilization of available funds.

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

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

The Company 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.

Market value of derivative transactions—The aggregate amounts contracted to be paid or received and the fair value of derivative transactions in Japanese yen of the Company at March 31, 1999 and 1998 were as follows:

Currency related derivatives:

	Millions of yen							
	1999				1998			
	Contract amount				Contract amount			
	Total	Due after one year	Market value	Unrealized gain (loss)	Total	Due after one year	Market value	Unrealized gain (loss)
Forward contracts:								
To sell:								
U.S. dollars	**¥811**	**—**	**¥766**	**¥ 45**	¥3,106	—	¥3,174	¥(68)
Deutsche marks	**164**	**—**	**166**	**(2)**	—	—	—	—
	¥975	**—**	**¥932**	**¥ 43**	¥3,106	—	¥3,174	¥(68)

Interest rate swap and option related derivatives:

	Millions of yen							
	1999				1998			
	Contract amount				Contract amount			
	Total	Due after one year	Market value	Unrealized gain (loss)	Total	Due after one year	Market value	Unrealized gain (loss)
Interest rate swaps:								
Receive float/Pay fix	**¥12,000**	**¥ —**	**¥(28)**	**¥(28)**	¥ —	¥ —	¥ —	¥ —
Receive float/Pay float	**3,000**	**3,000**	**(51)**	**(51)**	28,000	28,000	(394)	(394)
Interest rate swaption:								
To sell:								
Receive fix/Pay float	**—**	**—**	**—**	**—**	5,000	5,000	(42)	(27)
	¥15,000	**¥3,000**	**¥(79)**	**¥(79)**	¥33,000	¥33,000	¥(436)	¥(421)

6. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1999 consisted of short-term notes bearing an average interest rate of 2.38% per annum and commercial paper bearing an interest rate of 6.38%. The Group has had no difficulty in renewing such notes when such renewal has been considered advisable.

Long-term debt at March 31, 1999 and 1998 consisted of:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
1.9% convertible bonds due in 2004	**¥ 23,811**	¥ 23,811	**$ 196,785**
3.0% U.S. dollar convertible bonds due in 2000 ($600 thousand at March 31, 1999 and $730 thousand at March 31, 1998)	**149**	181	**1,231**
2.0% bonds due in 2002	**50,000**	50,000	**413,223**
2.15% bonds due in 2004	**10,000**	10,000	**82,645**
2.05% bonds due in 2005	**30,000**	—	**247,933**
2.575% bonds due in 2007	**10,000**	10,000	**82,645**
Loans principally from banks at interest rates of 0.8% to 4.25% maturing serially through 2004	**33,271**	33,472	**274,967**
	157,231	127,464	**1,299,429**
Less amount due within one year	**16,892**	10,689	**139,603**
	¥140,339	¥116,775	**$1,159,826**

The indentures covering the 1.9% and 3.0% convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥1,502.4 ($12.42) and ¥1,488.9 ($5.94 at the fixed rate of ¥250.65 to $1), respectively (subject to change in certain circumstances), and (2) redemption at the option of the Company commencing March 1996 and March 1988, respectively, at prices ranging from 107% and 104%, respectively, to 100% of the principal amount.

The annual maturities of long-term debt at March 31, 1999 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥16,892	$139,603
2001	10,364	85,653
2002	5,157	42,620
2003	50,000	413,223
2004	24,811	205,049
Thereafter	50,007	413,281

7. Income taxes

The Company and its consolidated domestic subsidiaries were subject to a number of income taxes, which, in the aggregate, indicated a statutory rate in Japan of approximately 47% and 51% for the years ended March 31, 1999 and 1998, respectively. Due to the changes in Japanese tax regulations, the statutory rate was reduced from 51% to 47% effective April 1, 1998 and was further reduced from 47% to 41% effective April 1, 1999. The newly enacted rate was used in calculating the future expected tax effects of temporary differences as of March 31, 1999.

Significant components of deferred tax assets and liabilities as of March 31, 1999 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Inventories	¥ 5,407	$ 44,686
Net operating loss carryforwards	5,197	42,951
Property, plant and equipment	2,829	23,380
Allowance for doubtful accounts	1,377	11,380
Other	3,098	25,603
Gross deferred tax assets	17,908	148,000
Valuation allowance	(4,812)	(39,769)
Total deferred tax assets	13,096	108,231
Deferred tax liabilities:		
Property, plant and equipment	(656)	(5,422)
Other	(145)	(1,198)
Gross deferred tax liabilities	(801)	(6,620)
Net deferred tax assets	¥12,295	$101,611

8. Employees' severance and retirement benefits

The annual contributions to the funded pension plan, which consist of current period costs and amortization of prior service costs and interest thereon over 20 years, are determined by the actuarial method and charged to income when paid.

