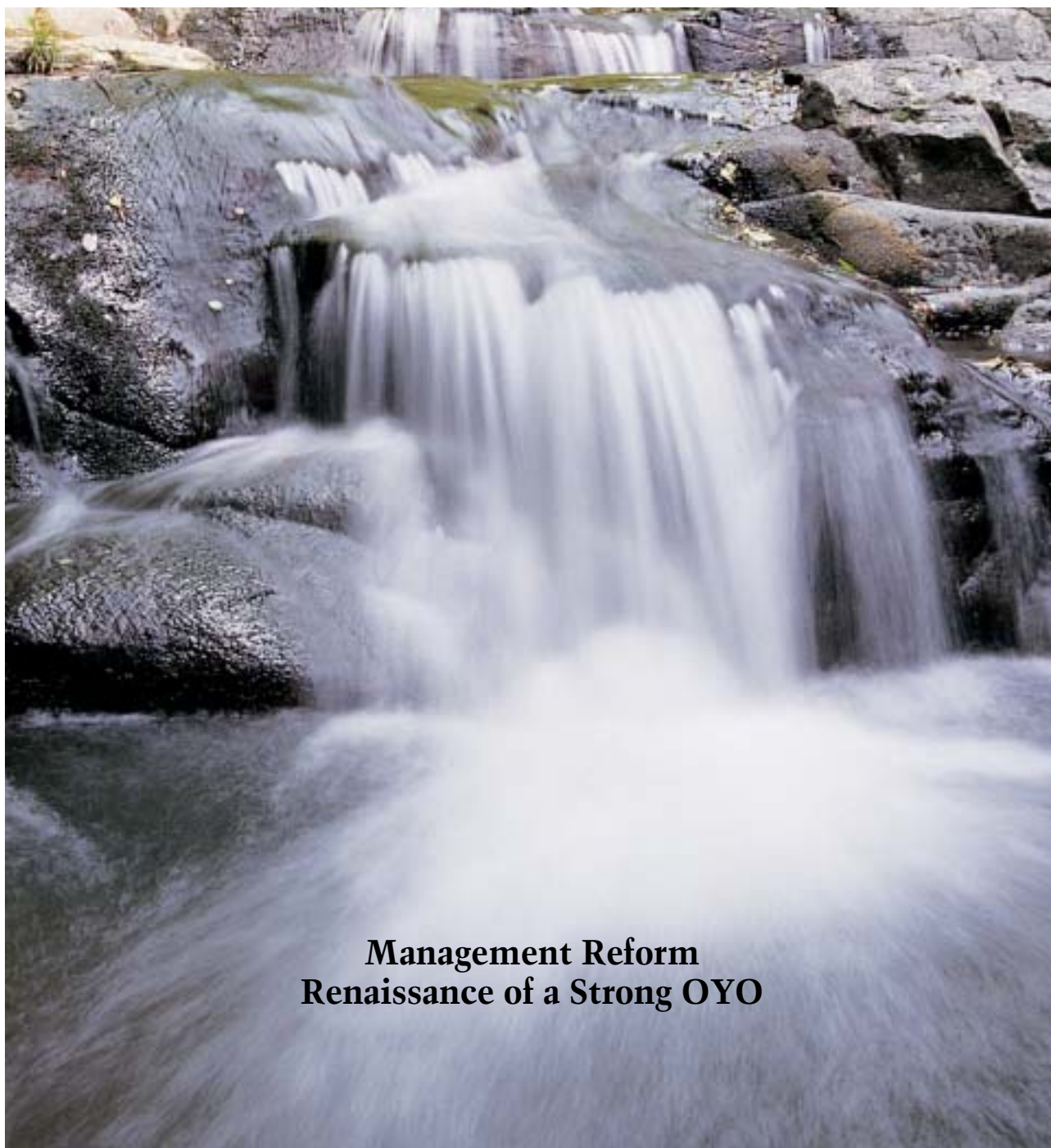


Annual Report 2002

January 1, 2002 to December 31, 2002



**Management Reform
Renaissance of a Strong OYO**

OYO
OYO Corporation

www.oyo.co.jp

OYO Corporation, established in 1957, is Japan's foremost provider of geo-engineering services, incorporating near-surface investigations and civil engineering consulting. The OYO Group also makes and sells seismometers and other related geo-instruments, as well as geophones, hydrophones, and other devices for oil and natural gas exploration.

