ULVAC

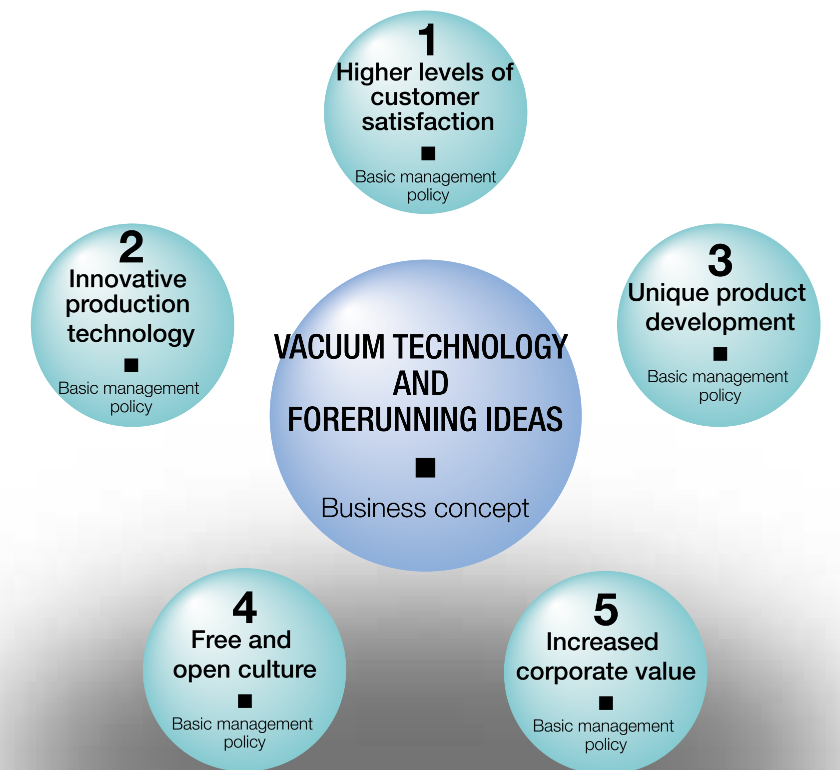
Since 1952

Annual Report 2002

Year ended June 30, 2002

CORPORATE PHILOSOPHY

VACUUM TECHNOLOGY AND FORERUNNING IDEA



CORPORATE IDEAL

As suggested by our name, which stands for the "ultimate in vacuum," we in the ULVAC Group aspire to the advancement of science and industry through application of vacuum technology in all possible areas.

CONTENTS

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.

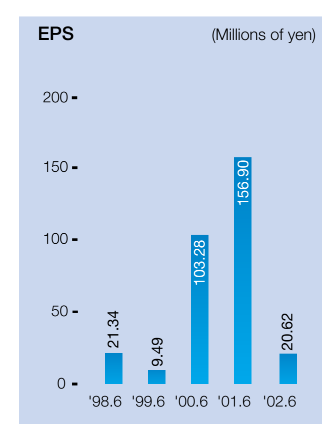
MISSION

Ever since our founding in 1952, we at ULVAC, Inc. have constantly striven to create the most advanced technologies and taken up the challenge of ever-higher levels of customer wants and needs, in keeping with the spirit of our aforementioned management philosophy.

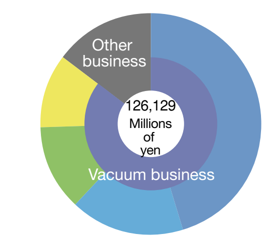
Simply defined, ULVAC is a group of companies providing total solutions based on its core competence of vacuum technology. More specifically, our ULVAC Solutions are by no means confined to manufacturing equipment; they are complete packages also extending to processes, related materials, analysis and assessment, and servicing. In the field of manufacturing equipment for flat panel displays (*FPD), we are the world's biggest producer.

The year 2002 marked the 50th anniversary of our founding. Looking ahead, we are resolved to build on our foundation of vacuum technology and the derivative technologies on its periphery accumulated over the years, and to step up our development of distinctive technologies for the next age in related frontier fields, such as fine chemicals, fine mechatronics, and biotechnology.

*FPD: Flat Panel Display



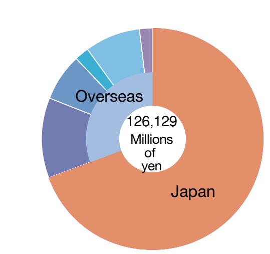
Sales breakdown by business
(Millions of yen)



- Vacuum-related business 107,526 (85.3%)
  - General electronic component fabrication equipment 57,154 (45.3%)
  - Semiconductor industry equipment 21,015 (16.7%)
  - Components 15,760 (12.5%)
  - Other vacuum equipment 13,597 (10.8%)
- Other business 18,603 (14.7%)

TOTAL 126,129 (100%)

Sales breakdown by region
(Millions of yen)



- Japan 87,445 (69.3%)
- Overseas 38,684 (30.7%)
  - Taiwan 14,716 (11.7%)
  - Korea 8,719 (6.9%)
  - China 2,566 (2.1%)
  - Other Asian markets 10,240 (8.1%)
  - North America and Europe 2,410 (1.9%)
  - Other markets 33 (0.0%)

TOTAL 126,129 (100%)

Q1. "Vacuum technology and forerunning ideas"

Taking up the challenge of next-generation and frontier fields through intensive application of vacuum technology

Our philosophy of "vacuum technology and forerunning ideas" means that we take up the challenge of new tasks a generation ahead by utilizing new processes and manufacturing technologies applying vacuum technology. In other words, we aim for prompt application of our store of know-how in the most advanced areas.

Dr.Kyuzo Nakamura, *President & CEO*

Q2. The ULVAC Group

Provision of a total manufacturing infrastructure

Grounded in vacuum technology as its core competence, the ULVAC Group has grown by widening its fields of business in succession to related manufacturing facilities, materials, and half-finished goods approaching devices. At present, we offer ULVAC Solutions that extend from equipment business to materials, services, and even production of devices. This is to say that the ULVAC Group is capable of providing infrastructures and services as well as manufacturing equipment in total packages.

Over the last five years, the ULVAC Group has nearly doubled and now ranks among the top worldwide for all-around manufacture of vacuum equipment. We also aspire to the highest levels of technology in the world, and constantly generate technologies of the most advanced nature.

Q3. Core competence

Strength deriving from a free and open culture

Besides sophisticated capabilities of research and development, we possess a corporate culture resting on an organization marked by high degrees of freedom and openness.

This culture grows out of the fact that, throughout our 50-year history, ULVAC has been in the position of having to work with new technologies and growth fields in order to stay in business. To put it another way, the realization that we cannot survive merely by producing the same output has competitors endowed ULVAC with a unique corporate culture. The freewheeling character of our organization is the wellspring of our originality. Our most precious asset is this firmly rooted corporate culture conducive to first-rate research and development.

Q4. Business portfolio

Bold challenge of a wide range of fields

Application of vacuum technology still has much room for expansion, and the applied fields are still growing.

At ULVAC, we have grown by developing business in equipment with vacuum technology at our core. For the future, we intend to go further and boldly build up our business in the areas of materials, devices, and services as well. At the same time, we are prepared to challenge a wide range of fields where there are business opportunities once we have confirmed the presence of prospects for sufficient growth and profit relative to the risks. This has given us a reputation for having a business portfolio with a shape that changes like an amoeba.

Q5. Next growth engines

Focus on displays, optical devices, energy, the environment, and the growth potential of China

Our formula for growth lies in shifting our attention to growing business fields, technologies, and areas. Among growth product fields, we have particularly high expectations of displays. We foresee a replacement of cathode ray tubes by flat panel displays (FPDs), and think that investment in this field will continue for the next few years. As for types, the liquid crystal displays already on the market are gradually being joined by plasma display panels (PDPs) and organic electroluminescent (EL) panels. In addition, we are certain that the markets associated with optical devices as well as energy and the environment are going to boom in the near future. These two fields are bound to be future centers of growth, like those of semiconductors and displays. In the realm of technologies, we are focusing on fine chemicals, fine mechatronics, and biotechnology. Acquisition of these growth-oriented technologies is in keeping with our philosophy of always thinking a step ahead.

As for growth markets, we have our eyes on China, Taiwan, and Korea. China has an especially high potential for growth and is clearly gathering economic momentum. It could exert a significant impact on business worldwide because of the rise of its industry, not only in the electronics field but also in those of automobiles and all other sorts of products, all at once. It is critical for ULVAC to be at the top in the Chinese market once this happens.

Q6. Latest development

Smooth progress of CS package business

A key development of late is our customer support (CS) package business, which draws on the synergy of our entire Group. We offer plants based on total CS support packages encompassing component washing, surface processing, target bonding, and maintenance. A recent case in point is the newly established ULVAC Singapore, which is successfully receiving orders. This CS package business has been given high marks by our customers. In the recent past, we have also been getting increasing inquiries about factory outsourcing in such forms as seconding of our personnel to customer plants.

Q7. Strategic tasks

Cost-reducing effects of standardization

While we have strong capabilities of research and development, we have some room for improvement in the aspects of production technology and cost competitiveness, and must continue with efforts to this end.

With this realization, we are promoting module and unit configurations as a top priority for reducing costs. At ULVAC, we call this "hyojunka" (standardization). Besides cost reduction, a trend toward high-diversity, small-lot production has been proceeding in today's market for manufacturing equipment. Moreover, demand cycles are becoming shorter and shorter, and making it necessary to generate new technology on a continuous basis. This is why standardization is of the highest importance in equipment fabrication. Although we are taking the usual steps to cut costs on the financial front as well, we think that standardization of production technology has an even greater cost-reducing effect.

Together with this equipment standardization, we are developing offshore sourcing and production, and doing everything else we can to reduce our costs. All of us must realize that there is no end to the task of cost reduction. It is a quest that will never stop, a battle that will never really be over.

Q8. The most important things

Cost competitiveness, advance preparations, foresight, and scenarios

It is vital for us to build up our cost competitiveness in order to stay at the top in all areas, that is, growth fields, technology, and markets. However, what is even more important is to discern the direction of coming changes and technologies, and make corresponding preparations beginning about ten years before. In other words, we need the foresight to draw the right scenario for survival into the long term, unswayed by trends over the short run.

So far, the ULVAC Group has grown mainly through business in vacuum technology. We intend to build on this base of technology and achievement by extending our activities to growth-rich fields, technology, and markets identified with our penetrating vision.

