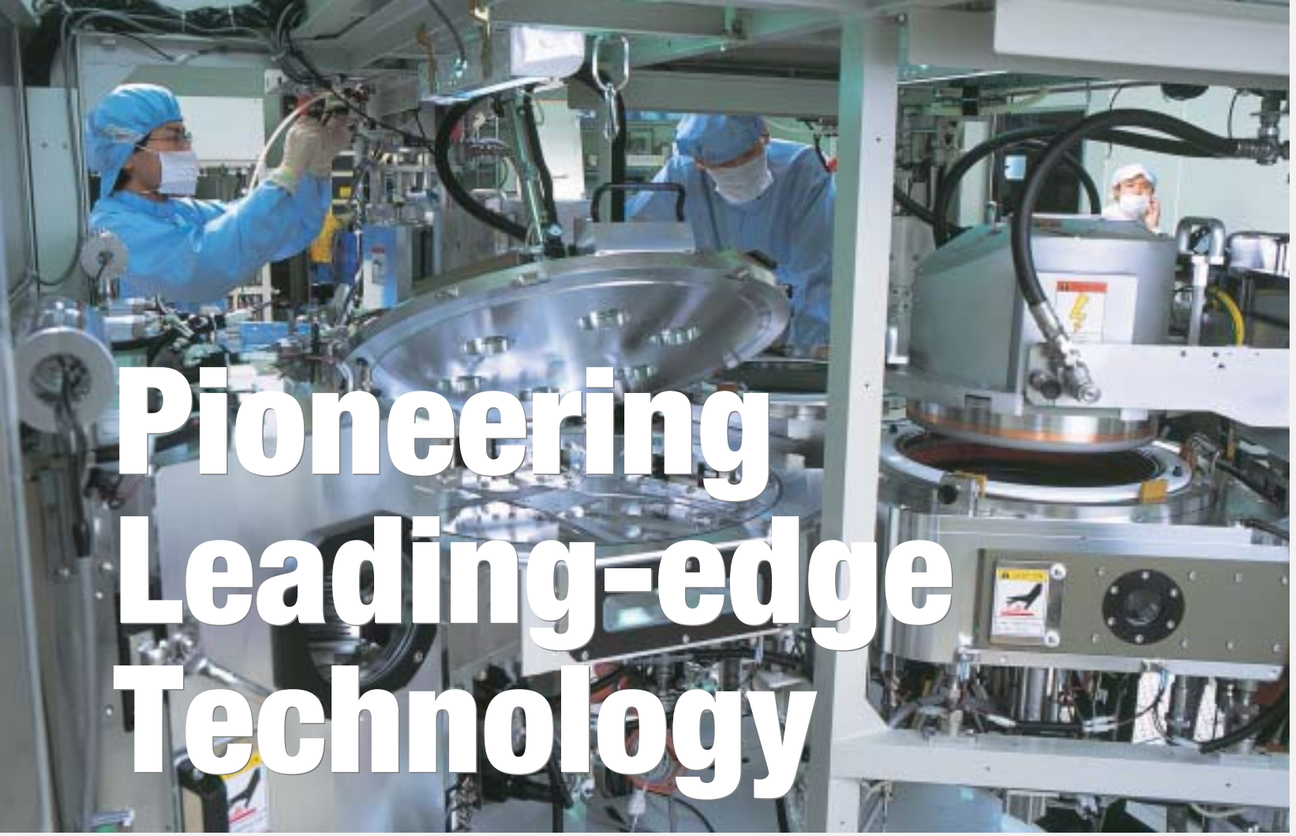
Since 1952

ANNUAL REPORT 2003

Year ended June 30, 2003

ULVAC



Pioneering Leading-edge Technology

Mission

The core mission of the ULVAC Group is to foster advances in science and industry through the comprehensive use of vacuum technologies. To realize this mission, we are sharpening our technological edge across a broad spectrum of industries, from electronics and automobiles to consumer electronic goods. Targeting the leading edge of product development, we are striving to lead the world as a company providing total solutions customers.

With ongoing quest that is vacuum technologies and idea of next-generation, we are proactively developing our operations and applying innovative technologies in growth areas and promising business sectors.

Forward-Looking Statements

The future plans, projected figures, and other such statements contained herein represent outlooks based on information available to management at the time of preparation of this annual report. They, therefore, include some risk and uncertainty, and must be used with caution as grounds for investment decisions. For example, there are latent risks and uncertainties associated with factors such as the tone of the economy, business environment, trend of consumption, the competition with other firms at ULVAC, Inc. and its subsidiaries, and changes in laws and regulations. We are under no legal obligation to update information relating to forward-looking statements in the future based on the latest information or to revise them and make public disclosure of the revisions.

CONTENTS

Profile

Since our founding in 1952, ULVAC has been a leading company in the pursuit of ultimate in vacuum technologies. Today, we are positioned as manufacturer and seller of unique and advanced manufacturing equipment for a number of sectors, including electronics, FPDs (flat panel displays), semiconductors, information and communications, energy, environmental protection, and medicine. We are among the world largest supplier of manufacturing equipment for FPDs and related devices.

Leveraging the comprehensive strengths of the ULVAC Group, we are working to deliver innovative solutions that guarantee higher levels of customer satisfaction. We are committed to distinguishing ourselves from the competition and creating a robust framework for addressing the diversified needs of our customers.

Interview with the President

Major progress thanks to innovative technologies and production reforms

ULVAC continues to improve competitiveness through reforms of our production system. At the same time, we are proactively developing our operations by expanding into such growth areas as China, South Korea, Taiwan, and other promising business sectors by applying innovative technologies.

Dr. Kyuzo Nakamura, President and CEO

Q How do you evaluate ULVAC's performance in the year ended June 2003?

It was an extremely significant year for us.

The operating environment was generally difficult, with the exception of FPDs, which performed well on the back of active capital investments to large-scale substrates. Nevertheless, I believe that we have been successful in turning this challenge into an opportunity to transform ULVAC into a company capable of generating substantial profits.

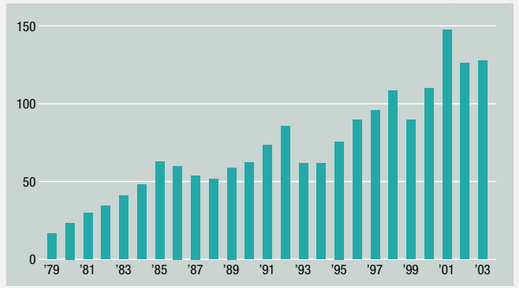
For the past three years, we have pursued complete standardization and promoted forecast cost management based on manufacturing budgets and other initiatives under our Groupwide production reform program. In our quest to increase revenues–a top priority for us–we had seen progressive declines in the gross profit ratio. In the year under review, however, the ratio improved significantly. We are very happy with this result, regardless of making investments geared to future growth.

Amid tough business circumstances, we strove to cut expenses and suppress fixed costs. These efforts led to a major recovery in operating income, even though net sales were largely unchanged.

Consolidated financial highlights (¥ millions)

	Year ended June 30, 2003	Year ended June 30, 2002
Net sales	127,473	126,129
Operating profit	4,737	2,276
Net income	1,729	669
Total assets (year-end)	173,949	160,276
Net assets (year-end)	41,952	40,102
EPS (¥)	48.10	18.45

Consolidated net sales (¥ billions)



Q How is the FPD market performing?

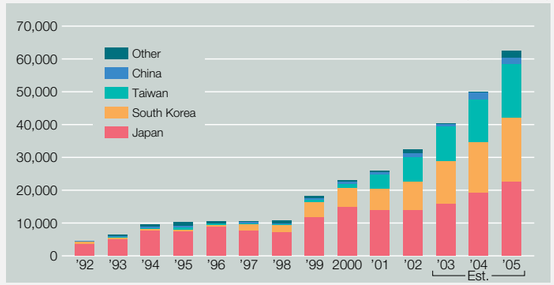
We expect the market to continue expanding for the next several years in the wake of growing television screen in sizes and rising replacement demand. In addition to personal computers and televisions, FPDs are used in PDAs (personal digital assistants) and a host of other applications. They also appear in several forms, not only the current mainstay of LCDs (liquid crystal displays) but also in next-generation devices being developed, such as organic EL displays and PDPs (plasma display panels). Indeed, there is major potential for FPDs, in terms of both technologies and applications.

In addition, the market for digital home appliances*–epitomized by DVD (digital versatile disc) viewers and home theaters–may also continue growing ULVAC's offerings include sputtering equipment for large scale substrates of fifth, sixth and seventh generation and LCD manufacturing equipment for leading-edge, low-temperature poly-silicon TFT (thin-film transistor). We are also a leading supplier in manufacturing equipment for organic EL displays and PDPs.

We already maintain the top share of the world market for sputtering equipment for LCD manufacturing and evaporator of PDP manufacturing equipment. We are also striving to take the lead in the organic EL manufacturing equipment field. By taking full advantage of our strengths, we intend to strongly defend our top position in these growth fields.

*According to ULVAC, "digital home appliances" means "home-use electrical products with various functions incorporating digital technologies."

FPD market scope (production base) (US$ millions)



Source: Produced by ULVAC based on graphs in April 2003 edition of Semiconductor FPD World (published by Press Journal Co., Ltd.)

Q Which FPDs hold the most promise, in your opinion?

At present, we cannot determine which displays will represent a growth business. LCDs and PDPs are selling very well, and organic EL displays have a major potential. We are concentrating our organic EL efforts in the small-display market, but television is where the real action lies, and so we are developing technologies for that area.

We believe that there is a great possibility that organic EL displays will rival LCDs in terms of image, quality and cost in the future. As we just mentioned, we cannot predict which type of display will ultimately dominate. Keeping this in mind, we handle all display types, and if we can maintain the top market share for each, we can win against the competition.

Q The market is becoming global in nature. What actions are you taking to address this trend?

The main growth markets for both FPDs and semiconductor devices will be South Korea, Taiwan, and China. Practically all of the world's LCD manufacturing facilities are concentrated in South Korea and Taiwan. To prevail amid future competition, we must build solid service, production, and marketing infrastructures in South Korea, Taiwan, and China. Based on this strategic perspective, ULVAC has maintained a proactive capital investment program even during difficult business conditions.

As for LCDs, where the trend is toward large screen sizes, we have completed the second construction of our plant in South Korea, and we are now shipping fifth-generation LCD manufacturing equipment. To upgrade our services to the FPDs and semiconductor device industries, we set up a plant in Tainan, Taiwan, to undertake OEM production, supply of consumables, and overhaul of used equipment.

In China, we have complemented existing facilities in Ningbo and Shanghai with a new plant in Suzhou. Called ULVAC (SUZHOU) Co., Ltd., the new facility is scheduled to commence operation in May 2004. Reflecting China's growing reputation as the world's production center, China is becoming the world's largest center of production for many of the industries. We believe that ULVAC's technologies will play an important role in this evolution.

Q What new growth areas are you concentrating on at present?

ULVAC is not merely a specialist in FPDs and semiconductor production equipment. Rather, we are a comprehensive manufacturer of vacuum-related devices, and our goal is to utilize vacuum-related technologies, as well as peripheral technologies thus derived, for the benefit of many industries. We believe that the energy and environmental sectors hold great promise for the future.

