

# Financial Highlights

## Financial Highlights of Hamamatsu Photonics K.K.

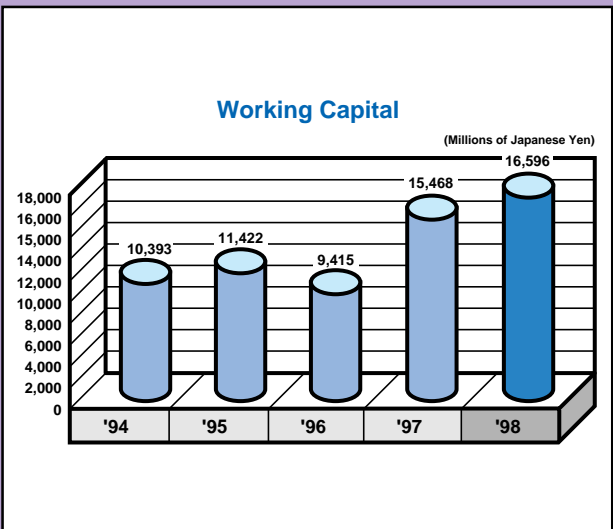
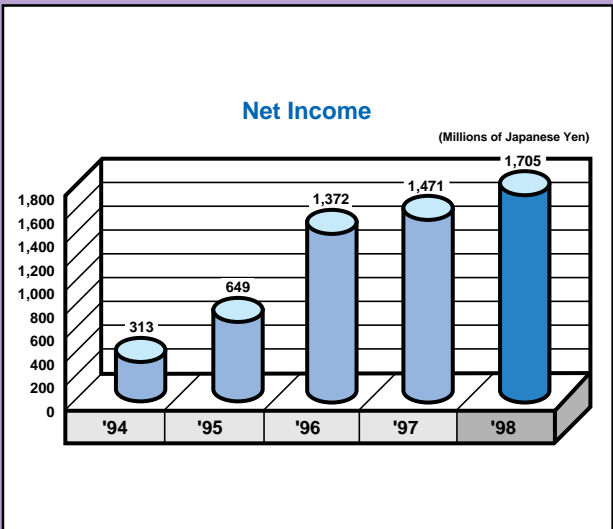
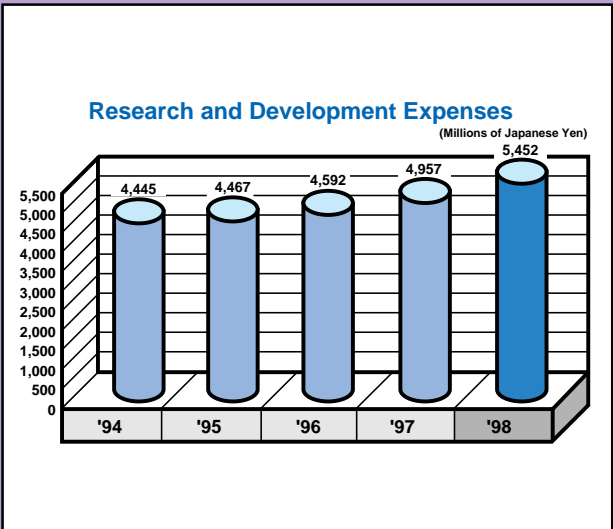
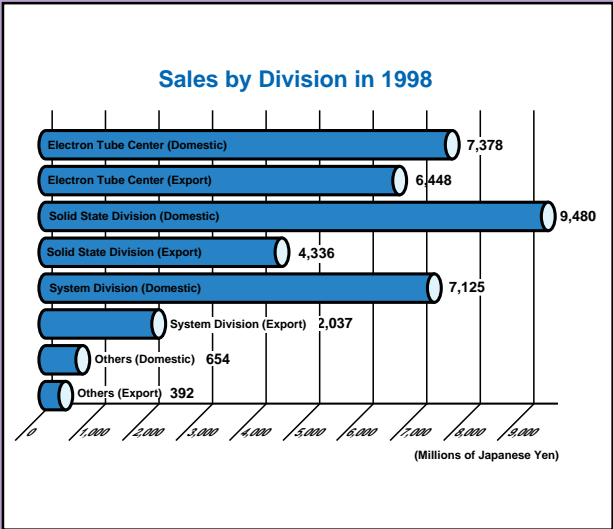
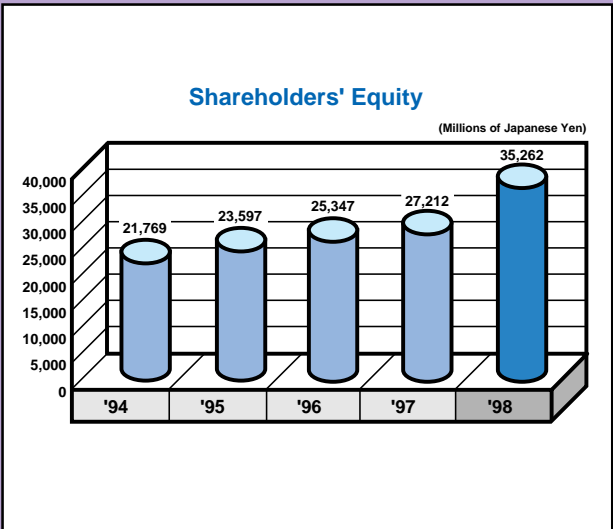
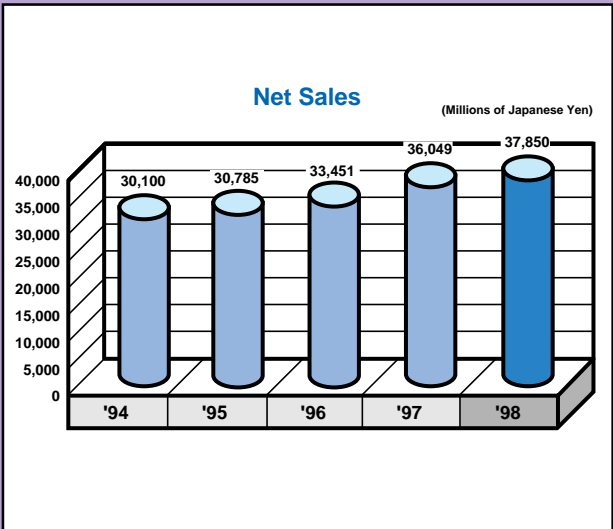
### Non-Consolidated:

	Millions of Japanese Yen			Thousands of U.S. Dollars		
	1996	1997	1998	1996	1997	1998
Net Sales	¥33,451	¥36,049	<b>¥37,850</b>	\$247,785	\$267,030	<b>\$280,370</b>
Net Income	1,372	1,471	<b>1,705</b>	10,163	10,896	<b>12,630</b>
Shareholders' Equity	25,347	27,212	<b>35,262</b>	187,756	201,571	<b>261,201</b>
Working Capital	9,415	15,468	<b>16,596</b>	69,741	114,578	<b>122,934</b>
R & D Expenses	4,592	4,957	<b>5,452</b>	34,015	36,719	<b>40,385</b>
Per Share Data (in Yen and Dollars)						
Net Income ( * ):	¥54.10	¥54.50	<b>¥59.22</b>	\$0.40	\$0.40	<b>\$0.44</b>
Cash Dividends	¥14.00	¥16.50	<b>¥17.50</b>	\$0.10	\$0.12	<b>\$0.13</b>

### Consolidated:

	Millions of Japanese Yen			Thousands of U.S. Dollars		
	1996	1997	1998	1996	1997	1998
Net Sales	¥42,102	¥42,789	<b>¥45,606</b>	\$311,867	\$316,956	<b>\$337,822</b>
Net Income	2,072	1,199	<b>1,676</b>	15,348	8,881	<b>12,415</b>
Shareholders' Equity	27,623	29,212	<b>37,232</b>	204,615	216,386	<b>275,793</b>
Working Capital	11,338	17,391	<b>20,260</b>	83,985	128,822	<b>150,074</b>
R & D Expenses	5,046	5,345	<b>6,023</b>	37,378	39,593	<b>44,615</b>
Per Share Data (in Yen and Dollars)						
Net Income ( * ):	¥81.69	¥44.45	<b>¥58.21</b>	\$0.61	\$0.33	<b>\$0.43</b>

( \* ) Net income per share is based on the weighted average number of shares outstanding during the respective years.  
The U.S. dollar amounts above and elsewhere in this report represent translations, solely for the convenience of the reader, using the exchange rate of Japanese ¥135 = U.S.\$1.



# Financial Review

## Net Sales

Total sales for the fiscal year ending September, 1998, were 37,850 million yen (US\$280.4 million). This was an increase of 1,801 million yen (US\$13.3 million) or 5.0% from the last fiscal year and was another record high in the company's history. Though the Japanese economy remained stagnant during the year, domestic sales increased from 23,865 million yen (US\$176.8 million) to 24,637 million yen (US\$182.5 million). Export sales were also up from 12,184 million yen (US\$90.3 million) to 13,213 million yen (US\$97.9 million), a 8.4% increase.

The Electron Tube Center posted a net sales of 13,827 million yen (US\$102.4 million), 1.8% down from 14,085 million yen (US\$104.3 million) of the previous year. Both domestic and export sales decreased from 7,575 million yen (US\$56.1 million) and 6,510 million yen (US\$48.2 million) to 7,378 million yen (US\$54.7 million) and 6,449 million yen (US\$47.8 million).