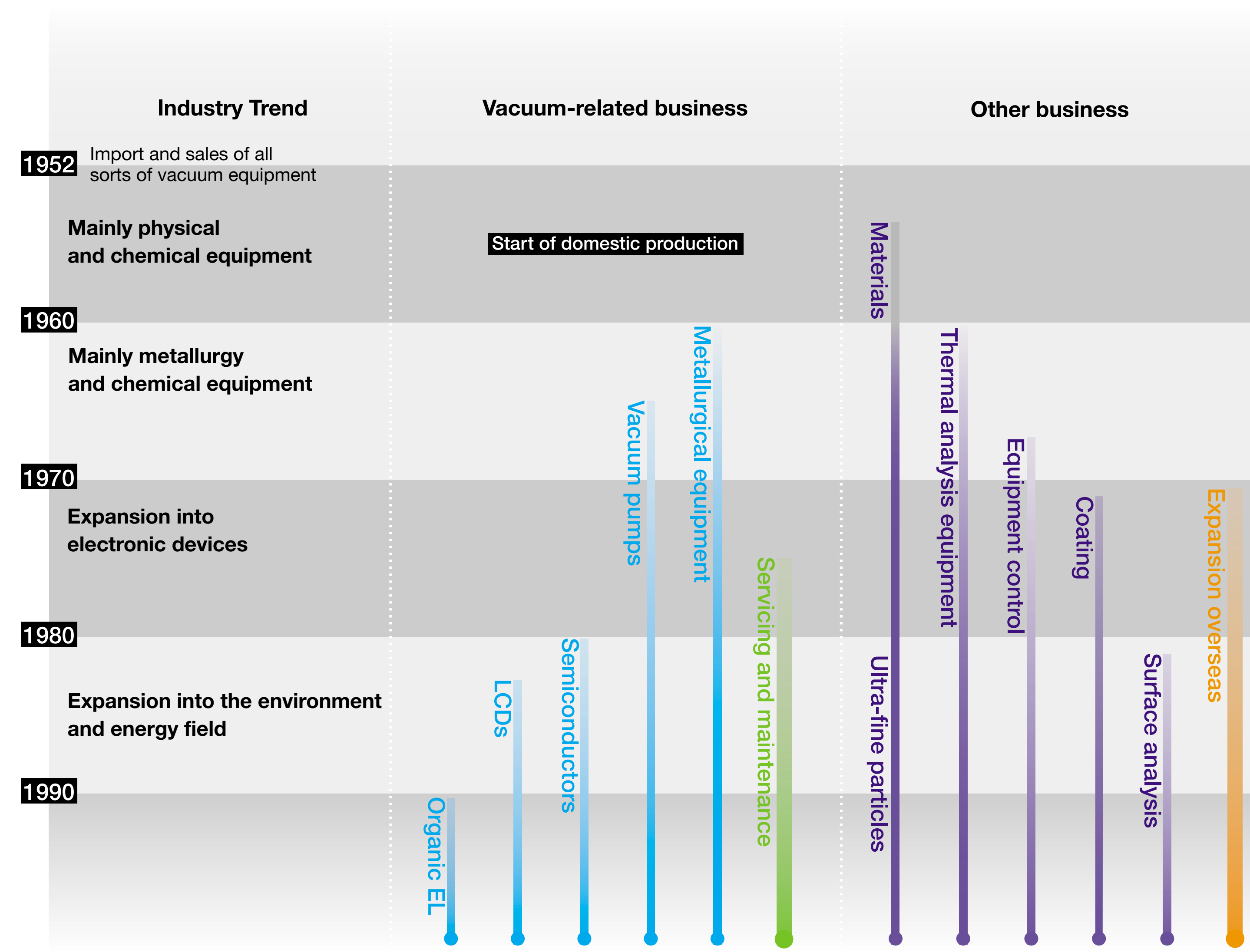
K. Nakamura.

Dr.Kyuzo Nakamura, *President & CEO*

ULVAC's founding grew out of the lofty idealism of scientists working at universities and research institutes, who in 1952 realized that vacuum technology would be a key technology for science and industry, were convinced of its absolute necessity for Japan's future advancement, and felt a responsibility to establish it in Japan and contribute to the country's scientific and industrial advancement.

Over the intervening years, the scope of ULVAC's business has expanded outward from the core of vacuum technology to encompass a wide range of other fields in succession. These include manufacturing equipment for liquid crystal devices, electronics industry equipment, semiconductor industry equipment, vacuum heat treatment equipment, vacuum pumps, surface analysis, thermal analysis, and advanced materials.

Evolution of business development



Profile of our business

The ULVAC Group consists of ULVAC, Inc., its 28 subsidiaries, and eight affiliates.

Our business falls into two major divisions: vacuum-related business based on our vacuum technology, and other business applying technology on the periphery of vacuum technology.

Strategic business segmentation

In practice, we develop our business in accordance with the segmentation shown above. (The details of each segment are presented below.) More specifically, we supply solutions in the eight segments of display and general electronic device production equipment, semiconductor production equipment, vacuum equipment for general industrial use, surface analytical devices and analysis service, equipment (process) control, advanced materials, coating (surface processing), and customer support. We draw on capabilities in all of these segments to put together ULVAC Solutions packages. Our forte is the provision of total solutions deriving from organic coordination among the Group members and the resulting synergistic effects.

Business divisions in each segment

● Vacuum-related business

General electronic component production equipment: flat panel displays (FPD), optical films, digital video disks (DVD), solar cells, and other such equipment.

Semiconductor production equipment: sputtering systems, etching systems, chemical vapor deposition (CVD) systems, ion implanters, etc.

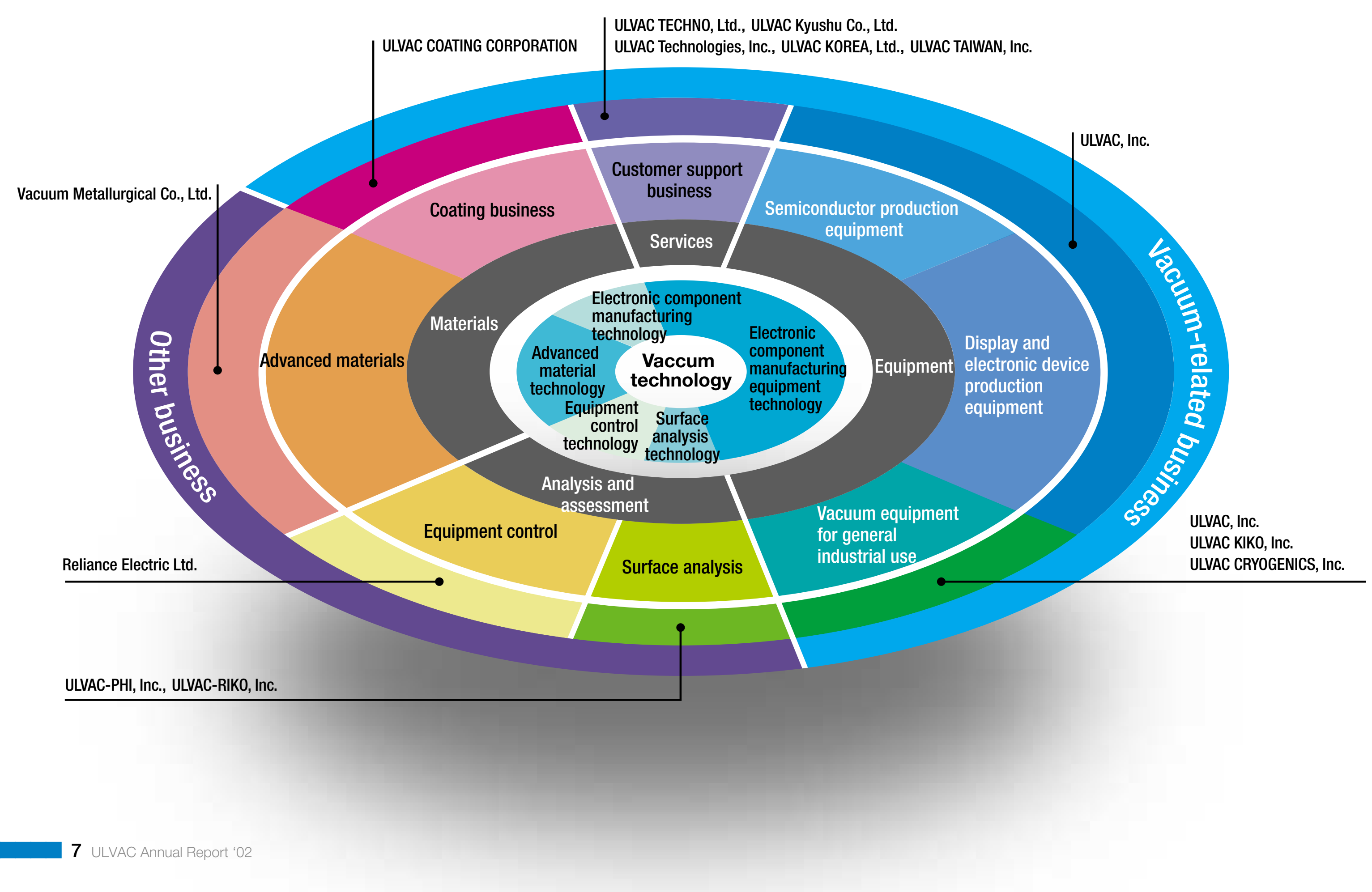
Components: vacuum pumps, instruments, power supply, etc.

Other: ultra-high vacuum (UHV) equipment, roll coater, vacuum melting and heat treatment furnaces, etc.

● Other business

Business in domains on the periphery of vacuum technology, i.e., advanced materials used in microprocessing, surface analytical devices, controllers, etc.

