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ANNUAL REPORT 2004

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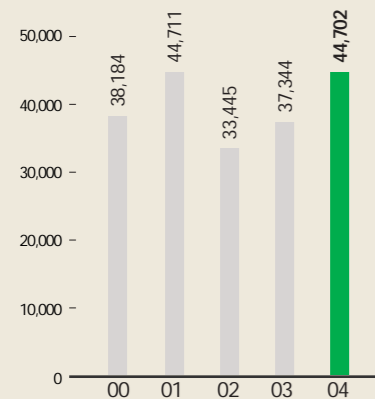
Sodick Co., Ltd.

Consolidated Financial Highlights

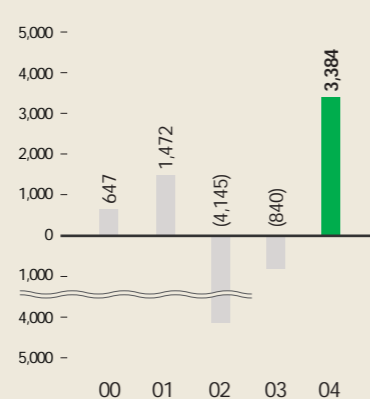
	Millions of yen (except Per Share Data)		Thousands of U.S.dollar (except Per Share Data)
	2004	2003	2004
For The Year :			
Net Sales	¥ 44,702	¥ 37,344	\$ 422,957
Operating income	4,759	2,159	45,026
Net income (loss)	3,384	(840)	32,015
At Year-end :			
Total assets	59,189	53,507	560,023
Total shareholders' equity	15,569	9,739	147,302
Per share Data :			
		Yen	U.S.dollars
Net income (loss)			
Basic	¥ 78.26	(¥ 20.57)	\$ 0.74
Diluted	68.32	-	0.65
Shareholders' equity	353.76	238.56	3.35

Notes : The U.S. dollar amounts are provided for convenience only and have been converted at the rate of ¥105.69 to \$1, the approximate rate of exchange in effect at March 31, 2004.

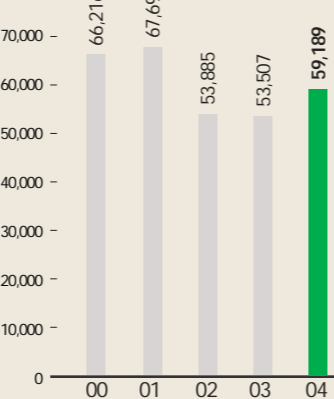
Net Sales (Millions of yen)



Net Income (loss) (Millions of yen)



Total Assets (Millions of yen)



In this annual report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

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Create, Implement, and Achieve
We develop industry-leading products while supporting
the manufacturing process, based on the philosophy
we have followed since we were established.

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Sodick's name is based on the Japanese words, "Souzou," "Dikkou," and "Curou, Kokufuku," which means create, implement, and achieve. The company name expresses our strongly held philosophy of creating new ideas, implementing them as new products, sustained hard work, and triumphing over the challenge to improve our customers' manufacturing processes. Based on that philosophy, the Sodick Group develops new technologies and innovative product groups that enable our customers to manufacture their products, and at the same time, constantly offers the entire market place products that make a difference.

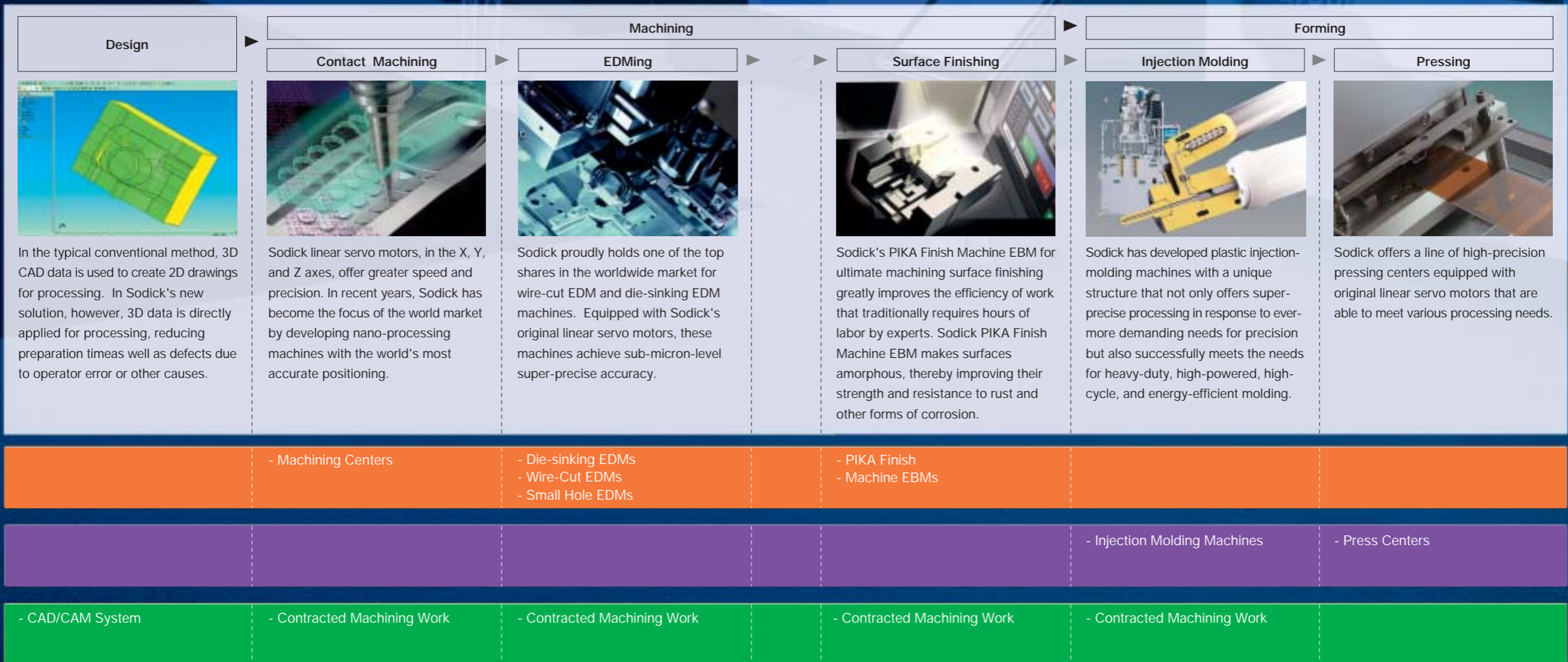
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Total Manufacturing Solution Concept

Helping customers solve problems in all manufacturing processes.

The Sodick Group, based on its Total Manufacturing Solution concept, assists with all manufacturing processes ranging from CAD/CAM product design to the machining of dies, molds and parts by electrical discharge machines (EDMs) and machining centers, surface finishing with electron beam surface finishing machines (Specifically, PIKA Finish Machine EBMs), and forming with injection molding machines and linear presses. By obtaining the latest technologies in the world of manufacturing, Sodick is able to offer optimal solutions for customers' manufacturing problems.



Interview with the President



President
Shigeo Shioda

Q 1

Looking back on FY2003, how would you analyze the company's performance?

The Sodick Group provides manufacturing equipment and technology that support customers' manufacturing activities in countries around the world, and its performance is influenced by market conditions in these countries. Asia (excluding Japan) accounts for approximately 30% of the Group's sales, so we pay particular attention to the economic conditions in China and other Asian countries. We were concerned that SARS would have a negative economic impact in the first half of FY2003, but in all actuality, the active capital spending by automobile, digital home electronics, and semiconductor and LCD firms that began in the second half of 2002 showed no signs of slowing down even as we entered 2004.

Taking advantage of these favorable conditions, the Group has aggressively developed business in China and other Asian countries. Particularly in China, which is growing rapidly as "the world's manufacturing center," we established sales offices in Shanghai and Tianjin, and took other steps to gain more orders.

In Japan as well, the recovery in capital spending has spread from large companies to small and medium-sized firms that had refrained from new capital spending over the last decade since the burst of Japan's so-called "bubble economy" in the early 90's. As a result, demand for Sodick's products greatly surpassed initial forecasts and lead to greater sales in the second half (Specifically, sales for the year reached 44,702 million yen, compared to 1st-half sales of 20,414 million yen).

To address this expansion in demand, we have enhanced our production capacity in each of our businesses. In our machine tool business, we pushed forward with an upgrade and expansion of production facilities at Sodick (Thailand) Co., Ltd., and Suzhou Sodick Special Equipment Co., Ltd. that are our main production factories. And in our industrial machine business, Sodick Plustech Co., Ltd. expanded its domestic capacity.

To further promote new Sodick technologies among our customers, we have actively participated in domestic and international trade shows, including the November 2003 EMO Show, held in Milan, Italy. In Japan, we held the Spring Private Show and Academic Seminar in February 2004 at our Yokohama headquarters and technical training center. At this event, which was attended by representatives from a number of related industries, we actively pursued PR activities, including the proposal of new manufacturing models.

As a result of these activities, we revised upward our performance forecast three times during the fiscal year and, in the end, achieved Group sales of 44,702 million yen, a significant increase of 7,358 million yen (19.7%) compared to the consolidated sales figure for the previous year. Changes in machine designs and other measures to reduce costs, controlled cost of sales (increased only 17.7%), and selling, general, and administrative expenses (increased only 3.2%) as revenue grew, resulting in Group operating income of 4,758 million yen, a major increase of 2,600 million (120.4%) compared to the year earlier. Significant extraordinary items included an 893 million yen gain on the sale of investment securities. After subtracting other items, net income came to 3,383 million yen.

Q 2

What measures are being considered for the purpose of maintaining growth? Also, what specific measures will be implemented? Please also comment on performance forecasts for the coming year in your response.

