

# **Sankyo**

## 2001 ANNUAL REPORT

Year ended March 31, 2001

## MANAGEMENT POLICY & BUSINESS PERFORMANCE

### Management Policy

Sankyo Seiki Manufacturing Co., Ltd. develops its business activities with the aim of becoming a “Five Star Company” able to secure high profits and develop without limits while thoroughly following the motto of “Customer First.”

A “Five Star Company” is a company that satisfies all of the following elements:

Satisfaction: A priority is placed on customer satisfaction

Speed: Responses are made in a timely manner

Strategy: Successful strategic management

Specialty: The development and fostering of specialists

Spirit : Vigorous staff development

and is also a company prepared to take us into the 21st century.

(1) Basic policy concerning profit sharing

As the basic policy concerning profit sharing, the Company believes that it is important to maintain stable dividend payouts, while considering the development of future and long-term business, and the strengthening of the corporate structure by increasing internal reserves. Internal reserves may be appropriated for R&D and for capital expenditures on future growth.

(2) Measures for the revitalization of corporate governance

The Company introduced a corporate officer system in April 2000, and is arranging a situation whereby the Board of Directors is revitalized and the executive committee can engage in its business affairs.

(3) Our mid- and long-term management strategy

We have established the “New Sankyo Management Vision” to comprehensively reform the corporate structure while creating a dynamic and responsive corporate culture. Based on this vision we place a priority on the following four points:

1. Reform the growth structure: Secure growth by creating new business
2. Reform the cost structure: Add value to our globalized existing business
3. Reform the system structure: Improve management efficiency using an integrated information system
4. Reform corporate culture: Revitalization through enlightenment

Sankyo also incorporated these basic policies into its second action plan for management vision in October 2000. Since then, we have been promoting improvements in the corporate structure of the whole Group and management centered on cash flows.

At the same time, the Company has aggressively promoted environmentally friendly business activities including the effective use of resources, and preventative measures against environmental pollution. Sankyo lives up to the trust and expectation of shareholders and the other stakeholders through research on topics such as zero emissions and environmental accounting.

(4) Subjects to be tackled

The business environment surrounding enterprises is drastically changing with improvements in IT (information technology) and the advent of a networked society.

Particularly, in the field of electronic equipment where we are heavily engaged, it seems that the speed of technological innovation accelerates year by year, and the market is changing endlessly.

In such a severe business environment, the Company strives to expand profits through reform of the existing business, and develop business related to its next-generation fluid dynamic bearing motors, particularly motors for hard disk drives (HDDs), through Company-wide initiatives until it comprises the company’s main business.

To ensure the implementation of these points, we work to double the speed of our activities in order to realize (1) a strengthening of the ability to transform product costs, (2) suitable investment and withdrawal to match product lives, (3) a decrease of losses by improving product quality, and (4) lowered costs through reform of operation processes.

### Business Performance

(1) Overview of the fiscal period

In this fiscal period, the economy continued progress toward self-sustainable recovery in the private sector, which included increases in capital expenditures mainly in the manufacturing sector; however, consumer spending was lacking in strength throughout the year and the unemployment rate continued at its highest level. Consequently, the tempo of recovery has been sluggish, and many are forecasting the economic outlook cautiously.

On the other hand, globally, the European economy remained firm, and for the most part, Asian countries maintained high growth, both of which were boosted by the favorable U.S. economy in the first half of the term in review. However, since the end of last year, centered upon the rapid drop in the U.S. IT sector, many points have become visible causing global anxiety over the course of the economy.

Under these circumstances, sales were influenced by a slump in consumer spending and harsh competition between our clients. Sankyo recorded consolidated net sales of ¥135,424 million, a decrease of 2.9 % compared with the previous term (¥139,537 million).

As for profits and losses, the Company strove to maintain revenues by reducing fixed costs and a raising productivity; however, intense competition and the resulting fall in prices adversely affected it. As a result, Sankyo recorded a figure of ¥3,231 million as operating income. The Company recorded a net income of ¥1,694 million by adding capital gains on the sale of investment securities.

#### (2) General condition of each category

##### (Audiovisual and Home Appliance Equipment)

Video motor prices fell even lower owing to fierce competition, and audiovisual equipment motors decreased due to shrinkage in total demand and inventory adjustments.

The electronic parts for white goods, and units related to time switches decreased due to a consumption slump resulting in a decline in price. On the other hand, stepping motors recorded strong performance as did those for amusement equipment and cameras.

Miniaturized or micro component stereos were developed, and the mechanisms for tape recorders were adapted for such stereos, which recorded good performance in spite of difficult market conditions.

Total sales equaled ¥50,722 million, or a 6.3% decrease from the preceding period, resulting from a change from the consolidation-basis method to the equity method for treatment of affiliated companies.

##### (Communications and Peripheral Computer Equipment)

Ball bearing type motor production for HDDs was reduced and Sankyo concentrated economic resources on pushing fluid dynamic bearing motors, which are seen to be a core future product to the front.

Optical pick-up units recorded strong performance in the CD-R/RW recording pick-up market due to a shift from the market for playback components to the market for media recording; however, they could not cover the decline in pick-up units for CD-ROMs and DVD-ROMs. Revenue for FDD motors decreased owing to falling market prices and sluggish demand for magnetic recordable media.

For office equipment units, sales of molded parts increased due to the healthy condition of the printer market. The total sales were ¥58,806 million, a decrease of 1.2% compared with the previous term.

##### (Industrial Machinery and Equipment)

Magnetic card readers increased revenues owing to special procurements by some customers, covering a revenue decrease due to a rapid decline in the prices of ATMs for the financial industry.

For industrial machinery, along with increased demand related to liquid crystal related devices, the Company was able to successfully adapt to the needs of customers and increase revenues.

Total sales were ¥19,474 million, or 4.9% up over the previous term.

##### (Others)

The category of "Others" includes musical movements, as well as services for distribution, insurance and real estate. Musical movement sales dropped sharply due to the lackluster toy and gift market, and increased competition.

Total sales were ¥6,422 million, a decrease of 12.6% compared with the previous fiscal year.

