



# Financial Section **financial** **al**

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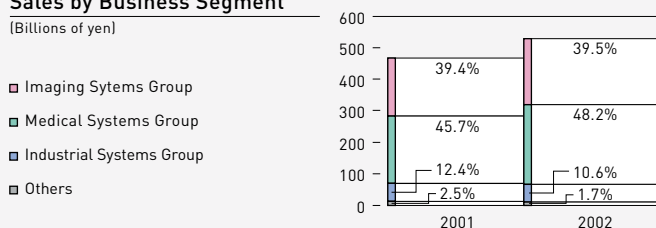
The Olympus Group set new records in fiscal 2002 (ended March 31, 2002), with consolidated net sales increasing 13.2% to ¥528,415 million (US\$4,227 million) and operating income rising 19.1% to ¥42,283 million (US\$338 million). Net income, however, fell 12.8% to ¥10,279 million (US\$82 million), as a result of evaluation loss on marketable and investment securities.

By business segment, sales of the Imaging Systems Group rose 13.5% due to a considerable increase in sales of digital cameras. The Medical Systems Group increased sales 19.4%, mainly through higher sales in the United States and Europe. Sales of the Industrial Systems Group declined 3.8%, however, because of a slowdown in capital investment in our major clients. In terms of profitability, the Imaging Systems Group reported an operating loss stemming from tight margins for digital cameras, revealing even more clearly a Company earnings structure dependent on the highly profitable Medical Systems Group.

By geographic region, sales in Japan remained virtually unchanged with a slight increase of 1.0%, while overseas sales rose 19.0%, including the favorable effects of exchange rates. Proportionately, sales in Japan made up 28.5% of total net sales, while sales to North America accounted for 37.1%, Europe 25.6% and Asia 6.9%. Total overseas sales amounted to ¥377,654 million, or 71.5% of net sales.

**Sales by Business Segment**

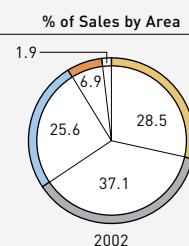
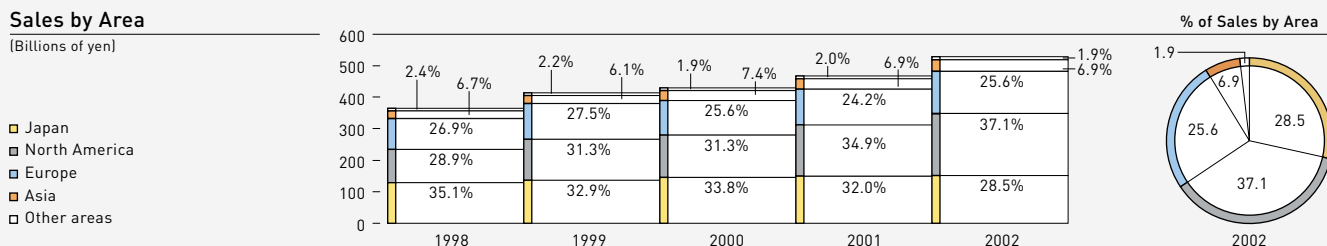
(Billions of yen)



Note: From fiscal 2002, the Company adopted the Internal Company System. Along with this, the business classifications by three product groups, namely "Imaging product group", "Medical product group", and "Integrated System and Information product group" changed to "Imaging Systems Group", "Medical Systems Group", "Industrial Systems Group" and "Others".

**Sales by Area**

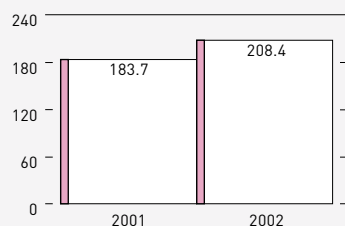
(Billions of yen)



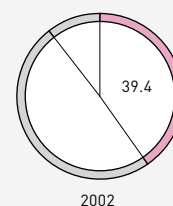
### Imaging Systems Group Sales

(Billions of yen)

**Major Products**  
Film cameras  
Digital cameras  
Recorders



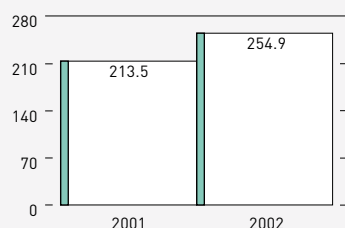
% of Sales by Group



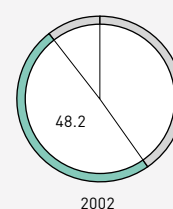
### Medical Systems Group Sales

(Billions of yen)

**Major Products**  
Medical endoscopes  
Clinical analyzers  
Biological microscopes



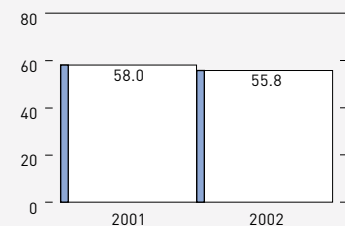
% of Sales by Group



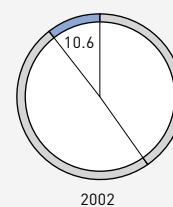
### Industrial Systems Group Sales

(Billions of yen)

**Major Products**  
Industrial microscopes  
Industrial endoscopes  
Printers  
Magneto-optical disk drives  
Barcode data processing equipment  
Measuring equipment



% of Sales by Group



	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Imaging Systems Group.....	¥208,447	¥183,664	\$1,667,576
Medical Systems Group.....	254,943	213,509	2,039,544
Industrial Systems Group.....	55,833	58,025	446,664
Others.....	9,192	11,506	73,536
<b>Total</b> .....	<b>528,415</b>	<b>466,704</b>	<b>4,227,320</b>
Domestic sales.....	150,761	149,351	1,206,088
(%).....	28.5	32.0	—
Overseas sales.....	377,654	317,353	3,021,232
(%).....	71.5	68.0	—

Notes: 1. These figures are based on accounting principles generally accepted in Japan.

2. From fiscal 2002, the Company adopted the Internal Company System. Along with this, the business classifications by three product groups, namely "Imaging product group", "Medical product group", and "Integrated System and Information product group" changed to "Imaging Systems Group", "Medical Systems Group", "Industrial Systems Group" and "Others".

3. The U.S. dollar amounts have been translated from yen, for the convenience of the reader, at the rate of ¥125=US\$1.

## CONSOLIDATED RESULTS OF OPERATIONS

### Net Sales

Total net sales increased 13.2% to ¥528,415 million (US\$4,227 million).

Sales in the Imaging Systems Group rose 13.5% to ¥208,447 million (US\$1,668 million). While there is downward trend in market price caused by the serious price competition, sales revenue by digital cameras continued to grow substantially due to the contribution of new products in the CAMEDIA series. By contrast, sales of film cameras continued to decrease due to shrinking market volume in Japan and overseas.

In the Medical Systems Group, sales increased 19.4% to ¥254,943 million (US\$2,040 million). The EVIS EXERA series of high-end endoscopes, which was released in the U.S. and European markets in the previous fiscal year, continued to grow substantially, despite prolonged stagnation in the domestic market for endoscopes resulting from weak replacement demand. Sales of biological microscopes were favorable in Japan and overseas. Sales of clinical analyzers were also well, particularly the analytical system business in Europe and AU5400 series in the U.S. and European markets.

In the Industrial Systems Group, sales decreased 3.8% to ¥55,833 million (US\$447 million). Sales of the new product of industrial endoscopes, IPLEX were favorable. Sales of barcode data processing equipment were well in U.S. markets. By contrast, sales of industrial microscopes decreased under the influence of inactive semiconductor market. Sales of magneto-optical disk drives decreased due to shrinking markets and severe price competition.

In the Others, sales were ¥9,192 million (US\$74 million).

### Net Income

Operating income advanced 19.1% to ¥42,283 million (US\$338 million). Selling, general and administrative expenses per net sales decreased from 34.2% to 33.6%. Net income fell 12.8% to ¥10,279 million (US\$82 million), mainly due to the evaluation loss of investment securities.

