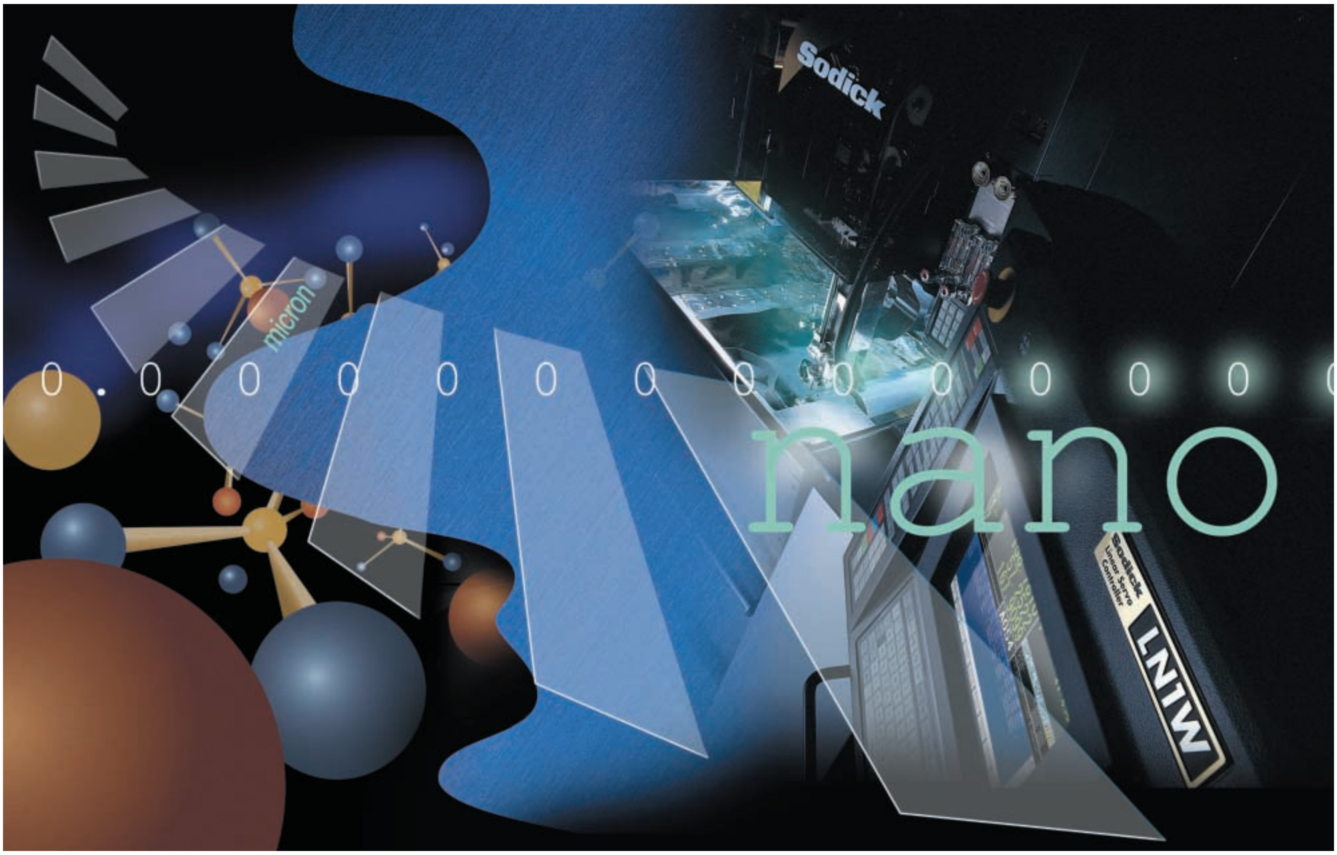
Report and Accounts 2002



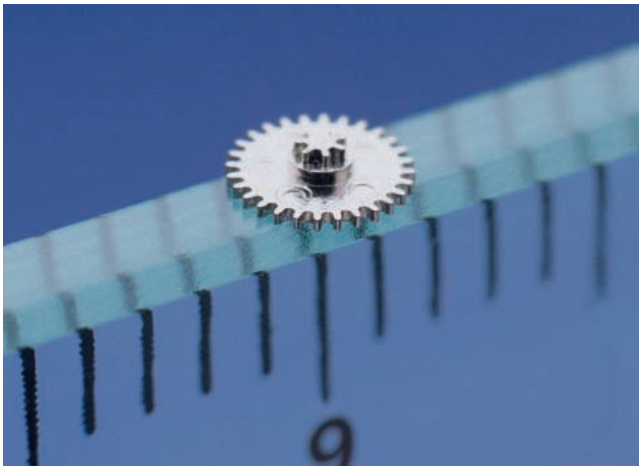
Sodick Co.,Ltd.

Sodick Assists Customers in Manufacturing Industrial Products

The manufacture of high-quality molds starts with high-accuracy molds. The excellence of Japanese products owes everything to the high level of this mold manufacturing technology. Sodick satisfies customer needs by participating in each stage from the design and manufacture of molds to the finished products.

We challenged the development of the computer numerically controlled electrical discharge machine (CNC-EDM) and succeeded in introducing the first CNC-EDM to the world in 1976. Our machine contributed to the unmanned operation of electrical discharge machining, higher machining accuracy and greater versatility in the applications of electrical discharge machining.

Contents



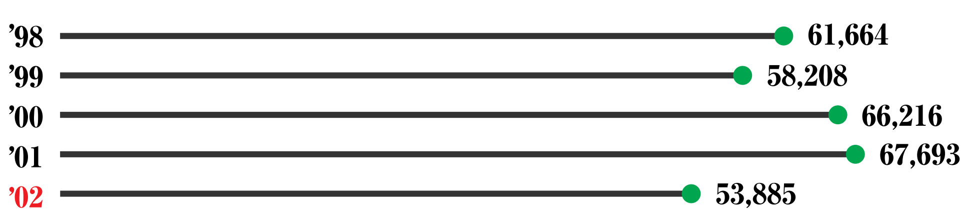
Financial Highlights (Consolidated)

Sodick Co.,Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2002 and 2001

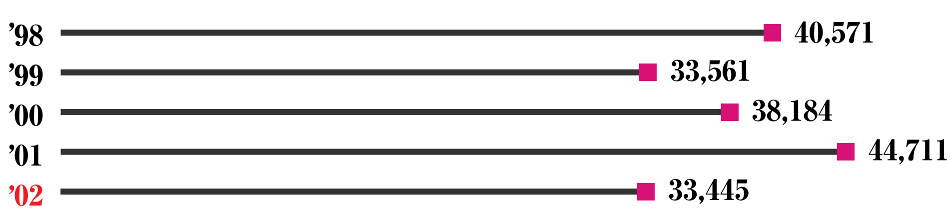
	Millions of yen		Thousands of U.S. dollars*	
	2002	2001	**2002**	2001
Net sales	**¥33,445**	¥44,711	**$250,994**	$335,542
Operating income (loss)	**(2,289)**	1,570	**(17,178)**	11,782
Net income (loss)	**(4,145)**	1,472	**(31,107)**	11,047
Total assets	**53,885**	67,693	**404,390**	508,015
Net income (loss) per share				
	Yen		U.S. dollars	
Basic	**¥(101.49)**	¥37.21	**$(0.76)**	$0.28
Diluted	—	31.50	—	0.24
Cash dividends applicable to the year	—	5.00	—	0.04

*For reference only, U.S. dollar figures have been converted from yen at the rate of ¥133.25 to US$1.00, the approximate rate in effect on 31st March, 2002.

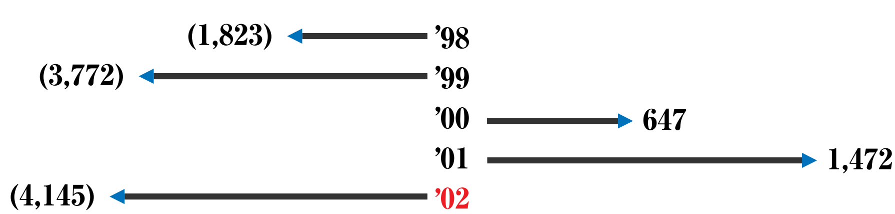
Total Assets
(Millions of Yen)



Net Sales
(Millions of Yen)



Net Income (loss)
(Millions of Yen)



Message from the Management

Let me take this opportunity to report on the business results of Sodick Co., Ltd. and subsidiaries for the fiscal year ended 31st March, 2002.

In this fiscal year, although we expected a brief business recovery due to the structural reforms advocated by the Japanese government, the situation in the IT (information technology) related business world has taken a rapid plunge since last summer, the bad-debt problem has resurfaced in the financial world, stock prices fell, and personal consumption is at a stand-still due to the rise in the unemployment rate. Thus, the domestic economic situation has been more severe in this fiscal year. In overseas countries, while the slowdown in the U.S. economy has been clearing up, the coordinated terrorist attacks in September 2001, have strained the global situation and led to increasing uncertainty in the development of the overseas economy.

