

with **santec**

2001 Santec Group Annual Report

santec

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Securities code:6777

◆ To Our Shareholders	2
◆ Business Performance and Prospects	
Strategic Products Plan for Optical Network	3
Medium-Term Business Plan	5
Research and Development	7
Topics	8
◆ Financial Information	
Financial Highlights (Consolidated Basis)	9
Consolidated Balance Sheets	11
Consolidated Income Statements	12
Consolidated Statements of Retained Earnings	12
Consolidated Statements of Cash Flows	13
Segment Information	14
Performance (Consolidated Basis)	15
Basis of Presenting Consolidated Financial Statements	16
Non-Consolidated Balance Sheets	17
Non-Consolidated Income Statements	18
◆ Shareholder Information	
Stock Information	19
Shareholder Information	20
◆ Santec Group Profile	
Corporate Profile	21
Outline of Group Companies	22

Thanks to the support of our shareholders, Santec was able to make an initial public offering on Nasdaq Japan, operated by the Osaka Securities Exchange, on July 24, 2001.

The following report is an outline of Santec's performance over its 23rd business term (April 1, 2001 to March 31, 2002).

The recent advent of the broadband age has accelerated the globalization and speeded up the general pace of business. Fiscal 2001 was a year of upheaval for the optical communications market, during which we developed a number of measures to deal with the sudden changes in the market.

In the fields of optical thin-film filter technology (optical communication components) and optical measurement technology (optical measuring devices), which have been our core competencies, we have put considerable energy into bolstering our organization by investing existing resources while strengthening human resources development and actively hiring talented researchers and management staff. We have also initiated sweeping structural reforms and worked toward strengthening our production technology and improving our in-house information system.

Performance during the term under review, however, did not meet with expectations, and we regret to inform shareholders that our first business term as a listed company ended with disappointing results.

In order to become the 'Photonics Pioneer of Networking,' we will redouble our efforts to achieve a swift recovery in performance and acquire outstanding product

planning ability and business development speed. Each and every member of staff will work together to develop new products, mainly for the Metro Networks market, while further strengthening research and development and establishing ourselves as a leading optical solutions provider.

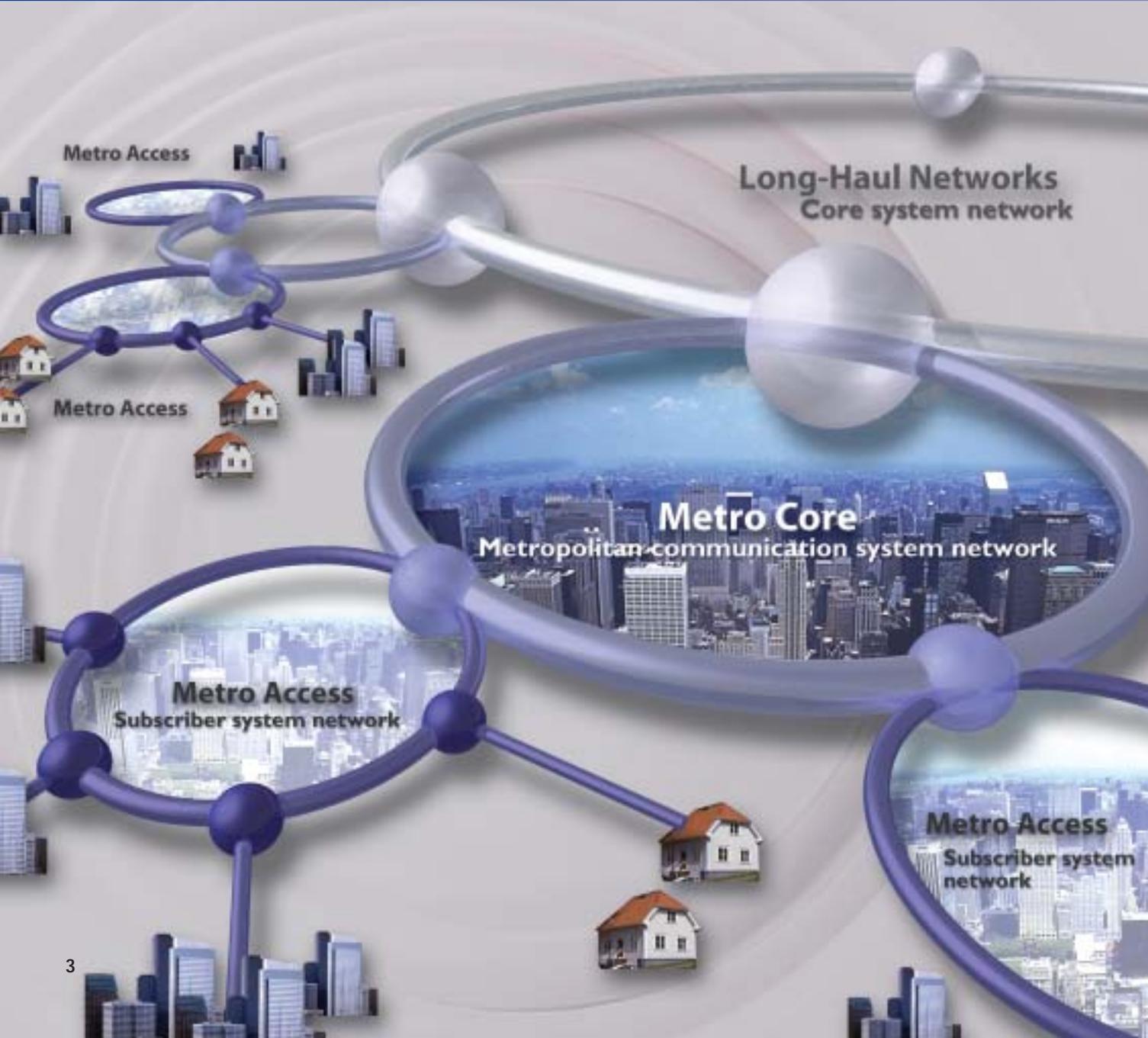
We would like to thank our shareholders for their continued support and assistance.



President & CEO

Daikou Tei

Daikou Tei



Optical Communication Network and Product Strategy

The telecommunications technology that enables high-speed, high-capacity information communications is called wavelength division multiplexing (WDM). High-speed, high-capacity transmission of optical signals is made possible by sending two or more optical signals together along a single wire, heightening the transmission speed and capacity per optical fiber.

