

## Five-Year Summary

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31	Millions of Yen					Thousands of U.S. Dollars
	1998	1997	1996	1995	1994	1998
Net sales.....	<b>¥134,031</b>	¥118,586	¥116,372	¥113,572	¥104,908	<b>\$1,014,619</b>
Net income (loss) .....	<b>6,281</b>	(850)	(524)	(1,100)	(3,726)	<b>47,550</b>

Per share:	Yen					U.S. Dollars
	Net income (loss) .....	<b>¥71.94</b>	¥(9.74)	¥(6.03)	¥(12.68)	¥(42.91)
Cash dividends .....	<b>2.50</b>					<b>0.02</b>

	Millions of Yen					Thousands of U.S. Dollars
	Total shareholders' equity .....	<b>¥ 42,068</b>	¥ 36,778	¥ 37,444	¥ 37,819	¥ 39,150
Total assets .....	<b>114,899</b>	111,572	114,249	106,759	106,423	<b>869,787</b>
Working capital .....	<b>18,325</b>	11,640	5,247	12,465	12,939	<b>138,717</b>
Long-term debt, less current portion ...	<b>7,947</b>	14,459	9,977	15,795	16,240	<b>60,159</b>
Capital expenditures .....	<b>4,931</b>	5,637	8,242	7,322	5,080	<b>37,324</b>
Depreciation and amortization .....	<b>6,109</b>	6,888	6,650	6,311	6,536	<b>46,246</b>

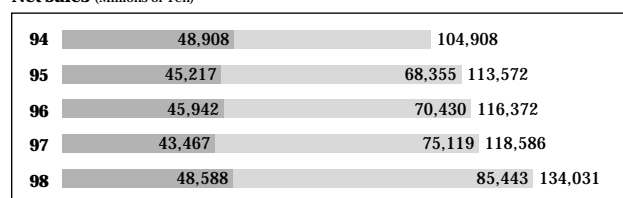
Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥132.10=US\$1.00.

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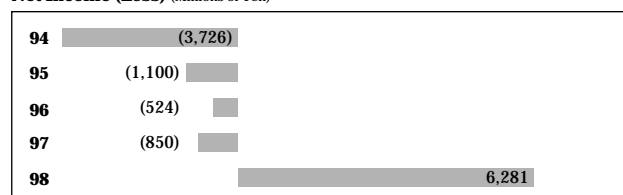
# Financial Review

## Net Sales (Millions of Yen)

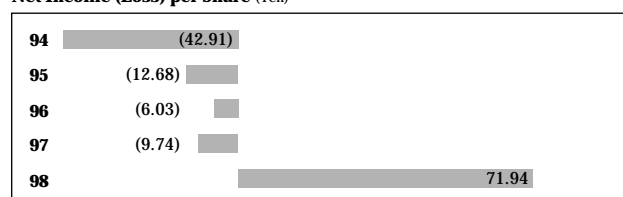


■ Domestic ■ Overseas

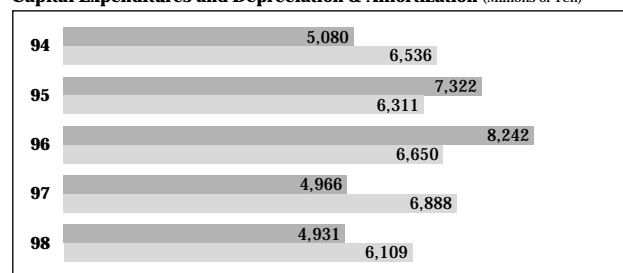
## Net Income (Loss) (Millions of Yen)



## Net Income (Loss) per Share (Yen)

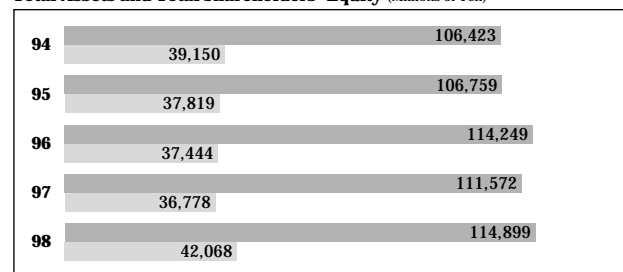


## Capital Expenditures and Depreciation & Amortization (Millions of Yen)



■ Capital Expenditures ■ Depreciation & Amortization

## Total Assets and Total Shareholders' Equity (Millions of Yen)



■ Total Assets ■ Total Shareholders' Equity

## Sales

In fiscal 1998, ended March 31, 1998, Sankyo Seiki Mfg. Co., Ltd. recorded consolidated net sales of ¥134,031 million (US\$1,014.6 million), an increase of 13.0% compared with the previous term. Net sales to domestic customers rose 11.8% to ¥48,588 million (US\$367.8 million), or 36.3% of total net sales, a decline of 0.4 percentage point. Net sales to foreign customers were up 13.7% to ¥85,443 million (US\$646.8 million), accounting for 63.7% of total net sales.