In the machine industry, the IT related business world which had provided ample orders from the machine industry rapidly began to stagnate. As a result, machine manufacturing companies suffered a large decrease in their income while at the same time weakening due to the relocation of manufacturing facilities to overseas countries. Our business condition thus became severe.

Given such a business situation, our company group sent products to machine exhibitions held in various places, and has continued to strive to market various products, all of which have obtained high evaluation from customers in various industries. However, our company group could not compensate for the reduction in demand caused by the rapid global change in business conditions. In addition, since October, 2001, our company has taken the following measures as a radical management structure remedy aiming at raising the future earning capacity of the company remarkably:

1. In the machine tool business, we have concentrated substantially on domestic production and transferring production to subsidiaries in Thailand and the P.R. China;
2. We have reduced production costs by increasing overseas local procurement and improved unprofitable operations in other businesses,
3. In accordance with the above measure, we reduced personnel by about 200 persons;
4. And, we improved our cash flow by reducing product stock and expanding sales centers in areas where demand expansion is expected in the near future, such as East Asia.

However, our company could not yet fully reap the fruits of these measures in this fiscal year.

As a result of these efforts, our consolidated sales during this fiscal year totaled ¥33,445 million, a decrease of ¥11,266 million (25.2%) compared with the figure in the previous year, and in terms of profit and loss, to our regret, we fell into the red, that is, we incurred a consolidated operating loss of ¥2,289 million and a consolidated net loss of ¥4,145 million. This includes a special loss attendant upon a management restructuring and the appraisal loss of investment in securities.

The following show situations and sales in each business segment:

- Machine tool business ... In this segment, although we strove for sales promotion mainly of CNC-EDMs provided with linear servo motors, demands in the IT related business world have decreased substantially since last summer. In addition, the cash flow of customers in other business worlds also became worse. As a result, investment in plants fell off, and the economic recovery this spring ended at a low level. The business environment surrounding us thus became severe. As a result, sales in this business segment figured at ¥25,660 million, a decrease of ¥7,431 million (22.5%)

compared with the figure in the previous year.

- Industrial tool business ... In this segment, although we strove to promote sales of hydraulic and electric hybrid drive type injection molding machines and systematized vertical injection molding machines, as with machine tool business, demands in the IT related business world have decreased substantially. The economic recovery this spring also did not contribute to the target profit of our company. Accordingly, this segment was also exposed to a very severe business environment. As a result, sales in this business segment totaled ¥4,086 million, a decrease of ¥2,687 million (39.7%) compared with the figure in the previous fiscal year.
- Other businesses ... Since, in these segment, the demand trend was the same as that in the machine tool business, and in addition we cut down on unprofitable businesses as a part of a management restructuring measure, sales in these segment totaled ¥3,969 million, a decrease of ¥1,665 million (29.6%) compared with the figure in the previous fiscal year.

Suzhou Sodick Special Equipment Co., Ltd. (P.R. China)

The following show situations and sales in each geographical segment:

- Japan ... In this area, the situation in the IT related business world became rapidly worse since last summer. In addition, due to the revival of the bad-debt problem in the financial world and inactive personal consumption, plant investment decreased greatly. The Japanese business environment became worse in this fiscal year. As a result, sales in this area totaled ¥25,849 million, a decrease of ¥14,539 million (36.0%) compared with the figure in the previous year.
- North and South America ... In this area, the movement in EMS (Electric Manufacturing Service) has been accelerated. That is, our main customers began to entrust their production to the third countries to reduce their fixed costs such as plant investment. In addition, under the influence of the coordinated terrorist attacks in September last year, there was a growing tendency to delay plant investment. In this area, too, the business environment became worse. As a result, sales in this area totaled ¥3,626 million, a decrease of ¥147 million (3.9%) compared with the figure in the previous year.
- Europe ... In this area, there is a trend toward active plant investment in some countries where manufacturing costs are comparatively cheap attendant upon the introduction of the single currency Euro. Also, due to the high evaluation of our technology to utilize linear servo motors for our products, in which our company leads, from users in the automobile industry who grapple with environmental problems, the business environment in this area has improved gradually. As a result, sales in this area totaled ¥3,922 million, an increase of ¥1,132 million (40.6%) compared with the figure in the previous year.

• Asia ... In this area, although the purchase orders received from P.R. China increased, where the economy has continued to experience firm growth, the purchase orders received from Taiwan, South Korea, Singapore, etc., where many semiconductor-related industries exist, leveled off. As a result, sales in this area totaled ¥12,418 million, a decrease of ¥3,874 million (23.8%) compared with the figure in the previous year.

In our country, although there began to be signs in demand recovery in the semiconductor related industry and the liquid crystal related industry, a protraction in inventory adjustment and a concentration of production bases brought about plant investment control in each manufacturing company. Accordingly, the environment surrounding our company group will be exposed to a severe economic condition for a long while.

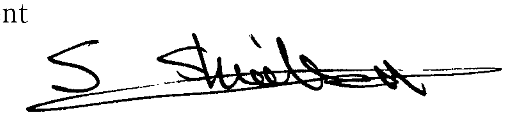
Under such conditions, we have tried to improve our profit profile by emphasizing conventional domestic production from a global viewpoint and taking advantage of our technical superiority in the machine tool and industrial tool businesses. To this end, our company group has been carrying out the following economic structure remedies successively since October 2001. That is, we have reduced domestic production, relocated overseas and reduced personnel in the machine tool business, and improved our cash flow by reducing inventory carrying cost for works in process and finished goods.

At the same time, we will research and invest in nano technology, which is regarded as a key next generation technology. We will also strive to find a new market for our world-leading ultra-accurate nano machines, which were released in December 2001. In addition, in the industrial tool business, our company group will strive as a body to find a new market in the field of magnesium alloy injection molding machines. This field is expected to develop into a big market in the future. We will also further strengthen our management foundation by increasing our businesses which are profitable in the middle- and long-term, and reforming ourselves as “a next generation core technology enterprise.”

In addition, we have succeeded in listing the stock of Sodick Plustech Co., Ltd., one of our consolidated subsidiary companies, on the JASDAQ stock market in August 2001. This represents one of our policies, that is, to increase the value of our company group to the maximum and improve the value of the stock of our company group. This means implementing management that takes account of the cash flow and securely strengthens the financial structure of our company group. Furthermore, we continue to keep the law in mind from the viewpoint of corporate governance and disclose company information properly, aiming at transparent and sound management.

We will do our best to enrich the companies of the Sodick group to lay a foundation for the future in 2002.

President



Shigeo Shioda
President

Research and Development
Development of nano machine NANO-100

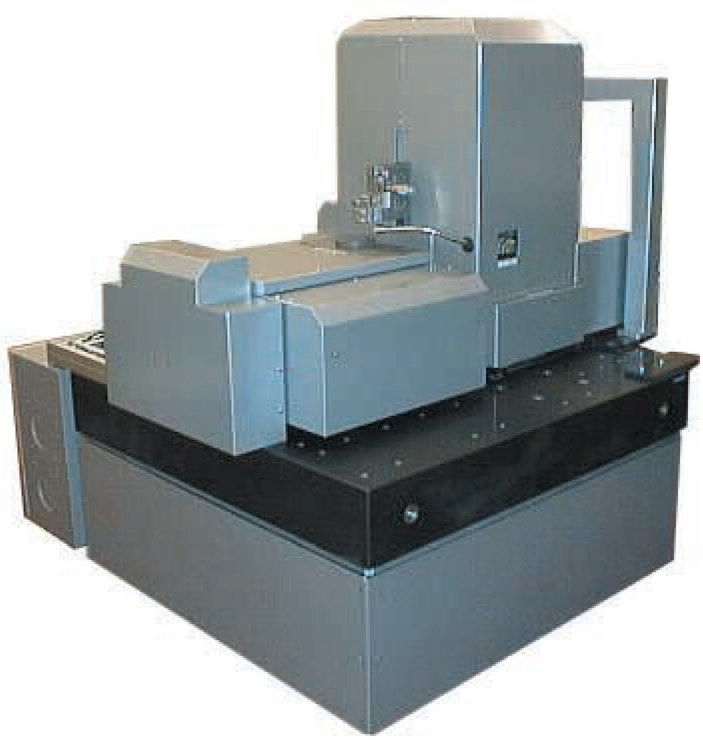
Sodick Co., Ltd. has often made the impossible possible in the precision metal machining field by means of linear servo motors and their controllers. We were the original developers of these devices and propelled the research and development of nano machines so as to obtain the lead in ultra accurate machining technology. This field of nano technology is regarded as the key technology to the 21st century.