#### (3) Outlook for the next period

As for the next period outlook, economic recovery is expected to take some time with strong uncertainty over the course of the economy stemming from a decreased appetite for capital expenditures at home. In foreign countries, recession in the U.S. is spreading to Asian countries, and in Japan, a dark cloud is hanging over the stock market. Judging from these facts, we think uncertainty about the economy is growing. Under these circumstances, the Company is tackling Group management integration including affiliated companies abroad, and further strengthening it in order to develop management centered group consolidated earning results. Sankyo Seiki Manufacturing Co., Ltd. also strives to secure revenues by concentrating resources on the development of fluid dynamic bearing motors that are expected to be the future core business, and on other new high-value-added products.

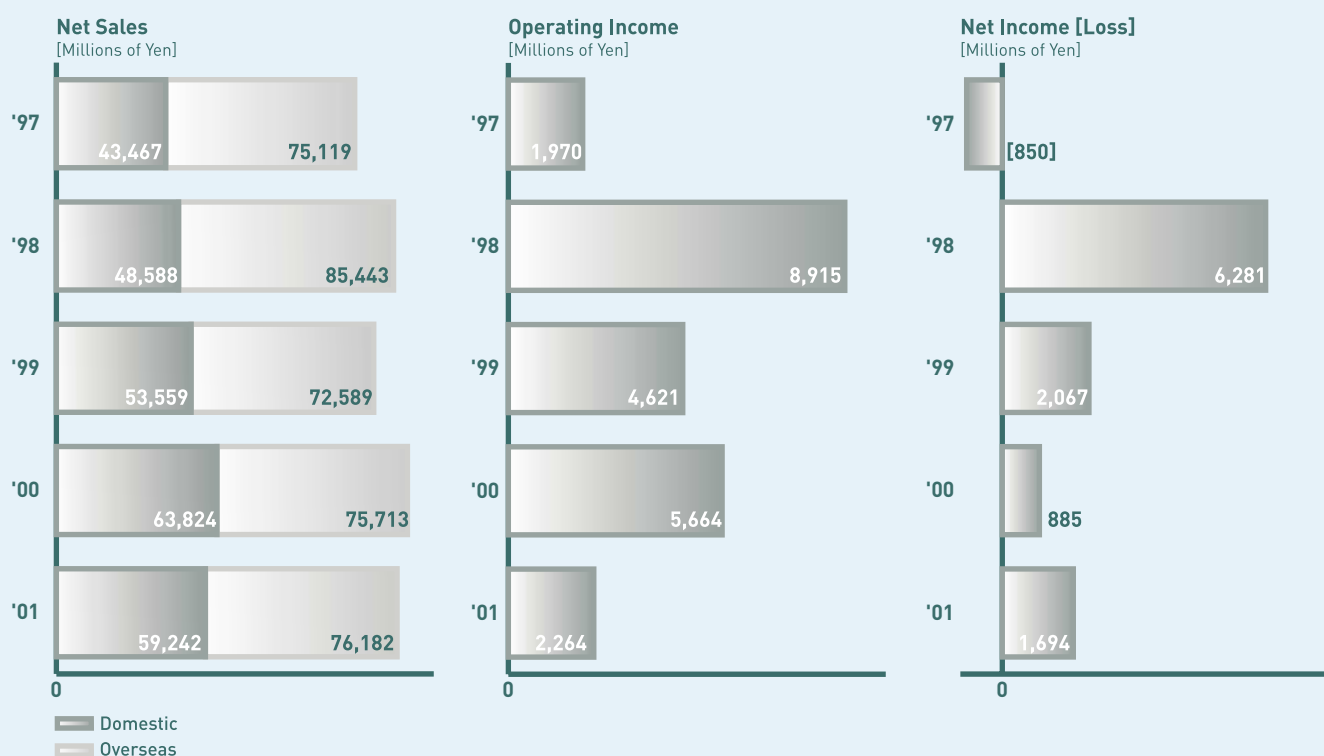
## FIVE-YEAR SUMMARY

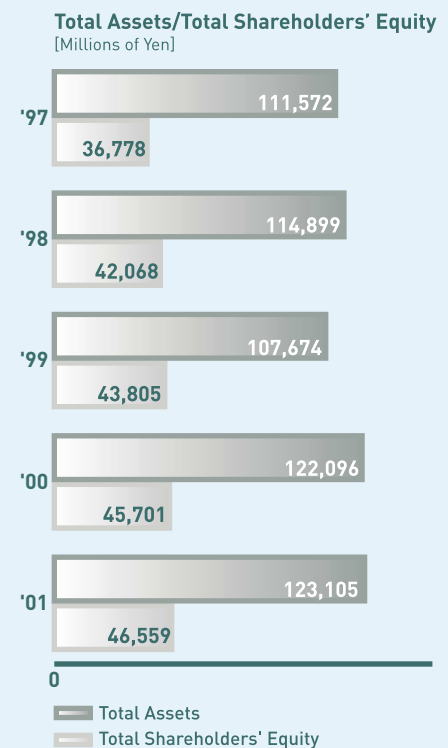
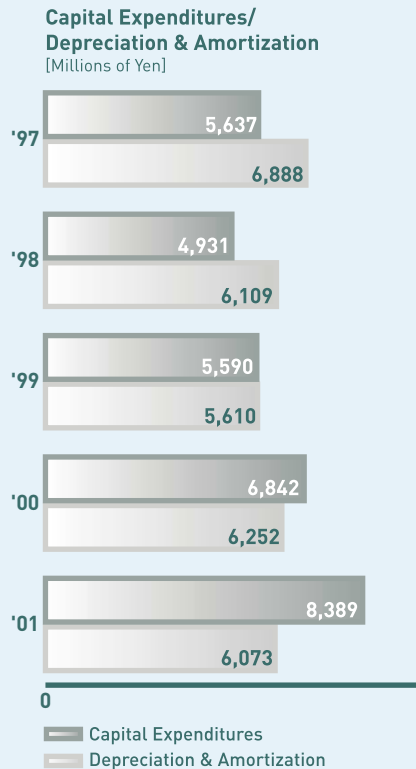
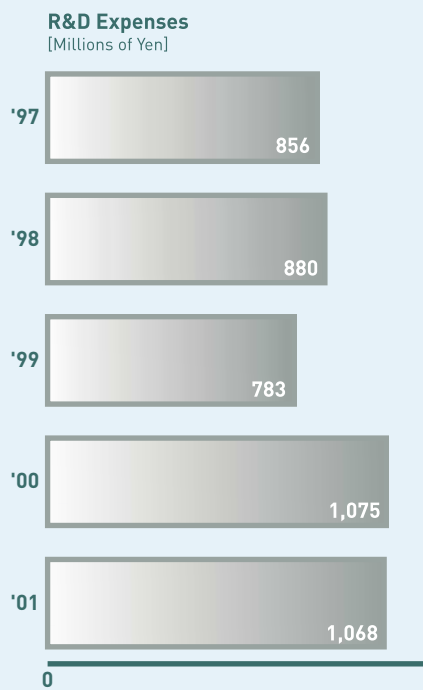
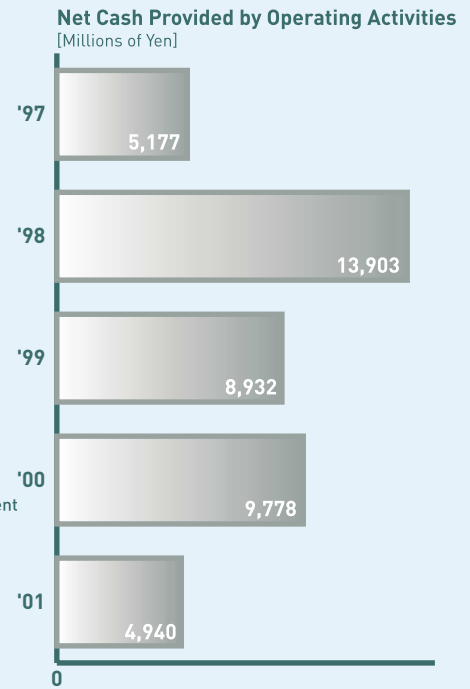
