

1. Significant accounting policies

(a) Basis of preparation

Oki Electric Industry Co., Ltd. (the "Company"), and its domestic consolidated subsidiaries (collectively the "Group" including its foreign subsidiaries) maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Prime Minister as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan. Accordingly, the consolidated financial position, results of operations and cash flows presented in the accompanying financial statements may differ in certain material aspects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

Certain amounts from prior years have been reclassified to conform to the current year's presentation.

In March 1998, the Business Accounting Deliberation Council of Japan issued a new accounting standard for statements of cash flows, which became effective the year ended March 31, 2000. Prior to the issuance of this standard, there existed no accounting standard for the preparation of statements of cash flows in Japan and, accordingly, the Company and its subsidiaries had prepared their statements of cash flows in a format similar to that required under accounting standards generally accepted in the United States.

The Company and its subsidiaries adopted the new accounting standard effective the year ended March 31, 2000. However, the accompanying consolidated statement of cash flows for the years ended March 31, 2001 and 2000 have not been prepared under the exact format in accordance with the new standard because the Group considers that it is critical to maintain consistency with those prepared in prior years and the concept and format are almost the same as those under the new standard.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

In accordance with the accounting standards for consolidation issued by the Business Accounting Deliberation Council, effective April 1, 1999, the accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. However, the adoption of the new standards did not have an impact on the consolidated financial statements for the year ended March 31, 2000. All significant intercompany balances and transactions have been eliminated in consolidation. After allocation to the respective assets based on the fair value of such assets at their dates of acquisition, the difference between the cost and the underlying equity in the net assets acquired from subsidiaries and affiliates (companies over which the Group has the ability to exercise significant influence) accounted for on an equity basis is amortized by the straight-line method over a certain period within 20 years if such difference is material.

Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are stated at cost or less.

Where there has been permanent impairment in the value of such investments, the Company has written down its investments to reflect the impairment.

(c) Translation of foreign currencies

(1) The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the rates of exchange in effect at the balance sheet date. The balance sheet accounts, except for the components of shareholders' equity, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

The differences arising from translation where two exchange rates have been used are presented as translation adjustments in the accompanying consolidated financial statements as a component of shareholders' equity.

(2) Current and non-current monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the rate in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts, which are translated at the contracted rates.

All revenues and expenses are translated at the average rate for the month prior to the transaction.

Gains and losses arising from exchange differences are credited or charged to income in the year in which they are incurred, except for those arising from forward foreign exchange contracts pertaining to long-term debt, which are deferred and amortized over the periods of the respective contracts.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities

Held-to-maturity securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition costs and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of shareholders' equity and is reflected as "net unrealized holding gains on other securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

(f) Inventories

Inventories are principally stated at cost determined by the following methods:

- Finished goods—Moving average method
- Work in process—Specific-identification method
- Raw materials and supplies—Last purchase price method

(g) Property, plant and equipment, and depreciation

Property, plant and equipment is recorded at cost, except that, as permitted by the Corporation Tax Law of Japan, the cost of certain land and machinery and equipment has been reduced to offset capital gains from the disposal of certain assets.

Depreciation of property, plant and equipment is principally computed by the declining-balance method over the estimated useful lives

of the respective assets. However, buildings (excluding leasehold improvements) acquired after April 1, 1998 by the Group are depreciated by the straight-line method over the estimated useful lives of the respective assets. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets and amortization

Intangible assets, including computer software costs capitalized, are amortized by the straight-line method over their estimated useful lives.

(i) Leases

Noncancelable leases are primarily accounted for as operating leases (regardless of whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(j) Retirement benefits

The Group has severance benefit plans covering substantially all its employees. An employee who terminates employment with the Company receives approximately 60% of such benefits in the form of a lump-sum payment, or as pension annuity payments from the pension plans with the remainder in a lump-sum payment from the unfunded severance benefit plan. Severance benefits are based on the compensation at the time of termination, years of service and certain other factors.

