



## **FINANCIAL STATEMENTS**

From April 1, 2002  
to March 31, 2003

### **Consolidated Subsidiaries**

*Domestic:*

*Makoto Industry Co., Ltd.*

*Linsey System Co., Ltd.*

*Edec Co., Ltd.*

*Astro Co., Ltd.*

*Overseas:*

*Fuji America Corporation*

*Fuji Machine America Corporation*

## **Management Policy**

### **(1) Basic Management Policy**

In order to provide our customers throughout the world with the highest technology and services, and to maintain our status as a worthy corporation for our customers, shareholders and employees, the Fuji Machine Manufacturing Group continues to make our every effort to realize our basic management policy, which is to “Structurally reform existing businesses while moving forward on new business initiatives, realizing corporate and professional innovation with a heightened sense of the moment as the driving force.

### **(2) Basic Policy for the Appropriation of Profits**

It is Fuji’s policy to set dividend levels based on profitability, and while every attempt is made to maintain dividend levels, in view of the rapidly changing nature of our businesses, the dividend level must be set with an over-riding view to stabilizing the management base and strengthening the company’s financial position.

Retained earnings are applied to the development of products focused on market needs, technology development, and effective investment in production facilities with a view towards strengthening our business structure that will ensure profits in the future for our shareholders.

### **(3) Medium and Long-term Strategy and Necessary Assignment**

Information Technology (IT) and its related industries have begun to show signs of a gradual recovery from the long-standing recession that followed the collapse of the IT bubble. However, at home a weak share price and a strong yen under a deflationary economy, and abroad the slowdown of the American economy, remain reasons for concern. Moreover, prospects in the Chinese and Asian markets have been made more uncertain by Severe Acute Respiratory Syndrome (SARS), therefore the serious economic situation is expected to continue for the time being. However, in the medium-and-long term the electronics assembly machine industry is expected to maintain a high rate of growth. Furthermore, the automotive industry – the biggest market for machine tools – is expected to expand as a result of environmental and overseas strategic investment, and increased global competition.

Hereafter, diversification, miniaturization, and lightening of electronic equipment will accelerate simultaneously with the shift of manufacturing into China. It is a condition of their survival that electronics assembly machine makers greatly improve core technologies and development, while shortening production time and minimizing costs. Moreover, amidst increased globalization and reorganization in the machine tool industry, strong products with outstanding features and service support are required.

For the second successive term we recorded a sharp deficit, something we have not experienced since our foundation. However, in order to recover and maintain profitability, the Fuji Machine Manufacturing Group will unite to make advances in new business development centered on production equipment related to the manufacturing of liquid crystal displays (LCD), a sales expansion of our next generation of SMT equipment, and a drastic reduction of costs through a ceaseless pursuit of structural reform. We will also build an energetic and robust company that achieves new growth by focusing on our existing SMT and machining techniques as core technologies.

### **(4) Basic Policy of Corporate Governance**

Having made authority and responsibility clear, one of our most important managerial objectives is to establish a managerial organization that can respond quickly to changes

in the market.

In June 2002, as part of our managerial reform, we introduced an executive board system. This system was introduced in order to separate the decision making and executive functions of management, to speed up the management decision making process, and to clarify responsibilities by transferring authority and forcing executive officers to take responsibility for their operational duties. Currently there are 13 executives, of whom 8 hold the post of director.

Further to the regular monthly meeting of the board of directors, an additional meeting of the board may be held when necessary to oversee regulations established by law, important management decisions, and other executive duties.

Two out of our 4 auditors are external auditors, who attend the regular monthly meeting of the board of directors, and at other times when necessary, to supervise the management and lawfulness of the execution of duties by our directors.

## **Business Summary and Financial Condition**

### **(1) Outline for the fiscal period**

Following slow improvements in the world economy, the economic conditions for this fiscal period are again uncertain, given the slump in trade of high-tech enterprises from last summer onwards, the global fall in share prices, the tense situation in Iraq and so on. Moreover, the severe situation in the domestic economy continues due to the deterioration in consumer demand and private investment in plants and equipment.

Currently growth in the electronic assembly equipment industry in America, Europe, and Japan has come to a stop, and the bulk of the manufacturing base has moved to the Asian market, especially China. This is a harsher market where we face increasing pressure to cut prices, and increased competition from the growing number of used machines in dealers' inventories.

In the machine tool industry, excluding environmental and strategic overseas investment, demand remains sluggish, reflecting the stagnant global economic state.

In this harsh business environment we are endeavoring to recover our company's profitability through structural reforms of existing business, advances into new fields, the acceleration of managerial reforms, and a new system of responsibility.

In the electronics assembly machine division, we pursued sales in China, which has become our leading market, strengthened our service support system, and introduced cost reductions and reasonable inventory levels. Moreover, as the next in our industry leading line of products, we developed the modular, high-speed, high-productivity NXT placing platform which combines flexibility and high speed in the same machine, and significantly upgraded the XP-TYPE I to the compact, high-speed, multi-purpose XP-TYPE II. In addition we also developed various software applications.

Furthermore in the machine tool division we continued to promote tooling technologies based on our core expertise, developed customer-orientated automated products, and increased earnings potential through business reforms designed to further integrate production, sales, and technology.

In our New Business Development section we began development and manufacture of production equipment related to the manufacturing of liquid crystal displays (LCD), and began sales activity in this growing industry.