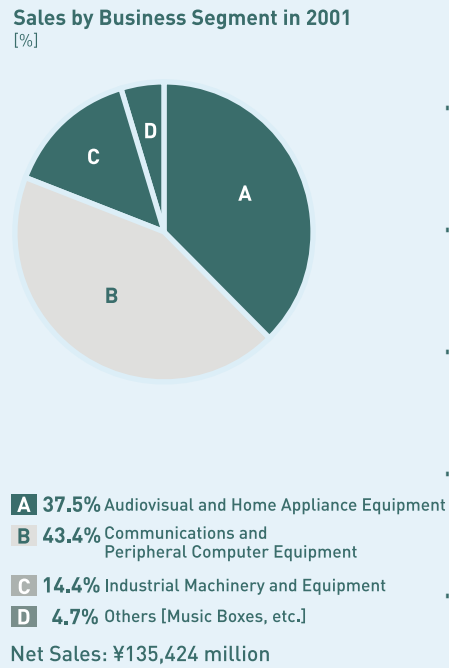
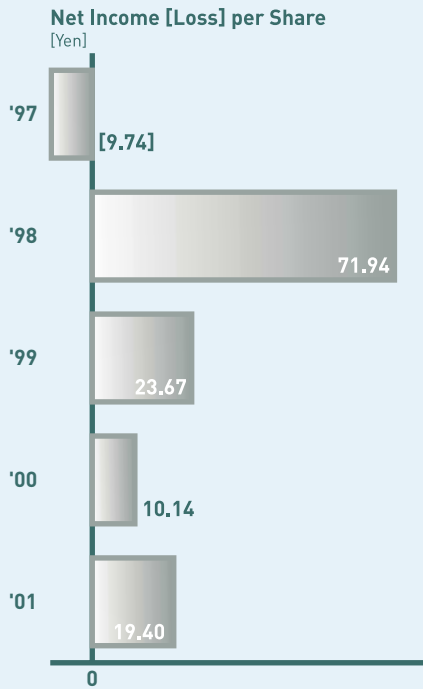
Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31	Millions of Yen					Thousands of U.S. Dollars
	2001	2000	1999	1998	1997	2001
Net sales	<b>¥135,424</b>	¥139,537	¥126,148	¥134,031	¥118,586	<b>\$1,093,011</b>
Net income (loss)	<b>1,694</b>	885	2,067	6,281	(850)	<b>13,674</b>
	Yen					U.S. Dollars
Per share:						
Net income (loss)	<b>¥19.40</b>	¥10.14	¥23.67	¥71.94	¥(9.74)	<b>\$0.16</b>
Cash dividends	<b>4.00</b>	4.00	2.50	2.50		<b>0.03</b>
	Millions of Yen					Thousands of U.S. Dollars
Total shareholders' equity	<b>¥ 46,559</b>	¥ 45,701	¥ 43,805	¥ 42,068	¥ 36,778	<b>\$ 375,778</b>
Total assets	<b>123,105</b>	122,096	107,674	114,899	111,572	<b>993,584</b>
Working capital	<b>23,189</b>	17,901	20,535	18,325	11,640	<b>187,159</b>
Long-term debt, less current portion	<b>14,680</b>	6,610	6,730	7,947	14,459	<b>118,484</b>
Capital expenditures	<b>8,389</b>	6,842	5,590	4,931	5,637	<b>67,709</b>
Depreciation and amortization	<b>6,073</b>	6,252	5,610	6,109	6,888	<b>49,016</b>

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥123.90=US\$1.00.