For example, hybrid cars, combining electric motors and gasoline engines, are gaining in popularity. Hybrid cars are fitted with numerous motors, which use highly powerful magnets. Indeed, vacuum technologies are essential to the manufacture of such magnets. We expect that widespread market acceptance of hybrid cars will create enormous business opportunities for ULVAC. In addition, secondary batteries contain hydrogen occlusion alloys, which require a vacuum melting furnace and numerous other vacuum devices to create.

We will also carefully monitor the growing markets for fine chemicals, fine mechanics and electronics, and biotechnology. Indeed, we intend to mobilize vacuum and peripheral technologies in a diversity of industries in the future.

Q Please describe the specific benefits of your production reforms.

As we mentioned at the beginning of the interview, we enjoyed noticeable benefits from our production reforms in the year to June 2003.

Sales of standardized equipment, developed through modularization or unitization, increased and now account for one-third of revenues. In our quest to generate steady profits, we developed a proprietary forecast cost management system that has delivered great results. We also made excellent progress in suppressing procurement costs. During the year, we began sourcing components from overseas, which had a positive effect on our domestic procurement activities. Profits from our overseas production operations are also growing.

As you can see, our production reforms are producing real benefits, however,we must reform engineering processes by reduction of excessive work in the design development cycle, and shortening of delivery time with the use of unique technical innovations. We call this the "second phase" our production reforms, and we are tackling these issues by establishing our new "Production Control Group" and launching various initiatives.

Q What areas are you concentrating on in the current fiscal year, ending June 2004?

Although the market environment remains difficult, we intend to increase sales, centering on FPDs, which will generate further growth. We also hope to significantly boost gross profit margins and overall profitability through our production reforms. Organic EL displays and ink jet printing, we will pursue development of original technologies that only ULVAC can create, while expanding our businesses in AR film coatings, biosensors, and other new "ULVAC Solutions."

As we stated earlier, we have taken action to transform ULVAC into a company capable of generating steady profits. To accelerate reforms and further raise earnings, we will undertake extensive cost-cutting measures, expand orders, globalize our operations, and pursue high-powered technological development. We also intend to reinforce our financial position by means of decreasing of interest-bearing debt.

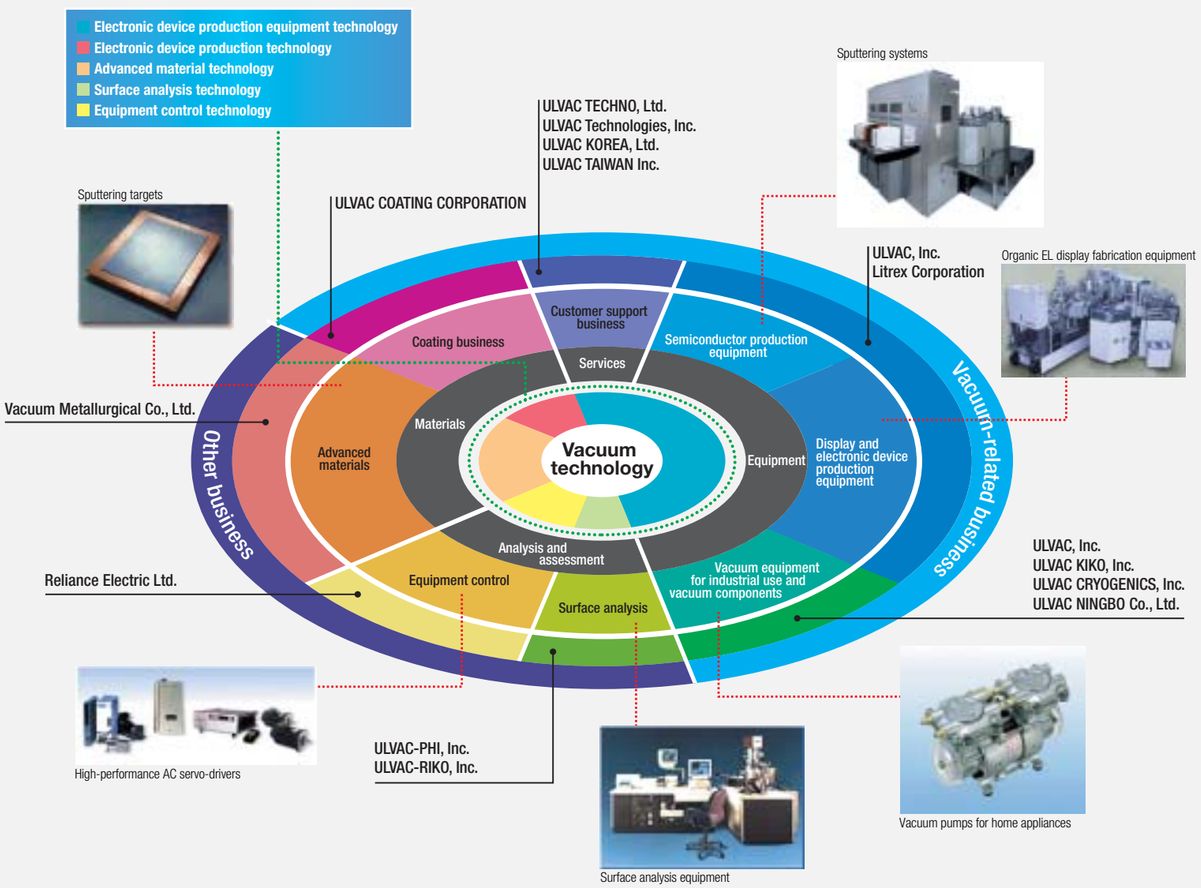
K. Nakamura.

Dr. Kyuzo Nakamura, President and CEO

Business Domain

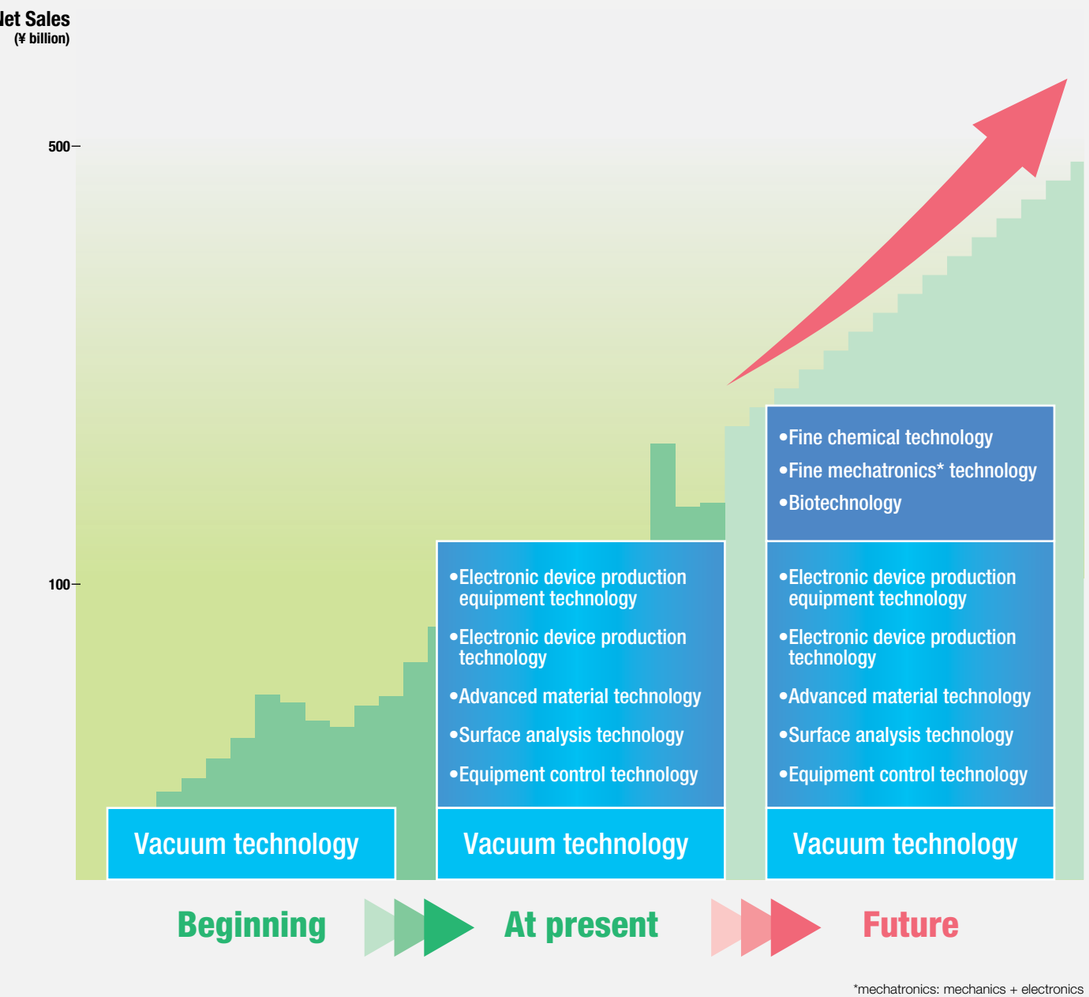
The ULVAC Group's operations are broadly classified into two segments: vacuum-related businesses and other businesses. These are further broken down into eight categories: display and electronic device production equipment, semiconductor production equipment, vacuum equipment for industrial use and vacuum components, surface analysis, equipment control, advanced materials, coating business, and customer support business.

The Group delivers these products and services under its integrated "ULVAC Solutions" concept, benefits from close alliances and synergies generated by each group member.



Core Technology

Drawing on our core competence in vacuum technology, we have accumulated a wealth of basic technological expertise in such areas as electronic device production equipment, electronic device production, advanced materials, surface analysis and equipment control. Based on this expertise, we have developed a wide range of equipment, including sputtering, CVD (chemical vapor desposition), etching, evaporator, and vacuum heat treatment furnaces systems. Such systems have enabled the creation of displays, semiconductor devices, and other electronic components used in many of today's popular products. These include cellular phones, PCs, PDAs, solar-powered machinery, optical communication devices, digital home appliances, and automobiles.



*mechatronics: mechanics + electronics

New Products

Silver alloy target for high-reflection coating

In February 2003, ULVAC and Vacuum Metallurgical Co., Ltd., announced the development of silver alloy target suitable for reflection coating. There is growing demand for high-reflection coating agents among manufacturers of LCDs and other devices in their quest to reduce power consumption. Silver alloy targets offer the high-reflection characteristics of silver but surpasses conventional alloys in terms of corrosion resistance and adhesiveness. As such, it is perfectly suited to rear-projection LCDs and other devices.

Silver alloy targets

Four-channel crystal oscillator biosensor

Biosensor of crystal oscillators

In December 2002, ULVAC and Initium, Inc., announced their joint development of a four-channel crystal oscillator biosensor that can monitor bonding molecular weight during interaction of living molecules by tracking frequency changes of the crystal oscillator.

With original technologies, the biosensor allows simultaneous measurement of up to four samples, as well as miniscule amounts of sample materials. It can operate 24 hours, assuring stable measurement operation.

MRAM sputtering system

Nonvolatile memory device manufacturing equipment and other original products

In December 2003, ULVAC announced its commercialization of a high-temperature etching system, MOCVD (metal organic chemical vapor deposition) system, and MRAM (magnetoresistive random access memory) sputtering system.

These systems are all used in the mass-production of FeRAMs (ferroelectric random access memory devices), which, together with MRAMs, are the leading candidates of large capacity memory for the next generation. These devices are expected to play a major supporting role in people's lives in this century.