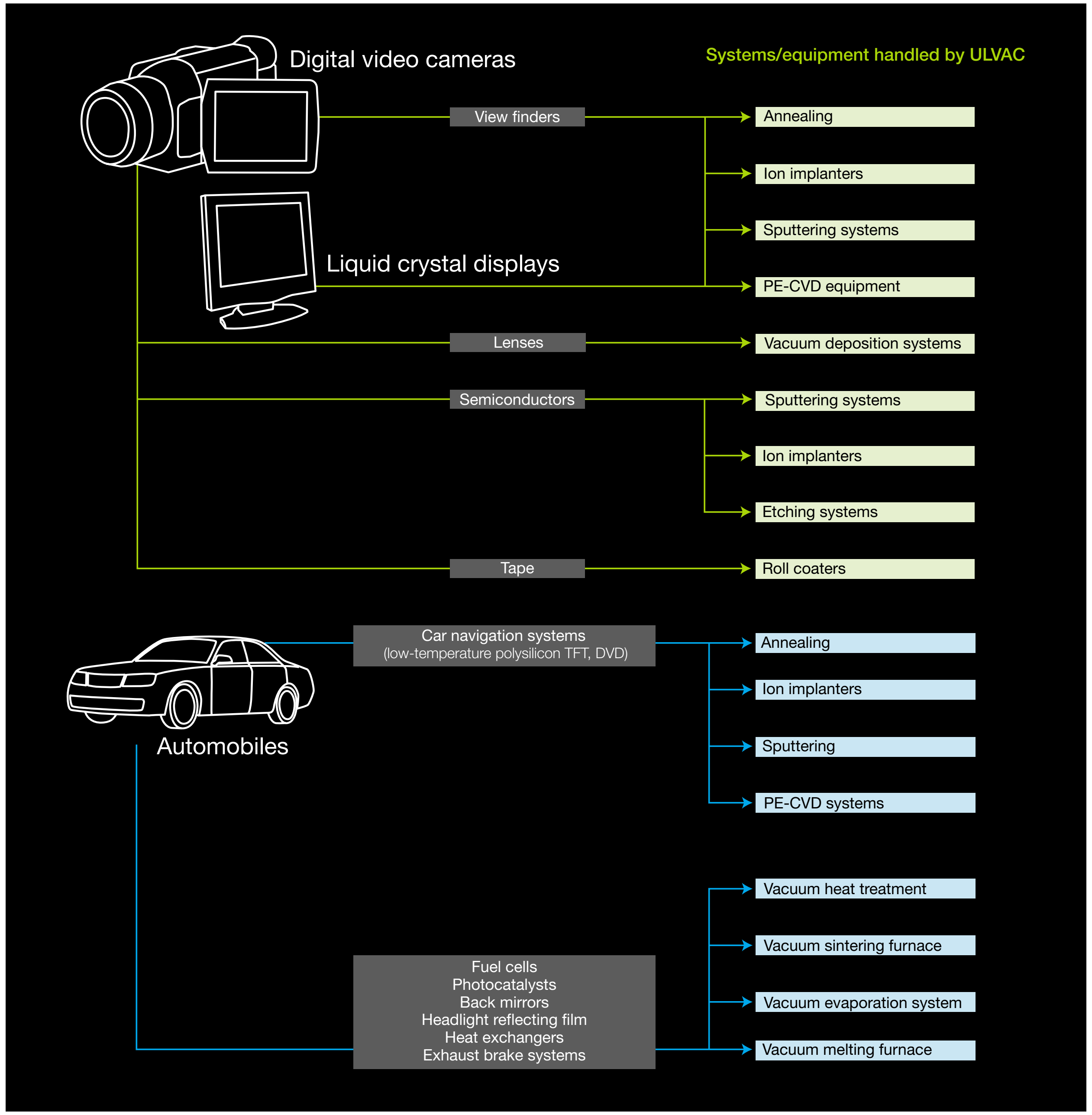
Make-up of the ULVAC Group



The following examples show how finished products incorporate ULVAC technologies.

Although our technologies and products are rarely presented to ordinary customers in the form of finished products, state-of-the-art ULVAC equipment is essential for manufacture of the electronic devices (e.g., semiconductors and FPDs) applied in these products.

The finished products harnessing ULVAC technologies may be exemplified by the liquid crystal display screens in the rapidly growing markets of large-sized FPD TV sets, digital video cameras, personal digital assistants (PDA), color display cellular telephones, and car navigation systems. In the examples noted below, we are capable of supplying the equipment, technology, and advanced materials for manufacturing automotive components.



VACUUM-RELATED BUSINESS

GENERAL ELECTRONIC COMPONENT PRODUCTION EQUIPMENT

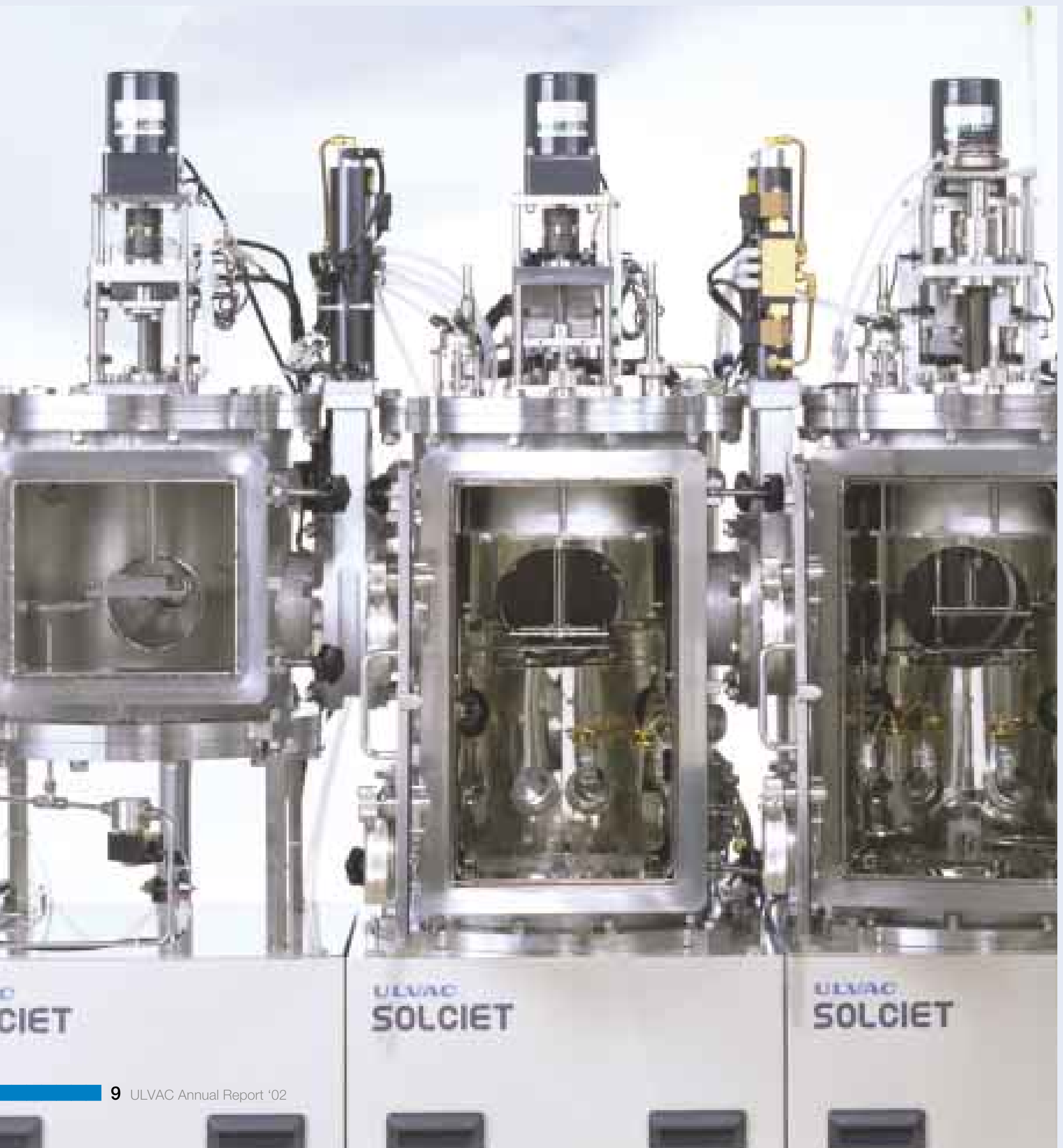
Our assortment of equipment for fabrication of general electronic components includes sputtering systems, plasma CVD systems, annealing systems, organic electroluminescent (EL) device manufacturing equipment, vacuum deposition systems, and Cat-CVD systems.

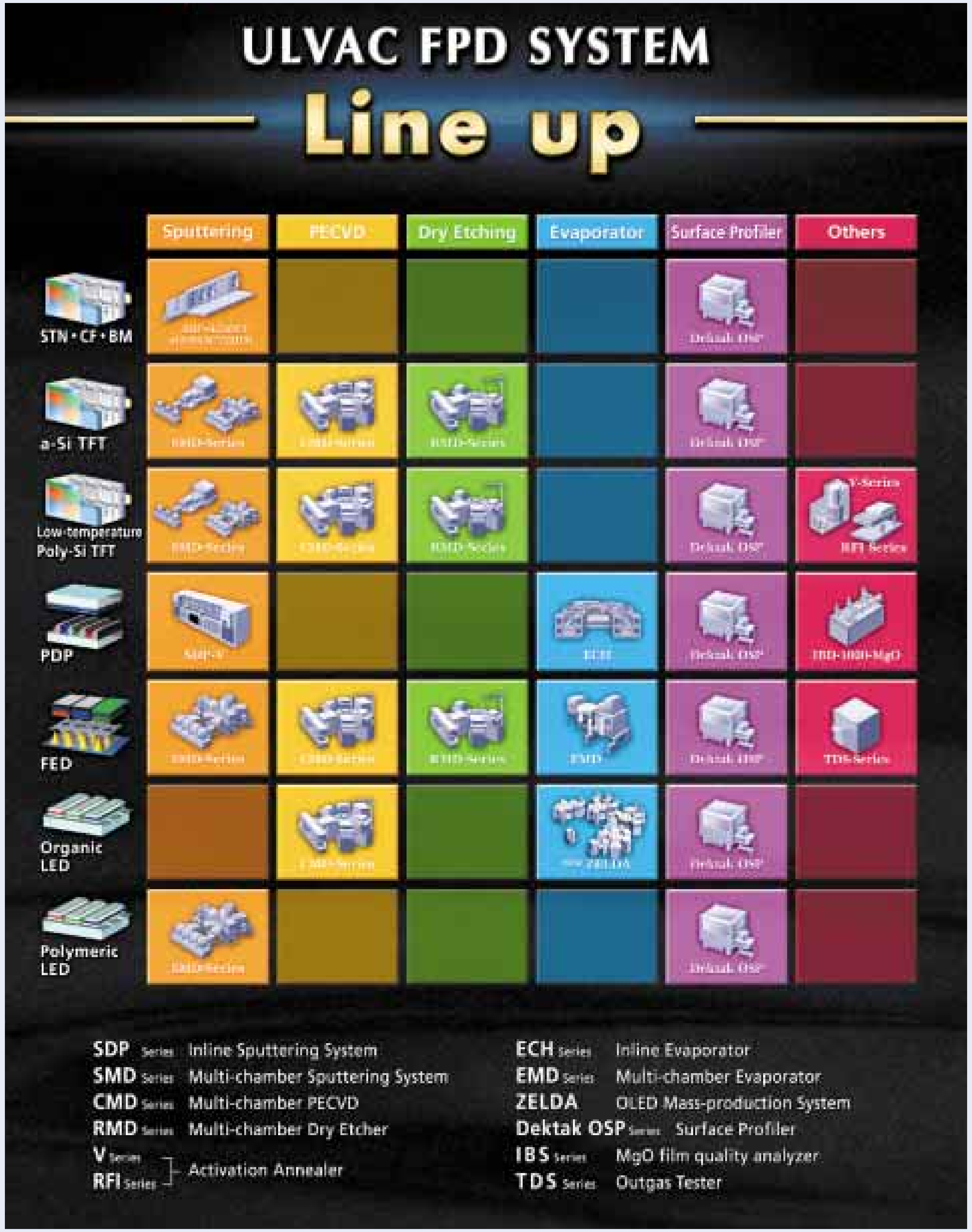
The liquid crystal display (LCD) industry, which contains our mainstay products in this division, brings together LC, glass, and other materials, and entails a higher degree of comprehensive technical integration than even the semiconductor industry. In addition, its base of peripheral industry is rapidly widening.