## MAJOR FINANCIAL INDICES





## CONSOLIDATED BALANCE SHEETS

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

March 31, 2001 and 2000	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 23,313	¥ 22,095	\$ 188,160
Marketable securities (Notes 3 and 5)		2,087	
Short-term investments	1,038	2,012	8,377
Notes and accounts receivable:			
Trade notes	4,507	4,564	36,381
Trade accounts	30,556	29,931	246,620
Unconsolidated subsidiaries and associated companies	253	245	2,039
Other (Note 9)	1,932	2,587	15,590
Allowance for doubtful receivables	(280)	(321)	(2,260)
Inventories (Note 4)	14,353	14,968	115,846
Deferred tax assets (Note 8)	533	374	4,302
Prepaid expenses and other current assets	635	726	5,125
Total current assets	<b>76,840</b>	<b>79,268</b>	<b>620,180</b>
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	6,714	6,730	54,188
Buildings and structures	23,499	23,114	189,664
Machinery and equipment	63,740	61,977	514,444
Construction in progress	705	412	5,689
Total	<b>94,658</b>	<b>92,233</b>	<b>763,985</b>
Accumulated depreciation	<b>(61,654)</b>	<b>(61,107)</b>	<b>(497,612)</b>
Net property, plant and equipment	<b>33,004</b>	<b>31,126</b>	<b>266,373</b>
INVESTMENTS AND OTHER ASSETS:			
Investments in securities (Notes 3 and 5)	6,733	3,471	54,346
Investments in unconsolidated subsidiaries and associated companies	3,714	1,198	29,976
Foreign currency translation adjustments		2,871	
Deferred tax assets (Note 8)	1,058	1,492	8,539
Other assets (Note 9)	1,756	2,670	14,170
Total investments and other assets	<b>13,261</b>	<b>11,702</b>	<b>107,031</b>
<b>TOTAL</b>	<b>¥123,105</b>	<b>¥122,096</b>	<b>\$ 993,584</b>

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
CURRENT LIABILITIES:			
Short-term borrowings (Note 5)	¥ 16,336	¥ 20,028	\$ 131,852
Current portion of long-term debt (Note 5)	3,045	4,114	24,578
Notes and accounts payable:			
Trade notes	7,703	7,799	62,168
Trade accounts	16,106	20,225	129,992
Unconsolidated subsidiaries and associated companies	43	78	346
Other	5,097	3,501	41,139
Income taxes payable (Note 8)	881	940	7,110
Accrued expenses	3,417	3,127	27,583
Deferred tax liabilities (Note 8)	76	216	610
Other current liabilities	947	1,339	7,641
Total current liabilities	<b>53,651</b>	<b>61,367</b>	<b>433,019</b>
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Note 5)	14,680	6,610	118,484
Liability for retirement benefits (Note 6)	6,397	5,776	51,631
Deferred tax liabilities (Note 8)	251	52	2,021
Other	67	58	541
Total long-term liabilities	<b>21,395</b>	<b>12,496</b>	<b>172,677</b>
MINORITY INTERESTS	<b>1,500</b>	<b>2,532</b>	<b>12,110</b>
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 13)			
SHAREHOLDERS' EQUITY (Notes 7 and 14):			
Common stock, ¥50 par value—authorized, 200,000,000 shares; issued and outstanding, 87,311,591 shares	16,575	16,575	133,778
Additional paid-in capital	18,602	18,602	150,134
Retained earnings	11,821	10,526	95,405
Unrealized gain on available-for-sale securities	1,178		9,505
Foreign currency translation adjustments	(1,616)		(13,039)
Total	<b>46,560</b>	<b>45,703</b>	<b>375,783</b>
Treasury stock—at cost	(1)	(2)	(5)
Total shareholders' equity	<b>46,559</b>	<b>45,701</b>	<b>375,778</b>
<b>TOTAL</b>	<b>¥123,105</b>	<b>¥122,096</b>	<b>\$ 993,584</b>



## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

Years Ended March 31, 2001 and 2000	Thousands		Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 1999	87,312	¥16,575	¥18,602	¥ 8,628			
Adjustment of retained earnings for the adoption of deferred income tax accounting method				1,299			
Net income				885			
Cash dividends, ¥2.50 per share				(218)			
Bonuses to directors and corporate auditors				(1)			
Decrease resulting from changes in the scope of consolidation or adoption of the equity method				(67)			
Foreign currency translation adjustments							
Acquisition of treasury stock							¥(2)
BALANCE, MARCH 31, 2000	87,312	16,575	18,602	10,526			(2)
Net income				1,694			
Cash dividends, ¥4.00 per share				(349)			
Decrease resulting from changes in the scope of consolidation or adoption of the equity method				(50)			
Unrealized gain on available-for-sale securities—net					¥1,178		
Foreign currency translation adjustments						¥(1,616)	
Sale of treasury stock							1
BALANCE, MARCH 31, 2001	87,312	¥16,575	¥18,602	¥11,821	¥1,178	¥(1,616)	¥(1)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2000	\$133,778	\$150,134	\$84,951			\$(19)
Net income			13,674			
Cash dividends, \$0.03 per share			(2,819)			
Decrease resulting from changes in the scope of consolidation or adoption of the equity method			(401)			
Unrealized gain on available-for-sale securities—net				\$9,505		
Foreign currency translation adjustments					\$(13,039)	
Sale of treasury stock						14
BALANCE, MARCH 31, 2001	\$133,778	\$150,134	\$95,405	\$9,505	\$(13,039)	\$ (5)