Dispersed metallic nanoparticles, as viewed through a transmission electron microscope

Gold "Nano Paste" evaluation samples

In January 2003, ULVAC and Harima Chemicals, Inc., jointly commenced shipments of evaluation samples of gold "Nano Paste," made of dispersed metallic nanoparticles.

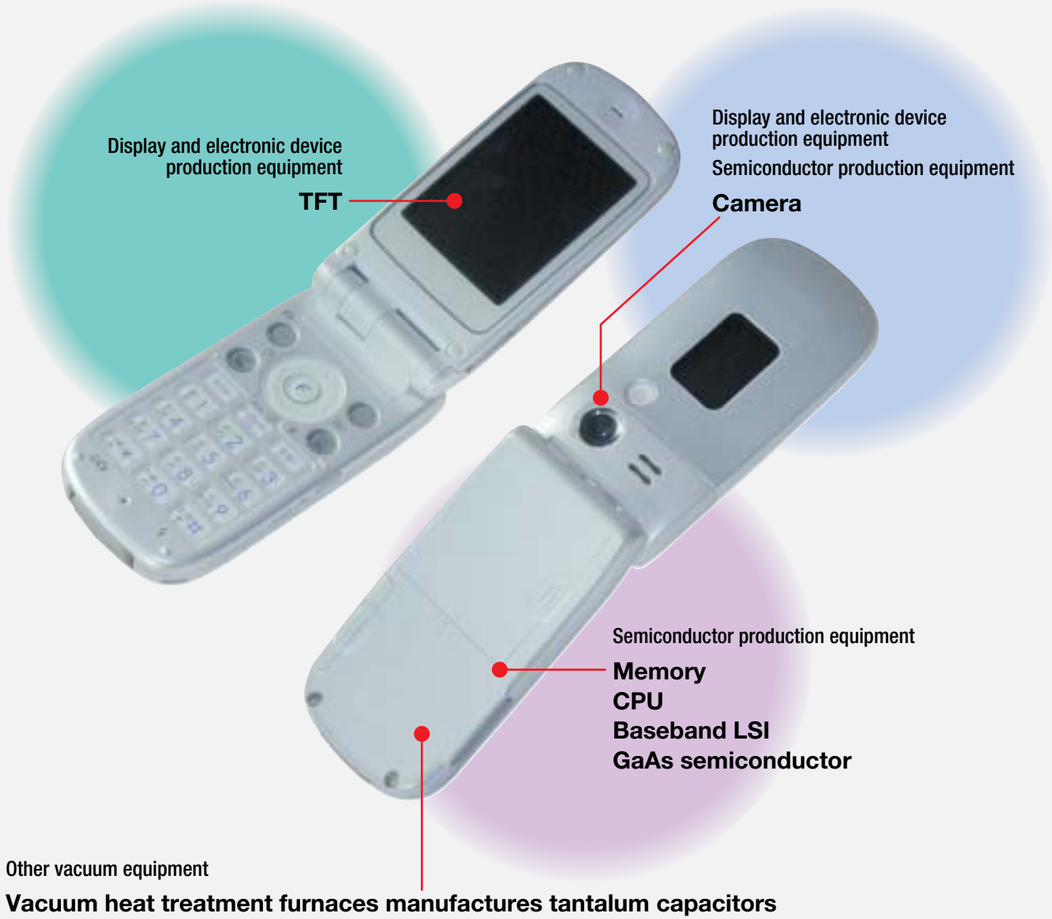
A key feature of gold Nano Paste is that it can be easily applied only to the required areas, thus greatly simplifying the process of connecting semiconductor devices and eliminating the need for waste solution treatment.

Our Technology in Life

ULVAC's vacuum-related technologies permeate many aspects of our daily lives. Indeed, they are widely regarded as essential technologies in today's high-tech world.

Take the example of the mobile phone, one of our most familiar tools. Mobile phones represent a concentration of vacuum-related technologies. The LCDs, CCD (charge-coupled device), memory device, CPU, base-band LSI, gallium arsenide chip, tantalum capacitor, and other key components of mobile phones are manufactured using equipment developed by ULVAC. These include display and electronic device production equipment, and semiconductor production equipment, as well as vacuum heat treatment furnaces. The electrodes and semiconductor devices found in LCDs require extremely thin film and narrow spaces, which can be produced using vacuum film-deposition technologies. CPUs are also produced by vacuum film-deposition technologies and micro manufacturing technologies.

As the "ubiquitous information society" evolves, mobile phones will proliferate more quickly and acquire more advanced functions. ULVAC's leading-edge technologies are expected to play an increasingly important role in this trend.

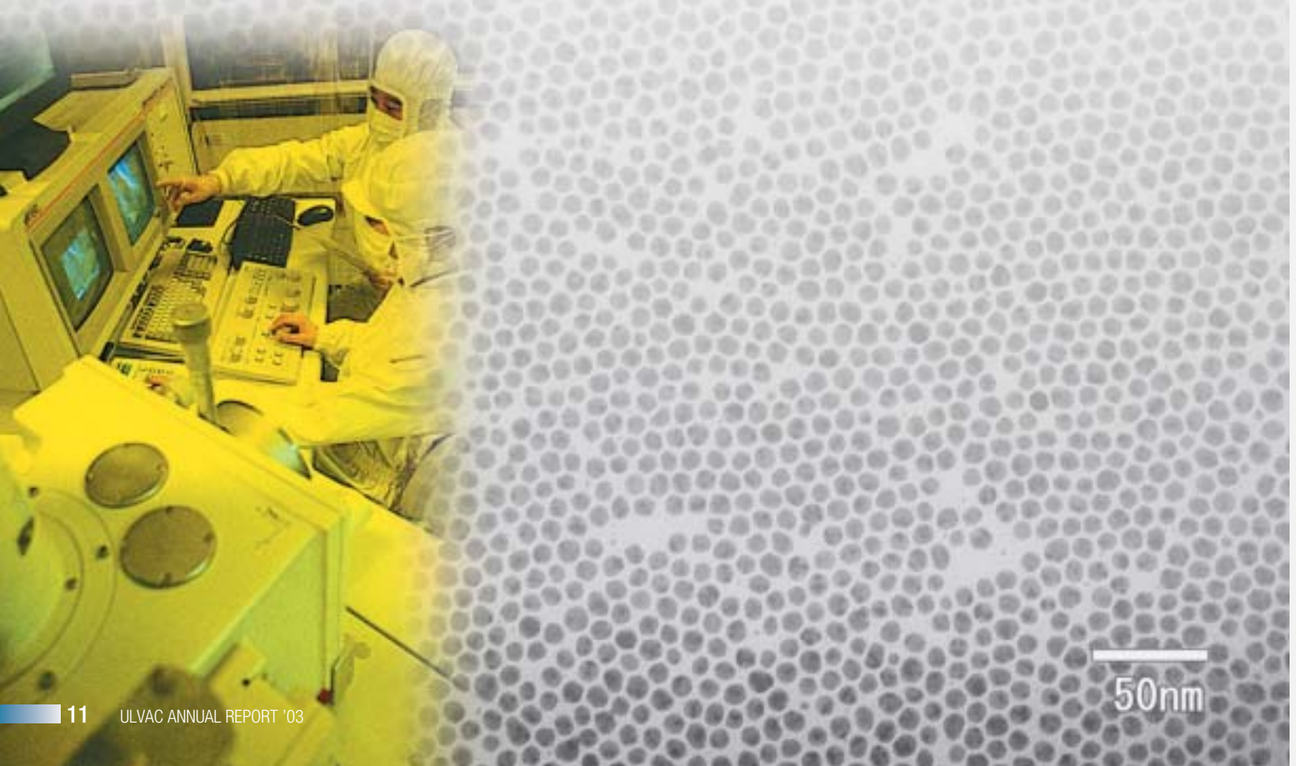


Future Vision

As a manufacturer of comprehensive vacuum-related equipment, ULVAC will apply its expertise in vacuum and peripheral technologies to a diversity of new fields. We believe there is strong growth potential in electronic components and TFT used in mobile devices, such as PDAs and highly functional cellular phones. We also anticipate solid growth in such areas as flash memory devices and system LSIs used in organic EL which is highly functional FPDs, and digital cameras.

ULVAC will also target other exciting business sectors. With the advent of the broadband era, we can expect further growth in the optical communications industry, while the electronics industry, especially the digital home appliance segment, has showed wide-ranging expansion. In addition, the arrival of hybrid and fuel-cell-powered vehicles–in response to environmental issues–is certain to make the automobile industry more dependent on electronics.

In the field of nanotechnology, we will concentrate on the practical development of unique technologies, such as “nanometal inks,” as well as on biotechnology and fine mechatronics, where we anticipate solid growth.



Business deployment in the future (image)

Special Feature

Organic EL displays

An organic EL display is created by painting an organic compound, which emits light when voltage is applied, onto a glass substrate in the form of pixels, allowing the device to display images.

LCDs, being unable to emit light by themselves, require backlights to brighten their images. Organic EL displays, by contrast, do not need such backlighting. This means they can be made thinner, lighter, and more energy-efficient. Compared with LCDs, moreover, they offer wider viewing angles and faster imaging speed, so are perfect for displaying moving pictures.

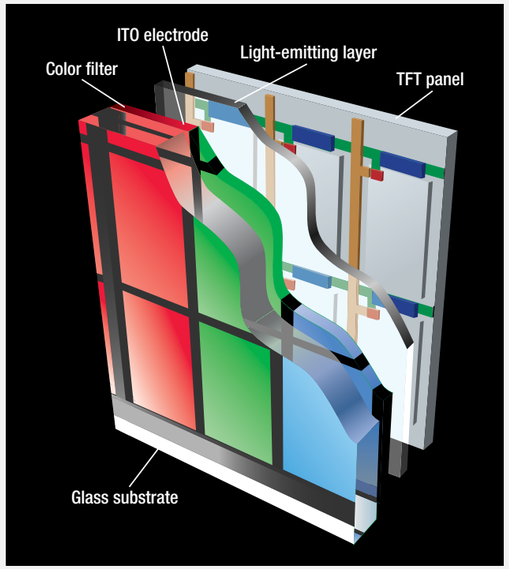
Armed with these features, organic EL displays are attracting demand for use in small-screen displays, such as those found in next-generation mobile phones, PDAs, digital cameras and TVs. By 2005, the global market for such displays is forecasted to total of between ¥200 billion and ¥300 billion.

Organic EL displays are made by evaporating electrodes and organic compounds onto a glass substrate, which is then encased. Vacuum evaporation devices play a major role in this process.

Fully utilizing its core technologies, ULVAC was quick to develop organic EL display manufacturing equipment and now ULVAC is among the leaders in this field.

In fact, we were the first in the world to develop vacuum evaporation devices for EL display manufacturing, and our integrated, automated systems cover everything from substrate introduction to encasing.

Typical organic EL display configuration



Source: www.nanoelectronics.jp

Comparisons of major thin-type displays

	Make thinner	Make larger	Save power	Response speed	Commercial applications in TVs
LCDs	●	■	●	■	On sale
PDPs	●	●	▲	●	On sale
Organic EL	●	▲	●	●	2005 (plan)
FEDs*	●	■	●	●	2004 (plan)

● Excellent ● Good ■ Average ▲ Needs work

* "FEDs" means "field emission displays"

COFFEE BREAK

Origins of organic EL displays

"Electroluminescence" (EL) happens when an electric field is applied to a fluorescent compound, thus excites and emits light.

In 1936, this phenomenon was first discovered when an inorganic material, formed by doping zinc sulphide with copper, emitted light when a strong voltage was applied.

