

Notes to Consolidated Financial Statements

Oki Electric Industry Co., Ltd., and consolidated subsidiaries

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 Ministry of Finance as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside 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 standard 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 governing the presentation 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 significant 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, 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 decline 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 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 made or 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 gain and loss, net of the applicable income taxes, is recognized as a component of shareholders' equity and is reflected as "net unrealized holding gain 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 gain on 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 Company and its domestic consolidated subsidiaries 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 leases 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 participants in the plan. The amortization of such gains and losses is recognized effective the year subsequent to the year in which they arise.

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

(k) Income taxes

Deferred income taxes are recognized by the asset and liability approach, under which 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 standard) 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 opening of a hedge position to the assessment of its effectiveness, the Group reviews the effectiveness of all its 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 for the year ended March 31, 2001 as compared with the amounts which 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 were 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 for the year ended March 31, 2001 over the amount which 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 were included in current assets. All other securities were 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 for the year ended March 31, 2001 from the amount which 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 were 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. Differences with International Accounting Standards

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which differ from International Accounting Standards ("IAS") as follows:

• Inventories

Under IAS No. 2, inventories should be stated at the lower of cost or net realized value. Inventories are valued as indicated in Item (f) of Note 1, "Significant Accounting Policies." Even if IAS No. 2 had been applied, the difference in the aggregate value of the inventories would have been immaterial.

• Retirement benefits

Under IAS No. 19, the period for the unrecognized net obligation upon application of a new accounting standard should be less than five years. The accounting procedure for the related amortization is outlined in Note 8.

• Leases

Under IAS No. 17, a finance lease should be recognized as an asset and a liability in the balance sheet of a lessee. However, the Company and its consolidated subsidiaries (other than certain overseas subsidiaries) have accounted for finance leases as operating leases, except for leases which stipulate the transfer of ownership of the leased property to the lessee. The difference was immaterial.

• Impairment of assets

Under IAS No. 36, if the recoverable amount of property, plant and equipment is less than its carrying amount, the carrying amount of the assets should be reduced to the recoverable amount in the balance sheet.

This impairment rule has not yet been defined in Japan. The Group in Japan devalued property, plant and equipment in accordance with accounting principles generally accepted in Japan. The effect of IAS No. 36 on the aggregate value of the Group's property, plant and equipment has not been calculated and is not reflected in the accompanying consolidated financial statements.

3. 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 ¥120=US\$1.00, the approximate exchange rate prevailing on March 31, 2003. This 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.

4. Securities

Securities with quoted market prices at March 31, 2003 and 2002 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			
	2003			2002			2003		
Held-to-maturity securities whose market value does not exceed the amounts recorded in the balance sheet:									
Debt securities	¥1,130	¥1,101	¥(28)	¥1,130	¥1,069	¥(60)	\$9,416	\$9,175	\$(240)
Total	¥1,130	¥1,101	¥(28)	¥1,130	¥1,069	¥(60)	\$9,416	\$9,175	\$(240)

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
	2003			2002			2003		
Other securities whose market value recorded in the balance sheet exceeds their acquisition costs:									
Equity securities	¥ 3,491	¥ 7,995	¥ 4,504	¥ 4,967	¥11,122	¥ 6,154	\$ 29,093	\$ 66,629	\$ 37,535
Debt securities	101	102	—	—	—	—	849	851	1
Other	356	364	7	316	317	1	2,972	3,038	66
Subtotal	¥ 3,949	¥ 8,462	¥ 4,512	¥ 5,283	¥11,439	¥ 6,155	\$ 32,915	\$ 70,518	\$ 37,603
Other securities whose market value recorded in the balance sheet does not exceed their acquisition costs:									
Equity securities	¥12,439	¥10,475	¥(1,964)	¥16,849	¥14,518	¥(2,330)	\$103,663	\$ 87,295	\$(16,367)
Debt securities	—	—	—	39	39	—	—	—	—
Other	100	91	(8)	—	100	97	836	763	(72)
Subtotal	¥12,540	¥10,567	¥(1,972)	¥16,988	¥14,655	¥(2,333)	\$104,500	\$ 88,059	\$(16,440)
Total	¥16,489	¥19,029	¥ 2,539	¥22,272	¥26,095	¥ 3,822	\$137,415	\$158,578	\$ 21,163

Other securities without quoted market prices at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Amount recorded in the balance sheet		
	2003	2002	2003
Other investments in securities:			
Medium-term government bond fund	¥ 100	¥ 100	\$ 834
Money management fund	1,300	900	10,839
Unlisted equity securities	11,902	10,838	99,190

