

## 1. Significant accounting policies

### (a) Basis of preparation

Oki Electric Industry Co., Ltd. (the “Company”), and its domestic consolidated subsidiaries (collectively and including its foreign subsidiaries, the “Group”) maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied 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.

The accompanying consolidated statements of cash flows have not been prepared under exactly the same format as that specified in the Japanese standards for cash flows because the Group considers that it is critical to maintain consistency between this year’s cash flow statement and those prepared in prior years when there was no standard for statements of cash flows in Japan. The accompanying consolidated statements of cash flows are presented in a format similar to that required under accounting standards generally accepted in the United States, and the concept and format are almost the same as those required under the Japanese standard.

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

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. 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 and 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 them down 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 average rates of exchange in effect during the year. 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 under translation adjustments as a component of shareholders’ equity in the accompanying consolidated financial statements.

• (2) Current and noncurrent monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the exchange rates 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 their estimated useful lives. Significant renewals and betterments are capitalized at cost. Maintenance and repairs are charged to income.

### (h) Intangible assets and amortization

• Intangible assets, including capitalized computer software costs, 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 and prior service cost 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 bases 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 assets or liabilities. Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method, which is utilized to hedge against risks arising from fluctuations in foreign exchange rates. Interest rate swaps which 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 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 and to decrease income before income taxes, minority interests and equity in losses of affiliates by ¥7,340 million as compared with the amounts that would have been recorded if the method applied in the previous fiscal year had been followed.

• 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 the 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 over the amount that would have been recorded if the method applied in the previous year had been followed.

• This accounting standard also 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 and other investments in securities in noncurrent assets increased by the same amount.

• **For foreign currency translation:** 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 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 consolidated financial statements prior to the year ended March 31, 2001. Effective the year ended March 31, 2001, 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 ¥133=US\$1.00, the approximate exchange rate prevailing on March 31, 2002. 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

Securities with quoted market prices at March 31, 2002 and 2001, 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	Amount recorded in the balance sheet	Quoted market price	Difference
	2002			2001			2002		
Held-to-maturity securities whose market values exceed the amounts recorded in the balance sheet:									
Debt securities .....	¥ —	¥ —	¥ —	¥ 500	¥ 500	¥—	\$ —	\$ —	\$ —
Subtotal .....	¥ —	¥ —	¥ —	¥ 500	¥ 500	¥—	\$ —	\$ —	\$ —
Held-to-maturity securities whose market values do not exceed the amounts recorded in the balance sheet:									
Debt securities .....	¥1,130	¥1,069	¥(60)	¥4,680	¥4,679	¥(1)	\$8,496	\$8,041	\$(454)
Subtotal .....	¥1,130	¥1,069	¥(60)	¥4,680	¥4,679	¥(1)	\$8,496	\$8,041	\$(454)
Total .....	¥1,130	¥1,069	¥(60)	¥5,180	¥5,179	¥—	\$8,496	\$8,041	\$(454)

#### 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	Acquisition costs	Amount recorded in the balance sheet	Difference
	2002			2001			2002		
Other securities whose market values recorded in the balance sheet exceed their acquisition costs:									
Equity securities .....	¥ 4,967	¥11,122	¥ 6,154	¥ 9,382	¥25,979	¥16,596	\$ 37,349	\$ 83,624	\$ 46,275
Debt securities .....	—	—	—	151	151	—	—	—	—
Other .....	316	317	1	314	316	1	2,378	2,385	7
Subtotal .....	¥ 5,283	¥11,439	¥ 6,155	¥ 9,848	¥26,448	¥16,599	\$ 39,727	\$ 86,010	\$ 46,283
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:									
Equity securities .....	¥16,849	¥14,518	¥(2,330)	¥31,496	¥22,203	¥(9,292)	\$126,687	\$109,163	\$(17,524)
Debt securities .....	39	39	—	178	177	—	295	294	—
Other .....	100	97	(2)	—	—	—	753	734	(18)
Subtotal .....	¥16,988	¥14,655	¥(2,333)	¥31,674	¥22,381	¥(9,293)	\$127,735	\$110,192	\$(17,543)
Total .....	¥22,272	¥26,095	¥ 3,822	¥41,522	¥48,829	¥ 7,306	\$167,463	\$196,203	\$ 28,740