The Group's performance depends to a large extent on customers' capital spending plans. Therefore, to achieve even more stable company management, it is necessary to do everything possible to minimize the impact of economic fluctuations on company performance. Toward that end, we are making research and development investments emphasizing efficiency in each Group company and expanding our customer base by offering a wider range of products and services.

In the machine tools business, we will swiftly complete the commercialization of the Electron Beam Machining technology (PIKA Finish Machine EBM) we perfected in FY2003. Next, in the industrial machine business, we will work to reduce our reliance on sales of injection molding machines by increasing precision ceramics worktable sales. In our other operations, we will install Sodick's Nano100 (nano-processing machines) in our facilities to accumulate our nano-level machining know-how and promote adoption of this machine among our customers.

For production, we are planning to further expand and enhance the production facilities mentioned above to address the growing demand in Asian markets, and particularly in China. With particular regard to the machine tools business, we are planning to boost production capacity by a total of 30% after factoring in FY2003

Interview with the President

capital spending. By October 2004, this will mean combined overseas production capacity of 300 machines per month - 180 machines per month at Sodick (Thailand) Co., Ltd. and 120 machines per month at Suzhou Sodick Special Equipment Co., Ltd. Together with the 30-machine-per-month capacity in Japan, the Group will have total production capacity of 330 machines a month.

Regarding finances, the balance of interest-bearing debt was reduced from approximately 30,700 million yen at the end of FY2002 to approximately 23,000 million yen at the end of FY2003, a difference of 7,700 million yen. Our plan will further cut interest expense by reducing the balance by about another 5,000 million yen during FY2004, bringing it down to around 18,000 million.

As a result of these measures, we are expecting to achieve sales of 50,000 million yen with operating income of 5,500 million, and net income of 4,000 million yen for FY2004.

Q 3

The growth strategy that has been discussed will require even greater efforts to advance the Group's global strategy. What specific initiatives will be implemented?

Our global strategy addresses four markets - Asia, Europe, North and South America, and Japan - and aims to establish balanced production and sales systems.



In Asia, we are primarily focusing on China, which is becoming a driving force for the world economy as the "world's manufacturing center." For its business

development initiatives in China's machine tools industry, the Sodick Group has won high marks for its "trailblazing activities." This refers specifically to activities such as our inauguration of software development at Shanghai Sodick software Co., Ltd., a joint venture we created together with Shanghai Jiao Tong University in 1991; and our initiation of local production of EDM machines at Suzhou Sodick Special Equipment Co., Ltd., another joint venture we created with a Chinese company in 1995. In each of our businesses, we will work to add new sales and customer support offices and boost production capacity to take advantage of all profit opportunities.

Growth is strong outside of China, as well. In Korea, where investments in LCD and semiconductor facilities are on the rise, sales of high-precision injection-molding machines made by Sodick Plustech Co., Ltd., part of the industrial machines segment, have been strong and are expected to remain so through FY2004. And in Thailand, which is quickly amassing numerous automobile manufacturing facilities, we are moving forward with the construction of a technical training center at Sodick (Thailand) Co., Ltd. the Sodick Group's largest production facility. With this new technical training center serving as a starting point, we will establish a robust customer support system and work to further expand demand.

In the European market, which was expanded by the EU, we will strengthen our technical support capabilities for all of Europe by establishing a technical center near the southern German city of Stuttgart, which hosts a concentration of automobile manufacturing facilities, in 2004. This technical support center will include a large showroom and other customer support facilities. To boost our selling capacity, especially in the German-speaking areas of Europe, which comprise the continent's largest market, we established Sodick Deutschland GmbH in May 2004. Sodick Europe Ltd. in the United Kingdom will be responsible for sales in other parts of

Europe. In 2003, we established KHS Europe Ltd. in the UK to expand sales of consumables and peripherals.

In North and South America, which are seeing capital spending recoveries in the automobile, aerospace, medical equipment, and other industries, we will work to create operations that generate stable profits by aggressively moving to refurbish technical support centers and enhance market coverage. We are also preparing for the IMTS Show in the fall, the world's largest machine tool trade show, so that we can make optimal use of this excellent sales opportunity.

These examples illustrate the course in which we are pursuing activities tailored to market demand throughout the world, working towards expanding our customer base and market share on a global scale.

Q 4

What kind of company do you want Sodick to be? Please tell us your mid-to-long-term vision.

We feel that the Japanese economy has emerged from decade long stagnation and entered a new growth phase. Manufacturing is playing an extremely important role in the recovery process. Japan is a country with no resources and its only option for development is to import materials, add knowledge-based value, and sell the resulting products to other countries. That was true in the past and will continue to be true in the future. Continuously developing machines that are indispensable for manufacturing in Japan and indispensable for future development, is a mission the Sodick Group has and will continue to live up to.

With that thought setting the tone, the Sodick Group, based on its Total Manufacturing Solution business concept, is creating a

system capable of supporting CAD/CAM, EDM machines, injection-molding machines, and all other aspects of customer manufacturing processes. The machine that will play a leading role in the future of these efforts is the Nano100. Developed by Sodick in 2001, this machine features the world's highest positioning accuracy. The Nano100 is the integration of technology Sodick has been developing together with customers since it was founded and could be called the machine of both designers' and operators' dreams.

The Sodick Group shares the know-how gained through development of the Nano100 with all of its business segments and, thereby, boosts competitiveness in terms of products and technology. Our aim is to apply ongoing technical innovation not only to offer excellent products but also to contribute to industrial development by helping customers realize the future of their manufacturing processes.

To meet the expectations of a broad array of stakeholders, including investors and, of course, customers, we devote significant time and resources to ensuring that our risk management is appropriate, that we comply with laws and regulations, and that our corporate governance is sound. We will implement management that is constantly aware of the need for transparency in both internal and external matters by establishing a robust internal audit function and other internal controls in a timely manner.



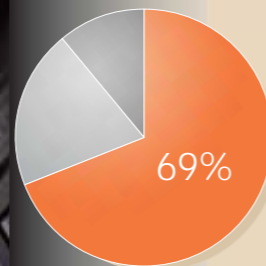
Operations At a Glance

Machine Tools

Industrial Machines

Others

Share of Net Sales



Main Products

CNC die-sinking EDMs, CNC wire-cut EDMs, Machining Centers, Small hole drilling EDMs

High precision injection-molding machines, precision ceramics worktables

High-precision molds and electronics parts, CAD/CAM systems

Business Strategy

Develop more business with existing customers by focusing promotional activities on the unparalleled excellence of Sodick's numerically controlled machines equipped with 3D CAD/CAM; high-speed, high-precision, high-value-added, and energy-efficient linear technology; and other original technologies.

Seek development of new products and resolve cost-cutting and other development issues to take precise, stable molding technology to the next level. Simultaneously move forward with the establishment of a sales system capable of addressing growing demand in the global market.

Other operations is positioned as a place for application of the Group's products to bring new solutions to customers. This raises the level of the Sodick Group's technologies by applying them in other industries.

FY2003 Topics

- Completed development of and began shipping a generator for high-speed wire-cut EDM.
- Completed development of and began shipping a CNC EDM with 3D CAD/CAM.
- Completed development of and began shipping a wire-cut EDM for the Chinese market.
- Completed development of and began shipping the PIKA Finish Machine EDM.

- Improved the production capacity of the Kaga (Japan) Factory (Sodick Plustech co., Ltd.)
- Completed development of and began shipping new models of high-precision injection-molding machines.

- Developed and began selling static electrical chucks.
- Developed a high-thrust coreless linear servo motor for inspection equipment of flat-panel displays.

Greater Ease of Use, Speed, and Performance Technology based on linear technology to achieve even greater customer satisfaction.

Business Overview

The machine tools business has been a part of Sodick since its establishment. And although it joined the market relatively late, through original research and development, it has achieved exceptional levels of precision, performance and efficiency unrivaled by competing products and has become one of the market share leaders in the global EDM market, its main products line.

The Sodick Group believes linear technology is critical for next-generation manufacturing and, since 1999, has equipped nearly all of its products with Sodick linear servo motors. Linear technology offers significant benefits, such as high speed, high accuracy, and high responsiveness, which go beyond conventional machining performance. While conventional ballscrew drives have contacting surfaces, linear motor drives have no contacting surfaces other than the guide. Thus, the linear motor drive has no motion error or the need to change parts due to friction. Sodick simplified the structure of its linear servo motors, achieving greater ease of assembly and maintenance. Furthermore, improvements have also been made in terms of size while achieving vibration and noise reduction.

In 2001, Sodick successfully applied its linear technology in developing the Nano100, a nano-processing machine with the world's greatest positioning accuracy. And in 2002, it launched a series of super-precise linear machining centers equipped with Sodick linear servo motors. As machines specialized in high-precision machining, extremely small-diameter hole drilling, high-precision plastic machining, and other types of high-precision work, these products have received outstanding evaluations from the market.

In August 2003, Sodick shipped the world's first CNC EDM equipped with 3D CAD/CAM. This machine directly imports 3D solid model data and automatically creates optimal machining conditions, resulting in dramatic increases in performance and efficiency that exceed those possible by an expert operator.

With state-of-the-art products such as the PIKA Finish Machine EBM, which finishes machined surfaces by exposing them to an electron beam, Sodick works every day to develop high-performance, high-value-added machines that can satisfy the needs of even more potential customers.



Overview of FY2003

Customers for the machine tools business are mainly companies in the automobile, aerospace and medical industries or are companies manufacturing digital cameras, flat panel displays, or cell phones as members of the electronics industry. In recent years, the manufacturing facilities in these industries have been shifting from North American and Europe to China and other parts of Asia. This shift has made it difficult for Sodick to increase its sales in North and South America, and Europe, but, on the other hand, opened the door to significant sales increases in Asia, and principally China, where the field of high-precision machining, one of Sodick's key markets, has seen demand grow.