The corporation first expanded overseas in 1980, with the establishment of a US subsidiary. We now have a broad network of subsidiaries and affiliates in the United States, providing a wide diversity of products and services. The OYO Group also extends to the United Kingdom, France, Russia and Malaysia.

We are answering our customers' requirements through our "Solution Business" approach and are active in developing new markets with a flexible attitude as to methods: R&D, M&A, joint venturing (notably in natural disaster risk management and risk engineering) etc.

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Financial Highlights

OYO Corporation

Years ended December 31, 2001 and 2002

	<i>(Millions of Yen)</i>		<i>(Thousands of U.S. Dollars*)</i>
	2001	2002	2002
Consolidated Financial Highlights			
For the Year:			
Net sales	¥51,801	¥50,355	\$419,801
Operating income	1,148	522	4,355
Loss before income taxes	(1,312)	(561)	(4,679)
Net loss	<u>(1,004)</u>	<u>(751)</u>	<u>(6,260)</u>
At Year-End:			
Total assets	¥73,420	¥71,997	\$600,221
Total shareholders' equity	55,749	54,370	453,267

	<i>(Millions of Yen)</i>		<i>(Thousands of U.S. Dollars*)</i>
	2001	2002	2002
Non-consolidated Financial Highlights			
For the Year:			
Net sales	¥31,786	¥28,012	\$233,530
Operating income	833	316	2,633
Loss before income taxes	(1,755)	(343)	(2,858)
Net loss	(1,070)	(423)	(3,523)
Cash dividends per share (Yen, U.S. Dollar)	¥ 12.5	¥ 10.0	\$ 0.08
Dividend payout ratio (%)	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
At Year-End:			
Total assets	¥63,782	¥61,975	\$516,671
Total shareholders' equity	57,069	55,626	463,747

* The U.S. Dollar amounts in this annual report are translated from Japanese Yen, for convenience only, at the rate of ¥119.95 = U.S. \$1, the approximate rate of exchange on December 31, 2002.

Message to Our Shareholders



Moriyuki Taya, President

In the financial year to end-December 2002, the Japanese economy was marked by a strong deflationary tone as capital expenditure and consumption expenditure were depressed and financial institutions were dealing with their Non-Performing Loan problems with unemployment rising. The domestic business environment for your company was difficult with Public Works Expenditure lower and private sector capex weak and competition for orders was severe.

Your senior management endeavored to win orders, reduce costs and secure profitability in the domestic market place.

Overseas a new range of products received intensive marketing.

In these circumstances, while the disaster prevention, environmental and management and maintenance businesses saw increased orders received, the important domestic local authority and private sector businesses saw orders down sharply. Consolidated turnover was ¥50.3bn down 2.8 % yoy (year on year). Furthermore the sharp fall in share prices led to losses on investment securities and a loss on the sale of TrueTime, Inc. A pre-tax loss of ¥0.6bn (prior year loss ¥1.3bn) and a net loss of ¥0.8bn (prior year loss ¥1.0bn) were reported. In these circumstances the proposed final dividend is ¥3.75 (prior year ¥6.25) for a full year dividend of ¥10.0 (prior year ¥12.5).

In fiscal 2003/04 government construction investment is expected to decline by another just less than 10 % for the third year running. The construction market-related is therefore going to contract further. In this situation your senior management is determined to achieve a change in the corporate results trend and increase shareholder value under the slogan "Renaissance of a Strong OYO". As part of this senior management policy, there is an across-the-board reform and re-organization in personnel management procedures, lowering of the average age of management and reduction in personnel costs in line with market developments. With this personnel reform and promotion of new businesses, your senior management is endeavoring to achieve the "Strong OYO Renaissance".