In this way we sought to construct a business model that is capable of keeping pace with changing circumstances, strengthened our enterprise through steady structural reform, and concentrated our efforts on the recovery of sales. However results for this consolidated fiscal period were total sales of 31,221 million yen for assembly machines, 10,073 million yen for machine tools, 649 million yen for LCD related equipment sales, and 720 million yen attributable to other business activities, for a combined total of 42,663 million yen.

Operating losses were 9,627 million yen, and ordinary losses were 8,780 million yen, with a consolidated fiscal period net loss amounting to 7,616 million yen.

### **(2) Prospects of the next period**

As for the prospects for the next period, although the effect of SARS on the global economy is concerning, we will build up our market share through commitment to our next generation of mounters, attract new customers by keeping pace with global development in the automotive industry, expand our New Business Development section through LCD related equipment sales, and recover our profitability through continuous pursuit of structural reforms.

The forecast for the consolidated fiscal year are total sales of 68,000 million yen, ordinary profit of 2,800 million yen, and a net profit of 2,300 million yen.

### (3) Financial Condition

The total consolidated assets for this period, due to deductions from inventories, were 91,574 million yen, which was 6,433 million yen less than the previous consolidated fiscal year. Additionally, our consolidated liability for this fiscal year totaled 18,624 million yen, which was 3,879 million yen more than the previous consolidated fiscal period due to an increase in Notes and accounts payable.

As for the cash flow, consolidated cash and cash equivalents for this fiscal period were 12,847 million yen, which was 3,601 million yen more than the previous consolidated fiscal period. This was attributable to the total of increased cash flow from business operations exceeding decreased cash flow from investment and financing activities.

As for cash flow from business operations, cash which was obtained as a result of operations was 8,091 million yen (the previous consolidated fiscal period 4,547 million yen). This was mainly attributable to positive factors such as decline in inventories and increase in purchase debt exceeding negative factors such as interim net loss prior to adjustments for taxes and increase in sales credit.

As for cash flow from investing activities, cash which was used as a result of the activities was 3,368 million yen (the previous consolidated fiscal period 9,391 million yen). This was mainly attributable to negative factors such as investments in tangible and intangible fixed assets exceeding positive factors such as repayment of fixed deposits.

As for cash flow from financing activities, cash which was used as a result of these activities was 744 million yen (the previous consolidated fiscal period 5,161 million yen). This was principally due to the payment of dividends to shareholders.

Furthermore, trends in the cash flow index were as follows:

	Consolidated Accounting Period (March 31 <sup>st</sup> 2000)	Consolidated Accounting Period (March 31 <sup>st</sup> 2001)	Consolidated Accounting Period (March 31 <sup>st</sup> 2002)	Consolidated Accounting Period (March 31 <sup>st</sup> 2003)
Shareholders' Equity Ratio (%)	73.1	76.7	85.0	79.7
Shareholder's Equity Ratio (based on market price) %	328.1	131.7	113.3	48.1
The number of years of debt redemption (Years)	0.0		1.4	0.8
Interest Coverage Ratio	506.5		129.2	122.8

Notes:

- The indexes above are calculated using the following formulas:  
Shareholders' Equity Ratio: shareholders' equity/total assets.  
Shareholders' Equity Ratio (based on market price): total sum of the market price for stock/total assets.  
The number of years of debt redemption: liabilities with interest/cash flow from operating activities.  
Interest Coverage Ratio: cash flow from operating activities/interest payments
- Each index is calculated according to the consolidated financial value.
- The total sum of the market price for stock is calculated as the closing price of the end of term stocks × the number of stocks issued at the end of term (after deduction of treasury stocks).
- "Cash flow from operating activities" refers to the cash flow from operating activities in the statement of consolidated cash flow. "Liabilities with interest" refers to all interest paying debts on the consolidated balance sheet. "Interest Payments" refers to the interest payments in the statement of consolidated cash flow. Moreover, because there was an outflow of cash from operating activities in the consolidated accounting period ending March 31<sup>st</sup>, 2001, the debt redemption and interest coverage ratio are omitted for that period.

## CONSOLIDATED BALANCE SHEETS

Fuji Machine Mfg. Co., Ltd. and subsidiaries  
As of March 31, 2003 and 2002

<b>ASSETS</b>	Millions of yen	
	2003	2002
<b>Current assets</b>		
Cash on hand and in bank	13,266	12,483
Notes and accounts receivable – trade	12,745	10,667
Inventories	25,069	35,867
Deferred taxes	2,252	1,973
Other current assets	1,379	1,776
Less-allowance for doubtful receivable	63	119
Total current assets	54,651	62,649
<b>Fixed assets</b>		
<b>Property, plant and equipment:</b>		
Building and structures	10,312	11,262
Machinery/equipment and vehicles	5,244	5,798
Tools, furniture and fixtures	1,043	1,267
Land	3,873	3,960
Construction in progress	77	8
Total property, plant and equipment	20,550	22,298
<b>Intangible assets:</b>		
Software	4,759	2,684
Other intangible assets	22	23
Total intangible assets	4,781	2,707
<b>Investments and other assets:</b>		
Investment securities	3,569	4,131
Deferred taxes	7,434	5,505
Others	586	715
Total investments and other assets	11,590	10,352
Total fixed assets	36,923	35,358
Total assets	91,574	98,007