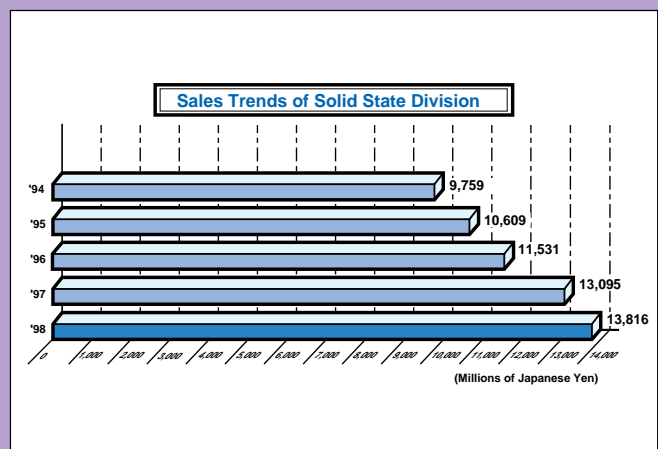
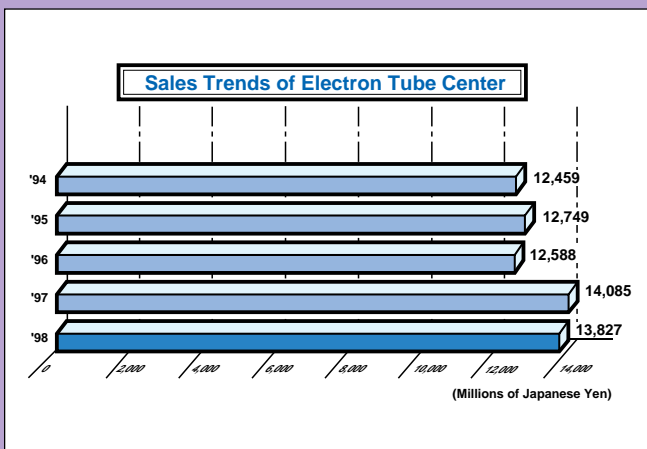
The net sales for Division I dropped 6.0% to 7,485 million yen (US\$55.4 million), suffering from the loss in sales of Photomultiplier tubes, the main product of the division, especially in the U.S market. Sales in domestic and overseas were 2,748 million yen (US\$20.4 million) and 4,737 million yen (US\$35.1 million), down by 2.6% and 7.9% from the year before respectively. Net sales of Division II increased 3.6 % to 6,342 million yen (US\$47.0 million) driven especially by markets outside Japan, though it was not sufficient to offset the loss in Division I. Exports of the division went up to 1,712 million yen (US\$12.7 million) by 25.2% while domestic sales went down 2.6% to 4,630 million yen (US\$34.3 million).

Net sales of the Solid State Division grew favorably to 13,816 million yen (US\$47.0 million) in the fiscal year 1998 from 13,095 million yen (US\$97.0 million) in 1997, an increase of 5.5%. The increase in net sales during the year was primarily a result of increasing unit sales of Silicon Photodiodes, the division's main product to medical, analytical and information fields. Image sensors in the analytical and medical fields also contributed to the increase in sales. Domestic sales increased from 9,257 million yen (US\$68.6 million) to 9,480 million yen (US\$70.2 million). Export sales were also up from 3,838 million yen (US\$28.4 million) to 4,336 million yen (US\$32.1 million), a 13.0 % increase.

The System Division showed a recovery and had record high sales in 1998. Total sales for the division were 9,162 million yen (US\$67.9 million), a 8.2% increase from 8,471 million yen (US\$62.7 million) of last year. Sales of Digital Cameras increased specially in overseas market. Fluorescence Drug Screening Systems and Rapid Micro-biology Detection Systems have also moved upward. Domestic and export sales were 7,125 million yen (US\$52.8 million) and 2,037 million yen (US\$15.1 million), an increase of 7.3% and 11.2% respectively over the last year.

## Net Income and Return on Net Sales

The company's continuous efforts in sales activities, improving manufacturing efficiency and reduction of expenses resulted in high profits. Income before taxes for the fiscal year 1998 was 3,279 million yen (US\$24.3 million), an increase of 597 million yen (US\$4.4 million) or 22.3% from the



last year. Net income has continued to grow five years in a row. It was up from 1,471 million yen (US\$10.9 million) to 1,705 million yen (US\$12.6 million), a 15.9% increase.

Net income per share for the fiscal year 1998 was 59.22 yen (US\$0.44), increased from 54.50 yen (US\$0.40) of last year. Return on net sales was 4.50% compared to 4.08% during 1997.

