Notes to Consolidated Financial Statements

Oki Electric Industry Co., Ltd. and consolidated subsidiaries
March 31, 2006

1.
SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

Oki Electric Industry Co., Ltd. (the "Company") and its domestic consolidated subsidiaries (collectively and including its overseas subsidiaries, the "Group") maintain their books of accounts in accordance with accounting standards generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts from prior years have been reclassified to conform to the current year's presentation. The accompanying consolidated statements of cash flows which have not been prepared under the same requirements as those specified in the Japanese accounting standard for cash flows, are presented in a format similar to that required under accounting standards generally accepted in the United States, and the concept and format are almost identical to those required under the Japanese standard.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are stated at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written them down to reflect the impairment.

(c) Foreign currency transaction

(1) The Company translates the revenue and expense accounts of the overseas consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Differences arising from translation where two exchange rates have been used are presented under translation adjustments as a component of shareholders' equity.

(2) Current and noncurrent monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates.

All revenues and expenses are translated at the average rate for the month prior to the transaction.

Gains and losses arising from foreign exchange differences are credited or charged to income in the year in which they are made or incurred, except for those arising from forward foreign exchange contracts pertaining to long-term debt, which are deferred and amortized over the periods of the respective contracts.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gain and loss, net of the applicable income taxes, is recognized as a component of shareholders' equity and is reflected as "net unrealized holding gain on other securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

(f) Inventories

Inventories are principally stated at cost determined by the following methods:

Finished goods—Moving average method
Work in process—Specific identification method
Raw materials and supplies—Last purchase price method

(g) Property, plant and equipment, and depreciation

Property, plant and equipment is recorded at cost.

Depreciation of property, plant and equipment is principally computed by the declining balance method over the estimated useful lives of the respective assets. However, buildings (excluding leasehold improvements) acquired after April 1, 1998 by the Company and its domestic consolidated subsidiaries are depreciated by the straight-line method over their estimated useful lives. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets and amortization

Intangible assets, including capitalized computer software costs, are amortized by the straight-line method over their estimated useful lives.

(i) Leases

Noncancelable leases are primarily accounted for as operating leases (regardless of whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(j) Retirement benefits

The Group has retirement benefit plans covering substantially all its employees.

An allowance for retirement benefits has been provided for employees' retirement benefits, based on an estimate of the projected retirement benefit obligation and the pension fund assets.

The transition difference arising from the initial adoption of the accounting standard for retirement benefits is being amortized over a period of 15 years except for certain domestic consolidated subsidiaries which charged it to income when it was recognized or certain overseas consolidated subsidiaries which charged it directly to retained earnings.

Actuarial gains and losses and prior service cost are amortized by the straight-line method over a period of 13–14 years and 14 years respectively, which is within the estimated average remaining years of service of the participants in the plans. The amortization of such gains and losses is recognized in the year subsequent to the year in which they arise except for certain overseas subsidiaries which charged or credited it directly to retained earnings.

Certain consolidated subsidiaries also provide an allowance for retirement benefits for directors at the amount which would be required to be paid if all directors retired at the balance sheet date, based on the Group's internal regulations.

(k) Income taxes

Deferred income taxes are recognized by the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(l) Hedge accounting

Forward foreign exchange contracts are accounted for by deferral hedge accounting, which requires that unrealized gains or losses be deferred as assets or liabilities. Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method, which is utilized to hedge against risks arising from fluctuation in foreign currency exchange rates. Interest-rate swaps which meet the required criteria are accounted for by a special method (as stipulated in the accounting standard) as if the interest rates applied to the interest-rate swaps had originally applied to the underlying borrowings. Swap contracts are utilized to hedge market risks which may arise in the future with respect to short-term and long-term loans with variable interest rates.

The Group has developed hedging policies to control various aspects of derivatives transactions, including levels of authorization and transaction volume. Based on these policies, the Group hedges the risks arising from fluctuation in foreign currency exchange rates and interest rates. During the period from the inception of a hedge position to the assessment of its effectiveness, the Group reviews the effectiveness of all its hedging policies in order to monitor and control the cumulative cash flows and to respond to any changes in the market.

