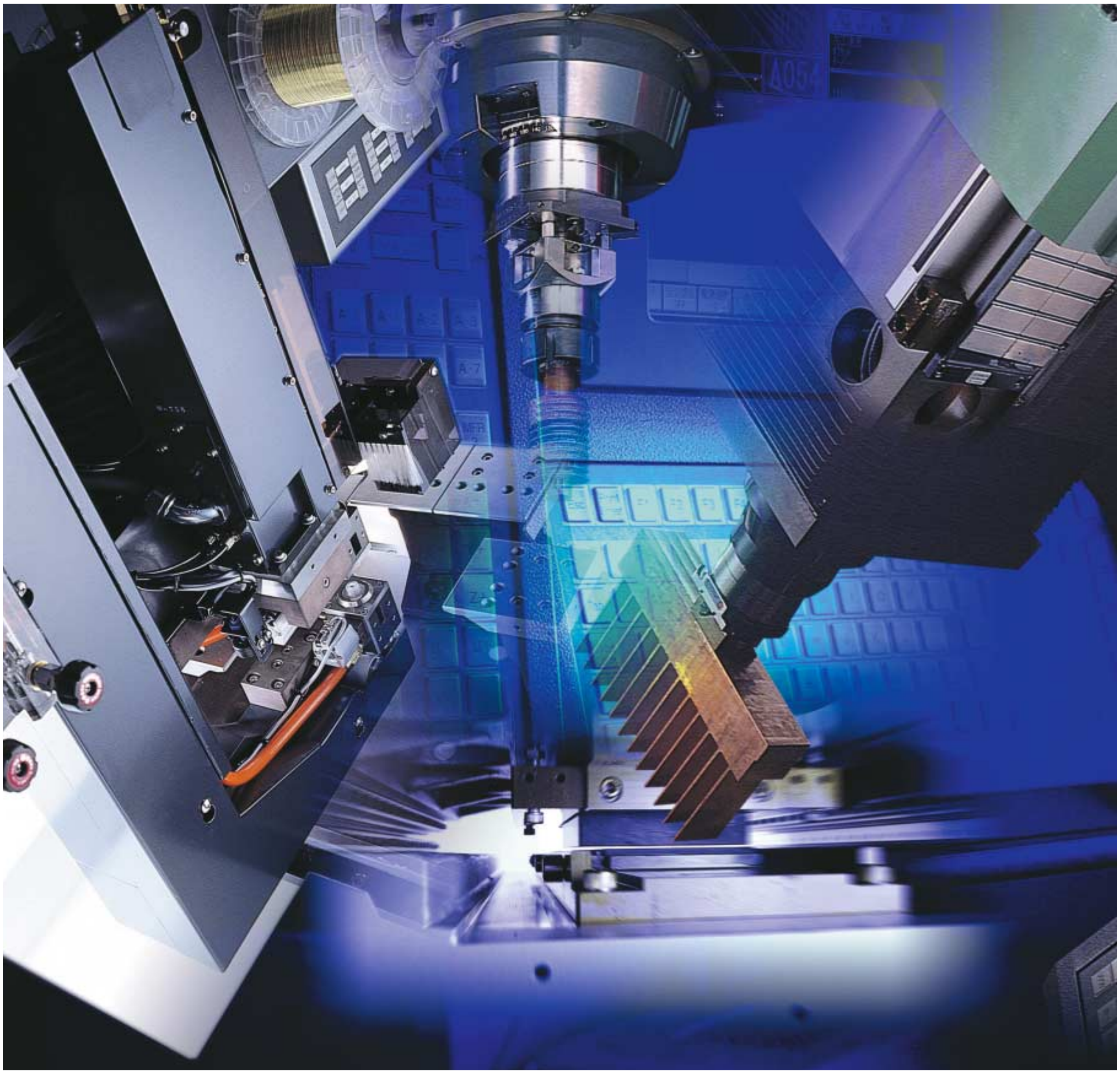
Report and Accounts 2003



Sodick Co., Ltd.

Brief introduction of Sodick Co., Ltd.

The Electrical Discharge Machine (EDM) plays a very important role in the metal cutting industry. The applications of the EDM machine are being widely expanded to various fields of the metal cutting needs such as die and mold production and productions of parts and components which are difficult to be machined by means of conventional machine tools. The EDM is used not only in the die and mold industry but also in the aerospace industry, medical equipment industry and other high tech industries.

Sodick is the first EDM machine builder that developed the NC(Numerical Control) EDM machine and introduced it to the market in 1976. Since inception, Sodick has been concentrating on developing the NC-EDM machines. The NC system has been advanced to the today's state-of-the art CNC (computerized Numerical Control) system. The CNC is a brain of the EDM.

Sodick develops and designs the CNC system that is integrated to the unparalleled EDM technology developed by Sodick and constructs the CNC-EDM machine.

After successful development of linear motor drive system, Sodick started manufacturing the linear motor driven CNC-EDM as the first EDM manufacturer in the EDM machine building industry. The linear motor driven CNC-EDM can enhance cutting speed and machining accuracy remarkably as compared to traditional screw and motor drive system.

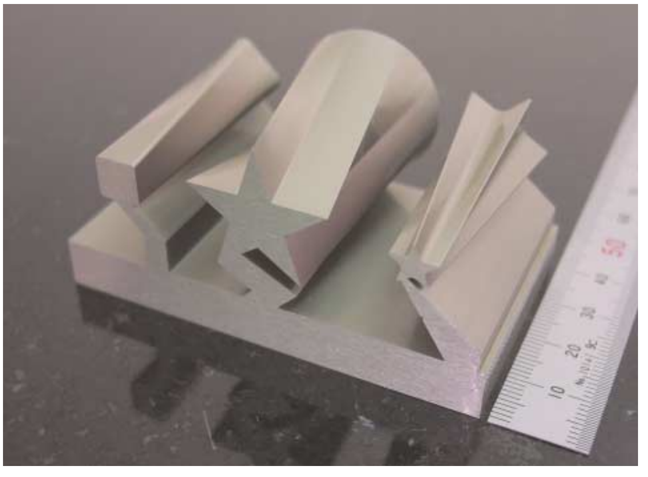
In addition to the advanced CNC-EDM machine incorporating the linear motor drive system, Sodick manufactures CNC machining center which is constructed based on the experienced machine building technology and the accumulated CNC technology.

Sodick is quite active to develop a micro machining method in combination with nanotechnology in order to meet with intensive requirements from the high tech industry.

Sodick and its subsidiaries offer a variety of the industrial equipment such as 3D CAD/CAM programming system and the advanced plastic injection machine that enables to produce high accuracy plastic products to be required by the high technology industry.

Sodick continues to develop new products through active and dynamic research and development and to meet with the market needs.

