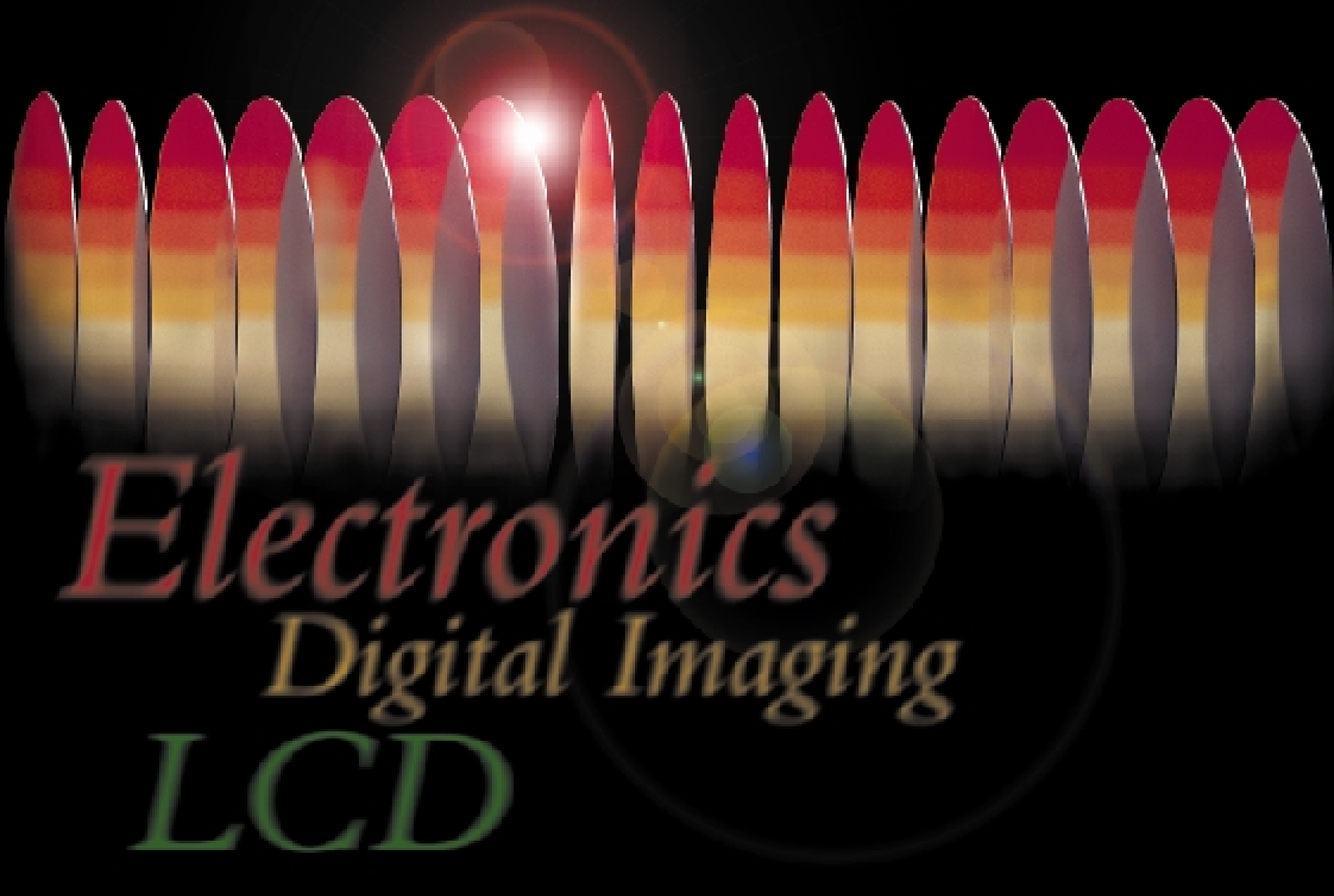
SCREEN

Annual Report 2001

Year Ended March 31, 2001



DAINIPPON SCREEN MFG. CO., LTD.

Profile

Dainippon Screen *has expanded its operations based on core technologies developed over the years. These technologies include image recognition, image processing, image transfer, and exposure.*

Using these core technologies, the Company is developing its business in three categories.

The first category includes the semiconductor, liquid crystal display (LCD) and printed circuit board (PCB) production equipment businesses that form the core of information technology (IT) societies.

The second is the cathode-ray tube (CRT) mask business category that sustains production of CRT monitors capable of high-quality image display.

And the third of these is the media technology business, which offers prepress equipment and accelerates the adoption of IT by the printing industry by providing the necessary high-speed networking service and digital printing equipment.

The Company's business activities are aimed at expanding and diversifying the modes of communication to enable the creation of information-based societies.

Dainippon Screen's Major Product Lines

Equipment and Components for the Electronics Industry:

Wafer processors for semiconductor production, including equipment for cleaning, photoresist coating, developing, etching, annealing, stripping, and wafer surface inspection and measurement systems; glass substrate-surface processors for LCD production, including equipment for cleaning, photoresist coating, exposing, developing, etching, and stripping; PCB production systems, including equipment for computer aided manufacturing (CAM) systems, plotting, exposing, pattern measuring, and pattern inspecting; shadow masks; aperture grilles

Equipment for the Graphic Arts Industry:

Prepress systems for page makeup, retouch, and output calculation; scanners; film recorders; plate recorders; on-demand printing equipment; digital printing equipment; gravure systems; fonts; computers for DTP; film and offset plate processors; step-and-repeat machines; network service

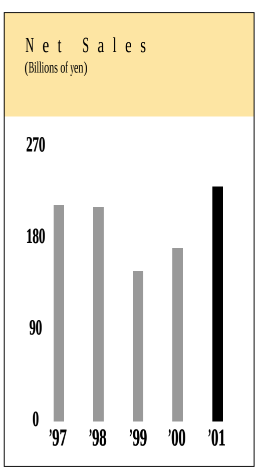
Contents

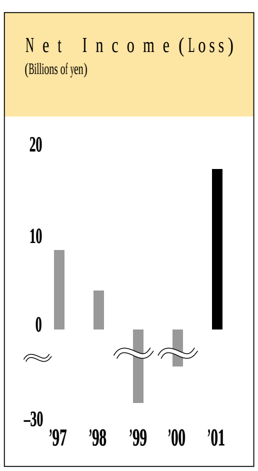
Consolidated Financial Highlights

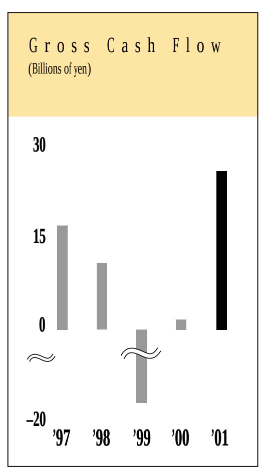
Dainippon Screen Mfg. Co., Ltd., and Subsidiaries
Years ended March 31

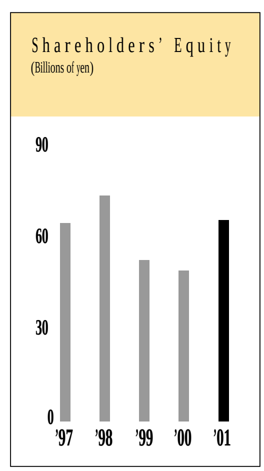
	Millions of Yen					Thousands of U.S. Dollars	Percent Change
	2001	2000	1999	1998	1997	**2001**	**2001/2000**
Net Sales	**¥242,726**	¥174,812	¥147,603	¥221,747	¥223,908	**$1,957,468**	**38.8%**
Operating Income (Loss)	**23,903**	(4,628)	(18,252)	11,022	22,301	**192,766**	**—**
Net Income (Loss)	**17,806**	(7,029)	(26,084)	4,002	9,323	**143,597**	**—**
Capital Expenditures	**6,256**	4,172	9,737	18,516	12,466	**50,452**	**50.0**
R&D Expenses	**9,960**	9,051	11,978	15,253	12,451	**80,323**	**10.0**
Gross Cash Flow	**25,340**	1,217	(16,708)	12,187	17,470	**204,355**	**1,982.2**
Total Assets	**301,784**	256,596	240,618	275,192	284,872	**2,433,742**	**17.6**
Shareholders' Equity	**69,099**	50,630	54,296	78,480	66,913	**557,250**	**36.5**
	Yen					U.S. Dollars	Percent Change
Per Share of Common Stock:							
Net Income (Loss)	**¥ 97.20**	¥ (40.00)	¥ (149.89)	¥ 23.39	¥ 56.76	**$ 0.78**	**—%**
Cash Dividends	**5.00**	—	—	7.00	7.00	**0.04**	**—**
Shareholders' Equity	**369.54**	286.51	312.02	450.99	405.78	**2.98**	**29.0**
	Percent						Percentage-Point Change
Equity Ratio	**22.9%**	19.7%	22.6%	28.5%	23.5%		**3.2%**
Return on Equity	**29.7**	–13.4	–39.3	5.5	14.9		**43.1**
Return on Total Assets	**6.4**	–2.8	–10.1	1.4	3.4		**9.2**

Notes: 1. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥124 to US$1, the approximate exchange rate on March 31, 2001.
2. Fiscal years herein are designated as the calendar year in which the business term ended. Thus, the fiscal year ended March 31, 2001, is noted as fiscal 2001.
3. Net income (loss) per share of common stock is calculated based on the weighted average number of shares outstanding during each term, excluding the Company's treasury stock and holdings by consolidated subsidiaries. Shareholders' equity per share of common stock is calculated based on the fiscal year-end total number of shares outstanding, excluding the Company's treasury stock and holdings by consolidated subsidiaries.
4. Return on equity and return on total assets are calculated on the basis of average shareholders' equity and average total assets, respectively, of the current and previous fiscal year-ends.









Review of Business Performance in the 1990s

"Respond Quickly to Advances in Technology." Looking back over the last decade of the 20th century, we can grasp just how relevant these words are. Dainippon Screen's remarkable business success in the 1990s can be seen as a direct result of the Company's ability to respond swiftly to advances in technology.

Electronics plays an increasingly vital role in today's world. The technologies underlying such key areas as the cleaning, etching, and photoresist-coating processes used to manufacture semiconductors and liquid crystal display (LCD) panels continue to advance at an unprecedented speed and scale. Dainippon Screen has taken a leading role in the industry, buoyed by its ability to predict future trends and implement an aggressive program in research and development designed to keep pace with those trends.

Akira Ishida
Chairman and President

Dainippon Screen now leads the industry in developing new products and systems for semiconductor and LCD panel production. These include equipment for processing 300-millimeter semiconductor wafers and for processing fourth-generation-size (680 by 880 millimeters to 800 by 950 millimeters) glass substrates for LCD panels. Both product lines have earned wide acclaim throughout the industry.

As a result of this success, the Company's semiconductor and LCD panel production equipment now serves as the mainstay in overall company sales, despite the fluctuating business cycle that traditionally characterizes the overall electronics market.

New advances in technology have also unleashed a fresh wave of digitization in the graphic arts field, which supported the growth of Dainippon Screen. Desktop publishing, for example, has significantly shortened the printing process and reduced the number of devices required. This, in turn, has downsized equipment and lowered prices and radically transformed the market in both structure and scale. The fast-growing Internet allows the transmission of data and information in a variety of new forms. Accordingly, the value and structure of the printing industry, based conventionally on mass production, are facing unprecedented change. Dainippon Screen has focused on developing innovative technology and products for this new business world, including computer-to-plate (CTP) related products to maintain and expand the market for prepress equipment and digital printing systems to explore the new market. However, unexpected results in sales of digital printing systems due to the transitional stage in the development of this market and the slow recovery in the domestic market, our main market, created a harsh business environment.

Back in the early 1990s, it was impossible for anyone to foresee just how dramatically technology would change. For us, the key in such circumstances is to respond quickly and appropriately to emerging technologies. Clearly, it is the Company's ability to adapt that will determine its success.

The Company's strategy will be to further refine current core technology while pursuing its own vision of the future and responding energetically to the changes ahead.

In this sense, the 1990s taught us many valuable lessons. Now, at the dawn of a new decade and century, it is vital that we apply those lessons wisely to our present and future business activities. The success of these efforts will hinge largely on our ability to combine our core technology with external technical resources and approach R&D with renewed vigor. (These efforts are discussed in more detail later in this message.) It is only through such an approach that Dainippon Screen will be able to move in step with tomorrow's rapid advances in technology and seize business opportunities as they arise.

Review of Fiscal 2001

In last year's annual report, we were able to announce success in establishing a basis for developing our future growth potential. In keeping with this prediction, we witnessed historical highs in both overall sales and profits for fiscal 2001 (ended March 31, 2001). Net sales climbed 38.8% from the previous year to ¥242.7 billion, while operating income rose to ¥23.9 billion, compared with an operating loss of ¥4.6 billion a year earlier. Net income jumped sharply from ¥7.0 billion in the red the previous year to ¥17.8 billion in the black this year.

Looking at individual operations, the Electronic Equipment and Components Division, whose main business is the manufacture of semiconductor and LCD production equipment, built upon the modest recovery achieved in the previous fiscal year to post remarkable growth. In other principal areas, the Graphic Arts Division, whose main business is the manufacture of printing-related equipment, saw results fall below those of the previous fiscal year.

Impressive Results from the Electronic Equipment and Components Division

Net sales of the Electronic Equipment and Components Division for fiscal 2001 rose to ¥189.9 billion, up 55.8% over the previous year, while operating income expanded to ¥26.6 billion. In response to increased global investment in information technology (IT), semiconductor and LCD manufacturers invested heavily in plants and facilities, creating a wave of unprecedented growth in the semiconductor and LCD production equipment markets.

In semiconductor production equipment, such leading products as coater/developer units and cleaning equipment posted particularly healthy sales gains. Cleaning equipment, including multi-bath wet stations and single-bath wet stations, registered strong sales to semiconductor manufacturers both in Japan and overseas. Dainippon Screen's FC-3000 cleaning equipment, designed for 300-millimeter semiconductor wafers, earned recognition throughout the industry and has become the top-selling batch-type cleaning equipment in its class, we believe. In LCD production equipment, our 750 series, which is geared to processing of fourth-generation glass substrates—launched ahead of our competitors—saw growing sales as the LCD market moved toward larger LCD panels. Dainippon Screen has sold a number of 750 series systems, which provide equipment consistently for the cleaning, photoresist coating, developing, etching, and removal processes, to major LCD panel manufacturers in South Korea, Taiwan, and Japan. In the area of LCD production equipment, the 750 series has helped us significantly increase our share of the coater/developer market. In the printed circuit board (PCB) production equipment market, Dainippon Screen achieved only a modest rise in sales. This was due to intensifying competition in the domestic market, our main market, for automated optical inspection (AOI) systems, our mainstay line.

Both the semiconductor and LCD businesses are expected to remain in the down cycle during fiscal 2002. The Company is now taking vigorous action to raise quality, reduce costs and implement other measures to sustain profitability. Despite the anticipated down cycle, a number of manufacturers are maintaining their plans to invest in 300-millimeter wafer production. This is fueling strong hopes that the Company can increase sales of the FC-3000 and other 300-millimeter wafer production equipment. A new plant for manufacturing cleaning equipment for 300-millimeter wafers, the Fab. FC-1, began operation in March 2001 and will be used to expand production. At the same time, in the LCD production equipment segment the Company will seek to boost sales of the popular 750 series and work to commercialize new equipment for processing the next-larger-size LCD glass substrates.