## ANALYSIS OF FINANCIAL POSITION

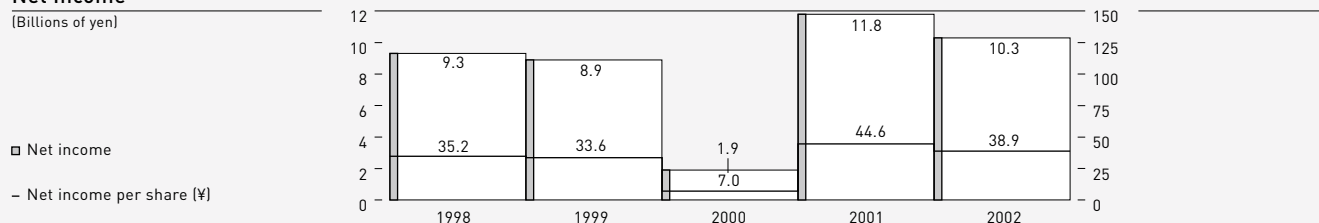
### Total Assets

As of March 31, 2002, total assets were ¥562,078 million (US\$4,497 million), down 3.8% from the previous fiscal year-

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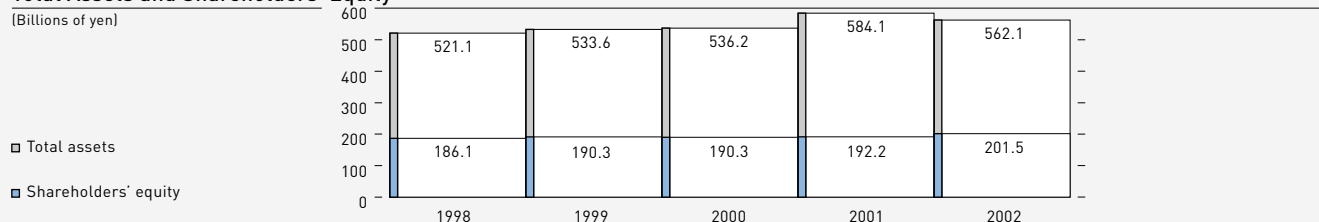
### Net Income

(Billions of yen)



### Total Assets and Shareholders' Equity

(Billions of yen)



end. Total current assets declined 5.8% to ¥353,183 million (US\$2,825 million), mainly due to a decrease in inventories. Net property, plant and equipment were ¥81,888 million (US\$655 million). Total investments and other assets were ¥127,007 million (US\$1,016 million) with same levels of previous fiscal year. In fiscal 2002, turnover of total assets was slightly improved to 0.94 times.

### Total Liabilities and Shareholders' Equity

Total liabilities declined 8.1% to ¥358,256 million (US\$2,866 million). Total shareholders' equity rose 4.8% to ¥201,547 million (US\$1,612 million). The shareholders' equity ratio increased from 32.9% to 35.9% of total assets.

### Cash Flows

Cash and cash equivalents at the end of the year decreased ¥29,406 million to ¥55,345 million (US\$443 million) compared with the previous fiscal year.

Net cash provided by operating activities increased ¥21,303 million to ¥50,607 million (US\$405 million) compared with the previous fiscal year, mainly due to the large decrease in inventories.

Net cash used in investing activities was ¥56,133 million (US\$449 million), mainly due to the increased deposits in time deposits and purchasing of property, plant and equipment.

Net cash used in financial activities amounted to ¥24,787 million (US\$198 million), mainly as a result of the redemption of bonds.

### Research & Development Expenditures

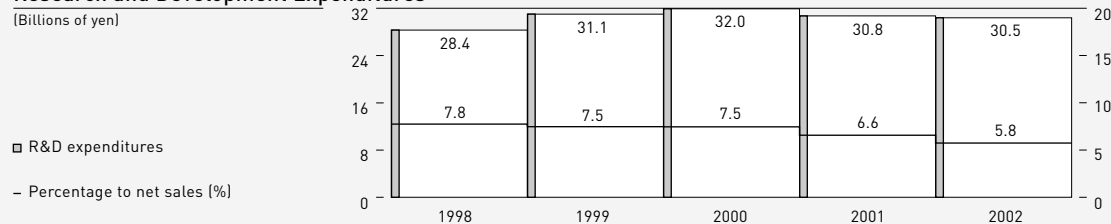
Olympus and its consolidated subsidiaries continued their research and development. OPTO-Digital Technology was given first priority because of the expansion of the digital field. Total R&D expenditures declined 1.2% to ¥30,477 million (US\$244 million) compared with the previous fiscal year, and accounted for 5.8% of net sales.

### Capital Expenditures

Total capital expenditures climbed 15.8% to ¥24,835 million (US\$199 million) compared with ¥21,441 million in the previous fiscal year. Depreciation and amortization amounted to ¥23,700 million (US\$190 million).

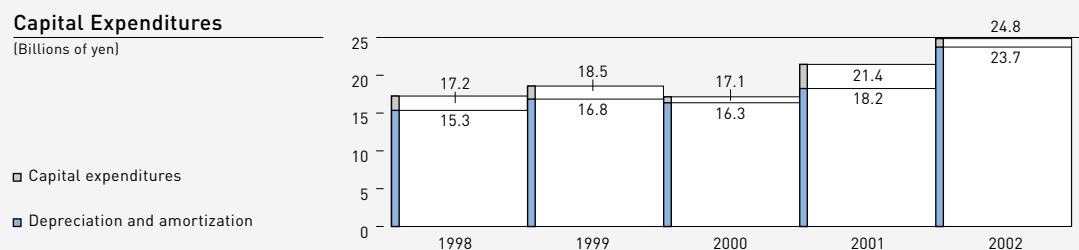
### Research and Development Expenditures

(Billions of yen)



### Capital Expenditures

(Billions of yen)



## TEN-YEAR SUMMARY

OLYMPUS OPTICAL CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	2002	2001
<b>FOR THE YEAR:</b>		
Net sales:		
Domestic .....	¥150,761	149,351
Overseas .....	¥377,654	317,353
Total .....	¥528,415	466,704
Percentage to previous year.....	113.2%	108.9
Net income .....	¥ 10,279	11,787
Percentage to net sales.....	1.9%	2.5
R&D expenditures .....	¥ 30,477	30,848
Capital expenditures .....	¥ 24,835	21,441
Depreciation and amortization.....	¥ 23,700	18,247
Earnings per share (in yen):		
Basic net income .....	¥ 38.87	44.57
Cash dividends per share (in yen):		
Actual.....	¥ 13.00	13.00
<b>AT YEAR-END:</b>		
Total assets.....	¥562,078	584,103
Turnover (times) .....	0.94	0.80
Total liabilities .....	¥358,256	389,968
Minority interests .....	¥2,275	1,906
Shareholders' equity .....	¥201,547	192,229
Shareholders' equity ratio.....	35.9%	32.9
Working capital.....	¥114,779	124,287
Number of shares outstanding (in thousands) .....	264,473	264,473
Number of employees.....	20,705	19,865

Notes: 1. See Note 1 (m) of Notes to Consolidated Financial Statements in respect to the calculation of amounts and dividends per share.