5. Inventories

Inventories at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished goods	¥ 42,615	¥ 49,440	\$ 355,127
Work in process	72,297	59,649	602,477
Raw materials and supplies	42,515	39,123	354,292
	¥157,427	¥148,212	\$1,311,897

6. Investments in and advances to unconsolidated subsidiaries and affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Investments stated:			
By the equity method	¥4,510	¥3,698	\$37,590
At cost or less	3,282	4,424	27,354
Advances	2,175	1,203	18,131
	¥9,969	¥9,325	\$83,076

7. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans, principally from banks, with weighted average interest rates of 1.2% and 1.0% at March 31, 2003 and 2002, respectively:			
Secured	¥ —	¥ 16	\$ —
Unsecured	103,207	107,014	860,061
Commercial paper with weighted average interest rate of 0.7% at March 31, 2003	4,100	—	34,166
	¥107,307	¥107,031	\$894,228

Long-term debt at March 31, 2003 and 2002 is summarized as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Loans from banks, insurance companies and government agencies, due through 2022 at rates of up to 6.0%:			
Secured	¥ 1,800	¥ 2,280	\$ 15,000
Unsecured	131,976	129,413	1,099,804
	133,776	131,693	1,114,804
Unsecured convertible bonds:			
2.2% bonds in yen due 2004	32,188	32,188	268,233
Unsecured bonds in yen:			
3.05% bonds due 2003	7,689	7,889	64,075
3.05% bonds due 2002	—	14,600	—
3.15% bonds due 2006	20,000	20,000	166,666
2.175% bonds due 2002	—	7,900	—
2.65% bonds due 2007	9,500	9,500	79,166
Floating rate* bonds due 2004	5,000	5,000	41,666
3.00% bonds due 2005	10,000	10,000	83,333
2.82% bonds due 2004	10,000	10,000	83,333
	228,153	248,770	1,901,279
Less: Current portion	(58,591)	(49,815)	(488,263)
	¥169,561	¥198,955	\$1,413,015

*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, 2003, long-term debt of ¥1,800 million (\$15,000 thousand) in the aggregate was collateralized by property, plant and equipment which amounted to ¥1,811 million (\$15,093 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, 2003 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥ 58,591	\$ 488,263
2005	50,582	421,518
2006	54,115	450,964
2007	42,596	354,974
2008 and thereafter	22,267	185,558
	¥228,153	\$1,901,279

The Group has access to substantial sources of funds at numerous banks worldwide. The total unused credit available to the Group at March 31, 2003 was ¥115,868 million (\$965,567 thousand).

8. 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 became a 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, 2003 and 2002:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Projected benefit obligation	¥(316,323)	¥(312,663)	\$(2,636,029)
Fair value of plan assets	122,506	140,646	1,020,890
Funded status	(193,816)	(172,017)	(1,615,139)
Transition differences arising from initial adoption of new accounting standard for retirement benefits	76,279	82,705	635,665
Unrecognized actuarial loss	95,052	74,180	792,105
Unrecognized prior service cost	(8,073)	(8,745)	(67,276)
Obligation recognized in the consolidated balance sheets	(30,557)	(23,876)	(254,644)
Allowance for retirement benefits	¥ (30,557)	¥ (23,786)	\$ (254,644)

- (1) The information in the above table includes a portion substituted by the Fund for the contributory pension plans under the governmental welfare pension program.
- (2) 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 at March 31, 2002.
- (3) Certain consolidated subsidiaries have adopted a simplified method, as permitted, to calculate projected benefit obligation.

Components of net periodic pension cost for the years ended March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost during the year	¥ 8,877	¥ 9,021	\$ 73,978
Interest cost on projected benefit obligation	8,682	9,829	72,355
Expected return on plan assets	(5,615)	(5,700)	46,793
Amortization of obligation at transition	6,425	6,395	53,547
Amortization of actuarial difference	5,440	1,991	45,337
Amortization of prior service cost	(672)	(676)	(5,606)
Net periodic pension cost	¥23,138	¥20,860	\$192,819

- (1) Retirement payments of ¥5,657 million (\$47,141 thousand) and ¥6,012 million in the aggregate were paid in addition to the net periodic pension cost presented in the above table for the years ended March 31, 2003 and 2002, respectively.
- (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:

	Year ended March 31	
	2003	2002
Actuarial cost method:	Projected unit credit method	
Discount rate:	2.8%	2.8%
Expected rate of return:	4.0%	4.0%
Amortization period for prior service cost:	14 years (amortized by the straight-line method over a period which falls within the average remaining years of service of the participants in the plans, commencing the year subsequent to the period in which such cost was incurred)	
Amortization period for actuarial difference:	14 years (amortized by the straight-line method over a period which falls within the average remaining years of service of the participants in the plans, effective the year subsequent to the period in which 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 charge or credit to income when incurred	

9. Income taxes

Deferred tax assets (liabilities) at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Loss carryforwards	¥ 38,938	¥ 47,185	\$ 324,488
Nondeductible accrued bonuses	4,142	3,293	34,517
Nondeductible retirement benefits	10,851	7,171	90,429
Nondeductible write-downs of inventories	2,294	3,091	19,124
Other	3,891	752	32,432
Gross deferred tax assets	60,119	61,494	500,991
Less: Valuation allowance	(16,884)	(16,677)	(140,705)
Total deferred tax assets	43,234	44,817	360,286
Deferred tax liabilities:			
Tax purpose reserve (special reserve)	(5,968)	(7,269)	(49,738)
Net unrealized holding gain on other securities	(1,058)	(1,638)	(8,819)
Other	(22)	(121)	(190)
Gross deferred tax liabilities	(7,049)	(9,029)	(58,747)
Net deferred tax assets	¥ 36,184	¥ 35,787	\$ 301,538

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Other current assets	¥ 9,924	¥ 8,866	\$ 82,705
Other assets	26,260	26,925	218,833
Other current liabilities	—	(4)	—
Net deferred tax assets	¥36,184	¥35,787	\$301,538

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, 2003, 2002 and 2001. 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, 2003, 2002 and 2001 is summarized as follows:

	2003	2001
Statutory rate	42.0%	42.0%
Addition (deduction) in income taxes resulting from:		
Increase in valuation allowance for deferred tax assets	(55.4)	12.6
Intercompany profit in excess of taxable income	(9.4)	—
Permanent differences nondeductible such as entertainment expense	(13.4)	3.5
Permanent differences unrecognized for tax purposes such as dividends received	4.3	(3.4)
Net operating loss carryforwards at beginning of year of consolidated subsidiaries for initial consolidated tax return	(8.7)	—
Decrease in deferred tax assets resulting from change in enterprise tax rate	(37.7)	—
Other, net	(0.3)	0.6
Effective tax rate	(78.6)%	55.3%

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.

10. Shareholders' equity

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, 2003 included the legal reserve of ¥8,134 million (\$67,790 thousand).

11. Depreciation

Depreciation expenses of property, plant and equipment for the years ended March 31, 2003, 2002 and 2001 were as follows:

Millions of yen			Thousands of U.S. dollars
2003	2002	2001	2003
¥29,958	¥37,593	¥39,040	\$249,652

12. Research and development expenses

Research and development expenses for the years ended March 31, 2003, 2002 and 2001 were as follows:

Millions of yen			Thousands of U.S. dollars
2003	2002	2001	2003
¥15,217	¥22,571	¥29,842	\$126,810

13. 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.

14. Leases

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥2,970 million (\$24,757 thousand), ¥3,520 million and ¥4,572 million for the years ended March 31, 2003, 2002 and 2001, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Year ended March 31, 2003			
Machinery and equipment	¥15,083	¥14,514	\$125,698
Other	908	669	7,570
Less: Accumulated amortization	8,701	8,663	72,510
	¥ 7,290	¥ 6,520	\$ 60,757

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:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥2,799	\$23,325
2005 and thereafter	4,491	37,432
	¥7,290	\$60,757

The minimum rental payments subsequent to March 31, 2003, required under operating leases with noncancelable lease terms in excess of one year are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	¥2,077	\$17,313
2005 and thereafter	3,829	31,908
	¥5,906	\$49,222

15. Contingent liabilities

At March 31, 2003, 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	¥ 356	\$ 2,969
As guarantors of indebtedness of:		
Unconsolidated subsidiaries and affiliates	1,411	11,759
Other	3,702	30,851
	¥5,469	\$45,581

16. Amounts per share

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year assuming full conversion of convertible bonds.

Net assets per share are based on the number of shares of common stock outstanding during each year.

Net income per share only for the year ended March 31, 2002 has been recomputed based on this new accounting standard and is restated in the following table:

	Yen		U.S. dollars
	2003	2002	2003
Net (loss) income:			
Basic	¥(10.72)	¥(55.66)	¥14.61
Diluted	—	—	14.52

	Yen		U.S. dollars
	2003	2002	2003
Net assets	¥165.63	¥178.17	\$1.38

Diluted net income (loss) per share for the years ended March 31, 2003 and 2002 has not been presented because net loss was recorded for the years ended March 31, 2003 and 2002.