Since Sodick has succeeded in the development of a nano machine, NANO-100, of the highest level in the world thanks to our accumulated know-how and repeated trial manufacturing, we would like to take this opportunity to introduce it.

NANO-100 employs ceramics developed and made by Sodick to almost all of the mechanical components including machine supporting sections to minimize thermal displacement and lighten them. In addition, it employs a non-contact four- face constraint ceramic air slider for each of the three axes to improve their straightness and make it easy to machine hard material.

Moreover, the model NANO-100 is provided with AC coreless linear motors, which have been developed and manufactured by Sodick and, mounted on EDMs, are enjoying a very good reputation. These motors are mounted on both sides of its drive section to minimize backlash and realize excellent responsiveness of a nano meter order.

The X table and Y table of the machining section are mechanically independent of each other and are provided with a non-contacting linear scale, achieving a minimum control unit of 1 nm (0.000001mm) with our original controller and this scale combined. This is the lowest unit in the world as of now.



Nano machine「NANO-100」

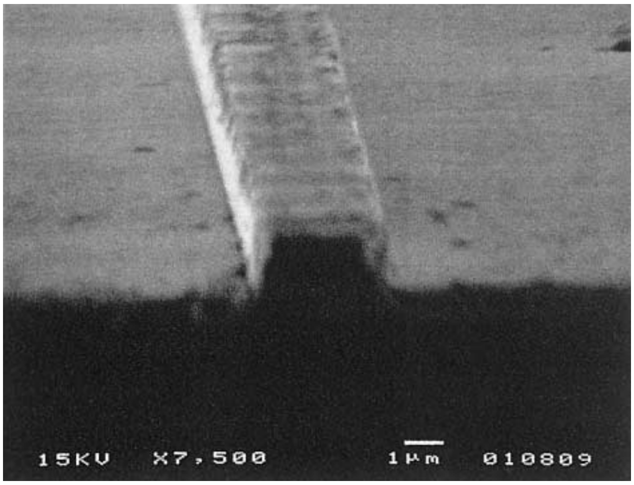
Standard machines are of three axes (X, Y and Z) controlled type, can travel within a range of 100×100×55mm and can machine a workpiece of up to ψ85×40mm.

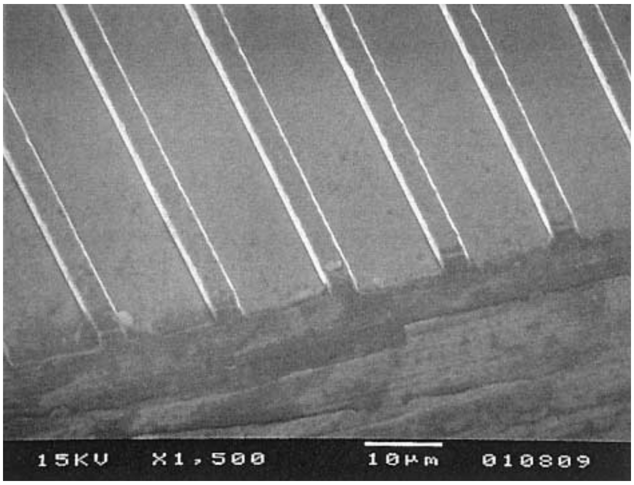
We have a patent pending for this technology, which is superior to that of any other company.

As mentioned above, it is expected for the nano machine, NANO-100, which is extremely highly practicable, to be applied to the machining of minute die parts for lenses. These lenses are used for optical high speed communication facilities considered to be a next generation infrastructure, for semiconductor integrated circuits and high performance MPUs, and circuit patters and parts for small motors minutely driven for medical machines and plant inspection equipment. This technology will lead to new orders. In addition, we established a factory dubbed the “Super machining center” in Sodick Engineering Co., Ltd., one of our consolidated subsidiary companies. Established in February 2002 this center will lead the world in machining parts entrusted to our nano machine NANO-100. A workpiece put under our custody for machining is 100nm in machining accuracy or surface roughness (PV value) and 20×20×30mm or less in size (stroke), and is made of material which can be ground.

We will attach an electronic microphotograph of a machined groove of 985nm in depth, 15μm in pitch and ±10nm in accuracy as a machining sample (nm refers to a unit of 1mm/1,000,000).

In conclusion, our company will pursue further achievements for the practical use of nano technology in precision machining. This nano technology related field is expected to create a world demand of 3 trillion yen in 2020.





Financial Section

Consolidated Balance Sheets

Sodick Co., Ltd. and Consolidated Subsidiaries
31st March, 2002 and 2001

	Millions of Yen		Thousands of U.S.Dollars (Note 1)	
ASSETS	**2002**	2001	**2002**	2001
Current assets :				
Cash and cash equivalents (Notes 2 and 8)	**¥ 4,627**	¥ 6,963	**$ 34,724**	$ 52,255
Time deposits	**927**	1,291	**6,957**	9,689
Trade notes and accounts receivable (Notes 2 and 8)	**13,371**	18,048	**100,345**	135,445
Less-Allowance for doubtful accounts (Note 2)	**(1,242)**	(837)	**(9,321)**	(6,281)
Inventories (Note 2)—				
Finished goods	**4,417**	8,111	**33,148**	60,871
Work in process and raw materials	**5,679**	5,037	**42,619**	37,801
Other current assets (Note 8)	**4,177**	4,662	**31,348**	34,985
Total current assets	**31,956**	43,275	**239,820**	324,765
Property, plant and equipment : (Notes 2 and 8)				
Land	**7,760**	7,757	**58,236**	58,214
Buildings and structures	**12,745**	12,525	**95,647**	93,996
Machinery and equipment	**8,617**	7,875	**64,668**	59,099
Leased equipment	**2,343**	2,791	**17,584**	20,946
Construction in progress	**21**	167	**158**	1,253
	31,486	31,115	**236,293**	233,508
Less-accumulated depreciation	**(13,261)**	(12,638)	**(99,520)**	(94,843)
	18,225	18,477	**136,773**	138,665
Other assets :				
Investment securities (Notes 2, 3 and 8)	**1,483**	3,115	**11,129**	23,377
Other (Note 2)	**2,221**	2,826	**16,668**	21,208
	3,704	5,941	**27,797**	44,585
	¥ 53,885	¥ 67,693	**$ 404,390**	$ 508,015

The accompanying notes to the consolidated financial statements are an integral part of these balance sheets.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars (Note 1) 2002	Thousands of U.S. Dollars (Note 1) 2001
Current liabilities :				
Short-term borrowings (Note 7)	**¥ 15,013**	¥ 16,209	**$ 112,668**	$ 121,644
Current portion of long-term debt (Note 8)	**2,222**	5,395	**16,675**	40,488
Trade notes and accounts payable (Note 2)	**5,460**	11,574	**40,976**	86,859
Income taxes payable (Notes 2 and 6)	**88**	300	**660**	2,251
Accrued expenses and other current liabilities	**3,048**	3,739	**22,875**	28,060
Total current liabilities	**25,831**	37,217	**193,854**	279,302
Long-term liabilities :				
Long-term debt (Note 8)	**14,652**	14,071	**109,959**	105,598
Liability for severance and retirement benefits (Notes 2 and 9)	**121**	32	**908**	240
Other long-term liabilities	**306**	434	**2,296**	3,257
	15,079	14,537	**113,163**	109,095
Minority Interest	**2,002**	1,717	**15,025**	12,886
Commitments and contingent liabilities (Note 12)				
Shareholders' Equity (Note 10) :				
Common stock :				
Authorised--98,000,000 shares at 31st March, 2002 and 2001				
Outstanding--40,845,097 shares at 31st March, 2002 and 2001	**¥ 14,628**	¥ 14,628	**$ 109,779**	$ 109,779
Additional paid-in capital	**6,387**	6,387	**47,932**	47,932
Accumulated deficit	**(9,613)**	(5,190)	**(72,143)**	(38,949)
Net unrealized holding losses on securities	**(42)**	(942)	**(315)**	(7,069)
Foreign currency translation adjustments	**(385)**	(660)	**(2,889)**	(4,953)
Less-treasury common stock, at cost: 5,865 shares at 31st March, 2002 and 2,442 shares at 31st March, 2001	**(2)**	(1)	**(16)**	(8)
Total shareholder's equity	**10,973**	14,222	**82,348**	106,732
	¥ 53,885	¥ 67,693	**$ 404,390**	$ 508,015