The history of organic EL began in 1987, when Eastman Kodak Co., Ltd. discovered organic EL particles.

ULVAC has a three-way alliance with Eastman Kodak Co., Ltd., who has the basic patent on organic EL technology, and Sanyo Electric Co., Ltd. The alliance covers development of technology related to organic EL display manufacturing equipment.

LCDs: Growing larger and larger

A look around the television section of home appliance stores would reveal that, compared with conventional CRT (cathode-ray tube) sets, the latest models feature higher image resolutions and steadily growing screen sizes. Until recently, most screens up to 30 inches have used LCDs, while larger sets have used PDPs. Today, however, even sets with screens much larger than 30 inches use LCDs.

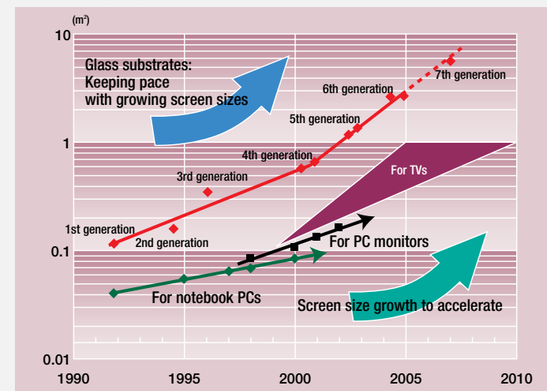
This trend has sparked a sudden shift to large-sized glass substrates. In the case of LCDs, normally a single large substrate is cut to into multiple smaller ones. For most efficient manufacturing of large panels, however, it is better to make the glass substrate itself larger. For this reason, LCD manufacturers around the world are investing capital in production of fifth-generation and 5.5th-generation devices; more recently, some are even shifting to sixth-generation (glass substrate size of 1.5m x 1.8m) and seventh-generation (1.8m x 2.1m) substrates.

Although we expect glass substrates to continue growing in size, this trend has given rise to various technologies issues. When the substrate exceeds a certain size, new technologies are needed because existing ones become inadequate.

ULVAC manufactures sputtering, plasma CVD, and other equipment, all of which occupy large market shares. We are also conducting active research into CATCVD (catalytic chemical vapor deposition) and ink jet and screen printing etc.

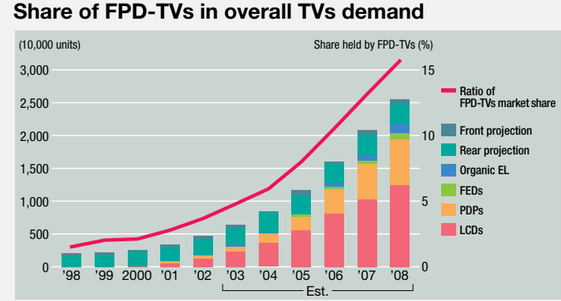
In this sense, the need for new technologies to address growing sizes represents a major business opportunity for ULVAC. We will continue striving to maintain our market lead in new technological areas.

Panel display area, glass substrate area



Source: April 2004 edition of Semiconductor FPD World (published by Press Journal Co., Ltd.)
Graph produced by Hiroaki Kitahara, IBM Japan Ltd.

Global FPD-TVs demand; Share of FPD-TVs in overall TVs demand



Source: Nomura Research Institute

COFFEE BREAK

Glass substrates keep getting larger

Since the 1990s, the LCD industry has become characterized by larger and larger glass substrates. Today, devices of more than one meter are under production.

The trend toward growing LCD screen sizes has gained pace in recent times and promises to further accelerate in the future.

Topics

ULVAC-PHI becomes wholly owned subsidiary

In January 2003, ULVAC-PHI, Inc., Japan's leading seller of hard-surface analysis equipment, became a wholly owned subsidiary of ULVAC.

ULVAC-PHI has the rights of manufacturing, technical usage, and global sales for surface analysis equipment developed by U.S.-based Physical Electronics Inc., a world leader in the equipment industry. By strengthening the relationship with Physical Electronics, ULVAC intends to develop this business on a worldwide basis.

Completion drawing of new facility

New operation established in the growing Chinese market

In July 2003, ULVAC set up a new company ULVAC (SUZHOU) Co., Ltd., in People's Republic of China to manufacture, process and provide sales and services related to various types of vacuum devices and peripheral equipment. The new company was established in the Suzhou Singapore Industrial Park, located in People's Republic of China's high-tech center of Suzhou City.

ULVAC (SUZHOU) Co., Ltd. will work together with the Group's two existing Chinese companies–ULVAC NINGBO Co., Ltd., and ULVAC (Shanghai) Co., Ltd.–and is expected to perform a key role in the Group's future in People's Republic of China.

ECO-SHOCK

Japan Machinery Federation's award ceremony

ECO-SHOCK recognized for excellent energy efficiency

ECO-SHOCK, developed by ULVAC, is an energy-saving attachment for dry pumps used in clean rooms. In January 2003, this product earned ULVAC two prestigious awards: (1) The Chairman's Award, Japan Machinery Federation's 23rd Award for Outstanding Environmental Machinery; and (2) The Third Japan Vacuum Industry Association/Japan Industrial Journal Chairman's Award.

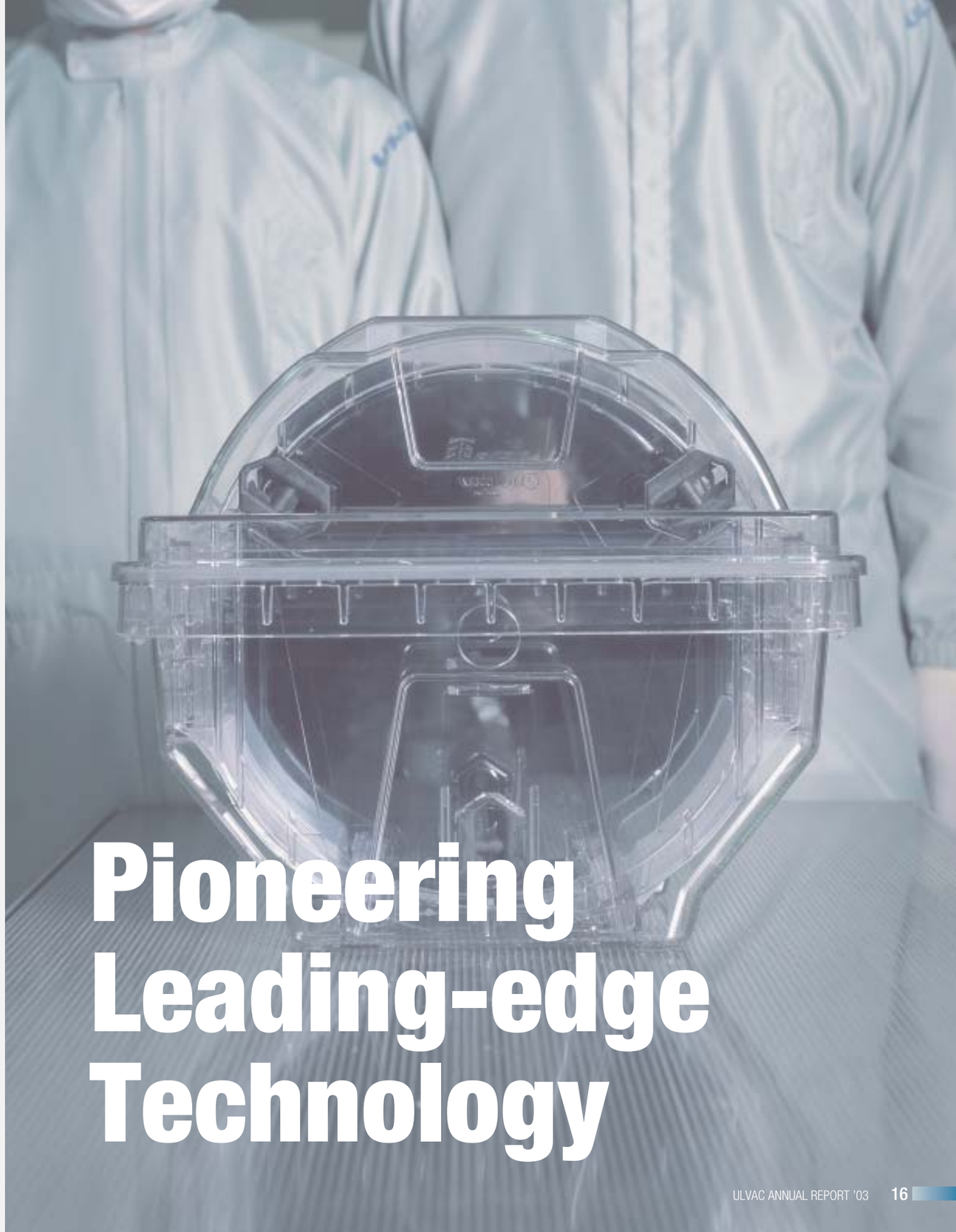
ECO-SHOCK was highly evaluated for its ability to save up to 70% in electricity costs.

Newly built processing center

ULVAC upgrades production system for large-substrate FPD manufacturing equipment

In May 2003, ULVAC and three subsidiaries–ULVAC Tohoku, Inc., ULVAC Techno, Ltd., and UMAT–centralized their production bases for large-substrate FPD-related equipment in Northeast area in Japan. The new facility, now in operation, handles machining center, surface treatment, and ultra fine cleaning.

By centralizing its large-substrate FPD-related production, the ULVAC Group hopes to achieve extensive cost reductions and establish a world-renowned base for production of display devices.



Pioneering Leading-edge Technology

Financial Review

Operating environment

In the year ended June 30, 2003, the ULVAC Group of companies faced a challenging operating environment. Our main customers–makers of electronic equipment and semiconductor devices–again posted lackluster performances, with many making significant reductions to their capital spending. Although some segments of the semiconductor device industry showed signs of recovery, the industry in general remained in a state of prolonged recession. On a more positive note, meanwhile, makers of electronic displays performed solidly.

Operating performance

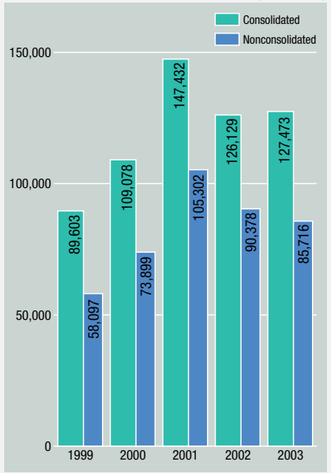
Responding to these challenges, the ULVAC Group launched innovative new products onto the market and worked proactively to secure orders for its solutions business. Our rigorous efforts to standardize our manufacturing equipment through modularization and unitization led to dramatic cost reductions. We also lowered operating expenses, enabling us to achieve a substantial decline in fixed costs.

Consolidated net sales for the year amounted to ¥127,473 million, up 1.0% from the previous year. Orders jumped 37.0%, to ¥147,767 million, following an upsurge in demand in the second half of the period.