By sales category, electronic components climbed 17.3% to ¥81,722 million (US\$618.6 million), accounting for 61.0% of total net sales. Growth was supported by brisk shipments of compact motors for floppy and hard disk drives, which offset weak demand for audio and video equipment. In response to the trend for continuous improvements in the speed and performance of disk drives, the Company reached an agreement with Seagate Technology, Inc. during the term to supply the U.S. company with fluid dynamic bearing motors. Control devices, the second largest category and accounting for 20.0% of net sales, rose 5.6% to ¥26,853 million (US\$203.3 million). Weak demand for components used in consumer electronics was offset by strong sales for stepping motors used in floppy disk drives and other information processing equipment. Sales of musical products were ¥7,034 million (US\$53.2 million), down 9.1% and making up 5.2% of total net sales. The Company is striving to compensate for adverse market conditions through aggressive business development in high-end products. Data system machines recorded the highest level of sales growth, surging 27.0% to ¥12,955 million (US\$98.1 million), on the back of brisk sales of magnetic card readers used in cash dispensers and automatic teller machines (ATMs). This increase reflects active capital investment in branch automation by domestic financial institutions as well as higher sales in the United States. Machine products edged down 1.2% to ¥5,464 million (US\$41.4 million), owing to restrained capital investment in Japan and other Asian countries.

## Earnings

Sankyo implemented a thorough restructuring program during the previous term aimed at ensuring a sound base for the 21st century. These cost-cutting measures and the benefits of the yen's depreciation resulted in a sharp improvement in profitability during the term. The cost of sales ratio improved 4.0 percentage points to 85.0%, and selling, general and administrative (SG&A) expenses as a percentage of net sales improved 1.1 percentage points to 8.3%. Consequently, operating income continued a strong rebound, surging 352.5% to ¥8,915 million (US\$67.5 million), with an operating income margin of 6.7%.

The Company posted other expenses—net of ¥3,246 million (US\$24.6 million), up slightly from ¥3,214 million in the previous term. The primary reasons for this rise were increases in exchange losses of ¥975 million (US\$7.7 million) and a loss on devaluation of marketable and investment securities of ¥783 million (US\$5.9 million). These factors

offset the absence of ¥2,339 million in additional employees' retirement benefits recorded last term. Interest expense decreased 16.6% to ¥1,622 million (US\$12.3 million).

Sankyo recorded income before income taxes and equity in earnings of unconsolidated subsidiaries and associated companies of ¥5,669 million (US\$42.9 million), as opposed to a loss of ¥1,244 million in the previous fiscal year. Income taxes were ¥355 million (US\$2.7 million), an increase of 169.0%, and equity in earnings of unconsolidated subsidiaries and associated companies jumped 83.8% to ¥967 million (US\$7.3 million). Net income recovered during the term under review to ¥6,281 million (US\$47.5 million), as opposed to a net loss of ¥850 million in the previous term. Net income per share rebounded to ¥71.94 (US\$0.54). Management resumed dividend payments, with cash dividends applicable to the year of ¥2.50 (US\$0.02).

### Cash Flows

Net cash provided by operating activities totaled ¥13,903 million (US\$105.2 million), a significant rise from the previous term's level of ¥5,177 million. The largest sources of cash in this category were net income, and depreciation and amortization, which declined 11.3% to ¥6,109 million (US\$46.2 million).

Net cash used in investing activities was ¥2,079 million (US\$15.7 million), down from ¥3,154 million in the previous term. Capital expenditures declined 12.5% to ¥4,931 million (US\$37.3 million).

Net cash used in financing activities was ¥5,679 million (US\$43.0 million), compared with net cash provided by financing activities of ¥2,292 million in the previous fiscal year. The primary reason for this change was a decrease of ¥8,432 million in proceeds from long-term debt to ¥1,314 million (US\$9.9 million).

In aggregate, cash and cash equivalents, end of year, rose ¥6,429 million, including the effects of changes in consolidation, to ¥22,068 million (US\$167.1 million).

### Financial Position

Due largely to the increase in cash and in time deposits, total current assets rose 16.6% to ¥77,989 million (US\$590.4 million), while total current liabilities increased 8.0% to ¥59,664 million (US\$451.7 million).

Net property, plant and equipment was ¥28,240 million (US\$213.8 million), down 12.3%. Investments and other assets declined 30.6% to ¥8,670 million (US\$65.6 million).

In aggregate, total assets increased 3.0% from the previous fiscal year-end to ¥114,899 million (US\$869.8 million).

Interest-bearing debt, comprising short-term borrowings, the current portion of long-term debt and long-term debt, less current portion, declined ¥6,611 million to ¥34,600 million (US\$261.9 million).

Total shareholders' equity increased 14.4% to ¥42,068 million (US\$318.5 million), reflecting higher retained earnings.