## Research & Development

Annual research & development expenses were 5,452 million yen (US\$40.4 million), an increase of 495 million yen (US\$3.7 million) or 10.0% from 4,957 million yen (US\$36.7 million) of the last fiscal year. This increase reflects the Company's ongoing research and development efforts in a wide variety of areas of Photonics technology at our Central Research Laboratory and Tsukuba Research Laboratory. Research & development expense was 14.4% of net sales in 1998, compared to 13.7% for the last fiscal year.

The Company also invested in research & development at each division in order to improve efficiency, reliability and yield of products. Total expenses including those for 1998 and 1997 were 5,665 million yen (US\$42.0 million) and 5,149 million yen (US\$38.1 million) respectively.

The company has also received grants from Government and other institutions for the development of new technology.

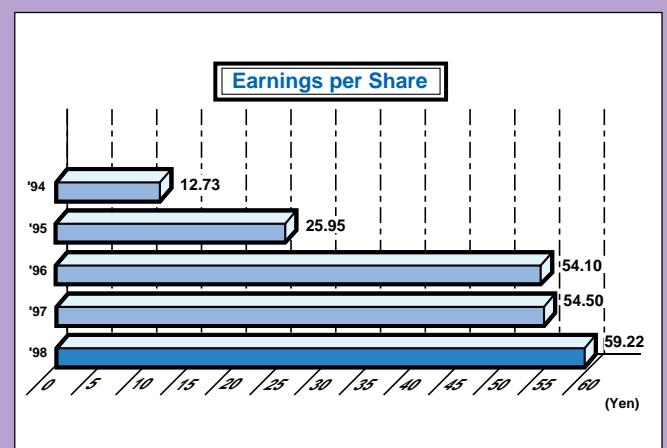
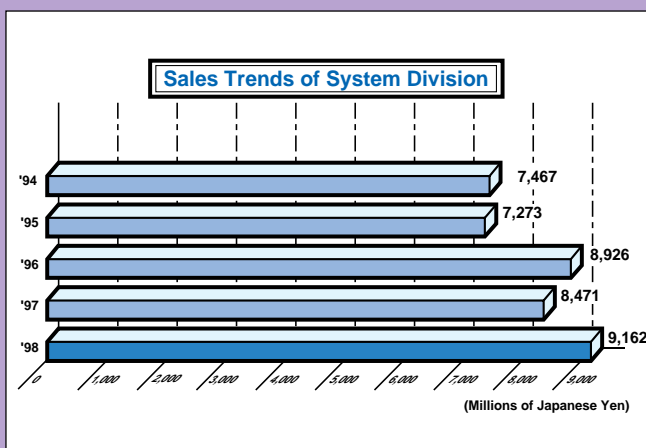
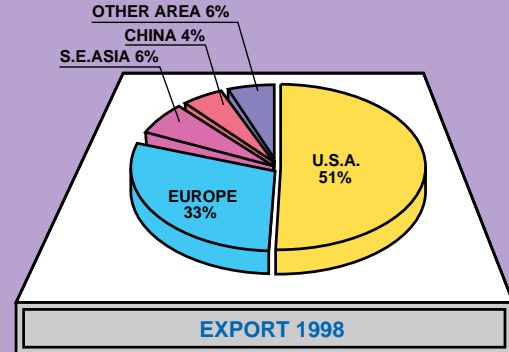
## Capital Investment (acquisition of Property)

The capital investments for the fiscal year 1998 were 4,956 million yen (US\$36.7 million) which was an increase of

24.2% from 3,992 million yen (US\$29.6 million) of the year before. The main investment was for a new building at the Electron Tube Center to expand the production capacity and improve manufacturing efficiency.

## Liquidity and Financial Position

At the end of fiscal year 1998 the Liquidity Ratio, current assets to current liabilities, was at 207%, an improvement from 183% at the end of the prior year mainly due to the decrease of current portion of long-term debt. Working capital at the end of the year was 16,596 million yen (US\$122.9 million), a 7.3% increase from 15,468 million yen (US\$114.6 million) of last year. Total assets were up slightly, 1.6% to 65,926 million yen (US\$488 million) from 64,879 million yen (US\$481 million). Shareholders' Equity was increased from 27,212 million yen (US\$201.6 million) to 35,262 million yen (US\$261.2 million) resulting from net income during the fiscal year and the conversion of convertible debentures.