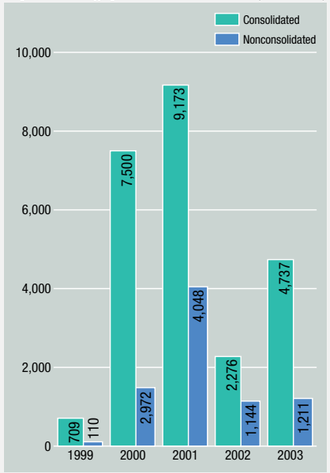
Cost of sales declined 2.1%, to ¥103,364 million. As a result, gross profit climbed 17.8%, to ¥24,109 million, or 18.9% of net sales. Selling, general, and administrative (SG&A) expenses grew 6.5%, to ¥19,372 million. Consequently, operating profit jumped 108.1%, to ¥4,737 million, or 3.7% of net sales. Net income surged 158.4%, to ¥1,729 million.

The Corporation declared total annual dividends to ¥7.00 per share.

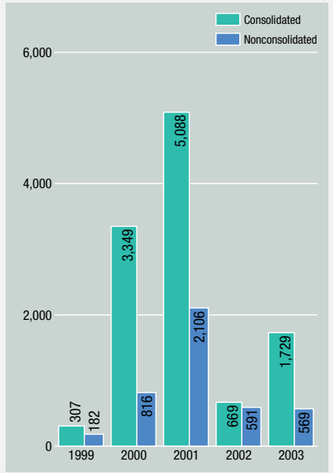
Net sales (¥ millions)



Operating profit (¥ millions)



Net income (¥ millions)



Performance by business segment

Vacuum-related business:

This segment encompasses display and electronic device production equipment, semiconductor production equipment, vacuum equipment for industrial use and R&D field as well as components.

From the middle of the year under review, manufacturers of displays and electronic components began investing heavily in production facilities for large-screen LCDs (fifth-generation), organic EL displays, PDPs, and other devices, mainly in South Korea and Taiwan. In response, the ULVAC Group made good progress in new product development, resulting in sustaining solid orders. Revenues, however, rose only slightly due to a low order balance at the beginning of the effects of the SARS outbreak.

In the semiconductor production equipment category, the market remained depressed, prompting many of our customers, with the exception of digital home appliances, to significantly reduce capital investments. Orders and sales were weak as a result.

In the component category, order and sales were healthy owing to development and active market launch of innovative products. With respect to other vacuum-related products, we attracted numerous inquiries about our continuous production line for rare-earth magnets, which are environmental friendly and energy-efficient. Despite the interest, however, orders did not rise significantly.

Consolidated orders in the segment jumped 42.0%, to ¥125,701 million, while sales declined 2.0%, to ¥105,311 million. Segment operating profit climbed 27.2%, to ¥3,437 million.

Other business:

This segment mainly covers advanced materials, surface analysis, and equipment control.

In the year under review, consolidated orders in the segment rose 14.2%, to ¥22,066 million, reflecting assertive efforts to expand sales based on our "ULVAC Solutions" concept. Segment sales rose 19.1%, to ¥22,162 million, and operating profit totaled ¥1,178 million.

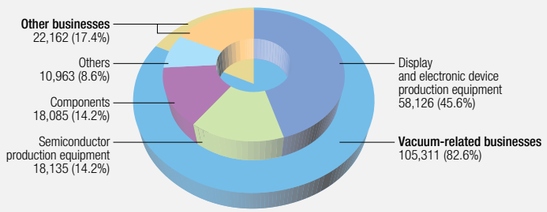
Financial position

On June 30, 2003, consolidated total assets amounted to ¥173,949 million, up 8.5% from a year earlier. Total current assets were up 10.8%, to ¥116,375 million, or 66.9% of total assets. Total tangible fixed assets rose 2.5%, to ¥44,249 million, representing 25.4% of total assets.

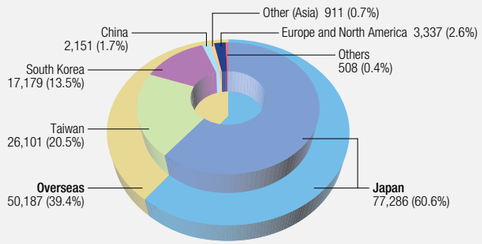
Total liabilities grew 11.1%, to ¥128,803 million. Current liabilities were up 15.9%, to ¥94,257 million, and long-term liabilities remained largely unchanged, at ¥34,546 million.

Total shareholder's equity climbed 4.6%, to ¥41,952 million.

Sales by business segment (¥ million)



Sales by geographical region (¥ million)



CONSOLIDATED BALANCE SHEETS

ULVAC, INC.
AS OF JUNE 30, 2002 AND 2003

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Current assets:			
Cash on hand and in banks	¥10,842	¥15,684	$130,700
Marketable securities	20	-	-
Accounts receivable, trade	55,199	51,878	432,317
Inventories	34,572	43,588	363,233
Deferred income taxes	2,302	2,777	23,141
Other current assets	2,392	2,782	23,183
Allowance for doubtful accounts	(349)	(334)	(2,783)
Total current assets	104,978	116,375	969,791
Investments:			
Unconsolidated subsidiaries and affiliated companies	4,674	5,008	41,733
Other	1,932	1,767	14,725
Total investments	6,606	6,775	56,458
Property, plant and equipment:			
At cost -			
Land	7,534	7,427	61,892
Buildings and leasehold improvements	28,713	32,878	273,983
Machinery and equipment	30,897	31,305	260,875
Furniture and fixtures	8,501	8,900	74,167
Construction in progress	6,457	4,490	37,417
	82,102	85,000	708,334
Accumulated depreciation	(38,943)	(40,751)	(339,592)
Total tangible fixed assets	43,159	44,249	368,742
Other assets:			
Intangibles, net	720	854	7,117
Leasehold and guarantee deposits	1,226	1,244	10,367
Deferred income taxes	2,402	2,606	21,717
Deferred charges	24	2	17
Other	1,191	1,863	15,517
Allowance for doubtful accounts	(30)	(19)	(158)
	5,533	6,550	54,577
	¥160,276	¥173,949	$1,449,568

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Liabilities:			
Current liabilities -			
Notes and accounts payable	¥22,134	¥35,536	$296,133
Short-term borrowings	33,089	33,114	275,950
Current portion of long-term debt	9,802	9,577	79,808
Accrued taxes on income	1,007	1,382	11,517
Accruals	2,329	2,605	21,708
Other current liabilities	12,946	12,043	100,354
Total current liabilities	81,307	94,257	785,470
Long-term liabilities -			
Long-term debt	27,026	26,450	220,417
Accrued pension and severance costs	7,279	7,847	65,392
Other long-term liabilities	276	249	2,075
Total long-term liabilities	34,581	34,546	287,884
Total liabilities	115,888	128,803	1,073,354
Minority interests in consolidated subsidiaries	4,286	3,194	26,617
Shareholders' equity:			
Common stock: 2002-no par value			
2003-no par value			
Authorized: 2002-80,000 thousand shares			
2003-80,000 thousand shares			
Issued: 2002-32,428 thousand shares	3,850	-	-
2003-32,428 thousand shares	-	3,850	32,083
Capital surplus	2,860	2,860	23,833
Retained earnings	33,739	35,421	295,175
Unrealized loss on securities, net of taxes	(141)	(14)	(117)
Foreign currency translation adjustments	(206)	(165)	(1,375)
	40,102	41,952	349,599
Treasury stock, at cost	(0)	(0)	(2)
	40,102	41,952	349,597
Contingent liabilities			
	¥160,276	¥173,949	$1,449,568

CONSOLIDATED STATEMENTS OF INCOME

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2002 AND 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Net sales	¥126,129	¥127,473	$1,062,275
Cost of sales	105,672	103,364	861,367
Gross profit	20,457	24,109	200,908
Selling, general and administrative expenses	18,181	19,372	161,433
Operating profit	2,276	4,737	39,475
Other income:			
Interest and dividend income	80	135	1,125
Commission and rental income	277	339	2,825
Foreign exchange gain, net	162	5	42
Equity in earnings of unconsolidated subsidiaries and affiliates	343	94	783
Gain on sale of property, plant and equipment	23	0	1
Gain on sale of investment securities	-	188	1,567
Insurance income	276	44	367
Reversal of allowance for doubtful accounts	185	154	1,283
Adjustments for prior year income	111	-	-
Income on prefectual government's grants	-	140	1,167
Other	464	460	3,833
Total other income	1,921	1,559	12,993
Other expenses:			
Interest	944	931	7,758
Loss on disposal or devaluation of inventories	256	784	6,533
Costs and expenses for rental activities	165	170	1,417
Loss on disposal of property, plant and equipment	75	60	500
Devaluation loss on investment securities	720	687	5,725
Other	286	385	3,208
Total other expenses	2,446	3,017	25,141
Income before income taxes and minority interests in net income (loss) of consolidated subsidiaries	1,751	3,278	27,325
Income taxes:			
Current	1,707	1,869	15,575
Deferred	(262)	(726)	(6,050)
	1,445	1,143	9,525
Minority interests in net income (loss) of consolidated subsidiaries	(363)	406	3,383
Net income	¥669	¥1,729	$14,417

	Yen		U.S. dollars
Per share:			
Net income	¥18.45	¥48.10	$0.40
Cash dividends	¥7.00	¥7.00	$0.06

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2002 AND 2003

	Thousands	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain or (loss) on securities, net of tax	Foreign currency translation adjustments	Treasury stock, at cost	Total of shareholder's equity
Balance, June 30, 2001	32,428	¥3,850	¥2,860	¥33,577	(¥25)	(¥286)	-	¥39,976
Cash dividends - ¥7.00 per share	-	-	-	(324)	-	-	-	(324)
Bonuses to directors and statutory auditors	-	-	-	(183)	-	-	-	(183)
Purchase of treasury stock	-	-	-	-	-	-	(0)	(0)
Net income	-	-	-	669	-	-	-	669
Unrealized gain or loss on securities, net of tax	-	-	-	-	(116)	-	-	(116)
Foreign currency translation adjustments	-	-	-	-	-	80	-	80
Balance, June 30, 2002	32,428	¥3,850	¥2,860	¥33,739	(¥141)	(¥206)	(¥0)	¥40,102
Cash deividends-¥7.00 per share	-	-	-	(227)	-	-	-	(227)
Bonuses to directors and statutory auditors	-	-	-	(69)	-	-	-	(69)
Exclusion of an affiliate company from consolidation	-	-	-	249	-	-	-	249
Purchase of treasury stock	-	-	-	-	-	-	0	0
Net income	-	-	-	1,729	-	-	-	1,729
Unrealized gain on securities, net of tax	-	-	-	-	127	-	-	127
Foreign currency translation adjustments	-	-	-	-	-	41	-	41
Balance, June 30, 2003	32,428	¥3,850	¥2,860	¥35,421	(¥14)	(¥165)	(¥0)	¥41,952

	Thousands of U.S. dollars						
Balance, June 30, 2002	$32,083	$23,833	$281,158	($1,175)	($1,717)	($2)	$334,180
Cash dividends - $0.05 per share	-	-	(1,892)	-	-	-	(1,892)
Bonuses to directors and statutory auditors	-	-	(578)	-	-	-	(578)
Exclusion of an affiliate company from consolidation	-	-	2,070	-	-	-	2,070
Purchase of treasury stock	-	-	-	-	-	-	1
Net income	-	-	14,417	-	-	-	14,417
Unrealized gain on securities, net of tax	-	-	-	1,058	-	-	1,058
Foreign currency translation adjustments	-	-	-	-	342	-	342
Balance, June 30, 2003	$32,083	$23,833	$295,175	($117)	($1,375)	($2)	$349,597