Japan has seen a broad recovery in capital spending, and Sodick customers, ranging from major companies in export industries to small and medium sized enterprises producing high-precision molds, are also experiencing this recovery. Consequently, Sodick's production facilities began running at full capacity during FY2003, giving rise to the need to increase production capacity. In response, Sodick has made significant investments to increase production capacity at Sodick (Thailand) Co., Ltd., the Group's main production facility, by 20%. This

investment will continue during FY2004 and, together with the production capacity of Suzhou Sodick Special Equipment Co., Ltd. in China, the Group plans to achieve a 60% year-on-year increase in production capacity by the end of FY2004.

As for new products, in August, Sodick began shipping the CNC EDM with 3D CAD/CAM, the plan for which was originally announced in April 2002. This was the culmination of enormous efforts Sodick put into developing automation and system software, so that it could offer this product not simply as an EDM but as part of a total system including features and products such as a linear-motor-equipped machining center and robotic functions.

In addition, the LQ33W high-speed generator for wire-cut EDMs announced in July 2003 achieved the world's fastest speed at 255mm²/min. with standard brass wire (0.25mm), allowing Sodick to offer a product that goes beyond customer expectations.

As a result of activities such as these, the machine tool business recorded sales of 30,787 million yen, 4,477 million yen (17.0%) higher than in the previous year.

Business Group

	Development	Production	Sales	Maintenance Service
CNC EDM	Sodick Co., Ltd.	Sodick (Thailand) Co., Ltd Suzhou Sodick Special Equipment Co., Ltd. Sodick Co., Ltd.	Sodick Co., Ltd.	Sodick High-Tech Co., Ltd. J&S Company
Machining Center	Sodick High-Tech Co., Ltd. SEG Company	Sodick High-Tech Co., Ltd. SEG Company	Sodick Co., Ltd. Sodick High-Tech Co., Ltd. SEG Company	Sodick High-Tech Co., Ltd. SEG Company
PIKA Finish Machine EBM	Sodick High-Tech Co., Ltd. SEC Company	Sodick High-Tech Co., Ltd. SEC Company	SEC Company	Sodick High-Tech Co., Ltd. SEC Company
EDM Peripheral devices, Tooling, and Consumables		Sodick High-Tech Co., Ltd. SEC Company	Sodick Co., Ltd.	
Ceramics for machine parts	Sodick New Material Co., Ltd.	Sodick New Material Co., Ltd.	*Sells as machine parts to Sodick Co., Ltd.	
EDM peripheral devices	Excela Co., Ltd.	Excela Co., Ltd.		

Overseas Sales and Service Companies

Geographic Territory	Company Name	Geographic Territory	Company Name
North and Central America	Sodick Inc.	Hong Kong	Sodick (H.K.) Co., Ltd
Germany, Austria, Switzerland etc.	Sodick Deutschland GmbH	Taiwan	Sodick (Taiwan) Co., Ltd
Other parts of Europe	Sodick Europe Ltd.	Thailand, Vietnam	Sodick Engineering Service(Thailand)Co.,Ltd.
China	Sodick Electromechanical (Shanghai) Co., Ltd.	Singapore, Malaysia, Indonesia, Australia	Sodick Singapore Pte, Ltd.

Industrial Machines

Realizing high-precision, heavy-duty, high-power, high-cycle, energy-efficient injection molding to meet customer needs.

Business Overview

This business, which is the youngest of the major injection molding machine manufacturers, started as one of Sodick's internal operations in 1988. In the beginning, its target customers were high-precision molded part manufacturers who used both Sodick's EDMs and small high-precision molds, and the business focused on meeting their needs. The business has grown by supplying injection-molding machines, which were ideal for high-cycle processing of lightweight, thin, short and small parts. Later, in July 1994, the internal operation was spun off as Sodick Plustech Co., Ltd. and that company completed its IPO on the JASDAQ in August 2001.

Sodick has created unique structures for all of its machines and parts, enabling high-precision, heavy-duty, high-power, high-cycle, energy efficient injection molding.

These particular features bring outstanding performance in the production of thin-walled products and products using transparent plastic. Sodick Plastic injection-molding machines are being used to form lenses for cell phones and conventional digital cameras; pickup lenses for CD and DVD players; flat panel display parts; and other products in the field of advanced electronics.

Overview of FY2003

The industrial machine business received orders at a generally high level due to increases in orders from the automobile, IT, LCD, and digital home electronics industries.

Under these market conditions, the Sodick Group developed and actively introduced to the market new machine models and products

that make both high-cycle and high-quality molding possible. At the same time, Sodick utilized the resources of the entire Group to pursue activities aimed at improving product quality and lowering costs. In overseas markets, the Group expanded sales offices in Shanghai and Taiwan in an effort to expand business opportunities.

For production, Sodick Plustech Co., Ltd. raised additional capital through a November 2003 public offering and then used the funds raised to expand the Kaga Factory and invest in related facilities. The purpose of the factory expansion is to enhance facilities for machining parts, consolidate facilities that have been distributed among existing factories, and add horizontal machining centers, a large size 5-sided processing machine and other machines. Production efficiency improved as a result and steps are being taken to boost production volume (to 100 units/mo. from slightly less than 80 units/mo.) with efforts focused on improving the production environment with even better ability to handle orders for specialized machines and stronger user services.

Sodick also strengthened profitability by devoting significant efforts toward marketing new products, such as magnesium alloy injection-molding machines, and precision ceramics worktables.

As a result of activities such as these, the industrial machine business recorded sales of 9,107 million yen, 2,656 million yen (41.2%) higher than in the previous year. Within this total, sales of injection molding machine products came to 7,675 million yen. In other products, sales of precision ceramic worktables for LCD inspection equipment increased significantly.

Business Group

The industrial machines business is composed of Sodick Plustech Co., Ltd. and its affiliates, whose principal business activities include development, manufacturing, and sale of high-precision injection-molding machines and sales of precision ceramics worktables and other products. More detailed information is provided below.

Development, manufacturing, sales, and maintenance of injection molding machines		Sodick Plustech Co., Ltd.
Sales of precision ceramics work table		
Sales and maintenance in overseas markets	China	Plustech (Tianjin) Co., Ltd. Neo Plustech (Shanghai) Co., Ltd.
	Hong Kong	Plustech (Hong Kong) Co., Ltd.
	Taiwan	Neo Plustech Taiwan Co., Ltd.
	Singapore	Plustech (Singapore) Co., Ltd.
	Thailand	Neo Plustech Asia Co., Ltd.

Note: The foreign based companies listed above are non-consolidated subsidiaries

Others

Providing products that meet customer demands with technology rooted in the origins of manufacturing.

Business Overview

The Sodick Group pursues various businesses under the theme of "assisting customers' manufacturing endeavors."

Meeting customer needs on an ongoing basis means constantly addressing the latest technical challenges and acquiring cutting-edge technology and know-how. The original Sodick technology that results from this continuous pursuit helps the companies that use Sodick products achieve manufacturing with a competitive edge.

Other operations is a place for applying the wide variety of products and technologies Sodick has developed since its founding to create and provide to customers new business models that support their manufacturing endeavors.

Specifically, other operations performs a wide variety of services including the following:

1. Development and sale of the Dipro series of CAD/CAM software products, which are ideal for mold design.
2. Providing every manufacturing solution from CAD/CAM-based mold design to mold production by EDMs and machining centers, and injection molding of precision electronic and automobile parts.
3. Application of ceramics (developed for use in Sodick machine parts and that allow creation of large-scale products) to create machine parts and measurement parts for other companies.

MIR Co., Ltd., which manufactures and sells precision molds and molded products, also devotes significant attention to manufacturing technology and the establishment of manufacturing environments and has successfully acquired ISO9001: 2000 and ISO14001 certifications.

Overview of FY2003

Expanding demand for precision electronic parts was seen in Japan, China, and Thailand due to the world wide expansion of the digital home electronics industry and strong growth in the automobile industry. With the additional impact of improved performance for linear servo motors for outside sales and the development and introduction of static electrical chucks and other products using Sodick ceramics, other business recorded sales of 4,915 million yen, 149 million yen (3.1%) higher than in the previous year.

During FY2004, the Nano100 will be installed for contracted machining work, and machining technology for the IT and fiber optic communications, medical equipment, and other advanced industrial fields will be explored.

Business Group

Development and sale of Dipro series CAD/CAM system software for mold creation.	Sodick Co., Ltd.
Design and manufacture of molds and electronic parts, and forming of plastic, using Sodick CNC EDMs and machining centers, and Sodick Plastic injection-molding machines.	MIR Co., Ltd. Suzhou MIR Mechatronics Elements Co., Ltd
Forming of plastic products using Sodick Plastic injection-molding machines and for sale in the Thai market.	Fine Puls21 (Thailand) Co., Ltd.
Development, manufacture, and sale of various types of ceramic products to outside parties.	Sodick New Material Co., Ltd.
Development and sale of control software.	Shanghai Sodick Software Co., Ltd

Special Feature

Total Manufacturing Solution for the Future

Providing the Total Manufacturing Solution to More Customers and Achieving Greater Customer Satisfaction

The Sodick Group's Total Manufacturing Solution supports all customer manufacturing processes and is made possible by the overall capabilities of its machine tool, industrial machine, and other business operations.

To bring this original business concept to an even wider array of customers and achieve greater customer satisfaction, the Group focuses on the following three themes.

The Group will continue to enhance its presence and competitiveness by supporting customers' manufacturing endeavors with a greater variety of intellectual resources, a greater global presence, and greater quality.