Other securities without quoted market prices at March 31, 2002 and 2001, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2002	2001	2002
Other investments in securities:			
Medium-term government bond fund .....	¥ 100	¥ 141	\$ 752
Money management fund .....	900	—	6,770
Unlisted equity securities .....	10,838	11,126	81,492
Beneficiary certificates of bond investment trusts .....	—	20	—

#### 4. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Finished goods .....	¥ 50,229	¥ 56,375	\$ 377,663
Work in process .....	60,580	50,379	455,491
Raw materials and supplies .....	39,384	49,207	296,127
	<b>¥150,194</b>	<b>¥155,963</b>	<b>\$1,129,282</b>

#### 5. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Investments stated:			
By the equity method .....	¥3,698	¥3,900	\$27,807
At cost or less .....	4,424	4,748	33,263
Advances .....	1,203	1,058	9,047
	<b>¥9,325</b>	<b>¥9,708</b>	<b>\$70,118</b>

#### 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, 2002 and 2001 were approximately 1.0% and 1.3%, respectively.

Long-term debt at March 31, 2002 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Loans from banks, insurance companies and government agencies, due through 2022 at rates of up to 6.6%:			
Secured .....	¥ 2,280	¥ 2,760	\$ 17,142
Unsecured .....	129,413	95,239	973,037
	<b>131,693</b>	<b>97,999</b>	<b>990,180</b>
Unsecured convertible bonds:			
2.2% bonds in yen due 2004 .....	32,188	32,188	242,015
1.8% bonds in yen due 2001 .....	—	17,543	—
Unsecured bonds in yen:			
3.05% bonds due 2003 .....	7,889	8,700	59,315
3.05% bonds due 2002 .....	14,600	15,100	109,774
3.15% bonds due 2006 .....	20,000	20,000	150,375
2.175% bonds due 2002 .....	7,900	8,200	59,398
2.65% bonds due 2007 .....	9,500	10,000	71,428
Floating rate* bonds due 2004 .....	5,000	5,000	37,593
3.00% bonds due 2005 .....	10,000	10,000	75,187
2.82% bonds due 2004 .....	10,000	10,000	75,187
2.00% bonds due 2001 .....	—	4,900	—
	<b>248,770</b>	<b>239,630</b>	<b>1,870,458</b>
Less: Current portion .....	(49,815)	(42,789)	(374,550)
	<b>¥198,955</b>	<b>¥196,841</b>	<b>\$1,495,907</b>

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

At March 31, 2002, short-term and long-term debt of ¥2,296 million (\$17,263 thousand) in the aggregate was collateralized by property, plant and equipment which amounted to ¥2,217 million (\$16,675 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 price:

	Conversion price per share	Conversion period
2.2% bonds in yen due 2004 .....	¥1,050.00	November 1, 1988, to March 30, 2004

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

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 are reserved for the conversion of all outstanding convertible bonds.

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 are summarized as follows:

Year ending March 31	Thousands of	
	Millions of yen	U.S. dollars
2003 .....	¥ 49,815	\$ 374,550
2004 .....	58,295	438,314
2005 .....	44,567	335,090
2006 .....	38,493	289,427
2007 and thereafter .....	57,598	433,074
	<b>¥248,770</b>	<b>\$1,870,458</b>

The Group has access to substantial sources of funds at numerous banks worldwide. The total unused credit available to the Group at March 31, 2002 was ¥115,235 million (\$866,429 thousand) including ¥32,000 million (\$240,601 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 35 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, 2002:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation .....	¥(312,663)	¥(283,168)	\$(2,350,853)
Fair value of plan assets .....	140,646	142,712	1,057,489
Funded status .....	(172,017)	(140,455)	(1,293,364)
Transition differences arising from initial adoption of a new accounting standard for retirement benefits .....	82,705	89,100	621,845
Unrecognized actuarial loss .....	74,180	27,720	557,747
Unrecognized prior service cost .....	(8,745)	—	(65,758)
Obligation recognized in the consolidated balance sheets .....	(23,876)	(23,634)	(179,523)
Prepaid pension cost .....	—	53	—
Allowance for retirement benefits .....	¥ (23,786)	¥ (23,687)	\$ (179,523)