Until 2001 it was popular, especially in North America, to set up long-distance trunk lines to link major cities and provide communication from one country to another. Recently, however, we are seeing the rise of inner-city metropolitan WDM networks (Metro Networks) that are routed to corporate and even household networks (via Metro Access). (See diagram on facing page.) Santec manufactures numerous WDM products, now being adopted by many communication equipment manufacturers. In this way, our creative and highly reliable technologies are contributing to telecommunications for the next optical communications age.

New

Strategy: Product competitiveness and new business development
Product characteristics: New products
Target markets: LH, Metro Core / Access markets

This product line-up is designed to meet the needs of an increasingly sophisticated and complex market. The keywords here are modules and sub-systems. This is the product category that receives the most attention and the one that Santec is pouring its energies into most.

Major Products: Optical add drop devices, variable WDM equipment, sub-systems, i-OADM



Standard

Strategy: Maintenance and expansion of product capabilities and quality
Product characteristics: Conventional products
Target markets: Long-Haul Networks

The products in this category are manufactured with Santec's own technology and boast a high share of the market. We will continue to maintain this share and accomplish further developments through active R&D.

Major Products: Wavelength lockers (OWL-10,20), optical attenuators, Optical WDM (wavelength division multiplexers), Wavelength-tunable laser sources



Basic

Strategy: Ensure earnings and invest in R&D
Product characteristics: Mass-produced products
Target markets: Optical communications systems makers, measuring device manufacturers, research institutes

The products in this category are mass-produced because they have become standard in the market. They are designed to be high-quality, low-cost, and produced in mass volumes.

Major Products: Optical monitors (IPD), Metro WDM



Medium-Term Business Plan (7th Medium-Term Business Plan)

Santec implemented its 7th Medium-Term Business Plan for three years from April 2002 to March 2005. Our basic objectives are 'To acquire outstanding product planning ability and business development speed', and our target strategy is to become "The Photonics Pioneer of Networking."

6th Medium-Term Business Plan

The 6th Medium-Term Business Plan was inaugurated in April 1999, during which fell the 20th anniversary of the establishment of the Company. With the basic objective of becoming an R&D-oriented leading manufacturer of products for the telecommunications industry, this was an important plan, designed to bring about a major qualitative change in the Company, transforming it into a leader in the optical communications components and optical measuring devices industries through development of new products and building a high-quality structural organization.

1. Basic Objective : To promote research and development and develop into a leading manufacturer of products for the telecommunications industry

2. Period : April 1, 1999 to March 31, 2002

3. Important measures :

- 1) To achieve a new product contribution to earnings of 30%, three earnings generators in each segment
- 2) To achieve a ratio of 50% in net sales of optical components
- 3) To establish cash flow-focused management and a strong financial position
- 4) To build a high-quality organizational structure
- 5) To establish a total quality control system for development, production and marketing
- 6) To develop and integrate information systems
- 7) Aggressive cost reductions and price policy

7th Medium-Term Business Plan Summary

1. Target Strategy

To become "The Photonics Pioneer of Networking"

2. Period

April 1, 2002 to March 31, 2005

3. Basic Objectives and Important Measures

(1) Basic Objectives

- ① Outstanding product planning ability
- ② Prompt business development

Market needs are set to become increasingly sophisticated and diverse, and price competition is expected to become intense. Therefore, in order to capture the highest market share and raise corporate value, it will be important to develop unique products and market our products expeditiously.

(2) Important Measures

Santec will promote six important measures to achieve the objectives marked out in the medium-term business plan.

- 1) To become faster than rival companies in developing products for the market and cultivate the sub-systems market
- 2) To improve production technology and establish a global production system
- 3) To create a new marketing system and strengthen our new product development capability
- 4) To increase the efficiency of business operations by making free use of information systems
- 5) To pursue aggressive business expansion on the Chinese market
- 6) To promote an acquisition and development (A&D) strategy

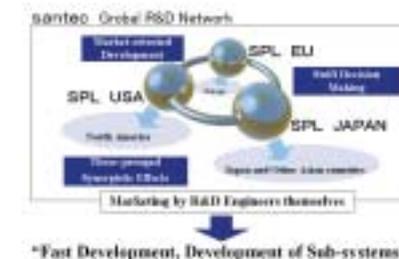
Outpacing rivals in product development and cultivating the sub-systems market

We have established a three-pronged R&D infrastructure encompassing Japan, the U.S., and Europe, under our Santec Photonics Laboratories Corporation (SPL). Research laboratories in each area focus on their own local market, and the markets covered include Japan and other countries in East Asia, North America and Europe. R&D engineers themselves engage in marketing in their local markets, share duties, and expedite development to bring new products to market as quickly as possible.

This global R&D network, which is founded on our tightly-knit information network, shares the development of products, and through systematic decision-making, we aim to make the best use of the synergistic effects created by this three-pronged approach.

Customers' product needs are becoming increasingly complex and sophisticated. One example is the increasing demand for optical components (used in sub-systems).

Through this global R&D network, Santec R&D engineers, who themselves stand on the front line of product marketing, are the first to become aware of customers' needs and use this information to create new products. And since they are better able to seize business opportunities, we have enhanced our presence in the market.



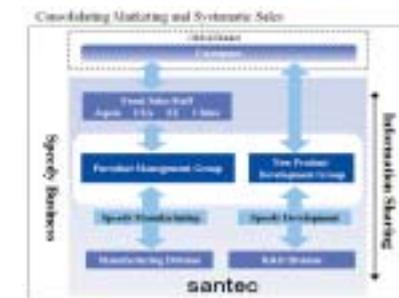
Consolidating Marketing and Systematic Sales

Changes in both customers' needs and technology are expected to occur with increasing speed in the future. Santec believes that the speed with which we respond to these changes is of vital importance.

This is why we established product management groups to handle the marketing of each product on a global scale, as well as a new product development group in our head office, in order to respond to the wishes of customers all over the world and provide them with products promptly.

In each product category, a product manager is responsible for receiving orders, manufacturing and shipping products. While they respond quickly to customers' needs, the New Product Development Groups are busy finding out what customers around the world need and using that information to create new products.