# Non-Consolidated Balance Sheets

As of 30th September, 1997 and 1998

## ASSETS

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	1997	1998	1997	1998
<b>Current assets:</b>				
Cash on hand and in banks .....	¥ 12,394	¥ <b>9,909</b>	\$ 91,807	\$ <b>73,400</b>
Receivables:				
Trade notes .....	2,907	<b>2,655</b>	21,533	<b>19,667</b>
Trade accounts .....	10,205	<b>10,482</b>	75,593	<b>77,644</b>
Less allowance for doubtful receivables .....	(103)	<b>(108)</b>	(763)	<b>(800)</b>
Inventories (Note 3) .....	8,205	<b>8,374</b>	60,778	<b>62,030</b>
Prepaid expenses and other .....	507	<b>727</b>	3,756	<b>5,385</b>
	<u>34,115</u>	<u><b>32,039</b></u>	<u>252,704</u>	<u><b>237,326</b></u>
<b>Property, plant and equipment, at cost (Note 4):</b>				
Land .....	9,586	<b>9,674</b>	71,007	<b>71,659</b>
Buildings .....	14,847	<b>16,914</b>	109,978	<b>125,289</b>
Machinery and equipment .....	28,921	<b>32,341</b>	214,230	<b>239,563</b>
Construction in progress .....	1,772	<b>513</b>	13,126	<b>3,800</b>
	55,126	<b>59,442</b>	408,341	<b>440,311</b>
Less accumulated depreciation .....	(30,522)	<b>(32,987)</b>	(226,089)	<b>(244,348)</b>
	<u>24,604</u>	<u><b>26,455</b></u>	<u>182,252</u>	<u><b>195,963</b></u>
<b>Investments and other assets:</b>				
Investment securities .....	1,371	<b>975</b>	10,156	<b>7,222</b>
Investments in and advances to subsidiaries and affiliates .....	2,907	<b>4,719</b>	21,533	<b>34,956</b>
Other assets .....	1,882	<b>1,738</b>	13,941	<b>12,874</b>
	6,160	<b>7,432</b>	45,630	<b>55,052</b>
	<u>¥ 64,879</u>	<u><b>¥ 65,926</b></u>	<u>\$480,586</u>	<u><b>\$488,341</b></u>

The accompanying Notes to Non-Consolidated Financial Statements are an integral part of these statements.

## LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	1997	1998	1997	1998
<b>Current liabilities:</b>				
Short-term bank loans (Note 4) .....	¥ 4,300	¥ <b>4,100</b>	\$ 31,852	\$ <b>30,370</b>
Current portion of long-term debt (Note 4) .....	3,476	<b>467</b>	25,748	<b>3,459</b>
Payables:				
Trade notes .....	4,035	<b>3,893</b>	29,889	<b>28,837</b>
Trade accounts .....	1,321	<b>1,192</b>	9,785	<b>8,830</b>
Construction and other .....	2,456	<b>2,164</b>	18,193	<b>16,030</b>
Income taxes (Note 5) .....	462	<b>956</b>	3,422	<b>7,081</b>
Accrued expenses .....	1,919	<b>1,958</b>	14,215	<b>14,504</b>
Other .....	678	<b>713</b>	5,022	<b>5,281</b>
	<u>18,647</u>	<u><b>15,443</b></u>	<u>138,126</u>	<u><b>114,392</b></u>
<b>Long-term liabilities:</b>				
Long-term debt (Note 4) .....	15,923	<b>11,827</b>	117,948	<b>87,607</b>
Allowance for severance indemnities .....	3,097	<b>3,394</b>	22,941	<b>25,141</b>
	<u>19,020</u>	<u><b>15,221</b></u>	<u>140,889</u>	<u><b>112,748</b></u>
<b>Contingent liabilities (Note 8)</b>				
<b>Shareholders' equity:</b>				
Common stock, no par value:				
Authorized - 100,000,000 shares				
Issued - 27,334,549 shares in 1997				
- 30,667,507 shares in 1998 .....	8,667	<b>12,112</b>	64,200	<b>89,719</b>
Additional paid-in capital .....	8,386	<b>11,830</b>	62,119	<b>87,630</b>
Legal reserve (Note 6) .....	404	<b>467</b>	2,993	<b>3,459</b>
Retained earnings (Note 7) .....	9,755	<b>10,853</b>	72,259	<b>80,393</b>
	<u>27,212</u>	<u><b>35,262</b></u>	<u>201,571</u>	<u><b>261,201</b></u>
	<u>¥ 64,879</u>	<u>¥ <b>65,926</b></u>	<u>\$480,586</u>	<u><b>\$488,341</b></u>