CONSOLIDATED STATEMENTS OF CASH FLOWS

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2002 AND 2003

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash flows from operating activities:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥1,751	¥3,279	$27,325
Adjustments for:			
Depreciation and amortization	4,416	4,645	38,708
Increase (decrease) in allowance for doubtful accounts	(95)	(52)	(433)
Increase in accrued pension and severance costs	1,032	569	4,742
Increase (decrease) in accrued warranty cash	(490)	319	2,658
Loss on disposal of property, plant and equipment	75	121	1,008
Loss on devaluation of investment securities	720	687	5,725
Proceeds from sales of investment securities	-	(188)	(1,567)
Interest and dividend income	(80)	(135)	(1,125)
Interest expense	944	931	7,758
Income on prefectual government's grants	-	(141)	(1,175)
Equity in earnings of unconsolidated subsidiaries and affiliates	(343)	(94)	(783)
Decrease in accounts receivable	15,381	5,639	46,992
Decrease (increase) in inventories	11,486	(9,122)	(76,017)
Increase (decrease) in accounts payable, trade	(27,300)	10,713	89,275
Increase (decrease) in advances received	2,496	(1,794)	(14,950)
Increase (decrease) in consumption taxes payable	215	(444)	(3,700)
Other	232	1,360	11,333
Sub total	10,440	16,293	135,774
Income taxes paid	(3,456)	(1,428)	(11,900)
Interest and dividend income, received	121	171	1,425
Interest paid	(912)	(900)	(7,500)
Net cash provided by operating activities	6,193	14,136	117,799
Cash flows from investing activities:			
Increase in time deposits	(253)	(338)	(2,817)
Decrease in time deposits	177	231	1,925
Proceeds from sales of marketable securities	37	-	-
Proceeds from redemption of marketable securities	-	20	167
Payments for acquisition of marketable securities	(1)	-	-
Proceeds from sales of investment securities	14	123	1,025
Payments for acquisition of investment securities	(774)	(492)	(4,100)
Payment for acquision of a subsidiary	-	(1,668)	(13,900)
Payments for loan receivables	(187)	(39)	(325)
Proceeds from collection of loan receivables	164	352	2,933
Payments for acquisition of property, plant and equipment	(12,027)	(7,753)	(64,608)
Proceeds from sales of property, plant and equipment	1,161	1,605	13,375
Proceeds from prefectual government's grants	-	141	1,175
Payment for long term prepaid expenses	(82)	(1,050)	(8,750)
Other	2	(39)	(325)
Net cash used in investing activities	(11,769)	(8,908)	(74,225)
Cash flows from financing activities:			
Net changes in short-term borrowings	(5,311)	119	992
Borrowing of long-term debt	16,918	9,590	79,917
Repayment of long-term debt	(5,401)	(10,391)	(86,592)
Proceeds from stock issue to minority shareholders	-	88	733
Dividends paid by the parent company	(324)	(227)	(1,892)
Dividends paid by consolidated subsidiaries to minority shareholders	(86)	(60)	(500)
Payments for purchase of treasury stocks	(0)	(0)	(1)
Net cash provided by financing activities	5,796	(881)	(7,343)
Effect of exchange rate changes on cash and cash equivalents	66	(67)	(558)
Net change in cash and cash equivalents	286	4,280	35,673
Cash and cash equivalents:			
At beginning of year	10,104	10,390	86,583
Increase in cash and cash equivalents due to merger of a consoidated subsidiary	-	454	3,783
At end of year	¥10,390	¥15,124	$126,039

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2002 AND 2003

1. Basis of preparation of consolidated financial statements:

The accompanying consolidated financial statements have been prepared based on the accounts maintained by ULVAC, Inc. and its consolidated subsidiaries (hereinafter collectively referred to as the "Company") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Significant accounting policies:

(1) Principles of consolidation -
The consolidated financial statements include the accounts of ULVAC, Inc. and all significant subsidiaries where the Company has the ability to exercise influence over the operating and financial policies. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. Certain consolidated subsidiaries are consolidated on the basis of their fiscal years ended March 31, and material differences in intercompany transactions and accounts arising from the use of the different fiscal year-ends are appropriately adjusted on consolidation. The difference between the cost and the underlying net equity of investments in consolidated subsidiaries measured at fair value at the time of acquisition is deferred and amortized over a five-year period.

Investments of 50% or less in companies over which the Company does not have control but has the ability to exercise significant influence, and investments in unconsolidated subsidiaries are generally accounted for by the equity method. Where the accounts of subsidiaries and affiliates are not significant in relation to the consolidation, investments therein are carried at cost. The excess of cost over the underlying net equity of investments in unconsolidated subsidiaries and affiliates accounted for on an equity basis is deferred and amortized over a five-year period. Consolidated net income includes the Company's equity in current earnings after elimination of unrealized intercompany profits.

On occasion, a subsidiary of an affiliated company accounted for by the equity method may issue its shares to third parties at amounts per share in excess of or less than the Company's average per share carrying value. In such a case, the resulting gain or loss arising from the change in interest is recorded in income in the year in which the change in interest transaction occurs.

(2) Translation of foreign currency transactions and accounts -
Foreign currency transactions are translated using the foreign exchange rates prevailing at the transaction dates. Receivables and payables denominated in foreign currencies are translated at the year-end using current exchange rates.

All assets, liabilities, income and expenses accounts of foreign subsidiaries and affiliates are translated using the current exchange rates at the respective balance sheet dates. Foreign currency financial statement translation differences are recorded in the consolidated balance sheet as a separate component of "Shareholders' equity".

(3) Cash and cash equivalents -
For the purpose of reporting cash flows, "Cash and cash equivalents" includes all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and are so near maturity that they present only an insignificant risk of changes in value because of changes in interest rates.

(4) Valuation of securities -
Securities held by the Company have been classified into various categories depending on the purposes for which they are held and are being accounted for as follows:

'Held-to-maturity debt securities' are carried at amortized cost. Any premium or discount arising on acquisition is amortized and recognized as an adjustment to interest.

Investment securities expected to be held in the long-term are classified as 'Other securities'. 'Other securities' whose fair values are readily determinable are carried at fair value with unrealized gains and losses being recorded in "Shareholders' equity", net of applicable income taxes. 'Other securities' without fair values are carried at moving average cost.

(5) Allowance for doubtful accounts -
An allowance for doubtful accounts is provided for estimated uncollectible doubtful accounts at an amount specifically assessed plus an amount computed based on historical loss experience.

(6) Inventories -
"Inventories" are generally stated at cost, cost being determined by the individual identification method.

(7) Property, plant and equipment -
"Property, plant and equipment", including significant renewals and additions, is capitalized at cost. Maintenance and repairs and minor renewals and improvements are charged to income. Depreciation of "Property, plant and equipment" is principally computed on the declining-balance method at rates based on the estimated useful lives of the respective assets. For property, plant and equipment held for research and development purposes and for rental business purposes, depreciation is computed using the straight-line method. For buildings acquired on or after April 1, 1998 depreciation is computed using the straight-line method in conformity with the 1998 amendments to the Corporation Tax Law in Japan.

(8) Intangible assets -
"Intangible, net", which primarily comprises the costs of software for internal use, is amortized using the straight-line method over the estimated useful life of the software (five years).

(9) Warranties -
The Company currently provides for the estimated costs that may be incurred under its warranty and other post-sales support programs.

(10) Research and development costs -
Research and development costs are basically charged to income as incurred.

(11) Income taxes -
The provision for income taxes is based on the pretax income included in the consolidated statements of income and is computed using the asset and liability approach. Under this approach, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting basis and tax basis of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that the tax benefits will not be realized.

(12) Accrued pension and severance costs -
ULVAC, Inc. and its domestic consolidated subsidiaries have non-contributory defined benefit funded pension plans and severance indemnity plans covering all employees who meet the eligibility requirements of the Company's retirement regulations.

The Company recognized and computed retirement benefits, including pension costs and the related liabilities, using an actuarial appraisal approach known as the projected unit credit method. Under a defined benefit plan, the net pension cost for a period includes i) the service cost, ii) the interest cost, iii) the expected return on plan assets, iv) amortization of unrecognized prior service costs, v) amortization of unrecognized actuarial differences and vi) amortization of the transition asset or liability at the date of initial application of the new standard. Any difference between the net pension cost and the amount actually funded for the period is reported as unfunded accrued pension costs or prepaid pension costs in the balance sheet. The Company recognized ¥3,425 million as a transition liability at July 1, 2000, the time of initial application of the accounting standard for Employers' Accounting for Pensions, which is being amortized on a straight-line method over a ten-year period. In respect of the policy for the amortization of actuarial differences, the Company amortizes them over a period within the estimated remaining service period of the employees, which is generally ten years.

With respect to directors and corporate auditors' resignations, lump-sum severance indemnities are normally paid subject to shareholders' approval. Severance indemnities for directors and corporate auditors are not covered by the funded pension plan. The balances of "Accrued pension and severance costs" stated in the consolidated balance sheets represent accrued severance indemnities for employees and the estimated amount of severance indemnities for directors and corporate auditors of the Company.

(13) Accounting for leases -
Finance leases, other than those where the ownership of the leased asset transfers to the lessee, are accounted for as operating leases in conformity with the prevailing accounting principles and practices generally accepted in Japan.

(14) Derivative transactions -
Derivative financial instruments, which include foreign currency forward exchange contracts and interest rate swap agreements, are used as part of the Company's risk management strategy for foreign currency and interest rate risk exposure on its financial assets and liabilities.

Foreign exchange forward contracts:
The Company enters into foreign currency forward exchange contracts to limit its exposure, caused by changes in foreign currency exchange rates, on accounts receivable and payable and cash flows generated from anticipated transactions denominated in foreign currencies. For foreign currency forward exchange contracts which are designated and are effective as hedges of such currency exchange rate risk on existing assets and liabilities are marked to market and included as an offset to foreign exchange gains/losses recorded on the existing assets and liabilities. Such contracts for anticipated transactions, are marked to market and the respective unrealized gains/losses are deferred in the balance sheet, to be released to income when the exchange gains/losses on the hedged items or transactions are recognized.

Interest rate options:
The Company enters into interest rate options in order to limit the Company's exposures in respect of the underlying debt instruments, resulting from adverse fluctuations in interest rates. The carrying values of interest rate options are marked to market.

(15) Appropriation of retained earnings -
Appropriations of retained earnings are not reflected in the consolidated financial statements for the period to which they relate, but are recorded in the consolidated financial statements in the subsequent accounting period after shareholder approval has been obtained.

(16) Net income and cash dividends per share -
The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

Effective from the year ended June 30, 2003, the Company adopted the Statement of Financial Accounting Standard No. 2 "Earnings per Share" issued by the Accounting Standards Board of Japan. The net income per share for the year ended June 30, 2002 has been restated to conform to the new accounting standard. Net income per share for the year ended June 30, 2002 previously reported was ¥20.62.

(17) Reclassification -
Certain accounts in the consolidated financial statements for the year ended June 30, 2002 have been reclassified to conform to the 2003 presentation.

3. U.S. dollar amounts:

The U.S. dollar amounts are presented in the financial statements solely for the convenience of readers outside Japan. The rate of ¥120= U.S.$1, the approximate rate of exchange on June 30, 2003, has been used for translation. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars.