### Electronic Components Sales\* (Millions of Yen)

94	60,257
95	67,281
96	70,386
97	69,696
98	81,722

\*Micromotors/Magnetic heads/Cassette deck mechanisms

### Control Devices Sales\* (Millions of Yen)

94	22,575
95	24,036
96	24,584
97	25,422
98	26,853

\*Timers/Stepping motors

### Musical Products Sales\* (Millions of Yen)

94	9,278
95	9,334
96	7,653
97	7,740
98	7,034

\*Musical movements/Electronic musical units

### Machine Products Sales (Millions of Yen)

94	4,201
95	3,944
96	4,622
97	5,529
98	5,464

### Data System Machines Sales\* (Millions of Yen)

94	8,597
95	8,977
96	9,127
97	10,198
98	12,955

\*Magnetic card readers/Cartridge tape drives

# Consolidated Balance Sheets

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash .....	¥ 22,068	¥ 15,639	\$167,052
Time deposits .....		5	
Marketable securities (Notes 3 and 6) .....	4,403	2,609	33,330
Notes and accounts receivable:			
Trade notes .....	5,487	3,475	41,535
Trade accounts .....	21,999	22,685	166,532
Unconsolidated subsidiaries and associated companies .....	4,045	3,190	30,624
Other (Note 10) .....	2,802	1,781	21,214
Allowance for doubtful receivables .....	(356)	(401)	(2,698)
Inventories (Note 4) .....	17,089	17,115	129,367
Prepaid expenses and other current assets .....	452	779	3,419
Total current assets .....	<u>77,989</u>	<u>66,877</u>	<u>590,375</u>
<b>Property, plant and equipment (Note 6):</b>			
Land .....	4,636	5,065	35,093
Buildings and structures .....	20,278	21,521	153,503
Machinery and equipment .....	56,096	61,497	424,646
Construction in progress .....	378	423	2,866
Total .....	81,388	88,506	616,108
Accumulated depreciation .....	(53,148)	(56,308)	(402,328)
Net property, plant and equipment .....	<u>28,240</u>	<u>32,198</u>	<u>213,780</u>
<b>Investments and other assets:</b>			
Investments in securities (Notes 3 and 6) .....	2,698	2,713	20,427
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 5) .....	3,163	7,211	23,944
Allowance for losses from investments in associated companies .....	(1,492)	(1,347)	(11,294)
Foreign currency statements translation adjustments .....	1,634	1,003	12,366
Other assets (Note 10) .....	2,667	2,917	20,189
Total investments and other assets .....	<u>8,670</u>	<u>12,497</u>	<u>65,632</u>
Total .....	<u>¥114,899</u>	<u>¥111,572</u>	<u>\$869,787</u>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b><i>Current liabilities:</i></b>			
Short-term borrowings (Note 6) .....	¥ 19,889	¥ 21,338	\$150,563
Current portion of long-term debt (Note 6) .....	6,764	5,414	51,203
Notes and accounts payable:			
Trade notes .....	5,293	3,816	40,068
Trade accounts .....	20,132	18,253	152,400
Unconsolidated subsidiaries and associated companies .....	479	435	3,626
Other .....	2,583	1,983	19,553
Income taxes payable (Note 9) .....	194	77	1,473
Accrued expenses .....	3,576	2,968	27,067
Other current liabilities .....	754	953	5,705
Total current liabilities .....	<u>59,664</u>	<u>55,237</u>	<u>451,658</u>
<b><i>Long-term liabilities:</i></b>			
Long-term debt, less current portion (Note 6) .....	7,947	14,459	60,159
Liability for retirement benefits (Note 7) .....	4,757	4,763	36,009
Total long-term liabilities .....	<u>12,704</u>	<u>19,222</u>	<u>96,168</u>
<b><i>Minority interest</i></b> .....	<u>463</u>	<u>335</u>	<u>3,500</u>
<b><i>Commitments and contingent liabilities</i></b> (Notes 12 and 13)			
<b><i>Shareholders' equity</i></b> (Notes 8 and 14):			
Common stock, ¥50 par value—authorized, 200,000,000 shares; issued and outstanding, 87,311,591 shares .....	16,575	16,575	125,474
Additional paid-in capital .....	18,602	18,602	140,815
Legal reserve .....	842	842	6,377
Retained earnings .....	6,050	760	45,800
Total .....	<u>42,069</u>	<u>36,779</u>	<u>318,466</u>
Treasury stock—at cost .....	(1)	(1)	(5)
Total shareholders' equity .....	<u>42,068</u>	<u>36,778</u>	<u>318,461</u>
Total .....	<u>¥114,899</u>	<u>¥111,572</u>	<u>\$869,787</u>