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Millions of yen	
	2003	2002
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Notes and accounts payable	6,911	3,236
Accrued expenses	2,053	1,794
Accrued warranty	513	790
Others	1,303	1,157
Total current liabilities	10,781	6,980
<b>Long term liabilities:</b>		
Long-term borrowings	6,400	6,400
Accrued retirement benefits	1,442	1,290
Consolidation adjustments	-	74
Total long term liabilities	7,842	7,764
Total liabilities	18,624	14,744
<b>Shareholders' equity</b>		
<b>Capital stock</b>	5,878	5,878
<b>Capital reserve</b>	5,413	5,413
<b>Earnings surplus</b>	59,464	67,815
<b>Unrealized gain on available for-sale securities, net of taxes</b>	305	203
<b>Translation adjustment</b>	2,510	3,953
<b>Treasury stock</b>	11	1
Total shareholders' equity	72,950	83,263
Total liabilities and shareholders' equity	91,574	98,007

## CONSOLIDATED INCOME STATEMENT

Fuji Machine Mfg. Co., Ltd. and subsidiaries  
For the years ended March 31, 2003 and 2002

	Millions of yen	
	2003	2002
Net sales	42,663	43,639
Cost of sales	40,043	40,917
Selling, general and administrative expenses	12,248	14,428
<b>Operating loss</b>	<b>9,627</b>	<b>11,706</b>
<b>Non-operating revenue:</b>		
Interest and dividend income	160	173
Others	971	918
<b>Non-operating expenses:</b>		
Interest expense	65	35
Exchange loss	157	-
Others	61	45
<b>Ordinary loss</b>	<b>8,780</b>	<b>10,695</b>
Extraordinary gain	112	191
Extraordinary loss	1,198	1,616
<b>Loss before income taxes and minority interest</b>	<b>9,866</b>	<b>12,120</b>
<b>Income taxes:</b>		
Corporate, inhabitant's and enterprise taxes	55	39
Tax credits	621	641
Operating loss carryforwards of subsidiaries	-	379
Amount of corporation tax paid in previous financial year	256	-
Adjustment for corporate taxes	1,940	4,048
<b>Net loss</b>	<b>7,616</b>	<b>7,091</b>
<b>Notes:</b>		
Depreciation expense	2,566	2,984
Amortization expense	1,544	1,128

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Fuji Machine Mfg. Co., Ltd. and subsidiaries  
For the years ended March 31, 2003 and 2002

	Millions of yen	
	2003	2002
<b>Capital surplus:</b>		
<b>Beginning balance of capital surplus</b>	5,413	5,413
<b>Ending balance of capital surplus</b>	5,413	5,413
<b>Earnings surplus:</b>		
<b>Beginning balance of earning surplus</b>	67,815	76,214
<b>Decrease</b>		
Cash dividends	733	1,222
Directors' and statutory auditors' bonuses	-	85
Net loss	7,616	7,091
<b>Ending balance of earning surplus</b>	59,464	67,815

# CONSOLIDATED CASH FLOWS STATEMENT

Fuji Machine Mfg. Co., Ltd. and subsidiaries  
For the years ended March 31, 2003 and 2002

	Millions of yen	
	2003	2002
<b>Operating activities</b>		
Loss before income taxes and minority interest	9,866	12,120
Depreciation and amortization	4,111	4,112
Decrease in accrued warranty	267	888
Increase in accrued retirement benefit	152	246
Interest and dividend income	160	173
Interest expense	65	35
Gain on disposition of fixed assets	94	142
Loss on disposition of fixed assets	373	307
Devaluation of investment securities	693	1,089
Capital loss on appraisal	118	-
Increase or Decrease in accounts receivable	2,199	11,520
Decrease in inventories	10,412	15,219
Increase or Decrease in trade payable	3,755	12,863
Others	382	132
<b>Sub total</b>	<b>7,476</b>	<b>6,211</b>
Interest and dividend received	160	174
Interest paid	65	35
Net income tax refund amount	520	-
Income taxes payments amount	-	1,803
<b>Net cash (used in) provided by operating activities</b>	<b>8,091</b>	<b>4,547</b>
<b>Investing activities</b>		
Additions of tangible and intangible fixed assets	5,728	6,165
Proceeds from sales of tangible and intangible fixed assets	845	367
Additions of investment securities	999	1,113
Investment in time deposit	295	3,078
Proceeds on maturity of time deposit	2,866	661
Others	56	63
<b>Net cash used for investing activities</b>	<b>3,368</b>	<b>9,391</b>
<b>Financing activities</b>		
Decrease in short-term borrowings	-	14
Proceeds on long-term borrowings	-	6,400
Dividends paid	733	1,222
Others	10	1
<b>Net cash (used in) provided by financing activities</b>	<b>744</b>	<b>5,161</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>377</b>	<b>244</b>
<b>Increase in cash and cash equivalents</b>	<b>3,601</b>	<b>561</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>9,246</b>	<b>8,685</b>
<b>Cash and cash equivalents at end of the year</b>	<b>12,847</b>	<b>9,246</b>

## **BASIS FOR PREPARATION OF CONSOLIDATED STATEMENTS**

### **1. Consolidation range**

Number of consolidated subsidiary companies: 6 companies

The names of consolidated subsidiary companies:

Makoto Industry Co., Ltd. Linsey System Co., Ltd. Edec Co., Ltd. Astro Co., Ltd.  
Fuji America Corporation Fuji Machine America Corporation

### **2. Applicability under the holdings law**

The names of affiliated companies to which the equity method is not applied:

Fuji Machine Mfg. (Europe) GmbH Fuji do Brasil Maquinas Industrials Ltda.  
Fuji Machine Philippines, Inc.