4. Cash and cash equivalents:

"Cash and cash equivalents" at June 30, 2002 and 2003, are reconciled to "Cash on hand and in banks" per the consolidated financial statements as follows -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash on hand and in banks	¥10,842	¥15,684	$130,700
Time deposits with maturity over three months	(452)	(560)	(4,667)
Cash and cash equivalents	¥10,390	¥15,124	$126,033

5. Marketable securities and investment securities:

Marketable securities and investment securities include equity and debt securities of which the aggregate cost, gross unrealized gains and losses and fair value pertaining to 'other securities' are as follows -

	Millions of yen		
	2002		
	Cost	Fair value	Unrealized gains/ (losses)
Other securities			
Equity securities with unrealized gains	¥190	¥237	¥47
Equity securities with unrealized losses	1,237	966	(271)
	¥1,427	¥1,203	(¥224)

	Millions of yen		
	2003		
	Cost	Fair value	Unrealized gains/ (losses)
Other securities			
Equity securities with unrealized gains	¥260	¥322	¥62
Equity securities with unrealized losses	594	533	(61)
	¥854	¥855	¥1

	Thousands of U.S. dollars		
	2003		
	Cost	Fair value	Unrealized gains/ (losses)
Other securities			
Equity securities with unrealized gains	$2,166	$2,682	$515
Equity securities with unrealized losses	4,948	4,441	(507)
	$7,114	$7,123	$8

Cost shown above includes the cost of individual securities which were written down to fair value as the fair value fell significantly below cost and the fall was judged to be a permanent impairment of value. The aggregate amounts of such impairment losses recognized in the years ended June 30, 2002 and 2003 were ¥573 million and 595 million (US$4,955 thousand), respectively.

At June 30, 2003, the aggregate annual maturities of debt securities classified as 'held-to-maturity debt securities' and 'other securities' are as follows -

	Millions of Yen	Thousands of U.S. dollars
Due within 1 year	¥-	$-
Due after 1 year through 5 years	2	13
Due after 5 years	-	-
	¥2	$13

Realized gains and losses on the sale of 'other securities' during the year ended June 30, 2002 and 2003 were as follows -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Sales proceeds	¥14	¥0	$0
Gains on sale of securities	2	-	-
Losses on sale of securities	0	0	0

The carrying amounts of major securities, the fair values of which are not readily determinable, at June 30, 2002 and 2003, were as follows -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Held-to-maturity debt securities	¥20	¥2	$13
Other securities			
Unquoted stock securities	577	898	7,483

6. Short-term borrowings and long-term debt:

"Short-term borrowings" at June 30, 2002 and 2003 comprised loans from banks amounting to ¥33,089 million and ¥33,114 (US$ 275,954 thousand), with weighted average interest rates of 1.1% and 1.1% per annum at June 30, 2002 and 2003, respectively.

"Long-term debt" at June 30, 2002 and 2003 comprised the following -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Loans, principally from banks due from July 2, 2002 to April 28, 2011, with weighted average interest rates of 1.5% and 1.4% per annum at June 30, 2002 and 2003:			
Secured	¥11,983	¥11,459	$95,490
Un secured	21,845	21,568	179,733
No.2 mortgage bonds, 1.9%, due 2005	900	900	7,500
No.3 mortgage bonds, 1.8%, due 2005	900	900	7,500
No.4 mortgage bonds, 1.65%, due 2005	500	500	4,167
No.5 mortgage bonds, 1.7%, due 2004	500	500	4,167
No.6 mortgage bonds, 1.6%, due 2005	200	200	1,668
	36,828	36,027	300,225
Less:			
Portion due within one year	9,802	9,577	79,808
	¥27,026	¥26,450	$220,417

At June 30, 2002 and 2003, the following assets were pledged as collateral for long-term secured loans and were mortgaged for bonds -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Factory foundation:			
Land	¥267	¥267	$2,227
Buildings and leasehold	141	129	1,079
Other	67	61	505
	475	457	3,811
Land	4,391	4,332	36,097
Buildings and leasehold	2,289	2,075	17,290
Investment securities	38	358	2,984
	¥7,193	¥7,222	$60,182

The aggregate amounts of annual maturities of "Long-term debt" at June 30, 2003, were as follows -

	Millions of Yen	Thousands of U.S. dollars
Year ending June 30:		
2004	¥9,577	$79,808
2005	9,653	80,443
2006	10,674	88,947
2007	4,233	35,273
2008 and thereafter	1,890	15,754
	¥36,027	$300,225

7. Research and development costs:

Research and development costs recorded as part of manufacturing costs and "Selling, general and administrative expenses" for the years ended June 30, 2002 and 2003 amounted to ¥5,015 million and ¥4,378 million (US$36,482 thousand), respectively.

8. Pension and severance plans:

"Accrued pension and severance costs" stated in the consolidated balance sheets as at June 30, 2002 and 2003 represents accrued severance indemnities for employees and those for directors and corporate auditors of the Company.

The funded status of accrued retirement benefits for employees as of June 30, 2002 and 2003 is shown as follows -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Projected benefit obligation	(¥14,827)	(¥17,144)	($142,862)
Fair value of plan assets	5,099	5,278	43,982
Unfunded benefit obligation	(9,728)	(11,866)	(98,880)
Unrecognized transition amount upon initial application of the new accounting standard	2,739	2,396	19,964
Unrecognized actuarial loss	865	2,673	22,273
Net amount	(6,124)	(6,797)	(56,643)
Prepaid pension cost	65	55	457
Accrued retirement benefits	(¥6,189)	(¥6,852)	($57,100)

Components of the net periodic pension and severance costs for the years ended June 30, 2002 and 2003, are analyzed bellow -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service cost	¥1,137	¥1,088	$9,065
Interest cost	286	267	2,224
Expected return on plan assets	(114)	(115)	(961)
Amortization of net transition amount existing at July 1, 2000 upon initial application of the new accounting standard	343	343	2,855
Amortization of unrecognized actuarial differences	25	89	742
Net pension and severance costs	¥1,677	¥1,672	$13,925

The assumptions used in calculation of the above information for the years ended June 30, 2002 and 2003 are as follows -

	2002	2003
Discount rate	2.5~3.0%	2.0~2.5%
Expected rate of return on plan assets	1.0~3.0%	1.0~3.0%
Amortization of unrecognized actuarial gain/loss	10 years	10years
Amortization of transition amount	10 years	10years

The method of attributing projected benefits to employee service periods is the straight-line method.

Accrued severance indemnities for directors and corporate auditors included in "Accrued pension and severance costs" stated in the consolidated balance sheets at June 30, 2002 and 2003 amounted to ¥1,090 million and ¥995 million (US$8,295 thousand), respectively.

9. Income taxes:

The Company is subject to a number of different income taxes which, in the aggregate, indicate a normal statutory tax rate of approximately 41.7 per cent for the years ended June 30, 2002 and 2003.

At June 30, 2002 and 2003, the significant components of deferred tax assets and liabilities were as follows -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Accrued business taxes	¥91	¥116	$963
Devaluation loss on inventories	1,252	1,417	11,811
Accrued bonuses	258	326	2,720
Accrued warranty costs	555	682	5,684
Accrued pension and severance costs	1,906	2,375	19,792
Tax loss carry forwards	1,849	1,236	10,298
Devaluation loss on investment securities	273	498	4,150
Other	705	679	5,655
Gross deferred tax assets	6,889	7,329	61,073
Less: valuation allowance	(1,894)	(1,623)	(13,523)
Total deferred tax assets	4,995	5,706	47,550
Deferred tax liabilities:			
Allowance for doubtful accounts	(29)	(24)	(199)
Special reserve for income tax deferred	(259)	(296)	(2,466)
Other	(4)	(2)	(14)
Gross deferred tax liabilities	(292)	(322)	(2,679)
Net deferred tax assets	¥4,703	¥5,384	$44,871

For the years ended June 30, 2002 and 2003, a reconciliation between the normal statutory income tax rate and the effective income tax rate is as follows -

	2002	2003
Normal statutory income tax rate	41.7%	41.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	8.2	3.3
Non-taxable portion of dividend income	(9.8)	(4.4)
Foreign income tax credits	-	(6.2)
Difference in income tax rate Applied for foreign subsidiaries	-	(10.7)
Dividends received from subsidiaries eliminated at consolidation	-	13.2
Loss carryforwards of consolidated subsidiaries	34.0	-
Change in the beginning of the year balance of the valuation allowance for deferred tax assets	12.1	-
Equity in earnings of unconsolidated subsidiaries and affiliates	(8.1)	-
Other	4.4	(2.1)
Effective income tax rate	82.5%	34.8%

On March 31, 2003, the Japanese National Diet approved changes to the calculation of the statutory local enterprise tax. As a result, the effective income tax ratio used in the computation of deferred tax assets/liabilities at June 30, 2003 is reduced to 40.5% from 41.7% from the previous years. This reduced effective income tax ration applies only to those temporary differences expected to be deducted/added to taxable income in the fiscal years starting from July 1, 2004. As a result, net deferred tax assets at June 30, 2003 decreased by ¥62 million (US$517 thousand) and income tax for the year ended June 30, 2003 increased by ¥62 million (US$517 thousand), respectively as compared with those that would have been computed based on the previous income tax rate.

10. Contingent liabilities:

Contingent liabilities for guarantees given for loans borrowed by unconsolidated subsidiaries amounted to ¥423 million (US$3,528 thousand) at June 30, 2003. The Company was also contingently liable for outstanding notes discounted in the ordinary course of business in the amount of ¥539 million (US$4,489 thousand) at June 30, 2003.

11. Derivative transactions:

The Company uses derivative financial transactions, which comprise foreign forward exchange contracts and interest rate options, to reduce its exposure to market risk from fluctuations in foreign currency exchange and interest rates.

The Company does not anticipate incurring significant losses from derivative arrangements due to the nonperformance of counter parties.

The Company enters into derivative transaction contracts only after the transactions are approved by the management of the Company. These derivative transactions are carried out by the Finance Department of the Company.

Forward exchange contracts and interest rate options, other than those for which the exchange gains or losses are included in the measurement of the related foreign currency receivables or payables at the year-end, entered into by the Company as at June 30, 2002 and 2003 are as follows -

	Millions of yen		
	2002		
	Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:			
- Sell			
U.S. dollars	¥571	¥559	¥12
- Buy			
U.S dollars	325	310	(15)
Euro	459	467	8
			¥5
	Notional amount	Carrying amount	Gain/loss
Interest rate options:			
Cap - call	¥200	¥-	(¥3)

	Millions of yen		
	2003		
	Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:			
- Sell			
U.S. dollars	¥95	¥98	(¥3)
- Buy			
U.S dollars	234	236	2
Euro	551	578	27
Sterling pond	171	173	2
			¥28
	Notional amount	Carrying amount	Gain/loss
Interest rate options:			
Cap - call	¥200	¥-	(¥1)

	Thousands of U.S. dollars		
	2003		
	Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:			
- Sell			
U.S. dollars	$795	$813	($18)
- Buy			
U.S dollars	1,950	1,963	13
Euro	4,591	4,816	225
Sterling pond	1,421	1,444	23
			$243
	Notional amount	Carrying amount	Gain/loss
Interest rate options:			
Cap - call	$200	$-	($9)

12. Retained earnings:

The following appropriations of retained earnings of the Company at June 30, 2003, which have not been reflected in the accompanying consolidated financial statements, were approved at the ordinary general meeting of shareholders held on September 29, 2003.

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends - ¥7.00 ($0.05) per share	¥227	$1,892
Bonuses to directors and statutory auditors	63	578
	¥290	$2,470

13. Leases:

Finance lease charges for the Company for the years ended June 30, 2002 and 2003 were ¥811 million and ¥854 million ($7,121 thousand), respectively.