2. These figures are based on accounting principles generally accepted in Japan.

3. Diluted net income per share is not presented due to the fact that there were no potentially dilutive common shares.

4. Minority interests, formally included with Total liabilities, is shown as an independent item.

Millions of yen (except per share amounts)

2000	1999	1998	1997	1996	1995	1994	1993
144,993	136,012	128,025	114,162	95,185	86,914	80,805	79,219
283,653	277,732	236,957	196,315	160,963	165,183	158,746	188,499
428,646	413,744	364,982	310,477	256,148	252,097	239,551	267,718
103.6	113.4	117.6	121.2	101.6	105.2	89.5	102.9
1,860	8,883	9,309	2,322	2,041	3,101	556	3,805
0.4	2.1	2.6	0.7	0.8	1.2	0.2	1.4
31,955	31,060	28,415	28,637	27,821	27,833	27,892	26,240
17,093	18,452	17,220	15,285	13,865	11,925	13,797	18,947
16,288	16,824	15,332	13,455	11,452	13,543	15,292	13,982
7.03	33.59	35.21	8.79	7.72	11.74	2.15	16.47
6.50	13.00	13.00	13.00	13.00	13.50	13.00	13.00
536,174	533,584	521,101	510,123	487,549	442,367	434,704	439,716
0.80	0.78	0.70	0.61	0.53	0.57	0.55	0.61
344,272	342,895	334,411	329,413	305,723	259,940	251,648	293,911
1,561	402	573	528	463	9	17	30
190,341	190,287	186,117	180,182	181,363	182,418	183,039	145,775
35.5	35.7	35.7	35.3	37.2	41.2	42.1	33.2
171,378	232,226	211,144	193,282	148,372	205,256	202,070	164,712
264,473	264,473	264,473	264,279	264,230	264,221	264,186	231,107
18,999	17,874	17,098	16,426	14,923	13,712	12,405	12,230

# CONSOLIDATED BALANCE SHEETS

OLYMPUS OPTICAL CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and time deposits.....	¥100,986	¥100,144	\$ 807,888
Marketable securities .....	34,997	36,483	279,976
Notes and accounts receivable .....	96,084	89,990	768,672
Allowance for doubtful accounts .....	(3,088)	(2,107)	(24,704)
Inventories.....	83,062	110,240	664,496
Deferred income taxes.....	20,961	20,158	167,688
Other current assets.....	20,181	19,964	161,448
Total current assets .....	353,183	374,872	2,825,464
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land.....	15,039	15,084	120,312
Buildings and structures .....	84,175	79,821	673,400
Machinery and equipment .....	137,893	140,482	1,103,144
Construction in progress .....	248	296	1,984
	237,355	235,683	1,898,840
Less—Accumulated depreciation .....	(155,467)	(154,044)	(1,243,736)
Net property, plant and equipment .....	81,888	81,639	655,104
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities .....	91,534	102,598	732,272
Deferred income taxes.....	13,592	8,477	108,736
Lease deposits and other.....	21,881	16,517	175,048
Total investments and other assets.....	127,007	127,592	1,016,056
	¥562,078	¥584,103	\$4,496,624

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings.....	¥ 79,970	¥ 78,972	\$ 639,760
Current maturities of long-term debt .....	25,259	20,058	202,072
Notes and accounts payable .....	55,991	71,535	447,928
Accrued expenses .....	43,427	42,445	347,416
Income taxes payable.....	10,250	7,729	82,000
Other current liabilities.....	23,507	29,846	188,056
Total current liabilities.....	238,404	250,585	1,907,232
<b>LONG-TERM DEBT, LESS CURRENT MATURITIES .....</b>	<b>103,347</b>	<b>128,149</b>	<b>826,776</b>
<b>SEVERANCE AND RETIREMENT ALLOWANCE .....</b>	<b>11,287</b>	<b>7,894</b>	<b>90,296</b>
<b>OTHER NON-CURRENT LIABILITIES .....</b>	<b>5,218</b>	<b>3,340</b>	<b>41,744</b>
<b>CONTINGENT LIABILITIES (Note 11).....</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>MINORITY INTERESTS.....</b>	<b>2,275</b>	<b>1,906</b>	<b>18,200</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock:			
Authorized—1,000,000,000 shares			
Issued—264,472,608 shares .....	40,833	40,833	326,664
Additional paid-in capital.....	65,528	65,528	524,224
Retained earnings.....	99,032	92,297	792,256
	205,393	198,658	1,643,144
Net unrealized holding losses on securities .....	(214)	(204)	(1,712)
Foreign currency translation adjustments .....	(3,536)	(6,220)	(28,288)
Treasury stock, at cost .....	(96)	(5)	(768)
Total shareholders' equity.....	201,547	192,229	1,612,376
	¥562,078	¥584,103	\$4,496,624

## CONSOLIDATED STATEMENTS OF INCOME

OLYMPUS OPTICAL CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
<b>NET SALES</b> .....	¥528,415	¥466,704	¥428,646	\$4,227,320
<b>COST OF SALES</b> .....	308,637	271,444	238,728	2,469,096
<b>GROSS PROFIT</b> .....	219,778	195,260	189,918	1,758,224
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> .....	177,495	159,764	159,786	1,419,960
<b>OPERATING INCOME</b> .....	42,283	35,496	30,132	338,264
<b>OTHER INCOME (EXPENSES):</b>				
Interest expense, net .....	(8,596)	(9,453)	(7,817)	(68,768)
Gain (loss) on marketable and investment securities, net .....	(10,430)	408	(1,587)	(83,440)
Loss on liquidation of specified fund trusts .....	—	—	(16,996)	—
Foreign currency exchange gain (loss), net .....	(3,859)	(3,531)	391	(30,872)
Other, net .....	1,044	(1,308)	364	8,352
Total .....	(21,841)	(13,884)	(25,645)	(174,728)
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b> .....	20,442	21,612	4,487	163,536
<b>PROVISION FOR INCOME TAXES:</b>				
Current .....	15,238	9,575	4,331	121,904
Deferred .....	(5,075)	250	(1,704)	(40,600)
Total .....	10,163	9,825	2,627	81,304
<b>NET INCOME</b> .....	¥ 10,279	¥ 11,787	¥ 1,860	\$ 82,232
		Yen		U.S. dollars
<b>AMOUNTS PER SHARE OF COMMON STOCK:</b>				
Earnings per share—Basic net income .....	¥ 38.87	¥ 44.57	¥ 7.03	\$ 0.311
Cash dividends, applicable to the year—				
Actual .....	¥ 13.00	¥ 13.00	¥ 6.50	\$ 0.104

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

OLYMPUS OPTICAL CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
<b>COMMON STOCK:</b>				
Balance at beginning of year .....	¥40,833	¥40,833	¥40,833	\$326,664
Balance at end of year .....	¥40,833	¥40,833	¥40,833	\$326,664
<b>ADDITIONAL PAID-IN CAPITAL:</b>				
Balance at beginning of year .....	¥65,528	¥65,528	¥65,528	\$524,224
Balance at end of year .....	¥65,528	¥65,528	¥65,528	\$524,224
<b>RETAINED EARNINGS:</b>				
Balance at beginning of year .....	¥92,297	¥83,986	¥83,934	\$738,376
Net income.....	10,279	11,787	1,860	82,232
Cash dividends paid.....	(3,438)	(3,438)	(1,719)	(27,504)
Bonuses to directors .....	(106)	(38)	(89)	(848)
Balance at end of year .....	¥99,032	¥92,297	¥83,986	\$792,256
<b>NET UNREALIZED HOLDING LOSSES ON SECURITIES:</b>				
Balance at beginning of year .....	¥ (204)	¥ —	¥ —	\$ (1,632)
Net decrease.....	(10)	(204)	—	(80)
Balance at end of year .....	¥ (214)	¥ (204)	¥ —	\$ (1,712)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS:</b>				
Balance at beginning of year .....	¥ (6,220)	¥ —	¥ —	\$ (49,760)
Net increase (decrease).....	2,684	(6,220)	—	21,472
Balance at end of year .....	¥ (3,536)	¥ (6,220)	¥ —	\$ (28,288)
<b>TREASURY STOCK, AT COST:</b>				
Balance at beginning of year .....	¥ (5)	¥ (6)	¥ (8)	\$ (40)
Net increase (decrease).....	(91)	1	2	(728)
Balance at end of year .....	¥ (96)	¥ (5)	¥ (6)	\$ (768)