Speedy development and manufacture of products, carried out by the Product Management Group, and new products development centered on its New Product Development Sub-Group, is essential to the development of the Company as a whole.

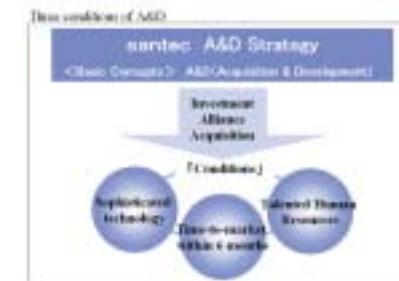


Promoting an acquisition and development (A&D) strategy

Acquisition and development (A&D) refers to the basic aims of the Company's joint business strategy. Santec has laid down three conditions for possible business partners and investments. The Company in question must have

- (1) A sophisticated level of technology
- (2) The ability to turn an idea into a finished product within six months.
- (3) Excellent, well-trained and experienced personnel

Possible partnerships or investments are not to be made solely on the basis of business expansion. Since this strategy is designed to respond to the diverse and sophisticated needs of as many customers as possible, it is important that the business activities of the target company complement and balance with those of Santec.



FY2001 Research and Development

There are currently 29 employees involved in research and development, which is equivalent to approximately 13% of our total staff. Traditionally, Santec carried out its R&D in Japan, but last year an R&D subsystems group was added to operations at Santec USA Corporation. In the near future, we hope to add research and development to our facilities in Europe as well, and thereby create a three-pronged R&D system covering Japan, North America, and Europe. We will improve our organization in each of these R&D facilities, and by having the researchers themselves conduct marketing directly, we will be able to gain a prompt and more accurate grasp of market needs. Based on the optical thin-film filter technologies and other elemental technologies for optical devices, as well as wavelength tuning technologies gained through the development and production of optical components for long-distance communications, the Company has expanded its product development to include higher-value-added, complex modules and other subsystem components. As an optical module solutions provider, Santec is now actively involved in developing products for the metro WDM market.

■Optical components business

Santec is involved in research and development of optical components and optical filters, which are the key elements in optical components for wavelength division multiplexing (DWDM). During the term under review, the Company improved the performance of and upgraded the production of optical filters used in WDM filters and optical tunable filters. We also developed complex i-OADM modules second-generation systems (reconfigurable channel add drop) for optical nodes in optical add/drop modules (OADM) in optical networks and tunable WDM modules for third-generation systems (tunable channel add drop).



Santec optical components

■Optical instruments business

Santec is also conducting research and development on optical testing and measuring devices and optical systems modules, primarily as wavelength-tunable light sources. During the term under review, the Company developed an external cavity-type wavelength-tunable laser source module (SmarTX), in addition to a polarization analysis monitor PAM-320 to measure the degree of polarization (DOP, Stokes parameters) of optical transmission signals.



Santec optical instruments

■Business Expansion in China

In December 2001, the marketing subsidiary we established in Shanghai in the previous month began full-scale operations. We hired three local staff members, and we will actively promote business expansion in China.

<Profile of Santec Shanghai>

Company Name : SANTEC (SHANGHAI) CO.,LTD.
 Location : Shanghai Industrial Investment Building 18C,
 18, Caoxi Road(N), Shanghai, 200030
 Establishment : November 9, 2001
 Representative : Daikou Tei (President & CEO)
 Employees : 3 (as of April 30, 2002)
 Business lines : Marketing of optical components and instruments in China
 and market surveys



Exhibition (November 2001, Beijing)

■Completion of new head office

On November 19, 2001, our head office was moved to Ohkusa Komaki City, Aichi Prefecture. This will enable us to work more efficiently and systematically.



Santec Head Office

■USA laboratory begins operations

In December 2001, the USA laboratory began full-scale operations, part of the effort to establish a global three-pronged R&D system incorporating Japan, North America and Europe. The four employees are engaged in research and development of sub-systems (optical communications modules), while also studying market trends in North America.

<Profile of Santec USA Laboratory>

Location : Hackensack, New Jersey, U.S.A.
 (located in the same venue as subsidiary Santec USA Corporation)
 Lab Chairman : Dr. Peter Kaiser
 (Chairman and CO-CEO of Santec Photonics Laboratory)
 Researchers : 4 (as of May 31, 2002)
 Business Lines : Research and development of optical components



Santec Global Research and Development

During the first half of the term under review, the U.S. economy decelerated, and by summer 2001, this spread to all parts of the world. Adversely affected by this and a number of other movements, a large-scale economic retreat in Japan became unavoidable. Exports and private-sector capital spending declined suddenly, and consumer spending stagnated due to a worsening of the employment situation.

In the first half of the term under review, some short-term investment adjustments were made in the U.S. optical communications market. There was a decline in demand for optical components, but also a worldwide decline in demand for optical communications systems and components, and communications projects at first planned for outside the U.S. inevitably became postponed or discontinued.

Under these conditions, Santec worked hard to attract steady orders from Japanese and European companies during the first quarter, to compensate for the declining sales in the optical components in North America. After the summer months, the number of orders received took a dive, however, as more communications projects were postponed or cancelled and major clients cancelled their tentative order contracts. Prolonged adjustment of capital investments on the North American market caused severe marketing and price competition in both Japan and Europe, and product prices declined dramatically.

In the latter half of the term under review, major network system vendors who are also our clients, conducted numerous plants closures and mergers and implemented unprecedented large-scale corporate restructuring in the form of employee layoffs. Many inquiries concerning Company products were requests for major price reductions, and there was a large-scale decrease in the number of orders for Company products.

While coping with sudden declines in sales, the Company suffered a major decline in profits since despite efforts to reduce expenses by lowering remunerations and salaries of directors' and salaried employees, dismissing all contracted employees and temporary staff, we could not compensate for the increase in fixed expenses including depreciation expenses for a new plant and head office building.

As a result, Company performance for the term under review included a 44.5% year-on-year decrease in net sales, to ¥5,232 million, a 99.9% drop in operating income, to ¥3 million, a recurring loss of ¥142 million, compared to a recurring profit of ¥3,969 million the previous year, and a net loss of ¥30 million, compared to net income of ¥2,010 million the previous year.