Consolidated Statements of Operations

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years, ended 31st March 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2002	2001	**2002**	2001
Net sales	**¥ 33,445**	¥ 44,711	**$ 250,994**	$ 335,542
Cost of sales	**24,572**	30,941	**184,405**	232,203
Gross profit	**8,873**	13,770	**66,589**	103,339
Selling, general and administrative expenses	**11,162**	12,200	**83,767**	91,557
Operating income (loss)	**(2,289)**	1,570	**(17,178)**	11,782
Other income (expenses) :				
Interest expense	**(851)**	(1,031)	**(6,387)**	(7,737)
Interest income	**121**	118	**908**	886
Exchange gain, net	**1,096**	1,275	**8,225**	9,568
Loss from valuation of marketable and investment securities	**(1,636)**	(656)	**(12,278)**	(4,923)
Gain on sales of securities of affiliated company	**264**	1,133	**1,981**	8,503
Additional retirement benefits for employees	**(259)**	—	**(1,944)**	—
Other, net	**(368)**	(525)	**(2,761)**	(3,940)
Total	**(1,633)**	314	**(12,255)**	2,357
Income (loss) before income taxes and minority interest	**(3,922)**	1,884	**(29,433)**	14,139
Provision for income taxes (Notes 2 and 6) :				
Current	**164**	353	**1,231**	2,649
Deferred	**200**	(319)	**1,501**	(2,394)
Total	**364**	34	**2,732**	255
Income (loss) before minority interest	**(4,286)**	1,850	**(32,165)**	13,884
Minority interest	**141**	(378)	**1,058**	(2,837)
Net income (loss)	**¥ (4,145)**	¥ 1,472	**$ (31,107)**	$ 11,047

	Yen		U.S. dollars	
Net income (loss) per share (Note 11) :				
Basic	**¥ (101.49)**	¥ 37.21	**$ (0.76)**	$ 0.28
Diluted	—	31.50	—	0.24

The accompanying notes to the consolidated financial statements are an integral part of these statements

Consolidated Statements of Shareholders' Equity

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years, ended 31st March 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	**2002**	2001
Common stock				
Beginning balance	**¥ 14,628**	¥ 12,925	**$ 109,779**	$ 96,998
Conversion of convertible bond				
5,143,238 shares in 2001	—	1,643	—	12,331
Stock swaps : 1,209,950 shares in 2001	—	60	—	450
Ending balance	**¥ 14,628**	¥ 14,628	**$ 109,779**	$ 109,779
Additional paid-in capital				
Beginning balance	**¥ 6,387**	¥ 3,775	**$ 47,932**	$ 28,330
Conversion of convertible bond	—	1,643	—	12,330
Stock swaps	—	969	—	7,272
Ending Balance	**¥ 6,387**	¥ 6,387	**$ 47,932**	$ 47,932
Accumulated deficit				
Beginning balance	**¥ (5,190)**	¥ (6,502)	**$ (38,949)**	$ (48,795)
Dividends	**(204)**	—	**(1,531)**	—
Bonus to directors and corporate statutory auditors	**(74)**	—	**(556)**	—
Effect of changing subsidiaries'				
share holding raito	—	(160)	—	(1,201)
Net income (loss)	**(4,145)**	1,472	**(31,107)**	11,047
Ending balance	**¥ (9,613)**	¥ (5,190)	**$ (72,143)**	$ (38,949)
Net unrealized holding gains on securities :				
Beginning balance	**¥ (942)**	¥ —	**$ (7,069)**	$ —
Adoption of new accounting standard				
for financial instruments	—	(942)	—	(7,069)
Unrealized gains (losses) on investment	**900**	—	**6,754**	—
Ending balance	**¥ (42)**	¥ (942)	**$ (315)**	$ (7,069)
Foreign currency translation adjustment				
Beginning balance	**(660)**	¥ —	**$ (4,953)**	$ —
Adjustments from translation of foreign				
currency financial statements	**275**	(660)	**2,064**	(4,953)
Ending balance	**¥ (385)**	¥ (660)	**$ (2,889)**	$ (4,953)
Treasury stock				
Beginning balance	**¥ (1)**	¥ (6)	**$ (8)**	$ (45)
Increase (decrease)	**(1)**	5	**(8)**	37
Ending balance	**¥ (2)**	¥ (1)	**$ (16)**	$ (8)

The accounting notes to the consolidated financial statements are an integral part of these starements

Consolidated Statements of Cash Flows

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years, ended 31st March 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	**2002**	2001
Cash flows from operationg activities :				
Income (Loss) before income taxes and minority interest	¥ **(3,922)**	¥ 1,884	$ **(29,433)**	$ 14,139
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities :				
Depreciation and amortization	**1,739**	1,672	**13,051**	12,548
Increase in allowance for doubtful accounts	**829**	796	**6,221**	5,973
Interest and dividend income	**(125)**	(169)	**(938)**	(1,268)
Interest expenses	**851**	1,031	**6,387**	7,737
Exchange gain	**(363)**	(636)	**(2,724)**	(4,773)
Equity in net losses (earnings) of affiliates	**219**	(192)	**1,644**	(1,441)
Loss from valuation of marketable and investment securities	**1,636**	656	**12,278**	4,923
Gain on sales of securities of affiliated company	**(264)**	(1,133)	**(1,981)**	(8,503)
Loss on sales of fixed assets	**199**	39	**1,493**	293
Additional retirement benefits for employees	**259**	—	**1,943**	—
Change in assets and liabilities, net :				
Decrease in trade notes and accounts receivable	**8,679**	39	**65,132**	293
Decrease in inventories	**3,881**	68	**29,126**	510
Increase in trade notes and accounts payable	**(6,464)**	(172)	**(48,511)**	(1,291)
Increase (Decrease) in discounted trade notes	**(3,510)**	1,085	**(26,341)**	8,143
Increase (Decrease) in other payables	**(503)**	346	**(3,775)**	2,597
Bonus to directors and corporate statutory auditors	**(74)**	—	**(556)**	—
Others net	**495**	50	**3,715**	375
Sub total	**3,562**	5,364	**26,732**	40,255
Interest and dividends income	**127**	168	**954**	1,261
Interest paid	**(869)**	(972)	**(6,522)**	(7,295)
Additional payments for retired employees	**(186)**	—	**(1,396)**	—
Income taxes paid	**(477)**	(149)	**(3,580)**	(1,118)
Net cash provided by operating activities	¥ **2,157**	¥ 4,411	$ **16,188**	$ 33,103
Cash flows from investing activities :				
Decrease in time deposits	¥ **364**	¥ 251	$ **2,732**	$ 1,884
Expenditure for property, plant and equipment	**(1,368)**	(1,611)	**(10,267)**	(12,091)
Proceeds from sales of propety, plant and equipment	**307**	482	**2,304**	3,617
Payments for acquisition of intangible assets	**(165)**	(381)	**(1,238)**	(2,859)
Payments for acquisition of marketable and investment securities	**(365)**	(1,039)	**(2,739)**	(7,797)
Proceeds from sales of marketable and investment securities	**1,366**	320	**10,250**	2,402
Payments for acquisition of subsidiaries and affiliates	**(105)**	(29)	**(788)**	(218)
Proceeds from sales of subsidiaries and affiliates	**320**	1,840	**2,402**	13,808
Payments on loan receivables	**(293)**	(1,534)	**(2,199)**	(11,512)
Proceeds from collection of loan receivable	**27**	750	**203**	5,629
Net cash provided by (used in) investing activities	¥ **88**	¥ (951)	$ **660**	$ (7,137)

The accompanying notes to consolidated finanscial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2002	2001	**2002**	2001
Cash flows from financing activities:				
Changes in short-term borrowings	**¥ (583)**	¥ (7,009)	**$ (4,375)**	$ (52,600)
Proceeds from long-term debt	**2,009**	2,485	**15,077**	18,649
Repayments of long-term debt	**(2,902)**	(4,386)	**(21,779)**	(32,916)
Proceeds from issuance of convertible bond	**—**	8,220	**—**	61,688
Redemption of debenture bond	**(3,000)**	—	**(22,514)**	—
Proceeds from issuance of common stock to minority shareholders	**320**	79	**2,402**	593
Repayments of financial lease obligations	**(232)**	(153)	**(1,741)**	(1,148)
Cash dividends paid	**(269)**	(16)	**(2,019)**	(120)
Net cash used in financing activities	**(4,657)**	(780)	**(34,949)**	(5,854)
Effect of exchange rate on cash and cash equivalents	**76**	51	**570**	383
Net increase (decrease) in cash and cash equivalents	**(2,336)**	2,731	**(17,531)**	20,495
Cash and cash equivalents beginning balance	**6,963**	4,232	**52,255**	31,760
Cash and cash equivalents ending balance	**¥ 4,627**	¥ 6,963	**$ 34,724**	$ 52,255

The accompanying notes to consolidated finanscial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Sodick Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

Sodick Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, ("Japanese GAAP"), The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements.

Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity for 2002 and 2001 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at 31st March 2002, which was ￥133.25 to U.S.$1.00. The convenient translation should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting and Reporting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries, except for certain minor subsidiaries. All significant intercompany transactions and account balances are eliminated.