Reasons for not applying the equity method

The total amount of net profit/loss and reserves of the affiliated companies to which the equity method is not applied for this consolidated term, and the total amount equivalents for holdings were so insignificant as to have any affect on the net profit/loss and the reserves of the consolidated company during this term, and are therefore deemed not to be of consequence from the view of the entity as a whole. Therefore, the Holdings Law does not apply.

### **3. Consolidated Subsidiary Company Business Periods**

The business period of the consolidated subsidiary companies is consistent with the business period of this consolidated accounting period.

### **4. Standard Accounting Practices**

( 1 ) Evaluation standards and methods for important assets

Inventories

Determined mainly by final purchase cost method and periodic average method.

Securities

Other securities

Securities with market value: The market value method based on the market price as of the date of account settlement (The difference in evaluation is fully treated according to the method to be directly incorporated in the capital and the sale cost is calculated by the moving average method.)

Securities without market value: Determined by the moving average method.

( 2 ) Depreciation methods for important assets

Tangible fixed assets are depreciated mainly using the declining balance method, except for buildings (excluding attached facilities) acquired in Japan subsequent to March 31, 1998 are depreciated according to the straight-line method.

Intangible fixed assets are depreciated using the straight-line method. However, as for software used for sales, the straight-line method is applied based on the estimated term of usefulness. As to software for our company uses, the straight-line method is based on the estimated usable term.

( 3 ) Accounting standard for important allowances

Allowance for doubtful accounts: to prepare for loss on irrecoverable debts, the estimated irrecoverable amount is appropriated by the actual rate of dead loan as for general credit, and by estimation of possibility of recovery for individual cases for specific doubtful credits that have worries of dead loan.

Accrued warranty: to prepare for outlays for defects found in manufactured goods within the warranty period, the experience rate is computed based on past record, which is then multiplied by the sales for the current term.

Accrued retirement benefits: In preparation of payment of employee retirement benefits, the forecasted amount has be appropriated based on the estimated amount of the debt set aside for retirement benefit and pension assets at the end of the current consolidated annual accounting period. Calculational discrepancies are included in the consolidated fiscal accounting period's calculations as a lump-sum expense.

- ( 4 ) Method of important hedge account  
Hedge account method:  
In regard to interest rate swap, we adopt special exemption as we meet the necessary conditions.  
Hedge means and subject:  
The hedge means: interest rate swap  
The hedge subject: loan  
Hedge policy:  
To decrease the risk posed by interest rate fluctuation and improve the credit situation with regard to income and expenditure.  
Method of evaluating hedge validity:  
As we meet the necessary conditions for special exemption, judgement on the evaluation of the settlement date is omitted.

- ( 5 ) Computation of consumption tax and other tax  
Tax computed separately.

#### 5. Subsidiary Company Assets and Loan Evaluation

The assets and loans of consolidated subsidiary companies are evaluated according to the market price method in all its aspects.

#### 6. Amortization of Consolidated Adjustment Account

The consolidated adjustment account is depreciated evenly over two years.

#### 7. Disposal of Profits

A consolidated surplus statement is issued based on the profit disposal having been confirmed during consolidated accounting period.

#### 8. Capital Range of Consolidated Cash Flows Accounting Statement

The capital (cash and equivalents) in the Consolidated Cash Flows Statement consists of cash on hand, deposits receivable on demand and short-term investments with 3 month or less until due date after date of acquisition, with very little variance in value and/or can also be easily converted to cash.

#### 9. Fundamental standards for making other consolidated financial statements.

- ( 1 ) From this current consolidated accounting period, we shall apply "Accounting Standards for the Reversal of Treasury Stock and Legal Reserves" (as noted in Corporate Accounting Standards, Section 1). However, this change will have no effect on profits and/or losses for this interim consolidated accounting period.

Due to the amendment of regulations for this current consolidated financial statements, shareholder's equity on the current consolidated balance sheet and the current consolidated surplus accounts sheet during the previous consolidated accounting period are made using the revised regulations for the current consolidated financial statements.

- ( 2 ) Accounting standards regarding this term's net profit per share.

From the current consolidated fiscal period we comply with both the "accounting standard regarding net profit per share" (the second corporate accounting standard), and "the application policy of the accounting standard regarding net profit per share" (the 4<sup>th</sup> application policy of corporate accounting standard).

Furthermore, there is no influence regarding use of the same accounting standard and application policy.

#### NOTES :

##### (On consolidated balance sheet)

	<b>March 31, 2003</b>	(Millions of yen) March 31, 2002
1. Accumulated depreciation of tangible fixed assets	20,762	19,463
2. Guarantee obligation	433	-
3. Balance of endorsed notes receivable	7	3
4. Treatment of matured bills at the final date of the consolidated accounting period : Matured bills are settled as of the date of bill clearing. As the final date for the previous consolidated accounting period falls on a holiday of financial institutions, matured bills as of the final date for the said accounting period are included in the following account:		
Notes receivable	-	255

**(On consolidated cash flow statement)**

The relation between the term-end balance of cash and cash-equivalents, and the sums of the items listed on the consolidated balance sheet

	<b>March 31, 2003</b>	(Millions of yen) March 31, 2002
Cash and deposit accounts	13,266	12,483
Time deposits whose deposit terms exceed three months	418	3,237
Cash and cash equivalents at end of the period	12,847	9,246

**(On consolidated marketable securities)**

## 1. Other negotiable securities which currently have a market value

( Millions of yen )