- The information in the above table includes the portion substituted by the Fund for the noncontributory pension plans under the governmental welfare pension program.
- Effective the year ended March 31, 2002, in accordance with a revision to the Pension Insurance Law in March 2000, the mandatory age of employees eligible to receive annuity pension benefits from a certain portion of the Fund (which has been entrusted by the government to the Company to administer) has been extended. As a result, the related unrecognized prior service cost decreased by ¥8,745 million (\$65,758 thousand) at March 31, 2002.
- Certain consolidated subsidiaries have adopted a simplified method, as permitted, to calculate their projected benefit obligations.

Components of net periodic pension cost for the years ended March 31, 2002 and 2001:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost during the year .....	¥ 9,021	¥ 8,953	\$ 67,830
Interest cost on projected benefit obligation .....	9,829	9,265	73,905
Expected return on plan assets ..	(5,700)	(6,047)	(42,859)
Amortization of obligation at transition .....	6,395	9,567	48,084
Amortization of actuarial difference .....	1,991	—	14,974
Amortization of prior service cost .....	(676)	—	(5,088)
Net periodic pension cost .....	¥20,860	¥21,739	\$156,846

- Retirement payments of ¥6,012 million (\$45,203 thousand) and ¥1,705 million were paid in addition to the net periodic pension cost in the above table for the years ended March 31, 2002 and 2001, respectively.
- Employees' contributions to the Fund were excluded from the net periodic pension cost in the above table.
- 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:

	Year ended March 31	
	2002	2001
Actuarial cost method:	Projected unit credit method	
Discount rate:	2.8%	3.5%
Expected rate of return:	4.0%	4.0%
Amortization period for prior service cost:	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 cost was incurred)	
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 was incurred)	
Amortization period for transition obligations arising from the initial adoption of a new accounting method:	15 years, except for certain consolidated subsidiaries which charged or credited to income when incurred	

## 8. Income taxes

Deferred tax assets (liabilities) at March 31, 2002 and 2001, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Loss carryforwards .....	¥ 47,185	¥ 22,742	\$ 354,777
Nondeductible accrued bonuses .....	3,293	3,730	24,764
Nondeductible severance indemnities .....	7,171	5,627	53,917
Nondeductible write-downs of inventories .....	3,091	—	23,245
Other .....	752	3,662	5,657
Gross deferred tax assets .....	61,494	35,762	462,361
Less: Valuation allowance .....	(16,677)	(15,988)	(125,391)
Total deferred tax assets .....	44,817	19,774	336,970
Deferred tax liabilities:			
Tax purpose reserve (special reserve) .....	(7,269)	(7,426)	(54,656)
Net unrealized holding gains on other securities .....	(1,638)	(3,112)	(12,316)
Other .....	(121)	(114)	(917)
Gross deferred tax liabilities .....	(9,029)	(10,652)	(67,890)
Net deferred tax assets .....	¥ 35,787	¥ 9,121	\$ 269,079

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

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Other current assets .....	¥ 8,866	¥ 9,787	\$ 66,668
Other assets .....	26,925	3,753	202,445
Other current liabilities .....	(4)	(12)	(34)
Other long-term liabilities .....	—	(4,407)	—
Net deferred tax assets .....	¥35,787	¥ 9,121	\$269,079

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rate of approximately 42% for the years ended March 31, 2002, 2001 and 2000. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of income before income taxes for the years ended March 31, 2001 and 2000 is 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 purposes such as dividends received ..	(3.4)	(8.2)
Other, net .....	0.6	2.4
Effective tax rate .....	55.3%	78.4%

A reconciliation between the statutory and effective tax rate for the year ended March 31, 2002 is not provided (as permitted) because the difference between the two tax rates was less than 5% of the statutory tax rate.