For detailed forecasts of coming trends in the LCD and semiconductor production equipment markets, please refer to the interviews with Masanari Tsuda, Corporate Executive Officer in Charge of the Electronics Equipment Division, and Nobutoshi Ogami, Corporate Executive Officer in Charge of the Semiconductor Equipment Division. Their interviews can be found on pages 8 to 13 of this report.

CRT Mask Business Consolidated to Raise Efficiency

To improve production efficiency, Dainippon Screen Mfg. Co., Ltd. consolidated its cathode-ray tube (CRT) mask business in a subsidiary, DST Micronix Co., Ltd. (DSTM), on April 1, 2001. The move followed several years of rapidly declining prices for CRT masks, which have seriously affected the profitability of the CRT mask business. Price competition from quickly expanding sales of LCDs for the PC market added downward pressure on CRT product sales. Dainippon Screen Mfg. Co., Ltd. had already sought to improve profitability by transferring personnel to other departments and cutting materials costs, but determined that further restructuring was needed to bring costs in line with current market price realities. The solution was to consolidate the CRT mask business in our subsidiary, DSTM.

Prior to the consolidation, Dainippon Screen Mfg. Co., Ltd. and DSTM produced CRT masks separately. Production will now be undertaken by the more efficient DSTM, with the bulk of production being shifted to the Takaoka Plant, where high-capacity utilization has helped to lower production costs. Dainippon Screen Mfg. Co., Ltd. has taken steps to reduce the division’s original staff through transfer to other departments and a voluntary retirement program.

While incurring a restructuring loss of ¥2.2 billion for fiscal 2001, the Company will benefit from being able to boost sales of high-value-added products such as large, flat, finer-resolution masks, and from the resulting improvements in production efficiency and reduction in fixed expenses. We expect to see improved results in the CRT mask business in fiscal 2002, owing to stronger product development capabilities and improved marketing strategies as we enter the digital broadcasting era.

Graphic Arts Division to Incorporate IT

During fiscal 2001, the Graphic Arts Division saw a drop in sales of 0.8% from the previous year, to ¥50.9 billion. The operating loss for the same period amounted to ¥2.9 billion.

In recent years, remarkable progress in the fields of computer and digital technology has led to a reduction in the numbers, size, and prices of print-related equipment, bringing many changes to the graphic arts business. Nonetheless, as a result of the world's largest printing equipment exhibition, drupa 2000, held in Germany last May, as well as alliances with other firms, the Company was able to boost its sales overseas. Conditions in the domestic market, however, remained harsh. Looking at individual product areas, Dainippon Screen succeeded in expanding sales of computer-to-plate (CTP) related products. Increased digital capabilities and greater awareness of the benefits of investing in this process helped to bolster sales of CTP products, but sales of other products remained lackluster.

Our prime objective in the Graphic Arts Division is to establish a system of operations capable of generating profits during fiscal 2002. To help meet this objective, the Company will expand the scope of its operations beyond prepress equipment to include IT. In line with this new direction, the Graphic Arts Division has been renamed the Media Technology Division. Specific measures will include building a stronger network business, bolstering development capabilities for digital presses, such as the TruePress V200, the world's fastest plateless printing machine; and configuring a digital workflow structure for the system solutions business. In the prepress equipment business, Dainippon Screen will expand its lineup of CTP products for which there is a growing market to increase sales, as well as look at entering into strategic alliances with other firms. To boost customer satisfaction, service operations have been consolidated in subsidiaries that specialize in providing services in the domestic market. The Company is also implementing a system of sales agents to improve marketing efficiency. These measures will help us reduce marketing costs and meet our basic targets.

Building a New Era of Growth Based on Core Technologies

An industry observer has stated that the 21st century will not be simply a continuation of the 20th century, but rather a completely new age. The Company's vision for the next 10 years supports this viewpoint. One decade from now, Dainippon Screen must take on a form built upon new horizons rather than simply embodying a continuation of current activities. To understand the necessity for change, one needs only to look at the profound ways in which the business and technology landscapes have changed in the past 10 years.

What are these new horizons? They will encompass new endeavors based on none other than the core technologies the Company has developed over the years, including image recognition, image processing, image transfer, exposure, and others. A major theme in Japan today involves developing the types of industries that will lead the world in the 21st century. Dainippon Screen's core technologies can play a vital role in this evolution. For example, experts believe that, in the years ahead, the shrinking of semiconductor elements using finer-resolution designs will progress to the nanometer level (one-billionth of a meter). This will require technology capable of inspecting extremely minute circuit patterns—an area in which Dainippon Screen's image processing technology could be of vital service. We feel strongly that in the 21st century we will see the image processing technology employed in printing today adapted for use in entirely new fields of industry.

Effective R&D efforts will be essential for Dainippon Screen to tap the full potential of its core technology. With the goal of fostering an atmosphere of unfettered innovation in its research staff, the Company has taken steps to reorganize the Research and Development Division. Staff members there, working completely independently of the product development teams at other business divisions, will be able to devote themselves fully to creating the new technology and products that will carry Dainippon Screen into the future. We also will draw on our core technology resources and pursue strategic alliances with other companies in the industry to develop our business.

Dainippon Screen succeeded in greeting the new century with the best business performance in its history. Nevertheless, the 21st century is as yet an unknown quantity and will bring many fresh challenges and unpredictable changes. Already we can see that it will be an era of intense competition. The Company's strategy will be to further refine current core technology while pursuing its own vision of the future and responding energetically to the changes ahead.

The ongoing revolution in information technology (IT) has triggered profound growth in communications devices, such as PCs and mobile phones, and hastened the advent of digital home electronic products. This, in turn, has spurred huge demand for liquid crystal displays (LCDs) and semiconductors. Sales of semiconductor production equipment and LCD production equipment accounted for a significant amount of Dainippon Screen's business in fiscal 2001. These businesses are expected to serve as the twin pillars of the Company's success in the 21st century.

LCD Production Equipment

Masanari Tsuda, Corporate Executive Officer in Charge of the Electronics Equipment Division

Dainippon Screen aims to capture the No. 1 position in the LCD production equipment market by quickly shifting the focus to production of larger glass substrates and adapting equipment to work with new materials as they appear.

Q: What is your current view of the LCD production equipment market?

• • • I estimate the LCD market in 2000 to be worth approximately ¥2 trillion. By 2005, the market is expected to grow to between ¥5 trillion and ¥6 trillion, with some experts predicting that it will reach ¥20 trillion by 2010. This gives you an idea of the explosive growth expected in the LCD market.

Two key factors underlie this growth. One is the increase in demand resulting from the many new applications for LCDs. Until recently, use of LCDs was limited mainly to mobile computers and to the small market for PCs with LCD monitors. The market has expanded considerably, however, and LCDs are now used in mobile phones, televisions, car navigation systems, and other products. Of these, mobile phones have had an especially strong impact on demand for LCDs. The number of mobile phones reached 400 million in 2000, and by 2005 the value of the market for mobile phone LCDs is expected to surpass that for PCs.

The second key factor behind the burgeoning demand in the LCD market is the growth in production bases. Whereas at one time production was centered mainly in Japan, it has now expanded to Taiwan and South Korea—and manufacturers there continue to invest heavily in facilities and equipment. This has provided an especially good opportunity for growth in our LCD production equipment business. For the year, we achieved a total sales figure for this business approximately double that of the previous year.

Q: To what do you attribute this large increase in LCD equipment sales?

• • • The primary factor, of course, is that LCD manufacturers invested aggressively in facilities and equipment. Most significant here was our early launch of the 750 series LCD production equipment, which gave us a jump on the market. Geared to production of the larger glass substrates, the 750 series quickly earned an excellent reputation across the industry.

The LCD market is moving swiftly toward larger glass substrates and higher precision. Competition is intensifying, particularly in the large glass substrate sector. Dainippon Screen dominated the initial generations of the LCD production equipment market. But the Company lost ground in the third-generation market for coater/developer units and saw sales drop off. This did not sit well with us, so we focused intensive efforts on developing products for the fourth generation.

These efforts have already borne fruit. Dainippon Screen launched products ahead of competitors that were adopted by LCD manufacturers in both South Korea and Taiwan as well as in Japan. And our new equipment has enjoyed tremendous acclaim. One LCD manufacturer praised us highly, as they were quickly able to get their equipment up and running and enjoyed high yields so soon after commencing operation. For all LCD manufacturers, of course, lowering production costs is a top priority. The 750 series has already earned a reputation across the industry as equipment that can help lower costs while offering the advantages of large substrate production and high yield.

The result is that Dainippon Screen has recaptured a significant portion of market share with its fourth-generation products.

Q: **What do you consider the main factors behind Dainippon Screen's success in the fourth-generation market?**

• • • I see three key factors. First is the unique "inclined substrate transfer system" we developed. In conventional production systems, the glass substrates are held in a horizontal position as the chemical solutions and pure water are applied. This requires a lot of nozzles and large volumes of fluid, and there is also the problem of puddles developing at the concave central area of the substrate. These puddles are susceptible to particle recontamination, which can result in a nonuniform application of chemicals.

Dainippon Screen's new inclined substrate transfer system overcomes these problems. The chemical solutions and pure water are applied to a substrate tilted to an optimal angle. The advantages are fewer nozzles, less fluid, and virtually no puddles left on the substrate. The new system also requires less chemical solution than previous systems, improves the particle recontamination rate, and achieves a more uniform application of chemicals.

The second key to our success is our use of the "slit and spin" photoresist coating method. Conventional systems use the "drip and spin" method. The coating is achieved by applying droplets of the photoresist solution to the center of the substrate; then spinning the substrate to force the solution outward. This method wastes more than 90% of the photoresist solution. The "slit and spin" method is much more cost-effective. First, a thin coating of the photoresist solution is applied to the substrate; then the substrate is spun. This provides a more uniform coating than the old method and uses less of the expensive photoresist solution. Operating costs are lower, and there is a reduced burden on the environment.

The third key factor involves stability of the transport system. Our LCD production systems are designed to transport large, thin glass substrates—these measure 800 by 950 millimeters and are just 0.7 millimeter thick—over distances of several dozen meters. While some companies use robots to transfer the substrates, Dainippon Screen has chosen the more stable roller-conveyor system. This advanced transport system reflects our long years of experience in the industry.

Q: **What do you see in the pipeline for the next generation of products?**

• • • Earlier I mentioned how Dainippon Screen has made significant headway in the market for fourth-generation products. We expect competition to be even more intense in the next generations. And we believe that three factors—time to market, cost reduction, and rate of yield—will separate the winners from the losers.

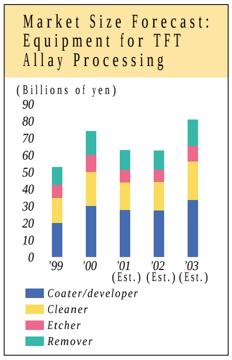
By time to market, I mean how quickly a company can bring its products to market. Because Dainippon Screen got the jump on competitors in the fourth-generation market, we were able to sell our production equipment to manufacturers in South Korea, Taiwan, and Japan. This success came as a direct result of our ability to quickly develop market-ready products. We have already begun focusing on developing the next generation of products, and expect to have good news to share in the not-too-distant future.

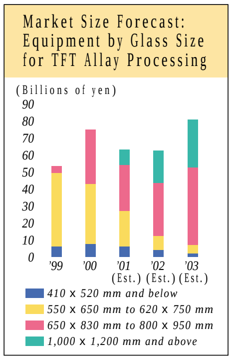
I mentioned cost reduction as the second factor. With prices for LCD panels falling fast across the board, manufacturers are moving quickly to reduce costs wherever possible. Now, a key part of our strategy is to refine and adapt our established fourth-generation technology to next-generation products.

The third factor is the rate of yield. Given the high praise received from customers, Dainippon Screen is very confident in this area. We will seek to build upon these and other strengths as we strive to maintain and expand our share of the market for next-generation glass substrate production equipment.

Q: What is the key equipment in an LCD production system?

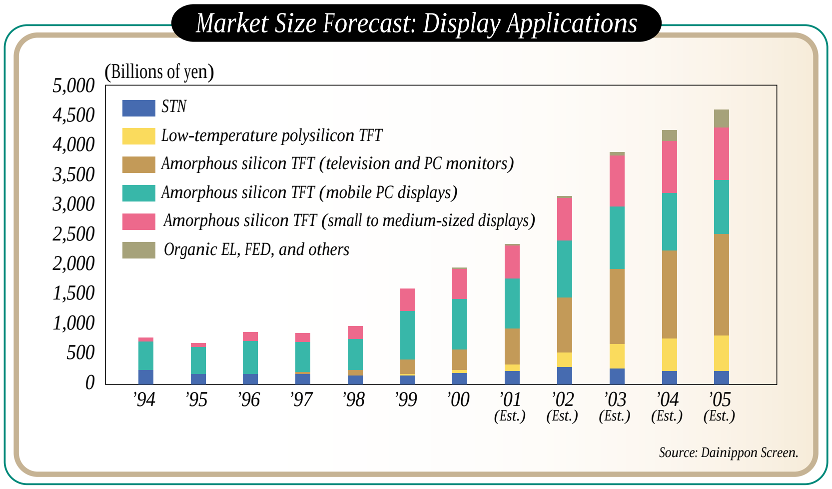
• • • I believe the key equipment in these systems is the coater/developer unit—equipment that is expensive among preprocess equipment. One strategy is to sell customers on the coater/developer unit, as they generally tend to buy the other upstream and downstream devices from the same vendor. We see coater/developer units as one of our strong points, given their excellent cost-performance and our advanced servicing technology. We firmly believe that focusing on sales of coater/developer units is a good strategy for maintaining and expanding our market share.


Market Size Forecast: Equipment for TFT Allay Processing


Market Size Forecast: Equipment by Glass Size for TFT Allay Processing

Q: Besides larger glass substrates, what important developments are you working on?

• • • There is a general trend in the flat-panel display market toward larger size. Our latest efforts are aimed at developing organic electro-luminescence (EL) technology and low-temperature polysilicon technology for use with small and medium-sized displays. Organic EL displays are based on the principle of applying electricity to create an electric field in a fluorescent compound, causing it to emit light. EL displays deliver brighter, sharper images than LCDs, provide smoother reproduction of moving images, and consume less power. Other advantages include their light weight and thin body.


Market Size Forecast: Display Applications

Source: Dainippon Screen.

The market for EL displays is expected to reach ¥200 billion by 2005. About three years ago, Dainippon Screen started marketing EL display production equipment to major manufacturers, some of whom have already commenced mass production. Our efforts in this area are focused on providing a full line of photolithography equipment, which will help us establish a central presence in the market and position us to expand sales.

Low-temperature polysilicon technology involves creating electrodes for thin film transistor (TFT) crystal displays using multi-crystal silicon instead of non-crystalline silicon (amorphous silicon). This new technology has several advantages, including its achievement of greater miniaturization of the liquid crystal modules and higher pixel density. It has enormous potential for devices such as mobile phones and mobile display devices. Display devices using this technology are scheduled for production by certain manufacturers both overseas as well as in Japan. Dainippon Screen will also be focusing closely on global markets.