The Company consolidates all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Investments in affiliated companies (20% to 50% owned) are accounted for by the equity method. And, investments in companies of which the Company has at least 15% and less than 20% of the voting rights are also accounted for using the equity method in the cases where the Company has ability to exercise significant influence over operating and financial policies of the investees.

The excess of cost over the underlying equity at acquisition dates of investments in subsidiaries and affiliates is being amortized using the straight-line method over five years.

(b) Cash and Cash Equivalents

Cash and cash equivalents include, cash on hand, readily available deposits and short-term highly liquid investments with original maturities of three months or less.

(c) Foreign Currency Translation

Effective 1st April, 2000, the Company and its consolidated domestic subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on 22th October, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rate used by the Company.

Due to the adoption of the Revised Accounting Standard in 2001, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity.

(d) Allowance for Doubtful Accounts

The Company and its subsidiaries provide the allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(e) Inventories

Finished goods and work in process are stated at the specific identification cost. Raw materials are stated at cost, being determined by the first-in, first-out method.

(f) Securities

Effective 1st April, 2000, the Companies adopted the new Japanese accounting standard for financial instruments (“Opinion Concerning Establishment of Accounting Standard for Financial Instruments” issued by the Business Accounting Deliberation Council on 22th January, 1999).

Upon applying the new accounting standard, all companies are required to examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, “trading securities”), (b) debt securities intended to be held to maturity (hereafter, “held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies, and (d) for all other securities that are not classified in any of the above categories (hereafter, “available-for-sale securities”).

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate componet of shareholders’ equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(g) Depreciation

Depreciation of buildings is computed primarily using the straight-line method and depreciation of other plant and equipment is primarily provided on the declining-balance method over their estimated useful lives.

The estimated useful lives are as follows;

Buildings and structures 3 to 50 years

Machinery and equipment 2 to 17 years

Ordinary maintenance and repairs are charged to income as incurred.

Major replacements and betterments are capitalized.

(h) Software Costs

The Company and its subsidiaries amortized software in accordance with the Accounting Committee Report No. 12 “Practical Guidance for Accounting for Research and Development Costs, etc.” Amortization of software for internal use is computed using the straight-line method over the estimated useful lives (5 years). Amortization of software for sales is the greater of the amount computed using (a) the ratio that current unit sales for product bear to the total of current and anticipated future unit sales for that product or (b) the straight-line method over the remaining estimated economic life of the product (3 years).

(i) Lease

Accounting for finance leases (excpet leases that deem to transfer ownership of the leased property to the lessee) applies the same way as operating leases.

(j) Employees’ Severance and Retirement Benefits

The Company and certain subsidiaries have a funded pension plan covering all its employees. Under the funded plan, the employees are entitled to lump-sum payments or pension payments.

Effective 1st April, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard, “Opinion on Setting Accounting Standard for Employees’ Severance and Pension Benefits”, issued by the Business Accounting Deliberation Council on 16th June, 1998. Under the new accounting standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at 31st March, 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of 1st April, 2000 and the liabilities for severance and retirement benefits recorded as of 1st April, 2000 (the "net transition obligation"). The net transition obligation will be recognized in expenses in equal amounts over 5 years commencing with the year ended 31st March, 2001. Actuarial gains and losses are recognized in expenses using the declining-balance method over 10 years commencing with the following period.

(k) Research and Development

Research and development costs were charged to income as incurred.

Total amounts charged to income were ¥1,131 million ($8,488 thousand) and ¥1,415 million ($10,619 thousand) in 2002 and 2001, respectively.

(l) Income Taxes

The Company recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. And, the provision for income taxes is computed based on the pretax income included in the consolidated statement of operation. The asset and liability approach is used to recognize defferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(m) Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended 31st March, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(n) Effect of Bank Holiday

As financial institutions in Japan were closed on 31st March, 2002 and 2001, ¥109 million ($818 thousands) and ¥293 million ($2,199 thousands) of trade notes receivable, ¥417 million ($3,129 thousands) and ¥948 million ($7,114 thousands) of trade notes payable and ¥297 million ($2,229 thousands) and ¥134 million ($1,006 thousands) of trade notes discounted on 31st March, 2002 and 2001, respectively, were settled on the following business day, 1st April, 2002 and 2nd April, 2001 and accounted for accordingly.

3. Marketable Securities and Investment Securities

The following tables summarize acquisition costs and book values stated at fair value of securities with available fair values as of 31st March, 2002:

Available-for-sale securities
Securities with book values exceeding acquisition costs

2002	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 157	¥ 184	¥ 27
Total	¥ 157	¥ 184	¥ 27

2002	Thousands of U.S.dollars		
Type	Acquisition cost	Book value	Difference
Equity securities	$ 1,178	$ 1,381	$ 203
Total	$ 1,178	$ 1,381	$ 203

Other securities

2002	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 1,251	¥ 1,171	¥ △80
Other	5	3	△2
Total	¥ 1,256	¥ 1,174	¥ △82

2002	Thousands of U.S.dollars		
Type	Acquisition cost	Book value	Difference
Equity securities	$ 9,388	$ 8,788	$ △600
Other	38	23	△15
Total	$ 9,426	$ 8,811	$ △615

The following tables summarize book values of securities with no available fair values as of 31st March, 2002:

Available-for-sale securities

2002	Millions of yen	Thousands of U.S.dollars
Type	Book value	
Non-consolidated subsidiaries and affiliates securities	¥ 86	$ 645
Non-listed securities	39	292
Total	¥ 125	$ 937

Available-for-sale securities with maturities are as follows:

2002	Millions of yen			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Available-for-sale securities with maturities:				
Investment trust	—	—	3	—
Total	¥ —	¥ —	¥ 3	¥ —

2002	Thousands of U.S.dollars			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Available-for-sale securities with maturities:				
Investment trust	—	—	23	—
Total	$ 0	$ 0	$ 23	$ 0

The following tables summarize acquisition costs and book values stated at fair value of securities with available fair values as of 31st March, 2001:

Available-for-sale securities
Securities with book values exceeding acquisition costs

2001	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 145	¥ 160	¥ 15
Bonds			
Government bonds	999	1,003	4
Total	¥ 1,144	¥ 1,163	¥ 19

2001	Thousands of U.S.dollars		
Type	Acquisition cost	Book value	Difference
Equity securities	$ 1,088	$ 1,201	$ 113
Bonds			
Government bonds	7,497	7,527	30
Total	$ 8,585	$ 8,728	$ 143

Other securities

2001	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 2,826	¥ 1,867	¥ △959
Other	5	3	△2
Total	¥ 2,831	¥ 1,870	¥ △961

2001	Thousands of U.S.dollars		
Type	Acquisition cost	Book value	Difference
Equity securities	$ 21,208	$ 14,011	$ △7,197
Other	38	23	△15
Total	$ 21,246	$ 14,034	$ △7,212

The following tables summarize book values of securities with no available fair values as of 31st March, 2001:

Available-for-sale securities

2001	Millions of yen	Thousands of U.S.dollars
Type	Book value	
Non-consolidated subsidiaries and affiliates securities	¥ 258	$ 1,936
Non-listed securities	19	143
Investment fund	514	3,857
Total	¥ 791	$ 5,936

Available-for-sale securities with maturities are as follows:

2001	millions of yen			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Available-for-sale securities with maturities:				
Government bonds	¥ —	¥ 1,003	¥ —	¥ —
Others				
Investment trust	—	—	3	—
Investment fund	—	435	79	—
Total	¥ —	¥ 1,438	¥ 82	¥ —

2001	Thousands of U.S.dollars			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Available-for-sale securities with maturities:				
Government bonds	$ —	$ 7,527	$ —	$ —
Others				
Investment trust	—	—	22	—
Investment fund	—	3,265	593	—
Total	$ —	$10,792	$ 615	$ —

Total sales of available for sale securities sold in the year ended 31st March, 2001 and the related gains and losses were immaterial.

4. Leases

(a) Lessee

The following pro forma amounts present the acquisition costs, accumlated depreciation and net book value of the property leased to the Companies as of 31st March, 2002 and 2001, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased proprety to the Companies (which are currently accounted for as operating leases) were capitalized.