A great diversity of products incorporate the LCDs produced with ULVAC technology. Notebook-size computers and computer monitors reportedly account for the majority of LCD application on the monetary basis.

Over the coming years, large shares are expected to be acquired by cellular telephones, large-sized color TV sets, PDAs, digital cameras, and car navigation systems.

- **LCD manufacturing equipment and systems**
  (sputtering systems, plasma CVD systems, etching systems, annealing systems, and LC injection systems)
- **Plasma display panel manufacturing equipment and systems**
  (vacuum deposition systems, sputtering systems)
- **Organic EL manufacturing equipment**
- **Packaged substrate manufacturing equipment**
- **Optical device manufacturing equipment**
- **Plasma CVD systems for manufacturing solar cells**





SEMICONDUCTOR PRODUCTION EQUIPMENT

The assortment of systems and equipment handled by our semiconductor industry equipment division includes PVD systems, etching systems, ion implanters, resist strippers, metal CVD systems, low-pressure (LP) CVD systems, oxidation furnaces, and diffusion furnaces.

A variety of systems and equipment is utilized in the fabrication of semiconductors. In the semiconductor division, the vacuum industry supplies mainly items for front-end processing.

- **PVD** (sputtering) **systems**
- **All kinds of CVD system**
- **Ion implanters**
- **Resist strippers**
- **Etching systems**
- **Diffusion furnaces**
- **LP-CVD systems**

COMPONENTS

In the component division, ULVAC supplies vacuum pumps (dry pumps, oil rotary pumps, mechanical booster pumps, oil diffusion pumps, sputter ion pumps, and cryopumps), all sorts of vacuum gauges, helium leak detectors, mass spectrometers, surface profilers, power sources, and film deposition controllers.

A wide range of application fields utilize the ULVAC vacuum pumps creating vacuum states, vacuum gauges adapted to all degrees of vacuum, mass spectrometers, gas monitors, film deposition controllers applied in film growth processes, power packs for all kinds of equipment, and the diversity of related peripheral components.

- **Vacuum pumps** (cryopumps, dry pumps and other pumps)
- **Vacuum measurement devices**
- **Film thickness measurement devices**
- **He leak detectors**
- **Small vacuum pumps**
- **Ultra-high vacuum pumps**
- **Ultra-high vacuum components**
- **Various other components**

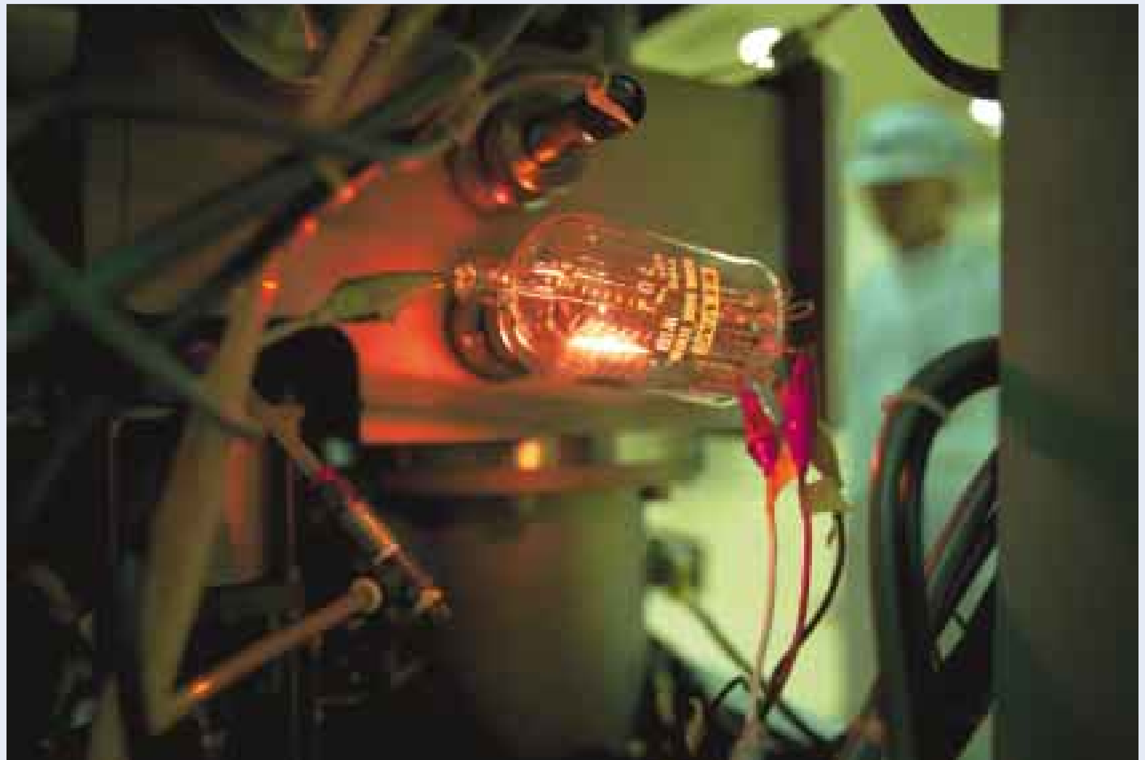
OTHERS

ULVAC products in other vacuum-related business include ultra-high vacuum exhaust systems, helicon sputtering systems, metal organic (MO) CVD systems, vacuum melting furnaces, vacuum heat treatment furnaces, vacuum roll coaters, vapor deposition polymerization equipment, vacuum brazing furnaces, vacuum freeze-drying systems, vacuum distillation equipment, and photo catalysts.

Our vacuum heat treatment furnaces are vital for production of components for aircraft engines. Our vacuum brazing furnaces are applied in production of automobile radiators and oil coolers. Similarly, our sputtering systems and vacuum deposition equipment are used in the manufacture of reflecting films inside headlights and fender mirrors.

Similarly, our vacuum melting and heat treatment furnaces are needed to produce hydrogen-absorbing alloys used on the cathodes of nickel-hydrogen storage batteries and rare-earth magnets. In the same way, our vacuum sputtering roll systems are used in the leading-edge fields of transparent conductive films and anti-reflecting (AR) films for application in digital video tape and PDAs.

- **Vacuum roll coaters** (video tape, anti-reflecting film, transparent conductive film)
- **Vacuum heat treatment furnaces** (hydrogen-absorbing alloys, permanent magnets)
- **Vacuum sintering furnaces** (Ta capacitor)
- **Vacuum freeze-drying systems** (pharmaceuticals)
- **Ultra-high vacuum equipment** (for research use)