(m) Change in Method of Accounting

(1) In August 2002, the Business Accounting Council of Japan issued "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued Financial Accounting Standards Implementation Guidance No.6, "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets."

These new pronouncements went into effect for fiscal years beginning on or after April 1, 2005.

This standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and if the book value of the fixed asset exceeds the undiscounted sum of its future cash flows.

The effect of the adoption of this standard was to decrease income before income taxes ,minority interests and equity in earnings of affiliates by ¥2,973 million ($25,410 thousand) for the year ended March 31, 2006.

(2) Certain overseas consolidated subsidiaries have adopted the new accounting standards for retirement benefits in their respective countries effective the year ended March 31, 2006. The adoptions of the new accounting standards had no significant impact on net income.

However, because under these new accounting standards, the transition differences arising from the initial adoption of these new accounting standards and the actuarial differences were deducted directly from retained earnings, retained earnings decreased by ¥1,805 million ($15,427 thousand).

2.

U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥117=US$1.00, the approximate exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. SECURITIES

Securities with quoted market prices at March 31, 2006 and 2005 are summarized as follows:

Held-to-maturity securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Amount recorded in balance sheet	Quoted market price	Difference	Amount recorded in balance sheet	Quoted market price	Difference	Amount recorded in balance sheet	Quoted market price	Difference
Held-to-maturity securities whose market value exceeds amounts recorded in balance sheet:									
Debt securities	¥ 500	¥ 500	¥ —	¥ 500	¥ 504	¥ 4	$ 4,273	$ 4,273	$ —
Held-to-maturity securities whose market value does not exceed amounts recorded in balance sheet:									
Debt securities	—	—	—	—	—	—	—	—	—
Total	¥ 500	¥ 500	¥ —	¥ 500	¥ 504	¥ 4	$ 4,273	$ 4,273	$ —

Other securities with quoted market prices

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Acquisition costs	Amount recorded in balance sheet	Difference	Acquisition costs	Amount recorded in balance sheet	Difference	Acquisition costs	Amount recorded in balance sheet	Difference
Other securities whose market value recorded in balance sheet exceeds their acquisition costs:									
Equity securities	¥ 12,868	¥ 45,157	¥ 32,288	¥ 9,958	¥ 31,410	¥ 21,451	$ 109,982	$ 385,957	$ 275,965
Other	499	553	53	397	430	33	4,264	4,726	452
Subtotal	13,367	45,710	32,342	10,355	31,840	21,485	114,247	390,683	276,427
Other securities whose market value recorded in balance sheet does not exceed their acquisition costs:									
Equity securities	302	238	(64)	3,477	3,127	(350)	2,581	2,034	(547)
Other	—	—	—	100	96	(4)	—	—	—
Subtotal	302	238	(64)	3,578	3,223	(355)	2,581	2,034	(547)
Total	¥ 13,670	¥ 45,948	¥ 32,278	¥ 13,934	¥ 35,064	¥ 21,130	$ 116,837	$ 392,717	$ 275,880

Other securities without quoted market prices at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2006	2005	2006
Other investments in securities:			
Medium-term government bond fund	¥ 100	¥ 100	$ 854
Money management fund	3,701	2,701	31,632
Unlisted equity securities	11,046	11,729	94,410
Investment in a limited liability joint business partnership	600	577	5,128

4.
INVENTORIES

Inventories at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods	¥ 53,277	¥ 48,404	$ 455,358
Work in process	69,231	60,131	591,717
Raw materials and supplies	44,392	40,762	379,418
	¥ 166,899	¥ 149,298	$ 1,426,487

5.
INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Investments stated:			
By equity method	¥ 4,788	¥ 4,564	$ 40,923
At cost or less	4,146	4,176	35,435
Advances	6,708	5,753	57,333
	¥ 15,643	¥ 14,494	$ 133,700