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Years Ended March 31, 2001 and 2000	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	<b>¥ 2,627</b>	¥ 2,293	<b>\$ 21,201</b>
Adjustments for:			
Income taxes—paid	(1,238)	(1,159)	(9,991)
Depreciation and amortization	6,073	6,252	49,016
Provision for doubtful receivables	176	(180)	1,418
Provision for retirement benefits—net	689	(183)	5,559
Gain on sales of marketable and investment securities	(809)	(71)	(6,528)
Loss on sales of associated companies		71	
Loss on sales of property, plant and equipment	91	427	735
Loss on disposal of property, plant and equipment	447	627	3,607
Bonuses to directors and corporate auditors		(1)	
Equity in earnings of unconsolidated subsidiaries and associated companies	(115)	(69)	(927)
Loss on devaluation of marketable and investment securities		90	
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	1,658	(2,354)	13,379
Decrease in inventories	1,207	389	9,740
Increase (decrease) in trade payables	(6,773)	2,180	(54,667)
Other—net	907	1,466	7,325
Total adjustments	2,313	7,485	18,666
Net cash provided by operating activities	4,940	9,778	39,867
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sale of property, plant and equipment	1,210	895	9,766
Purchases of property, plant and equipment	(7,591)	(7,166)	(61,270)
Proceeds from sales of marketable and investment securities	1,721	1,203	13,893
Purchases of marketable and investment securities	(83)	(1,014)	(670)
Proceeds from sales of consolidated subsidiaries and associated companies	6	348	49
Purchases of consolidated subsidiaries and associated companies	(102)	(18)	(821)
Purchases of unconsolidated subsidiaries and associated companies	(1,820)		(14,690)
Maturity of (investment in) time deposits	485	(548)	3,915
Decrease (increase) in other assets	487	(99)	3,932
Net cash used in investing activities	(5,687)	(6,399)	(45,896)
<b>FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans—net	(4,099)	(356)	(33,086)
Proceeds from long-term debt	1,815	2,296	14,649
Repayments of long-term debt	(4,716)	(6,139)	(38,062)
Proceeds from issuance of commercial paper		1,000	
Repayments of commercial paper	(1,000)		(8,071)
Proceeds from issuance of convertible bond	9,744		78,643
Cash dividends paid	(349)	(218)	(2,819)
Payment of cash dividends to minority interests	(46)	(61)	(368)
Other—net	1	(5)	8
Net cash provided by (used in) financing activities	1,350	(3,483)	10,894
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>1,145</b>	(1,376)	<b>9,238</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,748</b>	(1,480)	<b>14,103</b>
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		3,124	
CASH AND CASH EQUIVALENTS OF DECONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	(530)		(4,278)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,095	20,451	178,335
CASH AND CASH EQUIVALENTS, END OF YEAR	¥23,313	¥22,095	\$188,160
<b>NONCASH FINANCING ACTIVITIES:</b>			
Assets increased by consolidation of subsidiaries previously unconsolidated		¥33,877	
Liabilities increased by consolidation of subsidiaries previously unconsolidated		31,131	
Assets decreased by deconsolidation of subsidiary	¥ 3,012		\$ 24,310
Liabilities decreased by deconsolidation of subsidiary	1,115		9,003
<b>ADDITIONAL CASH FLOW INFORMATION:</b>			
Interest paid	1,262	1,216	10,185
Interest and dividends received	794	631	6,407

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Years Ended March 31, 2001 and 2000

### 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 financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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. Certain reclassifications have been made in the 2000 consolidated financial statements to conform to the classifications used in 2001.

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 ¥123.90 to \$1, the approximate rate of exchange at March 31, 2001. 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. Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its 26 (27 in 2000) significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method. The consolidated financial statements for the year ended March 31, 2000, are not retroactively adjusted. The change of retained earnings arising from the change in the consolidation scope is recognized as "Adjustment of retained earnings for newly consolidated subsidiaries" in the consolidated statement of shareholders' equity for the year ended March 31, 2001.

Investments in certain unconsolidated subsidiaries and associated companies are accounted for by the equity method. The number of the companies which are accounted for by the equity method decreased from 4 in 2000 to 3 in 2001 due to the liquidation of a company and the sale of shares in a company, which were accounted for by the equity method in the past.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. Effects of not adopting the equity method for the foregoing companies are 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 the Group is eliminated.

#### b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

#### c. Marketable and Investment Securities

Prior to April 1, 2000, current and non-current marketable securities listed on stock exchanges were stated at the lower of cost, determined by the moving-average method, or market. Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments. Under this standard, all securities classified as available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. The effect of this change was to increase income before income taxes and minority interests by ¥98 million (\$792 thousand) for the year ended March 31, 2001. Marketable securities classified as current assets decreased by ¥1,879 million (\$15,166 thousand) and investment securities increased by the same amount as of April 1, 2000.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

#### 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 of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method while the straight-line method is applied to buildings acquired by the Company and its domestic consolidated subsidiaries on or after April 1, 1998. Those of foreign subsidiaries are principally computed by the straight-line method. The range of the estimated useful lives of the assets is principally as follows:

Buildings .....	15-60 years
Machinery and equipment .....	2-20 years

#### f. Allowance for Doubtful Receivables

In accordance with the new accounting standard for financial instruments, the allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

#### g. Retirement and Pension Plans

Prior to April 1, 2000, the liability for retirement benefits for employees of the Company and its consolidated domestic and several foreign 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 domestic subsidiaries participate, which cover approximately 60% of the total liability for retirement benefits.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥12,624 million (\$101,889 thousand) at the beginning of the year is being amortized over 15 years. As a result, net periodic benefit costs as compared with the prior method, increased by ¥1,318 million (\$10,638 thousand) and income before income taxes and minority interests decreased by ¥1,280 million (\$10,332 thousand).

The liability for retirement benefits for directors and corporate auditors is also established at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

#### **h. 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.

#### **i. Income Taxes**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### **j. Appropriations of Retained Earnings**

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

#### **k. Foreign Currency Transactions**

Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

#### **l. Foreign Currency Financial Statements**

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Prior to April 1, 2000, differences arising from such translation were shown as "Foreign currency translation adjustments" as either an asset or liability in the balance sheet. Effective April 1, 2000, such differences are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions. The prior year's amount, which was included in assets, has not been reclassified.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

#### **m. Derivative Financial Instruments**

The Company uses derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency options, interest rate swaps and caps are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Company adopted a new accounting standard for derivative financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts and currency options are utilized to hedge foreign currency exposures for export sales. Trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Currency options applied for forecasted (or committed) transactions are also measured at the fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

The adoption of the new accounting standards for derivative financial instruments did not have a material effect on the Group's consolidated financial statements.

#### n. Per Share Information

The computation of net income 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 87,311 thousand shares for 2001 and 87,248 thousand shares for 2000.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years and those dividends are to be paid after the end of respective fiscal year.