## 9. Shareholders' equity

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.

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which results in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that share issuances after September 30, 2001 will be of shares with no par value. Prior to the Amendment, the Company's shares of common stock had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until such reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at March 31, 2002 included the legal reserve of ¥8,105 million (\$60,942 thousand).

## 10. Depreciation

Depreciation expenses of property, plant and equipment for the years ended March 31, 2002, 2001 and 2000 were as follows:

Millions of yen			Thousands of U.S. dollars
2002	2001	2000	2002
¥37,593	¥39,040	¥37,771	\$282,654

## 11. Research and development expenses

Research and development expenses for the years ended March 31, 2002, 2001 and 2000 were as follows:

Millions of yen			Thousands of U.S. dollars
2002	2001	2000	2002
¥22,571	¥29,842	¥29,509	\$169,711

## 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 ¥3,520 million (\$26,470 thousand), ¥4,572 million and ¥6,124 million for the years ended March 31, 2002, 2001 and 2000, respectively.

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

Year ended March 31, 2002	Thousands of U.S. dollars	
	Millions of yen	U.S. dollars
Machinery and equipment .....	¥14,514	\$109,130
Other .....	669	5,032
Less: Accumulated amortization .....	8,663	65,139
	¥ 6,520	\$ 49,023

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.



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 (loss) .....	¥ 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	2002						
Sales to third parties .....	\$2,539,493	\$887,010	\$ 854,454	\$264,698	\$4,545,656	\$ —	\$4,545,656
Intersegment sales and transfers .....	98,186	31,927	84,515	257,722	472,351	(472,351)	—
Total sales .....	2,637,679	918,938	938,969	522,420	5,018,008	(472,351)	4,545,656
Operating expenses .....	2,615,726	989,363	1,028,130	516,603	5,149,823	(399,298)	4,750,524
Operating (loss) income .....	\$ 21,953	\$ (70,425)	\$ (89,160)	\$ 5,817	\$ (131,815)	\$ (73,052)	\$ (204,868)
Total assets .....	\$1,644,512	\$757,579	\$1,175,605	\$372,237	\$3,949,934	\$ 949,174	\$4,899,109
Depreciation .....	\$ 112,926	\$ 40,894	\$ 175,723	\$ 12,011	\$ 341,556	\$ 19,741	\$ 361,297
Capital expenditures .....	\$ 89,224	\$ 28,044	\$ 154,034	\$ 5,615	\$ 276,919	\$ 18,799	\$ 295,719

- (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 ¥10,351 million (\$77,827 thousand) and ¥11,079 million for the years ended March 31, 2002 and 2001, respectively.
- (3) Eliminations or unallocated amounts of total assets consist principally of the Company's surplus funds, funds for long-term investments and assets belonging to the General and Administrative Department, which amounted to ¥168,460 million (\$1,266,616 thousand) and ¥203,922 million for the years ended March 31, 2002 and 2001, respectively.
- (4) Included in depreciation and capital expenditures are amortization and additions to long-term prepaid expenses, respectively.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2002, 2001 and 2000 is outlined as follows:

Millions of yen

	Japan	North America	Other	Total	Eliminations	Consolidated
Year ended March 31	2002					
Sales to third parties .....	¥ 460,607	¥ 66,751	¥ 77,213	¥ 604,752	¥ —	¥ 604,572
Interarea sales .....	86,022	916	66,739	153,678	(153,678)	—
Total sales .....	546,629	67,667	143,953	758,250	(153,678)	604,572
Operating expenses .....	574,989	68,401	142,900	786,290	(154,470)	631,819
Operating (loss) income .....	¥ (28,359)	¥ (733)	¥ 1,052	¥ (28,039)	¥ 792	¥ (27,247)
Total assets .....	¥ 672,625	¥ 34,414	¥ 69,071	¥ 776,112	¥ (124,530)	¥ 651,581
Year ended March 31	2001					
Sales to third parties .....	¥ 576,473	¥ 84,788	¥ 78,989	¥ 740,250	¥ —	¥ 740,250
Interarea sales .....	102,461	265	58,898	161,625	(161,625)	—
Total sales .....	678,935	85,053	137,887	901,875	(161,625)	740,250
Operating expenses .....	652,481	85,165	135,499	873,145	(161,209)	711,935
Operating income (loss) .....	¥ 26,453	¥ (111)	¥ 2,388	¥ 28,730	¥ (415)	¥ 28,314
Total assets .....	¥ 752,473	¥ 44,586	¥ 73,827	¥ 870,887	¥ (138,404)	¥ 732,483