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

OLYMPUS OPTICAL CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Thousands of U.S. dollars
	2002	2001	2000	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before provision for income taxes .....	¥20,442	¥21,612	¥ 4,487	\$163,536
Adjustments to reconcile income before provision for income taxes to net cash provided by operating activities:				
Depreciation and amortization .....	23,700	18,247	16,288	189,600
Increase in severance and retirement allowance.....	3,282	14	134	26,256
Interest income .....	(666)	(849)	(1,049)	(5,328)
Interest expense.....	9,262	10,302	8,866	74,096
Loss (Gain) on marketable and investment securities.....	10,430	(408)	1,587	83,440
Loss on liquidation of specified fund trusts .....	—	—	16,996	—
Decrease (Increase) in accounts receivable .....	(2,722)	(1,075)	3,813	(21,776)
Decrease (Increase) in inventories .....	30,626	(24,843)	3,541	245,008
Increase (Decrease) in accounts payable .....	(19,653)	802	14,192	(157,224)
Increase (Decrease) in other payable .....	(3,377)	7,871	—	(27,016)
Other.....	(343)	9,208	6,215	(2,744)
Sub-total .....	70,981	40,881	75,070	567,848
Interest and dividend received .....	1,618	2,215	1,937	12,944
Interest payments .....	(9,097)	(8,376)	(8,785)	(72,776)
Termination of hedged interest and currency swap agreements .....	—	—	(2,281)	—
Income taxes paid .....	(12,895)	(5,416)	(7,952)	(103,160)
Net cash provided by operating activities .....	50,607	29,304	57,989	404,856
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Deposits in time deposits .....	(45,297)	(15,069)	(32,719)	(362,376)
Withdrawals from time deposits .....	15,062	31,224	41,037	120,496
Purchases of marketable securities .....	(69,997)	(89,920)	(77,031)	(559,976)
Sales of marketable securities.....	71,264	57,260	75,657	570,112
Decrease of loans (mainly certificate of deposit).....	—	34,822	—	—
Purchases of specified fund trusts .....	—	—	(15,757)	—
Sales of specified fund trusts.....	—	—	31,069	—
Purchases of property, plant and equipment .....	(25,162)	(21,499)	(17,829)	(201,296)
Purchases of investment securities.....	(2,061)	(10,733)	(35,871)	(16,488)
Sales of investment securities .....	1,095	2,704	164	8,760
Payments for acquisition of new subsidiaries .....	(862)	(336)	—	(6,896)
Payments for additional stock investment in subsidiaries.....	(328)	—	—	(2,624)
Termination of non-hedged interest and currency swap agreement.....	—	—	(683)	—
Other .....	153	(290)	(3,649)	1,224
Net cash used in investing activities .....	(56,133)	(11,837)	(35,612)	(449,064)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Decrease in short-term borrowings .....	(1,162)	(1,611)	(2,652)	(9,296)
Proceeds from long-term debt.....	30	30,725	2,746	240
Repayments of long-term debt .....	(102)	(11,072)	(83)	(816)
Redemption of bonds.....	(20,000)	(13,185)	—	(160,000)
Stock issue to minority shareholders .....	338	196	1,428	2,704
Dividends paid.....	(3,438)	(3,438)	(1,719)	(27,504)
Dividends paid to minority shareholders .....	(24)	(22)	(3)	(192)
Other .....	(429)	1	(218)	(3,432)
Net cash provided by (used in) financing activities .....	(24,787)	1,594	(501)	(198,296)
Effect of exchange rate changes on cash and cash equivalents .....	907	1,354	(1,624)	7,256
Net increase (decrease) in cash and cash equivalents .....	(29,406)	20,415	20,252	(235,248)
Cash and cash equivalents at beginning of year .....	84,751	64,032	43,729	678,008
Effect of changes in number of consolidated subsidiaries and companies accounted for based on equity method .....	—	304	51	—
Cash and cash equivalents at end of year .....	¥55,345	¥84,751	¥64,032	\$442,760

See accompanying notes to consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OLYMPUS OPTICAL CO., LTD. AND CONSOLIDATED SUBSIDIARIES

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presenting consolidated financial statements

Olympus Optical Co., Ltd. (the “Company”) and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan (the “Code”) and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translation of the Japanese yen amounts into U.S. dollars, using the exchange rate of ¥125 to US\$1.00, are included solely for the convenience of the readers. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### (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 its significant subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidation.

The Company consolidates all significant investees which were controlled through substantial ownership of majority voting rights or existence of certain conditions.

Investments in certain unconsolidated subsidiaries and affiliated companies in which the Company has significant influence, but less than a controlling interest, are accounted for using the equity method. Investments in companies in which the Company does not have significant influence are accounted for at cost. The differences between acquisition cost and underlying net equity at the time of acquisition are generally being amortized on the straight-line method over five years.

### (c) Foreign currency transaction

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rate at the balance sheet date in accordance with the revised accounting standards for Foreign Currency Translations (“Opinion Concerning Establishment of Accounting Standard for Foreign Currency Translations” issued by the Business Accounting Deliberation Council on October 22, 1999), effective from the year ended March 31, 2001. Prior to April 1, 2000, current assets and liabilities denominated in foreign currencies were translated into Japanese yen at exchange rate at the balance sheet date and non-current assets and liabilities were translated at historical exchange rate. Resulting gains or losses are recorded in income for the respective periods. Foreign currency items with forward exchange contracts are translated at the contracted rates. There was no effect on the consolidated statement of income for 2001 from adopting the revised accounting standard.

### (d) Translation of foreign currency financial statement

In accordance with the revised accounting standards for foreign currency translations, assets and liabilities denominated in foreign functional currencies are translated at the exchange rate at the balance sheet date. Shareholders’ equity accounts are translated at historical exchange rates. Revenue and expenses denominated in foreign functional currencies are translated at the average exchange rate for the each fiscal year. Effective for the year ended March 31, 2001, differences resulting from translation are presented as “Foreign currency translation adjustments” in Shareholders’ equity of the accompanying consolidated balance sheets. There was no effect on the consolidated statement of income for 2001 from adopting the revised accounting standard.

### (e) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

**(f) Marketable and investment securities**

Prior to April 1, 2000, marketable securities listed on securities exchanges were stated at the lower of average cost or market on an item-by-item basis and securities other than listed securities are stated at moving-average cost. Funds in trust represented short-term funds deposited with and managed by trust banks and securities companies. Funds consisted mainly of marketable equity securities and interest-bearing bonds and each individual fund was stated at its acquisition cost.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the Japanese accounting standard on accounting for financial instruments (“Opinion Concerning Establishment of Accounting Standard for Financial Instruments” issued by the Business Accounting Deliberation Council on January 22, 1999).

In accordance with the accounting standard, the Company and its consolidated subsidiaries examined the intent of holding each securities and classified those securities into four categories.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by non-consolidated subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with fair market values are stated at fair market value, and those with no fair market values at moving-average cost. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders’ equity. Realized gain on sale of such securities is computed using the moving-average cost.

As a result of adopting the accounting standard for financial instruments, income before income taxes increased by ¥2,016 million (\$16,128 thousand). Also, based on the examination of the intent of holding each security upon application of the accounting standard at April 1, 2000, trading securities as well as held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at March 31, 2001, securities in current assets decreased by ¥93,018 million (\$744,144 thousand), and short-term loans and investment securities increased with ¥34,835 million (\$278,680 thousand) and ¥58,183 million (\$465,464 thousand), respectively, compared with what would have been reported under the previous accounting policy.

**(g) Inventories**

Inventories are principally stated at the lower of cost (first-in first-out) or market.

**(h) Property, plant and equipment**

Property, plant and equipment is stated at cost. Depreciation is mainly computed by the declining balance method at rates based on the estimated useful lives of the relevant assets. The effective annual rates of depreciation as of March 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Buildings and structures.....	9.5%	8.8%	8.9%
Machinery and equipment.....	41.5%	37.3%	34.1%

**(i) Pension and retirement allowance plans**

Employees of the Company, certain domestic consolidated subsidiaries and foreign consolidated subsidiaries are covered by funded pension plans.

Employees of domestic consolidated subsidiaries, and directors of the Company and a couple of domestic consolidated subsidiaries are covered primarily by unfunded retirement allowance plans.

The amounts of pension payments and retirement allowances are generally determined on the basis of length of service and basic salary at the time of termination of service.