Performance (consolidated basis) (Millions of yen)

For the years ended March 31	2001 (23rd business term)	2000 (22nd business term)
Net sales	5,232	9,428
Recurring profit (loss)	(142)	3,969
Net income (loss)	(30)	2,010
Earnings (net loss) per share (yen)	(2.77)	221.01 ※
Shareholders'equity	14,133	6,033
Equity per share (yen)	1,183.83	639.21 ※

※ The figures for equity per share and earnings per share have been calculated on a diluted basis.

■Net Sales

Net sales for the term under review totaled ¥5,232 million on a consolidated basis, a ¥4,196 million decrease from the previous year. The following section outlines performance by business segments.

■Optical components business

In the optical components business, Net sales decreased by ¥2,462 million to ¥3,048 million, in 2001 compared with 2000 on a consolidated basis, primarily due to decline in demand from North American telecommunications equipment manufacturers and a substantial drop in product prices. Especially, there was a big decline in demand for high-performance components such as wavelength lockers and other main products for the Long-Haul Network. Optical components accounted for 58.3% of the Company's total sales, a rise of 0.2% from the previous year.

■Optical instruments business

In the optical instruments business, Net sales decreased by ¥1,295 million to ¥1,971 million in 2001 compared with 2000. The decrease is primarily due to decline in capital expenditure in the optical communications industry mainly in North America. Optical instruments accounted for 37.7% of the Company's total sales, a 3.1% increase over the same period of the previous year. Sales for the image processing business, which were posted as an independent segment up until the previous year as part of the image processing business, are from the term under review registered under sales of the optical instruments business. As a result, sales for the optical instruments business increased ¥30 million for the term under review.

■Net sales by region

Sales to Japan and other countries in Asia decreased by ¥2,315 million to ¥1,781 million, or a 56.5%, year-on-year decrease. Sales to North America totaled ¥2,121 million, a ¥2,011 million, or 48.7%, year-on-year decrease, and sales to Europe totaled ¥1,329 million, a ¥130 million, or 10.9%, increase over the previous year.

Overseas sales were 68.3% of the Company's total sales on a consolidated basis, a 10.2% increase over the previous year. The ratio of sales to North America was 40.6%, a 3.2% year-on-year decrease, and the ratio of sales to Europe was 25.4%, a 12.7% year-on-year increase.

■R&D expenses

R&D expenses totaled ¥567 million, increased by ¥136 million in 2001 compared with 2000 expenditure. A significant portion of the increase is due to starting up the research segment at Santec USA Corporation. We will put more priority on the development of sub-systems and complex module technology, aiming for accelerating product planning and development for the Metro Networks.

■Capital expenditure

Capital expenditure totaled ¥2,443 million, including ¥1,871 million for buildings and structures for the completion of the new head office building, ¥217 million for optical component manufacturing equipment, and ¥182 million for an enterprise resource planning (ERP) system.

■Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") totaled ¥6,539 million at term-end, a ¥2,874 million year-on-year increase, due to an increase in net cash provided by financing activities, which offset decreases in cash from operating and investing activities.

During the term, net cash used in operating activities totaled ¥1,085 million as a mixed result of the following factors. Income factors consisted mainly of a ¥1,759 million decrease in trade receivables, a ¥454 million decrease in inventories, and ¥504 million in depreciation expenses, and expenditure factors consisted mainly of a ¥1,882 million decrease in trade payables and ¥1,644 in income taxes.

Net cash used in investing activities amounted to ¥3,352 million, primarily due to the expenditure of ¥3,192 million in acquiring tangible fixed assets.

Net cash provided by financing activities during the term came to ¥7,321 million, primarily due to ¥8,225 million in proceeds from the issuance of Company shares.

Consolidated Balance Sheets

Segment	(thousands of yen)	
	2002 As of March 31	2001 As of March 31
ASSETS		
Current assets	8,816,748	7,623,390
Cash and deposits	3,087,740	3,680,983
Notes and accounts receivable	504,510	2,235,038
Marketable securities	3,501,698	-
Inventories	954,745	1,395,154
Deferred tax assets	398,823	214,610
Other	376,022	97,603
Allowance for doubtful accounts	(6,792)	-
Fixed assets	6,937,568	4,875,217
Tangible fixed assets	6,428,062	4,610,987
Buildings and structures	3,509,945	2,254,313
Machinery, equipment and vehicles	245,086	40,393
Land	1,938,268	1,938,268
Other	734,762	378,011
Intangible assets	314,137	72,869
Investments and other assets	195,368	191,360
Deferred charges	48,983	12,254
Total assets	15,803,300	12,510,863
LIABILITIES		
Current liabilities	1,102,652	5,409,428
Notes and accounts payable	336,575	2,119,209
Short-term debt	248,240	381,147
Income taxes payable	23,460	1,257,964
Deferred tax liabilities	17,428	18,337
Accrued bonuses	20,663	15,758
Notes payable - construction	287,315	1,195,200
Other	168,967	421,811
Long-term liabilities	567,109	1,068,034
Long-term debt	226,170	714,659
Deferred tax liabilities	5,985	7,740
Reserve for employees' retirement benefits	84,626	69,473
Reserve for directors' retirement allowances	249,486	275,281
Other	840	880
Total liabilities	1,669,761	6,477,463
SHAREHOLDERS' EQUITY		
Common stock	4,975,000	1,255,000
Additional paid-in capital	5,502,400	997,400
Retained earnings	3,509,170	3,720,367
Unrealized gain on investment securities	699	2,847
Translation adjustments	146,268	57,784
Total shareholders' equity	14,133,538	6,033,399
Total liabilities and shareholders' equity	15,803,300	12,510,863