Contents



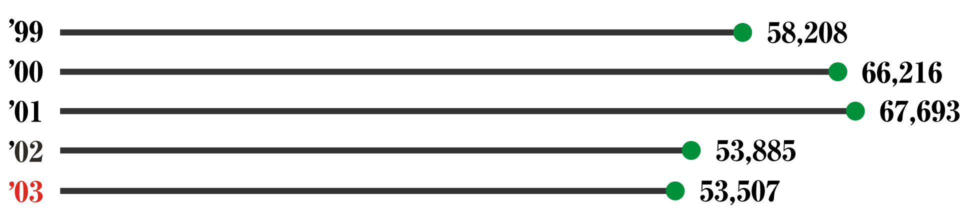
Financial Highlights (Consolidated)

Sodick Co.,Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2003 and 2002

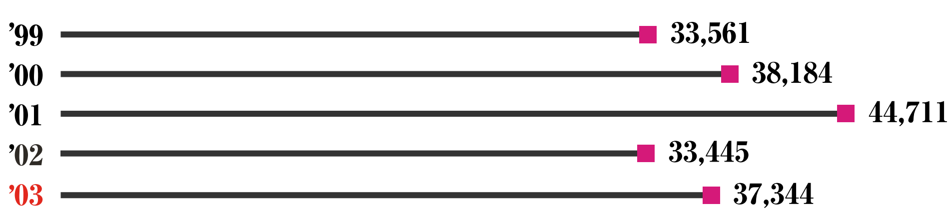
	Millions of yen		Thousands of U.S. dollars*	
	2003	2002	**2003**	2002
Net sales	**¥37,344**	¥33,445	**$310,682**	$278,245
Operating income (loss)	**2,159**	(2,289)	**17,962**	(19,043)
Net loss	**840**	4,145	**6,988**	34,484
Total assets	**53,507**	53,885	**445,150**	448,294
Net loss per share				
	Yen		U.S. dollars	
Basic	**¥20.57**	¥101.49	**$0.17**	$0.84
Diluted	—	—	—	—
Cash dividends applicable to the year	—	—	—	—

*For reference only, U.S. dollar figures have been converted from yen at the rate of ¥120.2 to US$1.00, the approximate rate in effect on 31st March, 2003.

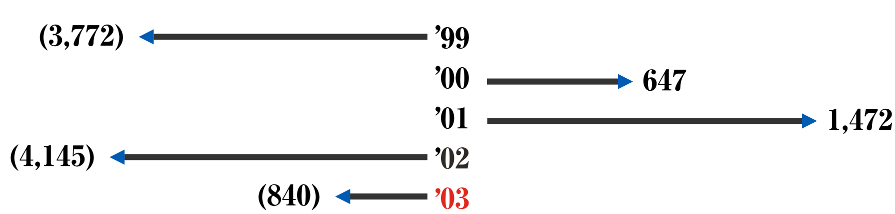
Total Assets
(Millions of Yen)



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, 2003.

(1) Achievement

The Japanese government declared that the Japanese economic condition had bottomed-out in May last year, but in this consolidated fiscal year in Japan our company still faced a harsh environment. We could not escape the vicious circle of the aggravation of the employment environment due to assets deflation and reduction in private sector capital investment.

In overseas countries, although there was economic expansion in East Asian countries including China, North America Europe continued to remain in the sluggish economical cicumstance. In addition, the state of the world was tense due to the war on Iraq, with increased uncertainty in world economic conditions.

In the machine industry, each prospective customer clearly recognized that investment in new machines is indispensable for improving productivity. However, since cash flow did not improve under the above-mentioned economic conditions, the trend toward downward revising and postponing investment plan strengthened, severely curtailing our business results.

Under such environment, our company group (our company, consolidated subsidiares, and companies to which the equity method was applied), while striving to open up potential demand, pushed forward in the field of the next-generation technology. We focused on successfully developing nano technology machine and assertively promoting our new products. Our newly developed products were featured in various machine exhibitions including the Japan International Machine Tool Trade Fair in October, and the International Plastics Fair in November, held in Japan last year.

In overseas countries, we strove to increase earnings by establishing sales centers in Shanghai and Tengin in China where new plant investment is flourishing, for example.

As a result of these efforts, our consolidated sales during this fiscal year reached 37,344 million yen, an increase of 3,899 million yen (11.7%) compared with the previous year.

Although in terms of profits and losses we achieved a substantial, we reckoned up 840 million yen in consolidation net losses during this fiscal year.

The situation for each product sector is as follows:

- Machine tool business: In this business, we strove to reinforce our domestic sales activies and accommodate increased demand in China. This yielded some fruits, but there was also a dull tone in domestic demand because of the deflation economy. As a result, the sales amount of this sector figured 26,310 million yen, an increase of 650 million yen (2.5%) compared with the previous year.
- Industrial machine business: In this sector, thanks to promoting the sales of our highly technically evaluated small size and precision plastic injection molding machines, we enjoyed especially good sales of injection molding machines that are adapted to manufacture plastic lenses loaded on cellular phones. As a result, we reckoned up a sales amount of 6,451 million yen, an increase of 2,365 million yen (57.9%) compared with the previous year.
- Other business ... In this sector, the sales were up in our newly-formed precision trust machining business and software business. Thanks to this, we earned 4,765 million yen, an increase of 796 million yen (20.1%) compared with the previous year.

Our situation by region are as follows:

- Japan ... The Japanese Government declared that the Japanese economy had bottomed out in May last year, some enterprises in the electric device related industry resumed, and the yen was up during and after the summer. Nevertheless, the problem of financial institution’s bad debts made a come-back, and than investment in the capital equipment slowed, putting a damper on sales.

Faced with such business conditions, our consolidated companies group promoted positive strategies to sales activities and develop new products.

As a result, sales in this region reached 30,265 million yen, an increase of 4,416 million yen (17.1%) compared with the previous year.

- North and South America ... In this region, a distrust in the business-accounting system slowed down the American economy, which led to the uncertainty in economies in South American countries.

  Faced with such challenging conditions, we have taken measures to enhance the sales activities in machine tool business and industrial machine business. As a result, the sales amount of this region figured 2,915 million yen, a decrease of 711 million yen (19.6%) compared with the previous year.

- Europe ... In this region, plant investment increased steadily mainly in South European countries after the introduction of the single currency Euro. In addition, our machines with linear servo motor driven machine lead the industry, and enjoy a very high technical reputation. Nevertheless, a decline in business activity started in the second half of this consolidated fiscal year.

  As a result, the sales amount in this region reached 3,851 million yen, a decrease of 71 million yen (1.8%) compared with the previous year.

- Asia ... Economic growth is continuing in particular in China, and resulting in dramatic increase in the investment in manufacturing. We could incease our earnings in Korea, too, thanks to plant investment in the electronic device related industry and the liquid crystal related industry in particular.

  As a result, the sales amount in this region figured at 14,008 million yen, an increase of 1,590 million (12.8%) compared with the previous year.

CNC die-sinking EDM「AP1L」

(2) Outlook for the next fiscal year

The general economical forecast for Japan continues to be the most severe ever. The main factors are sluggish consumer spending due to insecurity about the financial system, a drop in earnings, and continued assets deflation. Plant investment in private companies will continue to fall off.