An allowance for retirement benefits has been provided for employees' retirement benefits, based on an estimate of the projected retirement benefit obligation and the pension fund assets.

Actuarial gains and losses are amortized by the straight-line method over a period of 14 years, which is within the estimated average remaining years of service of the Group's employees. The amortization of such gains and losses is recognized effective the year subsequent to the year in which they are incurred.

The Group also provides an allowance for retirement benefits for directors at the amount that would be required to be paid if all directors retired at the balance sheet date, based on the Group's internal rules.

(k) Income taxes

Deferred income taxes are recognized by the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the difference between financial reporting and the tax basis of the assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(l) Hedge accounting

Forward foreign exchange contracts are accounted for by deferral hedge accounting, which requires that unrealized gains or losses be deferred as liabilities or assets. Forward foreign exchange contracts that meet certain criteria are accounted for by the allocation method, which is utilized to hedge against risk arising from fluctuations in foreign exchange rates. Interest rate swaps that meet the required criteria are accounted for by a special method (as stipulated in the accounting standards) as if the interest rates applied to the interest rate swaps had originally applied to the underlying borrowings. Swap contracts are utilized to hedge market risks that may arise in the future market with respect to short-term loans, long-term loans and bonds at variable interest rates.

The Group has developed hedging policies to control various aspects of derivative transactions, including authorization levels and transaction volumes. Based on these policies, the Group hedges the

risks arising from fluctuations in foreign currency exchange rates and interest rates. During the period from the commencement of hedging to the assessment of its effectiveness, the Group reviews the effectiveness of all hedging policies in order to monitor and control cumulative cash flows and to respond to any changes in the market.

(m) Adoption of new accounting standards

For retirement benefits: Effective the year ended March 31, 2001, the Group adopted a new accounting standard for retirement benefits ("Opinion Concerning the Establishment of an Accounting Standard for Retirement Benefits," issued by the Business Accounting Deliberation Council (the "BADC") on June 16 1998). The effect of this change was to increase the cost of retirement benefits by ¥7,726 million (\$62,307 thousand), and to decrease income before income taxes, minority interests and equity in losses of affiliates by ¥7,340 million (\$59,194 thousand) as compared with the amounts that would have been recorded under the method applied in the previous fiscal year.

With respect to the presentation in the balance sheets, accrued severance indemnities and accrued prior service cost of the employees' tax-qualified pension plan have been included in the allowance for retirement benefits.

For financial instruments: Effective the year ended March 31, 2001, the Group adopted a new accounting standard for financial instruments ("Opinion Concerning Establishment of an Accounting Standard for Financial Instruments," issued by the BADC on January 22, 1999). The effect of this change was to increase income before income taxes, minority interests and equity in losses of affiliates by ¥359 million (\$2,898 thousand), over the amount that would have been recorded if the method applied in the previous year had been followed.

The accounting standard requires the Group to classify its securities into the following three categories: trading, held-to-maturity and other. At the beginning of the year, the Group reviewed the classification of all its securities. Based on this classification, any trading, held-to-maturity and other securities with a maturity of less than one year have been included in current assets. All other securities have been included in other investments in securities as noncurrent assets. As a result, at April 1, 2000, securities in current assets decreased by ¥46,333 million (\$373,653 thousand) and other investments in securities, in noncurrent assets, increased by the same amount.

For foreign currency transactions: Effective the year ended March 31, 2001, the Company adopted a revised accounting standard for foreign currency transactions ("Opinion Concerning the Establishment of Accounting Standards for Foreign Currency Transactions," issued by the BADC on October 22, 1999). As a result, long-term monetary receivables and payables denominated in foreign currencies, which had formerly been translated into yen at the historical rates of exchange in effect at the dates of the respective transactions, have been translated into yen at the rate of exchange in effect at the balance sheet date. The effect of this change was to decrease income before income taxes, minority interests and equity in losses of affiliates by ¥444 million (\$3,582 thousand) from the amount that would have been recorded if the method applied in the previous year had been followed.