Lease assets and the related expenses for the Company's finance leases, other than those where ownership of the lease assets is transferred to the lessee, are being accounted for as operating leases, if capitalized, and as at June 30, 2002 and 2003 comprised the following (in equivalent amounts) -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Machinery and equipment	¥1,938	¥1,969	$16,410
Other	2,400	2,515	20,958
Accumulated depreciation	(1,860)	(2,106)	(17,544)
	¥2,478	¥2,378	$19,824

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Depreciation	¥811	¥854	$7,121

Depreciation costs are calculated using the straight-line method over the lease periods of the lease assets, with no residual value of the assets at the end of the lease periods.

The future lease payments of the Company as at June 30, 2002 and 2003 are as follows -

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Current obligation	¥688	¥757	$6,308
Long-term obligation	1,790	1,621	13,506
Future lease payments	¥2,478	¥2,378	$19,814

14. Business segment information:

(1) Industry segments -

The Company business is classified into the following segments based on the similarities of the types and nature of business:

Vacuum-related business:

Sputtering system, Plasma CVD system, Ion Implantor, Dry etcher, Vacuum evaporator, Vacuum Induction Furnace, Vacuum pump, Vacuum Valve, Vacuum gauge, Surface Profiler and related vacuum system.

Other business:

DRP material, titanium and zirconium goods, tantalum goods, niobium, molybdenum, and tungsten, superconductivity goods, surface treatment, Thermophysical Property Measurement, Thermal Analysis, Infrared Heating, Electric and variable speed drivers and controllers, digital control system etc.

Sales and operating profit:

	Millions of yen				
	Year ended June 30, 2002				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥107,526	¥18,603	¥126,129	¥ -	¥126,129
Intersegment	130	2,588	2,718	(2,718)	-
Total	107,656	21,191	128,847	(2,718)	126,129
Operating expenses	104,956	21,782	126,738	(2,885)	123,853
Operating profit (loss)	¥2,700	(¥591)	¥2,109	¥167	¥2,276

	Millions of yen				
	Year ended June 30, 2003				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥105,311	¥22,162	¥127,473	¥-	¥127,473
Intersegment	124	3,019	3,143	(3,143)	-
Total	105,435	25,181	130,616	(3,143)	127,473
Operating expenses	101,998	24,003	126,001	(3,265)	122,736
Operating profit (loss)	¥3,437	¥1,178	¥4,615	¥122	¥4,737

	Thousands of U.S. dollars				
	Year ended June 30, 2003				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	$877,592	$184,682	$1,062,275	$-	$1,062,275
Intersegment	1,034	25,158	26,192	(26,192)	-
Total	878,626	209,840	1,088,467	(26,192)	1,062,275
Operating expenses	849,984	200,027	1,050,011	(27,211)	1,022,800
Operating profit (loss)	$28,641	$9,813	$38,456	$1,019	$39,475

Identifiable assets, depreciation and amortization and capital expenditure:

	Millions of yen				
	Year ended June 30, 2002				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥136,775	¥21,770	¥158,545	¥1,731	¥160,276
Depreciation and amortization	3,693	583	4,276	(-)	4,276
Capital expenditure	¥10,331	¥804	¥11,135	(-)	¥11,135

	Millions of yen				
	Year ended June 30, 2003				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥145,700	¥26,553	¥172,253	(¥1,696)	¥170,557
Depreciation and amortization	3,925	566	4,491	(-)	4,491
Capital expenditure	¥6,907	¥584	¥7,491	(-)	¥7,491

	Thousands of U.S. dollars				
	Year ended June 30, 2003				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	$1,214,169	$221,272	$1,435,441	($14,135)	$1,421,306
Depreciation and amortization	32,711	4,718	37,429	(-)	37,429
Capital expenditure	$57,562	$4,864	$62,426	(-)	$62,426

(2) Geographical segments -

As "Sales" and "Identifiable assets" attributed to countries other than Japan are less than 10% of consolidated net sales and assets, information relating to geographic area information has been omitted.

(3) Sales by consolidated subsidiaries outside Japan -

	Millions of yen				
	Year ended June 30, 2002				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	¥36,241	¥2,097	¥313	¥33	¥38,684
Consolidated sales					126,129
Percentage of consolidated sales	28.7%	1.7%	0.2%	0.0%	30.6%

	Millions of yen				
	Year ended June 30, 2003				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	¥46,342	¥2,958	¥379	¥508	¥50,187
Consolidated sales					127,473
Percentage of consolidated sales	36.4%	2.3%	0.3%	0.4%	39.4%

	Thousands of U.S. dollars				
	Year ended June 30, 2003				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	$386,186	$24,651	$3,157	$4,234	$418,228
Consolidated sales					1,062,274
Percentage of consolidated sales	36.4%	2.3%	0.3%	0.4%	39.4%

15. Events subsequent to balance sheet date:

On August 15, 2003, the Company entered into an agreement with CDT Acquisition Corporation (CDT) and purchased 50% shares of Litrex Corporation, a wholly owned subsidiary company of CDT, for US$13,880 thousand. Pursuant to the agreement with CDT, the Company has option to purchase another 50% of shares of Litrex Corporation from CDT, which is exercisable after two years of the date of the agreement.

Report of Independent Auditors

To the Board of Directors and Shareholders of
ULVAC, Inc.

We have audited the accompanying consolidated balance sheets of ULVAC, Inc. and its consolidated subsidiaries as of June 30, 2002 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all stated in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis of our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of ULVAC, Inc. and its consolidated subsidiaries at June 30, 2002 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1 to the consolidated financial statements).

As discussed in Note 15 to the consolidated financial statements. ULVAC. Inc. acquired the shares of Litrex Corporation on August 15, 2003.

Chuo Aoyama Audit Corporation

Chuo Aoyama Audit Corporation
Yokohama, Japan
September 29, 2003

Board of Directors and Auditors

as of September 29, 2003

President and CEO
Representative Director
Dr. Kyuzo Nakamura

Executive Vice President
Representative Director
Hidenori Suwa

Managing Director
Hisaharu Obinata

Managing Director
Dr. Hiroyuki Yamakawa

Managing Director
Yuzo Sakurada

Managing Director
Shizuo Nakamura

Managing Director
Yoshihiro Tsunemi

Managing Director
Yoshio Sunaga

Director
Shigeto Kobayashi

Director
Shigeru Amano

Director
Toshihiro Kashiwagi

Director
Takashi Fukuda

Director
Masashi Makino

Director
Mitsutoshi Kimura

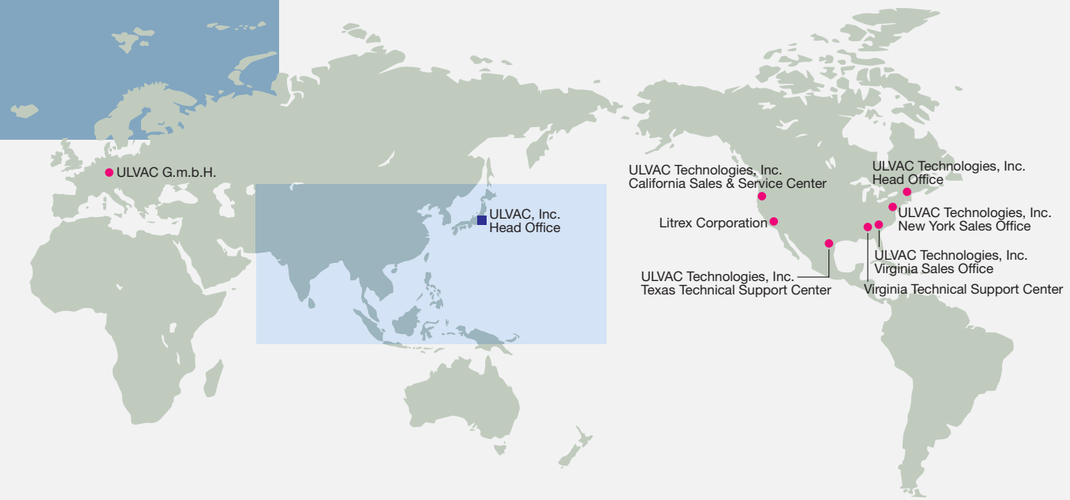
Auditor
Hiroshi Kikujo

Auditor
Kazuya Kawashima

Auditor
Tsuneo Sato

Auditor
Masato Nagasawa

Global Network



Consolidated Subsidiaries

as of December 31, 2003

ULVAC TECHNO, Ltd.
ULVAC Kyushu Co., Ltd.
ULVAC TOHOKU, Inc.
ULVAC Seiki Co., Ltd.
ULVAC CORPORATION
Vacuum Metallurgical Co., Ltd.
Reliance Electric Ltd.
ULVAC-RIKO, Inc
ULVAC KIKO, Inc.
ULVAC-PHI, Inc.
ULVAC CRYOGENICS, Inc.
ULVAC Technologies, Inc.
ULVAC TAIWAN Inc.
ULVAC KOREA, Ltd.
ULVAC NINGBO Co.,Ltd.
ULVAC EQUIPMENT SALES, Inc.
ULVAC Materials Technology Co., Ltd.
Litrex Corporation

Corporate Data

as of December 31, 2003

Trade name: ULVAC, Inc.

Trademark: ULVAC

Head office address:
2500 Hagisono, Chigasaki,
Kanagawa Prefecture 253-8543,
Japan

Date of establishment:
August 23, 1952

Capital: JPY3,850,000,000

Number of employees:
1,155 (3,621 consolidated)


Head office

Shareholders Information

Stocks

Total number of issue shares: 80,000,000

Total number of outstanding shares: 32,428,438

Number of shareholders: 989

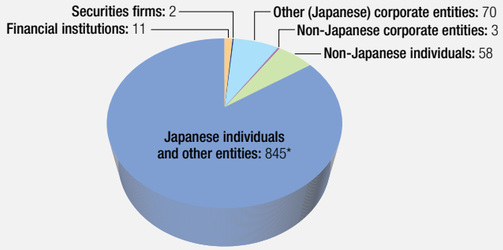
Settlement day: June 30
(determined by shareholders receiving dividends)

Regular general meeting of shareholders: late September

Major shareholders

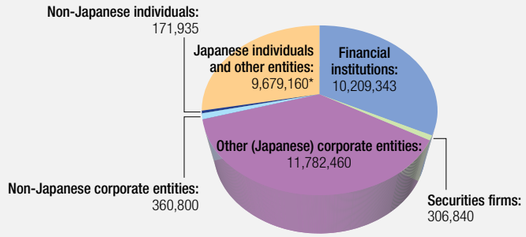
Name	Number of shares (thousands)	(%)
Matsushita Electric Industrial Co., Ltd.	3,582	11.04
Nippon Life Insurance Company	3,224	9.94
Association of Employee Shareholders of ULVAC	2,412	7.43
Shinseiwa Real Estate Co., Ltd.	1,718	5.29
Mizuho Bank, Ltd.	1,604	4.94
Japan Trustee Services Bank, Ltd.	1,604	4.94
UFJ Bank, Ltd.	1,604	4.94
Inabata & Co., Ltd.	869	2.68

Breakdown of stocks by type of holder
(Total: 989)



* including treasury stock: 1

Breakdown of stocks by volume held
(Total: 32,428,438)



* including treasury stock: 408

Website

To gain a better understanding of ULVAC, please visit our website, which contains recent news, technological data, and various other information.

www.ulvac.co.jp

ULVAC

www.ulvac.co.jp

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