It is the Company’s policy to fund amounts required to maintain sufficient plan assets to provide for accrued benefits based on a certain percentage of wage and salary costs. The plan assets consist principally of interest-bearing bonds and listed equity securities.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the accounting standard, “Opinion on Setting Accounting Standard for Employees’ Severance and Pension Benefits”, issued by the Business Accounting Deliberation Council on June 16 1998. Under which allowance and expenses for severance and pension benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees’ severance and retirement benefits at March 31, 2002 based on the amounts of projected benefit obligation and the fair value of the plan assets at that date.

Net transition obligation amounting to ¥7,782 million (\$62,256 thousand) will be recognized as expense in equal amounts over 5 years commencing with the year ended March 31, 2001.

As a result of the adoption of the accounting standard, in the fiscal year ended March 31, 2001, severance and pension benefit expense increased by ¥246 million (\$1,968 thousand), operating income and income before income taxes decreased by ¥241 million (\$1,928 thousand), respectively, compared with what would have been recorded under the previous accounting standard.

Allowance for employees’ severance and retirement benefits included in the liability section of the consolidated balance sheet together with severance and retirement allowance for directors as of March 31, 2001.

### (j) Research and development

Expenses relating to research and development activities are charged to income as incurred. Total amounts charged to income were ¥30,477 million (\$243,816 thousand), ¥30,848 million and ¥31,955 million for the years ended March 31, 2002, 2001 and 2000, respectively.

### (k) Certain lease transactions

Finance leases which do not transfer titles to lessees are accounted for in the same manner as operating leases.

### (l) Income taxes

The Company adopts the accounting standard, which recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

### (m) Amounts per share

Basic earnings per share (EPS) is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for each fiscal year. Diluted EPS is similar to basic EPS except that the weighted-average of common shares outstanding is increased by the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. For the years ended for March 31, 2002, 2001 and 2000, there were no dilutive common shares. Accordingly, the Company's basic and dilutive earnings per share computations are the same for the periods presented.

Cash dividends per common share are the amounts applicable to the respective periods.

### (n) Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

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## 2. MARKETABLE AND INVESTMENT SECURITIES

The following tables summarize acquisition costs, book values and fair value of securities with fair value as of March 31, 2002 and 2001:

#### Available-for-sale securities

Securities with book value (fair value) exceeding acquisition cost.

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			2002		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities.....	¥ 2,155	¥ 4,123	¥1,968	¥ 3,128	¥ 5,899	¥2,771	\$ 17,240	\$ 32,984	\$15,744
Bonds .....	10	10	0	34,980	35,007	27	80	80	0
Others .....	35,773	35,845	72	—	—	—	286,184	286,760	576
Total .....	¥37,938	¥39,978	¥2,040	¥38,108	¥40,906	¥2,798	\$303,504	\$319,824	\$16,320

Securities with book value (fair value) under acquisition cost.

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			2002		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities.....	¥13,529	¥10,770	¥(2,759)	¥13,647	¥11,179	¥(2,468)	\$108,232	\$ 86,160	\$(22,072)
Bonds .....	35,000	34,997	(3)	—	—	—	280,000	279,976	(24)
Others .....	—	—	—	35,735	35,433	(302)	—	—	—
Total .....	¥48,529	¥45,767	¥(2,762)	¥49,382	¥46,612	¥(2,770)	\$388,232	\$366,136	\$(22,096)

Note: The Company recognizes impairment loss when the fair market value of marketable and investment securities becomes less 50% than the acquisition cost at the end of period. In addition, the loss is also recognized when the fair market value declines more than 30% but less than 50%, except when it is anticipated that the fair market value is recoverable under the market conditions, trends of earnings and other key measures.

The following table summarizes book values of securities not stated at fair value as of March 31, 2002 and 2001:  
Available-for-sale securities

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Non-listed equity securities .....	¥ 7,805	¥14,044	\$ 62,440
Non-listed foreign bonds.....	3,500	4,987	28,000
Others.....	5	—	40
<b>Total .....</b>	<b>¥11,310</b>	<b>¥19,031</b>	<b>\$90,480</b>

Note: The preferred securities ¥6,003 million (\$48,024 thousand) issued by specific purpose company which is based on the scheme for securitization of real estate own the risk of fluctuations for redemption price caused by future changing utilization value of real estate.

Maturities of available-for-sale securities with maturity are following:

	Millions of yen			
	2002			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	¥ —	¥6,003	¥ —	¥ 6,003
Government bonds .....	34,997	10	—	35,007
Corporate bonds .....	—	202	3,500	3,702
<b>Total .....</b>	<b>¥34,997</b>	<b>¥6,215</b>	<b>¥3,500</b>	<b>¥44,712</b>

	Millions of yen			
	2001			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	¥ —	¥6,003	¥ —	¥ 6,003
Government bonds .....	34,996	11	—	35,007
Corporate bonds .....	1,487	—	3,500	4,987
<b>Total .....</b>	<b>¥36,483</b>	<b>¥6,014</b>	<b>¥3,500</b>	<b>¥45,997</b>

	Thousands of U.S. dollars			
	2002			
	Within a year	Over a year but within five years	Over five years but within ten years	Total
Equity securities .....	\$ —	\$48,024	\$ —	\$ 48,024
Government bonds .....	279,976	80	—	280,056
Corporate bonds .....	—	1,616	28,000	29,616
<b>Total .....</b>	<b>\$279,976</b>	<b>\$49,720</b>	<b>\$28,000</b>	<b>\$357,696</b>

### 3. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2002 and 2001, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
	Unconsolidated subsidiaries and affiliates .....	¥ 668	¥ 1,199
Trade .....	95,416	88,791	763,328
	<b>¥96,084</b>	<b>¥89,990</b>	<b>\$768,672</b>

#### 4. INVENTORIES

Inventories as of March 31, 2002 and 2001, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Finished goods .....	¥62,295	¥ 84,081	\$498,360
Work in process and raw materials .....	20,767	26,159	166,136
	¥83,062	¥110,240	\$664,496

#### 5. SHORT-TERM BORROWINGS

Short-term borrowings, which consist principally of bank acceptances payable in foreign currencies, are due in 1 to 180 days. The annual interest rates on these borrowings ranged from 0.44% to 14.00% and from 0.60% to 18.75% as of March 31, 2002 and 2001, respectively. Bank acceptances payable of ¥1,467million (\$11,736 thousand) were secured by certain trade accounts receivable and inventories as of March 31, 2002.

As is customary in Japan, substantially all bank borrowings, including acceptances payable, are subject to general agreements with each bank which provide, among other things, that the banks may, under certain circumstances, require additional security for such loans and may treat any security furnished to the banks, as well as cash deposited with them, as security for all present and future indebtedness. The Company and its subsidiaries have never been requested to submit such additional security.

#### 6. LONG-TERM DEBT

Long-term debt as of March 31, 2002 and 2001, consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
(Unsecured long-term debt)			
2.40% yen bonds, due December 2001 .....	¥ —	¥ 10,000	\$ —
2.70% yen bonds, due December 2002 .....	10,000	10,000	80,000
2.70% yen bonds, due April 2001 .....	—	10,000	—
3.15% yen bonds, due April 2003 .....	15,000	15,000	120,000
3.60% yen bonds, due April 2006 .....	15,000	15,000	120,000
2.45% yen bonds, due November 2003 .....	10,000	10,000	80,000
2.975% yen bonds, due November 2006 .....	10,000	10,000	80,000
2.65% yen bonds, due February 2004 .....	10,000	10,000	80,000
3.35% yen bonds, due February 2009 .....	5,000	5,000	40,000
2.60% yen bonds, due March 2003 .....	5,000	5,000	40,000
2.60% yen bonds, due March 2003 .....	10,000	10,000	80,000
2.15% to 9.77% loans from foreign banks, due June 2006 .....	1,469	647	11,752
2.65% loans from Japanese insurance companies, due February 2004 .....	3,000	3,000	24,000
2.105% loan from a Japanese bank, due March 2005 .....	1,500	1,500	12,000
1.45% loan from a Japanese bank, due March 2006 .....	30,000	30,000	240,000
(Secured long-term debt)			
5.26% to 6.32% loans from foreign banks, due November 2007 .....	1,576	3,060	12,608
5.25% to 7.29% loans from Japanese banks, due June 2008 .....	1,061	—	8,488
	¥128,606	¥148,207	\$1,028,848
Less—Current maturities .....	(25,259)	(20,058)	(202,072)
	¥103,347	¥128,149	\$ 826,776