Foreign currency translation adjustments were presented under assets in the prior year's consolidated financial statements. Effective the current year, they have been included in shareholders' equity and minority interests as a result of an amendment to the "Regulations Concerning the Terminology, Forms and Method of Preparation of Consolidated Financial Statements."

2. U.S. dollar amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥124=US\$1.00, the approximate exchange rate

- prevailing on March 31, 2001. The translation should not be construed
- as a representation that yen have been, could have been, or could in the
- future be converted into U.S. dollars at that or any other rate.

3. Securities

At March 31, 2001, securities with quoted market prices, which have been reclassified under the new accounting standard for financial instruments, are summarized as follows:

Held-to-maturity securities with quoted market prices

	Millions of yen			Thousands of U.S. dollars		
	Amount recorded in the balance sheet	Quoted market price	Difference	Amount recorded in the balance sheet	Quoted market price	Difference
Held-to-maturity securities whose market values exceed the amounts recorded in the balance sheet:						
Debt securities	¥ 500	¥ 500	¥—	\$ 4,037	\$ 4,038	\$ 1
Subtotal	¥ 500	¥ 500	¥—	\$ 4,037	\$ 4,038	\$ 1
Held-to-maturity securities whose market values do not exceed the amounts recorded in the balance sheet:						
Debt securities	¥4,680	¥4,679	¥ (1)	\$37,741	\$37,733	\$(8)
Subtotal	¥4,680	¥4,679	¥ (1)	\$37,741	\$37,733	\$(8)
Total	¥5,180	¥5,179	¥—	\$41,779	\$41,772	\$(6)

Other securities with quoted market prices

	Millions of yen			Thousands of U.S. dollars		
	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:						
Equity securities	¥ 9,382	¥25,979	¥16,596	\$ 75,669	\$209,515	\$133,846
Debt securities	151	151	—	1,219	1,222	3
Other	314	316	1	2,536	2,552	15
Subtotal	¥ 9,848	¥26,448	¥16,599	\$ 79,425	\$213,290	\$133,865
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:						
Equity securities	¥31,496	¥22,203	¥ 9,292	\$254,000	\$179,062	\$ 74,938
Debt securities	178	177	—	1,436	1,431	5
Other	—	—	—	—	—	—
Subtotal	¥31,674	¥22,381	¥ 9,293	\$255,437	\$180,493	\$ 74,944
Total	¥41,522	¥48,829	¥ 7,306	\$334,862	\$393,784	\$ 58,921

At March 31, 2001, other securities without quoted market prices are summarized as follows:

	Millions of yen	Thousands of U.S. dollars		Millions of yen
	Amount recorded in the balance sheet			
Other investments in securities:				
Medium-term treasury funds	¥ 141	\$ 1,140	• Carrying value of:	
Unlisted equity securities	11,126	89,732	• Marketable equity securities	¥41,635
Beneficiary certificates of			• Bonds	21,685
bond investment trusts	20	162	• Other stocks and securities	15,774
			• Other	1,110
				¥80,206
			• Market value of marketable equity securities	¥59,717

4. Inventories

Inventories at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished goods	¥ 56,375	¥ 46,941	\$ 454,643
Work in process	50,379	51,236	406,288
Raw materials and supplies	49,207	42,467	396,836
	¥155,963	¥140,644	\$1,257,767

5. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Investments stated:			
By the equity method	¥3,900	¥3,643	\$31,457
At cost or less	4,748	4,400	38,297
Advances	1,058	1,003	8,538
	¥9,708	¥9,047	\$78,293

6. Short-term borrowings and long-term debt

Short-term borrowings are generally unsecured and represent notes. The weighted average interest rates for the years ended March 31, 2001 and 2000 were both approximately 1.3%.