### 3. Marketable and Investment Securities

Marketable and investment securities at March 31, 2001 and 2000, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Current:			
Marketable equity securities		¥1,484	
Government and corporate bonds		332	
Trust fund investments and other		271	
Total		¥2,087	
Non-current:			
Marketable equity securities	¥6,166	¥3,055	\$49,762
Government and corporate bonds	155	57	1,253
Trust fund investments and other	69		558
Total	¥6,390	¥3,112	\$51,573

Information regarding the category of the securities classified as available-for-sale at March 31, 2001, was as follows:

	Millions of Yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Value Fair
Securities classified as:				
Marketable equity securities	¥4,075	¥2,365	¥275	¥6,165
Government and corporate bonds	158	1	4	155
Trust fund investment and other	122		53	69

	Thousands of U.S. Dollars			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Value Fair
Securities classified as:				
Marketable equity securities	\$32,890	\$19,091	\$2,219	\$49,762
Government and corporate bonds	1,278	7	32	1,253
Trust fund investment and other	983	5	430	558

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2001, were as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Non-marketable securities	¥ 298	\$ 2,406
Bond investment trust	553	4,461
Commercial paper	499	4,032
Total	¥1,350	\$10,899

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001, were ¥1,727 million (\$7,415 thousand). Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥846 million (\$6,829 thousand) and ¥37 million (\$302 thousand), respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2001, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Due in one year or less	¥1,081
Due after one year through five years	190	1,532
Due after five years through ten years	6	50
Total	¥1,277	\$10,304

Carrying amounts and aggregate market values of current and non-current marketable equity securities included in marketable securities and investment securities at March 31, 2000, were as follows:

	Millions of Yen	
	2001	2000
Current:		
Carrying amount	¥2,087	
Aggregate market value	4,807	
Unrealized gain	¥2,720	
Non-current:		
Carrying amount	¥3,112	
Aggregate market value	5,440	
Unrealized gain	¥2,328	

The difference between the carrying amount mentioned above and the amounts shown in the accompanying consolidated balance sheets principally consists of commercial paper, bond investment trust and non-marketable securities for which there is no readily-available market from or, on which the market value thereof can be obtained or calculated.

#### 4. Inventories

Inventories at March 31, 2001 and 2000, were composed of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Finished products	¥ 5,152	¥ 5,265	\$ 41,585
Work in process	3,997	4,300	32,264
Raw materials and supplies	5,204	5,403	41,997
Total	¥14,353	¥14,968	\$115,846

#### 5. Short-term Borrowings and Long-term Debt

Short-term borrowings consisted of bank loans and commercial paper. The annual interest rates applicable to the short-term bank loans ranged from 1.18% to 8.31% and 1.38% to 8.00% at March 31, 2001 and 2000, respectively. The amount of commercial paper at March 31, 2000, was ¥1,000 million. Average rates applicable to commercial paper were 0.3% (no commercial paper was held in 2001 fiscal year).

Long-term debt at March 31, 2001 and 2000, was composed of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
0.20% Japanese yen convertible unsecured bonds, due 2007	¥10,000		\$ 80,710
0.55% to 3.30% (1.80% to 4.90% in 2000) loans from banks and insurance companies, due serially to 2006	5,136	¥ 7,984	41,456
6.71% (7.00% in 2000) loans from banks, in foreign currencies, due serially to 2004	321	460	2,595
2.20% to 6.80% loans from government financing institutions, due serially to 2027	2,268	2,280	18,301
Total	17,725	10,724	143,062
Less current portion	(3,045)	(4,114)	(24,578)
Long-term debt, less current portion	¥14,680	¥ 6,610	\$118,484

The annual maturities of long-term debt for the years subsequent to March 31, 2001, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 3,045	\$ 24,578
2003	1,923	15,521
2004	1,412	11,393
2005	562	4,540
2006	312	2,517
Thereafter	10,471	84,513
Total	¥17,725	\$143,061

A summary of assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2001, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Marketable and investment securities	¥ 3,753	\$ 30,286
Land	4,751	38,342
Buildings and structures (net book value)	6,355	51,293
Machinery and equipment (net book value)	2,204	17,790
Others	369	2,982
Total	¥17,432	\$140,693

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 0.2% Japanese yen convertible unsecured bonds are convertible into common stock by the holders on any date up to and including September 28, 2007, at a conversion price of ¥1,023 per share. The bonds are redeemable at the option of the Company in whole or in part, on or at any time, after October 2, 2001, at the same prices as the principal amount thereof.

The conversion price for the above convertible debt is subject to adjustments in certain instances, including common stock splits. At March 31, 2001, all outstanding convertible debt is convertible into 9,775,171 shares of common stock of the Company.

## 6. Retirement and Pension Plans

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee (the funds). Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2001 for directors and corporate auditors is ¥621 million (\$5,014 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at March 31, 2001, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 52,078	\$ 420,326
Fair value of plan assets	(29,824)	(240,708)
Unrecognized actuarial loss	(4,696)	(37,905)
Unrecognized transitional obligation	(11,782)	(95,096)
Net liability	¥ 5,776	\$ 46,617

The components of net periodic benefit costs for the year ended March 31, 2001, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 1,664	\$ 13,432
Interest cost	1,722	13,901
Expected return on plan assets	(1,592)	(12,852)
Amortization of transitional obligation	842	6,793
Net periodic benefit costs	¥ 2,636	\$ 21,274

Assumptions used for the year ended March 31, 2001, are set forth as follows:

Discount rate .....	3.50%
Expected rate of return on plan assets .....	5.00%
Recognition period of actuarial gain/loss .....	12 years
Amortization period of transitional obligation .....	15 years

## 7. 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. The Company's reserve amount, which is included in retained earnings, totals ¥738 million (\$5,957 thousand) and ¥703 million as of March 31, 2001 and 2000, respectively, and 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, 2001, retained earnings recorded on the Company's books were ¥8,120 million (\$65,537 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

## 8. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 41% for the years ended March 31, 2001 and 2000. Foreign subsidiaries are subject to income taxes of the jurisdiction in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2001 and 2000, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>Current:</b>			
Deferred tax assets:			
Accrued bonuses	¥ 223	¥ 172	\$ 1,802
Accrued business tax	95		764
Unrealized profit incurred in intragroup transaction	64	108	516
Other	174	94	1,405
Offset	(23)		(185)
<b>Total</b>	<b>¥ 533</b>	<b>¥ 374</b>	<b>\$ 4,302</b>
Deferred tax liabilities:			
Receivables	¥ 48		\$ 383
Reserve for research and development under the tax ordinance in the applicable foreign country		¥ 151	
Other	51	65	412
Offset	(23)		(185)
<b>Total</b>	<b>¥ 76</b>	<b>¥ 216</b>	<b>\$ 610</b>
<b>Non-current:</b>			
Deferred tax assets:			
Tax loss carryforwards	¥ 1,244	¥ 1,593	\$ 10,042
Pension and severance costs	1,588	1,231	12,820
Directors' retirement benefits	255	237	2,058
Other	200	12	1,614
Offset	(985)		(7,953)
Less valuation allowance	(1,244)	(1,581)	(10,042)
<b>Total</b>	<b>¥ 1,058</b>	<b>¥ 1,492</b>	<b>\$ 8,539</b>
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 844		\$ 6,815
Undistributed earnings of foreign subsidiaries	327	¥ 38	2,644
Other	65	14	515
Offset	(985)		(7,953)
<b>Total</b>	<b>¥ 251</b>	<b>¥ 52</b>	<b>\$ 2,021</b>