Category	This consolidated accounting period (March 31, 2003)			Previous consolidated accounting period (March 31, 2002)		
	Acquisition Cost	Price on consolidated balance sheet	Net difference	Acquisition Cost	Price on consolidated balance sheet	Net difference
Items whose sums on the consolidated balance sheet exceed their acquisition costs						
Shares	355	557	202	907	1,371	464
Bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	355	557	202	907	1,371	464
Items whose sums on the consolidated balance sheet do not exceed their acquisition costs						
Shares	3,311	2,654	657	1,396	1,279	117
Bonds	-	-	-	-	-	-
Other	211	157	53	211	211	0
Subtotal	3,523	2,812	711	1,608	1,490	117
<b>Total</b>	<b>3,878</b>	<b>3,369</b>	<b>509</b>	<b>2,515</b>	<b>2,862</b>	<b>346</b>

Note: Acquisition cost price in the table is the account book price after allowances for loss. We made allowances for loss in the current and previous consolidated fiscal periods, and appropriated loss on revaluation of investments in negotiable securities of 693 million yen in the current consolidated fiscal period, and 1,089 million yen in the previous consolidated fiscal period.

## 2. Contents of principal negotiable securities which lack a market value, and their sums on the consolidated balance sheet

( Millions of yen )

Category	This consolidated Accounting period (March 31, 2003)	Previous consolidated accounting period (March 31, 2002)
	Price on consolidated Balance sheet	Price on consolidated Balance sheet
Other marketable securities Unlisted stocks (excluding over-the-counter stocks)	175	1,245
<b>Total</b>	<b>175</b>	<b>1,245</b>

**(On retirement benefits)**

## 1. Outline of our retirement benefits systems

We have adopted the tax-qualified pension system and the employees' pension fund system. Some of our domestic consolidated subsidiaries are equipped with the tax-qualified pension system, and some of our overseas consolidated subsidiaries are equipped with the defined contribution pension plan system.

## 2. Items related to retirement benefits liabilities

	( Millions of yen )	
	<b>March 31, 2003</b>	March 31, 2002
Retirement benefits liabilities	6,741	6,538
Pension assets	4,576	4,888
Unreserved retirement benefits liabilities	2,165	1,649
Variances due to unrecognized calculative reasons	722	359
Accrued retirement benefits	1,442	1,290

Note: Some of the consolidated subsidiaries adopted a simplified calculation method to calculate retirement benefits liabilities.

## 3. Items related to retirement benefits expenses

	( Millions of yen )	
	<b>March 31, 2003</b>	March 31, 2002
Service costs	379	368
Interest costs	193	185
Expected investment returns	145	140
Disposed amount of variances due to calculative reasons	359	476
Expenses for retirement benefits	787	889

Note: The retirement benefits expenses of the consolidated subsidiaries which adopted a simplified method is added to the 'service costs'.

## 4. Basic information on the calculation of retirement benefits liabilities, etc.

	<b>March 31, 2003</b>	March 31, 2002
Allotment method of the estimated sum of retirement benefits for each period	<b>Fixed amount standard</b>	Fixed amount standard
Discount rate	2.8 %	3.0 %
Expected rate for investment profits	3.0 %	3.0 %
Number of years for the disposal of variances due to calculative reasons	<b>A lump-sum expense disposal in the next, consolidated fiscal year.</b>	A lump-sum expense disposal in the next, consolidated fiscal year.

**(On tax effect accounting)**

## Breakdown of the main causes of deferred income tax on assets and liabilities

(Millions of yen)

	<b>March 31, 2003</b>	March 31, 2002
(Deferred tax assets)		
Carryforward of operating loss	7,831	4,404
Investment securities	796	625
Inventories	754	1,311
Accrued retirement benefits	575	532
Accrued expenses	319	259
Accrued warranty	210	322
Unrealized gain on available for-sale securities, net of taxes	203	-
Others	177	166
Subtotal deferred tax assets	<u>10,868</u>	<u>7,622</u>
Sum of valuation allowance	1,181	-
Total deferred tax assets	<u>9,687</u>	<u>7,622</u>
(Deferred tax liabilities)		
Unrealized gain on available for-sale securities, net of taxes	-	142
Disposition of the allowance for doubtful debts resulting from the elimination of credits and debts	<u>0</u>	<u>0</u>
Total deferred tax liabilities	<u>0</u>	<u>143</u>
Net of deferred tax assets	<u>9,686</u>	<u>7,478</u>

**(On consolidated segment information)****1. Business segment information**

This consolidated accounting period (April 1, 2002 to March 31, 2003)

(Millions of yen)

	Electronics Assembly Machines	Machine Tools	Liquid crystal display related	Others	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>							
Sales	31,221	10,073	649	720	42,663	-	42,663
1. Sales to third parties							
2. Interarea sales or transfers	2	-	-	171	173	173	-
Total	31,223	10,073	649	891	42,837	173	42,663
Operating expenses	38,095	10,436	871	1,085	50,489	1,801	52,291
Operating loss	6,871	363	222	193	7,652	1,975	9,627
<b>. Asset, depreciation and capital expenditure</b>							
Asset	61,885	17,557	1,722	2,180	83,345	8,228	91,574
Depreciation	3,156	571	60	124	3,913	198	4,111
Capital expenditure	4,831	304	206	388	5,731	112	5,844

Previous consolidated accounting period (April 1, 2001 to March 31, 2002)

(Millions of yen)

	Electronics Assembly Machines	Machine Tools	Others	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>						
Sales						
1. Sales to third parties	32,586	10,484	569	43,639	-	43,639
2. Interarea sales or transfers	2	-	1	4	4	-
Total	32,588	10,484	571	43,644	4	43,639
Operating expenses	41,253	11,568	658	53,480	1,865	55,346
Operating loss	8,664	1,084	87	9,836	1,869	11,706
<b>. Asset, depreciation and capital expenditure</b>						
Asset	71,979	15,762	1,182	88,924	9,083	98,007
Depreciation	3,218	645	11	3,875	237	4,112
Capital expenditure	4,855	351	3	5,211	39	5,250

Notes: 1. Method of segmentation by type of business

Segmentation has been performed by the type and nature of the products.