# Non-Consolidated Statements of Income

Years ended 30th September, 1997 and 1998

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	1997	1998	1997	1998
<b>Net sales</b> .....	¥ 36,049	¥ <b>37,850</b>	\$267,030	<b>\$280,370</b>
<b>Operating costs and expenses:</b>				
Cost of sales .....	19,460	<b>20,773</b>	144,148	<b>153,874</b>
Selling, general and administrative expenses .....	8,052	<b>7,976</b>	59,644	<b>59,081</b>
Research and development .....	4,957	<b>5,452</b>	36,719	<b>40,385</b>
<b>Operating income</b> .....	<u>3,580</u>	<u><b>3,649</b></u>	<u>26,519</u>	<u><b>27,030</b></u>
<b>Other income (expenses):</b>				
Interest and dividend income .....	459	<b>486</b>	3,400	<b>3,600</b>
Interest expense .....	(603)	<b>(456)</b>	(4,467)	<b>(3,378)</b>
Other, net .....	<u>(754)</u>	<u><b>(400)</b></u>	<u>(5,585)</u>	<u><b>(2,963)</b></u>
<b>Income before income taxes</b> .....	2,682	<b>3,279</b>	19,867	<b>24,289</b>
<b>Income taxes (Note 5)</b> .....	<u>1,211</u>	<u><b>1,574</b></u>	<u>8,971</u>	<u><b>11,659</b></u>
<b>Net income</b> .....	<u>¥ 1,471</u>	<u>¥ <b>1,705</b></u>	<u>\$ 10,896</u>	<u><b>\$ 12,630</b></u>

The accompanying Notes to Non-Consolidated Financial Statements are an integral part of these statements.

# Non-Consolidated Statements of Shareholders' Equity

Years ended 30th September, 1997 and 1998

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	1997	1998	1997	1998
<b>Common stock:</b>				
Beginning balance .....	¥ 8,172	¥ 8,667	\$ 60,533	\$ 64,200
Conversion of convertible debentures .....	495	3,445	3,667	25,519
Ending balance .....	<u>¥ 8,667</u>	<u>¥12,112</u>	<u>\$ 64,200</u>	<u>\$ 89,719</u>
<b>Additional paid-in capital:</b>				
Beginning balance .....	¥ 7,891	¥ 8,386	\$ 58,452	\$ 62,119
Proceeds in excess of common stock issued upon conversion of convertible debentures .....	495	3,444	3,667	25,511
Ending balance .....	<u>¥ 8,386</u>	<u>¥11,830</u>	<u>\$ 62,119</u>	<u>\$ 87,630</u>
<b>Legal reserve:</b>				
Beginning balance .....	¥ 335	¥ 404	\$ 2,481	\$ 2,993
Transfer from retained earnings .....	69	63	512	466
Ending balance .....	<u>¥ 404</u>	<u>¥ 467</u>	<u>\$ 2,993</u>	<u>\$ 3,459</u>
<b>Retained earnings:</b>				
Beginning balance .....	¥ 8,949	¥ 9,755	\$ 66,289	\$ 72,259
Net income .....	1,471	1,705	10,896	12,630
Cash dividends .....	(546)	(494)	(4,044)	(3,660)
Transfer to legal reserve .....	(69)	(63)	(512)	(466)
Bonuses to directors and statutory auditors .....	(50)	(50)	(370)	(370)
Ending balance .....	<u>¥ 9,755</u>	<u>¥ 10,853</u>	<u>\$ 72,259</u>	<u>\$ 80,393</u>

The accompanying Notes to Non-Consolidated Financial Statements are an integral part of these statements.

# Non-Consolidated Statements of Cash Flows

Years ended 30th September, 1997 and 1998

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	1997	1998	1997	1998
<b>Cash flows from operating activities:</b>				
Net income .....	¥ 1,471	¥ 1,705	\$ 10,896	\$ 12,630
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation .....	2,602	2,979	19,274	22,067
Payment of severance indemnities .....	(110)	(114)	(815)	(844)
Provision for severance indemnities .....	382	411	2,830	3,044
Changes in operating assets and liabilities:				
Receivables .....	(1,723)	(20)	(12,763)	(148)
Inventories .....	(458)	(169)	(3,393)	(1,252)
Prepaid expenses and other .....	238	(220)	1,763	(1,630)
Payables .....	464	(563)	3,437	(4,170)
Income taxes .....	(483)	494	(3,578)	3,659
Accrued expenses .....	43	39	319	289
Other current liabilities .....	(9)	35	(67)	259
Net cash provided by operating activities .....	2,417	4,577	17,903	33,904
<b>Cash flows from investing activities:</b>				
Acquisition of property, plant and equipment, net of disposals .....	(3,876)	(4,830)	(28,711)	(35,778)
Increase in investments and other assets .....	(344)	(1,272)	(2,548)	(9,422)
Net cash used in investing activities .....	(4,220)	(6,102)	(31,259)	(45,200)
<b>Cash flows from financing activities:</b>				
Payment of short-term bank loans .....	(800)	(200)	(5,926)	(1,481)
Payment of long-term debt .....	(3,181)	(10,367)	(23,563)	(76,793)
Increase in short-term bank loans .....	1,100	-	8,148	-
Increase in long-term debt .....	10,033	3,261	74,319	24,156
Proceeds from issuance of common stock .....	991	6,890	7,341	51,037
Cash dividends paid .....	(547)	(494)	(4,052)	(3,660)
Bonuses to directors and statutory auditors .....	(50)	(50)	(370)	(370)
Net cash (used in) provided by financing activities .....	7,546	(960)	55,897	(7,111)
<b>Net (decrease) increase in cash on hand and in banks ..</b>	5,743	(2,485)	42,541	(18,407)
<b>Cash on hand and in banks at beginning of year .....</b>	6,651	12,394	49,266	91,807
<b>Cash on hand and in banks at end of year .....</b>	¥ 12,394	¥ 9,909	\$ 91,807	\$ 73,400