# Consolidated Statements of Operations

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
<b>Net sales</b> (Note 10) .....	<b>¥134,031</b>	¥118,586	<b>\$1,014,619</b>
<b>Cost of sales</b> (Note 10) .....	<b>113,967</b>	105,510	<b>862,733</b>
Gross profit .....	<b>20,064</b>	13,076	<b>151,886</b>
<b>Selling, general and administrative expenses</b> (Note 11) .....	<b>11,149</b>	11,106	<b>84,401</b>
Operating income .....	<b>8,915</b>	1,970	<b>67,485</b>
<b>Other income (expenses):</b>			
Interest expense .....	(1,622)	(1,946)	(12,280)
Interest and dividend income .....	576	471	4,361
Exchange gains (loss) .....	(1,017)	42	(7,698)
Gain (loss) on sales of marketable and investment securities .....	(22)	904	(170)
Loss on sale of investment in associated company .....	(425)		(3,215)
Additional employees' retirement benefits .....		(2,339)	
Gain on sales of property, plant and equipment .....	600	493	4,543
Loss on disposals of property, plant and equipment .....	(587)	(840)	(4,445)
Loss on devaluation of marketable and investment securities .....	(783)	(198)	(5,927)
Other—net .....	34	199	258
Other expenses—net .....	(3,246)	(3,214)	(24,573)
<b>Income (loss) before income taxes and equity in earnings of unconsolidated subsidiaries and associated companies</b> .....	<b>5,669</b>	(1,244)	<b>42,912</b>
<b>Income taxes</b> (Note 9) .....	<b>355</b>	132	<b>2,688</b>
<b>Equity in earnings of unconsolidated subsidiaries and associated companies</b> .....	<b>967</b>	526	<b>7,326</b>
Net income (loss) .....	<b>¥ 6,281</b>	¥ (850)	<b>\$ 47,550</b>
		Yen	U.S. Dollars
<b>Per share of common stock</b> (Note 2.n):			
Net income (loss) .....	<b>¥71.94</b>	¥(9.74)	<b>\$0.54</b>
Cash dividends applicable to the year .....	<b>2.50</b>		<b>0.02</b>

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 1998 and 1997	Shares of Common Stock (Thousands)	Millions of Yen			
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
<b>Balance, April 1, 1996</b> .....	87,030	¥ 16,464	¥ 18,491	¥ 829	¥ 1,660
Net loss .....					(850)
Transfer to legal reserve (Note 8) .....				4	(4)
Increase (decrease) from newly consolidated companies .....				9	(46)
Stock issued on conversion of convertible bonds .....	282	111	111		
<b>Balance, March 31, 1997</b> .....	87,312	16,575	18,602	842	760
Net income .....					6,281
Decrease resulting from changes in the scope of consolidation or adoption of the equity method .....					(991)
<b>Balance, March 31, 1998</b> .....	<u>87,312</u>	<u>¥ 16,575</u>	<u>¥ 18,602</u>	<u>¥ 842</u>	<u>¥ 6,050</u>

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
<b>Balance, March 31, 1997</b> .....	\$125,474	\$140,815	\$6,377	\$ 5,754
Net income .....				47,550
Decrease resulting from changes in the scope of consolidation or adoption of the equity method .....				(7,504)
<b>Balance, March 31, 1998</b> .....	<u>\$125,474</u>	<u>\$140,815</u>	<u>\$6,377</u>	<u>\$45,800</u>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 1998 and 1997	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1998	1997	1998
<b>Operating activities:</b>			
Net income (loss) .....	¥ 6,281	¥ (850)	\$ 47,550
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization .....	6,109	6,888	46,246
Provision for retirement benefits—net .....	(6)	(768)	(48)
Gain on sales of property, plant and equipment .....	(600)	(493)	(4,543)
Loss on disposals of property, plant and equipment .....	587	840	4,445
Loss (gain) on sales of marketable and investment securities .....	22	(904)	170
Loss on devaluation of marketable and investment securities .....	783	198	5,927
Equity in earnings of unconsolidated subsidiaries and associated companies ....	(967)	(526)	(7,326)
Other—net .....	68	122	514
Changes in assets and liabilities, net of effects from changes in the scope of consolidation:			
Increase in notes and accounts receivables .....	(2,426)	(1,946)	(18,361)
Decrease in inventories .....	310	5,819	2,349
Decrease in prepaid expenses and other current assets .....	340	66	2,572
Increase (decrease) in notes and accounts payables .....	2,813	(3,545)	21,298
Increase in accrued income taxes .....	118	24	891
Increase in accrued expenses .....	648	256	4,907
Increase (decrease) in other current liabilities .....	(232)	206	(1,759)
Effect of exchange rate changes on financial statements of foreign subsidiaries .....	55	(210)	416
Total adjustments .....	7,622	6,027	57,698
Net cash provided by operating activities .....	13,903	5,177	105,248
<b>Investing activities:</b>			
Proceeds from sales of property, plant and equipment .....	2,089	1,845	15,814
Capital expenditures .....	(4,931)	(5,637)	(37,324)
Proceeds from sales of marketable and investment securities .....	3,787	2,366	28,668
Purchases of marketable and investment securities .....	(6,095)	(1,149)	(46,144)
Decrease (increase) in investments in and advances to unconsolidated subsidiaries and associated companies .....	2,774	(811)	20,996
Decrease in other assets .....	297	232	2,247
Net cash used in investing activities .....	(2,079)	(3,154)	(15,743)
<b>Financing activities:</b>			
Increase (decrease) in short-term borrowings—net .....	(1,435)	1,236	(10,866)
Proceeds from long-term debt .....	1,314	9,746	9,945
Repayments of long-term debt .....	(5,639)	(4,127)	(42,685)
Decrease in long-term loans receivable .....	81	127	616
Redemption of convertible bonds .....		(4,690)	
Net cash provided by (used in) financing activities .....	(5,679)	2,292	(42,990)
<b>Net increase in cash and cash equivalents .....</b>	<b>6,145</b>	<b>4,315</b>	<b>46,515</b>
<b>Cash and cash equivalents of newly consolidated subsidiary, beginning of year .....</b>	<b>287</b>	<b>123</b>	<b>2,176</b>
<b>Cash and cash equivalents decreased by elimination of consolidated subsidiary ..</b>	<b>(3)</b>		<b>(24)</b>
<b>Cash and cash equivalents, beginning of year .....</b>	<b>15,639</b>	<b>11,201</b>	<b>118,385</b>
<b>Cash and cash equivalents, end of year .....</b>	<b>¥22,068</b>	<b>¥15,639</b>	<b>\$167,052</b>
<b>Noncash investing and financing activities:</b>			
Conversion of convertible bonds into common stock .....		¥ 222	
Assets increased by consolidation of subsidiary previously unconsolidated .....	¥ 2,019	413	\$ 15,283
Liabilities increased by consolidation of subsidiary previously unconsolidated .....	1,257	306	9,512
Assets decreased by deconsolidation of subsidiary .....	176		1,336
Liabilities decreased by deconsolidation of subsidiary .....	161		1,219
<b>Additional cash flow information:</b>			
Interest paid .....	1,598	1,965	12,094
Income taxes paid .....	169	130	1,277