We must conclude then that manufacturing companies, the costomers of our products, will transplant their prodution facilites to East Asian countries, and to China in particular. Plant investment policies will change as EMS (Electric Manufacturing Service) grows focused on electric machines and device industries. The time interval between boom and depression will be shortened with these changes in plant investment policy. Our company group will accordingly further strengthen our management foundation by wrestling with structural reform to cope with changes in the market, and effectively putting our potential resources effectively and adequately.

Concretely, in light of market trends, we will strive to expand our market for high value added new products such as CNC-EDMs with three dimensional functions. We will also develop new products incorporating technology capable of high level factory automation to cope with IT (information technology) factories. Finally, we will expand our nano technology business, as this is regarded as an essential next generation technology.

Furthermore, in China economic growth is remarkable. Here we are becoming well known as the leading manufacture in the establishment of a business unit system in the machine tool industry.

In order to strengthen our business operations in china, we are now preparing to establish a holding company in Hong Kong. This will help to oversee our business in China, speed up managerial decisions and raise local funds.

In addition, in the machine industry, to which our company belongs, innovation races along and demand also fluctuates at a high speed. We understand that "speed" management is an important factor and a very basic policy for the corporate governance of our company.

Therefore, we have established a more strong management system and enriched the system to comply with customer requirements. We have reinforced the board of corporate auditors and have wrestled with completing corporate governance from early on, by extending positive investor relation activities to domestic and foreign investors.

From now on, we will place importance on consolidating management, strengthening the function of the board of directors to fulfill the "social and public mission" of our company, and enhancing corporate governance. We will also strive to flesh out the business management system of the company by introducing a multi-platform operational control system for each of our group companies.

In the long-term, we will focus on the East Asian region where we enjoy a reputation as an industry pioneer and great demand for our products. Our group companies will produce products in Thailand and China, and put our resources there, more and more.

We will strive to find new markets for our unique nano technology machines. We will forge ahead in blue-ray (blue laser) technology, which is regarded as the next generation large capacity memory device technology, and optical high speed communication. We will also promote our new products such as CNC-EDMs with the world's first 3-dimensional function, linear motor driven CNC machining centers, and high precision injection molding machines. Furthermore, we will open up a new market for medical equipment.

Into the future, we will continue to ride the wave of globalization, establishing our stronghold in the area of next generation productive goods, developing our company group into these high value added businesses, and expanding our business to overseas countries.

We will do our best to enrich the companies of the Sodick group to lay a foundation for the future in 2003.

President

Shigeo Shioda
President

Company Outline
EDM Market in Economically Active China

Chinese economic growth is remarkable. The growth rate of GDP during the last 10 years in China is 23.2% compared to the minus 4% due to economic stagnation in Japan. Not only the purchasing power for general consumption goods grew, but also consumption of machine tools jumped to the top in the world at last in 2002. That is China has taken the leading role in mass production over from Japan.

The start of Sodick's business in China dates way back to the time when Sodick exhibited a CNC-EDM (electric discharge machine) at the International Mold Making Machine Exhibition held in Shanghai. Taking this opportunity, our association with Shanghai Jiao Tong University started in Shanghai and developed into an association with the China Government Industrial Bureau. The Chinese Government clearly recognizes CNC-EDMs as mother machines for nurturing the foundation of economic development and showed a high interest in CNC-EDMs capable of performing highly accurate machining in particular.

Before long, while the "reform and open-door" policy by the Chinese Government increased demand for CNC-EDMs, Sodick's China connections also spread. We established a liaison office in 1987 and Shanghai Sodick Software Co. Ltd., a joint venture with Shanghai Jiao Tong University, in 1991 when foreign funding was allowed in to develop CNC application software and FA systems. With this as a start, Suzhou Sodick Special Equipment Co., Ltd. was established in 1994 to locally produce CNC-EDMs in the Suzhou City New District. Since starting operations, this manufacturing subsidiary company has produced 2,500 sets of EDMs in all as of February, 2003.

Sodick Electromechanical (Shanghai) Co., Ltd. (P. R. China)

On the other hand, we established Beijing Sodick Machinery-Electronics Co., Ltd. in Beijing in 1994 as a sales network center for CNC EDMs over all of China, and Sodick Electromechanical (Shanghai) Co., Ltd. in Shanghai in 1997.

In Hong Kong, too, we bought a machine trading company in 1997 and changed its company name to Sodick (H. K.) Co., Ltd. Now, the company is in full blast. Through these activities, sales networks in the north, middle and south China were established, and are now relied upon not only by Japanese enterprises penetrating China but also by Chinese local leading companies. As a result, Sodick's product share in the market for high quality EDMs in China has reached as high as 50%.

No Japanese machine tool manufacturing companies besides Sodick have built such a firm business base in China. Sodick is considered a model case of how to succeed in China.

The die industry market in China, which contains many CNC EDM customers, grew to 4.5 billion US dollars in 2002. This is an actual increase of five times over the past ten years. This is comparable to the growth of the electric machinery industry and car industry in China. And the prospects only grow better, with China's formal affiliation with the WTO and the economic growth expected with the Beijing Olympic Games in 2008.

Thus, we are preparing to establish Sodick China Holding Co., Ltd. in Central Hong Kong to oversee the above-mentioned subsidiary companies and further propel local development, manufacturing and sales. We intend to miss not a single business opportunity. Since this scheme includes the raising of local funds, we are planning to list this holding company on the Hong Kong Stock Exchange. Just as we announced this plan in January of 2003, the Government of the Hon Kong Special Administrative Regions indicated its welcome of this scheme.

Sodick will grow together with the growth of China in 21st century.

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

Consolidated Balance Sheets

Sodick Co., Ltd. and Consolidated Subsidiaries
31st March, 2003 and 2002

	Millions of Yen		Thousands of U.S.Dollars (Note 1)	
ASSETS	**2003**	2002	**2003**	2002
Current assets :				
Cash and cash equivalents (Notes 2 and 8)	**¥ 7,921**	¥ 4,627	**$ 65,898**	$ 38,494
Time deposits	**369**	927	**3,070**	7,712
Trade notes and accounts receivable (Notes 2 and 8)	**13,360**	13,371	**111,148**	111,240
Less-allowance for doubtful accounts (Note 2)	**(1,461)**	(1,242)	**(12,155)**	(10,333)
Inventories (Note 2)—				
Finished goods	**3,202**	4,417	**26,639**	36,747
Work in process and raw materials	**6,272**	5,679	**52,180**	47,246
Other current assets (Notes 6, 8 and 13)	**3,595**	4,177	**29,909**	34,750
Total current assets	**33,258**	31,956	**276,689**	265,856
Property, plant and equipment, at cost (Notes 2 and 8):				
Land	**7,730**	7,760	**64,309**	64,559
Buildings and structures	**12,451**	12,745	**103,586**	106,031
Machinery and equipment	**8,311**	8,617	**69,143**	71,688
Leased equipment	**2,288**	2,343	**19,035**	19,493
Construction in progress	**17**	21	**141**	175
	30,797	31,486	**256,214**	261,946
Less-accumulated depreciation	**(13,624)**	(13,261)	**(113,344)**	(110,324)
	17,173	18,225	**142,870**	151,622
Investments and other assets :				
Investment securities (Notes 2, 3 and 8)	**1,140**	1,483	**9,484**	12,338
Other (Notes 2 and 6)	**1,936**	2,221	**16,107**	18,478
	3,076	3,704	**25,591**	30,816
Total assets	**¥ 53,507**	¥ 53,885	**$ 445,150**	$ 448,294