The accompanying Notes to Non-Consolidated Financial Statements are an integral part of these statements.

# Notes to Non-Consolidated Financial Statements

## 1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared from the financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan in accordance with accounting principles generally accepted in Japan. Non-consolidated statements of shareholders' equity and cash flows have been added as additional information and certain reclassifications have been made to present the accompanying non-consolidated financial statements in a format which is familiar to readers outside Japan. For convenience, the accompanying non-consolidated financial statements have been presented in U.S. dollars by arithmetically translating all Japanese yen amounts at ¥135 = U.S.\$1, the exchange rate prevailing on 30th September, 1998. The translations should not be construed as a representation that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Investment Securities

Current and non-current marketable securities are valued at the lower of cost or market by the total average cost method. Non-marketable securities are stated at cost determined by the total average method.

### (b) Inventories

Finished goods, work in process and raw materials are stated at cost determined by the total average method. Supplies are stated at cost determined by the most recent purchase price method.

### (c) Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Significant renewals and additions are capitalised. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Interest expense relating to the construction of plant and equipment is not capitalised. Depreciation is determined by the declining-balance method over the estimated useful lives of the individual assets which are as follows:

Buildings	3 - 65 years
Machinery and equipment	2 - 10 years

The effective rates of depreciation as a percentage of net book value for the years ended 30th September, 1997 and 1998 were as follows:

	1997	1998
Buildings	8.5%	8.0%
Machinery and equipment	26.2%	23.7%

### (d) Research and Development

Research and development expenses are charged to income as incurred.

### (e) Allowance for Severance Indemnities and Pension Plan

The Company has an unfunded employees' retirement benefit plan. The annual provision under the plan is provided at the maximum amount allowable under Japanese tax laws in order to obtain tax benefits. The Company also has a funded employees' pension plan, which has been independently managed under a trustee agreement by a financial institution since 1st September, 1984. Contributions to the funded pension plan are charged to income when paid.

### (f) Foreign Currency Translation

Current monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing on the respective balance sheet dates or at the rate of each forward exchange contract. Long-term monetary assets and liabilities are translated at historical rates or at the rate of each forward exchange contract. The difference between the historical rate and the rate of a forward exchange contract is charged to income over the period from the date of the contract to its maturity date.

### (g) Net Income per Share

Net income per share is based on the weighted average number of shares outstanding during the respective years.

## 3. Inventories

Inventories at 30th September, 1997 and 1998 are summarised as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1997	1998	1997	1998
Finished goods	¥ 1,699	¥ 1,913	\$12,585	\$14,170
Work in process	4,326	4,186	32,045	31,008
Raw materials and supplies	2,180	2,275	16,148	16,852
	<u>¥ 8,205</u>	<u>¥ 8,374</u>	<u>\$60,778</u>	<u>\$62,030</u>

# Notes to Non-Consolidated Financial Statements

## 4. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans represent notes maturing generally within six months. The annual interest rates applicable to loans for the years ended 30th September, 1997 and 1998 were approximately 1.65% and 1.63%, respectively.

Short-term bank loans and debentures due within one year at 30th September, 1997 and 1998 are summarised as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1997	1998	1997	1998
Short-term bank loans:	¥ 4,300	¥ <b>4,100</b>	\$31,852	<b>\$30,370</b>
Secured	1,150	<b>250</b>	8,519	<b>1,852</b>
Unsecured	3,150	<b>3,850</b>	23,333	<b>28,518</b>
Current portion of long-term debt	3,476	<b>467</b>	25,748	<b>3,459</b>
	<u>¥ 7,776</u>	<u>¥ <b>4,567</b></u>	<u>\$57,600</u>	<u><b>\$33,829</b></u>

Long-term debt at 30th September, 1997 and 1998 is summarised as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1997	1998	1997	1998
Unsecured debt	¥ 14,796	¥ <b>9,989</b>	\$109,600	<b>\$73,992</b>
Secured debt	4,603	<b>2,305</b>	34,096	<b>17,074</b>
Less: current portion of long-term debt	(3,476)	<b>(467)</b>	(25,748)	<b>(3,459)</b>
	<u>¥15,923</u>	<u>¥<b>11,827</b></u>	<u>\$117,948</u>	<u><b>\$87,607</b></u>

The annual average interest rates applicable to long-term debt for the years ended 30th September, 1997 and 1998 were 4.13% and 2.47%, respectively.