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 1998 and 1997

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated statements of cash flows are not required as part of the basic financial statements in Japan but are presented herein as additional information.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Certain reclassifications have been made in the 1997 consolidated financial statements to conform to the classifications used in 1998.

The consolidated financial statements are stated in Japanese yen, the reporting currency of the country in which Sankyo Seiki Mfg. Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥132.10 to \$1, the approximate rate of exchange at March 31, 1998. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of Significant Accounting Policies

### a. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. The number of the consolidated subsidiaries increased from 12 in 1997 to 13 in 1998.

Investments in certain unconsolidated subsidiaries and associated companies (20%–50% ownership) are accounted for by the equity method. Provision has been made for the capital deficits of associated companies in excess of the carrying balance of investments in such associated companies.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. Effects from not adopting the equity method for foregoing companies could be immaterial.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method, over its equity in the net assets at the respective dates of acquisition, is charged to income as incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within companies is eliminated.

### b. Statements of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents consist of cash and similar balances with banks with an original maturity of three months or less.

### c. Marketable and Investment Securities

Listed equity securities included in marketable and investment securities are stated at the lower of cost or market, cost being determined by the average method. Other securities are stated at cost determined by the average method.

### d. Inventories

Inventories held by the Company and domestic consolidated subsidiaries are valued at cost and those held by foreign consolidated subsidiaries are valued at the lower of cost or market, all cost of inventories is determined by the first-in, first-out method.

### e. Property, Plant and Equipment

Property, plant and equipment are carried at cost. Significant renewals and additions are capitalized; maintenance and repairs, and minor renewals and improvements, are charged to income as incurred. Interest costs relating to construction of property, plant and equipment are not capitalized.

Depreciation of property, plant and equipment is computed by the declining-balance method at rates based on the estimated useful lives of the assets which range principally as follows:

Buildings.....	26–60 years
Machinery and equipment .....	2–20 years

**f. Allowance for Doubtful Receivables**

The Company and its domestic subsidiaries have provided allowances for doubtful receivables principally at an estimated amount of probable bad debts plus the maximum amount permitted to be charged to income under Japanese tax regulations. Foreign subsidiaries have provided allowances for doubtful receivables at an estimated amount of probable bad debts.

**g. Retirement Benefits and Pension Plans**

The liability for retirement benefits for employees of the Company and its consolidated subsidiaries is calculated to state the liability at the amount that would be required if all employees voluntarily terminated their employment at each balance sheet date, less amounts covered by contributory pension plans, in which the Company and most of its consolidated subsidiaries participate, which cover an approximate 60% portion of the total benefits. The liability for retirement benefits for directors and statutory auditors is also calculated to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

**h. Research and Development Costs**

Research and development costs are charged to income as incurred.

**i. Leases**

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. These standards are being applied on a step-by-step basis beginning with fiscal years starting on or after April 1, 1996, with full implementation expected for fiscal years starting on or after April 1, 1998.

**j. Income Taxes**

The Company and its domestic subsidiaries provide for income taxes at amounts currently payable for each year. Interperiod income tax allocation is not made even though there are certain temporary differences between book and taxable income. Certain foreign subsidiaries provide for deferred income taxes relating to temporary differences in accordance with accounting principles generally accepted in the relevant country.

**k. Appropriations of Retained Earnings**

Appropriations of retained earnings at each year end are reflected in the consolidated financial statements in the following year after shareholders' approval has been obtained.

**l. Foreign Currency Transactions**

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at each balance sheet date or, when forward exchange contracts are made, at such forward exchange rates. Long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at historical exchange rates. In the case where there is significant fluctuation of currencies with possible exchange losses, long-term receivables or payables denominated in foreign currencies are translated at the current exchange rates as of each balance sheet date. The exchange losses arising from these translation are charged to income. Other exchange gains and losses are recognized in the fiscal periods in which they occur. Transactions denominated in foreign currencies are translated into Japanese yen at approximate exchange rates when such transactions occur.