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003	Thousands of U.S. Dollars (Note 1) 2002
Current liabilities :				
Short-term borrowings (Note 7)	**¥ 15,425**	¥ 15,013	**$ 128,328**	$ 124,900
Current portion of long-term debt (Note 8)	**5,944**	2,222	**49,450**	18,486
Trade notes and accounts payable (Notes 2 and 13)	**6,839**	5,460	**56,897**	45,424
Income taxes payable (Notes 2 and 6)	**126**	88	**1,048**	732
Accrued expenses and other current liabilities	**2,911**	3,048	**24,218**	25,358
Total current liabilities	**31,245**	25,831	**259,941**	214,900
Long-term liabilities :				
Long-term debt (Note 8)	**9,412**	14,652	**78,303**	121,896
Liability for employees' severance and retirement benefit (Notes 2 and 9)	**258**	121	**2,146**	1,007
Other long-term liabilities	**516**	306	**4,293**	2,546
Total long-term liabilities	**10,186**	15,079	**84,742**	125,449
Minority Interest	**2,337**	2,002	**19,443**	16,655
Commitments and contingent liabilities (Note 12)				
Shareholders' Equity (Note 10) :				
Common stock :				
Authorised- -98,000,000 shares				
Outstanding- -40,845,097 shares	**14,628**	14,628	**121,697**	121,697
Additional paid-in capital	**2,102**	6,386	**17,488**	53,128
Accumulated deficit	**(6,169)**	(9,613)	**(51,323)**	(79,975)
Net unrealized holding losses on securities	**(193)**	(41)	**(1,606)**	(340)
Foreign currency translation adjustments	**(623)**	(385)	**(5,183)**	(3,203)
Less-treasury stock, at cost (Note 2) :				
21,490 shares at 31st March, 2003 and 5,865 shares at 31st March, 2002	**(6)**	(2)	**(49)**	(17)
Total shareholders' equity	**9,739**	10,973	**81,024**	91,290
Total liabilities and shareholders' equity	**¥ 53,507**	¥ 53,885	**$ 445,150**	$ 448,294

Consolidated Statements of Operations

Sodick Co., Ltd. and Consolidated Subsidiaries

For the years ended 31st March 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2003	2002	**2003**	2002
Net sales	**¥ 37,344**	¥ 33,445	**$ 310,682**	$ 278,245
Cost of sales	**24,715**	24,572	**205,616**	204,426
Gross profit	**12,629**	8,873	**105,066**	73,819
Selling, general and administrative expenses	**10,470**	11,162	**87,104**	92,862
Operating income (loss)	**2,159**	(2,289)	**17,962**	(19,043)
Other income (expenses) :				
Interest expense	**(758)**	(851)	**(6,306)**	(7,080)
Interest and dividend income	**73**	125	**607**	1,040
Exchange gains (losses), net	**(643)**	1,096	**(5,349)**	9,118
Loss from valuation of investment securities	**(265)**	(1,636)	**(2,205)**	(13,611)
Gain on sale of securities of affiliated company	—	264	—	2,196
Additional retirement benefits for employees	—	(259)	—	(2,155)
Retirement benefits for directors	**(401)**	—	**(3,336)**	—
Loss from settlement of litigation	**(476)**	—	**(3,960)**	—
Other, net	**31**	(372)	**258**	(3,094)
Total	**(2,439)**	(1,633)	**(20,291)**	(13,586)
Loss before income taxes and minority interest	**(280)**	(3,922)	**(2,329)**	(32,629)
Income taxes (Notes 2 and 6) :				
Current	**135**	164	**1,123**	1,364
Deferred	**(21)**	200	**(175)**	1,664
Total	**114**	364	**948**	3,028
Net loss before minority interest	**(394)**	(4,286)	**(3,277)**	(35,657)
Minority interest	**(446)**	141	**(3,711)**	1,173
Net loss	**¥ (840)**	¥ (4,145)	**$ (6,988)**	$ (34,484)

	Yen		U.S. dollars	
Net loss per share (Note 11) :				
Basic	**¥ (20.57)**	¥ (101.49)	**$ (0.17)**	$ (0.84)
Diluted	—	—	—	—

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 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2003	2002	**2003**	2002
Common stock:				
Beginning balance	**¥ 14,628**	¥ 14,628	**$ 121,697**	$ 121,697
Ending balance	**¥ 14,628**	¥ 14,628	**$ 121,697**	$ 121,697
Additional paid-in capital:				
Beginning balance	**¥ 6,386**	¥ 6,386	**$ 53,128**	$ 53,128
Transfer to accumulated deficit	**(4,284)**	—	**(35,640)**	—
Ending Balance	**¥ 2,102**	¥ 6,386	**$ 17,488**	$ 53,128
Accumulated deficit:				
Beginning balance	**¥ (9,613)**	¥ (5,190)	**$ (79,975)**	$ (43,178)
Dividends	—	(204)	—	(1,697)
Bonus to directors and corporate auditors	—	(74)	—	(616)
Transfer from additional paid-in capital	**4,284**	—	**35,640**	—
Net loss	**(840)**	(4,145)	**(6,988)**	(34,484)
Ending balance	**¥ (6,169)**	¥ (9,613)	**$ (51,323)**	$ (79,975)
Net unrealized holding losses on securities :				
Beginning balance	**¥ (41)**	¥ (941)	**$ (340)**	$ (7,828)
Decrease (Increase) in unrealized holding losses on securities	**(152)**	900	**(1,266)**	7,488
Ending balance	**¥ (193)**	¥ (41)	**$ (1,606)**	$ (340)
Foreign currency translation adjustment:				
Beginning balance	**¥ (385)**	¥ (660)	**$ (3,203)**	$ (5,491)
Adjustments from translation of foreign currency financial statements	**(238)**	275	**(1,980)**	2,288
Ending balance	**¥ (623)**	¥ (385)	**$ (5,183)**	$ (3,203)
Treasury stock:				
Beginning balance	**¥ (2)**	¥ (1)	**$ (17)**	$ (8)
Increase	**(4)**	(1)	**(32)**	(9)
Ending balance	**¥ (6)**	¥ (2)	**$ (49)**	$ (17)