Secured and unsecured debentures at 30th September, 1997 and 1998 are summarised as follows:

Date of Issue	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1997	1998	1997	1998
24th July, 1991	¥ 1,400	¥ -	\$ 10,370	\$ -
28th August, 1991	1,500	-	11,111	-
19th December, 1994	4,770	<b>3,013</b>	35,333	<b>22,319</b>
17th April, 1997	9,165	<b>4,032</b>	67,889	<b>29,867</b>
	<u>¥16,835</u>	<u>¥ <b>7,045</b></u>	<u>\$124,703</u>	<u><b>\$ 52,186</b></u>

The original aggregate amounts of the debentures issued on 19th December, 1994 and 17th April, 1997 were ¥7 billion (US\$51.9 million) and ¥10 billion (US\$74.1 million) with coupon rates of 2.4% and 1.25%, respectively. The debentures are unsecured and convertible. As of September 30, 1998, ¥3,987 million (US\$29.5 million) and ¥5,968 million (US\$44.2 million) had been converted or redeemed, respectively.

The maturity dates of the debentures are September 2003 and September 2004.

The assets pledged as collateral for short-term bank loans and long-term debt at 30th September, 1997 and 1998 were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1997	1998	1997	1998
Property, plant and equipment	¥10,584	¥ <b>8,385</b>	\$78,400	<b>\$62,111</b>

As is customary in Japan, long-term and short-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given at the request of the bank and that any collateral so furnished will be applicable to all indebtedness due to that bank. In addition, such agreements provide that the bank has the right to offset cash deposited against any long-term or short-term debt which becomes due and, in the case of default and certain other specified events, against all other debt payable to the bank.

The aggregate annual maturities of long-term debt subsequent to 30th September, 1998 are as follows:

Years ending 30th September,	Millions of Japanese Yen	Thousands of U.S. Dollars
1999	¥ 467	\$ 3,459
2000	553	4,096
2001	337	2,496
2002	247	1,830
2003 and thereafter	10,690	79,185

## 5. Income Taxes

The statutory rate for income taxes for the two years ended 30th September, 1997 and 1998 was approximately 50%. The effective tax rates reflected in the statements of income differ from the above statutory tax rate principally because of (1) the policy of not providing for deferred taxes arising from temporary differences between the recognition of certain income and expenses for tax and financial reporting purposes, and (2) certain expenses not deductible for tax purposes.

## 6. Legal Reserve

The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and statutory auditors be appropriated to the legal reserve until such reserve equals 25% of common stock. The legal reserve may be used to reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. It is not available for the payment of dividends.

# Notes to Non-Consolidated Financial Statements & Report of Independent Certified Public Accountants

## 7. Subsequent Event

Under the Commercial Code of Japan, a plan for the appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors must be approved at a shareholders' meeting held within three months of the end of the fiscal year.

On 18th December, 1998, the shareholders of the Company approved a plan for the appropriation of retained earnings, which resulted in the following deductions from retained earnings at 30th September, 1998:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Transfer to legal reserve	¥ 40	\$ 296
Cash dividends	291	2,156
Bonuses to directors and statutory auditors	50	370
	¥381	\$2,822

## 8. Contingent Liabilities

Contingent liabilities at 30th September, 1997 and 1998 were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	1997	1998	1997	1998
Guarantees of loans for subsidiaries and affiliates	¥181	¥ 111	\$1,341	\$ 822

**Showa Ota & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS

**The Board of Directors  
Hamamatsu Photonics K.K.**

We have examined the non-consolidated balance sheets of Hamamatsu Photonics K.K. as of 30th September, 1997 and 1998, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted 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 non-consolidated financial statements referred to above present fairly the financial position of Hamamatsu Photonics K.K. at 30th September, 1997 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The accompanying non-consolidated financial statements have been translated into U.S. dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the non-consolidated financial statements expressed in Japanese yen have been translated into U.S. dollars on the basis set forth in Note 1 to the non-consolidated financial statements.



Showa Ota & Co.

Hamamatsu, Japan  
18th December, 1998