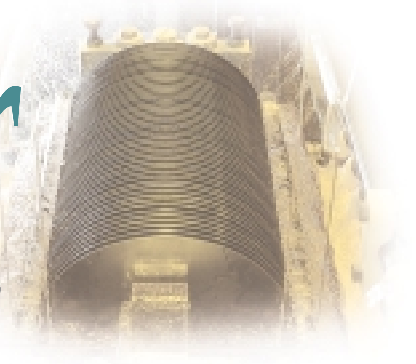
Q: What do you see in terms of future business?

• • • To drive a car, you need to know how to use both the accelerator and the brake. That's how I see the future. The market for flat-panel displays, including LCD types, is expected to see significant growth. But this growth must come through the diligent efforts of production equipment manufacturers, such as Dainippon Screen, to develop equipment for larger glass substrates and adapt equipment to work with new materials.

With competition to develop leading-edge technology accelerating, we need to keep our foot on the accelerator of R&D to capture the leading market share. But it is also true that the industry has been characterized by the boom-or-bust "crystal cycle," in which the market alternates between rapid growth and slowdown phases. This requires us to thoroughly review production costs, starting right from the design phase, find ways to lower the breakeven point by reducing our fixed costs and materials costs, and be ready to step on the brakes when we see a slow cycle approaching.

This careful and judicious balance between stepping on the accelerator and applying the brakes will keep Dainippon Screen in the driver's seat and on the road to future success.

Semiconductor Production Equipment



Nobutoshi Ogami, Corporate Executive Officer in Charge of the Semiconductor Equipment Division

The Semiconductor Production Equipment business remains a driving force behind the Company's success. The business expects to gain market share by strengthening its line of equipment for processing 300-millimeter wafers and its equipment used in back-end-of-line (BEOL) processes.

Q: Can you give us an overview of current conditions in the semiconductor production equipment market?

• • • Let me start by saying that in 2000, the market for semiconductor wafer processing equipment reportedly grew by nearly 90% from the previous year, to more than US$33 billion. This growth can be attributed to the expanding sales of such electronics sector devices as PCs and mobile phones, which, in turn, are boosting demand for semiconductor devices.

In the fiscal year ended March 31, 2001, Dainippon Screen also succeeded in expanding sales by responding quickly to market growth. The general view is that while difficulty in reducing excessive inventory will lead to a recession in the semiconductor device market, the market should continue to advance in the medium term and post annual double-digit gains over the next five years.

Looking at regional markets, we expect to see huge growth in China. This is because, in addition to China's own investment, semiconductor manufacturers in Taiwan, fresh from their success in the foundry business sector, will continue investing in domestic facilities while also looking to China as the next target for facilities and investment. Challenged by problems in key areas such as limits on available power generation capacity and a shortage of engineers, it is only natural that Taiwan's semiconductor industry should set its sights on China.

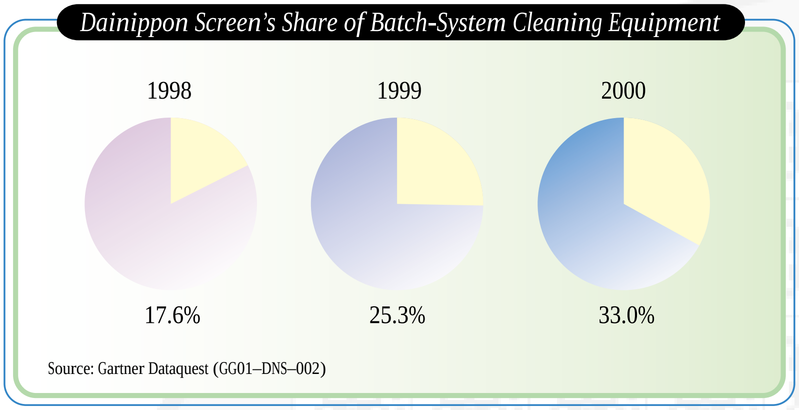
Growth in Asian markets will clearly serve as the foundation for future growth in sales of semiconductor production equipment.

The new factory, Fab. FC-1

Q: Please tell us about capital investment in equipment for processing 300-millimeter wafers, and Dainippon Screen's strategy in this area.

• • • Last year's annual report identified fiscal 2001 as an important time for marketing equipment for processing 300-millimeter wafers. Dainippon Screen's strategy has achieved some very positive results so far. Technical evaluations of our semiconductor production equipment for 300-millimeter wafers were completed in 1999, and the new equipment was installed on a pilot line in fiscal 2000 but has not yet commenced full-scale production. Nevertheless, we have finalized sales of this equipment line to major semiconductor manufacturers in North America, Taiwan, and Japan. And we have also received new orders for the equipment from two new North American semiconductor manufacturers in fiscal 2002.

The much-anticipated 300-millimeter wafer processing equipment market has finally begun to show real expansion. While overall investment in semiconductor production equipment is expected to slow in fiscal 2002, most customers are moving forward with plans to invest in 300-millimeter wafer production equipment, and this market is expected to see further growth.



Dainippon Screen's Share of Batch-System Cleaning Equipment

The cleaning equipment we designed for 300-millimeter wafers has received high acclaim throughout the industry. We employ a single-bath system derived from technology used in the multi-bath type wet station developed for earlier systems. Both domestic and overseas manufacturers praise our new system for its high cleaning efficiency, low operating cost, and space-saving design.

Q: How is Dainippon Screen performing in the area of coater/developer units?

• • • Unfortunately, we have not seen the same strong growth in terms of share in this area as in the cleaning equipment market. To remain competitive in the semiconductor production equipment field, it is vital to maintain the right balance between product quality, cost, and lead time. In its coater/developer units, Dainippon Screen is now focusing on reducing cost. With some of the cost issues already resolved, we expect to post stronger sales and increase our market share by 10 percentage points in the future.

Q: What measures is Dainippon Screen taking to keep pace with finer-resolution semiconductor chip design rules?

• • • Miniaturization technology is the key to the higher integration required to raise integrated circuit (IC) performance. Refining this technology is an ongoing challenge. While current standards are in the range of between 0.18 and 0.13-microns, some semiconductor manufacturers have already applied 0.13-micron technology in production of 300-millimeter wafers. Semiconductor manufacturers, along with projects that combine the resources of public- and private-sector organizations, are now laying the groundwork for 0.10-micron-level (100-nanometer) technology. After that, sights will be set on 70-nanometer and even 50-nanometer critical-level semiconductor chip features.

We see the trend toward finer-resolution chip design as a strategic opportunity, because advances in finer resolution will spur demand for sophisticated, high-efficiency cleaning systems. In the past, cleaning was seen as a secondary process. But as finer resolution becomes increasingly incorporated into design rules, cleaning becomes one of the key processes that determines yield. This has led to demand for cutting-edge cleaning technology, and customers are growing more aware of the quality differences in the technologies used by cleaning equipment vendors. To Dainippon Screen, this represents an opportunity to widen the gap between ourselves and our competitors.

Q: What is Dainippon Screen doing in the area of low-dielectric-constant insulation film technology?

• • • With the ongoing efforts to implement multi-layer wiring as a way of enhancing both performance and integration of ICs, the BEOL processes used to shape circuit lines have become a greater part of the semiconductor fabrication process.

Efforts are now under way to increase IC speed by using new materials in the BEOL process. One such effort involves using copper, with its higher conductivity, in place of aluminum as the circuit material. Another involves using new, low-dielectric-constant materials for the insulation film, rather than the silicon oxide film currently in use.

Traditionally, insulation film is created using a chemical vapor deposition (CVD) process, which employs a chemical reaction to deposit a layer of molecules. Attention is also now being focused on experiments using spin-on dielectric coaters (SOD coaters) to create insulation films by applying new insulating materials.

While the ideal material for creating insulation film has not yet been determined, this technology is valued for its ability to create films with lower dielectric constants.

We believe that our deep expertise and experience in coater/developer technology positions us to achieve strong sales in the SOD coater market.

Q: What are the current technical demands placed on the Company by semiconductor manufacturers?

••• Falling semiconductor prices have tightened market conditions considerably, and it is difficult for semiconductor manufacturers to invest heavily in technology development. In these circumstances, the semiconductor manufacturers increasingly expect production equipment manufacturers to develop new process technologies. Specifically, they want us to devise new solutions for the pre- and post-production processes.

You can take either of two approaches in this sort of situation. One is to try to develop total solutions independently. In fact, I know of some production equipment manufacturers that are taking this approach and using it as a selling point. I am skeptical of this approach, however, simply because a production equipment manufacturer can devise an effective total solution only if it can produce the same state-of-the-art products as the semiconductor manufacturer. Given today's swift pace of development, both parties must switch to next-generation products within three-year cycles. The production equipment manufacturer must invest enormous amounts of capital each generation to develop compatible leading-edge products—all the while knowing that it is extremely difficult to recover the investment during such a short life-cycle.

The second approach is to cooperate with semiconductor manufacturers and enter into strategic alliances with production equipment manufacturers that are strong in specific pre- and post-process areas and materials manufacturers. This is important because the cleaning process is used in both the pre- and post-processes on all semiconductor production lines, and Dainippon Screen's cleaning systems are highly regarded throughout the semiconductor industry as a very valuable asset. Strategic alliances in which members work together to develop total solutions—this approach will allow us more effective use of investments in R&D. Dainippon Screen has taken this alliance approach. We feel that it is the best way to expand business opportunities.

Q: What is your vision for the future?

••• I believe that the Semiconductor Equipment Division should serve as the Company's driving force for the foreseeable future. In the near term, I think we should focus our efforts in two key areas. One is to maintain and expand our large share of cleaning systems with the addition of high-profile 300-millimeter wafer production equipment. The other is to launch timely and successfully SOD coater systems capable of producing low-dielectric-constant insulation films in order to boost market share.

Consolidated Eleven-Year Summary

Dainippon Screen Mfg. Co., Ltd., and Subsidiaries
Years ended March 31

	2001	2000	1999	1998	1997
For the Year:					
Net sales	**¥242,726**	¥174,812	¥147,603	¥221,747	¥223,908
Cost of sales	**170,896**	133,641	114,086	148,110	143,853
Cost of sales to net sales (%)	**70.4%**	76.4%	77.3%	66.8%	64.2%
Operating income (loss)	**¥ 23,903**	¥ (4,628)	¥ (18,252)	¥ 11,022	¥ 22,301
Net income (loss)	**17,806**	(7,029)	(26,084)	4,002	9,323
Depreciation and amortization	**7,534**	8,246	9,376	8,185	8,147
Gross cash flow	**25,340**	1,217	(16,708)	12,187	17,470
Capital expenditures	**6,256**	4,172	9,737	18,516	12,466
R&D expenses	**9,960**	9,051	11,978	15,253	12,451
Per Share of Common Stock:					
Net income (loss)	**¥ 97.20**	¥ (40.00)	¥ (149.89)	¥ 23.39	¥ 56.76
Cash dividends	**5.00**	—	—	7.00	7.00
Shareholders' equity	**369.54**	286.51	312.02	450.99	405.78
At Year-End:					
Total assets	**¥301,784**	¥256,596	¥240,618	¥275,192	¥284,872
Return on total assets (%)	**6.4%**	–2.8%	–10.1%	1.4%	3.4%
Current assets	**¥214,756**	¥162,172	¥140,296	¥179,222	¥199,530
Property, plant and equipment, net	**50,351**	52,538	57,605	59,091	50,153
Current liabilities	**154,396**	127,114	95,979	130,926	152,808
Long-term debt	**74,067**	77,365	88,552	63,661	62,256
Shareholders' equity	**69,099**	50,630	54,296	78,480	66,913
Equity ratio (%)	**22.9%**	19.7%	22.6%	28.5%	23.5%
Return on equity (%)	**29.7%**	–13.4%	–39.3%	5.5%	14.9%
Common stock	**¥ 36,544**	¥ 33,100	¥ 32,196	¥ 32,196	¥ 27,783
Retained earnings (accumulated deficit)	**6,767**	(25,892)	(20,419)	3,765	1,019
Number of shares issued (in thousands)	**186,987**	176,713	174,018	174,018	164,903
Number of employees	**4,715**	4,672	4,685	4,882	4,666

Notes: 1. Dollar figures are translated, for convenience only, at the rate of ¥124 to US$1.
2. Net income (loss) per share of common stock is calculated based on the weighted average number of shares outstanding during each term, excluding the Company's treasury stock and holdings by consolidated subsidiaries. Shareholders' equity per share of common stock is calculated based on the fiscal year-end total number of shares outstanding, excluding the Company's treasury stock and holdings by consolidated subsidiaries.
3. Return on total assets and return on equity are calculated on the basis of average total assets and average shareholders' equity, respectively, of the current and previous fiscal year-ends.

Millions of Yen						Thousands of U.S. Dollars
1996	1995	1994	1993	1992	1991	2001
¥202,232	¥161,753	¥134,269	¥136,465	¥161,723	¥150,419	**$1,957,468**
135,157	119,359	102,688	96,618	105,481	94,165	**1,378,194**
66.8%	73.8%	76.5%	70.8%	65.2%	62.6%	
¥ 18,108	¥ (40)	¥(12,232)	¥ (9,231)	¥ 7,626	¥ 12,264	**$ 192,766**
5,423	(8,203)	(18,086)	(15,776)	265	3,762	**143,597**
8,460	8,844	8,665	7,419	5,614	4,984	**60,758**
13,883	641	(9,421)	(8,357)	5,879	8,746	**204,355**
6,081	5,549	4,865	9,582	13,798	12,050	**50,452**
10,397	8,777	8,357	9,806	9,694	9,970	**80,323**

Yen						U.S. Dollars
¥ 33.04	¥ (49.98)	¥ (110.18)	¥ (96.11)	¥ 1.62	¥ 23.04	**$ 0.78**
5.00	—	—	—	10.00	11.00	**0.04**
353.18	319.13	363.14	470.62	568.45	579.53	**2.98**

Millions of Yen						Thousands of U.S. Dollars
¥264,111	¥234,950	¥228,475	¥230,512	¥240,608	¥219,849	**$2,433,742**
2.2%	–3.5%	–7.9%	–6.7%	0.1%	1.8%	
¥183,003	¥151,229	¥142,030	¥144,483	¥160,795	¥150,451	**$1,731,904**
46,260	50,729	54,759	50,709	48,750	40,356	**406,056**
132,864	111,834	96,426	101,432	94,774	84,528	**1,245,129**
71,175	69,490	70,859	50,261	50,360	38,138	**597,315**
57,974	52,384	59,607	77,250	93,308	95,000	**557,250**
22.0%	22.3%	26.1%	33.5%	38.8%	43.2%	
9.8%	–14.6%	–26.4%	–18.5%	0.3%	4.1%	
¥ 27,424	¥ 27,424	¥ 27,424	¥ 27,424	¥ 27,423	¥ 27,328	**$ 294,710**
(7,201)	(22,028)	(14,804)	2,838	18,897	20,788	**54,572**
164,148	164,148	164,148	164,148	164,147	163,932	
4,357	4,294	4,307	4,394	4,271	3,821	

Segment Information

Segment Information by Business Field

Years ended March 31	2001	2000	1999	1998	1997
	Millions of Yen				
Sales					
Electronic Equipment and Components	**¥189,923**	¥121,939	¥ 88,206	¥142,250	¥138,796
Graphic Arts Equipment	**50,852**	51,261	57,115	77,016	80,390
Other	**1,951**	1,612	2,282	2,481	4,722
Consolidated	**¥242,726**	¥174,812	¥147,603	¥221,747	¥223,908
Operating Income (Loss)					
Electronic Equipment and Components	**¥ 26,566**	¥ (3,310)	¥(13,998)	¥ 12,275	¥ 24,697
Graphic Arts Equipment	**(2,919)**	(1,514)	(4,454)	(1,481)	(2,520)
Other	**256**	196	200	228	124
Consolidated	**¥ 23,903**	¥ (4,628)	¥(18,252)	¥ 11,022	¥ 22,301

Notes: 1. Intersegment transactions do not exist.