Charges with respect to severance and retirement benefits included in costs and expenses were ¥2,439 million ($20,157 thousand) and ¥2,268 million for the years ended March 31, 1999 and 1998, respectively.

9. Shareholders' equity

At the current conversion prices, 15,950 thousand shares of common stock were issuable at March 31, 1999 upon full conversion of the 1.9% and 3.0% convertible bonds.

In accordance with the Code, certain issues of shares of common stock, including conversions of convertible bonds and exercise of warrants, are required to be credited to the common stock account to the extent of the greater of par value or at least 50% of the proceeds. The remaining amounts are credited to additional paid-in capital.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the stockholders' equity. The accompanying consolidated financial statements for the years ended March 31, 1997 and 1998 have been reclassified to conform to the 1999 presentation. The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code. As a result, the retained earnings of the Company available for cash dividends at March 31, 1999 subject to shareholders' approval, amounted to ¥53,568 million ($442,711 thousand).

Pursuant to special regulation of Article 3 of the Code concerning the retirement of a company's own shares and the retirement of treasury stock using its additional paid-in capital by the resolution of the Board of Directors, the Company acquired 6,632,000 shares in exchange for ¥6,069 million ($50,157 thousand) through the fiscal year ended March 31, 1999.

In addition, the Company acquired 539,000 shares at the cost of ¥456 million ($3,769 thousand) in May, 1999, resulting in 7,171,000 shares of retirement of treasury stock in total.

Thus, at the annual shareholders' meeting held on June 29, 1999, the resolution was made to reduce 7,171,000 authorized shares to 472,829,000.

10. Lease transactions

(1) Lessee

The amounts of outstanding future lease payments due at March 31, 1999 and 1998 and total lease expenses (including total assumed depreciation cost and total assumed interest cost) as lessee for the years ended March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Future lease payments			
Due within one year	**¥ 49**	¥27	**$ 405**
Due over one year	**119**	52	**983**
Total	**¥168**	¥79	**$1,388**
Total lease expenses	**¥ 37**	¥24	**$ 306**
Total assumed depreciation cost	**¥ 34**	¥—	**$ 281**
Total assumed interest cost	**¥ 3**	¥—	**$ 25**

The amounts of total assumed depreciation cost and total assumed interest cost were not required to be disclosed through the year ended March 31, 1998.

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, 1999 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery	¥ 31	¥ 9	¥ 22	$ 256	$ 74	$ 182
Equipment	203	56	147	1,678	463	1,215
Total	¥234	¥65	¥169	$1,934	$537	$1,397

(2) Lessor

The amounts of outstanding future lease receipts due at March 31, 1999 and 1998 and total lease income (including total assumed depreciation cost and total assumed interest cost) as lessor for the years ended March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Future lease receipts			
Due within one year	**¥ 8,347**	¥ 8,677	**$ 68,984**
Due over one year	**15,908**	17,905	**131,471**
Total	**¥24,255**	¥26,582	**$200,455**
Total lease income	**¥10,314**	¥10,704	**$ 85,240**
Total assumed depreciation cost	**¥ 8,802**	¥ —	**$ 72,744**
Total assumed interest cost	**¥ 1,459**	¥ —	**$ 12,058**

The amounts of total assumed depreciation cost and total assumed interest cost were not required to be disclosed through the year ended March 31, 1998.

Assumed data as to acquisition cost, accumulated depreciation and net book value of the leased assets under the finance lease contracts as lessor at March 31, 1999 were summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery	¥ 1,087	¥ 485	¥ 602	$ 8,984	$ 4,009	$ 4,975
Equipment	27,919	15,058	12,861	230,735	124,446	106,289
Other	17,039	7,437	9,602	140,818	61,462	79,356
Total	¥46,045	¥22,980	¥23,065	$380,537	$189,917	$190,620

11. Segment information

The Group's business segments consist of (1) manufacturing and marketing of electronic products (including data processing equipment, electronic timepieces, visual and communications equipment and electronic components and others) and (2) leasing. Information by business segment is not shown due to net sales, operating income and total assets of manufacturing and marketing of the electronic product segment being in excess of 90% of total net sales, operating income and total assets, respectively.

A summary of net sales, operating income and total assets by main areas of the sellers for the years ended March 31, 1999 and 1998 was as follows:

	Millions of yen					
	Japan	North America	Europe	Asia	Elimination	Consolidated
For 1999						
Net sales:						
Outside customers	**¥340,230**	**¥63,749**	**¥30,143**	**¥ 17,019**	**¥ —**	**¥451,141**
Inside Group	**85,434**	**2,467**	**—**	**102,377**	**(190,278)**	**—**
Total	**425,664**	**66,216**	**30,143**	**119,396**	**(190,278)**	**451,141**
Costs and expenses	**412,535**	**67,727**	**29,909**	**118,269**	**(189,850)**	**438,590**
Operating income (loss)	**¥ 13,129**	**¥ (1,511)**	**¥ 234**	**¥ 1,127**	**¥ (428)**	**¥ 12,551**
Total assets	**¥458,150**	**¥34,132**	**¥10,456**	**¥ 35,372**	**¥ (31,544)**	**¥506,566**