Consolidated Income Statements

Segment	(thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Net sales	5,232,386	9,428,391
Cost of sales	2,983,347	4,066,512
Gross profit	2,249,038	5,361,879
Selling, general and administrative expenses	1,678,086	1,133,398
Research and development expenses	567,284	430,596
Operating income	3,667	3,797,884
Non-operating income	52,395	214,176
Interest income	26,662	27,043
Dividend received	142	178
Rent received	9,069	6,060
Foreign exchange gain	-	169,030
Refund on insurance cancellation	13,089	-
Other	3,431	11,863
Non-operating expenses	198,968	42,781
Interest expense	17,576	27,291
Amortization of share issuance costs	27,555	6,127
Depreciation and amortization	25,372	-
Foreign exchange loss	69,867	-
IPO expenses	57,969	-
Other	627	9,363
Recurring profit (loss)	(142,906)	3,969,279
Non-recurring gain	26,002	24,070
Gain on sale of fixed assets	207	-
Reversal of allowance for doubtful accounts	-	7,925
Reversal of reserve for employees' retirement benefits	-	16,144
Reversal of reserve for directors' retirement allowances	25,794	-
Non-recurring loss	2,523	254,707
Loss on sale of fixed assets	308	-
Loss on valuation of investment securities	2,215	-
Provision for directors' retirement allowances for prior services	-	254,707
Income (loss) before income taxes	(119,427)	3,738,642
Income taxes - current	99,884	1,904,510
Income taxes - deferred	(188,447)	(176,839)
Net income (loss)	(30,864)	2,010,971

Consolidated Statements of Retained Earnings

Segment	(thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Retained earnings at beginning of term	3,720,367	1,768,395
Decrease	180,332	59,000
Cash dividends	160,332	48,000
Bonuses to directors	20,000	11,000
Net income (loss)	(30,864)	2,010,971
Retained earnings at end of term	3,509,170	3,720,367

Consolidated Statements of Cash Flows

Segment	(thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Cash flows from operating activities		
Income (loss) before income taxes	(119,427)	3,738,642
Depreciation and amortization	504,666	199,311
Increase in reserve for employees' retirement benefits	15,153	1,015
Increase (decrease) in reserve for directors' retirement benefits	(25,794)	275,281
Increase in accrued bonuses	4,905	6,648
Increase (decrease) in allowance for doubtful accounts	6,792	(7,925)
IPO expenses	57,969	-
Interest and dividend income	(26,805)	(27,222)
Foreign exchange loss	69,867	-
Interest expense	17,576	27,291
Loss on valuation of investment securities	2,215	-
Amortization of share issuance costs	27,555	6,127
Gain on sale of tangible fixed assets	(207)	-
Loss on sale of tangible fixed assets	308	-
Decrease (increase) in trade receivables	1,759,543	(550,098)
Decrease (increase) in inventories	454,011	(637,650)
Increase (decrease) in trade payables	(1,882,072)	991,836
Increase (decrease) in consumption tax payable	22,522	(46,944)
Payment of bonuses to directors and auditors	(20,000)	(11,000)
Other	(318,718)	336,603
Sub-total	550,061	4,301,917
Interest and dividend received	26,786	27,222
Interest paid	(17,576)	(27,291)
Income taxes paid	(1,644,454)	(1,291,692)
Net cash provided by (used in) operating activities	(1,085,182)	3,010,155
Cash flows from investing activities		
Increase in time deposits	(32,812)	(12,003)
Purchases of tangible fixed assets	(3,192,805)	(1,945,086)
Proceeds from sale of tangible fixed assets	2,676	7,947
Purchases of intangible assets	(119,489)	-
Purchases of investment securities	(9,336)	(2,009)
Other	(1,027)	(9,138)
Net cash used in investing activities	(3,352,794)	(1,960,291)
Cash flows from financing activities		
Decrease in short-term debt, net	(100,000)	(240,000)
Repayment of long-term debt	(521,396)	(464,354)
Proceeds from issuance of stock	8,225,000	2,012,400
Cash dividends paid	(160,332)	(48,000)
Other	(122,253)	(18,382)
Net cash provided by financing activities	7,321,017	1,241,663
Effect of exchange rate changes on cash and cash equivalents	(8,650)	92,941
Net increase in cash and cash equivalents	2,874,389	2,384,468
Cash and cash equivalents at beginning of term	3,664,979	1,280,510
Cash and cash equivalents at end of term	6,539,369	3,664,979

Segment Information

Segment information by business type

Net sales breakdown

Segment	(Thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Optical component business	3,048,886	5,511,428
Optical instrument business	1,971,194	3,266,424
Other	212,305	650,537
Consolidated adjustments	5,232,386	9,428,391

Operating income breakdown

Segment	(Thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Optical component business	458,812	2,799,863
Optical instrument business	935,399	1,857,824
Other	114,879	154,410
Inter-segment transaction cancellations	(1,505,424)	(1,014,214)
Consolidated adjustments	3,667	3,797,884

Segment information by region

Net sales breakdown

Segment	(Thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Japan	4,049,482	8,028,507
North America	2,161,194	4,237,669
Europe	1,335,973	1,204,329
Other	-	-
Inter-segment transaction cancellation	(2,314,264)	(4,042,114)
Consolidated adjustments	5,232,386	9,428,391

Operating income breakdown

Segment	(Thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Japan	363,700	4,232,866
North America	15,220	443,456
Europe	303,854	143,881
Other	(5,832)	-
Inter-segment transaction cancellation	(673,275)	(1,022,319)
Consolidated adjustments	3,667	3,797,884

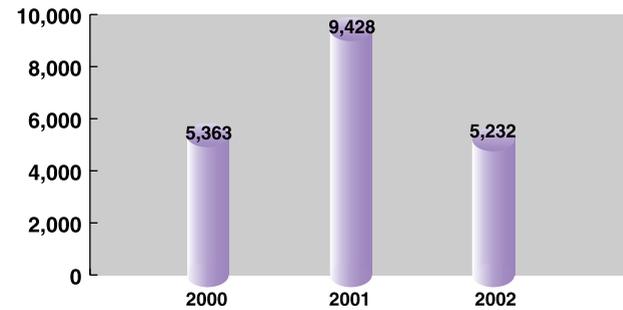
Net sales(excluding Japan) breakdown

Segment	(Thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
North America	2,121,866	4,133,013
Europe	1,329,404	1,198,718
Other regions	119,942	143,080
Total	3,571,213	5,474,812

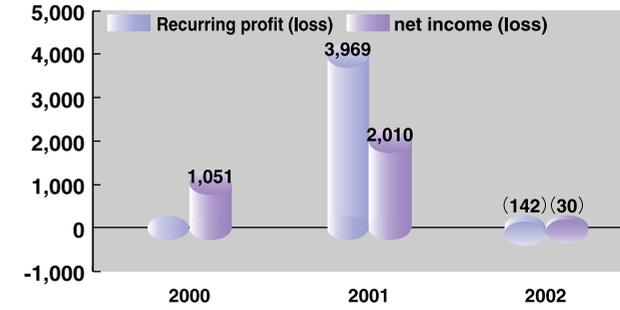
Note: In the segment information by business type, the optical instruments business in the 22nd business term includes the results for the image processing business.