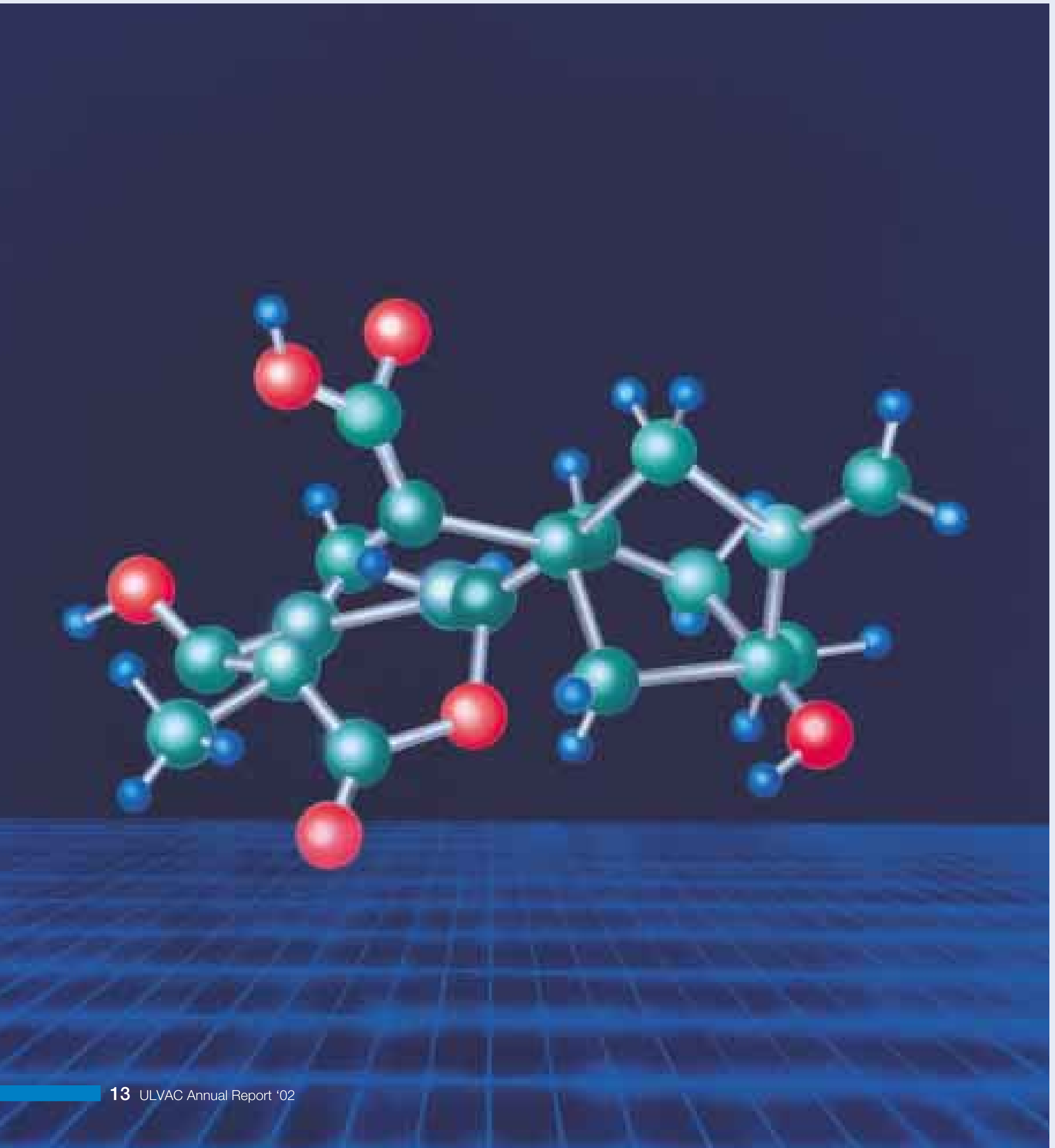
OTHER BUSINESS

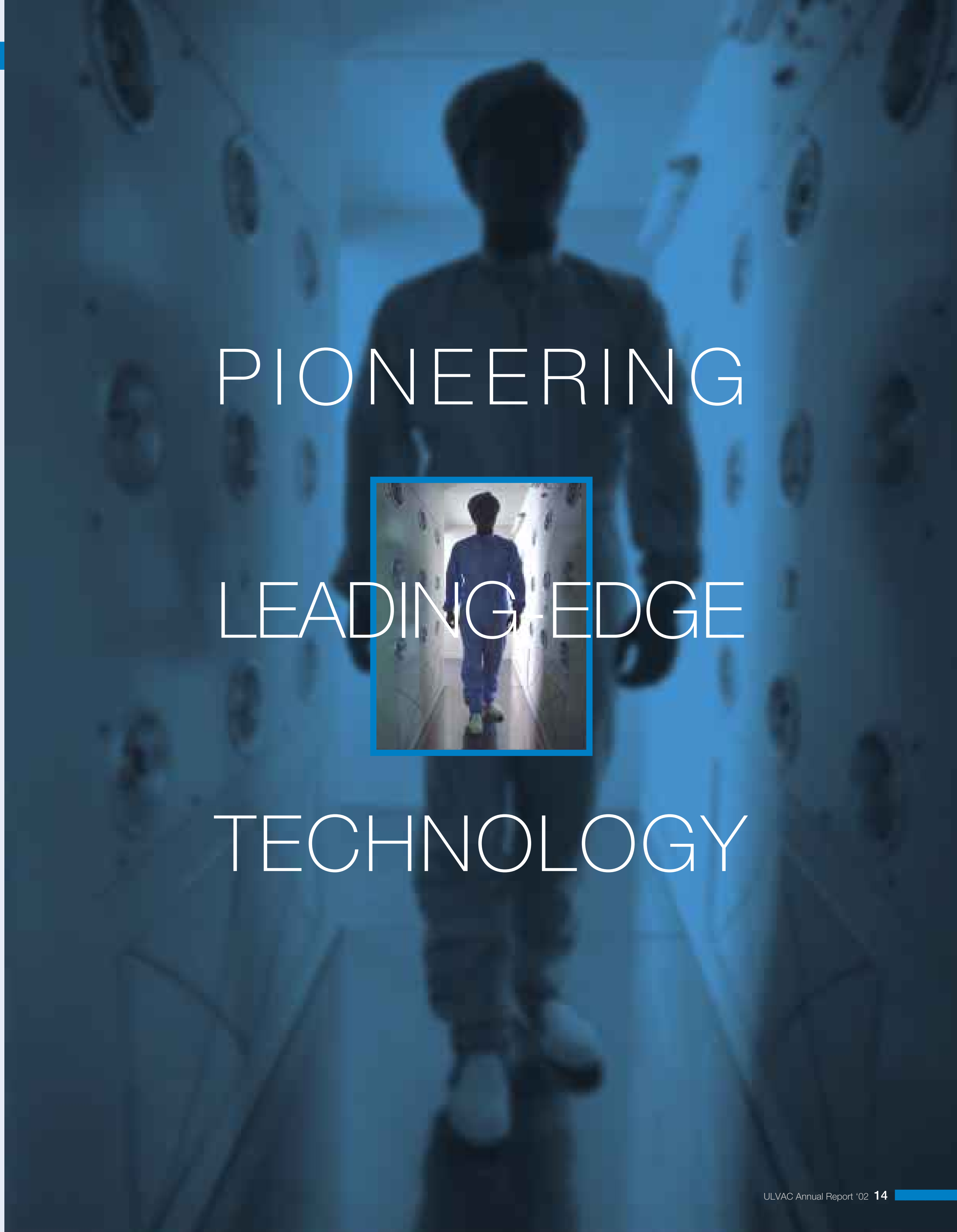
In other business domains, we manufacture products including sputtering target materials, deposition materials, active metals with high melting points (tantalum, niobium, tungsten, and molybdenum), processed titanium-zirconium items, ultra-fine particles, Auger electron microspectroscopy, X-ray electron spectroscopy, thermal analysis, thermophysical property measurement equipment, near-infrared-ray image furnace equipment, drive units for all sorts of industrial machinery, and digital control systems.

In more specific terms, for the formation of films for high-dependability processes, we provide sputtering target materials (for large-size LCDs and copper wiring) and evaporation materials for deposition.

Besides the fields noted above, we also carry out analyses and assessments to propose close-knit solutions, and also support our customers in this division with activities such as surface processing and equipment control.

- **Advanced materials**
  (ultra-fine particles, sputtering targets)
- **Surface analytical equipment**
  (thermal analysis equipment, organic dye sublimation refining equipment and Auger electron microspectroscopy equipment)
- **Analysis services and equipment**
  (control motors, software)





TECHNOLOGY

Unique assortment bred by creative research and development

In our approach to research and development, we pursue highly creative programs as a matter of basic policy.

In accordance with this line, we have engendered many unique products applying our unparalleled original technology.

R&D activities

At ULVAC, we consider research and development activities in next-generation and advanced fields applying vacuum technology as a vital support of our business.

All of our R&D locations are engaged in proactive programs in line with this perspective. We promote work in displays, optical device films, and other main development fields at the Chiba Institute for Super Materials; displays, fine chemicals, new materials, and ultra-high vacuum technology, and other main development fields at the Tsukuba Institute for Super Materials; semiconductor processes at the Institute for Semiconductor Technologies; and components and biotechnology at the Research and Development Division.

The stimulating atmosphere of development activities bred by our free and open organization, combined with our unique corporate culture accenting a challenging spirit, powers our creation of unique technologies and output of numerous products that rank at the top worldwide.

This technology-oriented stance of ours dates right from ULVAC's founding and in this sense is indelibly imprinted in its DNA.

ULVAC technology took its start from our production of all sorts of vacuum equipment and pumps, and proceeded in succession to systems for LCD thin-film formation, technology for manufacturing such systems, advanced materials, surface analysis, and equipment control. We not only manufacture equipment but also develop advanced materials including nanoparticles. We have established a solid advantage in materials development and are making a big push in fields of frontier technology such as fine chemicals, fine mechatronics, and biotechnology.

Most of our R&D investment is directed to programs for LCDs and other types of advanced FPDs, which have promising growth prospects. These are followed by programs in semiconductors, components, and industrial equipment, which are subjects of priority allocations from our R&D budget. Our allocations are made with a flexibility that allows us to focus on the growing fields and technologies of the moment.

Product development

In product development, we have posted three basic guidelines. The first is the proposal of product development that anticipates device needs and possesses an edge on those of competitors. The second is the execution of programs that are tailored to customer wants and needs, and include sampling, beta sites, CIP activities, and on-site collection of data. The third is work that delivers a cost advantage relative to competitors in the same industry.

We are engaged in product development applying original technologies that are among the best in the world in their respective fields, including low-temperature polysilicon thin film transistor (TFT) LCDs, organic EL, and other FPD technologies; ferroelectric random access memories (FeRAM), magneto-resistive random access memories (MRAM), compound semiconductor manufacturing equipment, copper wiring, low-k materials, and other semiconductor technologies; technologies for the carbon nanotube manufacturing process; and photo catalysts.

MAJOR TASKS

ULVAC has experienced an unprecedented slump in the electronic device and semiconductor industries, its major customers.

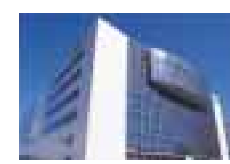
Although the market has bottomed out and is heading for recovery in the industry for displays and other electronic devices, the semiconductor industry continues to face a sluggish demand and an undeniable uncertainty about the future course.

In this harsh climate of drastic change, we are going to deploy five priority strategy manifesting our fundamental principles (i.e., higher levels of customer satisfaction, innovative production technology, unique product development, free and open culture, and increased corporate value), with priority on the following five items:

1) cost reduction, 2) expansion of contracts/orders, 3) new product development, 4) new business, and 5) globalization. In line with this priority strategies, we shall endeavor to expand our business as a conglomerate centered around a core competence of vacuum technology and supplying total solutions in equipment, materials, and services.

PRESIDENT
Technical Planning Unit

Major fields of development



Research and Development Division
(Chigasaki)

- Components and robots
- Transfer system technology
- Biotechnology, simulation
- Ion-beam technology

Tsukuba Institute for Super Materials

- Displays, magnetic films, fine chemicals
- New materials
  (energy-saving materials, solar cells)
- Clean/ultra-high vacuum technology

Chiba Institute for Super Materials

- Displays, optical device films
- Electronic devices, roll coaters

Institute for Semiconductor Technologies
(Fujisusono)

- Semiconductor processes

OPERATIONAL RESULTS

Course and results on the consolidated basis for the fiscal year ending on 30 June 2002

During the fiscal year in question (beginning on 1 July 2000 and ending on 30 June 2002), the economic picture in Japan was colored by a host of negative factors, including a decline in capital investment (especially in connection with information technology), the protracted continuation of the problem of bad debt in the financial sector, sagging stock values, and employment uncertainty. In this atmosphere, corporate earnings worsened and personal consumption remained sluggish. Although the government announced that the economy bottomed out in May 2000, conditions continued to be very harsh. Outside Japan as well, capital investment in industrial facilities fell off sharply as manufacturers adjusted their inventories of IT goods such as personal computers and cellular telephones.

Under these tough economic circumstances, the semiconductor and electronic device manufacturers, which are our chief customers, faced an unprecedented slackening of their business and deferred their investment in fabrication systems for semiconductors, displays, and other products, one after the other. While orders showed signs of rebounding in the display industry during the second half of the year, the final demand for IT goods lacks momentum, and the situation still calls for caution.

To cope with these difficult straits, we at ULVAC conducted an aggressive campaign to drum up business by injecting new original products into the market and promoting ULVAC Solutions. Meanwhile, rigorous programs of cost reduction driven by equipment standardization combined with cutbacks in personnel expenses and overhead to bring our fixed costs down by a wide margin.

The cost reduction, however, was not enough to offset the drop in sales prices resulting from tough discounting demands by customers and strategic jobs taken for lower pay with a view to widening our share of the market. We therefore recorded a decline in both income and profit. In spite of the hard times in the market, we nevertheless received consolidated orders amounting to 107,793 million yen, down 37,499 million yen (25.8 percent) from the previous fiscal year, and posted consolidated sales of 126,129 million yen, down 21,303 million yen (14.4 percent). On the same consolidated basis, we were able to reap a current net profit of 669 million yen. The results in each division are presented below.

Vacuum-related business

(general electronic component fubrication equipment, semiconductor industory equipment, components, and other vacuum equipment)

Our business in systems for fabrication of displays and other electronic devices struggled in the first half of the year in question, but the downturn was held to the minimum, thanks to a revival of demand in Korea and Taiwan in the second half and the smooth development of new products. Our business in semiconductor production equipment met with heavy constraints on facility investment among customers owing to the slack demand in the market. In the component field, we brought into the market new energy-saving items and vacuum pumps for non-industrial use, capable of installation in electrical products for the home.

As a result, in this division, consolidated orders received inside and outside Japan amounted to 88,476 million yen, down 34,594 million yen (28.1 percent) from the previous year, and our consolidated sales, 107,526 million yen, down 18,174 million yen (14.4 percent), for an operating profit of 2,700 million yen, a drop of 5,671 million yen (67.7 percent) from the previous year.

Other business

(advanced materials, surface analytical equipment, equipment control, etc.)