	Thousands of U.S. dollars					
	Japan	North America	Europe	Asia	Elimination	Consolidated
For 1999						
Net sales:						
Outside customers	**$2,811,818**	**$526,851**	**$249,116**	**$140,653**	**$ —**	**$3,728,438**
Inside Group	**706,066**	**20,388**	**—**	**846,091**	**(1,572,545)**	**—**
Total	**3,517,884**	**547,239**	**249,116**	**986,744**	**(1,572,545)**	**3,728,438**
Costs and expenses	**3,409,380**	**559,727**	**247,182**	**977,430**	**(1,569,008)**	**3,624,711**
Operating income (loss)	**$ 108,504**	**$ (12,488)**	**$ 1,934**	**$ 9,314**	**$ (3,537)**	**$ 103,727**
Total assets	**$3,786,363**	**$282,083**	**$ 86,413**	**$292,331**	**$ (260,694)**	**$4,186,496**

	Millions of yen					
	Japan	North America	Europe	Asia	Elimination	Consolidated
For 1998						
Net sales:						
Outside customers	¥381,886	¥76,042	¥29,872	¥ 14,212	¥ —	¥502,012
Inside Group	92,155	3,927	—	123,374	(219,456)	—
Total	474,041	79,969	29,872	137,586	(219,456)	502,012
Costs and expenses	436,476	79,175	29,088	132,858	(217,813)	459,784
Operating income (loss)	¥ 37,565	¥ 794	¥ 784	¥ 4,728	¥ (1,643)	¥ 42,228
Total assets	¥500,118	¥49,189	¥14,067	¥ 44,621	¥ (70,982)	¥537,013

(Effects on segment information of the changes in accounting policies)

(1) Change in depreciation method

As explained in Note 2, buildings, excluding building fixtures, acquired after March 31, 1998 are depreciated using the straight-line method. The effect of this change regarding operating income was immaterial.

(2) Change in estimated useful lives

As explained in Note 2, effective April 1, 1998, the Company and its consolidated domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change was to decrease operating income in Japan by ¥92 million ($760 thousand).

(3) Adoption of deferred income tax accounting

As explained in Note 2, effective April 1, 1998, the Company and its subsidiaries adopted deferred income tax accounting. The effect of this adoption was to increase total assets in Japan by ¥10,707 million ($88,488 thousand).

A summary of overseas net sales made outside Japan by the Group by geographic location of the customers for the years ended March 31, 1999 and 1998 was as follows:

	Millions of yen				
	North America	Europe	Asia	Others	Total
For 1999					
Overseas net sales	**¥74,278**	**¥55,213**	**¥33,669**	**¥42,801**	**¥205,961**
Net sales (consolidated)	**—**	**—**	**—**	**—**	**451,141**
Share of overseas net sales	**16.5%**	**12.2%**	**7.5%**	**9.5%**	**45.7%**

	Thousands of U.S. dollars				
	North America	Europe	Asia	Others	Total
For 1999					
Overseas net sales	**$613,868**	**$456,306**	**$278,256**	**$353,727**	**$1,702,157**
Net sales (consolidated)	**—**	**—**	**—**	**—**	**3,728,438**
Share of overseas net sales	**16.5%**	**12.2%**	**7.5%**	**9.5%**	**45.7%**

	Millions of yen				
	North America	Europe	Asia	Others	Total
For 1998					
Overseas net sales	¥89,556	¥51,872	¥43,047	¥49,335	¥233,810
Net sales (consolidated)	—	—	—	—	502,012
Share of overseas net sales	17.9%	10.3%	8.6%	9.8%	46.6%

12. Commitments and contingent liabilities

At March 31, 1999, the Group was contingently liable for trade notes and export drafts discounted with banks in the amount of ¥4,605 million ($38,058 thousand) and as guarantor of others for bank loans and trade liabilities in the amount of ¥1,366 million ($11,289 thousand).

13. Other income (expenses)

Losses of ¥14,641 million ($121,000 thousand) for the disposal and devaluation of inventories for the year ended March 31, 1999 included ¥8,790 million ($72,645 thousand) in inventory devaluations at the Company to restructure operations. Other—net expenses of ¥3,825 million ($31,612 thousand) for the year ended March 31, 1999 included ¥2,272 million ($18,777 thousand) in losses on misappropriated overseas funds at the Company.

14. Subsequent events

At the annual shareholders' meeting held on June 29, 1999, the Company's shareholders approved the payment of a cash dividend of ¥12.50 per share aggregating ¥3,400 million ($28,099 thousand) to shareholders of record as of March 31, 1999.