■ Performance (Consolidated Basis)
Years ended March 31

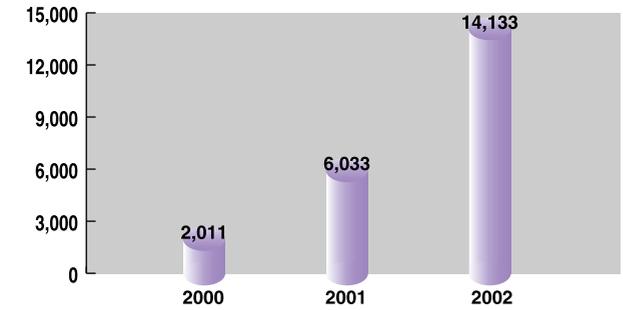
Net sales (Millions of yen)



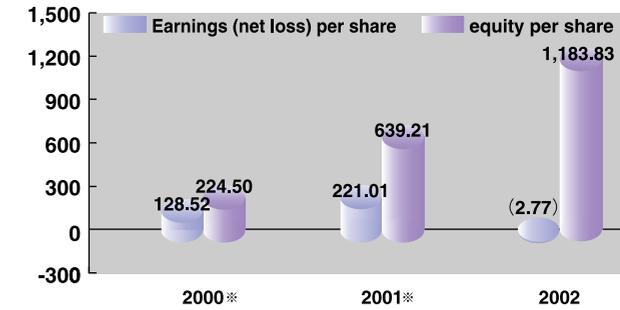
Recurring profit(loss) / net income (loss) (Millions of yen)



Net assets (Millions of yen)



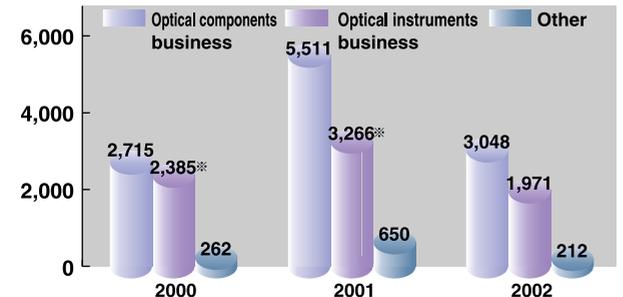
Earnings (net loss) per share / equity per share (Yen)



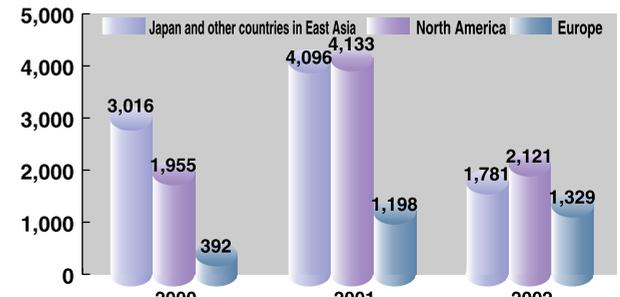
※ On diluted basis

■ Net sales by segments

Segments by business type (Millions of yen)



Segments by region (Millions of yen)



■ Basis of Presenting Consolidated Financial Statements

- 1 Scope of Consolidation
 - (1) Consolidated subsidiaries
All 6 subsidiaries, Santec Laser Corp., Santec Photonics Laboratories Corp., Santec O.C.C. Corp., Santec U.S.A. Corp., Santec Europe Ltd., Santec (Shanghai) Co.,Ltd. are consolidated. Santec O.M.C. Corp. which was a consolidated subsidiary in the previous term, was merged with Santec Laser Corp. as of March 31, 2001. Santec (Shanghai) Co., Ltd. was established in November 2001.
 - (2) Non-consolidated subsidiaries
None
- 2 Equity method affiliates
None
- 3 Account settlement dates of consolidated subsidiaries
The account settlement dates are March 31 except for Santec (Shanghai) Co.,Ltd. whose relevant date is December 31. For preparing the consolidated financial statements of the Company, provisional figures calculated based on the consolidated account settlement date are used for Santec (Shanghai) Co., Ltd.
The account settlement dates for Santec Laser Corp. Santec Photonics Laboratories Corp. Santec U.S.A. Corporation and Santec Europe Ltd. are March 31, changed from December 31 for the previous term.
- 4 Accounting principles
 - (1) Asset valuation method
 - (a) Marketable Securities
Available-for-sale securities with market quotation stated at fair value, based on market prices on account settlement date (unrealized gains or losses are directly charged to shareholders' equity and cost of sales is calculated by the moving-average method
Other securities:
at cost, determined by the moving-average method
 - (b) Inventories
Merchandise
at cost, determined by individual method
Finished goods and work in progress
at cost, determined by the period average method
Raw materials
at cost, determined by the moving average method
 - (2) Depreciation
 - (a) Tangible fixed assets
depreciated primarily by the declining balance method (buildings acquired on or after April 1, 1998 are depreciated by the straight-line method.) For useful lives and residual value of the assets, the standard stipulated in the corporation tax law is adopted. Some overseas subsidiaries, however, adopt the straight-line method. (Additional information)
For computers held by the Company and Santec O.C.C. Corp. posted under Others of tangible fixed assets, useful lives were shortened according to the change of legal useful lives in the tax law. This change had little effect on income and losses.
 - (b) Intangible assets
depreciated using the straight-line method. In-house use software is depreciated over 5 years, the useful life in line with the internal regulations.
 - (c) Long-term prepaid expenses
depreciated using the straight-line method.
- (3) Reserves and allowances
 - (a) Allowance for doubtful accounts
Provisions for doubtful accounts are generally made on the basis

of historical default rates. Claims whose collectibility is deemed doubtful are provided for in the expected uncollectible amounts, giving due consideration to the specific circumstances. Overseas consolidated subsidiaries, however, post the expected uncollectible amounts by individual estimation.