In our other business, consolidated orders received inside and outside Japan amounted to 19,316 million yen, down 2,905 million yen (13.0 percent), from the previous year, and consolidated sales, 18,603 million yen, down 3,129 million yen (14.3 percent). This translated into an operating loss of 591 million yen.

(The monetary figures above do not include consumption tax, etc.)

Cash flow

The consolidated cash flow in the fiscal year in question may be described as follows.

The cash flow deriving from operating activities yielded a positive result of 6,193 million yen (up 22,102 million yen from the previous year), owing to a decline in accounts receivable, which compensated for a decrease in net current profit before adjustment for taxes, etc.

The cash flow in investing activities was a negative one of 11,769 million yen, (down 3,353 million yen from the previous year). The main causes were the acquisition of tangible fixed assets associated with investment for construction of our new building as well as intangible fixed assets.

The cash flow in financing activities showed a positive result of 5,796 million yen (down 18,689 million yen from the previous year), as factors of decrease such as dividend payments were outweighed by factors of increase such as incoming loans.

As a result, the term-end balance of cash and cash equivalents reached 10,390 million yen, up 286 million yen from the previous year.

CONSOLIDATED BALANCE SHEETS

ULVAC, INC.
AS OF JUNE 30, 2001 AND 2002

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Current assets:			
Cash on hand and in banks	¥10,479	¥10,842	$ 91,109
Marketable securities	37	20	168
Accounts receivable, trade	70,436	55,199	463,857
Inventories	45,974	34,572	290,521
Deferred income taxes	2,602	2,302	19,344
Other current assets	3,265	2,392	20,100
Allowance for doubtful accounts	(450)	(349)	(2,932)
Total current assets	132,343	104,978	882,168
Investments:			
Unconsolidated subsidiaries and affiliated companies	3,888	4,674	39,277
Other	2,648	1,932	16,235
Total investments	6,536	6,606	55,512
Property, plant and equipment:			
At cost -			
Land	7,522	7,534	63,310
Buildings and leasehold improvements	27,724	28,713	241,285
Machinery and equipment	27,401	30,897	259,638
Furniture and fixtures	8,370	8,501	71,436
Construction in progress	2,900	6,457	54,260
	73,917	82,102	689,932
Accumulated depreciation	(36,149)	(38,943)	(327,252)
Total tangible fixed assets	37,768	43,159	362,680
Other assets:			
Intangibles, net	635	720	6,050
Leasehold and guarantee deposits	1,254	1,226	10,302
Deferred income taxes	1,699	2,402	20,184
Deferred charges	67	24	201
Other	1,094	1,191	10,008
Allowance for doubtful accounts	(22)	(30)	(252)
	4,727	5,533	46,495
	¥181,374	¥160,276	$1,346,857

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Liabilities:			
Current liabilities -			
Notes and accounts payable	¥49,316	¥22,134	$186,000
Short-term borrowings	38,319	33,089	278,058
Current portion of long-term debt	3,100	9,802	82,369
Accrued taxes on income	2,754	1,007	8,462
Accruals	3,009	2,329	19,571
Other current liabilities	11,349	12,946	108,789
Total current liabilities	107,847	81,307	683,252
Long-term liabilities -			
Long-term debt	22,203	27,026	227,109
Accrued pension and severance costs	6,247	7,279	61,168
Other long-term liabilities	332	276	2,319
Total long-term liabilities	28,782	34,581	290,596
Total liabilities	136,629	115,888	973,848
Minority interests in consolidated subsidiaries	4,769	4,286	36,016
Shareholders' equity:			
Common stock: 2001-50 par value			
2002-no par value			
Authorized: 2001-80,000 thousand shares			
2002-80,000 thousand shares			
Issued: 2001-32,428 thousand shares	3,850	-	-
2002-32,428 thousand shares	-	3,850	32,352
Additional paid-in capital	2,860	2,860	24,033
Retained earnings	33,577	33,739	283,521
Unrealized gain on securities, net of taxes	(25)	(141)	(1,184)
Foreign currency translation adjustments	(286)	(206)	(1,731)
	39,976	40,102	336,991
Treasury stock, at cost	-	(0)	(1)
	39,976	40,102	336,991
Contingent liabilities			
	¥181,374	¥160,276	$1,346,857

CONSOLIDATED STATEMENTS OF INCOME

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2001 AND 2002

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Net sales	¥147,432	¥126,129	$1,059,907
Cost of sales	119,678	105,672	888,000
Gross profit	27,754	20,457	171,907
Selling, general and administrative expenses	18,581	18,181	152,781
Operating profit	9,173	2,276	19,126
Other income:			
Interest and dividend income	125	80	672
Commission and rental income	385	277	2,327
Foreign exchange gain, net	-	162	1,361
Equity in earnings of unconsolidated subsidiaries and affiliates	602	343	2,882
Gain on sale of property, plant and equipment	2	23	193
Gain on sale of investment securities	78	-	-
Insurance income	-	276	2,319
Gain arising from the change in interest in a consolidated subsidiary	152	-	-
Reversal of allowance for doubtful accounts	34	185	1,554
Adjustments for prior year income	-	111	932
Other	475	464	3,899
Total other income	1,853	1,921	16,142
Other expenses:			
Interest	831	944	7,932
Loss on disposal or devaluation of inventories	269	256	2,151
Costs and expenses for rental activities	154	165	1,386
Loss on disposal of property, plant and equipment	420	75	630
Devaluation loss on investment securities	478	720	6,050
Loss on transport accidents	133	-	-
Other	494	286	2,403
Total other expenses	2,779	2,446	20,554
Income before income taxes and minority interests in net income (loss) of consolidated subsidiaries	8,247	1,751	14,714
Income taxes:			
Current	4,523	1,707	14,344
Deferred	(2,071)	(262)	(2,201)
	2,452	1,445	12,142
Minority interests in net income (loss) of consolidated subsidiaries	707	(363)	(3,050)
Net income	¥5,088	¥669	$5,621

	Yen		U.S. dollars
Per share:			
Net income	¥156.90	¥20.62	$0.17
Cash dividends	¥10.00	¥7.00	$0.05

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2001 AND 2002

	Thousands	Millions of yen				
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on securities, net of taxes	Treasury stock, at cost
Balance, June 30, 2000	32,428	¥3,850	¥2,860	¥28,841	¥ -	¥ -
Cash dividends - ¥10.00 per share	-	-	-	(227)	-	-
Bonuses to directors and statutory auditors	-	-	-	(160)	-	-
Inclusion of a subsidiary into consolidation	-	-	-	35	-	-
Net income	-	-	-	5,088	-	-
Unrealized gain on securities, net of taxes	-	-	-	-	(25)	-
Balance, June 30, 2001	32,428	3,850	2,860	33,577	(25)	-
Cash dividends - ¥7.00 per share	-	-	-	(324)	-	-
Bonuses to directors and statutory auditors	-	-	-	(183)	-	-
Purchase of treasury stock	-	-	-	-	-	(0)
Net income	-	-	-	669	-	-
Unrealized gain on securities, net of taxes	-	-	-	-	(116)	-
Balance, June 30, 2002	32,428	¥3,850	¥2,860	¥33,739	(¥141)	(¥0)

	Thousands of U.S. dollars				
Balance, June 30, 2001	$ 32,352	$ 24,033	$ 282,159	($ 210)	$ -
Cash dividends - $0.05 per share	-	-	(2,722)	-	-
Bonuses to directors and statutory auditors	-	-	(1,537)	-	-
Purchase of treasury stock	-	-	-	-	(1)
Net income	-	-	5,621	-	-
Unrealized gain on securities, net of taxes	-	-	-	(974)	-
Balance, June 30, 2002	$ 32,352	$ 24,033	$ 283,521	($ 1,184)	($ 1)

CONSOLIDATED STATEMENTS OF CASH FLOWS

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2001 AND 2002

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash flows from operating activities:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥8,247	¥1,751	$14,714
Adjustments for:			
Depreciation and amortization	3,674	4,416	37,109
Increase (decrease) in allowance for doubtful accounts	241	(95)	(798)
Increase in accrued pension and severance costs	869	1,032	8,672
Increase (decrease) in guarantee accruals	496	(490)	(4,117)
Loss on disposal of property, plant and equipment	420	75	630
Loss on devaluation of investment securities	-	720	6,050
Interest expense	831	944	7,932
Equity in earnings of unconsolidated subsidiaries and affiliates	(602)	(343)	(2,882)
Decrease (increase) in accounts receivable	(23,244)	15,381	129,252
Decrease (increase) in inventories	(14,393)	11,486	96,521
Increase in accounts payable, trade	12,371	(27,300)	(229,411)
Increase in advances received	-	2,496	20,974
Increase (decrease) in consumption taxes payable	(172)	215	1,806
Other	668	152	1,277
Sub total	(10,594)	10,440	87,731
Income taxes paid	(4,628)	(3,456)	(29,042)
Interest and dividend income, received	165	121	1,016
Interest paid	(852)	(912)	(7,663)
Net cash provided by (used in) operating activities	(15,909)	6,193	52,042
Cash flows from investing activities:			
Increase in time deposits	(458)	(253)	(2,126)
Decrease in time deposits	1,701	177	1,487
Proceeds from sales of marketable securities	10	37	310
Payments for acquisition of marketable securities	-	(1)	(8)
Proceeds from sales of investment securities	135	14	117
Payments for acquisition of investment securities	(248)	(774)	(6,504)
Payments for loan receivables	(395)	(187)	(1,571)
Proceeds from collection of loan receivables	395	164	1,378
Payments for acquisition of property, plant and equipment	(10,363)	(12,027)	(101,067)
Proceeds from sales of property, plant and equipment	797	1,161	9,756
Other	10	(80)	(672)
Net cash used in investing activities	(8,416)	(11,769)	(98,899)
Cash flows from financing activities:			
Net changes in short-term borrowings	15,727	(5,311)	(44,630)
Borrowing of long-term debt	14,756	16,918	142,168
Repayment of long-term debt	(5,698)	(5,401)	(45,386)
Dividends paid by the parent company	(227)	(324)	(2,722)
Dividends paid by consolidated subsidiaries to minority shareholders	(73)	(86)	(722)
Payments for purchase of treasury stocks	-	(0)	(1)
Net cash provided by financing activities	24,485	5,796	48,705
Effect of exchange rate changes on cash and cash equivalents	138	66	554
Net change in cash and cash equivalents	298	286	2,403
Cash and cash equivalents:			
At beginning of year	9,468	10,104	84,907
Increase in cash and cash equivalents due to inclusion of subsidiaries into consolidation	338	-	
At end of year	¥10,104	¥10,390	$ 87,310

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ULVAC, INC.
FOR THE YEARS ENDED JUNE 30, 2001 AND 2002

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. Current receivables and payables denominated in foreign currencies are translated at the year-end using current exchange rates.