	Million of yen		
	Acquistion costes	Accumulated deprection	Net book value
2002			
Machinery and equipment	¥ 2,144	¥ 831	¥ 1,313
Tools, furniture and other	102	53	49
	¥ 2,246	¥ 884	¥ 1,362
2001			
Machinery and equipment	¥ 2,426	¥ 946	¥ 1,480
Tools, furniture and other	79	33	46
	¥ 2,505	¥ 979	¥ 1,526

	Thousands of U.S. dollars		
	Acquistion costes	Accumulated deprection	Net book value
2002			
Machinery and equipment	$ 16,090	$ 6,236	$ 9,854
Tools, furniture and other	765	398	367
	$ 16,855	$ 6,634	$ 10,221
2001			
Machinery and equipment	$ 18,206	$ 7,099	$ 11,107
Tools, furniture and other	593	248	345
	$ 18,799	$ 7,347	$ 11,452

Lease payments of the Companies relating to finance lease transactions accounted for as operating leases amounted to ¥325 million ($2,439 thousand) and ¥395 million ($2,964 thousand) for the years ended 31st March, 2002 and 2001, respectively.

Depreciation related to leased assets of the Companies computed by the straight-line method over the lease terms for the years ended 31st March, 2002 and 2001, amounted to ¥325 million (¥2,439 thousand) and ¥395 million ($2,964 thousand), respectively.

Future minimum payments (including the interest portion thereon) subsequent to 31st March, 2002 under finance leases other than those which transfer the ownership of the leased property to the Companies are summarized as follows :

Year ending 31st March	Millions of yen	Thousands of U.S.dollars
2003	¥ 417	$ 3,129
2004 and thereafter	945	7,092
	¥ 1,362	$ 10,221

(b) Lessor

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for operating lease at 31st March 2002 and 2001.

	Million of yen		
	Acquistion costes	Accumulated deprection	Net book value
2002			
Machinery and equipment	¥ 1,887	¥ 1,014	¥ 873
	¥ 1,887	¥ 1,014	¥ 873
2001			
Machinery and equipment	¥ 1,772	¥ 986	¥ 786
	¥ 1,772	¥ 986	¥ 786

	Thousands of U.S. dollars		
	Acquistion costes	Accumulated deprection	Net book value
2002			
Machinery and equipment	$ 14,161	$ 7,609	$ 6,552
	$ 14,161	$ 7,609	$ 6,552
2001			
Machinery and equipment	$ 13,298	$ 7,399	$ 5,899
	$ 13,298	$ 7,399	$ 5,899

Lease income of the Companies relating to finance lease transactions accounted for as operating leases amounted to ¥338 million ($2,537 thousand) and ¥312 million ($2,341 thousand) for the years ended 31st March, 2002 and 2001, respectively.

Depreciation related to leased assets of the Companies computed by the straight-line method over the lease terms for the years ended 31st March, 2002 and 2001 amounted to ¥252 million ($1,891 thousand) and ¥241 million ($1,809 thousand), respectively.

Future minimum income (including the interest portion thereon) subsequent to 31st March 2002 under finance leases other than those which transfer the ownership of the leased property to the companies is summarized as follows:

Year ending 31st March	Millions of yen	Thousands of U.S.dollars
2003	¥ 305	$ 2,289
2004 and thereafter	774	5,809
	¥ 1,079	$ 8,098

5. Derivatives and hedge accounting

The Companies use forward foreign currency contracts and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and payables and interest rate increases with respect to borrowings, within the amounts of floating rate borrowings.

Forward foreign currency and interest rate swap contracts are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Company's Finance Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:
- Forward foreign exchange contracts
- Interest rate swap contracts

Hedged items:
- Foreign currency trade receivables and trade payables
- Interest on loans payable

The Companies evaluate hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

The following tables summarize market value information as of 31st March, 2002 and 2001 of derivative transactions for which hedge accounting has not been applied:

Interest related (millions of yen)

	Type	Year ended 31st March, 2002			
		Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Interest rate option call	¥5,000	¥5,000	¥(104)	¥ (56)
	Pay variable, receive fixed	—	—		
	Total	¥5,000	¥5,000	¥(104)	¥ (56)

Interest related (thousands of U.S. dollers)

	Type	Year ended 31st March, 2002			
		Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Interest rate option call	$37,523	$37,523	$(780)	$(420)
	Pay variable, receive fixed	—	—		
	Total	$37,523	$37,523	$(780)	$(420)

Interest related (millions of yen)

	Type	Year ended 31st March, 2002			
		Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Interest rate option call	¥5,000	¥5,000	¥(171)	¥(58)
	Pay variable, receive fixed	—	—		
	Total	¥5,000	¥5,000	¥(171)	¥(58)

Interest related (thousands of U.S. dollers)

	Type	Year ended 31st March, 2002			
		Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Interest rate option call	$37,523	$37,523	$(1,283)	$(435)
	Pay variable, receive fixed	—	—		
	Total	$37,523	$37,523	$(1,283)	$(435)

6. Income Taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 42.0% for both years ended 31st March, 2002 and 2001.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended 31st March, 2002 and 2001:

	2002	2001
Statutory tax rate	**42.0%**	42.0%
Non-Japanese taxes	**6.9**	△ 6.2
Non-deductible expenses	**△ 0.8**	2.5
Per capita inhabitant tax	**△ 1.2**	2.1
Loss carried forward	—	△21.1
Valuation allowance	**△55.6**	△16.4
Prior year tax	**△ 0.6**	—
Other	**0.1**	△ 1.1
Effective tax rate	**△ 9.2%**	1.8%

Significant components of the Company's deferred tax assets and liabilities as of 31st March, 2002 and 2001 are as follows:

	Millons of yen		Thousands of U.S.dollars	
	2002	2001	**2002**	2001
Deferred tax assets;				
Allowance for doubtful accounts	**¥ 2,090**	¥ 1,733	**$ 15,685**	$ 13,006
Loss from valuation of inventories	**375**	396	**2,814**	2,972
Excess bonuses accrued	**105**	109	**788**	818
Loss from valuation of securities	**3,512**	2,216	**26,356**	16,630
Loss carried forward	**2,519**	1,233	**18,905**	9,253
Other	**196**	406	**1,471**	3,047
Total deferred tax assets	**8,797**	6,093	**66,019**	45,726
Valuation allowance	**(8,673)**	(5,771)	**(65,088)**	(43,309)
Net deferred tax assets	**¥ 124**	¥ 322	**$ 931**	$ 2,417

7. Short-term Borrowings

Short-term borrowings outstanding at the year end are due in 11 months. The interest rates on these borrowings were 0.6% to 6.6%, with weighted averages of 2.3% as at 31st March, 2002.

As is the customary practice in Japan, the Company has substantial time deposits with banks from which they have short-term and / or long-term borrowings; however, there are no formal compensating balance agreements with any banks. The weighted average interest rates on time deposits were 0.0% and 0.2% as at 31st March, 2002 and 2001, respectively.

8. Long-term Debt

Long-term debt as at 31st March, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S.dollars	
	2002	2001	**2002**	2001
1.0% to 4.7% mortgage loans from Japanese banks and financial institutions, due in installments through 2010	**¥ 7,658**	¥ 7,250	**$57,471**	$54,409
4.77% debenture bonds, due in 2002	—	3,000	—	22,514
Zero coupon JPY convertible Bonds payable Japanese yen, due in 2004	**996**	996	**7,475**	7,475
4.32% debenture Bonds, due in 2003	**2,000**	2,000	**15,009**	15,009
Zero coupon JPY convertible bonds payable Japanese Yen, due in 2004	**6,000**	6,000	**45,028**	45,028
1.16% debenture Bonds due in 2003	**220**	220	**1,651**	1,651
	16,874	19,466	**126,634**	146,086
Less-Current portion included in current liabilities	**(2,222)**	(5,395)	**(16,675)**	(40,488)
	¥ 14,652	¥14,071	**$109,959**	$105,598

Cash and cash equivalents of ¥382 million ($2,867 thousand) and ¥271 million ($2,034 thousand), trade notes and accounts receivable of ¥877 million ($6,582 thousand) and ¥1,317 million ($9,884 thousand), other current assets of ¥463 million ($3,475 thousand) and ¥455 million ($3,415 thousand), property, plant and equipment with a net book value of ¥12,727 million ($95,512 thousand) and ¥12,966 million ($97,306 thousand) and investments in marketable equity securities of ¥695 million ($5,216 thousand) and ¥1,249 million ($9,373 thousand), at 31st March, 2002 and 2001, respectively, were pledged as collateral for certain short-term borrowings and long-term debt.

On 18th February, 1999, the Company issued the 4.77% Euroyen debenture bonds.

On 13th December, 1999, the Company issued the 0% convertible bonds in Japanese yen.

These convertible bonds are convertible into common stock at option of holders currently at conversion price of ¥502 per share.

During the year ended 31st March, 2002, the convertible bonds were converted into no common shares with the remaining 19.9% outstanding at 31st March, 2002.

During the year ended 31st March, 2001, the Company issued the 4.32% Euroyen debenture bonds at 28th April, 2000, the 0% convertible bonds in Japanese yen at 11th September, 2000, and the 1.16% debenture bonds in Japanese yen at 25th September, 2000.