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2001 and 2000, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2001	2000
Normal effective statutory tax rate	<b>41.3%</b>	41.3%
Expenses not deductible for income tax purposes	<b>1.2</b>	1.5
Income not taxable for income tax purposes	<b>(0.9)</b>	(0.7)
Per capita portion of inhabitants taxes	<b>1.0</b>	1.2
Foreign tax credit	<b>(1.2)</b>	(3.8)
Nondeductible taxes	<b>2.6</b>	
Prior-period income taxes	<b>(4.6)</b>	9.0
Tax benefits not recognized on operating losses of subsidiaries	<b>10.0</b>	2.7
Income not taxable under the tax ordinance in the applicable foreign country	<b>(22.6)</b>	
Other—net	<b>3.4</b>	(1.0)
Actual effective tax rate	<b>30.2%</b>	50.2%

At March 31, 2001, certain consolidated subsidiaries have loss carryforwards, which can be offset against taxable income, if any, of such consolidated subsidiaries in the future, totaling approximately ¥4,382 million (\$35,368 thousand).

These tax loss carryforwards held by domestic subsidiaries, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 2	\$ 20
2003	348	2,810
2004	220	1,773
2005	240	1,935
2006	53	426
Total	¥863	\$6,964

The remaining balance of ¥3,519 million (\$28,404 thousand) held by foreign subsidiaries can be carried forward indefinitely provided that certain conditions are met.

## 9. Related Party/Employee Transactions

Related party transactions are not disclosed for the year ended March 31, 2000, because transactions with unconsolidated subsidiaries and associated companies became immaterial as a result of expansion of consolidation scope.

Loans to employees at March 31, 2001 and 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Current	¥ 22	¥ 37	\$ 183
Non-current	282	340	2,275
Total	¥304	¥377	\$2,458

The loans bear annual interest ranging from 2.50% to 3.00%.

## 10. Research and Development Costs

Research and development costs relating to new products and technologies were ¥1,068 million (\$8,618 thousand) and ¥1,075 million for the years ended March 31, 2001 and 2000, respectively.

## 11. Leases

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2001 and 2000, were ¥2,175 million (\$17,556 thousand) and ¥1,934 million, respectively, including ¥949 million (\$7,662 thousand) and ¥787 million of lease payments under finance leases.

On an “as if capitalized” basis, pro forma information of leased property such as acquisition cost, accumulated depreciation, lease payment obligations under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2001 and 2000, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	March 31, 2001			March 31, 2001		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥2,825	¥1,546	¥4,371	\$22,796	\$12,482	\$35,278
Accumulated depreciation	1,078	818	1,896	8,699	6,604	15,303
Net leased property	¥1,747	¥ 728	¥2,475	\$14,097	\$ 5,878	\$19,975
	Millions of Yen					
	March 31, 2000					
	Machinery and Equipment	Furniture and Fixtures	Total			
Acquisition cost	¥2,119	¥1,556	¥3,675			
Accumulated depreciation	935	805	1,740			
Net leased property	¥1,184	¥ 751	¥1,935			

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Due within one year	¥ 846	¥ 692	\$ 6,828
Due after one year	1,679	1,291	13,554
Total	¥2,525	¥1,983	\$20,382

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Depreciation expense	¥871	¥716	\$7,026
Interest expense	81	69	658
Total	¥952	¥785	\$7,684

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statements of income, were computed by the straight-line method over the lease period.

## 12. Derivatives

### a. Utilization

The Company utilizes various derivative financial instruments (“derivatives”) to mitigate the risk of fluctuating foreign currency exchange rates and interest rates. The derivatives utilized by the Company include foreign exchange forward contracts, currency option contracts, interest rate swaps and interest rate option contracts.

The Company enters into contracts with major financial institutions in order to avoid credit loss in the event of non-performance by counterparties to the contracts.

Exposure to market risk is managed through position limits, approvals and monitoring procedures. The operational reports prepared by the executive section with transaction report sent directly from financial institutions to the administrative section are regularly submitted to the Board of Directors for their analysis and monitoring of the current status of derivative activities.

For derivatives to hedge interest risk exposure, preapproval from the Board of Directors is required and basic policy and credit limits are established and approved by the Board of Directors.

## b. Market Value of Contracts

The Company had the following derivatives contracts outstanding at March 31, 2001 and 2000:

	Millions of Yen			
	2001		2000	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Non-listed:				
Currency option trading:				
Selling—call option U.S.\$	¥2,001	¥105	¥2,374	¥34
Buying—put option U.S.\$	2,533	15	2,360	84
Interest rate option trading:				
Cap—buying	1,000	1	1,000	18
Collar:				
Selling	500	13	500	12
Buying	500		500	6
Interest rate swaps trading (fixed rate payment, floating rate receipt)	1,000	(46)	500	(10)

	Thousands of U.S. Dollars	
	2001	
	Contract or Notional Amount	Fair Value
Non-listed:		
Currency option trading:		
Selling—call option U.S.\$	\$16,151	\$846
Buying—put option U.S.\$	20,445	120
Interest rate option trading:		
Cap—buying	8,071	10
Collar:		
Selling	4,036	108
Buying	4,036	3
Interest rate swaps trading (fixed rate payment, floating rate receipt)	8,071	(372)

Forward exchange contracts which are assigned to certain assets or liabilities denominated in foreign currency, shown by using that forward exchange rate in the consolidated balance sheets, are excluded from the above.