For the year ended June 30, 2001, long-term receivables and payables denominated in foreign currencies were not revalued using the current rate at the balance sheet date but were translated using the foreign exchange rates prevailing at the transaction dates. Effective from July 1, 2000, the Company adopted the revised Accounting Standard for Foreign Currency Translation issued by the Business Accounting Deliberation Council ("BADC") of the Ministry of Finance ("MOF") in Japan in October 1999, and revalued all of its monetary assets and liabilities denominated in foreign currencies whether current or long-term at the exchange rates prevailing at the balance sheet date. The effect of the adoption of the revised accounting standard was not material to current income.

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 -
Prior to June 30, 2000, marketable securities listed on stock exchanges were stated at the lower of moving average cost or market value. Other securities were stated at moving average cost. When the fair value of individual securities fell below cost and such fall was judged to be a permanent impairment of value, the carrying value of the security was written down to fair value.

Effective from July 1, 2000, the Company adopted the new Accounting Standard for Financial Instruments issued by BADC in January 1999, which basically requires all financial assets and derivatives to be accounted for on a marked-to-market basis. In the years ended June 30, 2001 and 2002, in conformity with the new accounting standard, 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.

As a result of the adoption of the new accounting standard, "Net income before income taxes and minority interests in net income of consolidated subsidiries" for the year ended June 30, 2001 increased by ¥111 million compared with the amount that would have been reported if the previous method had been applied consistently.

(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.

Prior to June 30, 2000, with respect to the non-contributory defined benefit funded pension plans, contributions were charged to income when paid, and with respect to the severance indemnities plans, accrued severance indemnities were stated at 100% or 40% of the amount that would be payable if all employees voluntarily terminated their employment with Company at the balance sheet date.

Effective from July 1, 2000, the Company adopted the new Accounting Standard for Employers' Accounting for Pensions issued by BADC in June 1998 that requires employers to recognize and compute 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. In conformity with the new accounting standard, the Company recognized ¥3,425 million as a transition liability at July 1, 2000, 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. Due to adoption of the new accounting standard, "Income before income taxes and minority interests in net income of consolidated subsidiaries" for the year ended June 30, 2001 decreased by ¥249 million compared with the amount that would have been reported if the previous method had been applied consistently.

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.

(17) Reclassification -
Certain accounts in the consolidated financial statements for the year ended June 30, 2001 have been reclassified to conform to the 2002 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 ¥119= U.S.$1, the approximate rate of exchange on June 30, 2002, 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, 2001 and 2002, are reconciled to "Cash on hand and in banks" per the consolidated financial statements as follows -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash on hand and in banks	¥10,479	¥10,842	$91,109
Time deposits with maturity over three months	(375)	(452)	(3,798)
Cash and cash equivalents	¥10,104	¥10,390	$87,310

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 'held-to-maturity debt securities' and 'other securities' are as follows -

	Millions of yen		
	2001		
	Cost	Fair value	Unrealized gains/ (losses)
Held-to-maturity debt securities			
Bonds with unrealized gains	¥20	¥20	¥0
Other securities			
Equity securities with unrealized gains	633	782	149
Equity securities with unrealized losses	1,356	1,173	(183)
	¥2,009	¥1,975	(¥34)

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

	Thousands of U.S. dollars		
	2002		
	Cost	Fair value	Unrealized gains/ (losses)
Held-to-maturity debt securities			
Bonds with unrealized gains	$ -	$ -	$ -
Other securities			
Equity securities with unrealized gains	1,596	1,991	394
Equity securities with unrealized losses	10,394	8,117	(2,277)
	$11,991	$10,109	($1,882)

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, 2001 and 2002 were ¥165 million and ¥573 million (US$4,815 thousand), respectively.

At June 30, 2002, the aggregate annual maturities of debt securities classified as 'held-to-maturity debt securities' and 'other securities' are as follows -

	As of June 30, 2002	
	2002	
	Millions of Yen	Thousands of U.S. dollars
Due within 1 year	¥18	$151
Due after 1 year through 5 years	2	16
Due after 5 years	-	-
	¥20	$168

Realized gains and losses on the sale of 'other securities' during the year ended June 30, 2001 and 2002 were as follows -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Sales proceeds	¥166	¥14	$117
Gains on sale of securities	73	2	16
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, 2001 and 2002, were as follows -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Held-to-maturity debt securities	¥36	¥20	$168
Other securities			
Unquoted stock securities	508	577	4,848

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

"Short-term borrowings" at June 30, 2001 and 2002 comprised loans from banks amounting to ¥38,319 million and ¥33,089 million (US$ 278,058 thousand), with weighted average interest rates of 1.1% and 1.1% per annum at June 30, 2001 and 2002, respectively.

"Long-term debt" at June 30, 2001 and 2002 comprised the following -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Loans, principally from banks due from July 2, 2002 to April 28, 2011, with weighted average interest rates of 1.6% and 1.5% per annum at June 30, 2001 and 2002:			
Secured	¥12,239	¥11,983	$100,697
Un secured	10,064	21,845	183,571
No.2 mortgage bonds, 1.9%, due 2005	900	900	7,563
No.3 mortgage bonds, 1.8%, due 2005	900	900	7,563
No.4 mortgage bonds, 1.65%, due 2005	500	500	4,201
No.5 mortgage bonds, 1.7%, due 2004	500	500	4,201
No.6 mortgage bonds, 1.6%, due 2005	200	200	1,680
	25,303	36,828	309,478
Less:			
Portion due within one year	3,100	9,802	82,369
	¥22,203	¥27,026	$227,109

At June 30, 2001 and 2002, 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
	2001	2002	2002
Factory foundation:			
Land	¥267	¥267	$2,243
Buildings and leasehold	172	141	1,184
Other	80	67	563
	519	475	3,991
Land	4,391	4,391	36,899
Buildings and leasehold	2,386	2,289	19,235
Investment securities	93	38	319
	¥7,389	¥7,193	$60,445

The aggregate amounts of annual maturities of "Long-term debt" at June 30, 2002, were as follows -

	Millions of Yen	Thousands of U.S. dollars
Year ending June 30:		
2003	¥9,802	$82,369
2004	7,882	66,235
2005	6,374	53,563
2006	5,421	45,554
2007 and thereafter	7,349	61,756
	¥36,828	$309,478

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, 2001 and 2002 amounted to ¥6,496 million and ¥5,015 million (US$42,142 thousand), respectively.

8. Pension and severance plans:

"Accrued pension and severance costs" stated in the consolidated balance sheets as at June 30, 2001 and 2002 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, 2001 and 2002 is shown as follows -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Projected benefit obligation	(¥13,508)	(¥14,827)	($124,596)
Fair value of plan assets	4,899	5,099	42,848
Unfunded benefit obligation	(8,609)	(9,728)	(81,747)
Unrecognized transition amount upon initial application of the new accounting standard	3,082	2,739	23,016
Unrecognized actuarial loss	289	865	7,268
Net amount	(5,238)	(6,124)	(51,462)
Prepaid pension cost	57	65	546
Accrued retirement benefits	(¥5,295)	(¥6,189)	($52,008)

Components of the net periodic pension and severance costs for the years ended June 30, 2001 and 2002, are analyzed bellow -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service cost	¥1,009	¥1,137	$9,554
Interest cost	271	286	2,403
Expected return on plan assets	(117)	(114)	(957)
Amortization of net transition amount existing at July 1, 2000 upon initial application of the new accounting standard	343	343	2,882
Amortization of unrecognized actuarial differences	-	25	210
Net pension and severance costs	¥1,506	¥1,677	$14,092

The assumptions used in calculation of the above information for the years ended June 30, 2001 and 2002 are as follows -

	2001	2002
Discount rate	3.0%	2.5~3.0%
Expected rate of return on plan assets	1.0~3.0%	1.0~3.0%
Amortization of unrecognized actuarial gain/loss	10 years	10 years
Amortization of transition amount	10 years	10 years

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, 2001 and 2002 amounted to ¥952 million and ¥1,090 million (US$9,159 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, 2001 and 2002.

At June 31, 2001 and 2002, the significant components of deferred tax assets and liabilities were as follows -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Accrued business taxes	¥252	¥91	$764
Devaluation loss on inventories	1,138	1,252	10,521
Accrued bonuses	224	258	2,168
Accrued warranty costs	699	555	4,663
Accrued pension and severance costs	1,447	1,906	16,016
Tax loss carry forwards	1,060	1,849	15,537
Devaluation loss on investment securities	210	273	2,294
Other	534	705	5,924
Gross deferred tax assets	5,564	6,889	57,890
Less: valuation allowance	(955)	(1,894)	(15,915)
Total deferred tax assets	4,609	4,995	41,974
Deferred tax liabilities:			
Allowance for doubtful accounts	(32)	(29)	(243)
Special reserve for income tax deferred	(271)	(259)	(2,176)
Other	(9)	(4)	(33)
Gross deferred tax liabilities	(312)	(292)	(2,453)
Net deferred tax assets	¥4,297	¥4,703	$39,521

For the years ended June 30, 2001 and 2002, a reconciliation between the normal statutory income tax rate and the effective income tax rate is as follows -

	2001	2002
Normal statutory income tax rate	41.7%	41.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	1.5	8.2
Non-taxable portion of dividend income	(1.5)	(9.8)
Unrecognized income taxes in prior year	(7.9)	-
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	(3.0)	(8.1)
Other	(1.1)	4.4
Effective income tax rate	29.7%	82.5%

10. Contingent liabilities:

Contingent liabilities for guarantees given for loans borrowed by an unconsolidated subsidiary amounted to ¥2 million (US$16 thousand) at June 30, 2002. The Company was also contingently liable for outstanding notes discounted in the ordinary course of business in the amount of ¥2,281 million (US$19,168 thousand) at June 30, 2002.

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, 2001 and 2002 are as follows -

	Millions of yen		
	2001		
	Contract price	Fair value	Gains/ (losses)
Foreign exchange forward contracts:			
- Sell			
U.S. dollars	¥488	¥540	(¥52)
- Buy			
U.S dollars	829	850	21
	-	-	(¥31)
Interest rate options:			
Cap - call	¥200	¥200	(¥4)

	Millions of yen		
	2002		
	Contract price	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
Interest rate options:			
Cap - call	¥200	¥200	(¥3)

	Thousands of U.S. dollars		
	2002		
	Contract price	Fair value	Gains/ (losses)
Foreign exchange forward contracts:			
- Sell			
U.S. dollars	$4,789	$4,697	$100
- Buy			
U.S dollars	2,731	2,605	(126)
Euro	3,857	3,924	67
	-	-	$42
Interest rate options:			
Cap - call	$1,680	$1,680	($25)

12. Retained earnings:

The following appropriations of retained earnings of the Company at June 30, 2002, which have not been reflected in the accompanying consolidated financial statements, were approved at the ordinary general meeting of shareholders held on September 27, 2002.