2. Main products of each business unit.

(1) Electronics assembly machine business: SMT assembly machines

(2) Machine tools business: Automatic lathe, Special-purpose machines

(3) LCD related business: LCD related production equipment.

(4) Other businesses: Control hardware, Software development, Insurance brokerage

3. Unallocable operating expenses included in elimination or all companies items amounted to 1,989 million yen for this consolidated accounting period and 1,879 million yen for the previous year, with the majority being expenses related to administrative divisions and technical research.

4. Company assets included in elimination or all companies items amounted to 8,231 million yen for this consolidated accounting period and 9,086 million yen for the previous year, with the majority being expenses related to surplus operating capital of the parent company (cash), long-term investments (investment securities), assets related to administrative division and technical research.

5. This group is divided and indicated because of the entry into liquid crystal display related business in the current consolidated fiscal period.

## 2. Geographical segment information

This consolidated accounting period (April 1, 2002 to March 31, 2003)

(Millions of yen)

	Japan	North America	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>					
Sales	36,403	6,259	42,663	-	42,663
1. Sales to third parties					
2. Interarea sales or transfers	4,023	62	4,086	4,086	-
Total	40,427	6,322	46,750	4,086	42,663
Operating expenses	46,919	7,454	54,374	2,082	52,291
Operating loss	6,491	1,131	7,623	2,003	9,627
<b>. Asset</b>	70,071	14,653	84,725	6,848	91,574

Previous consolidated accounting period (April 1, 2001 to March 31, 2002)

(Millions of yen)

	Japan	North America	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>					
Sales					
1. Sales to third parties	33,503	10,135	43,639	-	43,639
2. Interarea sales or transfers	2,949	106	3,055	3,055	-
Total	36,453	10,242	46,695	3,055	43,639
Operating expenses	45,343	12,672	58,015	2,669	55,346
Operating loss	8,890	2,429	11,319	386	11,706
<b>. Asset</b>	73,557	16,280	89,837	8,170	98,007

### Notes:

1. Division by country or region based on geographical proximity.
2. Major countries or regions in each division  
North America: The United States of America
3. Unallocable operating expenses included in elimination or all companies items amounted to 1,989 million yen for this consolidated accounting period and 1,879 million yen for the previous year, with the majority being expenses related to administrative divisions and technical research.
4. Company assets included in elimination or all companies items amounted to 8,231 million yen for this consolidated accounting period and 9,086 million yen for the previous year, with the majority being expenses related to surplus operating capital of the parent company (cash), long-term investments (investment securities), assets related to administrative division and technical research.

### 3. Overseas sales

This consolidated accounting period ( April 1 2002 to March 31, 2003 )

( Millions of yen )

	North America	Europe	Asia	Others	Total
. Overseas sales	7,435	1,415	21,296	209	30,357
. Consolidated sales					42,663
. Ratio of overseas sales to consolidated sales(%)	17.5	3.3	49.9	0.5	71.2

Previous consolidated accounting period ( April 1 2001 to March 31, 2002 )

( Millions of yen )

	North America	Europe	Asia	Others	Total
. Overseas sales	11,188	2,478	17,792	202	31,662
. Consolidated sales					43,639
. Ratio of overseas sales to consolidated sales(%)	25.6	5.7	40.8	0.5	72.6

Notes:

1. Division by country or region based on geographical proximity.
2. Major countries or regions in each division
  - (1) North America: The United States of America, etc
  - (2) Europe: Germany, U.K., Italy, etc
  - (3) Asia: China, Taiwan, Philippines etc
  - (4) Other: Brazil etc
3. Overseas sales is the aggregation of sales outside of Japan by the parent company and its consolidated subsidiaries.

#### (Negotiation with the relevant parties)

No items fall under this category.

## CONSOLIDATED ORDER RECEPTION AND SALES SITUATION

Fuji Machine Mfg. Co., Ltd. and subsidiaries

This period ( April 1, 2002 to March 31, 2003 )

( Millions of yen )

Business divided into Market segment type	Sales orders (%)	Sales (%)	Back orders (%)
Electronics assembly machine Business	33,125 (69.2)	31,221 (73.2)	5,393 (44.2)
Machine tools business	12,170 (25.4)	10,073 (23.6)	5,588 (45.8)
Liquid crystal display related Business	1,846 (3.9)	649 (1.5)	1,197 (9.8)
Other businesses	723 (1.5)	720 (1.7)	32 (0.2)
Total	47,866 (100.0)	42,663 (100.0)	12,211 (100.0)

Previous period ( April 1, 2001 to March 31, 2002 )

( Millions of yen )

Business divided into Market segment type	Sales orders (%)	Sales (%)	Back orders (%)
Electronics assembly machine Business	22,059 (66.2)	32,586 (74.7)	3,489 (49.8)
Machine tools business	10,776 (32.4)	10,484 (24.0)	3,490 (49.8)
Other businesses	472 (1.4)	569 (1.3)	29 (0.4)
Total	33,307 (100.0)	43,639 (100.0)	7,008 (100.0)