My Board and I look forward to your future loyal support based on an understanding of our long term prospects as described in this annual report.

March 27, 2003

A handwritten signature in black ink that reads "M. Taya". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the left.

Moriyuki Taya, President

Management Reform and the “Renaissance of a Strong OYO”

— achieving higher operating profits from lower turnover —

The market related to construction is pursuing a contractionary course in view of the severe fiscal difficulties of government squeezing Public Works Expenditure and of the depressed level of private sector activity. In these circumstances, OYO launched the medium term corporate reform plan “OYO Revolution 21” last financial year.

That plan was a radical attempt to deal with the adverse environment foreseen at the time by changing the business culture of OYO and achieving profitable growth. However, during financial 2002 the market environment proved to be even tougher than foreseen and despite the measures taken market contraction led to the sixth consecutive year of lower operating profits.

In the face of this serious situation, the OYO Group must cope with the likely difficulties of 2003 by further reform of the organization structure, personnel and business practices. Despite falling turnover, operating profit must be secured and this is the basis of the “Renaissance of a Strong OYO” project.

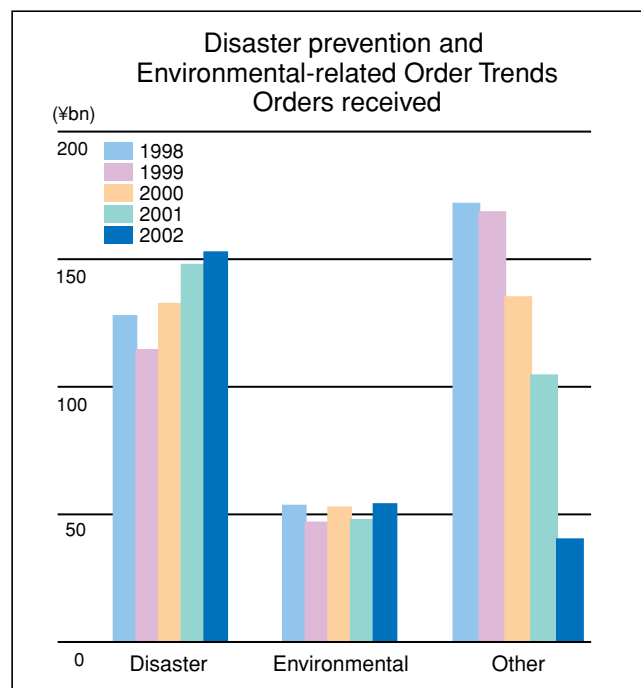
Declining Demand and Excess Supply

Unfortunately the results for financial 2002 did not meet targets and consolidated turnover was down 2.8 % yoy and operating profit was down 54.5 % yoy and both were very poor. The main impact was in the domestic Japanese business, where local authorities in particular have reduced Public Works Expenditure. Central government and private sector construction weakness created added pressure and orders received during the year were ¥25.6bn down 14.8 % yoy.

The environment is extremely bad and there is a clear shake-out occurring in the market. It is considered likely that these condition will continue with construction expenditure likely to continue to decline over the next few years.

According to the Research Institute of Construction and Economy, the Japanese construction market should be worth ¥53.9tr in 2003 down 4.9 % yoy. Within that government-related should be down nearly 10 % yoy. There is every possibility that the actual value of orders placed could be even lower.

However, despite this contraction of the construction market, the number of market participants continues to rise. In surveying, there are now some 12,000 companies active up steadily over the last 40 years. There are some 1,200 companies active in geological



investigation work and some 3,700 companies active in construction consulting. This means a spiral of vicious competition for survival in an over-supplied yet declining market.