With a Greater Variety of Intellectual Resources

Developing original, advanced technologies and industry-leading products under the research and development theme of "nano and solutions."

The Sodick Group's customer base spans a diversified group of industries including automobiles, home electronics, semiconductors, precision devices, optical equipment, and LCDs. These industries are characterized by intense competition and the need to constantly introduce new products to the market. Product manufacturing molds are used for shorter periods of time and create in greater varieties.

Additionally, because of their machining precision and efficiency, Sodick machines, which were originally intended for the machining of molds, are also now being used for the direct manufacturing (without the use of molds) of high-value-added products for medical and biotech, aerospace, and other applications.

To meet the wide variety of needs of a wide variety of customers, Sodick is working to further refine the Group's original technology and enhance its product line.

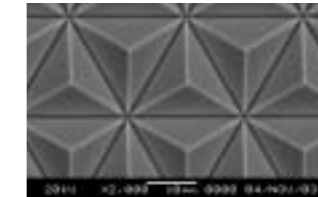
Development of the Nano-Processing Machine

There now appears to be no end in sight for the manufacturing industry's shift to China. However, manufacturing continues to be performed in Japan for digital home electronics and semiconductor devices, and key parts for hybrid automobiles and other cutting-edge products, all of which require sophisticated manufacturing know-how.

To support super-precise manufacturing processes that are likely to remain in Japan, the Sodick Group, in December 2001, completed the Nano100 which is capable of 1nm positioning accuracy, the world's highest standard.

Development of the Nano100 was possible because Sodick has linear motor technology, including Sodick linear servo motor control technology; ceramic; and other advanced technologies. The Nano100 meets the high-precision machining needs of the industries mentioned above and could also be used to produce small, highly detailed molds and parts for biotech equipment.

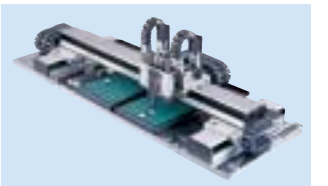
Sodick has positioned the Nano100 as the core of its next generation of products and will broaden its support for the manufacturing industry.



Linear Technology

To have full control of machine motors, the Sodick Group has developed its own computerized numerical control (CNC) devices since its establishment. Sodick knew that if it did not manufacture its own NC devices, performance improvements and product quality would be limited, and feared that it would be unable to provide products that would satisfy its customers.

As Sodick has continued to produce its own CNC devices, it has now reached the point of being able to produce its own high-performance linear servo motors, which, in addition to offering high speed, acceleration and precision, are maintenance free and compact. Sodick linear servo motors are used by other machine manufacturers, as well.



Ceramic Development Technology

Among other things, it is important that machine tool parts have high rigidity, a low thermal effect, and high resistance to aged deterioration; in addition to being lightweight. Ceramic machine parts offer an ideal combination of all these qualities.

The Sodick Group uses its own ceramic materials to make not only structural parts for the Nano100, which boasts the world's greatest accuracy, and the EXC100L, a super-precise wire-cut EDM, but also key parts for many other products, as well.

Sodick New Materials Co., Ltd. has launched outside marketing activities targeting major high-tech companies and this field is expected to grow.



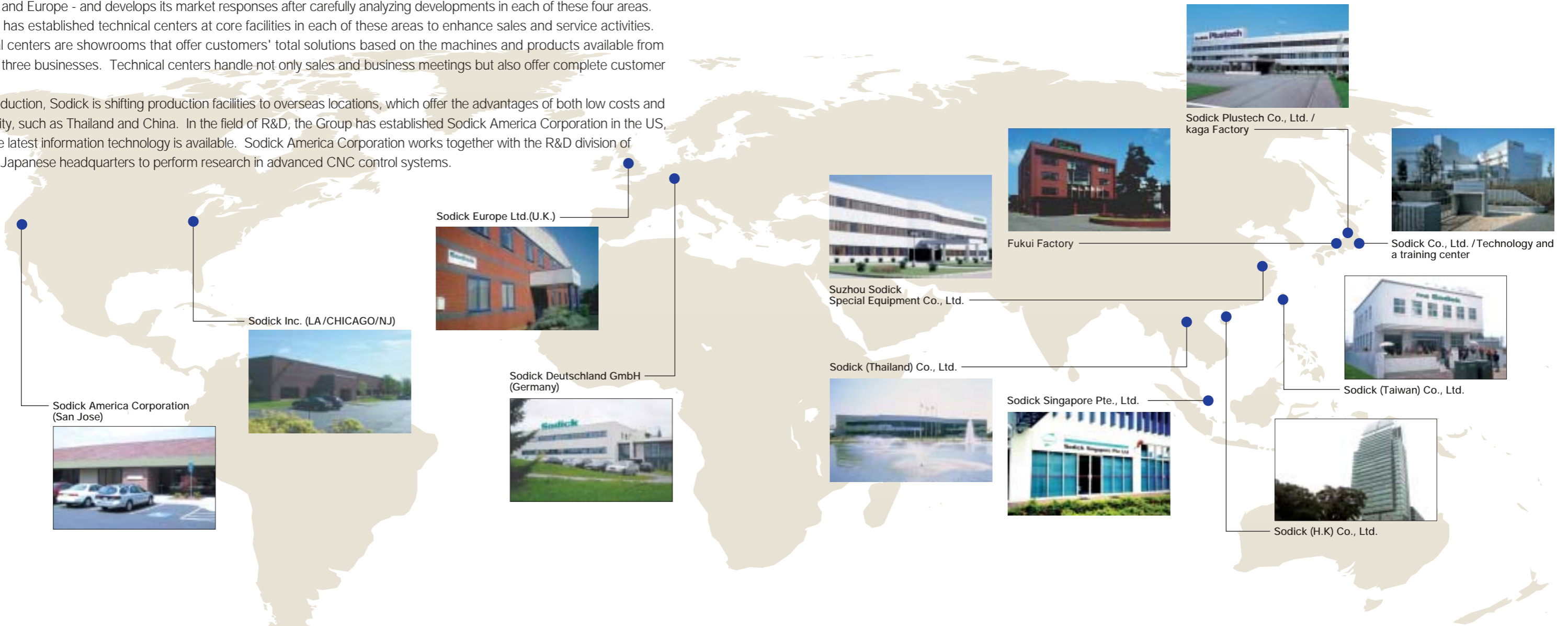
With a Greater Global Presence

Advancing the globalization of production and sales facilities to support manufacturing endeavors throughout the world.

The Sodick Group addresses the world market by dividing it into four areas - Japan, Asia (excluding Japan), North and South America, and Europe - and develops its market responses after carefully analyzing developments in each of these four areas.

Sodick has established technical centers at core facilities in each of these areas to enhance sales and service activities. Technical centers are showrooms that offer customers' total solutions based on the machines and products available from Sodick's three businesses. Technical centers handle not only sales and business meetings but also offer complete customer support.

For production, Sodick is shifting production facilities to overseas locations, which offer the advantages of both low costs and high quality, such as Thailand and China. In the field of R&D, the Group has established Sodick America Corporation in the US, where the latest information technology is available. Sodick America Corporation works together with the R&D division of Sodick's Japanese headquarters to perform research in advanced CNC control systems.



Shifting Production Facilities to Overseas Locations

Currently, approximately 95% of Sodick machine tools are manufactured overseas. Sodick (Thailand) Co., Ltd. manufactures approximately 70% of the total, while Suzhou Sodick Special Equipment Co., Ltd. handles approximately 25%. Both companies manufacture primarily machines designed for volume production.

As of June 30, 2004, Sodick (Thailand) Co., Ltd. had produced a combined total of 12,282 CNC EDMs and is currently working at a pace of 160/month. At the same time, Suzhou Sodick Special Equipment Co., Ltd. had produced a total of 2,876 CNC EDMs and is currently working at a pace of 100/month.

Super-high-precision machines, extremely large machines, and specialized machines are made at the Fukui Factory in Japan. All industrial machines are made at the Kaga Factory, also located in Japan. Approximately 700 million yen was invested in the Kaga Factory in the previous fiscal year to increase its production capacity and streamline production equipment.

Sinking Roots into China, Hong Kong, and Taiwan

Sodick has been actively pursuing business in China, now increasingly seen as "the world's manufacturing center," since the beginning of the 1990s, and its activities there have been praised as pioneering not only within the machine tool industry but also among Japanese manufacturers in general.

Suzhou Sodick Special Equipment Co., Ltd. is in charge of development and production of new EDM models for the Chinese market. Suzhou STK Foundry Co., Ltd. was established in 1995 together with TOWA Corp., Kanematsu KGK Corp., and a Chinese company as a joint venture for economically producing high-quality iron castings for machine structures.

This company's castings are also provided to Sodick's production facilities in Thailand. Suzhou MIR Mechatronics Elements Co., Ltd. produces high-precision molds and parts with Sodick Group machines, putting into practice business solutions offered by the Group.

Additionally, sales and customer support activities in China, Hong Kong, and Taiwan are pursued through a total of 19 locations - 15 for machine tools and 4 for industrial machines. These offices perform everything from machine repair and maintenance to operator training so that customers can use Sodick machines with confidence.

With Greater Quality

Working to further strengthen our quality assurance system as part of our efforts to bring customers a sense of safety and confidence.

Responding to customer demands, the Sodick Group constantly works without compromise to achieve the highest possible performance and quality in its products.

Nearly all of Sodick's machine tool production has been transferred overseas, but each overseas production facility has built its own quality assurance system that meets or exceeds the quality that was previously achieved in Japan.

Quality Assurance at Sodick (Thailand) Co., Ltd.

Sodick (Thailand) Co., Ltd., which has been in operation since 1990, performs all aspects of work to improve product quality from development of new models and improvement of functions on existing models to after-market support.