6.
SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans, principally from banks, at weighted-average interest rates of 1.3% and 1.4% at March 31, 2006 and 2005, respectively:			
Secured	¥ —	¥ —	$ —
Unsecured	79,412	80,092	678,735
	¥ 79,412	¥ 80,092	$ 678,735

Long-term debt at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans from banks, insurance companies and government agencies, due through 2018:			
Secured	¥ 1,102	¥ 1,474	$ 9,418
Unsecured	138,292	124,089	1,181,982
	139,394	125,563	1,191,401
Unsecured convertible bonds:			
Zero coupon convertible bonds with stock acquisition rights due 2008*	20,000	20,000	170,940
Unsecured bonds in yen:			
3.15% bonds due 2006	20,000	20,000	170,940
2.65% bonds due 2007	9,500	9,500	81,196
3.00% bonds due 2005	—	10,000	—
	188,894	185,063	1,614,478
Less: Current portion	(56,665)	(65,202)	(484,316)
	¥ 132,229	¥ 119,860	$ 1,130,162

*The zero coupon convertible bonds with stock acquisition rights due 2008 (the "Bonds") will be exercisable for the period from December 10, 2004 to November 12, 2008 (unless the Bonds are previously redeemed or purchased and cancelled) and entitling the bearer to acquire fully-paid and non-assessable shares of common stock of the Company at the conversion price of ¥504 ($4.3) per share.

At March 31, 2006, long-term debt of ¥2,232 million ($19,076 thousand) in the aggregate was collateralized by property, plant and equipment which amounted to ¥1,102 million ($9,418 thousand).

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness will be given at the request of the lending bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset the obligations with any cash deposited with the bank.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 56,665	$ 484,316
2008	36,575	312,606
2009	44,980	384,444
2010	13,036	111,418
2011 and thereafter	37,636	321,675
	¥ 188,894	$ 1,614,478

The Group has access to substantial sources of funds at numerous banks worldwide. The total unused credit available to the Group at March 31, 2006 was ¥119,459 million ($1,021,017 thousand).

7.
RETIREMENT BENEFITS

The Group has noncontributory defined benefit pension plan, tax-qualified pension plans,and lump-sum retirement payment plans which cover substantially all employees who terminate their employment with the Group. Certain foreign consolidated subsidiaries have defined benefits and defined contribution pensions plan. In addition, eligible employees, upon termination of their employment with the Group, may receive certain additional payments under the plan.

The Company and 36 consolidated subsidiaries have joined the OKI Pension Fund, which was established on January 1, 2005.

The following is a summary of the plans.

Retirement benefit obligation at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(168,038)	¥(178,882)	$(1,436,222)
Fair value of plan assets	82,999	73,847	709,393
Funded status	(85,039)	(105,035)	(726,829)
Transition differences arising from initial adoption of new accounting standard for retirement benefits	38,999	43,333	333,324
Unrecognized actuarial loss	17,514	39,361	149,692
Unrecognized prior service cost	(13,989)	(15,087)	(119,564)
Obligation recognized in the consolidated balance sheets	(42,515)	(37,427)	(363,376)
Prepaid pension cost	10	—	85
Allowance for retirement benefits	¥ (42,525)	¥ (37,427)	$ (363,461)

Certain consolidated subsidiaries have adopted a simplified method, as permitted, to calculate their projected benefit obligation.