**m. Translation of Financial Statements of Foreign Subsidiaries**

The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rates. Differences arising from such translation are shown as "Foreign currency statements translation adjustments" in the accompanying consolidated balance sheets. Revenue and expense accounts of foreign subsidiaries are translated into yen at the annual average rate.

**n. Per Share Information**

The computation of net income or loss per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 87,310 thousand shares for 1998 and 87,182 thousand shares for 1997.

Fully diluted net income per share is not disclosed because it is anti-dilutive for 1998 and because of the Company's net loss position for 1997.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

No cash dividends were declared applicable to the year ended March 31, 1997.

### 3. Marketable and Investment Securities

Marketable and investment securities at March 31, 1998 and 1997, were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Current:			
Quoted securities .....	<b>¥1,924</b>	¥2,574	<b>\$14,562</b>
Unquoted securities .....	<b>2,479</b>	35	<b>18,768</b>
Total .....	<b>¥4,403</b>	¥2,609	<b>\$33,330</b>
Non-current:			
Quoted securities .....	<b>¥2,347</b>	¥2,402	<b>\$17,772</b>
Unquoted securities .....	<b>351</b>	311	<b>2,655</b>
Total .....	<b>¥2,698</b>	¥2,713	<b>\$20,427</b>

The aggregate market value of the above quoted securities amounted to ¥4,965 million (\$37,583 thousand) and ¥6,058 million at March 31, 1998 and 1997, respectively.

The above unquoted securities principally consist of money management funds and non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

### 4. Inventories

Inventories at March 31, 1998 and 1997, were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Finished products .....	<b>¥ 5,465</b>	¥ 5,650	<b>\$ 41,373</b>
Work in process .....	<b>4,713</b>	5,873	<b>35,680</b>
Raw materials and supplies .....	<b>6,911</b>	5,592	<b>52,314</b>
Total .....	<b>¥17,089</b>	¥17,115	<b>\$129,367</b>

### 5. Investments in and Advances to Unconsolidated Subsidiaries and Associated Companies

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Investments .....	<b>¥3,103</b>	¥6,332	<b>\$23,490</b>
Advances .....	<b>60</b>	879	<b>454</b>
Total .....	<b>¥3,163</b>	¥7,211	<b>\$23,944</b>

### 6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings principally represent bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 1.63% to 6.72% and 1.63% to 6.16% at March 31, 1998 and 1997, respectively.

Long-term debt at March 31, 1998 and 1997, was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
1.12% to 4.90% (1.12% to 5.70% in 1997) loans from banks and insurance companies, due serially to 2004 .....	<b>¥12,450</b>	¥15,829	<b>\$ 94,250</b>
6.53% to 14.00% (6.06% to 10.0% in 1997) loans from banks, in foreign currencies, due serially to 2002 .....	<b>1,716</b>	3,450	<b>12,987</b>
3.00% to 6.85% loans from government financing institutions, due serially to 2027 .....	<b>545</b>	594	<b>4,125</b>
Total .....	<b>14,711</b>	19,873	<b>111,362</b>
Less current portion .....	<b>(6,764)</b>	(5,414)	<b>(51,203)</b>
Long-term debt, less current portion .....	<b>¥ 7,947</b>	¥14,459	<b>\$ 60,159</b>

The annual maturities of long-term debt for the years subsequent to March 31, 1998, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
1999 .....	¥ 6,764	\$ 51,203
2000 .....	3,899	29,515
2001 .....	2,110	15,972
2002 .....	1,313	9,941
2003 .....	198	1,496
Thereafter .....	427	3,235
Total .....	<b>¥14,711</b>	<b>\$111,362</b>

A summary of assets pledged as collateral for short-term borrowings and long-term debt at March 31, 1998, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Marketable and investment securities .....	¥ 4,074	\$ 30,841
Land .....	3,481	26,349
Buildings and structures (net book value) .....	5,689	43,069
Machinery and equipment (net book value) .....	2,843	21,518
Others .....	400	3,030
<b>Total .....</b>	<b>¥16,487</b>	<b>\$124,807</b>

As is customary in Japan, security must be provided if requested by a lending bank and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debt payable to the bank. The Company and its consolidated subsidiaries have never received such a request.

## 7. Liability for Retirement Benefits and Pension Plans

The Company and its domestic subsidiaries and several its foreign subsidiaries have unfunded employees' retirement benefit plans covering substantially all of their employees. Under the plans, employees terminating their employment either voluntarily or upon reaching the mandatory retirement age are, in most circumstances, entitled to lump-sum severance payments based on their rate of pay at the time of termination, years of service and certain other factors. If the termination is involuntary, or caused by death, the employee is usually entitled to a greater payment than in the case of voluntary termination. In addition, the Company and certain subsidiaries have funded pension plans which cover substantially all of their employees. The prior service costs of the Company's funded pension plans as of March 31, 1997 (the most recent date of available information) was ¥2,422 million (\$18,333 thousand).