2. Commencing with the year ended March 31, 2001, revenues and expenses of foreign subsidiaries are translated into yen at the average rates of exchange prevailing during the year. Previously, they were translated at the rates of exchange in effect at each balance sheet date.

Domestic Sales and Overseas Sales

Years ended March 31	2001	2000	1999	1998	1997
	Millions of Yen				
Domestic Sales	**¥114,699**	¥ 84,932	¥ 80,912	¥122,730	¥120,838
Overseas Sales	**128,027**	89,880	66,691	99,017	103,070
North America	**38,748**	23,818	22,023	43,975	41,142
Asia & Oceania	**58,966**	43,703	29,337	38,374	43,876
Europe	**28,891**	21,087	14,369	15,948	17,289
Others	**1,422**	1,272	962	720	763
Ratio of Overseas Sales to Net Sales (%)	**52.7%**	51.4%	45.2%	44.7%	46.0%
Net Sales	**¥242,726**	¥174,812	¥147,603	¥221,747	¥223,908

Notes: 1. Sales to customers in Japan by the Company and its subsidiaries.

2. Sales to customers outside Japan by the Company and its subsidiaries.

3. Commencing with the year ended March 31, 2001, revenues and expenses of foreign subsidiaries are translated into yen at the average rates of exchange prevailing during the year. Previously, they were translated at the rates of exchange in effect at each balance sheet date.

Segment Information by Geographic Area

Years ended March 31	Millions of Yen 2001	2000	1999	1998	1997
Sales					
Japan	¥169,306	¥127,667	¥108,002	¥156,889	¥160,909
Overseas	73,420	47,145	39,601	64,858	62,999
North America	35,910	19,580	18,432	40,324	37,718
Asia & Oceania	13,970	8,323	9,023	10,946	9,248
Europe	23,540	19,242	12,146	13,588	16,033
Consolidated	¥242,726	¥174,812	¥147,603	¥221,747	¥223,908
Operating Income (Loss)					
Japan	¥ 22,346	¥ (2,866)	¥(17,139)	¥ 6,295	¥ 17,252
Overseas	2,787	956	(118)	1,067	2,656
North America	1,050	(581)	(855)	566	2,753
Asia & Oceania	718	417	(405)	84	212
Europe	1,019	1,120	1,142	417	(309)
Total	25,133	(1,910)	(17,257)	7,362	19,908
Elimination	(1,230)	(2,718)	(995)	3,660	2,393
Consolidated	¥ 23,903	¥ (4,628)	¥(18,252)	¥ 11,022	¥ 22,301
Assets					
Japan	¥228,394	¥196,504	¥180,302	¥216,376	¥195,145
Overseas	41,095	34,780	27,803	39,419	43,984
North America	18,433	16,942	13,218	23,588	29,681
Asia & Oceania	8,078	6,000	6,263	7,168	4,633
Europe	14,584	11,838	8,322	8,663	9,670
Total	269,489	231,284	208,105	255,795	239,129
Corporate and Elimination	32,295	25,312	32,513	19,397	45,743
Consolidated	¥301,784	¥256,596	¥240,618	¥275,192	¥284,872

Notes: 1. For the Company and its subsidiaries located in the respective geographic areas.
2. Sales to customers outside the Dainippon Screen Group of companies.
3. Commencing with the year ended March 31, 2001, revenues and expenses of foreign subsidiaries are translated into yen at the average rates of exchange prevailing during the year. Previously, they were translated at the rates of exchange in effect at each balance sheet date.

This section presents an analysis of the consolidated financial statements prepared in accordance with accounting standards generally accepted in Japan.

Operating Results

Sales

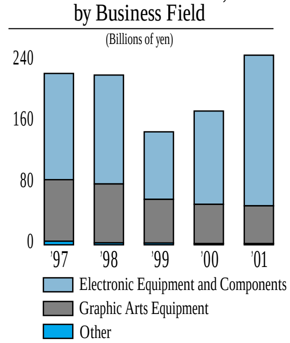
Consolidated net sales for fiscal 2001 ended March 31, 2001 rose 38.8% over the previous fiscal year, to a record ¥242,726 million.

The Electronic Equipment and Components Division enjoyed rapid sales growth in the areas of semiconductor production equipment (SPE) and liquid crystal display (LCD) production equipment, fueled by increased investment by manufacturers of such products, thanks to the worldwide boom in information technology (IT). In the area of SPE, mainstay products, including cleaning equipment and coater/developer units, showed vigorous sales growth both in Japan and overseas. In addition to solid sales gains in our current mainstay products centered on production equipment for 200-millimeter wafers, our 300-millimeter wafer cleaning equipment—highly regarded throughout the industry—performed well. This was primarily due to semiconductor manufacturers' strong commitment to mass production in which 300-millimeter wafers are used from the pilot line stage. Sales of LCD production equipment posted a record high, thanks to growing capital investment by LCD panel manufacturers in both domestic and overseas markets who sought to keep pace with rising demand for mobile phones and PC displays. Profitability in the cathode-ray tube (CRT) mask business improved as a result of efforts to reduce costs, among others, but fared poorly in terms of sales, reflecting intensifying competition with LCDs.

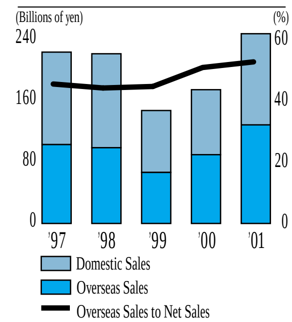
The Graphic Arts Equipment Division, whose target markets are changing in size and structure as a result of advances in computer technology and development in digital applications for printing processes, nevertheless managed to post growth in overseas sales. In the domestic market, however, where the division transacts the bulk of its business, sales remained weak. Among product lines, computer-to-plate (CTP) related products, such as plate recorders, our main product, posted an increase over the previous year, while other product lines remained lackluster.

Overseas sales posted growth in all regions, notably in North America, reaching ¥128,027 million, for a year-on-year increase of 42.4%. Overseas sales accounted for 52.7% of net sales, up 1.3 percentage points. The Electronic Equipment and Components Division enjoyed active demand for SPE in all regions, and sales of LCD production equipment jumped sharply as a result of strong capital investment by LCD manufacturers in Taiwan and South Korea. In the Graphic Arts Equipment Division, overseas sales rose, due in part to drupa 2000, the world's largest printing equipment exhibition, as well as alliances with other firms.

Consolidated Net Sales,
by Business Field



Domestic Sales, Overseas Sales,
and Ratio of Overseas Sales
to Net Sales



Cost of Sales and SGA Expenses

The cost of sales in fiscal 2001 rose 27.9%, to ¥170,896 million. However, cost of sales as a percentage of net sales declined 6.0 percentage points, to 70.4%, from 76.4%. The improvement resulted from a boost in capacity utilization at production facilities for SPE and LCD production equipment, reflecting increased sales, shortened production lead times, and cost-reduction measures. Overall, Dainippon Screen's gross profit surged 74.5% from the previous year, to ¥71,830 million.

Selling, general and administrative (SGA) expenses amounted to ¥47,927 million, up ¥2,128 million, or 4.6%. However, the ratio of SGA expenses to sales dropped 6.5 percentage points, to 19.7%, from 26.2%.

Cost of Sales and SGA Expenses

Years ended March 31	Millions of Yen 2001	2000	1999	1998	1997
Net Sales	**¥242,726**	¥174,812	¥147,603	¥221,747	¥223,908
Cost of Sales	**170,896**	133,641	114,086	148,110	143,853
Cost of Sales to Net Sales (%)	**70.4%**	76.4%	77.3%	66.8%	64.2%
Gross Profit	**¥ 71,830**	¥ 41,171	¥ 33,517	¥ 73,637	¥ 80,055
SGA Expenses	**47,927**	45,799	51,769	62,615	57,754
SGA Expenses to Net Sales (%)	**19.7%**	26.2 %	35.1%	28.2%	25.8%

R&D Expenses

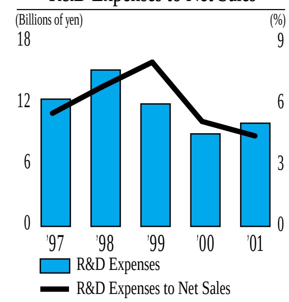
R&D expenses rose 10.0%, to ¥9,960 million. Of the total, the Electronic Equipment and Components Division's R&D spending amounted to ¥7,025 million, an increase of 27.7%, while the Graphic Arts Equipment Division spent ¥2,935 million, down 17.3%.

The Electronic Equipment and Components Division's SPE R&D activities centered on research to establish new processing technology and develop new products for adapting new materials and finer-resolution circuit design technology. In addition, increased effort was devoted to the area of control software, which will drive the creation of new standards for control systems. For LCD production equipment, the Company had already completed basic development to accommodate larger sizes of glass substrates, and work is underway to commercialize such equipment. The Company also initiated a search for wider applications for its SPE technologies in LCDs, where miniaturization is required. In CRT masks, Dainippon Screen successfully completed development of a "mask auto-inspection" system and technology for ultrafine precision masks.

The Graphic Arts Equipment Division continued to post progress in perfecting digital printing techniques. Furthermore, its R&D helped develop workflow software geared to digitization of the printing process and expand its product line of plate recorders.

The Company formed the Software Research and Development Division, whose aim is to single-handedly perform software systems development for the entire Company as a way to increase efficiency in software programming. In addition, Dainippon Screen established a new subsidiary, Laser Solutions Co., Ltd., through which it aims to explore opportunities for application of its laser control technology.

R&D Expenses, and Ratio of R&D Expenses to Net Sales



R&D Expenses

Years ended March 31	Millions of Yen 2001	2000	1999	1998	1997
R&D Expenses	**¥9,960**	¥9,051	¥11,978	¥15,253	¥12,451
Ratio of R&D Expenses to Net Sales (%)	**4.1%**	5.2%	8.1%	6.9%	5.6%

Segment Information

Net sales of the Electronic Equipment and Components Division in fiscal 2001 surged 55.8% year-on-year, to ¥189,923 million, while operating income reached ¥26,566 million, an improvement of ¥29,876 million. The improvement is attributable to heavy capital investment by semiconductor and LCD display manufacturers designed to meet increasing demand, spurred by the rapid proliferation of mobile phones and PCs. The CRT mask business improved in profitability, though sales decreased.

The Graphic Arts Equipment Division reported net sales of ¥50,852 million, down 0.8%. The operating loss totaled ¥2,919 million, a deterioration of ¥1,405 million from fiscal 2000. Overseas sales grew as a result of drupa 2000, the world's largest printing equipment exhibition, as well as alliances with other firms. The domestic market, this division's primary market, remained depressed.

Earnings

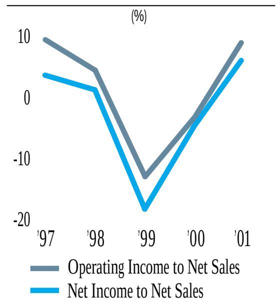
Dainippon Screen reported operating income of ¥23,903 million, an improvement of ¥28,531 million compared with the operating loss of ¥4,628 million posted in fiscal 2000. Operating income as a percentage of net sales rose 12.5 percentage points, to 9.8%. The turnaround was driven by a sharp increase in sales achieved by the Electronic Equipment and Components Division, which was accompanied by effective cost-reduction measures that reduced the ratio of SGA expenses to sales.

Other expenses, net, rose ¥4,886 million, to ¥6,462 million. Sources of other income included net exchange gains on foreign currency transactions of ¥2,682 million due to the yen's depreciation toward the fiscal year-end, and gains on sale and disposal of property, plant and equipment of ¥808 million. Other expenses included interest expense of ¥2,564 million, compared with ¥3,135 million in fiscal 2000, cost of restructuring the CRT mask business through consolidation of ¥2,241 million, amortization of unrecognized transaction obligation due to the change in accounting for retirement benefits of ¥1,859 million, and loss on disposal of inventories as a result of order cancellations, which came to ¥3,156 million, as against ¥826 million in fiscal 2000.

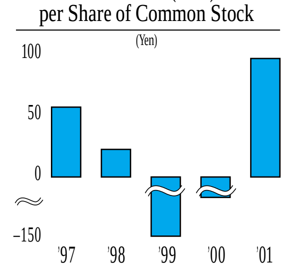
As a result, Dainippon Screen's income before provision for income taxes amounted to ¥17,441 million, compared with a loss of ¥6,204 million in fiscal 2000. The Company posted net income of ¥17,806 million, versus a net loss of ¥7,029 million the prior year.

Net income per share of common stock was ¥97.20, as against a net loss of ¥40.00 per share in fiscal 2000. Return on equity was 29.7%, compared with a negative 13.4% in fiscal 2000, while return on total assets was 6.4%, up from a negative 2.8% a year earlier.

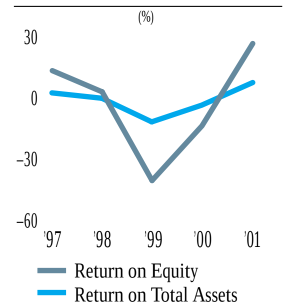
Ratio of Operating Income to Net Sales, and Ratio of Net Income to Net Sales



Net Income (Loss) per Share of Common Stock



Return on Equity and Return on Total Assets



Income Analysis

	Millions of Yen				
Years ended March 31	**2001**	2000	1999	1998	1997
Operating Income (Loss)	**¥23,903**	¥(4,628)	¥(18,252)	¥11,022	¥22,301
Operating Income to Net Sales (%)	**9.8%**	–2.6%	–12.4%	5.0%	10.0%
Net Income (Loss)	**¥17,806**	¥(7,029)	¥(26,084)	¥ 4,002	¥ 9,323
Net Income to Net Sales (%)	**7.3%**	–4.0%	–17.7%	1.8%	4.2%
Net Income (Loss) per Share of Common Stock (yen)	**¥ 97.20**	¥(40.00)	¥(149.89)	¥ 23.39	¥ 56.76
Return on Equity (%)	**29.7%**	–13.4%	–39.3%	5.5%	14.9%
Return on Total Assets (%)	**6.4%**	–2.8%	–10.1%	1.4%	3.4%

Note: Return on equity and return on total assets are calculated on the basis of average shareholders' equity and average total assets, respectively, of the current and previous fiscal year-ends.