Components of net periodic pension cost for the years ended March 31, 2006, 2005 and 2004:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost during the year	¥ 5,208	¥ 5,585	¥ 7,881	$ 44,512
Interest cost on projected benefit obligation	3,850	4,887	8,069	32,905
Expected return on plan assets	(2,959)	(2,657)	(4,422)	(25,290)
Amortization of obligation at transition	4,333	4,511	5,968	37,034
Amortization of actuarial difference	3,638	2,753	6,771	31,094
Amortization of prior service cost	(1,097)	(274)	(560)	(9,376)
Net periodic pension cost	¥ 12,974	¥ 14,807	¥ 23,707	$ 110,888
Gain on return of substitutional portion of the Welfare Pension Fund Plan	¥ —	¥ —	¥ 8,282	$ —

(1) Retirement payments of ¥1,442 million ($12,324thousand) and ¥1,947 million in the aggregate were paid in addition to the net periodic pension cost presented in the above table for the years ended March 31, 2006 and 2005, respectively.
(2) The allowance for retirement benefits was determined by the simplified method by certain consolidated subsidiaries and their net periodic pension cost has been included in service cost of benefits earned during the year.

Assumptions used in the actuarial calculation:

	Years ended March 31	
	2006	2005
Discount rates:	2.10%	2.10%
Expected rate of return:	4.00%	4.00%
Amortization period for prior service cost:	14 years (amortized by the straight-line method over a period which falls within the average remaining years of service of the participants in the plans, commencing the year subsequent to the period in which the cost was incurred)	
Amortization period for actuarial difference:	13–14 years (amortized by the straight-line method over a period which falls within the average remaining years of service of the participants in the plans, in the year subsequent to the period in which such difference was incurred) except for certain overseas subsidiaries which charge directly to retained earnings.	
Amortization period for transition obligations arising from the initial adoption of a new accounting method:	15 years, except for certain consolidated subsidiaries which charge or credit to income when incurred, and certain overseas subsidiaries which charge directly to retained earnings	

8.
INCOME TAXES

Deferred tax assets (liabilities) at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Loss carryforwards	¥ 15,457	¥ 22,245	$ 132,111
Nondeductible accrued bonuses	5,715	5,623	48,846
Nondeductible retirement benefits	16,600	14,882	141,880
Nondeductible write-downs of inventories	1,622	1,388	13,863
Loss on impairment of fixed assets	1,218	—	10,410
Other	8,402	7,172	71,811
Gross deferred tax assets	49,017	51,312	418,948
Less: Valuation allowance	(17,825)	(16,752)	(152,350)
Total deferred tax assets	31,191	34,560	266,589
Deferred tax liabilities:			
Net unrealized holding gain on other securities	(13,292)	(8,679)	(113,606)
Other	(105)	(83)	(897)
Total deferred tax liabilities	(13,397)	(8,763)	(114,504)
Net deferred tax assets	¥ 17,793	¥ 25,797	$ 152,076

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other current assets	¥ 6,508	¥ 10,620	$ 55,623
Other assets	11,294	15,212	96,529
Other current liabilities	(4)	(31)	(34)
Other liabilities	(5)	(4)	(42)
Net deferred tax assets	¥ 17,793	¥ 25,797	$ 152,076

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 41% for the years ended March 31, 2006 and 2005 and 42% for the year ended March 31, 2004. Income taxes of the overseas consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

A reconciliation between the statutory tax rates and the effective tax rates as a percentage of income before income taxes for the years ended March 31, 2006, 2005 and 2004 is summarized as follows:

	2006	2005	2004
Statutory rates	41.0%	41.0%	42.0%
Additions to (deductions from) income taxes resulting from:			
Increase in valuation allowance for deferred tax assets	10.1	4.0	(38.2)
Permanent nondeductible differences such as entertainment expenses	6.9	2.9	19.5
Permanent differences unrecognized for tax purposes such as dividends received	(3.5)	(1.0)	—
Differences between the Company's statutory tax rates and the overseas consolidated subsidiaries' effective tax rates	(2.3)	(2.5)	—
Per capita portion of inhabitants' taxes	—	—	6.7
Other, net	(1.8)	(6.3)	6.3
Effective tax rates	50.4%	38.1%	36.3%

9.
SHAREHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the reserve and additional paid-in capital equals 25% of the common stock account.