One particular point to note is that within this overall decline the emphasis of Public Works Expenditure is moving from construction per se to disaster prevention, environmental-related and management and maintenance. In the domestic Japanese market as seen from the perspective of the OYO Group parent company the proportion of Geo-engineering Services received was disaster prevention and environmental-related 60.9 % in 2001 and 84.1 % in 2002. However, in the domestic construction market overall construction per se is still very much the largest element. Nevertheless, Japan Society of Civil Engineers envisages an important reversal of this relationship in the overall market composition in 2010.

A further significant development is that the function demanded from construction consultants is changing. Popular opinion is becoming critical of wasteful Public Works Expenditure and consequently consultants are becoming partners and advisors. From the planning and implementation to the management and maintenance of a project it is necessary to have outside professional support to ensure and improve the overall cost efficiency.

This trend is fundamentally favorable to OYO in that it is a company strong in technology and integrated management skills. In fact in 2002 technology related proposals accepted were up 27 % yoy by volume and 30 % yoy by value. By type of work, boring, instrument logging etc and simple run-of-the-mill jobs were down sharply while analysis, design and solution providing jobs were up markedly.

Expanding the Share of the Existing Market

As above, in the existing market disaster prevention and environmental-related are becoming more important. This increasing share of more specialized business must be made the basis for a change in the profit structure of the OYO business. Although the proposal based order flow is increasing, the old designated company tendering still forms the lion's share of the construction market and it is necessary to continue to win orders there with competitive costing. It was therefore decided that a reduction in overall personnel costs was absolutely vital and the necessary steps are being taken.

For financial 2003 the projections for OYO parent company in the domestic Japanese market are orders received ¥25.5bn flat yoy, turnover ¥25.0bn down 10.7 % yoy reflecting the sharp fall in orders received in 2002 and operating profit ¥0.6bn up 90.5 % yoy reflecting personnel cost and other cost reductions. Within a shrinking market the objective is to hold the orders received level and through the reduction in costs across the board raise the operating profit as the top management objective of the year. This is being achieved by two strategies.

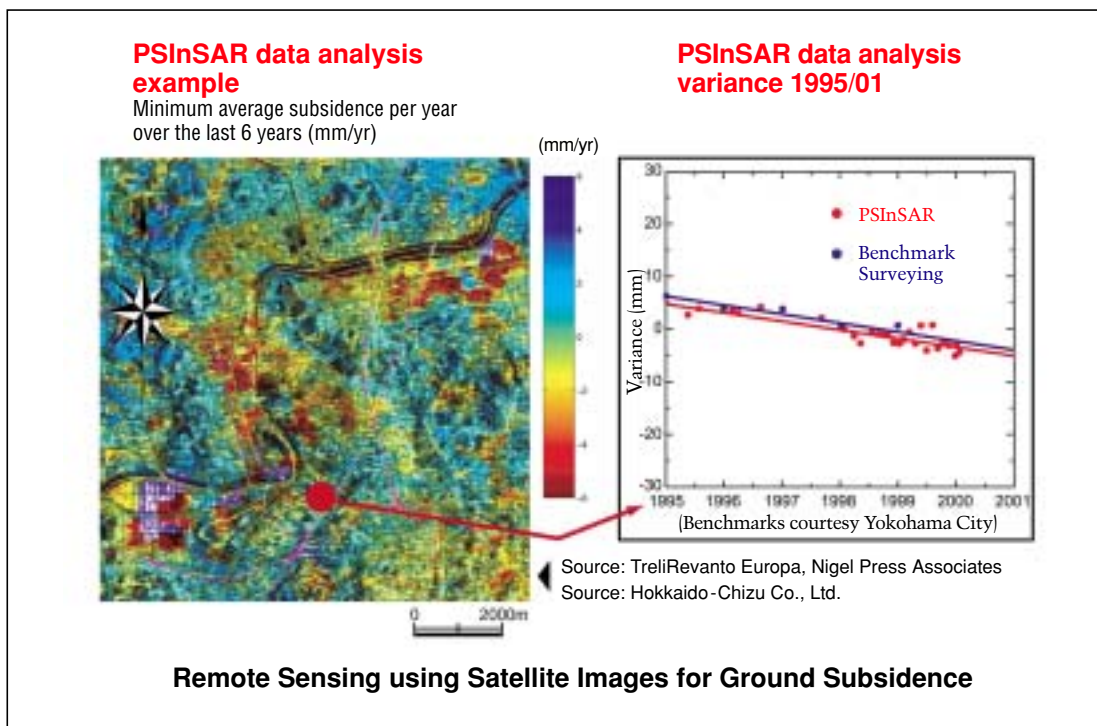
Strategy 1. Expanding Market Share in Existing Markets