Long-term debt at March 31, 2001 and 2000 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Loans from banks, insurance companies and government agencies, due through 2022 at rates of up to 8.0%:			
Secured	¥ 2,760	¥ 3,000	\$ 22,258
Unsecured	95,239	112,704	768,059
	97,999	115,704	790,317
Unsecured convertible bonds:			
2.2% bonds in yen due 2004	32,188	32,188	259,580
1.8% bonds in yen due 2001	17,543	17,543	141,475
Unsecured bonds in yen:			
2.45% bonds due 2001	—	9,500	—
3.05% bonds due 2003	8,700	10,000	70,161
3.05% bonds due 2002	15,100	20,000	121,774
3.15% bonds due 2006	20,000	20,000	161,290
2.175% bonds due 2002	8,200	9,900	66,129
2.65% bonds due 2007	10,000	10,000	80,645
Floating rate* bonds due 2004	5,000	5,000	40,322
2.625% bonds due 2001	—	9,000	—
3.00% bonds due 2005	10,000	10,000	80,645
2.82% bonds due 2004	10,000	10,000	80,645
2.00% bonds due 2001	4,900	5,000	39,516
2.59% bonds due 2001	—	5,000	—
2.37% bonds due 2002	—	5,000	—
	239,630	293,835	1,932,503
Less: Current portion	(42,789)	(38,166)	(345,072)
	¥196,841	¥255,669	\$1,587,430

*Represents a rate linked to yen interest rate swap for 10 years (1.858% at the date of issuance of the bonds).

At March 31, 2001, short-term and long-term debt aggregating to ¥2,789 million (\$22,499 thousand) were collateralized by property, plant and equipment which amounted to ¥2,801 million (\$22,593 thousand).

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness will be given at the request of a lending bank, and that the bank shall have the right, as the obligations become due, or in the event of default, to offset any cash deposited against such obligations.

Convertible bonds, unless previously redeemed, are convertible into shares of common stock of the Company at the following conversion prices:

	Conversion price per share	Conversion period
2.2% bonds in yen due 2004	¥1,050.00	November 1, 1988 to March 30, 2004
1.8% bonds in yen due 2001	¥1,145.00	November 1, 1989 to September 27, 2001

The bonds are redeemable at the Company's option, in whole or in part, at the following redemption prices together with the accrued interest to the date of redemption:

	Redemption price (% of the principal amount)	Redeemable on or after
2.2% bonds due 2004	106%–100%	April 1, 1997
1.8% bonds due 2001	105%–100%	October 1, 1995

Under the terms of the issues, the conversion prices of the convertible bonds are subject to adjustment in certain cases, which include stock splits.

A sufficient number of shares of common stock is reserved for the conversion of all outstanding convertible bonds.

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥ 42,789	\$ 345,072
2003	67,565	544,886
2004	26,902	216,953
2005	23,250	187,504
2006 and thereafter	79,122	638,086
	¥239,630	\$1,932,503

The Group has access to substantial sources of funds at numerous banks worldwide. Total unused credit available to the Group at March 31, 2001 was ¥89,903 million (\$725,025 thousand), including ¥30,000 million (\$241,935 thousand) of credit commitments with various Japanese banks. The Company compensates the banks for the credit commitments in the form of fees, which were insignificant.

7. Retirement benefits

The Group has noncontributory defined benefit pension plans, contributory defined benefit pension plans pursuant to the Welfare Pension Insurance Law of Japan, and lump-sum retirement payment plans which cover substantially all employees who terminate their employment with the Group. The Oki Electric Industries Welfare Pension Fund established by the Company has become the multi-employers' fund (the "Fund"), which 34 consolidated subsidiaries have joined. Certain foreign consolidated subsidiaries have defined benefits and defined contribution pension plans. In addition, eligible employees, upon

termination of their employment with the Group, may receive certain additional payments under the plans.

The following is a summary of the plans.