Financial Position and Liquidity

Assets, Liabilities, and Shareholders' Equity

Total assets on March 31, 2001 amounted to ¥301,784 million, up 17.6% from the prior year. In the current assets category, a rise in orders and sales resulted in an increase in trade notes and accounts receivable to ¥30,058 million, while inventories expanded ¥10,427 million.

In property, plant and equipment, at cost, approximately ¥2,000 million was invested in the construction of the new factory, Fab. FC-1, for manufacturing 300-millimeter wafer production equipment. However, the Company restrained capital expenditures, so as not to exceed the amount of depreciation and amortization. As a result, net property, plant and equipment decreased ¥2,187 million from the previous period.

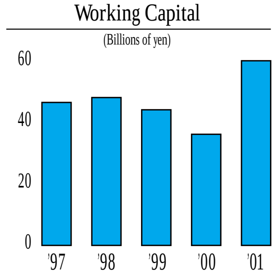
In the investments and other assets category, investments in securities increased ¥3,835 million, while investments in affiliates fell ¥1,866 million. The rise in investments in securities reflects valuation gains on the securities, which were included for the first time in the fiscal year under review as a result of the introduction of a new accounting standard for financial instruments. The decrease in investments in affiliates stemmed from the issuance of new shares by LG Micron Co., Ltd. of South Korea, whose enlarged capital base reduced Dainippon Screen's percentage of equity ownership in LG Micron, thereby exempting LG Micron Co., Ltd. from affiliation based on the equity method.

On the liabilities side, total current liabilities grew ¥27,282 million year-on-year, while total long-term liabilities shrank ¥816 million. In the current liabilities category, notes and accounts payable—trade rose ¥29,679 million, while short-term debt and the current portion of long-term debt fell ¥4,724 million and ¥7,500 million, respectively. The increase in notes and accounts payable—trade resulted from the increase in materials costs accompanied by the expansion in net sales, while short-term debt was partially repaid out of current earnings. The decrease in the current portion of long-term debt reflected the conversion of unsecured Swiss Franc denominated convertible bonds due September 30, 2000, among other factors. Long-term liabilities declined ¥816 million, as a result of a reduction in long-term debt amounting to ¥3,298 million, which was partly offset by newly created accrued pension and severance cost totaling ¥2,322 million, which arose from changes in accounting standards for retirement benefits.

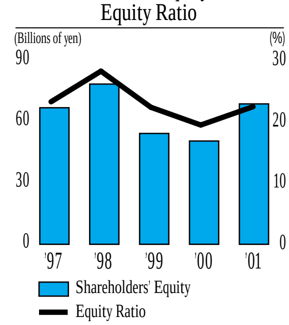
The Company's common stock rose ¥3,444 million, reflecting the conversion of the unsecured Swiss Franc convertible bonds. Similarly, additional paid-in capital increased because of the conversion but was offset by charge-offs, declining ¥13,380 million. With the drawing down of net earnings and capital reserves, consolidated retained earnings improved ¥32,659 million to ¥6,767 million, compared with an accumulated deficit of ¥25,892 million reported the previous year. In addition, changes in accounting standards resulted in the occurrence of unrealized holding gains on securities and the transfer of foreign currency translation adjustments from the assets category to shareholders' equity. The outcome of these factors was an increase of ¥18,469 million in total shareholders' equity from fiscal 2000.

Reflecting comparatively larger growth in shareholders' equity compared with the rise in total assets, the equity ratio at the end of the fiscal year advanced 3.2 percentage points, to 22.9%.

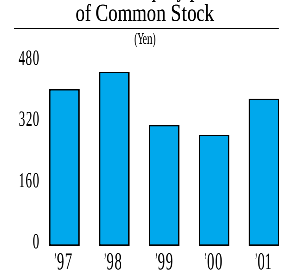
Working Capital



Shareholders' Equity and Equity Ratio



Shareholders' Equity per Share of Common Stock



Financial Position

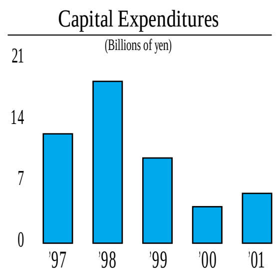
Years ended March 31	Millions of Yen				
	2001	2000	1999	1998	1997
Total Assets	**¥301,784**	¥256,596	¥240,618	¥275,192	¥284,872
Electronic Equipment and Components	**186,141**	129,739	112,194	147,628	121,565
Graphic Arts Equipment	**46,515**	64,615	64,872	75,568	80,079
Other	**2,167**	1,898	2,255	3,007	2,410
Corporate and Elimination	**66,961**	60,344	61,297	48,989	80,818
Working Capital	**60,360**	35,058	44,317	48,295	46,722
Shareholders' Equity	**69,099**	50,630	54,296	78,480	66,913
Equity Ratio (%)	**22.9%**	19.7%	22.6%	28.5%	23.5%
Shareholders' Equity per Share of Common Stock (yen)	**¥ 369.54**	¥ 286.51	¥ 312.02	¥ 450.99	¥ 405.78

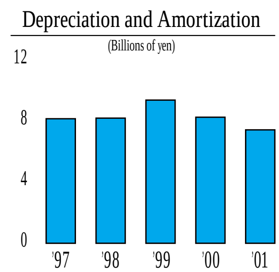
Capital Expenditures, and Depreciation and Amortization

Dainippon Screen's capital expenditures in fiscal 2001 totaled ¥6,256 million, up ¥2,084 million. Of this total, the Electronic Equipment and Components Division accounted for ¥5,382 million, while the Graphic Arts Equipment Division invested ¥480 million. The Electronic Equipment and Components Division's capital expenditures in fiscal 2001, which consisted mainly of the new factory, Fab. FC-1, designed for SPE equipment production, as well as an expansion of clean rooms required for the production of semiconductor and LCD production equipment, were up ¥2,218 million from the previous year. Capital expenditures by the Graphic Arts Equipment Division fell ¥405 million, as the division curtailed its capital expenditures by focusing on the maintenance and upgrading of existing facilities.

The Company limited its overall level of capital expenditures so as not to exceed depreciation and amortization, which dropped 8.6%, to ¥7,534 million.

As a result of all these factors, total net tangible fixed assets (property, plant and equipment) decreased ¥2,187 million.





Capital Expenditures, and Depreciation and Amortization

	Millions of Yen				
Years ended March 31	**2001**	2000	1999	1998	1997
Capital Expenditures	**¥6,256**	¥4,172	¥9,737	¥18,516	¥12,466
Electronic Equipment and Components	**5,382**	3,164	6,853	15,255	10,161
Graphic Arts Equipment	**480**	885	2,452	2,878	2,108
Other	**98**	56	366	40	36
Corporate	**296**	67	66	343	161
Depreciation and Amortization	**7,534**	8,246	9,376	8,185	8,147
Electronic Equipment and Components	**5,871**	6,232	7,024	5,731	5,545
Graphic Arts Equipment	**1,256**	1,728	2,023	2,130	2,326
Other	**44**	54	49	42	42
Corporate	**363**	232	280	282	234

Cash Flows

Net cash provided by operating activities during the year amounted to ¥21,197 million, a rise of ¥24,160 million. Accounting for a portion of the growth was the net income reported during the year and adjustment accounts such as depreciation and amortization, which did not entail actual cash disbursement, as well as an increase in accrued pension and severance cost. Accounts receivables and inventories increased ¥28,133 million and ¥10,929 million, respectively. Payables and accrued expenses as well as other current liabilities rose by ¥34,632 million in total.

Net cash used in investing activities totaled ¥3,175 million, up ¥1,903 million from the previous year. The increase was used mainly to finance the construction of the Fab. FC-1 factory as well as the upgrade and expand existing production facilities.

Net cash used in financing activities amounted to ¥8,666 million, compared with ¥7,342 million provided by such activities during the previous year. On November 20, 2000, Dainippon Screen issued zero coupon euro-yen unsecured convertible notes due September 30, 2004, generating ¥20,000 million, which was used to repay long-term debt. A portion of cash flow provided by operating activities was used for the same purpose.

Cash Flows

Years ended March 31	Millions of Yen 2001	2000	1999	1998	1997
Net Cash Provided by (Used in) Operating Activities	**¥21,197**	¥(2,963)	¥ (1,863)	¥ 7,664	¥22,047
Net Cash Used in Investing Activities	**(3,175)**	(1,272)	(6,020)	(5,362)	(27,449)
Net Cash (Used in) Provided by Financing Activities	**(8,666)**	7,342	18,139	(23,192)	12,675
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**829**	(699)	(474)	127	331
Net Increase (Decrease) in Cash and Cash Equivalents	**¥10,185**	¥ 2,408	¥ 9,782	¥(20,763)	¥ 7,604

Outlook

Dainippon Screen has identified two core drivers of our business, SPE and LCD production equipment, on which it plans to concentrate its resources to capture a larger market share. For SPE, the Electronic Equipment and Components Division anticipates greater demand for production systems for 300-millimeter wafers, since leading manufacturers of semiconductors remain quite positive about investing in 300-millimeter wafer production equipment despite the cyclical slowdown generally prevailing in the market. For LCD production equipment, the division will remain focused on efforts to boost sales of the highly acclaimed 750 series capable of processing fourth-generation glass substrates, and continue to develop equipment that supports the next-generation market. In addition, to rebuild a profitable business structure, the CRT mask business was consolidated in a subsidiary, effective April 1, 2001.

The Graphic Arts Equipment Division plans to explore the potential of broader areas, including IT-related business. For more effective implementation of business strategies, the division (renamed the Media Technology Division) will be strengthened by focusing on two areas: prepress equipment and support of the printing industry’s IT strategies with an array of digital technology for high-speed networks and digital printing.

To cope successfully with its operating environment, which is expected to deteriorate this year, Dainippon Screen will seek to build a business foundation that ensures stable profits regardless of any change in the operating environment. Each division will continue to implement measures to reduce fixed costs. At the same time, the Procurement Division in charge of purchasing materials will work to increase the number of suitable suppliers and put in place a procurement system that maximizes the potential of IT, to better support the Company’s efforts to boost profitability.

Consolidated Balance Sheets

Dainippon Screen Mfg. Co., Ltd., and Subsidiaries
As of March 31, 2001 and 2000

Assets	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Current Assets:			
Cash and cash equivalents	¥ 38,366	¥ 28,181	$ 309,403
Time deposits	4,364	2,711	35,194
Short-term investments	202	659	1,629
Trade notes and accounts receivable	111,208	81,150	896,839
Allowance for doubtful receivables	(2,007)	(2,031)	(16,185)
Inventories	59,091	48,664	476,540
Deferred tax assets (current)	257	135	2,073
Prepaid expenses and other current assets	3,275	2,703	26,411
Total current assets	214,756	162,172	1,731,904
Property, Plant and Equipment, at Cost:			
Land	10,232	10,984	82,516
Buildings and structures	55,432	54,910	447,032
Machinery and equipment	65,050	62,420	524,597
Construction in progress	91	553	734
Total	130,805	128,867	1,054,879
Accumulated depreciation	(80,454)	(76,329)	(648,823)
Net property, plant and equipment	50,351	52,538	406,056
Investments and Other Assets:			
Investments in securities	24,800	20,965	200,000
Investments in affiliates	604	2,470	4,871
Goodwill	16	36	129
Deferred tax assets (noncurrent)	4,666	3,870	37,629
Prepaid expenses and other assets	6,591	7,639	53,153
Total investments and other assets	36,677	34,980	295,782
Foreign Currency Translation Adjustments	—	6,906	—
TOTAL	¥301,784	¥256,596	$2,433,742

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Liabilities and Shareholders' Equity	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Current Liabilities:			
Short-term debt	**¥ 31,554**	¥ 36,278	**$ 254,468**
Current portion of long-term debt	**18,009**	25,509	**145,234**
Notes and accounts payable—			
Trade	**84,668**	54,989	**682,806**
Construction and other	**7,567**	3,137	**61,024**
Accrued expenses	**8,867**	5,143	**71,508**
Income taxes	**1,200**	604	**9,677**
Other current liabilities	**2,531**	1,454	**20,412**
Total current liabilities	**154,396**	127,114	**1,245,129**
Long-Term Liabilities:			
Long-term debt	**74,067**	77,365	**597,315**
Accrued pension and severance cost	**2,322**	—	**18,726**
Estimated termination and retirement allowances for directors and corporate auditors	**362**	419	**2,919**
Reserve for loss on guarantees	**619**	401	**4,992**
Other long-term liabilities	**9**	10	**72**
Total long-term liabilities	**77,379**	78,195	**624,024**
Minority Interests	**910**	657	**7,339**
Contingent Liabilities			
Shareholders' Equity:			
Common stock, par value ¥50 per share—			
Authorized—400,000,000 shares			
Issued—176,713,171 shares in 2000 and 186,986,928 shares in 2001	**36,544**	33,100	**294,710**
Additional paid-in capital	**30,044**	43,424	**242,290**
Retained earnings (accumulated deficit)	**6,767**	(25,892)	**54,572**
Net unrealized holding gains on securities	**1,377**	—	**11,105**
Foreign currency translation adjustment	**(5,633)**	—	**(45,427)**
Total	**69,099**	50,632	**557,250**
Treasury stock, at cost	**(0)**	(2)	**(0)**
Total shareholders' equity	**69,099**	50,630	**557,250**
TOTAL	**¥301,784**	¥256,596	**$2,433,742**

Consolidated Statements of Operations

Dainippon Screen Mfg. Co., Ltd., and Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Net Sales	¥242,726	¥174,812	$1,957,468
Cost of Sales	170,896	133,641	1,378,194
Gross profit	71,830	41,171	579,274
Selling, General and Administrative Expenses	47,927	45,799	386,508
Operating income (loss)	23,903	(4,628)	192,766
Other (Income) Expenses:			
Interest and dividend income	(872)	(608)	(7,032)
Interest expense	2,564	3,135	20,677
Exchange (gains) losses on foreign currency transactions, net	(2,682)	199	(21,629)
Gains on sales of securities, net	(709)	(1,487)	(5,718)
(Gains) losses on sales and disposal of property, plant and equipment, net	(808)	272	(6,516)
Loss on investments in securities	709	768	5,718
Loss on disposal of inventories	3,156	826	25,452
Early retirement benefits	676	17	5,452
Provision for loss on guarantees	359	(240)	2,895
Compensation for contract cancellation	(51)	(176)	(411)
Reversal of allowance for doubtful receivables	—	(366)	—
Equity in earnings of affiliates	(420)	(227)	(3,387)
Amortization of unrecognized transition obligation due to the change in accounting for retirement benefits	1,859	—	14,992
Cost of restructuring the CRT mask business	2,241	—	18,073
Other, net	440	(537)	3,547
	6,462	1,576	52,113
Income (Loss) before Provision for Income Taxes	17,441	(6,204)	140,653
Provision for Income Taxes—			
Current	965	464	7,782
Deferred	(1,611)	1,245	(12,992)
	(646)	1,709	(5,210)
Minority Interests in Net Income (Loss) of Consolidated Subsidiaries	281	(884)	2,266
Net Income (Loss)	¥ 17,806	¥ (7,029)	$ 143,597