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends - ¥7.00 ($0.05) per share, applicable to 2002 year-end	¥227	$1,907
Bonuses to directors and statutory auditors	-	-
	¥227	$1,907

13. Leases:

Finance lease charges for the Company for the years ended June 30, 2001 and 2002 were ¥769 million and ¥811 million ($6,815 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, 2001 and 2002 comprised the following (in equivalent amounts) -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Machinery and equipment	¥2,161	¥1,938	$16,285
Other	2,076	2,400	20,168
Accumulated depreciation	(1,959)	(1,860)	(15,630)
	¥2,278	¥2,478	$20,823

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Depreciation	¥769	¥811	$6,815

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, 2001 and 2002 are as follows -

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Current obligation	¥655	¥688	$5,781
Long-term obligation	1,623	1,790	15,042
Future lease payments	¥2,278	¥2,478	$20,823

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, 2001				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥125,700	¥21,732	¥147,432	¥ -	¥147,432
Intersegment	260	3,683	3,943	(3,943)	-
Total	125,960	25,415	151,375	(3,943)	147,432
Operating expenses	117,593	24,693	142,286	(4,027)	138,259
Operating profit (loss)	¥8,371	¥718	¥9,089	¥84	¥9,173

	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

	Thousands of U.S. dollars — Year ended June 30, 2002				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	$903,579	$156,327	$1,059,907	$ -	$1,059,907
Intersegment	1,092	21,747	22,840	(22,840)	-
Total	904,672	178,075	1,082,747	(22,840)	1,059,907
Operating expenses	881,983	183,042	1,065,025	(24,243)	1,040,781
Operating profit (loss)	$22,689	($4,966)	$17,722	$1,403	$19,126

Identifiable assets, depreciation and amortization and capital expenditure:

	Millions of yen — Year ended June 30, 2001				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥155,683	¥23,260	¥178,943	¥2,429	¥181,374
Depreciation and amortization	3,126	548	3,674	(-)	3,674
Capital expenditure	11,750	896	12,646	(-)	12,646

	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

	Thousands of U.S. dollars — Year ended June 30, 2002				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	$1,149,361	$182,941	$1,332,310	$14,546	$1,346,857
Depreciation and amortization	31,033	4,899	35,932	(-)	35,932
Capital expenditure	86,815	6,756	93,571	(-)	93,571

Notes:

1. As discussed in Note 2 (12), effective from July 1, 2000, the Company adopted the new Accounting Standard for Employers' Accounting for Pensions. As a result of the adoption of the new accounting standard, "Operating expenses" of "Vacuum-related business" and "Other business" segments for the year ended June 30, 2001 decreased by ¥128 million and ¥122 million, respectively.
2. As discussed in Note 2 (4), effective from July 1, 2000, the Company adopted the new Accounting Standard for Financial Instruments. There was no effect on the segment information as a result of the adoption of this new accounting standard.
3. As discussed in Note 2 (2), effective from July 1, 2000, the Company adopted the revised Accounting Standard for Foreign Currency Translation. As a result of the adoption of the revised standard, "Identifiable assets" in the "Vacuum-related business" and "Other business" segments at June 30, 2001 decreased by ¥172 million and ¥118 million, respectively.

(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, 2001				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	¥34,228	¥1,676	¥236	¥12	¥36,152
Consolidated sales					147,432
Percentage of consolidated sales	23.2%	1.1%	0.2%	0.0%	24.5%

	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%

	Thousands of U.S. dollars — Year ended June 30, 2002				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	$304,546	$17,621	$2,630	$277	$325,075
Consolidated sales					1,059,907
Percentage of consolidated sales	28.7%	1.7%	0.2%	0.0%	30.6%

Report of Independent Accountants

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, 2001 and 2002, 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, 2001 and 2002, 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 described in Notes 2 (2), (4) and (12) to the consolidated financial statements, effective from the year ended June 30, 2001, ULVAC, Inc. and its consolidated subsidiaries have adopted new Japanese accounting standards for employers' accounting for pensions and financial instruments, and the revised accounting standard for foreign currency translation.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Yokohama, Japan
September 27, 2002

BOARD OF DIRECTORS

as of September 27, 2002

President and CEO,
Dr.Kyuzo Nakamura

Representative and Senior Managing Director,
Hidenori Suwa

Managing Director,
Hisaharu Obinata

Managing Director,
Dr.Hiroyuki Yamakawa

Managing Director,
Yuzo Sakurada

Director,
Shizuo Nakamura

Director,
Yoshihiro Tsunemi

Director,
Shigechika Ishihara

Director,
Yoshio Sunaga

Director,
Shigeto Kobayashi

Director,
Shigeru Amano

Director,
Toshihiro Kashiwagi

Director,
Takashi Fukuda

Director,
Masashi Makino

Director,
Mitsutoshi Kimura

Auditor,
Masanori Watanabe

Auditor,
Katsuo Tsunashima

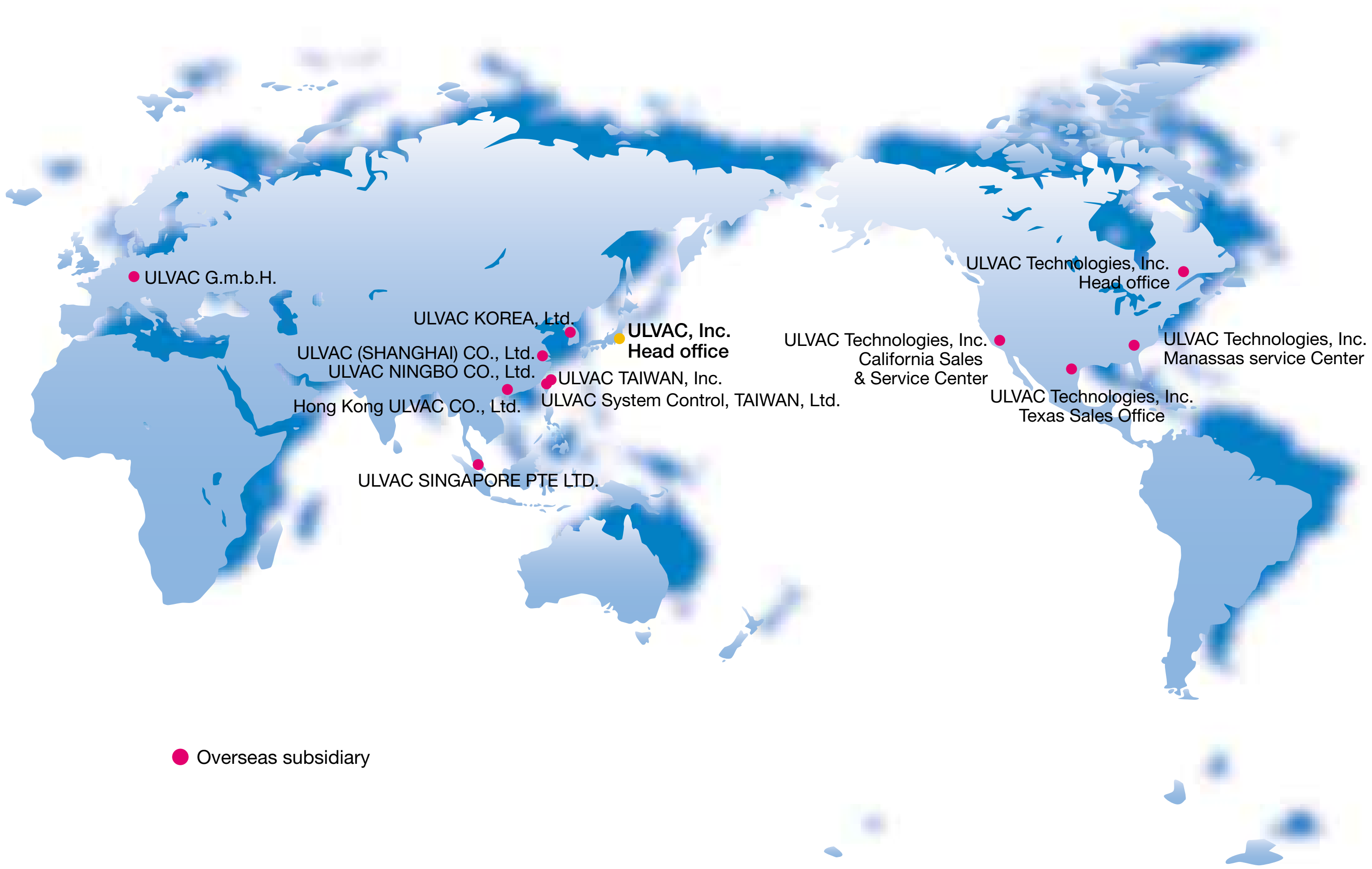
Auditor,
Hiroshi Onishi

CONSOLIDATED SUBSIDIARIES

as of September 27, 2002

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

LOCATIONS



CORPORATE OUTLINE

as of June 30, 2002

Trade name:
ULVAC, Inc.

Trademark:
ULVAC

Head office address:
2500 Hagisono, Chigasaki,
Kanagawa Prefecture, Japan

Date of establishment:
23 August 1952

Capital:
JPY3,850,000,000

Number of employees:
1,186

URL:
http://www.ulvac.co.jp

Stocks (as of 30 June 2002)

Total number of issue shares:
80,000,000

Total number of outstanding shares:
32,428,438

Number of shareholders:
968

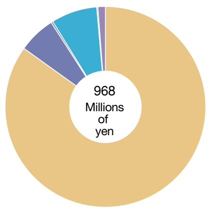
Settlement day:
30 June
(determined by shareholders receiving dividends)

Regular general meeting of shareholders:
late September

Major shareholders

Name	Holdings (thousands of shares)	Interest (%)
Matsushita Electric Industrial Co., Ltd.	3,582	11.04
Nippon Life Insurance Company	3,242	9.99
Association of Employee Shareholders of ULVAC	2,402	7.40
Shinseiwa Real Estate Co., Ltd.	1,718	5.29
Mizuho Bank, Ltd.	1,621	4.99
UFJ Bank, Ltd.	1,621	4.99
Mitsui Asset Trust and Banking Co., Ltd.	1,621	4.99
Inabata & Co., Ltd.	869	2.68

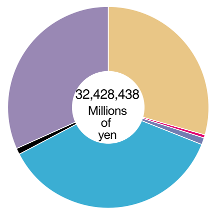
Breakdown of stocks by type of holder
(unit: Millions of yen)



- Japanese individuals and other entities
  822 (84.9%)
- Non-Japanese individuals
  58 (6.0%)
- Non-Japanese corporate entities
  3 (0.3%)
- Other (Japanese) corporate entities
  71 (7.4%)
- Securities firms
  2 (0.2%)
- Financial institutions
  12 (1.2%)

TOTAL
968 (100%)

Breakdown of stocks by volume held
(unit: Millions of yen)



- Japanese individuals and other entities
  9,523,986 (29.4%)
- Non-Japanese individuals
  171,935 (0.5%)
- Non-Japanese corporate entities
  360,800 (1.1%)
- Other Japanese corporate entities
  11,786,372 (36.3%)
- Securities firms
  306,840 (1.0%)
- Financial institutions
  10,278,505 (31.7%)

TOTAL
32,428,438 (100%)

http://www.ulvac.co.jp

ULVAC, Inc.

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