It acquired certifications for the ISO9002 international quality assurance standard in 1997 and the ISO9001:2000 standard in 2001 to perform these activities with greater organizational efficiency, and is providing high-quality products to the world market.

Specific quality improvement activities include the following:

1. Gathering of information together with the quality assurance office in Japan

Internal telephone lines and a company LAN are maintained on a dedicated, round-the-clock international communications circuit linking the Group's Thai and Japanese operations, and information on improvements and problems is exchanged as needed.

2. Monthly Quality System Meeting

The company determines the true cause of problems found in field claims and process claims and examines ways to prevent recurrences. Additionally, the president of Sodick (Thailand) Co., Ltd. and the manager responsible for creating quality reports participate in monthly quality system meetings held in Japan.

3. 5S Activities

Sodick (Thailand) Co., Ltd. supports the activities of the 5S (Seiri [streamlining], Seiton [organizing], Seiketu [hygiene], Seisou [cleaning], Situke [discipline]) Committee and performs monthly patrols.

4. Recommendation System

The company receives employee recommendations on quality, costs, waste, workability, and other topics and issue financial rewards to employees who submit outstanding proposals.

5. Training System

The company provides training according to job level for everyone from new hires to management.

6. Information Dissemination

The technical support department distributes various types of information in English to sales and service offices throughout the world.

Additionally, the number of veteran Thai employees with at least 10 years of experience has recently increased. These veterans are aiding the company to provide high-quality products through activities discussed above.



Quality Assurance at Suzhou Sodick Special Equipment Co., Ltd. and Shanghai Sodick Software Co., Ltd.

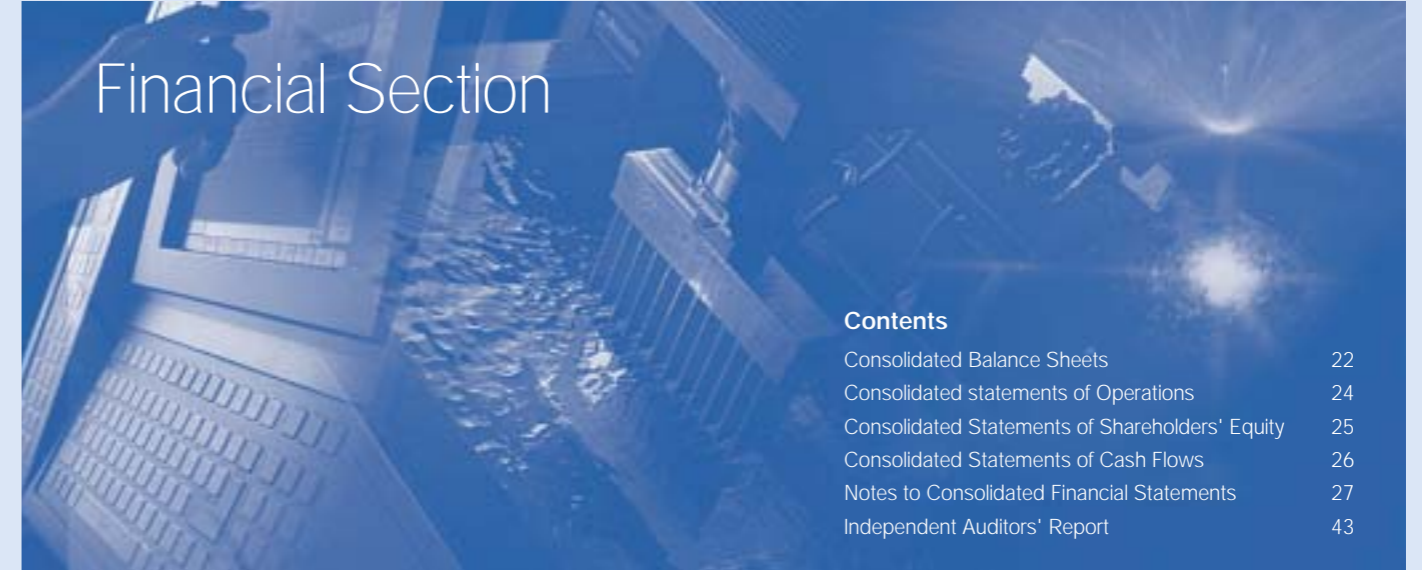
Suzhou Sodick Special Equipment Co., Ltd., which has been in full-scale operation since 1995, describes its quality objectives as "putting the customer first, building a solid base of research results, encouraging the participation of all employees, and learning from the old to create the new" and conducts the four following activities.

1. Holds a monthly quality assurance meeting as part of its effort to perfect its quality management system.
2. Holds a semiannual internal quality examination meeting to analyze the status of quality management system operations.
3. Has been pursuing weekly 5S evaluation activities since June 2003 to effectively improve the production environment and assure improvements in quality.
4. Has established a schedule for "5S patrols," which are conducted weekly by two teams totaling six members, each of whom represents one of the company's departments. Findings of these teams are presented in weekend production meetings and ways to correct problems are considered.

Additionally, the temperature of production areas is set at 25 with a tolerance of 3 and monitored 24 hours a day.

Suzhou Sodick Special Equipment Co., Ltd. acquired ISO9002 certification in 1998 and ISO9001:2000 certification in 2003 for the full range of work spanning design and development, production, and service for EDMs.

Shanghai Sodick Software Co., Ltd., which develops control software for Sodick machines acquired ISO9001:2000 certification in 2001.



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Five-year Summary

	Millions of yen (except Per Share Data)					Thousands of U.S. dollars (except Per Share Data) (Note)
	2004	2003	2002	2001	2000	2004
Consolidated						
For The Year :						
Net Sales :	¥ 44,702	¥ 37,344	¥ 33,445	¥ 44,710	¥ 38,184	\$ 422,957
Machine tools	30,726	26,146	25,603	32,926	24,660	290,717
Industrial tools	9,088	6,435	4,022	6,707	4,037	85,992
Others	4,888	4,763	3,820	5,078	9,487	46,248
Cost of Sales	29,134	24,715	24,572	30,901	25,319	275,659
Operating income	4,759	2,159	(2,289)	1,570	2,672	45,026
Income (loss) before income taxes	4,374	(280)	(3,922)	1,884	581	41,389
Income taxes (Notes 2 and 6) :	434	114	364	34	103	4,111
Current	792	135	164	353	108	7,493
Deferred	(358)	(21)	200	(319)	(5)	(3,382)
Net income (loss)	3,384	(840)	(4,145)	1,472	647	32,015
At Year-end :						
Total assets	59,189	53,507	53,885	67,693	66,216	560,023
Total shareholders' equity	15,569	9,739	10,973	14,222	10,196	147,302
Per share data (yen and U.S.dollars) :						
Net income (loss)(Note 11) :						
Basic	¥ 78.26	(¥ 20.57)	(¥ 101.49)	¥ 37.21	¥ 20.05	\$ 0.74
Diluted	68.32	-	-	31.50	16.17	0.65
Shareholders' equity	353.76	238.56	268.68	348.21	295.60	3.35
Cash dividends	3.00	-	-	5.00	-	0.03

Note: The U.S. dollar amounts are provided for convenience only and have been converted at the rate of ¥105.69 to \$1, the approximate rate of exchange in effect at March 31, 2004.

Consolidated Balance Sheets

Sodick Co., Ltd. and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash and cash equivalents (Notes 2,3 and 10)	¥ 8,229	¥ 7,921	\$ 77,861
Time deposits	219	369	2,073
Trade notes and accounts receivable (Notes 2 and 10)	17,712	13,360	167,586
Less-Allowance for doubtful accounts (Note 2)	(1,070)	(1,461)	(10,127)
Inventories (Note 2)			
Finished goods	3,299	3,202	31,213
Work in process and raw materials	7,339	6,272	69,436
Deferred income taxes (Notes 2 and 8)	321	77	3,034
Other current assets (Note 10)	2,112	3,518	19,989
	<u>38,161</u>	<u>33,258</u>	<u>361,065</u>
Property, plant and equipment, at cost (Notes 2,6 and 10):			
Land	7,842	7,730	74,199
Buildings and structures	12,653	12,451	119,723
Machinery and equipment	9,270	8,311	87,709
Leased machinery	2,089	2,288	19,759
Construction in progress	69	17	651
	<u>31,923</u>	<u>30,797</u>	<u>302,041</u>
Less-Accumulated depreciation	(14,162)	(13,624)	(133,994)
	<u>17,761</u>	<u>17,173</u>	<u>168,047</u>
Investments and other assets:			
Investment securities (Notes 2,5 and 10)	1,226	1,140	11,600
Deferred income taxes (Notes 2 and 8)	—	75	—
Other	2,041	1,861	19,311
	<u>3,267</u>	<u>3,076</u>	<u>30,911</u>
Total Assets	¥ 59,189	¥ 53,507	\$ 560,023

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current liabilities:			
Short-term borrowings (Note 9)	¥ 12,957	¥ 15,425	\$ 122,597
Current portion of long-term debt (Note 10)	5,820	5,944	55,065
Trade notes and accounts payable (Note 2)	10,940	6,839	103,513
Income taxes payable (Notes 2 and 8)	698	126	6,608
Accrued expenses and other current liabilities	4,285	2,911	40,537
	<u>34,700</u>	<u>31,245</u>	<u>328,320</u>
Long-term liabilities:			
Long-term debt (Note 10)	4,270	9,412	40,399
Liability for severance and retirement benefits (Notes 2 and 11)	758	258	7,169
Deferred income taxes (Notes 2 and 8)	178	—	1,688
Other long-term liabilities	442	516	4,188
	<u>5,648</u>	<u>10,186</u>	<u>53,444</u>
Minority Interest	3,272	2,337	30,957
Commitments and contingent liabilities (Note 14)			
Shareholders' Equity (Note 12):			
Common stock			
Authorised—98,000,000 shares at March 31, 2004 and 2003			
Outstanding—44,056,632 shares at March 31, 2004 and 40,845,097 shares at March 31, 2003	15,767	14,628	149,179
Additional paid-in capital	1,948	2,102	18,431
Accumulated deficit	(1,499)	(6,169)	(14,181)
Net unrealized holding gains (losses) on securities	263	(193)	2,486
Foreign currency translation adjustments	(883)	(623)	(8,356)
Less-Treasury stock, at cost:			
47,920 shares at March 31, 2004 and 21,490 shares at March 31, 2003	(27)	(6)	(257)
	<u>15,569</u>	<u>9,739</u>	<u>147,302</u>
Total liabilities and shareholders' equity	¥ 59,189	¥ 53,507	\$ 560,023