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 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2003	2002	**2003**	2002
Cash flows from operationg activities :				
Loss before income taxes and minority interest	¥ **(280)**	¥ (3,922)	$ **(2,329)**	$ (32,629)
Adjustments to reconcile loss before Income taxes and minority interest to net cash provided by operating activities :				
Depreciation and amortization	**1,761**	1,739	**14,651**	14,468
Increase in allowance for doubtful accounts	**306**	829	**2,546**	6,897
Interest and dividend income	**(73)**	(125)	**(607)**	(1,040)
Interest expenses	**758**	851	**6,306**	7,080
Exchange gain	**(56)**	(363)	**(466)**	(3,020)
Equity losses of affiliated companies	**166**	219	**1,381**	1,822
Loss from valuation of investment securities	**265**	1,636	**2,205**	13,611
Gain on sale of secuties of affiliated companies	—	(264)	—	(2,196)
Loss on disposal or sale of fixed assets	**35**	199	**291**	1,656
Retirement benefits for directors and corporate auditors	**401**	—	**3,336**	—
Loss from settlement of litigation	**476**	—	**3,960**	—
Additional retirement benefits for employees	—	259	—	2,155
Decrease in trade notes and accounts receivable	**175**	8,679	**1,456**	72,205
Decrease in inventories	**228**	3,881	**1,897**	32,288
Increase (Decrease) in trade payables	**1,553**	(6,464)	**12,920**	(53,777)
Decrease in discounted trade notes	**(376)**	(3,510)	**(3,128)**	(29,201)
Decrease in other payables	**(29)**	(503)	**(241)**	(4,185)
Bonus to directors and corporate auditors	—	(74)	—	(616)
Others net	**684**	495	**5,689**	4,116
Sub total	**5,994**	3,562	**49,867**	29,634
Interest and dividends received	**73**	127	**607**	1,056
Interest paid	**(771)**	(869)	**(6,414)**	(7,230)
Retirement payments for directors and corporate auditors	**(401)**	—	**(3,336)**	—
Payments for settlement of litigation	**(476)**	—	**(3,960)**	—
Payments for additional retirment benefits for employees	—	(186)	—	(1,547)
Income taxes paid	**(112)**	(477)	**(932)**	(3,968)
Refund of income taxes	**89**	—	**740**	—
Net cash provided by operating activities	¥ **4,396**	¥ 2,157	$ **36,572**	$ 17,945

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

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2003	2002	**2003**	2002
Cash flows from investing activities :				
Decrease in time deposits	**¥ 558**	¥ 364	**$ 4,642**	$ 3,028
Payments for purchases of property, plant and equipment	**(935)**	(1,368)	**(7,778)**	(11,380)
Proceeds from sales of property, plant and equipment	**245**	307	**2,038**	2,554
Payments for acquisition of intangible assets	**(148)**	(165)	**(1,231)**	(1,373)
Payments for acquisition of investment securities	**(58)**	(365)	**(483)**	(3,037)
Proceeds from sales of investment securities	**7**	1,366	**58**	11,365
Payments for acquisition of subsidiaries and affiliated companies	**(39)**	(105)	**(324)**	(874)
Proceeds from sales of subsidiaries and affiliated companies	**—**	320	**—**	2,662
Payments on loan receivables	**—**	(293)	**—**	(2,438)
Collection of loan receivables	**161**	27	**1,339**	225
Other net	**158**	—	**1,315**	—
Net cash (used in) provided by investing activities	**(51)**	88	**(424)**	732
Cash flows from financing activities :				
Changes in short-term borrowings	**763**	(583)	**6,348**	(4,850)
Proceeds from long-term debt	**1,988**	2,009	**16,539**	16,714
Repayments of long-term debt	**(2,509)**	(2,902)	**(20,874)**	(24,143)
Redemption of debenture bond	**(997)**	(3,000)	**(8,295)**	(24,959)
Proceeds from issuance of common stock to minority shareholders	**2**	320	**17**	2,662
Repayments of financial leases obligations	**(190)**	(232)	**(1,581)**	(1,930)
Dividends paid	**(29)**	(269)	**(241)**	(2,238)
Net cash used in financing activities	**(972)**	(4,657)	**(8,087)**	(38,744)
Effect of exchange rate on cash and cash equivalents	**(79)**	76	**(657)**	633
Net increase (decrease) in cash and cash equivalents	**3,294**	(2,336)	**27,404**	(19,434)
Cash and cash equivalents beginning balance	**4,627**	6,963	**38,494**	57,928
Cash and cash equivalents ending balance	**¥ 7,921**	¥ 4,627	**$ 65,898**	$ 38,494

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 official accouting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code and 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 consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English(with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S.dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31st March, 2003, which was ¥120.20 to U.S. $1. The convenience translations 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

Foreign currency receivables and payables are translated into Japanese yen at appropriate 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.

(d) Allowance for Doubtful Accounts

The Company and its consolidated 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 cost determined using the specific identification method. Raw materials are stated at cost, being determined by the first-in, first-out method.

(f) Securities

Based on the intent of holding, securities are classified 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, on (d) 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 component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average costs. 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 costs as incurred.

Major replacements and betterments are capitalized.

(h) Software Costs

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 provided at the greater of the amounts computed using (a) the ratio that current unit sales for a 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

Finance leases (excpet those that deem to transfer ownership of the leased property to the lessee) are accounted for in the same manner 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.

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, 2003 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

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, has been recognized as expenses in equal amounts over 5 years commencing with the year ended 31st March, 2001. Actuarial gains and losses are recognized as income or expenses using the declining-balance method over 10 years commencing with the following period.

(k) Research and Development

Research and development costs are charged to costs as incurred.

Total amounts charged to costs were ¥1,112 million ($9,251 thousand) and ¥1,131 million ($9,409 thousand) in 2003 and 2002, respectively.

(l) Income Taxes

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

(m) Derivatives and hedge accounting

The Company and its consolidated subsidiaries are required 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 statement of operations 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 on 31st March, 2002

As financial institutions in Japan were closed on 31st March, 2002, ¥109 million ($907 thousands) of trade notes receivable, ¥417 million ($3,469 thousands) of trade notes payable and ¥297 million ($2,471 thousands) of trade notes discounted on 31st March, 2002, were settled on the following business day, 1st April, 2002 and accounted for accordingly.

(o) Accounting standard for treasury stock and reversal of statutory reserves

Effective 1st April, 2002, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accunting Standards Board of Japan on 21st February, 2002). The adoption of the new accounting standard had no impact on the financial statments.