- (b) Accrued Bonuses
Provisions for employees' bonus payments are, except for those of overseas consolidated subsidiaries, based on the expected amounts of payment.
- (c) Reserve for employees' retirement benefits
Provisions for employees' retirement benefits are made in the amount deemed necessary at the term end assuming that all employees terminate their services voluntarily at the term end.
- (d) Reserve for directors' retirement allowances
Provisions for directors' retirement allowances are made in the amount deemed necessary at the term end in accordance with the internal regulations.
- (4) Leases
Finance leases other than those which are deemed to transfer the ownership of the leased asset to the lessee are accounted for by a method similar to that applicable to ordinary operating leases.
- (5) Consumption taxes
Consumption taxes withheld and consumption taxes paid are not included in the accompanying statements of operations.
- 5 Valuation of assets and liabilities held by consolidated subsidiaries
These assets and liabilities are stated by partial application of fair value method.
- 6 Amortization of consolidation adjustments
Consolidation adjustments are amortized when they occur.
- 7 Preparation of statements of retained earnings
Statements of retained earnings are prepared in line with the appropriation of retained earnings during the term.
- 8 Cash and cash equivalents as stated in the consolidated statements of cash flows
Cash and cash equivalents, as presented on the consolidated statements of cash flows, is comprised of cash on hand, deposits at sight, and short-term investments that can be easily converted to cash and are not exposed to significant risk of price changes, with or redemption maturity of 3 months or less counting from the acquisition date.

■ Non-Consolidated Balance Sheets

Segment	(thousands of yen)	
	2002 As of March 31	2001 As of March 31
ASSETS		
Current assets	6,419,858	5,848,642
Cash and deposits	2,015,550	2,191,443
Notes and accounts receivable	343,908	2,358,382
Marketable securities	3,501,698	-
Inventories	200,997	1,012,067
Deferred tax assets	-	86,322
Other	357,703	200,426
Fixed assets	7,790,583	4,746,111
Tangible fixed assets	5,886,528	4,217,467
Buildings and structures	3,503,632	2,246,778
Machinery, equipment and vehicles	156,048	32,768
Land	1,894,819	1,894,819
Other	332,027	43,101
Intangible assets	299,664	69,595
Investments and other assets	1,604,390	459,048
Deferred charges	48,983	12,254
Total assets	14,259,425	10,607,008
LIABILITIES		
Current liabilities	769,189	4,806,118
Notes and accounts payable	135,860	2,062,746
Short-term debt	248,240	380,396
Income taxes payable	-	1,071,782
Deferred tax liabilities	17,428	-
Accrued bonuses	5,212	4,806
Notes payable - construction	287,315	1,195,200
Other	75,131	91,186
Long-term liabilities	561,123	1,058,973
Long-term debt	226,170	713,339
Reserve for employees' retirement benefits	84,626	69,473
Reserve for directors' retirement allowances	249,486	275,281
Other	840	880
Total liabilities	1,330,312	5,865,091
SHAREHOLDERS' EQUITY		
Common stock	4,975,000	1,255,000
Additional paid-in capital	5,502,400	997,400
Retained earnings	2,451,013	2,486,669
Unrealized gain on investment securities	699	2,847
Total shareholders' equity	12,929,112	4,741,916
Total liabilities and shareholders' equity	14,259,425	10,607,008

■ Non-Consolidated Income Statements

Segment	(thousands of yen)	
	2002 For the year ended March 31	2001 For the year ended March 31
Net sales	4,049,482	8,028,507
Cost of sales	2,082,175	4,193,916
Gross profit	1,967,307	3,834,591
Selling, general and administrative expenses	1,191,399	768,065
Research and development expenses	405,000	350,000
Operating income	370,907	2,716,525
Non-operating income	191,300	199,744
Interest income	9,565	1,344
Dividend received	142	178
Rental revenues	163,886	191,203
Foreign exchange gain	841	-
Other	16,865	7,017
Non-operating expenses	319,578	124,146
Interest income	17,453	26,560
Amortization of share issuance costs	27,555	6,127
Depreciation and amortization	216,073	85,814
Foreign exchange loss	-	977
IPO expenses	57,969	-
Other	527	4,666
Recurring profit	242,628	2,792,122
Non-recurring gain	25,794	28,144
Reversal of allowance for doubtful accounts	-	12,000
Reversal of reserve for employees' retirement benefits	-	16,144
Reversal of reserve for directors' retirement allowances	25,794	-
Non-recurring loss	2,523	254,707
Loss on sale of fixed assets	308	-
Loss on valuation of investment securities	2,215	-
Provision for directors' retirement allowances for prior services	-	254,707
Income before income taxes	265,899	2,565,560
Income taxes - current	14,587	1,397,762
Income taxes - deferred	106,636	(167,890)
Net income	144,676	1,335,688
Retained earnings brought forward from previous term	2,074,334	1,108,862
Interim cash dividends	89,541	24,000
Unappropriated retained earnings at end of term	2,129,469	2,420,550

■ Non-Consolidated Appropriation of Retained Earnings

Segment	(thousands of yen)	
	2002 As of June 25	2001 As of May 30
Unappropriated retained earnings at end of term	2,129,469	2,420,550
Disposition of voluntary reserve	1,238	874
Total	2,130,707	2,421,424
Appropriations		
Legal reserve	-	253,750
Cash dividends	89,541	70,791
Bonuses to directors	-	20,000
Voluntary reserve	-	2,548
Unappropriated retained earnings carried forward	2,041,166	2,074,334

(as of March 31, 2002)

- Shares authorized for issuance 37,755,200 shares
- Shares issued and outstanding 11,938,800 shares