Consolidated statements of Operations

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales	¥ 44,702	¥ 37,344	\$ 422,957
Cost of sales	29,134	24,715	275,659
Gross profit	15,568	12,629	147,298
Selling, general and administrative expenses	10,809	10,470	102,272
Operating income	4,759	2,159	45,026
Other income (expenses):			
Interest expense	(577)	(758)	(5,460)
Interest and dividend income	57	73	536
Exchange loss, net	(569)	(643)	(5,380)
Loss from valuation of investment securities	(10)	(265)	(95)
Gains on sales of investment securities	893	—	8,452
Retirement benefits for directors	—	(401)	—
Loss from settlement of litigation	—	(476)	—
Prior service cost for directors' and statutory auditors' retirement benefits (Note 2)	(186)	—	(1,760)
Other, net	7	31	70
Total	(385)	(2,439)	(3,637)
Income (loss) before income taxes and minority interest	4,374	(280)	41,389
Income taxes (Notes 2 and 8)			
Current	792	135	7,493
Deferred	(358)	(21)	(3,382)
Total	434	114	4,111
Net income (loss) before minority interest	3,940	(394)	37,278
Minority interest	(556)	(446)	(5,263)
Net income (loss)	¥ 3,384	¥ (840)	\$ 32,015

	Yen	U.S. dollars
Net income (loss) per share (Note 13):		
Basic	¥ 78.26	¥ (20.57)
Diluted	68.32	—
Cash dividends, applicable to the year	3.00	—

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 March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Common stock:			
Beginning balance	¥ 14,628	¥ 14,628	\$ 138,407
Conversion of convertible bond	1,139	—	10,772
Ending balance	15,767	14,628	149,179
Additional paid-in capital:			
Beginning balance	2,102	6,386	19,890
Conversion of convertible bond	1,139	—	10,772
Transfer to accumulated deficit	(1,293)	(4,284)	(12,231)
Ending balance	1,948	2,102	18,431
Accumulated deficit:			
Beginning balance	(6,169)	(9,613)	(58,367)
Bonus to directors and corporate statutory auditors	(7)	—	(60)
Transfer from additional paid-in capital	1,293	4,284	12,231
Net income (loss)	3,384	(840)	32,015
Ending balance	(1,499)	(6,169)	(14,181)
Net unrealized holding gains (losses) on securities:			
Beginning balance	(193)	(41)	(1,830)
Increase (Decrease) in unrealized holding gains (losses) on securities	456	(152)	4,316
Ending balance	263	(193)	2,486
Foreign currency translation adjustment:			
Beginning balance	(623)	(385)	(5,901)
Adjustments from translation of foreign currency financial statements	(260)	(238)	(2,455)
Ending balance	(883)	(623)	(8,356)
Treasury stock:			
Beginning balance	(6)	(2)	(55)
Increase	(21)	(4)	(202)
Ending balance	¥ (27)	¥ (6)	\$ (257)

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

Consolidated Statements of Cash Flows

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities :			
Income (loss) before income taxes and minority interest	¥ 4,374	¥ (280)	\$ 41,389
Adjustments to reconcile income (loss) before income taxes and minority interest to net cash provided by operating activities :			
Depreciation and amortization	1,672	1,761	15,820
Amortization of goodwill	332	1	3,144
Increase (Decrease) in allowance for doubtful accounts	(255)	306	(2,414)
Interest and dividend income	(57)	(73)	(536)
Interest expenses	577	758	5,460
Exchange loss (gain)	81	(56)	765
Equity losses (gains) of affiliated companies	(64)	166	(609)
Loss from valuation of investment securities	10	265	95
Gains on sales of investment securities	(893)	—	(8,449)
Retirement benefits for directors and statutory auditors	—	401	—
Loss from settlement of litigation	—	476	—
Increase in retirement allowances for directors and statutory auditors	268	—	2,536
Decrease (Increase) in trade notes and accounts receivables	(4,688)	175	(44,358)
Decrease (Increase) in inventories	(1,617)	228	(15,298)
Increase in trade payables	4,373	1,553	41,376
Decrease in discounted trade notes	(10)	(376)	(100)
Increase (Decrease) in other payables	506	(29)	4,789
Other net	598	718	5,656
Sub total	5,207	5,994	49,266
Interest and dividends received	57	73	536
Interest paid	(626)	(771)	(5,920)
Retirement payments for directors and corporate auditors	—	(401)	—
Payments for settlement of litigation	—	(476)	—
Income taxes paid	(133)	(112)	(1,263)
Refundment of income taxes	—	89	—
Net cash provided by operating activities	4,505	4,396	42,619
Cash flows from investing activities :			
Decrease in time deposits	150	558	1,417
Payments for purchases of property, plant and equipment	(2,453)	(935)	(23,204)
Proceeds from sales of property, plant and equipment	383	245	3,627
Payments for acquisition of intangible assets	(114)	(148)	(1,080)
Payments for acquisition of investment securities	(6)	(58)	(55)
Proceeds from sales of investment securities	1,496	7	14,152
Payments for acquisition of subsidiaries and affiliated companies	(116)	(39)	(1,096)
Collection of loans receivables	207	161	1,958
Other net	43	158	405
Net cash used in investing activities	(410)	(51)	(3,876)
Cash flows from financing activities :			
Changes in short-term borrowings	(1,950)	763	(18,448)
Proceeds from long-term debt	3,644	1,988	34,478
Repayment of long-term debt	(4,149)	(2,509)	(39,254)
Proceeds from issuance of debenture bonds	440	—	4,163
Redemption of debenture bond	(2,924)	(997)	(27,666)
Proceeds from issuance of common stock to minority shareholders	1,392	2	13,172
Repayment of financial leases obligations	(48)	(190)	(459)
Cash dividends paid	(64)	(29)	(602)
Net cash used in financing activities	(3,659)	(972)	(34,616)
Effect of exchange rate on Cash and Cash equivalents	(128)	(79)	(1,213)
Net increase in cash and cash equivalents	308	3,294	2,914
Cash and cash equivalents beginning balance	7,921	4,627	74,947
Cash and cash equivalents ending balance (Note 3)	¥ 8,229	¥ 7,921	\$ 77,861

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

Notes to Consolidated Financial Statements

Sodick Co., Ltd. and Consolidated Subsidiaries

Note 1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Sodick, Co. Ltd. (the "Company") and its consolidated domestic subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statement of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Financial Bureau of 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 translations 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 March 31, 2004, which was ¥105.69 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.

Note 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 who 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 the periods to be benefited, mainly 5 years.

(b) Cash and Cash Equivalents

For the purpose of consolidated statements of cash flows, 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 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) Property, Plant and Equipment

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.

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of Fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption.

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

(j) Severance and Retirement Benefits

(1) 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 March 31, 2004 and 2003 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 March 31, 2001. Actuarial gains and losses are recognized as income or expenses using the declining-balance method over 10 years commencing with the following period.

(2) Directors' and statutory auditors' severance and retirement benefits

Retirement benefits to directors and statutory auditors in the amount of ¥236 million (\$2,233 thousand), which are included in "Liability for severance and retirement benefits" in the accompanying consolidated balance sheets, are subject to approval at a meeting of shareholders. Previously, severance and retirement benefits for directors and statutory auditors of the Company were recorded as expense when paid. However, for the purpose of more accurately matching them with the period in which they arise, an accrual method of recording such expenses has been employed from the fiscal year ended March 31, 2004. The directors' and statutory auditors' retirement benefits incurred for the period ended March 31, 2004 was ¥50 million (\$473 thousand) and was charged to selling, general and administrative expenses. The cumulative effect of this change in accounting policy was ¥186 million (\$1,760 thousand) and was charged to other expenses. As a result, at March 31, 2004, operating income decreased by ¥50 million (\$473 thousand) and net income before income taxes and minority interest decreased by ¥236 million (\$2,233 thousand) by the same amount compared with what would have been reported under the previous accounting policy.

(k) Research and Development

Research and development costs are charged to income as incurred. Total amounts charged to income were ¥1,311 million (\$12,404 thousand) and ¥1,112 million in 2004 and 2003, 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 deferred 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.

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) Reclassifications

Certain reclassifications within the financial statements for the year ended March 31, 2003 have been made to conform to the presentation for the year ended March 31, 2004.