## BALANCE SHEETS

Fuji Machine Mfg. Co., Ltd.  
As of March 31, 2003 and 2002

<b>ASSETS</b>	Millions of yen	
	2003	2002
<b>Current assets</b>		
Cash on hand and in bank	3,701	4,671
Notes receivable	1,614	1,715
Accounts receivable	11,373	8,250
Finished goods and work in process	8,031	15,020
Raw material and supplies	13,372	16,091
Deferred taxes	1,896	1,199
Other current assets	878	783
Allowance for doubtful receivable	50	83
Total current assets	40,818	47,651
<b>Fixed assets</b>		
<b>Property, plant and equipment:</b>		
Building and structures	8,260	8,735
Machinery and equipment	4,630	5,044
Vehicles	56	77
Tools, furniture and fixtures	963	1,179
Land	3,211	3,207
Construction in progress	77	8
Total property, plant and equipment	17,200	18,253
<b>Intangible assets:</b>		
Software	4,730	2,598
Other intangible assets	18	18
Total intangible assets	4,748	2,617
<b>Investments, etc.:</b>		
Investment securities	3,449	3,967
Investment in related parties	1,140	1,140
Sundry investments	323	371
Deferred taxes	7,165	5,268
Other investments	201	273
Total investments	12,279	11,021
Total fixed assets	34,228	31,892
Total assets	75,047	79,543

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Millions of yen	
	2003	2002
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Notes payable	4,177	1,921
Accounts payable-trade	2,753	1,350
Accounts payable-other	222	89
Accrued expenses	1,598	1,411
Accrued warranty	468	685
Equipment notes payable	30	32
Other current liabilities	757	731
<b>Total current liabilities</b>	<b>10,008</b>	<b>6,221</b>
<b>Long term liabilities:</b>		
Long-term borrowings	6,400	6,400
Accrued retirement benefits	1,436	1,262
<b>Total long term liabilities</b>	<b>7,836</b>	<b>7,662</b>
<b>Total liabilities</b>	<b>17,845</b>	<b>13,884</b>
<b>Shareholders' equity</b>		
<b>Capital stock</b>	5,878	5,878
<b>Capital reserve</b>	5,413	5,413
<b>Legal reserve</b>	1,450	1,450
<b>Earnings surplus:</b>		
Revenue reserves	-	400
General reserves	47,400	53,400
Unappropriated retained earnings	2,639	1,081
(Net loss	7,223	6,780 )
<b>Unrealized gain on available for-sale securities, net of taxes</b>	289	199
<b>Treasury stock</b>	11	1
<b>Total shareholders' equity</b>	<b>57,202</b>	<b>65,659</b>
<b>Total liabilities and shareholders' equity</b>	<b>75,047</b>	<b>79,543</b>

# INCOME STATEMENT

Fuji Machine Mfg. Co., Ltd.  
For the years ended March 31, 2003 and 2002

	Millions of yen	
	2003	2002
Net sales	39,732	35,822
Cost of sales	38,897	35,789
Selling, general and administrative expenses	9,409	10,628
<b>Operating loss</b>	<b>8,574</b>	<b>10,594</b>
<b>Non-operating revenue:</b>		
Interest and dividend income	57	27
Others	690	549
<b>Non-operating expenses:</b>		
Interest expense	65	35
Exchange loss	130	-
Others	50	39
<b>Ordinary loss</b>	<b>8,073</b>	<b>10,092</b>
Extraordinary gain	32	105
Extraordinary loss	1,165	1,581
<b>Loss before income taxes</b>	<b>9,206</b>	<b>11,568</b>
<b>Income taxes:</b>		
Corporate, inhabitant's and enterprise taxes	21	18
Operating loss carryforwards of subsidiaries	-	379
Amount of corporation tax paid in previous financial Year	256	-
Adjustment for corporate taxes	2,261	4,426
<b>Net loss</b>	<b>7,223</b>	<b>6,780</b>
Retained earnings brought forward	4,951	6,310
Interim dividend	366	611
<b>Unappropriated retained earnings</b>	<b>2,639</b>	<b>1,081</b>
<b>Notes:</b>		
Depreciation expense	2,174	2,502
Amortization expense	1,525	1,108

# STATEMENT OF PROPOSED APPROPRIATION OF RETAINED EARNINGS

Fuji Machine Mfg. Co., Ltd.  
For the year ended March 31, 2003 and 2002

	Millions of yen	
	2003	2002
<b>Unappropriated retained earnings</b>	2,639	1,081
<b>Reversal of revenue reserves</b>	-	400
<b>Reversal of general reserves</b>	8,000	6,000
<b>Total</b>	5,360	5,318
Proposed to be appropriated as follows:		
Cash dividends	366	366
<b>Accumulated profits</b>	4,994	4,951

# ACCOUNTING POLICY

## 1. Evaluation standards and methods for assets

- (1) Appraisal method of inventories
  - Finished goods and work in process valued by average cost method.
  - Raw material and stores valued by last-in cost method.
- (2) Appraisal method of negotiable securities
  - Shares of subsidiaries and affiliated companies
    - Determined by the moving average method.
  - Other securities
    - Securities with market value: The market value method based on the market price as of the date of account settlement (The difference in evaluation is fully treated according to the method to be directly incorporated in the capital and the sale cost is calculated by the moving average method.)
    - Securities without market value: Determined by the moving average method.