The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Both the legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of shareholders or may be capitalized by resolution of the Board of Directors. In accordance with the Code, the Company has provided a legal reserve which is included in retained earnings. In June 2004, additional paid-in capital of ¥33,369 million was appropriated to eliminate the accumulated deficit under this rule.

10.
DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2006, 2005 and 2004 was as follows:

Millions of yen			Thousands of U.S. dollars
2006	2005	2004	2006
¥ 26,590	¥ 25,549	¥ 24,441	$ 227,264

11.
RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2006, 2005 and 2004 were as follows:

Millions of yen			Thousands of U.S. dollars
2006	2005	2004	2006
¥ 19,614	¥ 21,987	¥ 16,117	$ 167,641

12.
LOSS ON IMPAIRMENT OF FIXED ASSETS

The Company has recognized a loss on impairment of fixed assets for the year ended March 31, 2006.

In accordance with the new accounting standard for the impairment of fixed assets, the Company has recognized a loss on impairment of certain fixed assets due to a projected change in their usage, from shared usage within the Company, to the rental of such assets to external third parties. This loss recognition was determined based on the net sale prices of the respective assets.

13.
LOSS ON NATURAL DISASTERS

Due to earthquakes that took place at two epicenters, Sanriku South on May 26, 2003 and Miyagi Prefecture North on July 26, 2003, the production lines of Miyagi Oki Electric Industry Co., Ltd., a subsidiary of the Company which manufactures semiconductors, were suspended and the subsidiary recognized the related loss for the year ended March 31, 2004.

Following an earthquake which took place just of the coast of Miyagi Prefecture on August 16, 2005, the production lines of Miyagi Oki Electric Industry Co., Ltd. were again suspended and the subsidiary recognized the related loss for the year ended March 31, 2006.

14.
RESTRUCTURING CHARGES

Restructuring charges for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Special retirement payments	¥ 1,442	¥ 2,363	¥ 3,369	$ 12,324
Loss on devaluation of inventories	—	—	4,339	—

15.
DERIVATIVES AND HEDGING ACTIVITIES

The Company and its subsidiaries primarily utilize comprehensive forward foreign exchange and currency swap contracts to hedge their exposure to foreign exchange fluctuation relating to their receivables and payables.The Company and its subsidiaries also utilize interest-rate swaps to manage the risk of interest-rate fluctuation and to equalize their financial costs for each fiscal year with regard to short-term and long-term debt at variable interest rates.

As a matter of policy, the Company and its subsidiaries do not speculate in derivatives which are subject to significant market value fluctuation. The Company and its subsidiaries do not anticipate any credit risk resulting from nonperformance by any of the counterparties because all are financial institutions with high credit ratings. The Company and its subsidiaries have established internal rules for entering into and monitoring derivative transactions, which prescribe the managers' duties and the management of these positions as well as a reporting system. Derivatives are controlled on a daily basis by the Financial Section, which has established an internal control system to supervise the procedures and transaction limits, and are confirmed with the respective financial institutions by the Accounting Section.

16.
LEASES

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥3,633 million ($31,051 thousand), ¥2,415 million and ¥3,242 million for the years ended March 31, 2006, 2005 and 2004, respectively.

Leased assets held under finance leases accounted for as operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Machinery and equipment	¥ 16,802	¥ 11,930	$ 143,606
Other	1,142	317	9,760
Less: Accumulated amortization	6,749	5,006	57,683
	¥ 11,195	¥ 7,242	$ 95,683

Amortization is computed by applying the straight-line method over the estimated useful lives of the related assets assuming that the Company guarantees a nil residual value at the end of the term of each lease.

