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## **Handling of Goodwill arising through Acquisition**

Below is the explanation regarding the announcement on handling of goodwill through acquiring VOGT.

### **1. What is Goodwill?**

#### (1) Goodwill

When a company enters into acquisition or merger of another company, the goodwill of target company is acknowledged in most cases and its evaluation is one of the key aspects. “Goodwill” is not a legal right but a valuable intangible asset (or excess earning power) such as “brand”, “know-how”, “relationships with customer”, “performance of employee” etc., which could generate larger profit than the other comparable companies. Goodwill is reported as one of the intangible fixed assets in the balance sheet, which includes the possible value to be created in the future as a synergetic effect through acquisition or merger (e.g. enhancement of sales and marketing division, reduction in non-operation expenses).

After the evaluation, the amount of goodwill will be paid to the target company. As the intangible fixed assets are created through time-consuming business efforts by a company, the significance of paying the goodwill value is to buy the time in order to create a company’s intangible fixed assets by acquiring a company which already possesses the goodwill value.

#### (2) How to Calculate Goodwill Amount

Since goodwill is an intangible asset, evaluating its value as actual number is difficult; however, in principle, the goodwill value shall be included as a total amount for acquisition in addition to net assets of the target company. From this point, the amount of goodwill shall be basically calculated as follows:

Total Acquisition Amount – Net Assets (\*1) = Goodwill Amount

(\*1) Net Assets = Assets - Liabilities

Prior to the acquisition, a buying party evaluates and fix the amount of net assets by reviewing the assets, liabilities, business description, business plan etc. with such specialists as lawyers and accountants (this process is called “Due Diligence”). Following this step, we have reviewed the assets, liabilities and business plan of VOGT electronic AG with sufficient consultation with specialists including auditing firm prior to the acquisition.

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### (3) Goodwill as Depreciation Assets

As goodwill embodies the future excess earning power of a company, it is a general rule adopted in Japan that the same or more amount of goodwill shall be amortized within 20 years based on the idea that the goodwill value should be allocated within such a period of time while the company enjoys the future profit. The amortized amount shall be recorded as operating expenses.

## **2. Accounting Procedures on Goodwill**

### (1) The Amortized Amount

Based on the idea above, we have fixed the amount of subject assets upon sufficient consultation with our audit firm. We have applied so called “Principle of Conservatism” (\*2) when fixing the amortized amount and the accounting procedures have been made as conservative as possible. This is based on the grounds that the goodwill value is not guaranteed as it is, eventually, the estimation is to be realized in the future which is influenced by contingency, while the amortization cost of goodwill will be incurred for certain. Accordingly, from a sound financial point of view, it is advisable that the cost incurred from such assets to be amortized in a lump-sum as early as possible.

(\*2) “Principle of Conservatism” is one of the standard business accounting practices which regulates that a company should take sound accounting procedures in preparation for the potential issues which may have material adverse effects on the financial condition of a company. Conservative accounting procedure is widely accepted in the business society in order for companies to enhance their financial soundness and exist as going concern.

Especially for us, 2007 is the final year of our mid-term business plan, “1B7”, and it is our No.1 priority to achieve EBITDA maintained 10% and ensures appropriate profit. In order to achieve the goal, we have adopted such financial policy that we should recognize the incurred cost as conservatively as possible and take action in a prompt manner. Accordingly, we have decided to amortize in a lump-sum a part of the goodwill amount (about 622 million yen) which has been recorded tentatively.

### (2) Business Performance

The above-mentioned accounting treatment in the 4<sup>th</sup> quarter of 2006, should be in principle made on a while financial year bases. Basically, with regard to the consolidated accounting procedures related to acquisition, the standard business

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accounting practices allows a company 1 year to finalize evaluation of the assets on the grounds that it requires substantial amount of time to examine the value of assets related to the acquisition. However, as the Japanese business accounting practices do not allow companies to modify the amount reported as tentative made in the past, the adjustment amount has been reflected only in the 4<sup>th</sup> quarter of 2006.

Based on the above-mentioned background, we have revised our consolidated business forecast for the 4<sup>th</sup> quarter. As to our business performance, on the other hand, it is growing steadily as shown in the increase of the net sales, and the profit amount has achieved the estimated performance if excluding the revision announced this time.

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