Note 3 Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash on hand and in banks	¥ 8,448	¥ 8,290	\$ 79,934
Time deposits with the original maturity over three months	(219)	(369)	(2,073)
Cash and cash equivalents	¥ 8,229	¥ 7,921	\$ 77,861

Note 4 Statement of Cash Flows

(1) The amounts of assets and liabilities of newly consolidated subsidiaries

For the year ended March 31, 2004, the company newly consolidated subsidiaries (Sodick Hightech Co., Ltd, KHS Co., Ltd, J and S Co., Ltd, MIR Co., Ltd, Sodick Electron Co., Ltd). The amounts of assets and liabilities at the beginning of the consolidation period of newly consolidated subsidiaries utilized in the computation for the current year consolidation and the acquisition costs of investments are as follows:

	Sodick Hightech Co., Ltd.		KHS Co., Ltd.		J and S Co., Ltd.		MIR Co., Ltd.		Sodick Electron Co., Ltd.	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Current assets	9	90	16	153	51	485	14	132	12	113
Long-term assets	—	—	—	—	—	—	—	—	1	6
Goodwill	0	6	(6)	(56)	(4)	(40)	(3)	(25)	1	12
Current liabilities	(0)	(1)	(0)	(2)	(37)	(350)	(1)	(12)	(4)	(36)
Payment for purchases of subsidiaries' stock	10	95	10	95	10	95	10	95	10	95
Cash and cash equivalents	(9)	(89)	(10)	(95)	(10)	(95)	(10)	(95)	(10)	(95)
Acquisition cost of investment	1	6	0	0	0	0	0	0	0	0

(2) Noncash Investing and Financing Activities

(a) Conversion of Convertible bonds

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Increase in common stock	¥ 1,139	¥ —	\$ 10,772
Increase in additional paid-in capital	1,139	—	10,772
Decrease in convertible bonds	¥ 2,278	¥ —	\$ 21,544

(b) Finance lease obligations incurred

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finance lease obligations incurred	¥ 11	¥ 237	\$ 109
	¥ 11	¥ 237	\$ 109

Note 5 Investment Securities

The following tables summarize acquisition costs and book values stated at fair value of securities with available fair values as of March 31, 2004:

Available-for-sale securities

Securities with book values exceeding acquisition costs

2004	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 503	¥ 959	¥ 456	\$ 4,755	\$ 9,070	\$ 4,315
Others	32	36	4	306	344	38
Total	¥ 535	¥ 995	¥ 460	\$ 5,061	\$ 9,414	\$ 4,353

Securities with book values not exceeding acquisition costs

2004	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 94	¥ 75	¥ (19)	\$ 891	\$ 714	\$ (177)
Total	¥ 94	¥ 75	¥ (19)	\$ 891	\$ 714	\$ (177)

The following tables summarize book values of securities with no available fair values as of March 31, 2004:

2004	Book value	
	Millions of yen	Thousands of U.S. dollars
Non-consolidated subsidiaries and affiliates securities	¥ 145	\$ 1,371
Non-listed securities	11	101
Total	¥ 156	\$ 1,472

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

2004	Millions of yen				Thousands of U.S. dollars			
	Within one year	Within five years	Within ten years	Over ten years	Within one year	Within five years	Within ten years	Over ten years
Investment trust	¥ —	¥ —	¥ 2	¥ —	\$ —	\$ —	\$ 17	\$ —
Total	¥ —	¥ —	¥ 2	¥ —	\$ —	\$ —	\$ 17	\$ —

The following tables summarize acquisition costs and book values stated at fair value of securities with available fair values as of March 31, 2003:

Available-for-sale securities

Securities with book values exceeding acquisition costs

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

Securities with book values not exceeding acquisition costs

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

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

2003	Book value
	Millions of yen
Type	
Non-consolidated subsidiaries and affiliates securities	¥ 94
Non-listed securities	35
Total	¥ 129

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

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

Note 6 Leases

(a) Lessee

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and its consolidated subsidiaries as of March 31, 2004 and 2003, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized.

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
2004						
Machinery and equipment	¥ 1,473	¥ 570	¥ 903	\$ 13,939	\$ 5,392	\$ 8,547
Tools, furniture and other	76	33	43	719	313	406
	¥ 1,549	¥ 603	¥ 946	\$ 14,658	\$ 5,705	\$ 8,953
2003						
Machinery and equipment	¥ 1,670	¥ 586	¥ 1,084			
Tools, furniture and other	71	49	22			
	¥ 1,741	¥ 635	¥ 1,106			

Lease payments of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥297 million (\$2,810 thousand) and ¥263 million for the years ended March 31, 2004 and 2003, 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 March 31, 2004 and 2003, amounted to ¥297 million (¥2,810 thousand) and ¥263 million, respectively.

Future minimum payments (including the interest portion thereon) subsequent to March 31, 2004 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 ended March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 210	\$ 1,989
2006 and thereafter	736	6,964
	¥ 946	\$ 8,953

(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 March 31, 2004 and 2003.

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
2004						
Machinery and equipment	¥ 1,276	¥ 716	¥ 560	\$ 12,078	\$ 6,777	\$ 5,301
	¥ 1,276	¥ 716	¥ 560	\$ 12,078	\$ 6,777	\$ 5,301
2003						
Machinery and equipment	¥ 1,574	¥ 894	¥ 680			
	¥ 1,574	¥ 894	¥ 680			

Lease income of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥271million (\$2,564 thousand) and ¥308 million for the years ended March 31, 2004 and 2003, 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 March 31, 2004 and 2003 amounted to ¥208 million (\$1,968 thousand) and ¥218 million, respectively.

Future minimum income (including the interest portion thereon) subsequent to March 31, 2004 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 ended March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 225	\$ 2,125
2006 and thereafter	552	5,223
	¥ 777	\$ 7,348

Note 7 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 March 31, 2004 and 2003 of derivative transactions for which hedge accounting has not been applied:

Currency related

	Type	Millions of yen			Thousands of U.S. dollars				
		Year ended March 31, 2004			Year ended March 31, 2004				
		Contracted amount	Market value	Realized gains (Losses)	Contracted amount	Market value	Realized gains (Losses)	Contracted amount	
		Over one year							
Items not traded on exchanges	Exchange contract on seller's side								
	Euro	¥ 408	¥ —	¥ 385	¥ 23	\$ 3,861	\$ —	\$ 3,658	\$ 203
	U.S. dollars	108	—	106	2	1,021	—	1,000	21
	Total	¥ 516	¥ —	¥ 491	¥ 25	\$ 4,882	\$ —	\$ 4,658	\$ 224

Interest related

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

Note 8 Income Taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax, inhabitant tax and business tax.

Effective for years commencing on April 1, 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 March 31, 2003 and 40.5% for both current and non-current item at March 31, 2004.

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 March 31, 2004 and 2003:

	2004	2003
Statutory tax rate	42.0%	42.0%
Tax rate differences between Japan and foreign subsidiaries' countries	(1.9)	62.1
Non-deductible expenses	0.5	(9.2)
Per capital inhabitant tax	3.3	(18.3)
Loss carried forward	2.2	93.6
Effect on change in aggregate statutory income tax rates	—	(27.5)
Valuation allowance	(39.4)	(183.5)
Other	3.2	0.0
Effective tax rate	9.9%	(40.8)%

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Allowance for doubtful accounts	¥ 508	¥ 660	\$ 4,808
Loss from valuation of inventories	404	329	3,821
Accrued bonuses	151	92	1,424
Loss from valuation of securities	406	2,409	3,840
Loss carried forward	2,227	2,252	21,068
Other	942	451	8,917
Total deferred tax assets	4,638	6,193	43,878
Valuation allowance	(4,317)	(6,041)	(40,844)
Net deferred tax assets	¥ 321	¥ 152	\$ 3,034

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax liabilities			
Unrealized gain on available for sales securities	¥ 178	¥ —	\$ 1,688

Note 9 Short-term Borrowings

Short-term borrowings at March 31, 2004 and 2003 represent secured loans from the financial institutions.

The interest rates on short-term borrowings from banks and an insurance company were 0.5% to 4.7%, with the weighted average rate of 2.7% as of March 31, 2004 and 0.6% to 6.0% with the weighted average rate of 3.0% as of March 31, 2003, respectively.

Note 10 Long-term Debt

Long-term debt as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
1.0% to 6.1% mortgage loans from banks and financial institutions, due in installments through 2013	¥ 6,631	¥ 7,136	\$ 62,737
4.32% unsecured bonds, due in 2003	—	2,000	—
Zero coupon JPY convertible unsecured bonds payable			
Japanese yen, due in 2004	3,019	6,000	28,564
1.16% guaranteed bonds due in 2003	—	220	—
0.54% guaranteed bonds due in 2007	220	—	2,082
0.78% guaranteed bonds due in 2006	220	—	2,082
	10,090	15,356	95,465
Less-Current portion included in current liabilities	(5,820)	(5,944)	(55,066)
	¥ 4,270	¥ 9,412	\$ 40,399

The following assets as of March 31, 2004 and 2003 were pledged as collateral for certain loans.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and cash equivalents	¥ 135	¥ 332	\$ 1,277
Trade notes and accounts receivable	502	646	4,750
Other current assets	433	445	4,097
Property, plant and equipment with a net book value	10,025	12,411	94,853
Investments securities	¥ 763	¥ 720	\$ 7,219

The Company and its consolidated subsidiaries issued the Zero coupon JPY convertible bonds of ¥6,000 million at 11th September, 2000, the 0.78% debenture bonds of ¥220 million at 26th September, 2003, and the 0.54% debenture bonds of ¥220 million at 25th February 2004.