Retirement benefit obligation at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥(283,168)	\$(2,283,616)
Fair value of plan assets	142,712	1,150,907
Funded status	(140,455)	(1,132,709)
Transition differences arising from initial adoption of a new accounting standard for retirement benefits	89,100	718,554
Unrecognized actuarial loss	27,720	223,554
Obligation recognized in the consolidated balance sheet	(23,634)	(190,599)
Prepaid pension cost	53	432
Allowance for retirement benefits	¥ (23,687)	\$ (191,031)

- (1) The information in the above table includes the portion substituted by the Fund for the noncontributory pension plans under the governmental welfare pension program.
- (2) Certain consolidated subsidiaries have adopted a simplified method, as permitted, to calculate their projected benefit obligations.

Components of net periodic pension cost for the year ended March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Service cost during the year	¥ 8,953	\$ 72,204
Interest cost on projected benefit obligation	9,265	74,720
Expected return on assets	(6,047)	(48,770)
Amortization of obligation at transition	9,567	77,161
Amortization of actuarial difference	—	—
Net periodic pension cost	¥21,739	\$175,316

- (1) Additional retirement payments of ¥1,705 million (\$13,757 thousand) were paid in addition to the net periodic pension cost in the above table.
- (2) Employees' contributions to the Fund were excluded from the net periodic pension cost in the above table.
- (3) The allowance for retirement benefits was determined by the simplified method by certain consolidated subsidiaries and their net periodic pension cost has been included in service cost of benefits earned during the year.

Assumptions used in the actuarial calculation:

Actuarial cost method:	Projected unit credit method
Discount rate:	3.5% per annum
Expected rate of return:	4.0% per annum
Amortization period for actuarial difference:	14 years (amortized by the straight-line method as a certain period within the employees' average remaining service years, effective the year subsequent to the period when such difference incurred)

Amortization period for transition obligations arising from the initial adoption of a new accounting method:	15 years, except for certain consolidated subsidiaries who charged or credited to income when incurred
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8. Income taxes

Deferred tax assets (liabilities) at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Loss carryforwards	¥ 22,742	¥ 30,281	\$ 183,409
Nondeductible accrued bonuses	3,730	2,320	30,082
Nondeductible severance indemnities	5,627	1,940	45,379
Elimination of intercompany profit	1,401	1,654	11,299
Other	2,260	2,407	18,233
Gross deferred tax assets	35,762	38,604	288,405
Less: Valuation allowance	(15,988)	(11,594)	(128,936)
Total deferred tax assets	19,774	27,009	159,468
Deferred tax liabilities:			
Tax purpose reserve (special reserve)	(7,426)	(7,539)	(59,887)
Net unrealized holding gains on other securities	(3,112)	—	(25,102)
Other	(114)	(515)	(919)
Gross deferred tax liabilities	(10,652)	(8,055)	(85,909)
Net deferred tax assets	¥ 9,121	\$ 18,954	\$ 73,558

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Other current assets	¥ 9,787	¥ 9,845	¥ 78,933
Other assets	3,753	9,115	30,271
Other current liabilities	(12)	(1)	(101)
Other long-term liabilities	(4,407)	(6)	(35,544)
Net deferred tax assets	¥ 9,121	¥18,954	¥ 73,558

Total income tax benefits for the years ended March 31, 2001 and 2000 resulted in effective tax benefit rates of 55.3% and 78.3%, respectively. The differences between the aggregate statutory rate in Japan (42.0%) and the effective rates on pretax income are summarized as follows:

	2001	2000
Statutory rate	42.0%	42.0%
Addition (deduction) in income taxes resulting from:		
Increase in valuation allowance recognized on loss of subsidiaries	12.6	17.8
Intercompany profit in excess of taxable income	—	14.2
Permanent differences nondeductible such as entertainment expense	3.5	10.3
Permanent differences unrecognized for tax purpose such as dividends received	(3.4)	(8.1)
Other, net	0.6	2.1
Effective tax rate	55.3%	78.3%

9. Legal reserve and special reserves

Special reserves are stated in accordance with the Special Taxation Measures Law and the Commercial Code of Japan. The reserves are deducted from taxable income when provided and reversed to taxable income in subsequent years, which results in a deferral of income tax payments.