The liabilities for retirement benefits at March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Employees .....	<b>¥4,191</b>	¥4,110	<b>\$31,728</b>
Directors and corporate auditors ..	<b>566</b>	653	<b>4,281</b>
<b>Total .....</b>	<b>¥4,757</b>	<b>¥4,763</b>	<b>\$36,009</b>

The payment and amount of the severance benefits for retired directors or corporate auditors are subject to approval by the shareholders.

Annual contributions to the funded plans charged to income and provision for retirement benefits under the unfunded plans for the years ended March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Contributions to the funded plans .....	<b>¥ 652</b>	¥ 626	<b>\$4,937</b>
Provision for retirement benefits under the unfunded plans .....	<b>609</b>	541	<b>4,612</b>
<b>Total .....</b>	<b>¥1,261</b>	<b>¥1,167</b>	<b>\$9,549</b>

## 8. Shareholders' Equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 1998, retained earnings recorded on the Company's books were ¥3,764 million (\$28,492 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

## 9. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 51% for the years ended March 31, 1998 and 1997. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The actual effective tax rates differ from the above normal effective statutory tax rates principally because of: (1) the policy of not providing for deferred taxes arising from temporary differences between book and taxable income, (2) certain expenses permanently not deductible for tax purposes and (3) the loss position of the Company and certain of its consolidated subsidiaries.

At March 31, 1998, the Company and certain consolidated subsidiaries have loss carryforwards, which can be offset against taxable income, if any, of the Company and such consolidated subsidiaries in the future, totaling approximately ¥5,756 million (\$43,577 thousand).

These tax loss carryforwards held by the Company and its domestic subsidiaries, if unutilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
1999 .....	¥586	\$4,438
2001 .....	37	283
2002 .....	271	2,053
Total .....	¥894	\$6,774

The remaining balance of ¥4,862 million (\$36,803 thousand) held by foreign subsidiaries can be carried forward indefinitely provided that certain conditions are met.

## 10. Related Party/Employee Transactions

Major transactions with unconsolidated subsidiaries and associated companies for the years ended March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Sales .....	¥4,391	¥4,105	\$33,240
Purchases .....	3,728	2,235	28,220

Loans to employees at March 31, 1998 and 1997, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	1998
Current .....	¥ 44	¥ 44	\$ 336
Non-current .....	506	548	3,830
Total .....	¥550	¥592	\$4,166

The loans bear annual interest ranging from 3.00% to 3.50%.

## 11. Research and Development Costs

Research and development costs relating to new products and technologies were ¥880 million (\$6,661 thousand) and ¥856 million for the years ended March 31, 1998 and 1997, respectively.

## 12. Leases

The Company and its consolidated subsidiaries lease certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 1998 and 1997, were ¥1,775 million (\$13,439 thousand) and ¥1,427 million, respectively, including ¥542 million (\$4,102 thousand) and ¥568 million of lease payments under finance leases.

Pro forma information of leased property such as obligations under finance lease that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 1998, was as follows:

### For the Year Ended March 31, 1998

#### Obligations under finance leases:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year .....	¥ 354	\$2,685
Due after one year .....	690	5,222
Total .....	<u>¥1,044</u>	<u>\$7,907</u>

### 13. Contingent Liabilities

Contingent liabilities at March 31, 1998, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted with banks .....	¥2,737	\$20,721
Guarantees of loans of:		
Unconsolidated subsidiaries and associated companies .....	3,468	26,248
Employees' housing loans .....	180	1,359
Other .....	363	2,751
Total .....	<u>¥6,748</u>	<u>\$51,079</u>

### 14. Subsequent Event

The following appropriations of retained earnings at March 31, 1998, were approved at the Company's shareholders meeting held on June 26, 1998:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥2.50 (\$0.02) per share .....	¥218	\$1,652
Transfer to legal reserve .....	22	165

### 15. Segment Information

Information on operations in different industry segments, foreign operations and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended March 31, 1998 and 1997, is as follows:

### (1) Operations in Different Industries

	Millions of Yen			
	Electronics Equipment	System Machines	Eliminations and Corporate	Consolidated
<b>Year Ended March 31, 1998</b>				
Sales to customers ..	¥108,576	¥25,455		¥134,031
Operating expenses .....	<u>102,473</u>	<u>21,841</u>	¥ 802	<u>125,116</u>
Operating income ..	<u>¥ 6,103</u>	<u>¥ 3,614</u>	<u>¥ (802)</u>	<u>¥ 8,915</u>
Assets .....	¥ 67,854	¥16,322	¥30,723	¥114,899
Depreciation .....	5,132	829	148	6,109
Capital expenditures .....	<u>4,244</u>	<u>519</u>	<u>168</u>	<u>4,931</u>

	Thousands of U.S. Dollars			
	Electronics Equipment	System Machines	Eliminations and Corporate	Consolidated
<b>Year Ended March 31, 1998</b>				
Sales to customers ..	\$821,922	\$192,697		\$1,041,619
Operating expenses .....	<u>775,720</u>	<u>165,343</u>	\$ 6,071	<u>947,134</u>
Operating income ..	<u>\$ 46,202</u>	<u>\$ 27,354</u>	<u>\$ (6,701)</u>	<u>\$ 67,485</u>
Assets .....	\$513,655	\$123,557	\$232,575	\$ 869,787
Depreciation .....	38,850	6,276	1,120	46,246
Capital expenditures .....	<u>32,125</u>	<u>3,930</u>	<u>1,269</u>	<u>37,324</u>