These convertible bonds are convertible into common stock at option of holders currently at conversion price of ¥709 per share. During the year ended 31st March, 2002, none of the convertible bonds were converted.

As is customary in Japan, substantially all of the bank borrowings are subject to a general agreement with each bank which provides, among other things, that the bank may request additional security for the loans concerned and may treat any security furnished to the bank for all present and future indebtedness and has the right to offset cash deposited against any short-term or long-term debt that becomes due, and, in case of default and certain other specified events, against all other debt payable to the bank. The Company has never been requested to submit such additional security.

As at 31st March, 2002, the aggregate annual maturity of long-term debt subsequent to 31st March, 2003, were as follows:

Year ending 31st March	Millions of yen	Thousands of U.S.dollars
2004	¥ 12,441	$ 93,366
2005	1,017	7,632
2006	535	4,015
2007	263	1,974
2008 and thereafter	396	2,972
	¥ 14,652	$ 109,959

9. Employees' Severance and Pension Benefits

As explained in Note 2 effective 1st April, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of 31st March, 2002 consists of the following:

	Millions of yen		Thousands of U.S.dollars	
	2002	2001	**2002**	2001
Projected benefit obligation	**¥△1,317**	¥△1,390	**$△9,883**	$△10,432
Less fair value of plan assets	**785**	1,095	**5,891**	8,218
Funded status	**△ 532**	△ 295	**△3,992**	△ 2,214
Unrecognized net transition obligation	**115**	129	**863**	968
Unrecognized actuarial loss	**313**	163	**2,349**	1,223
Liability for severance and retirement benefit, net	**△ 104**	△ 3	**△ 780**	△ 23
Prepaid pension expenses	**17**	29	**128**	217
Liability for severance and retirement benefit	**¥△ 121**	¥△ 32	**$△ 908**	$△ 240

Included in the consolidated statements of operations for the years ended 31st March, 2002 and 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S.dollars	
	2002	2001	**2002**	2001
Service costs-benefits earned during the year	**¥ 190**	¥ 157	**$1,426**	$1,178
Interest cost on projected benefit obligation	**40**	40	**300**	300
Expected return on plan assets	**△42**	△52	**△315**	△390
Unrecognized actuarial loss	**56**	—	**420**	—
Amortization of net transition obligation	**56**	32	**420**	240
Additional payments for retired employees	**186**	—	**1,396**	—
Severance and retirement benefit expenses	**¥ 486**	¥ 177	**$3,647**	$1,328

The discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 3.5%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the consolidated statements of operations using the declining-balance method over 10 years.

The Company offered early retirement program during fiscal 2002. As a result of these actions, the Company charged the related cost of ¥259 million ($1,944 thousand) as additional benefits in the consolidated statement of operations for fiscal 2002.

10. Shareholders' Equity

Effective 1st October, 2001, the Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings with respect to each annual or interim six month period be appropriated as a legal reserve until the total amount of additional paid-in capital and legal reserve equals 25% of common stock. Additional paid-in capital and legal reserve may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On condition that the total amount of additional paid-in capital and legal reserve remains equal to or exceeds 25% of common stock, they are available for distribution and certain other purposes by the resolution of the shareholders' meeting.

The Japanese Commercial Code provides that at least one-half of the issue price of new shares be included in common stock. In conformity therewith, proceeds received on conversion of convertible bonds and sale of common stock were equally divided into common stock and additional paid-in capital.

Cash dividends are approved by the shareholders at the meeting held after the end of each financial period. A semiannual interim dividend payment may be made by resolution of the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each such financial or interim six-month period.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Commercial Code.

11. Per Share Data

Net income per share is based on the weighted average number of outstanding shares of common stock.

Diluted net income per share is based on the weighted average number of outstanding shares of common stock and common stock equivalents. The 0% convertible bonds were considered as common stock equivalents. Because of net loss reported for the year ended 31st, March, 2002, a disclosure of the information on diluted net income per share is not required.

12. Commitments and Contingent Liabilities

Under the Company's capital expenditure program, management estimates that approximately ¥300 million ($2,251 thousand) will be expended during the year ending 31st March, 2003.

As at 31st March, 2002, the Company and certain subsidiaries were contingently liable for discounted notes receivable with banks of ¥2,619 million ($19,655 thousand).

13. Segment Information

(a) Business Segment Information

The Company and its consolidated subsidiaries operate primarily in the production and sales of machine tools, industrial tools and others. Machine tools comprise CNC-EDM such as linear servo motor equipped high speed die-sinking EDM, wire-cut EDM, high speed small hole drilling EDM, machining center and equipment for these machine; industrial tools comprise injection molding machine, linear servo motor equipped pressing machine, and equipment for these machine; others comprise CAD/CAM system for mold design and production, computer softwares for FA network applications, ceramic products and related machine, and equipment for these machine.

For the year ended 31st March, 2001, the Company and its consolidated subsidiaries have changed the segmentation of the results of KHS Co. Ltd. ("KHS"), a wholly owned subsidiary of the Company to Machine tools from Others This change was made, as KHS transferred their business of mold, plastic products and electronic parts to MIR Co., Ltd., another subsidiary of the Company in 1st August 2000.

	Millions of yen					
2002	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 25,603	¥ 4,022	¥ 3,820	¥ 33,445	¥ —	¥ 33,445
Intersegment sales and transfers	57	64	149	270	(270)	—
Total sales	25,660	4,086	3,969	33,715	(270)	33,445
Cost of sales and selling, general and administrative expenses	26,106	4,783	4,273	35,162	572	35,734
Operating loss	(446)	(697)	(304)	(1,447)	(842)	(2,289)
Identifiable assets	32,227	6,585	6,591	45,403	8,482	53,885
Depreciation and amortization	1,137	178	363	1,678	61	1,739
Capital expenditure	877	256	378	1,511	33	1,544

	Thousands of U.S. dollars					
2002	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
Sales to third parties	$ 192,142	$ 30,184	$ 28,668	$ 250,994	$ —	$ 250,994
Intersegment sales and transfers	428	480	1,118	2,026	(2,026)	—
Total sales	192,570	30,664	29,786	253,020	(2,026)	250,994
Cost of sales and selling, general and administrative expenses	195,917	35,895	32,067	263,879	4,293	268,172
Operating loss	(3,347)	(5,231)	(2,281)	(10,859)	(6,319)	(17,178)
Identifiable assets	241,854	49,418	49,463	340,735	63,655	404,390
Depreciation and amortization	8,533	1,336	2,724	12,593	458	13,051
Capital expenditure	6,582	1,921	2,837	11,340	247	11,587

2001	Millions of yen					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 32,926	¥ 6,707	¥ 5,078	¥ 44,711	¥ —	¥ 44,711
Intersegment sales and transfers	165	66	556	787	(787)	—
Total sales	33,091	6,773	5,634	45,498	(787)	44,711
Cost of sales and selling, general and administrative expenses	31,057	6,461	5,146	42,664	477	43,141
Operating income	2,034	312	488	2,834	(1,264)	1,570
Identifiable assets	39,226	8,092	8,687	56,005	11,688	67,693
Depreciation and amortization	1,109	172	327	1,608	64	1,672
Capital expenditure	1,519	253	475	2,247	27	2,274

2001	Thousands of U.S. dollars					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
Sales to third parties	$ 247,100	$ 50,334	$ 38,108	$ 335,542	$ —	$ 335,542
Intersegment sales and transfers	1,238	495	4,173	5,906	(5,906)	—
Total sales	248,338	50,829	42,281	341,448	(5,906)	335,542
Cost of sales and selling, general and administrative expenses	233,073	48,488	38,619	320,180	3,580	323,760
Operating income	15,265	2,341	3,662	21,268	(9,486)	11,782
Identifiable assets	294,379	60,728	65,193	420,300	87,715	508,015
Depreciation and amortization	8,323	1,291	2,454	12,068	480	12,548
Capital expenditure	11,399	1,899	3,565	16,863	203	17,066

(b) Geographical Segment Information

2002	Millions of yen						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 20,574	¥ 3,216	¥ 3,893	¥ 5,762	¥ 33,445	¥ —	¥ 33,445
Interarea sales and transfers	5,275	410	29	6,656	12,370	(12,370)	—
Total sales	25,849	3,626	3,922	12,418	45,815	(12,370)	33,445
Cost of sales and selling, general and administrative expenses	27,319	4,148	4,486	12,154	48,107	(12,373)	35,734
Operating income (loss)	(1,470)	(522)	(564)	264	(2,292)	3	(2,289)
Identifiable assets	39,200	4,604	3,966	11,024	58,794	(4,909)	53,885