## 2. Depreciation methods for assets

- (1) Tangible fixed assets are depreciated using the declining balance method, except for buildings (excluding attached facilities) acquired in Japan subsequent to March 31, 1998 are depreciated according to the straight-line method.
- (2) Intangible fixed assets are depreciated using the straight-line method. However, as for software used for sales, the straight-line method is applied based on the estimated term of usefulness. As to software for our company uses, the straight-line method is based on the estimated usable term.

## 3. Accounting standard for allowances

- (1) Allowance for doubtful accounts: to prepare for loss on irrecoverable debts, the estimated irrecoverable amount is appropriated by the actual rate of dead loan as for general credit, and by estimation of possibility of recovery for individual cases for specific doubtful credits that have worries of dead loan.
- (2) Accrued warranty: to prepare for outlays for defects found in manufactured goods within the warranty period, the experience rate is computed based on past record, which is then multiplied by the sales for the current term.
- (3) Accrued retirement benefits: In order to prepare for payment of employee retirement benefit, we have appropriated the amount that based on the estimated amount of the debt for payment of the retirement benefit liabilities and pension assets at the end of the current accounting period. Calculational discrepancies are included in the fiscal accounting period's calculations as a lump-sum expense.

## 4. Method of important hedge account

- (1) Hedge account method:
  - In regard to interest rate swap, we adopt special exemption as we meet the necessary conditions.
- (2) Hedge means and subject:
  - The hedge means: interest rate swap
  - The hedge subject: loan
- (3) Hedge policy:
  - To decrease the risk posed by interest rate fluctuation and improve the credit situation with regard to income and expenditure.
- (4) Method of evaluating hedge validity:
  - As we meet the necessary conditions for special exemption, judgement on the evaluation of the settlement date is omitted.

## 5. Fundamental standards for making other consolidated financial statements.

- (1) Computation of consumption tax and other tax
  - Tax computed separately.
- (2) From the current accounting period, we shall apply "Accounting Standards for the Reversal of Treasury Stock and Legal Reserves" (as noted in Corporate Accounting Standards, Section 1). However, this change will have no effect on profits and/or losses for the current accounting period.
  - Due to the amendment of regulations for the current financial statements, shareholder's equity on the current balance sheet and the previous surplus accounts sheet during this current accounting period are made using the revised regulations for the current financial statements.

(3) Accounting standards regarding this term's net profit per share.

From the current fiscal period we comply with both the "accounting standard regarding net profit per share" (the second corporate accounting standard), and "the application policy of the accounting standard regarding net profit per share" (the 4<sup>th</sup> application policy of corporate accounting standard).

Furthermore, there is no influence regarding use of the same accounting standard and application policy.

## NOTES:

(Millions of yen)

### (On balance sheet)

	<b>March 31, 2003</b>	March 31, 2002
1. Accumulated depreciation of tangible fixed assets	19,161	17,785
2. Guarantee obligation	433	-
3. Treatment of matured bills at the final date of the accounting period : Matured bills are settled as of the date of bill clearing. As the final date for the previous accounting period falls on a holiday of financial institutions, matured bills as of the final date for the said accounting period are included in the following account:		
Notes receivable	-	254

### (On marketable securities)

For both the previous and current period, there are no current values for the stock of any affiliated companies or subsidiaries.

### (On tax effect accounting)

Breakdown of the main causes of deferred income tax on assets and liabilities

(Millions of yen)

	<b>March 31, 2003</b>	March 31, 2002
(Deferred tax assets)		
Carryforward of operating loss	7,580	4,198
Investment securities	796	625
Inventories	573	520
Accrued retirement benefits	546	664
Accrued expenses	294	222
Accrued warranty	193	282
Unrealized gain on available for-sale securities, net of taxes	192	-
Others	66	94
Subtotal deferred tax assets	10,243	6,608
Sum of valuation allowance	1,181	-
Total deferred tax assets	9,062	6,608
(Deferred tax liabilities)		
Unrealized gain on available for-sale securities, net of taxes	-	140
Total deferred tax liabilities	-	140
Net of deferred tax assets	9,062	6,468

## EXECUTIVE CHANGES

- (1) Auditor Nomination and Candidacy (June 27, 2003)

**Shogo Nakamura:** Currently Osaka Branch Manager  
(full-time)

**Yoshihiro Asano:** Currently Certified Public Accountant, Head of Asano Certified Public  
(part-time) Accountant's Office

Note: This nomination is in accordance with Article 18, Section 1 of the "Exceptions to the Commercial Law."

- (2) Retiring Board Members effective (June 27, 2003)

**Tatsuo Yoshida:** Currently Managing Director  
Inauguration schedule for this company's technical adviser.

- (3) Auditors Scheduled for Retirement (June 27, 2003)

**Fumitsuna Hamada:** Currently full-time auditor  
Inauguration schedule for this company's adviser.

**Akira Takeuchi:** Currently part-time auditor  
Inauguration schedule for this company's adviser.

- (4) Directors Scheduled for Promotion (June 27, 2003)

**Shozo Nimura:** Vice President of the Board of Directors

- (5) New Executives(June 27, 2003)

**Isao Takahashi:** Officer, Deputy General Manager of Supply Headquarters  
(Currently Director, Deputy General Manager of Supply Headquarters)

**Hisao Itoh:** Officer, Sales Manager of Machine Tools Business Headquarters  
(Currently Sales Manager of Machine Tools Business Headquarters)