	Millions of yen					
	Japan	North America	Other	Total	Eliminations	Consolidated
Year ended March 31	2000					
Sales to third parties .....	¥ 526,986	¥ 73,623	¥ 69,166	¥ 669,776	¥ —	¥ 669,776
Interarea sales .....	102,842	377	42,275	145,494	(145,494)	—
Total sales .....	629,829	74,001	111,441	815,271	(145,494)	669,776
Operating expenses .....	615,176	75,231	109,835	800,243	(144,270)	655,972
Operating income (loss) .....	¥ 14,652	¥ (1,230)	¥ 1,605	¥ 15,028	¥ (1,224)	¥ 13,804
Total assets .....	¥ 759,709	¥ 45,627	¥ 60,412	¥ 865,749	¥ (117,317)	¥ 748,432

	Thousands of U.S. dollars					
	Japan	North America	Other	Total	Eliminations	Consolidated
Year ended March 31	2002					
Sales to third parties .....	<b>\$3,463,210</b>	<b>\$501,891</b>	<b>\$ 580,554</b>	<b>\$4,545,656</b>	<b>\$ —</b>	<b>\$4,545,656</b>
Interarea sales .....	<b>646,785</b>	<b>6,889</b>	<b>501,801</b>	<b>1,155,477</b>	<b>(1,155,477)</b>	<b>—</b>
Total sales .....	<b>4,109,996</b>	<b>508,781</b>	<b>1,082,355</b>	<b>5,701,133</b>	<b>(1,155,477)</b>	<b>4,545,656</b>
Operating expenses .....	<b>4,323,226</b>	<b>514,294</b>	<b>1,074,438</b>	<b>5,911,960</b>	<b>(1,161,435)</b>	<b>4,750,524</b>
Operating (loss) income .....	<b>\$ (213,230)</b>	<b>\$ (5,512)</b>	<b>\$ 7,916</b>	<b>\$ (210,826)</b>	<b>\$ 5,958</b>	<b>\$ (204,868)</b>
Total assets .....	<b>\$5,057,335</b>	<b>\$258,758</b>	<b>\$ 519,337</b>	<b>\$5,835,431</b>	<b>\$ (936,321)</b>	<b>\$4,899,109</b>

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales of the foreign consolidated subsidiaries (other than exports to Japan), totaled ¥163,523 million (\$1,229,499 thousand), ¥184,709 million and ¥163,887 million, or 27.0%, 25.0% and 24.5% of consolidated net sales for the years ended March 31, 2002, 2001 and 2000, respectively.

### 18. Subsequent events

On June 27, 2002, 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, 2002:

	Millions of yen	Thousands of U.S. dollars
Reversal of special reserve .....	¥ 1,743	\$ 13,112
Provision for special reserve .....	(1,428)	(10,739)

On June 27, 2002, the shareholders approved the stock option plan to grant warrants for purchasing shares of the Company's common stock to the directors and executive officers in accordance with the Commercial Code of Japan and item 12 of the Company's Articles of

- Incorporation. Under the plan, a maximum of 303,000 shares was granted to the directors and executive officers.
- The stock option price is determined by multiplying the higher of the average final price of the Company's common stock traded on the Tokyo Stock Exchange in the month prior to the date of the granting of the options or the corresponding final price on the day prior to the granting of the options, by a factor of 1.05.
- As outlined in the Company's stock option plan, this exercise price will be adjusted in accordance with a specified formula for stock splits, reverse stock splits or new issue of shares of common stock whose issue price is less than the market price.
- The stock option will become exercisable during the period from July 1, 2004 to June 30, 2007.