3. 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, 2003:

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

2003	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 2	¥ 2	¥ 0
Total	¥ 2	¥ 2	¥ 0

2003	Thousands of U.S.dollars		
Type	Acquisition cost	Book value	Difference
Equity securities	$ 17	$ 17	$ 0
Total	$ 17	$ 17	$ 0

Securities with book values not exceeding acquisition costs

2003	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 1,177	¥ 983	¥ △194
Other	32	26	△6
Total	¥ 1,209	¥ 1,009	¥ △200

2003	Thousands of U.S.dollars		
Type	Acquisition cost	Book value	Difference
Equity securities	$ 9,792	$ 8,178	$ △1,614
Other	266	216	△50
Total	$ 10,058	$ 8,394	$ △1,664

The following tables summarize book values of securities with no available fair values as of 31st March, 2003:

2003	Millions of yen	Thousands of U.S.dollars
Type	Book value	
Non-consolidated subsidiaries and affiliates securities	¥ 94	$ 782
Non-listed securities	35	291
Total	¥ 129	$ 1,073

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

2003	Millions of yen			
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Investment trust	¥ —	¥ —	¥ 2	¥ —
Total	¥ —	¥ —	¥ 2	¥ —

2003	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
Investment trust	$ —	$ —	$ 17	$ —
Total	$ —	$ —	$ 17	$ —

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	$ 1,306	$ 1,531	$ 225
Total	$ 1,306	$ 1,531	$ 225

Securities with book values not exceeding acquisition costs

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	$ 10,408	$ 9,742	$ △666
Other	41	25	△16
Total	$ 10,449	$ 9,767	$ △682

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

2002	Millions of yen	Thousands of U.S.dollars
Type	Book value	
Non-consolidated subsidiaries and affiliates securities	¥ 86	$ 715
Non-listed securities	39	324
Total	¥ 125	$ 1,039

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
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
Investment trust	$ —	$ —	$ 25	$ —
Total	$ —	$ —	$ 25	$ —

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 Company and its consolidated subsidiaries as of 31st March, 2003 and 2002, 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 Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized.

	Millions of yen		
	Acquistion costs	Accumulated deprection	Net book value
2003			
Machinery and equipment	¥ 1,670	¥ 586	¥ 1,084
Tools, furniture and other	71	49	22
	¥ 1,741	¥ 635	¥ 1,106
2002			
Machinery and equipment	¥ 2,144	¥ 831	¥ 1,313
Tools, furniture and other	102	53	49
	¥ 2,246	¥ 884	¥ 1,362

	Thousands of U.S. dollars		
	Acquistion costs	Accumulated deprection	Net book value
2003			
Machinery and equipment	$ 13,893	$ 4,875	$ 9,018
Tools, furniture and other	591	408	183
	$ 14,484	$ 5,283	$ 9,201
2002			
Machinery and equipment	$ 17,837	$ 6,913	$ 10,924
Tools, furniture and other	849	441	408
	$ 18,686	$ 7,354	$ 11,332

Lease payments of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥263 million ($2,188 thousand) and ¥325 million ($2,704 thousand) for the years ended 31st March, 2003 and 2002, respectively.

Depreciation related to leased assets of the Company and its consolidated subsidiaries computed by the straight-line method over the lease terms for the years ended 31st March, 2003 and 2002, amounted to ¥263 million (¥2,188 thousand) and ¥325 million ($2,704 thousand), respectively.

Future minimum payments (including the interest portion thereon) subsequent to 31st March, 2003 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows :

Year ending 31st March	Millions of yen	Thousands of U.S.dollars
2004	¥ 257	$ 2,138
2005 and thereafter	849	7,063
	¥ 1,106	$ 9,201

(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 2003 and 2002.

	Millions of yen		
	Acquistion costs	Accumulated deprection	Net book value
2003			
Machinery and equipment	¥ 1,574	¥ 894	¥ 680
	¥ 1,574	¥ 894	¥ 680
2002			
Machinery and equipment	¥ 1,887	¥ 1,014	¥ 873
	¥ 1,887	¥ 1,014	¥ 873

	Thousands of U.S. dollars		
	Acquistion costs	Accumulated deprection	Net book value
2003			
Machinery and equipment	$ 13,095	$ 7,438	$ 5,657
	$ 13,095	$ 7,438	$ 5,657
2002			
Machinery and equipment	$ 15,699	$ 8,436	$ 7,263
	$ 15,699	$ 8,436	$ 7,263

Lease income of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥308 million ($2,562 thousand) and ¥338 million ($2,812 thousand) for the years ended 31st March, 2003 and 2002, respectively.

Depreciation related to leased assets of the Company and its consolidated subsidiaries computed using the straight-line method over the lease terms for the years ended 31st March, 2003 and 2002 amounted to ¥218 million ($1,814 thousand) and ¥252 million ($2,097 thousand), respectively.

Future minimum income (including the interest portion thereon) subsequent to 31st March 2003 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries is summarized as follows:

Year ending 31st March	Millions of yen	Thousands of U.S.dollars
2004	¥ 255	$ 2,121
2005 and thereafter	575	4,784
	¥ 830	$ 6,905

5. Derivatives and hedge accounting

The Company and its consolidated subsidiaries 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 Company and its consolidated subsidiaries 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 Company and its consolidated subsidiaries 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, 2003 and 2002 of derivative transactions for which hedge accounting has not been applied:

Interest related (millions of yen)

	Type	Year ended 31st March, 2003			
		Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Interest rate swap Pay fixed, receive variable	¥5,000 —	¥ — —	¥ (20)	¥ (20)
	Total	¥5,000	¥ —	¥ (20)	¥ (20)

Interest related (thousands of U.S. dollers)

	Type	Year ended 31st March, 2003			
		Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Interest rate swap Pay fixed, receive variable	$41,597 —	$ — —	$(166)	$(166)
	Total	$41,597	$ —	$(166)	$(166)

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 swap Pay fixed, receive variable	¥5,000 —	¥5,000 —	¥(104)	¥(104)
	Total	¥5,000	¥5,000	¥(104)	¥(104)

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 swap Pay fixed, receive variable	$41,597 —	$41,597 —	$(865)	$(865)
	Total	$41,597	$41,597	$(865)	$(865)

6. Income Taxes

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 42.0% for the year ended 31st March, 2002. Effective for years commencing on 1st April, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the aggregate statutory income tax rates of 42.0% and 40.5% for current items and non-current items, respectively, at 31st March, 2003.

As a result of the change in the aggregate statutory income tax rates, deferred income tax assets before deduction of valuation allowance decreased by ￥77 milion ($641thousand) and provision for deferred income taxes increased by ￥2 milion ($17thousand) compared with what would have been recorded under the previous local tax law.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended 31st March, 2003 and 2002:

	2003	2002
Statutory tax rate	**42.0%**	42.0%
Non-Japanese taxes	**62.1**	6.9
Non-deductible expenses	△ **9.2**	△ 0.8
Per capital inhabitant tax	△ **18.3**	△ 1.2
Loss carried forward	**93.6**	—
Effect of change in aggregate statutory income tax rates	△ **27.5**	—
Valuation allowance	△**183.5**	△55.6
Prior year income tax	—	△ 0.6
Other	**0.0**	0.1
Effective tax rate	△ **40.8%**	△ 9.2%

Significant components of defferred tax assets and liabilities as of 31st March, 2003 and 2002 are as follows:

	Millons of yen		Thousands of U.S.dollars	
	2003	2002	**2003**	2002
Deferred tax assets;				
Allowance for doubtful accounts	￥ **660**	￥ 2,090	$ **5,491**	$ 17,388
Loss from valuation of inventories	**329**	375	**2,737**	3,120
Excess bonuses accrued	**92**	105	**765**	873
Loss from valuation of securities	**2,409**	3,512	**20,042**	29,218
Loss carried forward	**2,252**	2,519	**18,735**	20,957
Other	**451**	196	**3,752**	1,630
Total deferred tax assets	**6,193**	8,797	**51,522**	73,186
Valuation allowance	**(6,041)**	(8,673)	**(50,258)**	(72,155)
Net deferred tax assets	￥ **152**	￥ 124	$ **1,264**	$ 1,031

7. Short-term Borrowings

The interest rates on short-term borrowings from banks and an insurance company were 0.6% to 6.0%, with the weighted average rate of 3.0% as at 31st March, 2003 and 0.6% to 6.6% with the weighted average rate of 2.3% as at 31st March, 2002.