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 March 31, 2004, the convertible bonds of ¥2,981 million 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 of March 31, 2004, the aggregate annual maturity of long-term debt subsequent to March 31, 2004, were as follows:

Year ended March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 5,820	\$ 55,066
2006	1,383	13,084
2007	1,650	15,609
2008	630	5,957
2009	441	4,174
2010 and thereafter	166	1,575
	¥ 10,090	\$ 95,465

Note 11 Employees' Severance and Retirement Benefits

(1) Employees

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
	2004	2003	2004
Projected benefit obligation	¥ (1,610)	¥ (1,453)	\$ (15,237)
Less fair value of plan assets	835	681	7,903
Funded status	(775)	(772)	(7,334)
Unrecognized net transition obligation	44	82	414
Unrecognized actuarial loss	283	432	2,677
Liability for severance and retirement benefit, net	(448)	(258)	(4,243)
Prepaid pension expenses	—	0	—
Liability for severance and retirement benefit	¥ (448)	¥ (258)	\$ (4,243)

Included in the consolidated statements of operations for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service costs-benefits earned during the year	¥ 127	¥ 166	\$ 1,201
Interest cost on projected benefit obligation	32	32	305
Expected return on plan assets	(25)	(23)	(237)
Amortization of actuarial loss	89	64	844
Amortization of net transition obligation	44	33	414
Severance and retirement benefit expenses	¥ 267	¥ 272	\$ 2,527

The discount rates used by the Company were 2.0% for the years ended March 31, 2004 and 2003. And the rates of expected return on plan asset were 3.0% for the years ended March 31, 2004 and 2003, 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 and the net transition obligation cost is recognized as an expense in equal amounts over 5 years.

(2) Directors and statutory Auditors

As explained Note2 (j) (2), the liabilities for severance and retirement benefits for directors and statutory auditors included in the liability section of the consolidated balance sheet consist of ¥236 million (\$2,233 thousand) in 2004.

Note 12 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. In accordance with the Code, the declaration of annual and interim dividends and the related appropriations of retained earnings have not been reflected in the financial statements at the end of such fiscal or interim six-month periods.

Effective April 1, 2002, the Companies adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No.1, "Accounting Standards for Treasury Stock and Reversal of Statutory Reserves," issued by the Accounting Standards Board of Japan on February 21, 2002). The effect of the adoption of the new accounting standard on net income was not material.

On June 29, 2004, the general shareholders' meeting approved cash dividends of ¥132 million (\$1,249 thousand), or ¥3 (\$0.03) per share, payable to shareholders of record as of March 31, 2004, and bonuses to directors and statutory auditors of ¥46 million (\$435 thousand). In conformity with the Code, this declaration of cash dividends is not reflected in the consolidated financial statements as of March 31, 2004.

Note 13 Per Share Data

Dividends per share shown in the consolidated statements of income have been presented on the accrual basis and include, in each fiscal period, dividends approved after each balance sheet date, but applicable to the fiscal period then ended.

Basic net income per share is calculated by dividing the net income for the period attributable to common shareholders by the weighted average number of shares of common stock outstanding during the period.

Diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. The Zero-coupon JPY convertible bonds were considered as dilutive securities. In computing net income per share, net income is adjusted, net of income taxes, by interest expense when the inclusions are dilutive.

Effective April 1, 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 September 25, 2002.)

If calculated by the former manner, stockholders' equity, net income and diluted net income per share as of March 31, 2003 and for the year then ended would have been.

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

Note 14 Commitments and Contingent Liabilities

Under the Company's capital expenditure program, management estimates that approximately ¥1,036 million (\$9,802 thousand) will be expended during the year ended March 31, 2005.

As of March 31, 2004, the Company and certain subsidiaries were contingently liable for discounted notes receivable with banks of ¥2,233 million (\$21,128 thousand).

Note 15 Related Party Transactions

The Company purchases raw materials from Mep Co., Ltd. ("Mep"), and also receives the money related to supply of raw materials and rent of office and plant from Mep. A director and former director of the Company own more than 50% of Mep.

During the years ended March 31, 2004 and 2003, the Company had the following transactions with Mep:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Purchase of raw materials	¥ 1,136	¥ 792	\$ 10,749
Supply of raw materials	247	120	2,333
Receipt of rent	10	10	96
Acquisition of equity	50	—	473

Dues from and dues to Mep as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Trade notes and accounts payable	¥ 62	¥ 153	\$ 587
Other current assets	41	25	384

Note 16 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 software for FA network applications, ceramic products and related machine, and equipment for these machine.

	Millions of yen					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
2004						
Sales to third parties	¥ 30,726	¥ 9,088	¥ 4,888	¥ 44,702	¥ —	¥ 44,702
Intersegment sales and transfers	62	19	27	108	(108)	—
Total sales	30,788	9,107	4,915	44,810	(108)	44,702
Cost of sales and selling, general and administrative expenses	25,293	8,611	4,755	38,659	1,284	39,943
Operating income	5,495	496	160	6,151	(1,392)	4,759
Identifiable assets	35,972	8,063	7,533	51,568	7,621	59,189
Depreciation	1,130	149	333	1,612	60	1,672
Capital expenditure	¥ 1,549	¥ 841	¥ 397	¥ 2,787	¥ 8	¥ 2,795

	Thousands of U.S. dollars					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
2004						
Sales to third parties	\$ 290,717	\$ 85,992	\$ 46,248	\$ 422,957	\$ —	\$ 422,957
Intersegment sales and transfers	582	179	257	1,018	(1,018)	—
Total sales	291,299	86,171	46,505	423,975	(1,018)	422,957
Cost of sales and selling, general and administrative expenses	239,310	81,476	44,988	365,774	12,157	377,931
Operating income	51,989	4,695	1,517	58,201	(13,175)	45,026
Identifiable assets	340,351	76,285	71,278	487,914	72,109	560,023
Depreciation	10,688	1,411	3,157	15,256	564	15,820
Capital expenditure	\$ 14,653	\$ 7,962	\$ 3,754	\$ 26,369	\$ 72	\$ 26,441

	Millions of yen					
	Machine tools	Industrial tools	Others	Total	Eliminations and corporate	Consolidated
2003						
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

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 consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' 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 independently express an opinion 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 a 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 March 31, 2004 and 2003, 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.

Without qualifying our opinion, we draw attention to Note 2 (j) (2) to the consolidated financial statements from the fiscal year ended March 31, 2004, Sodick Co., Ltd. changed its accounting for directors' and statutory auditors' severance and retirement benefits.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 29, 2004

(b) Geographical Segment Information

Geographical segment information for the years ended March 31, 2004 and 2003 was as follows:

	Millions of yen						Eliminations and corporate	Consolidated
	Japan	America	Europe	Asia	Total			
2004								
Sales to third parties	¥ 30,885	¥ 2,519	¥ 3,494	¥ 7,804	¥ 44,702	¥ —	¥ 44,702	
Interarea sales and transfers	6,982	301	31	8,918	16,232	(16,232)	—	
Total sales	37,867	2,820	3,525	16,722	60,934	(16,232)	44,702	
Cost of sales and selling, general and administrative expenses	33,118	2,790	3,907	15,466	55,281	(15,338)	39,943	
Operating income	4,749	30	(382)	1,256	5,653	(894)	4,759	
Identifiable assets	¥ 43,958	¥ 1,865	¥ 3,836	¥ 13,710	¥ 63,369	¥ (4,180)	¥ 59,189	
2004								
	Thousands of U.S. dollars							
Sales to third parties	\$ 292,219	\$ 23,837	\$ 33,060	\$ 73,841	\$ 422,957	\$ —	\$ 422,957	
Interarea sales and transfers	66,062	2,845	290	84,381	153,578	(153,578)	—	
Total sales	358,281	26,682	33,350	158,222	576,535	(153,578)	422,957	
Cost of sales and selling, general and administrative expenses	313,351	26,395	36,968	146,336	523,050	(145,119)	377,931	
Operating income	44,930	287	(3,618)	11,886	53,485	(8,459)	45,026	
Identifiable assets	\$ 415,914	\$ 17,641	\$ 36,294	\$ 129,723	\$ 599,572	\$ (39,549)	\$ 560,023	
2003								
	Millions of yen							
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	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	

(c) Overseas Sales Information

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 2004 and 2003, were summarized as follows:

	Millions of yen				Thousands of U.S. dollars			
	America	Europe	Asia	Total	America	Europe	Asia	Total
2004								
Overseas sales	¥ 2,685	¥ 3,504	¥ 14,689	¥ 20,878	\$ 25,404	\$ 33,150	\$ 138,986	\$ 197,540
Consolidated net sales	—	—	—	44,702	—	—	—	422,957
Consolidated net sales to consolidated net sales	6.0%	7.8%	32.9%	46.7%	6.0%	7.8%	32.9%	46.7%
2003								
	Millions of yen							
Overseas sales	¥ 2,804	¥ 3,939	¥ 11,378	¥ 18,121				
Consolidated net sales	—	—	—	37,344				
Consolidated net sales to consolidated net sales	7.5%	10.5%	30.5%	48.5%				

Corporate Information



Corporate Profile

Corporate Name Sodick Co., Ltd.
Head Office 3-12-1 Nakamachidai, Tsuzuki-ku,
 Yokohama, Kanagawa 224-8522, Japan
 Tel: 045-942-3111 Fax: 045-943-5835
Established August 3, 1976
Capital ¥ 15,766,739,258 yen
Employees 285(2,402 consolidated)
Connection subsidiary 30
Main Products CNC die-sinking EDM
 CNC wire-cut EDM
 Small Hole Drilling EDM
 Nano Machine
 Machining Center
 CAD/CAM system for Mold Design System
 Injection Molding Machines
 Linear Servo Motor
 Press Center
 Precision Ceramic Parts
 PIKA Finish Machine EBM
 EDM Consumables and peripheries

Board of Directors and Corporate Auditors

Chairman Masaaki Suzuki
 President Shigeo Shioda
 Senior Managing Director Takashi Yamamoto
 Kazuo Katoh
 Managing Director Koji Taki
 Director Katsuhide Fujiwara
 Sadao Sano
 Takeshi Ichikawa
 Yuji Kaneko
 Tomohide Kawamoto
 Standing Statutory Auditor Haruhiko Nishijima
 Statutory Auditors Sadao Simoyama
 Saeji Kusunoki
 Sakuo Ueno

Company Location

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 Excallbur Centre,
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