The contract or notional amounts of derivatives shown above do not represent the amounts of which those contracts could be exchanged to the counterparties and do not prescribe the index to credit or market risk sustained by the Company.

## 13. Contingent Liabilities

At March 31, 2001, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted with banks	¥1,415	\$11,419
Guarantees and items of a similar nature—Employees' housing loans	386	3,117
Total	¥1,801	\$14,536

## 14. Subsequent Event

The following appropriations of retained earnings at March 31, 2001, were approved at the Company's shareholders' meeting held on June 28, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥4 (\$0.03) per share	¥349	\$2,819

## 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, 2001 and 2000, were as follows:

## (1) Operations in Different Industries

Millions of Yen

Year Ended March 31, 2001	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Corporate	Eliminations and Consolidated
Sales to customers	¥50,722	¥58,806	¥19,474	¥6,422		¥135,424
Intersegment sales		106	132	1,481	¥(1,719)	
Total sales	50,722	58,912	19,606	7,903	(1,719)	135,424
Operating expenses	48,120	61,395	16,247	8,197	(799)	133,160
Operating income (loss)	¥ 2,602	¥ (2,483)	¥ 3,359	¥ (294)	¥ (920)	¥ 2,264
Assets	¥38,441	¥44,064	¥10,844	¥8,848	¥20,908	¥123,105
Depreciation	2,304	2,795	443	373	158	6,073
Capital expenditures	3,281	4,295	291	225	297	8,389

Thousands of U.S. Dollars

Year Ended March 31, 2001	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Corporate	Eliminations and Consolidated
Sales to customers	\$409,382	\$474,625	\$157,175	\$51,829		\$1,093,011
Intersegment sales		857	1,065	11,950	\$(13,872)	
Total sales	409,382	475,482	158,240	63,779	(13,872)	1,093,011
Operating expenses	388,384	495,520	131,129	66,150	(6,443)	1,074,740
Operating income (loss)	\$ 20,998	\$(20,038)	\$ 27,111	\$(2,371)	\$ (7,429)	\$ 18,271
Assets	\$310,261	\$355,640	\$ 87,521	\$71,411	\$168,751	\$ 993,584
Depreciation	18,596	22,558	3,577	3,007	1,278	49,016
Capital expenditures	26,477	34,667	2,350	1,817	2,398	67,709

Millions of Yen

Year Ended March 31, 2000	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Corporate	Eliminations and Consolidated
Sales to customers	¥54,118	¥59,495	¥18,574	¥7,350		¥139,537
Intersegment sales		604	1	1,757	¥(2,362)	
Total sales	54,118	60,099	18,575	9,107	(2,362)	139,537
Operating expenses	49,744	60,515	15,729	9,068	(1,183)	133,873
Operating income (loss)	¥ 4,374	¥ (416)	¥ 2,846	¥ 39	¥(1,179)	¥ 5,664
Assets	¥31,651	¥44,668	¥11,630	¥7,722	¥26,425	¥122,096
Depreciation	2,484	2,754	460	385	169	6,252
Capital expenditures	2,624	3,231	357	449	181	6,842

Notes: The audiovisual and home appliance equipment segment consists of micromotors, magnetic heads, timers and motor units.

The communications and peripheral computer equipment segment contains micromotors, optical pick-up units and stepping motors.

The industrial machinery and equipment segment consists of magnetic card readers and machining units.

The others segment contains musical movements, 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, 2001 and 2000, were summarized as follows:

Year Ended March 31, 2001	Millions of Yen				Consolidated
	Japan	Asia	North America	Eliminations and Corporate	
Sales:					
Outside customers	¥ 77,634	¥55,367	¥2,423		¥135,424
Interarea	36,315	24,683	94	¥(61,092)	
Total sales	113,949	80,050	2,517	(61,092)	135,424
Operating expenses	109,655	80,824	2,604	(59,923)	133,160
Operating income (loss)	¥ 4,294	¥ (774)	¥ (87)	¥ (1,169)	¥ 2,264
Assets	¥ 76,736	¥40,162	¥2,147	¥ 4,060	¥123,105

Year Ended March 31, 2001	Thousands of U.S. Dollars				Consolidated
	Japan	Asia	North America	Eliminations and Corporate	
Sales:					
Outside customers	\$626,585	\$446,869	\$19,557		\$1,093,011
Interarea	293,101	199,218	756	\$(493,075)	
Total sales	919,686	646,087	20,313	(493,075)	1,093,011
Operating expenses	885,033	652,332	21,016	(483,641)	1,074,740
Operating income (loss)	\$ 34,653	\$ (6,245)	\$ (703)	\$ (9,434)	\$ 18,271
Assets	\$619,338	\$324,153	\$17,327	\$ 32,766	\$ 993,584

Year Ended March 31, 2000	Millions of Yen				Consolidated
	Japan	Asia	North America	Eliminations and Corporate	
Sales:					
Outside customers	¥ 86,624	¥ 50,555	¥ 2,358		¥ 139,537
Interarea	31,276	20,579	399	¥(52,254)	
Total sales	117,900	71,134	2,757	(52,254)	139,537
Operating expenses	114,070	70,537	2,640	(53,374)	133,873
Operating income	¥ 3,830	¥ 597	¥ 117	¥ 1,120	¥ 5,664
Assets	¥ 69,960	¥ 38,834	¥ 1,732	¥ 11,570	¥ 122,096

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

## (3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2001 and 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
North America	¥ 2,678	¥ 3,337	\$ 21,611
Europe	3,654	5,190	29,493
Asia	69,191	66,785	558,444
Others	659	401	5,316
Total	¥76,182	¥75,713	\$614,864

## INDEPENDENT AUDITORS' REPORT

Tohymatsu & Co.  
16 Shinbashi Building  
10-10, Shinbashi 4-Chome,  
Minami-Ku Tokyo 108-8550 Japan

Tel: +81 3 3457 722  
Fax: +81 3 3457 3508  
www.tohymatsu.co.jp

**Deloitte  
Touche  
Tohmatsu**

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, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied 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, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As discussed in Note 2, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions.

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. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 28, 2001



**Sankyo**

Sankyo Seiki Mfg. Co. Ltd