	Millions of Yen			
	Electronics Equipment	System Machines	Eliminations and Corporate	Consolidated
<b>Year Ended March 31, 1997</b>				
Sales to customers ..	¥95,119	¥23,467		¥118,586
Operating expenses .....	<u>93,818</u>	<u>22,009</u>	¥ 789	<u>116,616</u>
Operating income ..	<u>¥ 1,301</u>	<u>¥ 1,458</u>	<u>¥ (789)</u>	<u>¥ 1,970</u>
Assets .....	¥62,685	¥17,098	¥31,789	¥111,572
Depreciation .....	5,704	1,010	174	6,888
Capital expenditures .....	<u>4,439</u>	<u>429</u>	<u>98</u>	<u>4,966</u>

Notes: The electronics equipment segment consists of timers, stepping motors, micromotors, magnetic heads, electronic devices, etc.  
The system machines segment contains machine tools, industrial robots, magnetic card readers, musical movements, floppy-disk drives, etc.  
The unallocated operating expenses is principally composed of general corporate expenses incurred by the Administration Headquarters of the Company.

## (2) Foreign Operations

The foreign operations of the Company and its consolidated subsidiaries for the years ended March 31, 1998 and 1997, are summarized as follows:

	Millions of Yen				Consolidated
	Japan	Asia	North America	Eliminations and Corporate	
<b>Year Ended March 31, 1998</b>					
Sales:					
Outside customers .....	¥ 75,423	¥ 57,267	¥ 1,341		¥ 134,031
Interarea .....	31,591	16,673		¥ (48,264)	
Total sales ..	107,014	73,940	1,341	(48,264)	134,031
Operating expenses .....	100,876	70,606	1,334	(47,700)	125,116
Operating income (loss) ....	¥ 6,138	¥ 3,334	¥ 7	¥ (564)	¥ 8,915
Assets .....	¥ 59,936	¥ 40,323	¥ 832	¥ 13,808	¥ 114,899

	Thousands of U.S. Dollars				Consolidated
	Japan	Asia	North America	Eliminations and Corporate	
<b>Year Ended March 31, 1998</b>					
Sales:					
Outside customers .....	\$570,956	\$433,508	\$10,155		\$1,014,619
Interarea .....	239,144	126,217		\$(365,361)	
Total sales ..	810,100	559,725	10,155	(365,361)	1,014,619
Operating expenses .....	763,635	534,487	10,098	(361,086)	947,134
Operating income (loss) ....	\$ 46,465	\$ 25,238	\$ 57	\$ (4,275)	\$ 67,485
Assets .....	\$453,718	\$305,243	\$ 6,297	\$ 104,529	\$ 869,787

	Millions of Yen			Consolidated
	Japan	Outside Japan	Eliminations and Corporate	
<b>Year Ended March 31, 1997</b>				
Sales:				
Outside customers .....	¥67,328	¥51,258		¥118,586
Interarea .....	23,407	10,610	¥(34,017)	
Total sales .....	90,735	61,868	(34,017)	118,586
Operating expenses .....	88,016	61,858	(33,258)	116,616
Operating income (loss) .....	¥ 2,719	¥ 10	¥ (759)	¥ 1,970
Assets .....	¥55,646	¥36,801	¥ 19,125	¥111,572

Notes: Asia area is composed of China, Hong Kong, Malaysia, Singapore, Thailand, Korea. North America area presents the United States of America.

## (3) Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 1998, were as follows:

	Millions of Yen				Total
	North America	Europe	Asia	Others	
<b>Sales to foreign customers .....</b>	<b>¥2,235</b>	<b>¥7,590</b>	<b>¥75,026</b>	<b>¥592</b>	<b>¥85,443</b>

	Thousands of U.S. Dollars				Total
	North America	Europe	Asia	Others	
<b>Sales to foreign customers .....</b>	<b>\$16,916</b>	<b>\$57,455</b>	<b>\$567,948</b>	<b>\$4,485</b>	<b>\$646,804</b>

Sales to foreign customers for the year ended March 31, 1997, amounted to ¥75,119 million.

Notes: North America area consists of the United States of America and Canada. Europe area contains the United Kingdom, France, Germany, Finland and Italy. Asia area is composed of China, Hong Kong, Malaysia, Singapore, Thailand, Korea and Indonesia. Sales to foreign customers represent the aggregate sum of exports of the Company and its domestic consolidated subsidiaries and the aggregate sum of sales of foreign consolidated subsidiaries, excluding internal transactions between the Company and its consolidated subsidiaries and export from consolidated subsidiaries to Japan.

# Independent Auditors' Report

**Deloitte Touche  
Tohmatsu**



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To the Board of Directors of  
Sankyo Seiki Mfg. Co., Ltd.:

We have examined the consolidated balance sheets of Sankyo Seiki Mfg. Co., Ltd. and consolidated subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Sankyo Seiki Mfg. Co., Ltd. and consolidated subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 26, 1998