	Yen		U.S. Dollars
Per Share of Common Stock:			
Net income (loss)	¥ 97.20	¥ (40.00)	$ 0.78
Net income—diluted	84.88	—	0.68
Cash dividends, applicable to earnings of the year	5.00	—	0.04

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Dainippon Screen Mfg. Co., Ltd., and Subsidiaries
For the years ended March 31, 2001 and 2000

	Shares of Issued Common Stock (Thousands)	Millions of Yen					
		Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Net Unrealized Holding Gains on Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 1999	174,018	¥32,196	¥42,520	¥ (20,419)	¥ —	¥ —	¥(1)
Net income (loss)				(7,029)			
Conversion of convertible bonds	2,695	904	904				
Effect of an affiliate being newly accounted for by the equity method				1,617			
Effect due to change of percentage of ownership in an affiliate				(61)			
Treasury stock							(1)
Balance at March 31, 2000	176,713	¥33,100	¥43,424	¥ (25,892)	¥ —	¥ —	¥(2)
Net income (loss)				17,806			
Transfer to reduce accumulated deficit			(16,824)	16,824			
Conversion of convertible bonds	10,274	3,444	3,444				
Effect of an affiliate excluded from being accounted for by the equity method				(1,379)			
Effect due to change of percentage of ownership in an affiliate				(592)			
Foreign currency translation adjustments						(5,633)	
Adoption of new accounting standard for financial instruments					1,377		
Treasury stock							2
Balance at March 31, 2001	**186,987**	**¥36,544**	**¥30,044**	**¥ 6,767**	**¥1,377**	**¥(5,633)**	**¥(0)**

	Thousands of U.S. Dollars					
	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Net Unrealized Holding Gains on Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 2000	$ 266,935	$ 350,194	$(208,806)	$ —	$ —	$(16)
Net income			143,597			
Transfer to reduce accumulated deficit		(135,679)	135,679			
Conversion of convertible bonds	27,775	27,775				
Effect of an affiliate excluded from being accounted for by the equity method			(11,124)			
Effect due to change of percentage of ownership in an affiliate			(4,774)			
Foreign currency translation adjustments					(45,427)	
Adoption of new accounting standard for financial instruments				11,105		
Treasury stock						16
Balance at March 31, 2001	**$294,710**	**$242,290**	**$ 54,572**	**$11,105**	**$(45,427)**	**$ (0)**

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Dainippon Screen Mfg. Co., Ltd., and Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Cash Flows from Operating Activities:			
Income (loss) before provision for income taxes	**¥17,441**	¥ (6,204)	**$140,653**
Depreciation and amortization	**7,534**	8,246	**60,758**
Amortization of goodwill	**23**	52	**185**
Equity in earnings of affiliates	**(420)**	(194)	**(3,387)**
Loss on investments in securities	**709**	768	**5,718**
Gain on sales of property, plant and equipment	**(1,163)**	—	**(9,379)**
Losses on sales and disposal of property, plant and equipment, net	**—**	272	**—**
Gain on sales of securities, net	**(707)**	(1,489)	**(5,702)**
Increase in accrued pension and severance cost	**2,322**	—	**18,726**
Interest and dividend income	**(872)**	(608)	**(7,032)**
Interest expense	**2,552**	3,135	**20,581**
Increase in accounts receivables	**(28,133)**	(23,670)	**(226,879)**
Increase in inventories	**(10,929)**	(429)	**(88,137)**
(Increase) decrease in other assets	**(513)**	2,124	**(4,137)**
Increase in payables	**27,082**	17,887	**218,403**
Increase (decrease) in accrued expenses	**3,136**	(171)	**25,290**
Increase in other current liabilities	**4,414**	292	**35,597**
Other, net	**658**	38	**5,307**
Subtotal	**23,134**	49	**186,565**
Interest and dividends received	**884**	608	**7,129**
Interest paid	**(2,555)**	(3,091)	**(20,605)**
Income taxes paid	**(266)**	(529)	**(2,145)**
Net cash provided by (used in) operating activities	**21,197**	(2,963)	**170,944**
Cash Flows from Investing Activities:			
Acquisitions of property, plant and equipment	**(3,770)**	(3,994)	**(30,403)**
Proceeds from sales of property, plant and equipment	**2,592**	508	**20,903**
Purchases of short-term investments and securities	**—**	(608)	**—**
Proceeds from sales of short-term investments and securities	**—**	2,170	**—**
Purchase of short-term investments	**(201)**	—	**(1,621)**
Proceeds from sales of short-term investments	**350**	—	**2,823**
Purchase of investments in securities	**(1,554)**	—	**(12,532)**
Proceeds from sales of investments in securities	**946**	—	**7,629**
(Increase) decrease in time deposits, net	**(1,653)**	(92)	**(13,331)**
Other, net	**115**	744	**927**
Net cash used in investing activities	**(3,175)**	(1,272)	**(25,605)**
Cash Flows from Financing Activities:			
Increase (decrease) of short-term debt	**(4,724)**	3,012	**(38,096)**
Proceeds from long-term debt	**23,830**	17,788	**192,177**
Repayments of long-term debt	**(27,740)**	(14,687)	**(223,710)**
Decrease (increase) of treasury stock	**2**	(1)	**16**
Proceeds from issuance of common stock to minority interest	**3**	1,232	**24**
Purchase of common stock from minority interest	**(35)**	—	**(282)**
Cash dividend, paid to minority interest	**(2)**	(2)	**(16)**
Net cash (used in) provided by financing activities	**(8,666)**	7,342	**(69,887)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**829**	(699)	**6,685**
Net Increase in Cash and Cash Equivalents	**10,185**	2,408	**82,137**
Cash and Cash Equivalents at Beginning of Year	**28,181**	25,773	**227,266**
Cash and Cash Equivalents at End of Year	**¥38,366**	¥ 28,181	**$309,403**
Noncash Financing Activities:			
Conversion of convertible bonds	**¥ 6,890**	¥ 1,808	**$ 55,565**

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Dainippon Screen Mfg. Co., Ltd., and Subsidiaries
For the years ended March 31, 2001 and 2000

Note 1: Summary of Significant Accounting and Reporting Policies

(a) Basis of presenting consolidated financial statements

Dainippon Screen Mfg. Co., Ltd. (the "Company") and its consolidated domestic subsidiaries (together the "Companies") maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity for 2001 and 2000 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements are not required for domestic purposes and are not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2001, which was ¥124 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting right or existence of certain conditions evidencing control by the Company. Effective in the year ended March 31, 2001, three subsidiaries were excluded from consolidation and two were newly consolidated.

Investments in affiliates over which the Company has the ability to exercise significant influences over operating and financial policies of the investees, are accounted for on the equity method. Effective in the year ended March 31, 2001, an affiliate whose equity ratio decreased as a result of public stock offerings was excluded from an affiliate being accounted for by the equity method.

Investments where significant influence does not exist have been stated at cost. Earnings of these companies are recorded in the Company's books only through cash dividends.

In the elimination of investments in subsidiaries, the portion of the assets and liabilities of a subsidiary attributable to the subsidiary's shares owned by the Company are evaluated based on the fair value at the time when the Company acquired control of the subsidiary. The amounts of assets and liabilities attributable to minority shareholders of the subsidiary are determined using the financial statements of the subsidiary.

(c) Translation of foreign currencies

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statements of operations of adopting the Revised Accounting Standard was immaterial.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company. Effective April 1, 2000, the Company changed the translation into Japanese yen of income statements of consolidated overseas subsidiaries from year-end-rate to average rates. As a result of this change for the year 2001, sales decreased ¥7,186 million ($57,952 thousand), gross profit decreased ¥5,076 million ($40,935 thousand), operating income decreased ¥4,094 million ($33,016 thousand) and income before income taxes decreased ¥356 million ($2,871 thousand).

Due to the adoption of the Revised Accounting Standard, the Company reports foreign currency translation adjustments in the shareholders' equity and minority interests. The prior year's amount, which is included in assets, has not been reclassified.

(d) Inventories

As for the Company and the domestic subsidiaries, finished goods and work-in-process are stated at cost either on the first-in, first-out method or the specific identification method. Raw materials are stated at cost on the first-in, first-out method.

Inventories of the foreign subsidiaries are mainly stated at the lower of cost or market either on the first-in, first-out method or the specific identification method.

(e) Installment sales

The Company and a subsidiary have installment sales and recognize profits as the related receivables become due. Unearned income is included in other current liabilities in the accompanying consolidated balance sheets.

(f) Securities

Prior to April 1, 2000, the securities of the Companies were stated at moving-average cost.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, the Companies examined the intent of holding each security and classified those securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities") and (b) all other securities (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost by the straight-line method. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gains and losses on sale of such securities are computed using the moving-average cost. Other securities with no available fair market values are stated at the moving-average cost.

The effect on the consolidated statements of operations of adopting the new Standard is immaterial. Also, based on the examination of the intent of holding each security upon application of the new accounting standard at April 1, 2000, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at March 31, 2001, securities in current assets decreased by ¥308 million ($2,484 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

(g) Depreciation

Depreciation of property, plant and equipment of the Company and the domestic subsidiaries is computed primarily by using the declining-balance method.

Depreciation of property, plant and equipment of the foreign subsidiaries is mainly computed by using the straight-line method.

Estimated useful lives are as follows:

Buildings and structures	2–60 years
Machinery and equipment	2–17 years

Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

(h) Software costs

Software, including in "prepaid expenses and other assets," is depreciated using the straight-line method over the estimated useful lives (five years for internal use, three years for the software for sale).

(i) Accounting for leases

Finance leases that do not transfer ownership of property to lessees have been principally accounted for as operating leases.

(j) Income taxes

The Company and subsidiaries record deferred tax assets and liabilities on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the elimination of unrealized inter-company profits by using the assets and liability approach.

(k) Employees' severance and retirement benefits

The Company and its consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

At March 31, 2000, the Companies accrued liabilities for lump-sum severance and retirement payments equal to the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥9,293 million ($74,944 thousand) .

The net transition obligation will be recognized in expenses in equal amounts over 5 years commencing with the year ended March 31, 2001.

Actuarial gains and losses are also recognized in expenses using the straight-line method over the average of the estimated remaining service lives (18 years) commencing with the following period.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥380 million ($3,065 thousand), net transition obligation increased by ¥1,859 million ($14,992 thousand), operating income decreased by ¥349 million ($2,812 thousand) and income before income taxes decreased by ¥2,208 million ($17,806 thousand).

(l) Research and development

Expenses relating to research and development activities, which are charged to income as incurred, amounted to ¥9,960 million ($80,323 thousand) in 2001 and ¥9,051 million in 2000.

(m) Accounting for stock splits

In accordance with the provisions of the Japanese Commercial Code, stock splits of common stock made at various times have been accounted for by transferring an amount equivalent to the par value of such shares from additional paid-in capital to common stock in the case of capitalization by resolution of the Board of Directors. However, when common stock already includes a portion of the proceeds from shares issued at a price in excess of par value, no accounting recognition is made for stock splits.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits placed with banks on demand or with a maturity of three months or less and securities with resale agreements.

(o) Goodwill

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over a period of five years.

(p) Reserve for loss on guarantees

The reserve for loss on guarantees is provided in an estimated amount of loss on guarantees of leases and bank loans of customers after consideration of the financial position and solvency of the customers.

(q) Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

When a foreign exchange forward contract meets certain conditions, the hedged item is stated at the forward exchange contract rate.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Companies use forward foreign currency contracts, currency options and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign receivables from the sale of the Companies' products and interest rate increases with respect to borrowings and deposits, and within the amounts of borrowings, deposits or foreign currency receivables.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency trade receivables
Currency options	Foreign currency trade receivables and deposits
Interest rate swap contract	Foreign currency bonds and loans payable

The Companies execute and manage the derivative transactions in accordance with the established policies and the specified limits on the amounts of derivative transactions allowed. The derivative transactions are reported to and approved by the Director of Finance Division.

The Companies evaluate hedge effectiveness semiannually by comparing the cumulative changes in the hedging derivative instruments.

Note 2: Income Taxes

The Company is subject to several taxes based on income with an aggregate statutory tax rate of approximately 40.9% in 2001 and 2000.

As of March 31, 2001, the Company and certain subsidiaries have net tax loss carryforwards aggregating ¥17,622 million ($142,113 thousand), which are available to offset the future respective taxable incomes of these companies.

Significant components of the Company's and subsidiaries' deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Deferred tax assets (current)			
Excess of reserve for bonuses (employees)	**¥ 1,188**	¥ —	**$ 9,581**
Loss on disposal of inventories	**922**	810	**7,435**
Other	**1,748**	727	**14,097**
Valuation allowance	**(3,597)**	(1,291)	**(29,008)**
Deferred tax liabilities (current)			
Elimination of allowance for doubtful receivables and other	**(4)**	(9)	**(32)**
Net deferred tax assets (current)	**257**	237	**2,073**
Deferred tax assets (non-current)			
Net operating loss carryforwards	**7,083**	15,434	**57,121**
Loss on investment in securities	**2,527**	2,266	**20,379**
Accrued pension and severance cost	**915**	—	**7,379**
Other	**6,355**	2,394	**51,250**
Valuation allowance	**(10,977)**	(15,907)	**(88,525)**
Deferred tax liabilities (non-current)			
Undistributed earnings of foreign subsidiaries	**(284)**	(317)	**(2,290)**
Unrealized gain on securities	**(953)**	—	**(7,685)**
Net deferred tax assets (non-current)	**¥ 4,666**	¥ 3,870	**$37,629**

The differences between the aggregate statutory tax rates and the effective tax rates of the Company and subsidiaries for financial statement purposes for the years ended March 31, 2001 and 2000 are as follows:

	2001	2000
Statutory tax rate	**40.9 %**	(40.9)%
Valuation allowance	**(43.1)%**	70.6 %
Other	**(1.5)%**	(2.2)%
Effective tax rate	**(3.7)%**	27.5 %

Note 3: Short-Term and Long-Term Debt

Short-term debt generally represents bank overdrafts. The average interest rates on these borrowings and trade notes receivable discounted with banks (see Note 7) at March 31, 2001 was 1.7% and at March 31, 2000 was 2.0%.

Long-term debt as of March 31, 2001 and 2000 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
1.6% to 3.2% loans from Japanese banks, due in installments through 2006			
—secured	**¥ 9,777**	¥ 30,479	**$ 78,846**
—unsecured	**3,217**	2,206	**25,943**
1.3% to 5.0% loans from a governmental institution, due in installments through 2012			
—secured	**2,650**	3,550	**21,371**
—unsecured	**6,125**	6,085	**49,395**
1.9% to 2.4% loans from an insurance company, due in installments through 2006			
—secured	**2,098**	5,718	**16,919**
—unsecured	**760**	480	**6,129**
5.0% to 21.9% loans from banks and other financial institutions in foreign currencies, due on various dates through 2003			
—unsecured	**8**	25	**65**
0.6% unsecured convertible bonds, due March 31, 2003	**12,441**	12,441	**100,331**
0.25% unsecured SFr convertible notes, due September 30, 2000	**—**	6,890	**—**
3.05% unsecured notes, due February 19, 2004	**10,000**	10,000	**80,645**
Three-month LIBOR + 0.40% unsecured floating rate notes, due March 4, 2002	**5,000**	5,000	**40,323**
Six-month LIBOR + 0.55% unsecured floating rate notes, due June 11, 2002	**5,000**	5,000	**40,323**
Six-month LIBOR + 0.65% unsecured floating rate notes, due July 18, 2002	**5,000**	5,000	**40,323**
Six-month LIBOR + 0.82% unsecured floating rate notes, due May 21, 2003	**5,000**	5,000	**40,323**
2.80% unsecured notes, due July 30, 2003	**5,000**	5,000	**40,323**
Zero coupon unsecured convertible notes, due September 30, 2004	**20,000**	—	**161,290**
Total	**92,076**	102,874	**742,549**
Less: Current portion shown in current liabilities	**(18,009)**	(25,509)	**(145,234)**
	¥74,067	¥ 77,365	**$597,315**

The 0.6% unsecured convertible bonds, which were issued in March 1996, are convertible at the option of the holder into shares of common stock at a price of ¥990 per share, subject to adjustment in specific circumstances.