The following is a schedule of future minimum lease payments under finance leases accounted for as operating leases:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 3,399	$ 29,051
2008 and thereafter	7,796	66,632
	¥ 11,195	$ 95,683

Minimum rental payments subsequent to March 31, 2006 required under operating leases with noncancelable lease terms in excess of one year are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 1,813	$ 15,495
2008 and thereafter	1,351	11,547
	¥ 3,165	$ 27,051

17.
CONTINGENT LIABILITIES

At March 31, 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As endorsers of trade notes discounted and endorsed	¥ 11	$ 94
As guarantors of indebtedness of:		
Unconsolidated subsidiaries and affiliates	1,332	11,384
Other	2,541	21,717
	¥ 3,884	$ 33,196

18.
AMOUNTS PER SHARE

In accordance with the accounting standard for earnings per share, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year assuming full conversion of the convertible bonds. Net assets per share are based on the number of shares of common stock outstanding during each year.

	Yen			U.S. dollars
	2006	2005	2004	2006
Net income:				
Basic	¥ 8.27	¥ 18.27	¥ 2.17	$ 0.07
Diluted	7.77	17.87	2.17	0.06

	Yen		U.S. dollars
	2006	2005	2006
Net assets	¥ 218.96	¥ 204.11	$ 1.87

19.
STOCK OPTION PLANS

At March 31, 2006, the following stock option plans of the Company had been approved by the shareholders in accordance with the Commercial Code:

Date of approval by shareholders	June 28, 2001	June 27, 2002	June 27, 2003	June 29, 2004	June 29, 2005
Grantees	11 directors and 14 executive officers	9 directors and 14 executive officers	8 directors, 15 executive officers and 12 management officials	9 directors, 13 executive officers, 10 management officials and 4 directors of subsidiaries	9 directors, 12 executive officers, 8 management officials and 3 directors of subsidiaries
Shares with warrants granted	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares with warrants granted	334,000 shares	153,000 shares	815,000 shares	452,000 shares	442,000 shares
Option price per warrant	¥613	¥271	¥384	¥458	¥406
Exercise period	July 1, 2003– June 30, 2006	July 1, 2004– June 30, 2007	July 1, 2005– June 26, 2013	July 1, 2006– June 28, 2014	July 1, 2007– June 28, 2015

On June 29, 2006, shareholders of the Company approved a stock option plan under which warrants to purchase shares of the Company’s common stock were to be granted to the Company's directors, executive officers and to certain management officials and as well as to directors of certain subsidiaries in accordance with the Corporation Law of Japan and Item 12 of the Company’s Articles of Incorporation. Under the plan, shares of up to a maximum of 347,000 were granted.

The stock option price is determined by multiplying the highest of the average final price of the Company's shares of common stock traded on the Tokyo Stock Exchange in the month prior to the date of the granting of the options or the corresponding final share price on the day prior to the granting of the options, or the corresponding final share price on the day prior to the date of the annual general meeting of shareholders by a factor of 1.05.

As outlined in the Company's stock option plan, this exercise price will be adjusted in accordance with a specified formula for stock splits, reverse stock splits or new issues of shares of common stock issued at less than the market price.

The stock options will become exercisable during the period from July 1, 2008 to June 28, 2016.

20.

SEGMENT INFORMATION

Business segments

The Group classifies its businesses into Info-Telecom Systems, Semiconductors, Printers and Other.

The business segment information for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen						
Year ended March 31	2006						
	Info-Telecom Systems	Semi-conductors	Printers	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	¥ 338,048	¥ 150,723	¥ 160,483	¥ 31,271	¥ 680,526	¥ —	¥ 680,526
Intersegment sales and transfers	1,950	5,004	4,844	25,279	37,078	(37,078)	—
Total sales	339,998	155,728	165,327	56,551	717,605	(37,078)	680,526
Operating expenses	329,075	152,750	161,181	53,736	696,744	(26,811)	669,933
Operating income	¥ 10,922	¥ 2,977	¥ 4,146	¥ 2,814	¥ 20,860	¥ (10,267)	¥ 10,593
Total assets	¥ 248,973	¥ 145,506	¥ 116,895	¥ 34,940	¥ 546,316	¥ 72,543	¥ 618,859
Depreciation	¥ 7,622	¥ 16,700	¥ 6,632	¥ 1,236	¥ 32,192	¥ 2,499	¥ 34,691
Loss on impairment of fixed assets	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 2,973	¥ 2,973
Capital expenditures	¥ 9,662	¥ 16,353	¥ 9,415	¥ 1,629	¥ 37,060	¥ 3,401	¥ 40,461