17. Stock option plan

At March 31, 2003, the Company had the following stock option plans approved by the shareholders in accordance with the Commercial Code:

Date of approval by shareholders	June 29, 2000	June 28, 2001	June 27, 2002
Grantees	11 directors and 14 executive officers	11 directors and 14 executive officers	9 directors and 14 executive officers
Nature of stocks with warrant granted	Common stock	Common stock	Common stock
Number of stocks with warrant granted	341,000 shares	334,000 shares	303,000 shares
Option price per warrant	¥866	¥613	¥271
Exercisable period	July 1, 2002–June 30, 2005	July 1, 2003–June 30, 2006	July 1, 2004–June 30, 2007

18. Segment information

The Group classifies its businesses into information systems, telecommunications systems, electronic devices and other.

The business segment information for the years ended March 31, 2003, 2002 and 2001 are summarized as follows:

	Millions of yen						Consolidated
	Information systems	Telecommunications systems	Electronic devices	Other	Total	Corporate and eliminations	
Year ended March 31	2003						
Sales to third parties	¥ 330,383	¥ 85,717	¥ 119,224	¥ 50,147	¥ 585,473	¥ —	¥ 585,473
Intersegment sales and transfers	11,468	9,200	5,579	33,204	59,453	(59,453)	—
Total sales	341,851	94,918	124,803	83,352	644,926	(59,453)	585,473
Operating expenses	322,011	103,109	125,763	82,333	633,218	(49,113)	584,104
Operating income (loss)	¥ 19,840	¥ (8,191)	¥ (960)	¥ 1,018	¥ 11,707	¥ (10,339)	¥ 1,368
Total assets	¥ 251,376	¥ 94,244	¥ 147,220	¥ 59,796	¥ 552,638	¥ 70,252	¥ 622,891
Depreciation	¥ 14,173	¥ 4,242	¥ 17,795	¥ 1,556	¥ 37,769	¥ 2,158	¥ 39,927
Capital expenditures	¥ 9,831	¥ 1,376	¥ 14,330	¥ 809	¥ 26,347	¥ 159	¥ 26,507
Year ended March 31	2002						
Sales to third parties	¥ 347,429	¥103,219	¥ 113,642	¥ 40,281	¥ 604,572	¥ —	¥ 604,572
Intersegment sales and transfers	13,041	4,233	11,240	34,282	62,798	(62,798)	—
Total sales	360,470	107,453	124,882	74,563	667,370	(62,798)	604,572
Operating expenses	357,352	117,017	136,741	73,791	684,902	(53,082)	631,819
Operating (loss) income	¥ 3,118	¥ (9,564)	¥ (11,858)	¥ 772	¥ (17,531)	¥ (9,715)	¥ (27,247)
Total assets	¥ 223,005	¥ 92,652	¥ 156,355	¥ 53,327	¥ 525,341	¥ 126,240	¥ 651,581
Depreciation	¥ 14,860	¥ 5,231	¥ 23,371	¥ 1,963	¥ 45,426	¥ 2,625	¥ 48,052
Capital expenditures	¥ 11,916	¥ 3,607	¥ 20,486	¥ 820	¥ 36,830	¥ 2,500	¥ 39,330
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	2003						
Sales to third parties	\$2,753,195	\$714,314	\$ 993,533	\$417,897	\$4,878,941	\$ —	\$4,878,941
Intersegment sales and transfers	95,569	76,671	46,492	276,708	495,442	(495,442)	—
Total sales	2,848,765	790,986	1,040,026	694,605	5,374,384	(495,442)	4,878,941
Operating expenses	2,683,430	859,248	1,048,027	686,114	5,276,820	(409,282)	4,867,538
Operating income (loss)	\$ 165,335	\$(68,261)	\$ (8,001)	\$ 8,491	\$ 97,563	\$ (86,159)	\$ 11,403
Total assets	\$2,094,805	\$785,373	\$1,226,835	\$498,305	\$4,605,319	\$ 585,440	\$5,190,760
Depreciation	\$ 118,115	\$ 35,358	\$ 148,296	\$ 12,971	\$ 314,741	\$ 17,991	\$ 332,733
Capital expenditures	\$ 81,925	\$ 11,468	\$ 119,424	\$ 6,745	\$ 219,563	\$ 1,331	\$ 220,895

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

Change in segmentation

Effective the year ended March 31, 2003, the Company changed its management organization in accordance with the Group's mid-term business plan. The business segments of the Group have been reclassified to reflect this change more accurately as follows:

	Included in	
	Former segment	New segment
Disaster prevention systems and other	Telecommunications systems	Information systems
Electronics manufacturing services	Information systems	Other

As presented below, the effect of this change was to increase (decrease) sales, operating income, depreciation and capital expenditures for the year ended March 31, 2003, and to increase (decrease) total assets at March 31, 2003, compared with the amounts which would have been recorded if the segmentation of the previous year had been followed.