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

	Millions of yen	Thousands of U.S. dollars
2003.....	¥ 25,259	\$ 202,072
2004.....	39,165	313,320
2005.....	2,514	20,112
2006.....	30,004	240,032
2007.....	25,748	205,984
Thereafter .....	5,916	47,328
<b>Total .....</b>	<b>¥128,606</b>	<b>\$1,028,848</b>

## 7. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2002 and 2001, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Unconsolidated subsidiaries and affiliates .....	¥ 37	¥ 44	\$ 296
Trade .....	55,954	71,491	447,632
	<b>¥55,991</b>	<b>¥71,535</b>	<b>\$447,928</b>

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## 8. SEVERANCE AND RETIREMENT ALLOWANCE

As explained in “Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES”, effective April 1, 2000, the Company and its consolidated subsidiaries adopted the accounting standard for employees’ severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2002 and 2001, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation.....	¥94,326	¥84,432	\$ 754,608
Unrecognized prior service costs.....	4,107	1,724	32,856
Unrecognized actuarial difference.....	(23,044)	(14,143)	(184,352)
Fair value of pension assets.....	(60,551)	(59,224)	(484,408)
Unrecognized net transition obligation.....	(4,669)	(6,226)	(37,352)
Prepaid pension expense.....	—	50	—
<b>Allowance for employees’ severance and retirement benefits.....</b>	<b>¥10,169</b>	<b>¥ 6,613</b>	<b>\$ 81,352</b>
Severance and retirement allowance for directors .....	¥ 1,118	¥ 1,281	\$ 8,944
<b>Total severance and retirement allowance .....</b>	<b>¥11,287</b>	<b>¥ 7,894</b>	<b>\$ 90,296</b>

Included in the consolidated statement of income for the years ended March 31, 2002 and 2001, are employees' severance and retirement benefit expense comprising of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service costs — benefits earned during the year .....	¥4,727	¥4,621	\$37,816
Interest cost on projected benefit obligation .....	2,433	2,513	19,464
Expected return on plan assets .....	(2,066)	(2,124)	(16,528)
Amortization of actuarial difference .....	2,857	—	22,856
Amortization of prior service costs .....	(344)	—	(2,752)
Amortization of net transition obligation .....	1,556	1,556	12,448
Severance and pension benefit expense .....	¥9,163	¥6,566	\$73,304

The discount rate and the rate of expected return on plan assets used by the Company are 2.5% and 3.5%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Past service costs and net transition obligation are both recognized as expense in equal amounts over 5 years, and actuarial difference is recognized as income (or expense) in equal amounts over 5 years.

## 9. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and enterprise tax, which in the aggregate resulted in normal statutory rates of approximately 41.8% for the years ended March 31, 2002, 2001 and 2000. Income taxes of foreign consolidated subsidiaries are based generally on tax rates applicable in their countries of incorporation.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for the consolidated financial statement purposes for the years ended March 31, 2002, 2001 and 2000.

	2002	2001	2000
Japanese statutory tax rate .....	41.8%	41.8%	41.8%
Effect of foreign tax rate differences .....	(1.2)	2.4	(6.1)
Non-taxable dividend income .....	(1.0)	(1.0)	(4.4)
Non-deductible expenses .....	3.3	1.5	11.2
Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates .....	—	—	22.8
Impact of operating losses (utilized)/generated for certain subsidiaries .....	7.9	(0.8)	(11.1)
Other, net .....	(1.1)	1.5	4.2
Effective tax rate .....	49.7%	45.4%	58.4%

Significant components of deferred income tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred income tax assets:			
Inventories .....	¥ 8,142	¥ 7,529	\$65,136
Depreciation of property, plant and equipment .....	3,994	3,959	31,952
Severance and retirement allowances .....	2,792	1,529	22,336
Prepaid expenses .....	2,642	2,608	21,136
Marketable and Investment securities .....	3,323	191	26,584
Deferred assets .....	837	1,261	6,696
Unrealized intercompany profits .....	6,103	6,492	48,824
Other .....	9,846	7,741	78,768
Total deferred income tax assets .....	¥37,679	¥ 31,310	\$301,432
Total deferred income tax liabilities .....	(3,126)	(2,675)	(25,008)
Net deferred income tax assets .....	¥34,553	¥ 28,635	\$276,424

## 10. SHAREHOLDERS' EQUITY

Under the Code, the followings are provided:

- The maximum amount that the Company can distribute as dividends is calculated based on the individual financial statements of the Company.
- At least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion that is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.
- Certain amount of retained earnings equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriation of retained earnings is appropriated to a legal reserve until such reserve equals 25% of the issued capital.
- Neither additional paid-in capital nor legal reserve is available for cash dividends, but either may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.
- Dividends are approved by the shareholders' meeting held subsequent to the statutory fiscal period to which the dividends are payable to shareholders of record at the end of each such fiscal period.
- Semi-annual dividends are approved by the Board of Directors after the end of each first six-month period to which the dividends are payable to shareholders of record at the end of interim six-month period.

## 11. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries were contingently liable for export bills discounted of ¥1,467 million (\$11,736 thousand) and other bills discounted of ¥32 million (\$256 thousand) as of March 31, 2002. As of March 31, 2002, the Company and its consolidated subsidiaries were also contingently liable as guarantors of borrowings, primarily for housing loans to employees, amounting to ¥1,228 million (\$9,824 thousand).

## 12. PLEDGED ASSETS

The following assets were pledged as collateral for short-term borrowings and long-term debt as of March 31, 2002 and 2001:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Land .....	¥ 70	¥ 4	\$ 560
Buildings and structures.....	3,475	3,271	27,800
	<b>¥3,545</b>	<b>¥3,275</b>	<b>\$28,360</b>

The obligation secured by such collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Long-term debt .....	<b>¥2,637</b>	¥3,060	<b>\$21,096</b>

## 13. CASH AND CASH EQUIVALENTS

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and time deposits .....	¥100,986	¥100,144	\$ 807,888
Less: Time deposits with maturities over three months.....	(45,641)	(15,393)	(365,128)
Cash and cash equivalents .....	<b>¥ 55,345</b>	<b>¥ 84,751</b>	<b>\$ 442,760</b>

#### 14. INFORMATION FOR CERTAIN LEASE TRANSACTIONS

Lessee:

The Company and its consolidated subsidiaries lease certain machinery and equipment under non-cancellable finance and operating leases. Finance leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases. Certain information for such non-capitalized finance leases for the years ended March 31, 2002 and 2001 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
(Equivalent amount)			
Acquisition cost .....	¥ 9,505	¥10,464	\$ 76,040
Accumulated depreciation .....	(4,937)	(5,589)	(39,496)
Estimated net book value.....	¥ 4,568	¥ 4,875	\$ 36,544
	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Lease payments.....	¥2,413	¥2,548	\$19,304
Equivalent of depreciation expense .....	¥2,188	¥2,307	\$17,504
Equivalent of interest expense.....	¥ 201	¥ 219	\$ 1,608

Equivalent of depreciation expense is computed using the straight-line method over the lease terms assuming no residual value. Equivalent of interest expense is computed using interest rate method over the lease terms for the difference between acquisition cost and total lease payments.