	Millions of yen						
Year ended March 31	2005						
	Info-Telecom Systems	Semi-conductors	Printers	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	¥ 373,132	¥ 150,721	¥ 137,710	¥ 26,977	¥ 688,542	¥ —	¥ 688,542
Intersegment sales and transfers	6,714	5,595	1,842	26,047	40,200	(40,200)	—
Total sales	379,847	156,316	139,553	53,024	728,742	(40,200)	688,542
Operating expenses	364,032	144,301	131,791	50,494	690,621	(29,298)	661,322
Operating income	¥ 15,814	¥ 12,014	¥ 7,761	¥ 2,530	¥ 38,121	¥ (10,901)	¥ 27,220
Total assets	¥ 241,039	¥ 150,662	¥ 113,396	¥ 27,684	¥ 532,781	¥ 75,233	¥ 608,015
Depreciation	¥ 8,218	¥ 16,758	¥ 6,210	¥ 1,130	¥ 32,317	¥ 1,927	¥ 34,245
Capital expenditures	¥ 9,282	¥ 23,027	¥ 6,977	¥ 1,376	¥ 40,663	¥ 3,886	¥ 44,550

	Thousands of U.S. dollars						
Year ended March 31	2006						
	Info-Telecom Systems	Semi-conductors	Printers	Other	Total	Corporate and eliminations	Consolidated
Sales to third parties	$ 2,889,299	$ 1,288,230	$ 1,371,649	$ 267,273	$ 5,816,461	$ —	$ 5,816,461
Intersegment sales and transfers	16,666	42,769	41,401	216,059	316,905	(316,905)	—
Total sales	2,905,965	1,331,008	1,413,051	483,341	6,133,376	(316,905)	5,816,461
Operating expenses	2,812,606	1,305,555	1,377,615	459,282	5,955,076	(229,153)	5,725,923
Operating income	$ 93,350	$ 25,444	$ 35,435	$ 24,051	$ 178,290	$ (87,752)	$ 90,538
Total assets	$ 2,127,974	$ 1,243,641	$ 999,102	$ 298,632	$ 4,669,367	$ 620,025	$ 5,289,393
Depreciation	$ 65,145	$ 142,735	$ 56,683	$ 10,564	$ 275,145	$ 21,358	$ 296,504
Loss on impairment of fixed assets	$ —	$ —	$ —	$ —	$ —	$ 25,410	$ 25,410
Capital expenditures	$ 82,581	$ 139,769	$ 80,470	$ 13,923	$ 316,752	$ 29,068	$ 345,820

(1) Business segments are divided into categories based on the nature of the products or services rendered and the similarity of sales methodology.
Change in segmentation:
Effective the year ended March 31, 2006, the Company changed its management organization in accordance with the Group's mid-term business plan. As presented above, the business segment information for the year ended March 31, 2005 has been restated to reflect the revised segmentation.
(2) Eliminations or unallocated amounts of operating expenses consist principally of expenses in the Company's General and Administrative Department and research and development costs within the Group, which amounted to ¥10,362 million ($88,564 thousand) and ¥10,921 million for the years ended March 31, 2006 and 2005, respectively.
(3) Eliminations or unallocated amounts of total assets consist principally of the Company's surplus funds, funds for long-term investments and assets belonging to the General and Administrative Department, which amounted to ¥142,288 million ($1,216,136 thousand) and ¥162,189 million for the years ended March 31, 2006 and 2005, respectively.
(4) Included in depreciation and capital expenditures are amortization and additions to long-term prepaid expenses, respectively.