The zero coupon unsecured convertible notes, which were issued in November 2000, are convertible at the option of the holder into shares of common stock at a price of ¥639 per share, subject to adjustment in specific circumstances.

As of March 31, 2001, the Company's secured long-term and short-term debt of ¥14,524 million ($117,129 thousand) are secured by property, plant and equipment with a net book value of ¥20,092 million ($162,032 thousand).

As is customary in Japan, substantially all of the bank borrowings are subject to general agreements with each bank which provide, among other things, that additional security and guarantees for present and future indebtedness will be given upon request of the bank, and that any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Company has not received such requests from its banks. In addition, the agreements provide that the bank has the right to offset cash deposited against any long-term or short-term debt that becomes due and, in case of default and certain other specified events, against all other debts payable to the bank and notes.

The aggregate annual maturities of long-term debt are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2003	¥28,065	$226,331
2004	22,701	183,073
2005	21,063	169,863
2006	811	6,540
2007 and thereafter	1,427	11,508
Total	¥74,067	$597,315

Note 4: Shareholders' Equity and Per Share Data

The Japanese Commercial Code provides that at least one-half of the proceeds from shares issued at a price in excess of par value, including shares issued upon conversion of notes and bonds, be included in common stock.

In conformity therewith, the Company has recorded as common stock over one-half of the principal amount of the notes and bonds converted into common stock. The Code provides that an amount equivalent to at least 10% of cash dividends paid and of other cash outlays resulting from appropriations of retained earnings with respect to each annual period be appropriated to the legal reserve until such reserve equals 25% of the stated capital. Legal reserve is included in retained earnings. The Code also provides that additional paid-in capital and the legal reserve are not available for cash dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized, by resolution of the Board of Directors.

Cash dividends are approved by the shareholders after the end of each fiscal year, and are payable to shareholders of record at the end of each fiscal year. In accordance with the Code, these dividends and the related appropriations of retained earnings have not been reflected in the financial statements at the end of such fiscal year. However, dividends per share shown in the accompanying consolidated statements of operations reflect dividends applicable to the respective period.

Net income (loss) per share is based on the weighted average number of shares of common stock outstanding. Diluted net income per share is computed using the weighted average number of shares assuming conversion of all dilutive convertible bonds and notes.

Diluted net income per share of common stock for the year ended March 31, 2000 was not shown since the outstanding convertible bonds and notes had no dilutive effect on the net income per share data due to the net loss in 2000.

The Code allows a company to retire a certain portion of its outstanding shares in accordance with a resolution at the general shareholders' meeting. The Company received approval to purchase and retire up to 17,400 thousand outstanding shares at the shareholders' meeting held on June 1998.

Note 5: Leases

1. Finance leases

Information relating to finance leases, excluding those leases for which the ownership of the leased assets is considered to be transferred to the lessee, as of and for the years ended March 31, 2001 and 2000, is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2001			2000			**2001**		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	**¥ 1,836**	**¥ 970**	**¥ 866**	¥ 1,745	¥ 931	¥ 814	**$14,807**	**$ 7,823**	**$ 6,984**
Other tangible fixed assets	**4,456**	**2,514**	**1,942**	5,080	2,813	2,267	**35,935**	**20,274**	**15,661**
Other intangible fixed assets	**4,136**	**1,948**	**2,188**	4,193	1,213	2,980	**33,355**	**15,710**	**17,645**
Total	**¥10,428**	**¥5,432**	**¥4,996**	¥11,018	¥4,957	¥6,061	**$84,097**	**$43,807**	**$40,290**

Future minimum lease payments:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥1,910**	¥2,085	**$15,403**
Due after one year	**3,252**	4,148	**26,226**
Total	**¥5,162**	¥6,233	**$41,629**

Lease payments, depreciation computed by the straight-line method over the lease terms with no residual value and imputed interest expense are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Lease payments	**¥2,448**	¥2,566	**$19,742**
Depreciation, if capitalized	**2,255**	2,358	**18,185**
Interest expense, if capitalized	**188**	224	**1,516**

2. Operating leases

Future minimum lease payments at March 31 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥395**	¥ 478	**$3,186**
Due after one year	**547**	743	**4,411**
Total	**¥942**	¥1,221	**$7,597**

3. Sublease

Future minimum lease payments as lessee at March 31 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥1,488**	¥1,792	**$12,000**
Due after one year	**2,690**	3,331	**21,694**
Total	**¥4,178**	¥5,123	**$33,694**

Future minimum lease payments as lessor at March 31 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Due within one year	**¥1,533**	¥1,970	**$12,363**
Due after one year	**2,775**	3,310	**22,379**
Total	**¥4,308**	¥5,280	**$34,742**

Note 6: Segment Information

The Companies' business segments consist of Electronic Equipment and Components, Graphic Arts Equipment, and Other.

Operations in the Electronic Equipment and Components segment principally include semiconductor manufacturing equipment, LCD manufacturing equipment, PCB manufacturing equipment, masks, maintenance and repair services.

Operations in the Graphic Arts Equipment segment principally include prepress systems, scanners, film recorders, fonts, plate recorders, maintenance and repair services.

Operations in the Other segment include leasing and printing.

Segment Information by Business Field

Sales and Operating Income (Loss)

Years ended March 31	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Sales			
Electronic Equipment and Components	**¥189,923**	¥121,939	**$1,531,637**
Graphic Arts Equipment	**50,852**	51,261	**410,097**
Other	**1,951**	1,612	**15,734**
Consolidated	**¥242,726**	¥174,812	**$1,957,468**
Operating Income (Loss)			
Electronic Equipment and Components	**¥ 26,566**	¥ (3,310)	**$ 214,241**
Graphic Arts Equipment	**(2,919)**	(1,514)	**(23,540)**
Other	**256**	196	**2,065**
Consolidated	**¥ 23,903**	¥ (4,628)	**$ 192,766**

Assets

As of March 31	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Electronic Equipment and Components	**¥186,141**	¥129,739	**$1,501,137**
Graphic Arts Equipment	**46,515**	64,615	**375,121**
Other	**2,167**	1,898	**17,476**
Corporate and Elimination	**66,961**	60,344	**540,008**
Consolidated	**¥301,784**	¥256,596	**$2,433,742**

Depreciation and Amortization

Years ended March 31	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Electronic Equipment and Components	**¥ 5,871**	¥ 6,232	**$ 47,347**
Graphic Arts Equipment	**1,256**	1,728	**10,129**
Other	**44**	54	**355**
Corporate	**363**	232	**2,927**
Consolidated	**¥ 7,534**	¥ 8,246	**$ 60,758**

Capital Expenditures

Years ended March 31	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Electronic Equipment and Components	**¥ 5,382**	¥ 3,164	**$ 43,404**
Graphic Arts Equipment	**480**	885	**3,871**
Other	**98**	56	**790**
Corporate	**296**	67	**2,387**
Consolidated	**¥ 6,256**	¥ 4,172	**$ 50,452**

Notes: 1. Intersegment transactions do not exist.

2. Commencing with the year ended March 31, 2001, revenues and expenses of foreign subsidiaries are translated into yen at the average rates of exchange prevailing during the year. Previously, they were translated at the rates of exchange in effect at each balance-sheet date.

3. Effective in the year ended March 31, 2001, the Companies adopted the new Accounting Standard for Retirement Benefits. As compared with the previous method, operating income decreased by ¥130 million ($1,048 thousand) in the Electronic Equipment and Components segment and ¥217 million ($1,750 thousand) in the Graphic Arts Equipment segment.

Segment Information by Geographic Area

Sales and Operating Income (Loss)

Years ended March 31	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	**2001**
Sales			
Japan			
Customers	**¥169,306**	¥127,667	**$1,365,371**
Intersegment	**58,885**	38,900	**474,880**
Total	**228,191**	166,567	**1,840,251**
North America			
Customers	**35,910**	19,580	**289,597**
Intersegment	**2,380**	2,015	**19,193**
Total	**38,290**	21,595	**308,790**
Asia & Oceania			
Customers	**13,970**	8,323	**112,661**
Intersegment	**1,087**	599	**8,766**
Total	**15,057**	8,922	**121,427**
Europe			
Customers	**23,540**	19,242	**189,839**
Intersegment	**36**	78	**290**
Total	**23,576**	19,320	**190,129**
Elimination	**(62,388)**	(41,592)	**(503,129)**
Consolidated	**¥242,726**	¥174,812	**$1,957,468**
Operating Income (Loss)			
Japan	**¥ 22,346**	¥ (2,866)	**$ 180,209**
North America	**1,050**	(581)	**8,468**
Asia & Oceania	**718**	417	**5,790**
Europe	**1,019**	1,120	**8,218**
Total	**25,133**	(1,910)	**202,685**
Elimination	**(1,230)**	(2,718)	**(9,919)**
Consolidated	**¥ 23,903**	¥ (4,628)	**$ 192,766**

As of March 31	**2001**	2000	**2001**
Assets			
Japan	**¥228,394**	¥196,504	**$1,841,887**
North America	**18,433**	16,942	**148,653**
Asia & Oceania	**8,078**	6,000	**65,145**
Europe	**14,584**	11,838	**117,613**
Total	**269,489**	231,284	**2,173,298**
Corporate and Elimination	**32,295**	25,312	**260,444**
Consolidated	**¥301,784**	¥256,596	**$2,433,742**

Notes: 1. For the Company and its subsidiaries located in the respective geographic areas.

2. Commencing with the year ended March 31, 2001, revenues and expenses of foreign subsidiaries are translated into yen at the average rates of exchange prevailing during the year. Previously, they were translated at the rates of exchange in effect at each balance-sheet date.

3. Effective in the year ended March 31, 2001, the Companies adopted the new Accounting Standard for Retirement Benefits. As compared with the previous method, operating income decreased by ¥346 million ($2,790 thousand) in Japan and ¥2 million ($16 thousand) in Asia & Oceania.

Domestic Sales and Overseas Sales

Years ended March 31	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Domestic Sales	**¥114,699**	¥ 84,932	**$ 924,992**
Overseas Sales	**128,027**	89,880	**1,032,476**
North America	**38,748**	23,818	**312,484**
Asia & Oceania	**58,966**	43,703	**475,532**
Europe	**28,891**	21,087	**232,992**
Others	**1,422**	1,272	**11,468**
Ratio of Overseas Sales to Net Sales	**52.7%**	51.4%	
Net Sales	**¥242,726**	¥174,812	**$1,957,468**

Notes: 1. Sales to customers in Japan by the Company and its subsidiaries.
2. Sales to customers outside Japan by the Company and its subsidiaries.
3. Commencing with the year ended March 31, 2001, revenues and expenses of foreign subsidiaries are translated into yen at the average rates of exchange prevailing during the year. Previously, they were translated at the rates of exchange in effect at each balance-sheet date.

Note 7: Contingent Liabilities

As of March 31, 2001, the Company and subsidiaries were contingently liable for the following:

	Millions of Yen	Thousands of U.S. Dollars
As guarantors of—		
Loans of other companies with whom the Company has a trading relationship	**¥2,180**	**$17,581**
Sales-type leases through leasing companies	**1,766**	**14,242**
Employees' housing loans	**1,152**	**9,290**
Notes receivable discounted or endorsed	**3,684**	**29,710**
Total	**¥8,782**	**$70,823**

Note 8: Capital Expenditure Programs

Under the Companies' capital expenditure programs, it is estimated that ¥5,300 million ($42,742 thousand) will be expended during the year ending March 31, 2002.

Note 9: Derivatives Transactions Contracted Amounts, Market Values and Unrealized Gains or Losses

	Millions of Yen								Thousands of U.S. Dollars			
	2001				2000				**2001**			
As of March 31, 2001 and 2000	Principal amount	[of which exceeds one year]	Market value	Unrealized gain (loss)	Principal amount	[of which exceeds one year]	Market value	Unrealized gain (loss)	Principal amount	[of which exceeds one year]	Market value	Unrealized gain (loss)
Non-exchange traded												
Interest rate swap contract												
(Pay fixed rate–												
Receive variable rate)	**¥ —**	**¥—**	**¥ —**	**¥ —**	¥21,638	¥21,038	¥(792)	¥(792)	**$ —**	**$—**	**$ —**	**$ —**
Forward foreign exchange contracts												
(Sell–U.S. dollars)	**1,819**	**—**	**1,982**	**(163)**	—	—	—	—	**14,669**	**—**	**15,984**	**(1,315)**
Total	**¥1,819**	**¥—**	**¥1,982**	**¥(163)**	¥21,638	¥21,038	¥(792)	¥(792)	**$14,669**	**$—**	**$15,984**	**$(1,315)**

Notes: Fiscal Year 2000
1. Market values for the contracted amounts of interest rate swaps disclosed in the previous period and the period under review are the values provided by the swap counterparty institution.
2. Principal amount represents the notional amount on which interest rates are exchanged and, therefore, are not indicative of the Company's market and credit risk.

Fiscal Year 2001
1. Forward foreign exchange transactions are translated at the forward foreign exchange rate at March 31, 2001.
2. The above table does not list the derivatives transactions for which hedge accounting has been applied.

Note 10. Related Party Transactions

Sales to, commissions for services from and balances due from and to two significant affiliates at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
1. Sales for the year			
DNS KOREA CO., LTD.	¥407	¥438	$3,282
LG MICRON LTD.	55	370	444
2. Commissions paid for services for the year			
DNS KOREA CO., LTD.	127	694	1,024
3. Receivable at year end			
DNS KOREA CO., LTD.	0	137	0
LG MICRON LTD.	—	186	—
4. Payable at year end			
DNS KOREA CO., LTD.	38	50	306

LG MICRON LTD. was excluded from an affiliate being accounted for by the equity method due to the diminution of the equity ratio as a result of public stock offerings in December, 2000. Consequently, the amounts of transactions shown above are for the nine months ended December 31, 2000 and balances are as at December 31, 2000.