2002	Thousands of U.S. dollars						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	$ 154,402	$ 24,135	$ 29,215	$ 43,242	$ 250,994	$ —	$ 250,994
Interarea sales and transfers	39,587	3,077	218	49,951	92,833	(92,833)	—
Total sales	193,989	27,212	29,433	93,193	343,827	(92,833)	250,994
Cost of sales and selling, general and administrative expenses	205,021	31,129	33,666	91,212	361,028	(92,856)	268,172
Operating income (loss)	(11,032)	(3,917)	(4,233)	1,981	(17,201)	23	(17,178)
Identifiable assets	294,184	34,552	29,764	82,731	441,231	(36,841)	404,390

2001	Millions of yen						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 32,815	¥ 3,388	¥ 2,631	¥ 5,877	¥ 44,711	¥ —	¥ 44,711
Interarea sales and transfers	7,573	385	159	10,415	18,532	(18,532)	—
Total sales	40,388	3,773	2,790	16,292	63,243	(18,532)	44,711
Cost of sales and selling, general and administrative expenses	36,447	4,528	3,304	15,286	59,565	(16,424)	43,141
Operating income (loss)	3,941	(755)	(514)	1,006	3,678	(2,108)	1,570
Identifiable assets	50,139	5,890	4,316	11,326	71,671	(3,978)	67,693

2001	Thousands of U.S. dollars						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	$ 246,266	$ 25,426	$ 19,745	$ 44,105	$ 335,542	$ —	$ 335,542
Interarea sales and transfers	56,833	2,889	1,193	78,162	139,077	(139,077)	—
Total sales	303,099	28,315	20,938	122,267	474,619	(139,077)	335,542
Cost of sales and selling, general and administrative expenses	273,523	33,981	24,795	114,718	447,017	(123,257)	323,760
Operating income (loss)	29,576	(5,666)	(3,857)	7,549	27,602	(15,820)	11,782
Identifiable assets	376,278	44,203	32,390	84,998	537,869	(29,854)	508,015

(c) Overseas Sales Information

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended 31st March, 2002 and 2001, were summarizaed as follows:

	Millions of Yen			
	America	Europe	Asia	Total
2002				
Overseas sales	¥ 3,541	¥ 4,057	¥ 8,621	¥ 16,219
Consolidated net sales	—	—	—	33,445
The ratio of overseas sales to consolidated net sales	10.6%	12.1%	25.8%	48.5%
2001				
Overseas sales	¥ 3,597	¥ 2,835	¥ 11,020	¥ 17,452
Consolidated net sales	—	—	—	44,711
The ratio of overseas sales to consolidated net sales	8.0%	6.3%	24.6%	38.9%

	Thousands of U.S. dollars			
	America	Europe	Asia	Total
2002				
Overseas sales	$ 26,574	$ 30,447	$ 64,698	$ 121,719
Consolidated net sales	—	—	—	250,994
The ratio of overseas sales to consolidated net sales	10.6%	12.1%	25.8%	48.5%
2001				
Overseas sales	$ 26,994	$ 21,276	$ 82,702	$ 130,972
Consolidated net sales	—	—	—	335,542
The ratio of overseas sales to consolidated net sales	8.0%	6.3%	24.6%	38.9%

Report of Independent Public Accountants

To the Shareholders and the Board of Directors of Sodick Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Sodick Co., Ltd. (a Japanese corporation) and consolidated subsidiaries as of 31st March, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended 31st March, 2002, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards 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 consolidated financial position of Sodick Co., Ltd. and consolidated subsidiaries as of 31st March, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the two years in the period ended 31st March, 2002, in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph and for the change made as at 1st April, 2000, in the method of business segmentation referred to Nature of Business Segment Infomation.

As explained in Note 2 Sodick Co., Ltd. and consolidated subsidiaries prospectively adopted new Japanese accounting standerds for financial instruments and employees' retirement benefits and revised Japanese accounting standards for foreign currency translation in the year ended 31st March, 2001.

Also, in our opinion, the U. S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
27th June, 2002

Main Products

NC die-sinking EDM
FINE Sodick AQ, AM and A Series

NC wire-cut EDM
FINE Sodick AQ, AP, ASX and EXC Series

High-speed Small Hole Drilling EDM
K Series

Machining Center
MC Series

Automatic 3D Mold Design System (CAD/CAM) and Computer Softwares for FA network applications
DiPro Series

Injection Molding Machines
TUPARL Series

Linear Servo Motor and Motion Controller
SL, ST and SC Series

Pressing Center
SP Series

High-quality Ceramics
FINEXCERA

Board of Directors

(As of 27th June, 2002)

Chairman
Masaaki Suzuki

President
Shigeo Shioda

Vice-President
Yoshitaka Maruta

Senior Managing Director
Akio Hosaka
Shigeru Fujimaki

Managing Directors
Takashi Yamamoto
Kazuo Kato

Directors
Takeshi Ichikawa
Kousaku Karato
Keisuke Takagi

Corporate Standing Statutory Auditor
Haruhiko Nishijima

Corporate Statutory Auditors
Sadao Simoyama
Masao Degura

Company Location

Sodick Co., Ltd.
3-12-1 Nakamachidai, Tsuzuki-ku,
Yokohama, Kanagawa 224-8522, Japan
Tel: 045-942-3111
Fax: 045-943-7881
E-mail: desk@sodick.co.jp
Internet URL: http://www.sodick.co.jp

Overseas Subsidiaries

Sodick Europe GmbH
Nordendstrasse 57-61, D-64546, Moerfelden-Walldorf,
Germany
Tel: 49-610-596190
Fax: 49-610-5961921

Sodick (H.K.) Co., Ltd.
G5, Ground Floor, Trade Square,
681 Cheung Sha Wan Road,
Kowloon, Hong Kong
Tel: 852-2721-0200
Fax: 852-2612-0562

Sodick Singapore Pte., Ltd.
71 Ubi Crescent, #01-03/04,
Excalibur Centre,
Singapore 408571
Tel: 65-746-9089
Fax: 65-746-9048

Sodick Electromechanical (Shanghai) Co., Ltd.
The 1st Floor of No.190, Hedan Road, Bonded Area,
Waigaoqiao, Shanghai, 200131, P.R.China
Tel: 86-21-58660666
Fax: 86-21-58663381

Sodick International Trading (Shenzhen) Co., Ltd.
3-127 Honghua Road, International Commerce
Center, Futian Free Trade Zone,
Shenzhen, P.R.China
Tel: 86-755-83595937
Fax: 86-755-83591751

Suzhou Sodick Special Equipment Co., Ltd.
18 Zhuyuan Road, New District,
Suzhou, 215011, P.R. China
Tel: 86-512-68253533
Fax: 86-512-68253405

Sodick (Thailand) Co., Ltd.
60/84 Moo-19, Soi-19, Navanakorn Industrial Estate
Zone 3,
Phaholyothin Road,
Klongneung, Klongluang,
Patumthani 12120,
Thailand
Tel: 66-2-529-2450~6
Fax: 66-2-529-2459

Sodick Inc.
851 Feehanville Drive,
Mount Prospect, IL. 60056, U.S.A.
Tel: 1-847-759-6700
Fax: 1-847-759-6701

Sodick America Corporation
2182 Bering Drive, San Jose,
CA 95131, U.S.A.
Tel: 1-408-943-1693
Fax: 1-408-943-1694

Sodick (Taiwan) Co., Ltd.
No. 138, Lane52, Pa-Teh Road,
Lin-Kou Hsiang,
Taipei Hsian, Taiwan, R.O.C.
Tel: 88-6-2-2600-6648
Fax: 88-6-2-2609-7224

Sodick (Malaysia) Sdn., Bhd.
No.18 Jalan Rotan Tanah Taman Ria,
Plentong 81750 Masai, Johor Bahru Takzim,
Malaysia
Tel: 60-7-388-8661
Fax: 60-7-388-8663

Shanghai Sodick Software Co., Ltd.
471 Gui Ping Road, Xu Hui District, Shanghai,
200233, P.R. China
Tel: 86-21-64851533
Fax: 86-21-64851785

Suzhou Sodick-Sanguong Machinery Electric Co., Ltd.
158 Chuangye Road, New District,
Suzhou, 215011, P.R. China
Tel: 86-512-68252800
Fax: 86-512-68253925

Suzhou STK Foundry Co., Ltd.
37 Xiyuan Road, Suzhou, 215008, P.R. China
Tel: 86-512-67232998
Fax: 86-512-67231461

Sodick Engineering Service (Thailand) Co., Ltd.
344/1 344/4 Soi Soonvijai 4, Rama 9 Road, Bangkapi,
Huaykwang, Bangkok 10320, Thailand
Tel: 66-2-716-8350
Fax: 66-2-716-8360

3-12-1 Nakamachidai, Tsuzuki-Ku
Yokohama, Kanagawa 224-8522,
Japan
Tel : 045-942-3111
URL : http://www.sodick.co.jp

This reports printed on
the tree free paper for the
environmental conservation

Printed in Japan