Geographical segments

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is outlined as follows:

	Millions of yen						
Year ended March 31	2006						
	Japan	North America	Europe	Asia	Total	Corporate and eliminations	Consolidated
Sales to third parties	¥ 494,513	¥ 65,669	¥ 84,867	¥ 35,475	¥ 680,526	¥ —	¥ 680,526
Interarea sales	128,245	393	2,397	95,326	226,363	(226,363)	—
Total sales	622,759	66,063	87,265	130,801	906,889	(226,363)	680,526
Operating expenses	602,204	64,934	89,175	129,309	885,624	(215,691)	669,933
Operating income (loss)	¥ 20,554	¥ 1,128	¥ (1,909)	¥ 1,492	¥ 21,265	¥ (10,671)	¥ 10,593
Total assets	¥ 533,137	¥ 35,167	¥ 50,374	¥ 42,695	¥ 661,375	¥ (42,515)	¥ 618,859

	Millions of yen						
Year ended March 31	2005						
	Japan	North America	Europe	Asia	Total	Corporate and eliminations	Consolidated
Sales to third parties	¥ 513,981	¥ 58,445	¥ 79,517	¥ 36,597	¥ 688,542	¥ —	¥ 688,542
Interarea sales	128,151	431	2,228	80,236	211,048	(211,048)	—
Total sales	642,133	58,876	81,746	116,833	899,590	(211,048)	688,542
Operating expenses	606,116	57,951	80,870	114,410	859,349	(198,027)	661,322
Operating income	¥ 36,016	¥ 924	¥ 875	¥ 2,423	¥ 40,240	¥ (13,020)	¥ 27,220
Total assets	¥ 508,187	¥ 24,579	¥ 50,886	¥ 33,803	¥ 617,457	¥ (9,442)	¥ 608,015

	Thousands of U.S. dollars						
Year ended March 31	2006						
	Japan	North America	Europe	Asia	Total	Corporate and eliminations	Consolidated
Sales to third parties	$ 4,226,606	$ 561,273	$ 725,358	$ 303,205	$ 5,816,461	$ —	$ 5,816,461
Interarea sales	1,096,111	3,358	20,487	814,752	1,934,726	(1,934,726)	—
Total sales	5,322,726	564,641	745,854	1,117,957	7,751,188	(1,934,726)	5,816,461
Operating expenses	5,147,042	554,991	762,179	1,105,205	7,569,435	(1,843,512)	5,725,923
Operating income (loss)	$ 175,675	$ 9,641	$ (16,316)	$ 12,752	$ 181,752	$ (91,205)	$ 90,538
Total assets	$ 4,556,726	$ 300,572	$ 430,547	$ 364,914	$ 5,652,777	$ (363,376)	$ 5,289,393

As presented above, the geographical segment information for the year ended March 31, 2005 has been restated to reflect the revised segmentation.

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales of the overseas consolidated subsidiaries (other than exports to Japan) totaled ¥237,502 million ($2,029,931 thousand) and ¥203,023 million, or 34.9% and 29.5% of consolidated net sales for the years ended March 31, 2006 and 2005, respectively.

21.
SUBSEQUENT EVENTS

(a) Issuance of unsecured convertible bonds with stock acquisition rights

Pursuant to a resolution of the Board of Directors at a meeting held on May 23, 2006, the Company issued the following unsecured convertible bonds with stock acquisition rights.

(1) 31st unsecured convertible bonds with stock acquisition rights
1) Total amount of bond issue: ¥18,000 million ($153,846 thousand)
2) Type: Zero coupon
3) Maturity date: June 5, 2009
4) Security of the bonds: Unsecured and not guaranteed

(2) 32nd unsecured convertible bonds with stock acquisition rights
1) Total amount of the bond issue: ¥12,000 million ($102,564 thousand)
2) Type: Zero coupon
3) Maturity date: June 7, 2011
4) Security: Unsecured and not guaranteed

(b) Appropriation of retained earnings

The following appropriation of retained earnings, which has not been reflected in the consolidated financial statements for the year ended March 31, 2006, was approved at a meeting of the shareholders of the Company held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3=US$0.02 per share)	¥ 1,834	$ 15,675