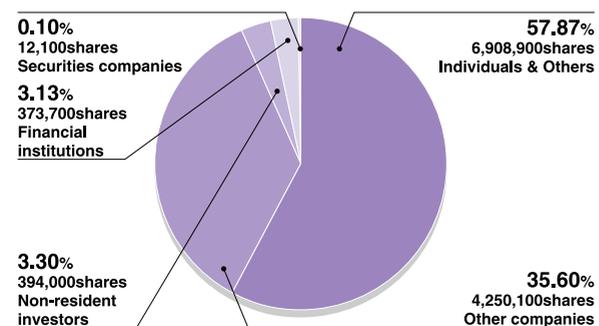
- Number of shareholders 5,421

■ Top 10 shareholders

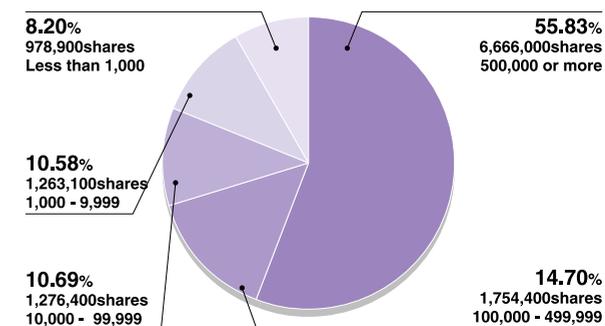
Name of shareholders	Shares held	Equity stake (%)
Kowa Ltd.	3,794,000	31.78
Masao Sadamura	806,000	6.75
Sachie Sadamura	554,000	4.64
Daikou Tei	504,000	4.22
Mototaka Tei	504,000	4.22
Masataka Tei	504,000	4.22
Akio Yamane	400,500	3.35
Mitsuko Nomura	252,000	2.11
Santec Employee Shareholding Association	185,600	1.55
The Chase Manhattan Bank NA, London	185,600	1.55
Total	7,689,700	64.41

Share distribution

■ Shareholding by type of shareholder



■ Shareholding by number of shares held



- Account settlement date
- Date of general meeting of shareholders
- Register closing date for dividend payments

March 31
Sometime in June
Term-end dividend March 31
Interim dividend September 30

- Base date

March 31
or the date announced in advance whenever necessary

- Transfer Agent

The Chuo Mitsui Trust and Banking Co., Ltd.
3-33-1 Shiba, Minato-ku, Tokyo

- Transfer handling office

The Chuo Mitsui Trust and Banking Co., Ltd.
Nagoya Branch
2-3-6 Sakae, Naka-ku, Nagoya 460-8685
Tel: +81-52-231-1145

- Agency office

The Chuo Mitsui Trust and Banking Co., Ltd.
Head Office and branches nationwide
Japan Securities Agents, Ltd.
Head office and branches nationwide

Note:

Please contact our transfer agent at their toll-free number (0120-87-2031) or website (<http://www.chuomitsui.co.jp/>) for application forms necessary for address changes, claims for purchase of shares less than the minimum trading unit and specification of bank account to receive dividend.

- Auditing Firm

ChuoAoyama Audit Corp. Nagoya Office
7th Floor, Dainagoya Bldg., 28-12, Meieki 3-chome, Nakamura-Ku, Nagoya, 450-8565

- Newspaper for public notice

The Nihon Keizai Shinbun

- URL for Balance sheet and Income statement

<http://www.santec-net.co.jp/>

- Stock listed

Nasdaq Japan at Osaka Securities Exchange

Corporate Profile (as of June 25, 2002)

- Trade name **SANTEC CORPORATION**
- Head office **5823 Okusa-Nenjozaka, Komaki, Aichi 485-0802, JAPAN**
- Establishment **August 25, 1979**
- Paid-in capital **¥4,975 million**
- Employees **202 (as of March 31)**
 Note: The number is on a consolidated basis. For the parent company, the number is 51.
- Board of Directors

Daikou Tei	President	Chief Executive Officer
Tsutomu Aoyama	Executive Vice President	Chief Technical Officer
Takao Ichihashi	Executive Vice President	Chief Operating Officer
Naoyuki Mekada	Senior Vice President	New Product Development, Sales & Marketing(Optical Components)
Eiji Tajima	Director	Manufacturing
Mototaka Tei	Director	President, Santec U.S.A. Corporation
Nobuhito Sugimoto	Director	New Product Marketing
Satoshi Tsuzuki	Auditor(standing)	
Masayoshi Umeno	Auditor	
Masayuki Miyake	Auditor	

Note: Corporate Auditors Satoshi Tsuzuki, Masayoshi Umeno and Masayuki Miyake are outside corporate auditors as stipulated in Article 18, Clause 1 of the Law for Special Exception to the Commercial Code concerning Audits, etc., of corporations.
- Officers

Yoshihiro Kawada	Product Engineering	
Hoshihide Imashiro	General Affairs	
Mitsuko Nomura	Accounting	
Tetsuya Deguchi	Sales in Asia	
Nobuyuki Sasaki	Sales & Marketing(Laser instruments & Thin-Film Filter)	
- Directors in Group Companies

SANTEC O.C.C. CORPORATION		
Eiji Tajima	President	
Naoyuki Mekada	Director	
Yoshihiro Kawada	Director	
Nobuyuki Sasaki	Director	
Noboru Uehara	Director	
SANTEC PHOTONICS LABORATORIES CORPORATION		
Daikou Tei	President&CEO	
Peter Kaiser	Chairman & Co-CEO	
Tsutomu Aoyama	Director	
Naoyuki Mekada	Director	
David Heard	Director	
SANTEC U.S.A. CORPORATION		
Mototaka Tei	President	
Daikou Tei	Director	
Hiroshi Sogabe	Director	
SANTEC Europe Ltd.		
Daikou Tei	Director	
David Heard	Director	
Masataka Tei	Director	
SANTEC (SHANGHAI) CO., LTD.		
Daikou Tei	President	
Takao Ichihashi	Director	
Nobuhito Sugimoto	Director	
Feng Xue Huang	Vice President	

Outline of Group Companies (as of April 1, 2002)

- Japan

SANTEC O.C.C. CORPORATION	
Established	April 1999
Capital	¥40 million
Business line	Manufacture of optical components and optical measuring equipment
Employees	105
- Overseas

SANTEC PHOTONICS LABORATORIES CORPORATION	
Established	January 1999
Capital	¥40 million
Business line	Research and development of optical telecommunications technology
Employees	22
- Overseas

SANTEC U.S.A. CORPORATION	
Established	November 1985
Capital	¥27,537 thousand
Business line	Marketing optical components and optical measuring equipment to North America
Employees	16 (including 2 at a research center)
- Overseas

SANTEC Europe Ltd.	
Established	August 1999
Capital	¥42,448 thousand
Business line	Marketing optical components and optical measuring equipment to Europe
Employees	6
- Overseas

SANTEC (SHANGHAI) CO.,LTD.	
Established	November 2001
Capital	¥25 million
Business line	Marketing optical components and optical measuring equipment to China
Employees	3