Note 11: Securities

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2001:

(a) Held-to-maturity debt securities

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Securities with available fair value exceeding book values:		
Book value	¥—	$ —
Fair value	—	—
Difference	¥—	$ —
Other securities:		
Book value	¥65	$524
Fair value	65	524
Difference	¥(0)	$ (0)

(b) Available-for-sale securities

	Millions of Yen			Thousands of U.S. Dollars		
	2001			2001		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with fair book values exceeding acquisition costs:						
Equity securities	¥ 8,780	¥13,655	¥ 4,875	$ 70,806	$110,121	$ 39,315
Bonds	—	—	—	—	—	—
Others	94	101	7	758	815	57
Total	¥ 8,874	¥13,756	¥ 4,882	$ 71,564	$110,936	$ 39,372
Other securities:						
Equity securities	¥12,970	¥10,428	¥(2,542)	$104,597	$ 84,097	$(20,500)
Bonds	—	—	—	—	—	—
Others	300	249	(51)	2,419	2,008	(411)
Total	¥13,270	¥10,677	¥(2,593)	$107,016	$ 86,105	$(20,911)

B. The following tables summarize book values of securities with no available fair values as of March 31, 2001:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
(a) Held-to-maturity debt securities		
Discounted receivables	¥ 50	$ 403
(b) Available-for-sale securities		
Non-listed equity securities	453	3,653
Non-listed foreign bonds	1	8
Total	¥504	$4,064

C. Maturities of available-for-sale securities with maturities and held-to-maturity debt securities are the following:

	Millions of Yen			Thousands of U.S. Dollars		
	2001			2001		
	Within one year	Over one year but within five years	Over five years but within ten years	Within one year	Over one year but within five years	Over five years but within ten years
Bonds	¥ 70	¥46	¥—	$ 565	$371	$ —
Others	81	20	61	653	161	492
Total	¥151	¥66	¥ 61	$1,218	$532	$492

D. Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥7,550 million ($60,887 thousand) and the net gains amounted to ¥707 million ($5,702 thousand).

The aggregate costs, market values and net unrealized gains and losses of marketable securities as of March 31, 2000, are summarized in the following table.

	Millions of Yen
	2000
Current:	
Aggregate costs	¥309
Aggregate market values	392
Net unrealized gains	¥ 83
Noncurrent:	
Aggregate costs	¥20,443
Aggregate market values	31,517
Net unrealized gains	¥11,074

Note 12: Employees' Severance and Pension Benefits

As explained in Note 1, effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and pension benefits, under which allowance and expenses for severance and pension benefits are determined based on the amounts obtained by actuarial calculations.

Allowance for severance and pension benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Projected benefit obligation	¥34,258	$276,274
Less unrecognized actuarial differences	(3,734)	(30,113)
Less fair value of pension assets	(20,767)	(167,475)
Less unrecognized net transition obligation	(7,435)	(59,960)
Allowance for severance and pension benefit	¥ 2,322	$ 18,726

Included in the consolidated statement of operations for the year ended March 31, 2001 is severance and pension benefit expense comprised of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Service costs—benefits earned during the year	¥1,871	$15,089
Interest cost on projected benefit obligation	929	7,492
Expected return on plan assets	(660)	(5,323)
Amortization of net transition obligation	1,859	14,992
Severance and pension benefit expense	¥3,999	$32,250

The discount rate and the rate of expected return on plan assets used by the Company are 3% and 2%–3%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

Actuarial gains/losses are recognized as income/expense using the straight-line method over 18 years.

Report of Independent Public Accountants

To the Board of Directors of Dainippon Screen Mfg. Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Dainippon Screen Mfg. Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Dainippon Screen Mfg. Co., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis, except as noted in the following paragraph.

As explained in Note 1 (c) (f) (k) and (q), in the year ended March 31, 2001, Dainippon Screen Mfg. Co., Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for "Translation of foreign currencies", "Securities", "Employees' severance and retirement benefits" and "Derivatives and hedge accounting". Also, as explained in Note 1(c) in the year ended March 31, 2001, Dainippon Screen Mfg. Co., Ltd. changed, with our concurrence, its method of translating income statements of foreign consolidated subsidiaries.

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 1 (a).

Statement on Accounting Principles and Auditing Standards

This statement is to remind readers that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for readers familiar with Japanese accounting principles, auditing standards and their application in practice.

Nonconsolidated Six-Year Summary

Dainippon Screen Mfg. Co., Ltd.
Years ended March 31

	Millions of Yen						Thousands of U.S. Dollars
	2001	2000	1999	1998	1997	1996	**2001**
For the Year:							
Net sales	**¥226,037**	¥165,181	¥133,627	¥193,697	¥200,451	¥183,704	**$1,822,879**
Cost of sales	**163,753**	130,314	107,089	141,103	144,858	134,316	**1,320,589**
Cost of sales to net sales (%)	**72.4%**	78.9%	80.1%	72.8%	72.3%	73.1%	
Operating income (loss)	**¥ 19,921**	¥ (626)	¥(13,171)	¥ 5,832	¥ 12,860	¥ 12,742	**$ 160,653**
Net income (loss)	**8,574**	(5,076)	(24,540)	2,777	6,218	3,998	**69,145**
Depreciation and amortization	**5,101**	5,274	5,392	5,409	5,253	5,283	**41,137**
Gross cash flow	**13,675**	198	(19,148)	8,186	11,471	9,281	**110,282**
Capital expenditures	**5,656**	3,102	6,460	10,022	6,119	4,394	**45,613**
R&D expenses	**9,768**	8,756	11,737	14,910	12,087	10,102	**78,774**
	Yen						U.S. Dollars
Per Share of Common Stock:							
Net income (loss)	**¥ 46.80**	¥ (28.89)	¥(141.02)	¥ 16.23	¥ 37.86	¥ 24.36	**$ 0.38**
Cash dividends	**5.00**	—	—	7.00	7.00	5.00	**0.04**
Shareholders' equity	**409.33**	337.83	361.84	491.93	456.33	421.41	**3.30**
	Millions of Yen						Thousands of U.S. Dollars
At Year-End:							
Total assets	**¥283,955**	¥240,497	¥219,259	¥235,400	¥250,178	¥238,451	**$2,289,960**
Return on total assets (%)	**3.3%**	–2.2%	–10.8%	1.1%	2.6%	1.8%	
Current assets	**¥188,024**	¥142,904	¥122,917	¥146,052	¥168,519	¥157,291	**$1,516,323**
Property, plant and equipment, net	**38,990**	38,727	40,745	39,894	36,492	36,129	**314,435**
Current liabilities	**134,337**	106,590	72,309	89,017	114,938	102,404	**1,083,363**
Long-term debt	**70,148**	73,653	82,917	60,464	59,547	66,487	**565,710**
Shareholders' equity	**76,540**	59,699	62,967	85,604	75,250	69,174	**617,258**
Equity ratio (%)	**27.0%**	24.8%	28.7%	36.4%	30.1%	29.0%	
Return on equity (%)	**12.6%**	–8.3%	–33.0%	3.5%	8.6%	6.0%	
Common stock	**¥ 36,544**	¥ 33,100	¥ 32,196	¥ 32,196	¥ 27,783	¥ 27,424	**$ 294,710**
Retained earnings (accumulated deficit)	**8,574**	(17,165)	(12,089)	10,673	9,266	3,998	**69,145**
Number of shares issued (in thousands)	**186,987**	176,713	174,018	174,018	164,903	164,148	
Number of employees	**3,017**	3,100	3,178	3,281	3,225	3,119	

Notes: 1. Dollar figures are translated, for convenience only, at the rate of ¥124 to US$1.

2. Net income (loss) per share of common stock is calculated based on the weighted average number of shares outstanding during each term. Shareholders' equity per share of common stock is calculated based on the fiscal year-end total number of shares outstanding.

3. Return on total assets and return on equity are calculated on the basis of average total assets and average shareholders' equity, respectively, of the current and previous fiscal year-ends.

Consolidated Companies

As of March 31, 2001

Company Name and Location *Principal Business*	Ownership

Overseas

North America

D.S. North America Holdings, Inc. — **100.0%**
Illinois, U.S.A.
Holding company

D.S. America Inc. — **100.0%**
(Wholly owned subsidiary of D.S. North America Holdings, Inc.)
Illinois, U.S.A.
Sales and maintenance of graphic arts equipment in America

Dainippon Screen Graphics (USA), LLC — **100.0%**
(Wholly owned subsidiary of D.S. America Inc.)
Illinois, U.S.A.
Sales and maintenance of graphic arts equipment in America

Dainippon Screen Engineering of America Inc. — **100.0%**
(Wholly owned subsidiary of D.S. North America Holdings, Inc.)
California, U.S.A.
Development and maintenance of graphic arts equipment

DNS Electronics, LLC — **100.0%**
(Wholly owned subsidiary of D.S. America Inc., and Dainippon Screen Engineering of America Inc.)
California, U.S.A.
Sales and maintenance of electronics equipment in North America

Asia & Oceania

Dainippon Screen Singapore Pte. Ltd. — **100.0%**
Singapore
Sales and maintenance of electronics and graphic arts equipment in Southeast Asia and sales of CRT masks in Singapore

Dainippon Screen (China) Ltd. — **100.0%**
Hong Kong, China
Sales and maintenance of electronics and graphic arts equipment in China

Dainippon Screen (Taiwan) Co., Ltd. — **97.7%**
Taipei, Taiwan
Sales and maintenance of electronics and graphic arts equipment in Taiwan

Dainippon Screen (Australia) Pty. Ltd. — **100.0%**
Sydney, Australia
Sales and maintenance of graphic arts equipment in Oceania

Dainippon Screen (Korea) Co., Ltd. — **91.9%**
Seoul, Republic of Korea
Sales and maintenance of electronics and graphic arts equipment in Korea

DNS Korea Co., Ltd. — **21.75%**
Cheonan, Republic of Korea
Production, sales and maintenance of electronics equipment

Europe

Dainippon Screen (U.K.) Ltd. — **100.0%**
Milton Keynes, U.K.
Sales and maintenance of graphic arts equipment in U.K., Africa and the Near and Middle East and sales of CRT masks in U.K.

Dainippon Screen Engineering of Europe Co., Ltd. — **100.0%**
(Wholly owned subsidiary of Dainippon Screen (U.K.) Ltd.)
Milton Keynes, U.K.
Development and maintenance of graphic arts equipment

Company Name and Location *Principal Business*	Ownership

Dainippon Screen (Deutschland) GmbH — **100.0%**
Düsseldorf, Germany
Sales and maintenance of electronics equipment in Europe and graphic arts equipment in Germany

Dainippon Screen (Nederland) B.V. — **100.0%**
Amstelveen, The Netherlands
Sales and maintenance of graphic arts equipment in Europe

Domestic

First Lease Co., Ltd. — **70.0%**
Kyoto
Lease of Dainippon Screen products

DS Scanner Co., Ltd. — **100.0%**
Osaka
Maintenance of graphic arts equipment in western Japan

DS Technical Research Co., Ltd. — **100.0%**
Kyoto
Development and production of electronics and graphic arts equipment

DST Micronix Co., Ltd. — **70.0%**
Toyama
Production of CRT masks

Tec Communications Co., Ltd. — **100.0%**
Kyoto
Planning and production of documents

DS Tech Tokyo Co., Ltd. — **100.0%**
Tokyo
Maintenance of electronics equipment

DS Tech Kansai Co., Ltd. — **100.0%**
Kyoto
Maintenance of electronics equipment

D.S. Softworks Co., Ltd. — **100.0%**
Kyoto
Development of software for graphic arts equipment

D.S. Techno Service Co., Ltd. — **100.0%**
Tokyo
Maintenance of graphic arts equipment in eastern Japan

PageComp Lab. Corporation — **100.0%**
Tokyo
Development of software for graphic arts equipment

Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd. — **60.0%**
Kyoto
Sales and maintenance of second-hand electronic equipment

Laser Solutions Co., Ltd. — **98.3%**
Kyoto
Development, production and sales of laser microprocessing tools

DS Finance Co., Ltd. — **100.0%**
Kyoto
Factoring services

Board of Directors and Corporate Auditors

As of June 28, 2001

Dainippon Screen Mfg. Co., Ltd.

Directors

Chairman and President	Akira Ishida*
Vice Chairman	Kazuo Hada
Senior Managing Director	Takashige Suetake*
Managing Director	Toshio Nemoto
	Yoshinari Yaoi
	Masahiro Hashimoto
	Shoji Iwamoto
Director	Akira Yamano
	Yoshimitsu Sasaki
	Atsushi Horiba
	Tadashi Omiya

Corporate Auditors

Senior Corporate Auditor	Makoto Onuki
Corporate Auditor	Hideji Ishida
	Fumihiko Iwai
	Masutoshi Takeda

* Representative Director

Investor Information

As of March 31, 2001

Dainippon Screen Mfg. Co., Ltd.

Stock Information

Authorized Number of Shares: 400,000,000
Issued Number of Shares: 186,986,928
Par Value: ¥50
Number of Shareholders: 24,013
Number of Shares Held by Foreign Investors: 18,310,028 (9.79%)
Listings: Tokyo, Osaka, Nagoya
Code Number: 7735

Major Shareholders

	Shares (Thousands)	Percent
1. Nippon Life Insurance Company	11,659	6.24%
2. The Daiwa Bank, Ltd.	8,043	4.30
3. The Bank of Kyoto, Ltd.	6,730	3.60
4. The Bank of Tokyo–Mitsubishi, Ltd.	6,645	3.55
5. The Shiga Bank, Ltd.	4,241	2.27
6. The Chase Manhattan Bank N.A. London	3,973	2.12
7. The Mitsubishi Trust & Banking Co., Ltd. (Accounting in trust)	3,876	2.07
8. Ishida Sangyo Co., Ltd.	3,369	1.80
9. The Dai-Ichi Kangyo Bank, Limited	3,299	1.76
10. The Industrial Bank of Japan, Ltd.	3,128	1.67
11. The Fuji Fire & Marine Insurance Co., Ltd.	2,968	1.59
12. The Chuo Mitsui Trust and Banking Company, Limited (Trustee for pension plan trust fund)	2,675	1.43
13. Dainippon Screen's Employees Shareholders' Association	2,427	1.30
14. Dainippon Screen's Business Partners Shareholders' Association	2,340	1.25
15. The Tokai Bank, Ltd.	2,033	1.09
16. Bankers Trust Number One	2,000	1.07
17. Nippon Trust Bank Limited (Trust assets administration department)	1.846	0.99
18. The Chuo Mitsui Trust and Banking Company, Limited	1,772	0.95
19. Amiten-kai	1,685	0.90
20. Toppan Printing Co., Ltd.	1,668	0.89
TOTAL	**76,384**	**40.85%**

Bank References

The Daiwa Bank, Ltd.
The Bank of Kyoto, Ltd.
The Bank of Tokyo–Mitsubishi, Ltd.
The Shiga Bank, Ltd.
The Industrial Bank of Japan, Ltd.
The Dai-Ichi Kangyo Bank, Limited
The Fuji Bank, Limited

Underwriter

The Nomura Securities Co., Ltd.

Sub-Underwriters

The Nikko Securities Co., Ltd.
Cosmo Securities Co., Ltd.

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E-mail: company@screen.co.jp
Home Page: http://www.screen.co.jp/

Domestic Operations

R&D and Factories: Head office, Nishikyogoku, Rakusai, Kuze, Kumiyama, Hikone, Yasu, and Taga
Branches and Technical Centers: Tokyo, Osaka, Nagoya, Fukuoka, and 13 other branches; and 4 technical centers

Stock Price Range and Turnover