8. Long-term Debt

Long-term debt as at 31st March, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S.dollars	
	2003	2002	**2003**	2002
1.0% to 4.7% mortgage loans from Japanese banks and financial institutions, due in installments through 2010	￥ **7,136**	￥ 7,658	**$59,367**	$63,710
Zero coupon JPY convertible bonds payable Japanese yen, due in 2004	—	996	—	8,286
4.32% debenture bonds, due in 2003	**2,000**	2,000	**16,639**	16,639
Zero coupon JPY convertible bonds payable Japanese Yen, due in 2004	**6,000**	6,000	**49,917**	49,917
1.16% debenture bonds due in 2003	**220**	220	**1,830**	1,830
	15,356	16,874	**127,753**	140,382
Less-Current portion included in current liabilities	**(5,944)**	(2,222)	**(49,450)**	(18,486)
	￥ **9,412**	￥14,652	**$ 78,303**	$121,896

Cash and cash equivalents of ¥332 million ($2,762 thousand) and ¥382 million ($3,178 thousand), trade notes and accounts receivable of ¥646 million ($5,374 thousand) and ¥877 million ($7,296 thousand), other current assets of ¥445 million ($3,702 thousand) and ¥463 million ($3,852 thousand), property, plant and equipment with a net book value of ¥12,411 million ($103,253 thousand) and ¥12,727 million ($105,882 thousand) and investments securities of ¥720 million ($5,990 thousand) and ¥695 million ($5,782 thousand), at 31st March, 2003 and 2002, respectively, were pledged as collateral for certain short-term borrowings and long-term debt.

On 13th December, 1999, the Company and its consolidated subsidiaries issued the Zero coupon JPY convertible bonds of ¥5,000 million. This convertible bonds were redeemed at 102.25% of its face value on 31st March, 2003.

The Company and its consolidated subsidiaries issued the 4.32% Euroyen debenture bonds of ¥2,000 million at 28th April, 2000, the Zero coupon JPY convertible bonds of ¥6,000 million at 11th September, 2000, and the 1.16% debenture bonds of ¥220 million at 25th September, 2000.

The convertible bonds are convertible into common stock at option of the holders currently at conversion price of ¥709 per share. During the year ended 31st March, 2003, none of the convertible bonds were converted.

The holders of the convertible bonds have rights to have them redeemed at 101.50% of its face value. If they execute their right during the period between 1st September, 2003 and 12th September, 2003, the Company needs to redeem this comvertible bonds on 30th September, 2003 at the promised rate above.

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, 2003, the aggregate annual maturity of long-term debt subsequent to 31st March, 2004, were as follows:

Year ending 31st March	Millions of yen	Thousands of U.S.dollars
2005	¥ 7,664	$ 63,761
2006	1,029	8,561
2007	280	2,329
2008	228	1,897
2009 and thereafter	211	1,755
	¥ 9,412	$ 78,303

9. Employees' Severance and Retirement Benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets consist of the following:

	Millions of yen		Thousands of U.S.dollars	
	2003	2002	**2003**	2002
Projected benefit obligation	**¥△1,453**	¥△1,317	**$△12,088**	$△10,957
Less fair value of plan assets	**681**	785	**5,666**	6,531
Funded status	**△ 772**	△ 532	**△ 6,422**	△ 4,426
Unrecognized net transition obligation	**82**	115	**682**	957
Unrecognized actuarial loss	**432**	313	**3,594**	2,604
Liability for severance and retirement benefit, net	**△ 258**	△ 104	**△ 2,146**	△ 865
Prepaid pension expenses	**0**	17	**0**	142
Liability for severance and retirement benefit	**¥△ 258**	¥△ 121	**$△ 2,146**	$△ 1,007

Included in the consolidated statements of operations for the years ended 31st March, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S.dollars	
	2003	2002	**2003**	2002
Service costs-benefits earned during the year	**¥ 166**	¥ 190	**$1,381**	$1,581
Interest cost on projected benefit obligation	**32**	40	**266**	333
Expected return on plan assets	**△23**	△42	**△191**	△350
Unrecognized actuarial loss	**64**	56	**532**	466
Amortization of net transition obligation	**33**	56	**275**	466
Additional payments for retired employees	**—**	186	**—**	1,547
Severance and retirement benefit expenses	**¥ 272**	¥ 486	**$2,263**	$4,043

The discount rate used by the Company were 2.0% and 2.5% for the years ended 31st March, 2003 and 2002. And the rate of expected return on plan assets were 3.0% and 3.5% for the years ended 31st March, 2003 and 2002, 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 this action, the Company charged the related cost of ¥259 million ($2,155 thousand) as additional benefits in the consolidated statement of operations for fiscal 2002.

10. Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective 1st October, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the 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 Zero coupon JPY convertible bonds were considered as common stock equivalents. Because of net loss reported for the years ended 31st March, 2003 and 2002, a disclosure of the information on diluted net income per share is not required.

Effective 1st April, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share," issued by the Accounting Standards Board of Japan on 25th September, 2002)

The adoption of the new accounting standard had no impact on the financial statements.

12. Commitments and Contingent Liabilities

Under the Company's capital expenditure program, management estimates that approximately ¥930 million ($7,737 thousand) will be expended during the year ending 31st March, 2004.

As at 31st March, 2003, the Company and certain subsidiaries were contingently liable for discounted notes receivable with banks of ¥2,243 million ($18,661 thousand).

13. Related Party Transactions

The Company purchases raw materials from Mep Co., Ltd. ("Mep"), and also receive the money related to supply of raw materials and rent of office and plant from Mep. More than 50% of Mep is owned by a director and former director of the Company.

During the years ended 31st March, 2003 and 2002, the Company had the following transactions with Mep:

	Millions of yen		Thousands of U.S.dollars	
	2003	2002	**2003**	2002
Purchase of raw materials	**¥ 792**	¥ 264	**$6,589**	$2,196
Supply of raw materials	**120**	34	**998**	283
Receipt of rent	**10**	10	**83**	83

Dues from and dues to Mep as of 31st March, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars	
	2003	2002	**2003**	2002
Trade notes and accounts payable	**¥ 153**	¥ 22	**$1,273**	$183
Other current assets	**25**	2	**208**	17

14. 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.