	Millions of yen			
	Information systems	Telecommunications systems	Other	Corporate and eliminations
Total sales	¥ 5,896	¥(13,670)	¥7,729	¥ (45)
Operating income (loss)	115	(158)	43	—
Total assets	12,295	(18,554)	5,954	303
Depreciation	(143)	(171)	314	—
Capital expenditures	(55)	(59)	116	(1)

Only the business segment information presented above for the year ended March 31, 2002 was restated in conformity with the new segments.

- (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 ¥10,266 million (\$85,555 thousand), ¥10,351 million and ¥11,079 million for the years ended March 31, 2003, 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 ¥150,535 million (\$1,254,461 thousand), ¥168,460 million and ¥203,922 million for the years ended March 31, 2003, 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, 2003, 2002 and 2001 is outlined as follows:

	Millions of yen						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Year ended March 31	2003						
Sales to third parties	¥ 447,583	¥ 52,942	¥ 60,982	¥ 23,964	¥ 585,473	¥ —	¥ 585,473
Interarea sales	98,901	1,610	2,340	72,901	175,753	(175,753)	—
Total sales	546,484	54,552	63,323	96,866	761,226	(175,753)	585,473
Operating expenses	547,465	55,004	60,889	96,788	760,148	(176,043)	584,104
Operating income (loss)	¥ (980)	¥ (451)	¥ 2,434	¥ 77	¥ 1,078	¥ 289	¥ 1,368
Total assets	¥ 648,147	¥ 26,022	¥ 37,664	¥ 37,321	¥ 749,155	¥ (126,264)	¥ 622,891
Year ended March 31	2002						
Sales to third parties	¥ 460,607	¥ 66,751	¥ 57,882	¥ 19,331	¥ 604,572	¥ —	¥ 604,572
Interarea sales	86,022	916	829	65,935	153,703	(153,703)	—
Total sales	546,629	67,667	58,711	85,266	758,275	(153,703)	604,572
Operating expenses	574,989	68,401	57,856	85,022	786,268	(154,448)	631,819
Operating (loss) income	¥ (28,359)	¥ (733)	¥ 855	¥ 244	¥ (27,992)	¥ 745	¥ (27,247)
Total assets	¥ 672,625	¥ 34,414	¥ 32,708	¥ 36,417	¥ 776,166	¥ (124,585)	¥ 651,581

	Japan	North America	Other	Total	Eliminations	Consolidated
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

	Thousands of U.S. dollars						
	Japan	North America	Europe	Other	Total	Eliminations	Consolidated
Year ended March 31	2003						
Sales to third parties	\$3,729,860	\$441,183	\$508,190	\$199,706	\$4,878,941	\$ —	\$4,878,941
Interarea sales	824,176	13,423	19,502	607,509	1,464,612	(1,464,612)	—
Total sales	4,554,036	454,607	527,693	807,216	6,343,554	(1,464,612)	4,878,941
Operating expenses	4,562,209	458,373	507,409	806,574	6,334,566	(1,467,028)	4,867,538
Operating income (loss)	\$ (8,172)	\$ (3,765)	\$ 20,284	\$ 642	\$ 8,988	\$ 2,415	\$ 11,403
Total assets	\$5,401,231	\$216,856	\$313,869	\$311,009	\$6,242,966	\$(1,052,206)	\$5,190,760

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 ¥157,856 million (\$1,315,474 thousand), ¥163,523 million and ¥184,709 million, or 27.0%, 27.0% and 25.0% of consolidated net sales for the years ended March 31, 2003, 2002 and 2001, respectively.

19. Subsequent events

On June 27, 2003, the shareholders approved the stock option plan to grant warrants for purchasing shares of the Company's common stock to the directors, executive officers and certain management officials in accordance with the Commercial Code of Japan and item 12 of the Company's Articles of Incorporation. Under the plan, a maximum of 815,000 shares was granted to the directors, executive officers and certain management officials.

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, 2005 to June 26, 2013.