Future minimum lease payments under the non-cancellable finance and operating leases having remaining terms in excess of one year as of March 31, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
2003 .....	¥2,093	\$16,744
2004 and thereafter .....	3,256	26,048
Total minimum lease payments .....	¥5,349	\$42,792

Lessor:

Certain machinery and equipment of the Company and its consolidated subsidiaries are leased under finance leases. For the years ended March 31, 2002 and 2001, the amounts of leased machinery and equipment were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Acquisition cost .....	¥ 7,408	¥ 6,636	\$ 59,264
Accumulated depreciation .....	(3,705)	(2,959)	(29,640)
Net book value .....	¥ 3,703	¥ 3,677	\$ 29,624
	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Lease income .....	¥1,663	¥1,546	\$13,304
Depreciation expense .....	¥1,440	¥1,282	\$11,520
Estimated interest income.....	¥ 217	¥ 252	\$ 1,736

Estimated interest income is computed using interest rate method over the lease terms for the difference between acquisition cost and total lease receipts.

Future minimum lease receipts under these finance lease arrangements as of March 31, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
2003 .....	¥1,377	\$11,016
2004 and thereafter.....	2,497	19,976
Total future minimum lease receipts.....	¥3,874	\$30,992

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

The Company and its consolidated subsidiaries uses derivative financial instruments in the normal course of their business to manage the exposure to fluctuations in foreign exchange rates and interest rates. The primary classes of derivative used by the Company and its consolidated subsidiaries are foreign exchange forward contracts, currency options, and interest rate swaps. Almost all-derivative transactions are used to hedge interest rates and foreign currency positions in connection with their business. Accordingly, market risk in these derivatives is largely offset by opposite movements in the underlying positions. Management assesses derivative transactions and market risks surrounding these transactions according to the Company's policy regarding derivative transactions. Contracts of derivative financial instruments are executed by finance department of the Company or foreign subsidiaries in accordance with the internal rules approved by the Company's board of directors or with the approval and under the directions of a responsible director of foreign subsidiaries.

The counter-parties to the derivative financial instruments of the Company and its consolidated subsidiaries are substantial and creditworthy multi-international commercial banks or other financial institutions that are recognized market makers. Neither the risks of counter-party non-performance nor the economic consequences of counter-party non-performance associated with these contacts are considered by the Company to be material.

The following table summarized the underlying notional transaction amounts, book values and fair values for outstanding derivative financial instruments by risk category and instrument type as of March 31, 2002 and 2001:

(As of March 31, 2002)	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Book Value	Fair Value	Notional Amount	Book Value	Fair Value
Foreign exchange forward contracts:						
To buy U.S. dollars .....	¥ 58	¥—	¥ 58	\$ 464	\$—	\$ 464
To buy British pounds .....	577	—	583	4,616	—	4,664

(As of March 31, 2001)	Millions of yen		
	Notional Amount	Book Value	Fair Value
Foreign exchange forward contracts:			
To buy U.S. dollars .....	¥ 388	¥ —	¥ 393
To buy Euro.....	3,994	—	3,912
To buy other currency.....	6	—	6
Currency option agreements:			
To pay other currency .....	538	—	542

The forward contracts on the foreign currency receivable and payables translated into Japanese yen at the forward exchange rate in the accompanying consolidated financial statements are not included in the above amounts.

The fair value of currency option agreements are estimated by obtaining quotes from financial institutions. The fair value of foreign exchange forward contracts are estimated based on market prices for contracts with similar terms.

## 16. SUBSEQUENT EVENT

At the general meeting held on June 27, 2002, the shareholders approved a cash dividend totaling ¥1,718 million (\$13,744 thousand) or ¥6.50 (\$0.05) per share and payment of bonuses to directors totaling ¥45 million (\$360 thousand). In accordance with the Code, the declaration of this dividend and the payment of these bonuses have not been reflected in the accompanying consolidated financial statements as of March 31, 2002.

## 17. SEGMENTAL INFORMATION

Business segments correspond to categories of activity classified primarily by the Internal Company System the Company adopted from fiscal 2002.

Segmental information for the years ended March 31, 2002, 2001 and 2000 were shown in the tables below:

### (a) Information by business segment

	Millions of yen						
	2002						
	Imaging Systems Group	Medical Systems Group	Industrial Systems Group	Others	Total	Elimination and Corporate	Consolidated total
Net sales:							
Unaffiliated customers .....	¥208,447	¥254,943	¥55,833	¥ 9,192	¥528,415	¥ —	¥528,415
Intersegment.....	90	13	1	—	104	(104)	—
Total.....	208,537	254,956	55,834	9,192	528,519	(104)	528,415
Operating expenses .....	215,325	197,718	55,327	11,951	480,321	5,811	486,132
Operating income (loss).....	(6,788)	57,238	507	(2,759)	48,198	(5,915)	42,283
Assets .....	118,171	186,275	33,855	16,262	354,563	207,515	562,078
Depreciation and amortization.....	7,696	12,164	1,701	762	22,323	1,377	23,700
Capital expenditures.....	¥ 8,532	¥ 12,035	¥ 1,713	¥ 937	¥ 23,217	¥ 1,618	¥ 24,835
	Millions of yen						
	2001						
	Imaging Systems Group	Medical Systems Group	Industrial Systems Group	Others	Total	Elimination and Corporate	Consolidated total
Net sales:							
Unaffiliated customers .....	¥183,664	¥213,509	¥58,025	¥11,506	¥466,704	¥ —	¥466,704
Intersegment.....	101	5	—	—	106	(106)	—
Total.....	183,765	213,514	58,025	11,506	466,810	(106)	466,704
Operating expenses .....	184,044	171,199	56,983	14,344	426,570	4,638	431,208
Operating income (loss).....	(279)	42,315	1,042	(2,838)	40,240	(4,744)	35,496
Assets .....	144,433	164,723	44,180	12,179	365,515	218,588	584,103
Depreciation and amortization.....	5,265	8,827	2,308	744	17,144	1,103	18,247
Capital expenditures.....	¥ 6,674	¥ 8,412	¥ 3,127	¥ 2,270	¥ 20,483	¥ 958	¥ 21,441

Thousands of U.S. dollars

	2002						Consolidated total
	Imaging Systems Group	Medical Systems Group	Industrial Systems Group	Others	Total	Elimination and Corporate	
Net sales:							
Unaffiliated customers .....	\$ 1,667,576	\$ 2,039,544	\$ 446,664	\$ 73,536	\$ 4,227,320	\$ —	\$ 4,227,320
Intersegment.....	720	104	8	—	832	(832)	—
Total.....	1,668,296	2,039,648	446,672	73,536	4,228,152	(832)	4,227,320
Operating expenses .....	1,722,600	1,581,744	442,616	95,608	3,842,568	46,488	3,889,056
Operating income (loss).....	(54,304)	457,904	4,056	(22,072)	385,584	(47,320)	338,264
Assets .....	945,368	1,490,200	270,840	130,096	2,836,504	1,660,120	4,496,624
Depreciation and amortization.....	61,568	97,312	13,608	6,096	178,584	11,016	189,600
Capital expenditures.....	\$ 68,256	\$ 96,280	\$ 13,704	\$ 7,496	\$ 185,736	\$ 12,944	\$ 198,680

Notes: From fiscal 2002, the Company adopted the Internal Company System. Along with this, the business classifications by three product groups namely "Imaging product group", "Medical product group", and "Integrated System and Information product group" changed to "Imaging Systems Group", "Medical Systems Group", "Industrial Systems Group" and "Others".

These four groups include the following products:

Imaging Systems Group: Film cameras, Digital cameras, Recorders.

Medical Systems Group: Medical endoscopes, Clinical analyzers, Biological microscopes.

Industrial Systems Group: Industrial microscopes, Industrial endoscopes, Printers, Magneto-optical disk drives, Barcode data processing equipment, Measuring equipment.

Others: Software development, etc.