The Commercial Code of Japan provides that an amount equivalent to at least 10% of all cash appropriations of retained earnings, and exactly 10% of interim cash dividends, be transferred to the legal reserve until the reserve equals 25% of the stated amount of common stock. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to eliminate or reduce a deficit by resolution of the shareholders or may be transferred to the common stock by resolution of the Board of Directors.

Retained earnings in the accompanying financial statements include the legal reserve of ¥7,793 million (\$62,850 thousand) as of March 31, 2001.

10. Depreciation

The provision for depreciation of property, plant and equipment for the years ended March 31, 2001, 2000 and 1999 was as follows:

Millions of yen			Thousands of U.S. dollars
2001	2000	1999	2001
¥39,040	¥37,771	¥42,910	\$314,845

11. Research and development expenses

Research and development expenses for the years ended March 31, 2001, 2000 and 1999, were as follows:

Millions of yen			Thousands of U.S. dollars
2001	2000	1999	2001
¥29,842	¥29,509	¥40,912	\$240,661

12. Derivative and hedging activities

The Company and its subsidiaries primarily utilize comprehensive forward foreign exchange and currency swap contracts to hedge their exposure to foreign exchange fluctuations arising from operating receivables and payables. The Company and its subsidiaries also utilize interest swap contracts to avoid risks of interest rate fluctuations and to equalize financial costs for each financial year regarding short-term and long-term debt with variable interest rates. As a matter of policy, the Company and its subsidiaries do not speculate in derivatives, which may have huge market value fluctuations. The Company and its subsidiaries do not anticipate credit risk resulting from nonperformance by any of the counterparties because all such counterparties are financial institutions with high credit ratings. The Company and its subsidiaries have internal rules for derivative transactions, which prescribe managers' duties, management of transactions and a reporting system. The derivative transactions are controlled daily by the financial section, which has an internal control system to supervise the procedures and transaction limits, and are confirmed to financial institutions by the accounting section.

13. Leases

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥4,572 million (\$36,875 thousand), ¥6,124 million and ¥7,998 million for the years ended March 31, 2001, 2000 and 1999, respectively.

Leased assets under finance leases accounted for as operating leases were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ended March 31, 2001		
Machinery and equipment	¥15,343	\$123,739
Other	9	75
Less: Accumulated amortization	7,625	61,492
	¥ 7,728	\$ 62,322

Amortization is computed by applying the straight-line method over the estimated useful lives of the related assets and assuming that the Company guarantees a nil residual value at the end of the term of each of the leases.

The following is a schedule of the future minimum lease payments under finance leases accounted for as operating leases:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2002	¥ 3,109	\$ 25,074
2003 and thereafter	4,618	37,248
	¥ 7,728	\$ 62,322

The minimum rental payments subsequent to March 31, 2001 required under operating leases with noncancelable lease terms in excess of one year are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2002	¥ 26	\$ 212
2003 and thereafter	40	323
	¥ 66	\$ 536

14. Contingent liabilities

At March 31, 2001, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
As endorsers of trade notes discounted and endorsed	¥ 1,002	\$ 8,084
As guarantors of indebtedness of:		
Unconsolidated subsidiaries and affiliates	3,037	24,499
Other	5,096	41,100
Debt assumption agreements with trustees	10,000	80,645
	¥19,136	\$154,328

15. Amounts per share

Basic net income (loss) per share shown below is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income (loss) per share is based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

Net assets per share are based on the number of shares of common stock outstanding at each balance sheet date.

	Yen			U.S. dollars
	2001	2000	1999	2001
Net income (loss):				
Basic	¥14.61	¥ 1.87	¥(77.46)	\$0.12
Diluted	14.52	—	—	0.12

	Yen			U.S. dollars
	2001	2000	1999	2001
Net assets	¥243.12	¥232.86	¥230.77	\$1.96

Diluted net income (loss) per share for the years ended March 31, 2000 and 1999 have not been presented because there would have been no dilutive effect on any assumed conversion of convertible bonds for the year ended March 31, 2000, and because net loss was recorded for the year ended March 31, 1999.