2003	Millions of yen					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 26,146	¥ 6,435	¥ 4,763	¥ 37,344	¥ —	¥ 37,344
Intersegment sales and transfers	164	16	2	182	(182)	—
Total sales	26,310	6,451	4,765	37,526	(182)	37,344
Cost of sales and selling, general and administrative expenses	23,475	6,143	4,525	34,143	1,042	35,185
Operating income	2,835	308	240	3,383	(1,224)	2,159
Identifiable assets	31,547	5,569	6,972	44,088	9,419	53,507
Depreciation	1,161	166	368	1,695	66	1,761
Capital expenditure	804	34	241	1,079	3	1,082

2003	Thousands of U.S. dollars					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
Sales to third parties	$ 217,521	$ 53,536	$ 39,625	$ 310,682	$ —	$ 310,682
Intersegment sales and transfers	1,364	133	17	1,514	(1,514)	—
Total sales	218,885	53,669	39,642	312,196	(1,514)	310,682
Cost of sales and selling, general and administrative expenses	195,299	51,107	37,645	284,051	8,669	292,720
Operating income	23,586	2,562	1,997	28,145	(10,183)	17,962
Identifiable assets	262,454	46,331	58,004	366,789	78,361	445,150
Depreciation amortization	9,659	1,381	3,062	14,102	549	14,651
Capital expenditure	6,689	283	2,005	8,977	25	9,002

2002	Millions of yen					
	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	1,137	178	363	1,678	61	1,739
Capital expenditure	877	256	378	1,511	33	1,544

2002	Thousands of U.S. dollars					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
Sales to third parties	$ 213,004	$ 33,461	$ 31,780	$ 278,245	$ —	$ 278,245
Intersegment sales and transfers	474	532	1,240	2,246	(2,246)	—
Total sales	213,478	33,993	33,020	280,491	(2,246)	278,245
Cost of sales and selling, general and administrative expenses	217,188	39,792	35,549	292,529	4,759	297,288
Operating loss	(3,710)	(5,799)	(2,529)	(12,038)	(7,005)	(19,043)
Identifiable assets	268,111	54,784	54,834	377,729	70,566	448,295
Depreciation	9,459	1,481	3,020	13,960	508	14,468
Capital expenditure	7,296	2,130	3,145	12,571	274	12,845

(b) Geographical Segment Information

Geographical segment information for the years ended 31st March, 2003 and 2002 was as follows

2003	Millions of yen						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 23,885	¥ 2,709	¥ 3,733	¥ 7,017	¥ 37,344	¥ —	¥ 37,344
Interarea sales and transfers	6,380	206	118	6,991	13,695	(13,695)	—
Total sales	30,265	2,915	3,851	14,008	51,039	(13,695)	37,344
Cost of sales and selling, general and administrative expenses	27,416	3,457	4,187	13,153	48,213	(13,028)	35,185
Operating income (loss)	2,849	(542)	(336)	855	2,826	(667)	2,159
Identifiable assets	35,271	2,765	3,883	11,563	53,482	25	53,507

2003	Thousands of U.S. dollars						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	$ 198,710	$ 22,537	$ 31,057	$ 58,378	$ 310,682	$ —	$ 310,682
Interarea sales and transfers	53,079	1,714	981	58,161	113,935	(113,935)	—
Total sales	251,789	24,251	32,038	116,539	424,617	(113,935)	310,682
Cost of sales and selling, general and administrative expenses	228,087	28,760	34,833	109,426	401,106	(108,386)	292,720
Operating income (loss)	23,702	(4,509)	(2,795)	7,113	23,511	(5,549)	17,962
Identifiable assets	293,436	23,003	32,305	96,198	444,942	208	445,150

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	$ 171,165	$ 26,755	$ 32,388	$ 47,937	$ 278,245	$ —	$ 278,245
Interarea sales and transfers	43,885	3,411	241	55,374	102,911	(102,911)	—
Total sales	215,050	30,166	32,629	103,311	381,156	(102,911)	278,245
Cost of sales and selling, general and administrative expenses	227,280	34,509	37,321	101,115	400,225	(102,937)	297,288
Operating income (loss)	(12,230)	(4,343)	(4,692)	2,196	(19,069)	26	(19,043)
Identifiable assets	326,123	38,303	32,995	91,714	489,135	(40,840)	448,295

(c) Overseas Sales Information

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended 31st March, 2003 and 2002, were summarized as follows:

	Millions of Yen			
	America	Europe	Asia	Total
2003				
Overseas sales	¥ 2,804	¥ 3,939	¥ 11,378	¥ 18,121
Consolidated net sales	—	—	—	37,344
The ratio of overseas sales to consolidated net sales	7.5%	10.5%	30.5%	48.5%
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%

	Thousands of U.S. dollars			
	America	Europe	Asia	Total
2003				
Overseas sales	$ 23,328	$ 32,770	$ 94,659	$ 150,757
Consolidated net sales	—	—	—	310,682
The ratio of overseas sales to consolidated net sales	7.5%	10.5%	30.5%	48.5%
2002				
Overseas sales	$ 29,459	$ 33,752	$ 71,722	$ 134,933
Consolidated net sales	—	—	—	278,245
The ratio of overseas sales to consolidated net sales	10.6%	12.1%	25.8%	48.5%

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sodick Co., Ltd. and subsidiaries as of 31st March, 2003 and 2002, and the related consolidated statements of operations, shareholers' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sodick Co., Ltd. and subsidiaries as of 31st March, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the years ended 31st March, 2003 and 2002 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
26th June, 2003

Main Products

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

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

High-speed Small Hole Drilling EDM
K Series

Nano Machine
NANO-100

Machining Center
MC Series

Automatic 3D Mold Design System (CAD/CAM) and Computer Softwares for FA network applications
DiPro and PRMSystems 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 26th June, 2003)

Chairman
Masaaki Suzuki

President
Shigeo Shioda

Vice-President
Yoshitaka Maruta

Senior Managing Director
Akio Hosaka

Managing Directors
Takashi Yamamoto
Kazuo Kato

Directors
Takeshi Ichikawa
Kousaku Karato
Keisuke Takagi

Corporate Standing Statutory Auditor
Haruhiko Nishijima

Corporate Statutory Auditors
Sadao Simoyama
Sakuo Ueno
Saeji Kusunoki

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.
Unit 1201, One Peking, No. 1 Peking Rood,
Tsim Sha Tsui,
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.
No. 1058, Hu Qing Ping High Way, Minhang District, Shanghai, 201105, P.R.China
Tel: 86-21-64216069
Fax: 86-21-54471840

Sodick International Trading (Shenzhen) Co., Ltd.
3-127 Honghua Road, International Commerce Center, Futian Free Trade Zone,
Shenzhen, P.R.China
Tel: 86-755-3595937
Fax: 86-755-3591751

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