The Segment information classified by products for fiscal 2001 and 2000 were as follows:

Millions of yen

	2001						Consolidated total
	Imaging product group	Medical product group	Integrated System and Information product group	Total	Elimination and Corporate		
Net sales:							
Unaffiliated customers .....	¥183,664	¥195,567	¥87,473	¥466,704	¥ —	¥466,704	
Intersegment.....	101	4	1	106	(106)	—	
Total.....	183,765	195,571	87,474	466,810	(106)	466,704	
Operating expenses .....	184,044	155,078	87,448	426,570	4,638	431,208	
Operating income (loss).....	(279)	40,493	26	40,240	(4,744)	35,496	
Assets .....	144,433	149,660	71,422	365,515	218,588	584,103	
Depreciation and amortization.....	5,265	8,154	3,725	17,144	1,103	18,247	
Capital expenditures.....	¥ 6,674	¥ 7,368	¥ 6,441	¥ 20,483	¥ 958	¥ 21,441	

Millions of yen						
2000						
	Imaging product group	Medical product group	Integrated System and Information product group	Total	Elimination and Corporate	Consolidated total
Net sales:						
Unaffiliated customers .....	¥164,727	¥186,663	¥77,256	¥428,646	¥ —	¥428,646
Intersegment.....	117	3	—	120	(120)	—
Total.....	164,844	186,666	77,256	428,766	(120)	428,646
Operating expenses .....	161,609	150,637	81,511	393,757	4,757	398,514
Operating income (loss).....	3,235	36,029	(4,255)	35,009	(4,877)	30,132
Assets .....	108,406	138,127	62,757	309,290	226,884	536,174
Depreciation and amortization.....	3,933	8,288	3,004	15,225	1,063	16,288
Capital expenditures.....	¥ 5,177	¥ 7,808	¥ 3,105	¥ 16,090	¥ 1,003	¥ 17,093

Notes: 1. Imaging product group includes compact cameras, digital cameras, microcassette tape recorders and tapes. Medical product group includes fiberoptics, rigidoscopes, videoscopes and clinical analyzers. Integrated System and Information product group includes microscopes, measuring equipment, printers, magneto-optical disk drives and barcode data process devices.

2. As mentioned at Note 1 (i) Pension and retirement allowance plans, effective April 1, 2000, the Company and the domestic consolidated subsidiaries changed the method of accounting standard for employees' severance and pension benefits. The effects of this change for the fiscal year 2001 were ¥102 million in Imaging product group to increase in operating loss, ¥53 million in Medical product group and ¥86 million in Integrated System and Information product group to decrease in operating income.

3. As described in Note 1 (d), effective April 1, 2000, the revised accounting standard for foreign currency translation was adopted, and at March 31, 2001, Foreign currency translation adjustments was presented in the shareholders' equity section instead of in the assets section. As a result, Assets for Elimination and Corporate for 2001 was decreased by ¥6,220 million.

## (b) Information by geographic location

Millions of yen							
2002							
	Japan	North America	Europe	Asia	Total	Elimination and corporate	Consolidated total
Net sales:							
Unaffiliated customers .....	¥197,074	¥180,659	¥135,388	¥15,294	¥528,415	¥ —	¥528,415
Intersegment.....	187,994	854	6,276	34,273	229,397	(229,397)	—
Total.....	385,068	181,513	141,664	49,567	757,812	(229,397)	528,415
Operating expenses .....	352,579	175,612	137,205	46,879	712,275	(226,143)	486,132
Operating income (loss).....	32,489	5,901	4,459	2,688	45,537	(3,254)	42,283
Assets .....	¥184,691	¥ 74,024	¥ 80,965	¥26,248	¥365,928	¥ 196,150	¥562,078

Millions of yen							
2001							
	Japan	North America	Europe	Asia	Total	Elimination and corporate	Consolidated total
Net sales:							
Unaffiliated customers .....	¥195,166	¥154,616	¥109,183	¥ 7,739	¥466,704	¥ —	¥466,704
Intersegment.....	173,423	1,002	5,609	34,700	214,734	(214,734)	—
Total.....	368,589	155,618	114,792	42,439	681,438	(214,734)	466,704
Operating expenses .....	339,748	150,887	109,291	41,111	641,037	(209,829)	431,208
Operating income (loss).....	28,841	4,731	5,501	1,328	40,401	(4,905)	35,496
Assets .....	¥216,228	¥ 62,940	¥ 73,175	¥25,583	¥377,926	¥ 206,177	¥584,103

	Millions of yen						
	2000						
	Japan	North America	Europe	Asia	Total	Elimination and corporate	Consolidated total
Net sales:							
Unaffiliated customers .....	¥186,354	¥129,436	¥107,560	¥ 5,296	¥428,646	¥ —	¥428,646
Intersegment.....	141,279	989	5,547	34,315	182,130	(182,130)	—
Total.....	327,633	130,425	113,107	39,611	610,776	(182,130)	428,646
Operating expenses .....	306,066	126,947	107,627	38,561	579,201	(180,687)	398,514
Operating income (loss).....	21,567	3,478	5,480	1,050	31,575	(1,443)	30,132
Assets .....	¥157,775	¥ 54,618	¥ 58,201	¥59,153	¥329,747	¥ 206,427	¥536,174

	Thousand of U.S. dollars						
	2002						
	Japan	North America	Europe	Asia	Total	Elimination and corporate	Consolidated total
Net sales:							
Unaffiliated customers .....	\$1,576,592	\$1,445,272	\$1,083,104	\$122,352	\$4,227,320	\$ —	\$4,227,320
Intersegment.....	1,503,952	6,832	50,208	274,184	1,835,176	(1,835,176)	—
Total.....	3,080,544	1,452,104	1,133,312	396,536	6,062,496	(1,835,176)	4,227,320
Operating expenses .....	2,820,632	1,404,896	1,097,640	375,032	5,698,200	(1,809,144)	3,889,056
Operating income (loss).....	259,912	47,208	35,672	21,504	364,296	(26,032)	338,264
Assets .....	\$1,477,528	\$ 592,192	\$ 647,720	\$209,984	\$2,927,424	\$ 1,569,200	\$4,496,624

Notes: 1. Segmentation is determined by geographical adjacency.

North America includes the United States. Europe includes Germany, the United Kingdom, France and other countries. Asia includes Singapore, Hong Kong, China, Australia and other countries.

2. As mentioned at Note 1 (i) Pension and retirement allowance plans, effective April 1, 2000, the Company and the domestic consolidated subsidiaries changed the method of accounting standard for employees' severance and pension benefits. The effect of this change for the fiscal year 2001 was ¥241 million in Japan to decrease in operating income.

3. As described in Note 1 (d), effective April 1, 2000, the revised accounting standard for foreign currency translation was adopted, and at March 31, 2001, Foreign currency translation adjustments is presented in the shareholders' equity section instead of in the assets section. As a result, Assets for Elimination and Corporate for 2001 was decreased by ¥6,220 million.

### (c) Overseas sales information

	Millions of yen			Thousands of U.S. dollars
	2002			2002
	2002	2001	2000	
Export sales (A) .....	¥377,654	¥317,353	¥283,653	\$3,021,232
to North America.....	195,863	163,113	134,105	1,566,904
to Europe.....	135,218	112,908	109,492	1,081,744
to Asia.....	36,418	32,184	31,855	291,344
to Other areas.....	10,155	9,148	8,201	81,240
Net sales (B) .....	528,415	466,704	428,646	4,227,320
A/B (%) .....	71.5%	68.0%	66.2%	71.5%

Segmentation is determined by geographical adjacency.

North America includes the United States and Canada. Europe includes Germany, the United Kingdom, France and other countries. Asia includes Singapore, Hong Kong, China, Australia and other countries.

Other areas include Central and South America, the Middle East, Africa and others.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the shareholders and the Board of Directors of Olympus Optical Co., Ltd.

We have audited the accompanying consolidated balance sheets of Olympus Optical Co., Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Olympus Optical Co., Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 1, Olympus Optical Co., Ltd. and consolidated subsidiaries prospectively adopted new Japanese accounting standards for financial instruments, employees' severance and retirements benefits, and foreign currency transactions in the year ended March 31, 2001, consolidation and equity method accounting in the year ended March 31, 2000. Also, Olympus Optical Co., Ltd. and consolidated subsidiaries adopted the Internal Company System, effective April 1, 2001, as described in Note 17, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

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Asahi & Co.  
Tokyo, Japan  
June 27, 2002