16. Subsequent event

On June 28, 2001, the shareholders of the Company approved the following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00=US\$0.04 per share) ..	¥(3,061)	\$(24,686)
Reversal of special reserve	2,033	16,401
Provision for special reserve	(1,342)	(10,825)

17. Segment information

In previous years, the Group classified its businesses into one business segment to provide products with respect to information telecommunication systems which included telecommunications, information systems and electronic devices.

Effective the year ended March 31, 2001, in order to provide more useful information, the Group reclassified its businesses into information systems, telecommunications systems, electronic devices and other.

The business segment information for the year ended March 31, 2001 is summarized as follows:

	Millions of yen						
	Information Systems	Telecommunications Systems	Electronic Devices	Other	Total	Corporate and Eliminations	Consolidated
Year ended March 31	2001						
Sales to third parties	¥ 352,418	¥ 163,330	¥ 181,978	¥ 42,523	¥ 740,250	¥ —	¥ 740,250
Intersegment sales and transfers	15,073	6,547	17,328	37,037	75,987	(75,987)	—
Total sales	367,492	169,877	199,306	79,561	816,237	(75,987)	740,250
Operating expenses	366,007	162,676	169,420	78,314	776,419	(64,483)	711,935
Operating income	¥ 1,485	¥ 7,200	¥ 29,886	¥ 1,246	¥ 39,818	¥ (11,503)	¥ 28,314
Total assets	¥ 246,044	¥ 121,378	¥ 167,665	¥ 53,921	¥ 589,010	¥ 143,472	¥ 732,483
Depreciation	¥ 16,080	¥ 6,142	¥ 22,972	¥ 1,386	¥ 46,582	¥ 2,668	¥ 49,251
Capital expenditures	¥ 14,066	¥ 3,881	¥ 30,040	¥ 2,435	¥ 50,424	¥ 1,296	¥ 51,720

	Thousands of U.S. dollars						
	Information Systems	Telecommunications Systems	Electronic Devices	Other	Total	Corporate and Eliminations	Consolidated
Year ended March 31	2001						
Sales to third parties	\$2,842,087	\$1,317,180	\$1,467,564	\$342,930	\$5,969,763	\$ —	\$5,969,763
Intersegment sales and transfers	121,564	52,799	139,745	298,691	612,800	(612,800)	—
Total sales	2,963,652	1,369,979	1,607,310	641,621	6,582,564	(612,800)	5,969,763
Operating expenses	2,951,675	1,311,910	1,366,293	631,570	6,261,448	(520,031)	5,741,417
Operating income	\$ 11,976	\$ 58,069	\$ 241,017	\$ 10,051	\$ 321,115	\$ (92,769)	\$ 228,345
Total assets	\$1,984,230	\$ 978,858	\$1,352,142	\$434,852	\$4,750,084	\$1,157,037	\$5,907,121
Depreciation	\$ 129,678	\$ 49,538	\$ 185,261	\$ 11,185	\$ 375,664	\$ 21,520	\$ 397,185
Capital expenditures	\$ 113,439	\$ 31,303	\$ 242,259	\$ 19,644	\$ 406,647	\$ 10,453	\$ 417,100

(1) Business segments are divided into categories based on the nature of the products or services rendered and the similarity of sales methodology.

(2) Eliminations or unallocated amounts of operating expenses consist principally of expenses in the Company's General and Administrative Department and research and development costs in the Group, which amounted to ¥11,079 million (\$89,350 thousand).

(3) Eliminations or unallocated amounts of total assets consist principally of the Company's surplus funds, funds for long-term investments and assets belong to the General and Administrative Department, which amounted to ¥203,922 million (\$1,644,532 thousand).

(4) Included in depreciation and capital expenditures are amortization and additions to long-term prepaid expenses, respectively.