Marketing efforts will concentrate on disaster prevention, environmental-related and management and maintenance where demand is growing. In disaster prevention the work with the Cabinet Office on the revised outlook for the predicted

Tokai Earthquake and Tokai-Nankai Earthquake is being notched up to Area Earthquake Disaster Prevention Planning work. In total on-the-spot check-type maintenance work for tunnels, dikes and road surfaces, in precise remote surface movement measurement and analysis there is the Permanent Scatterer Interferometry Synthetic Aperture Radar, PSInSAR, technology product and in real time disaster monitoring systems, the i-SENSOR product, the clear OYO technical strength in new products is being exploited. In environmental-related work in contamination of ground soil and ground water in particular the subsidiary NS Environmental Science Consultant and the affiliate Engineering & Risk Services are joining the marketing effort. The development of new private sector client accounts and of the property departments of government ministries and agency accounts is being pursued. The new Proposal System based on technical excellence is a support to OYO and higher rates of proposals requested and accepted are being pursued also.

Strategy 2. Co-operation with Companies, Universities and Research Institutes

OYO has been active already in expanding business and technical competence in co-operation with companies in other industry sectors. For example, with Tokio Marine & Fire Group there is the new financial product Ground Soil Insurance, with ImageONE there is the revolutionary surface movement measurement and analysis product, PSInSAR, using satellite sensing technology, more recently with JR East Consultants, YBM Co., Ltd. there is the stair climbing boring robot and also more recently with Ishihara Sangyo Kaisha there is a ground soil decontamination system using magnetite.



Differentiation in Disaster Prevention and Environmental-related and M&M

In order to compete successfully in disaster prevention, environmental-related and management and maintenance (M&M) there must be clear product and service differentiation based on technology R&D. A typical example is the use of radio in the remote sensing applications of data collection and analysis. In a commercial agreement with Image One, OYO has developed radio-related products in surface feature and geological analysis, ground variation analysis, environmental monitoring etc.

The environmental-related new product providing realtime monitoring of factory site and waste disposal facility ground soil and ground water conditions, E-SMART, was launched in February. As a business development there has been extensive R&D of monitoring instruments for ground environment studies. E-SMART is one such example (see explanatory diagram). It is useful in factory site and waste disposal facility management.

In the Autumn of last year the i-SENSOR remote monitoring system for mud slide disaster won the DoCoMo Value Brand Program certification of NTT DoCoMo for emergency monitoring of slopes using mobile telephony.

Results Based Remuneration

That the outcome for financial 2002 was the sixth consecutive year of operating profit decline was a great shock. There has been a decision to achieve major management policy reform in the three areas: organization, personnel and operations. The objective is the "Renaissance of a Strong OYO".

In the organization reform the Chairman, Satoru Ohya, moved to become Advisor, the President, Takeshi Ohkubo, moved to become Chairman and the Executive Vice President, Moriyuki Taya, moved to be President. At the same time in order to strengthen and reduce the average age of the Board three younger members were added. Also to slim down the domestic organization in line with the changes in business content, sales offices and branches were rationalized. In February the Tokyo Regional Headquarters and the North Shinetsu Regional Headquarters were amalgamated and there are plans to close one branch and five sales offices by mid-year.

In the personnel reform, a remuneration system based on results is being planned for introduction with the aim of providing incentives. The salary and personnel evaluation system will be adapted to clearly reward those who contribute to business results. This means that salaries will vary in line with business results and



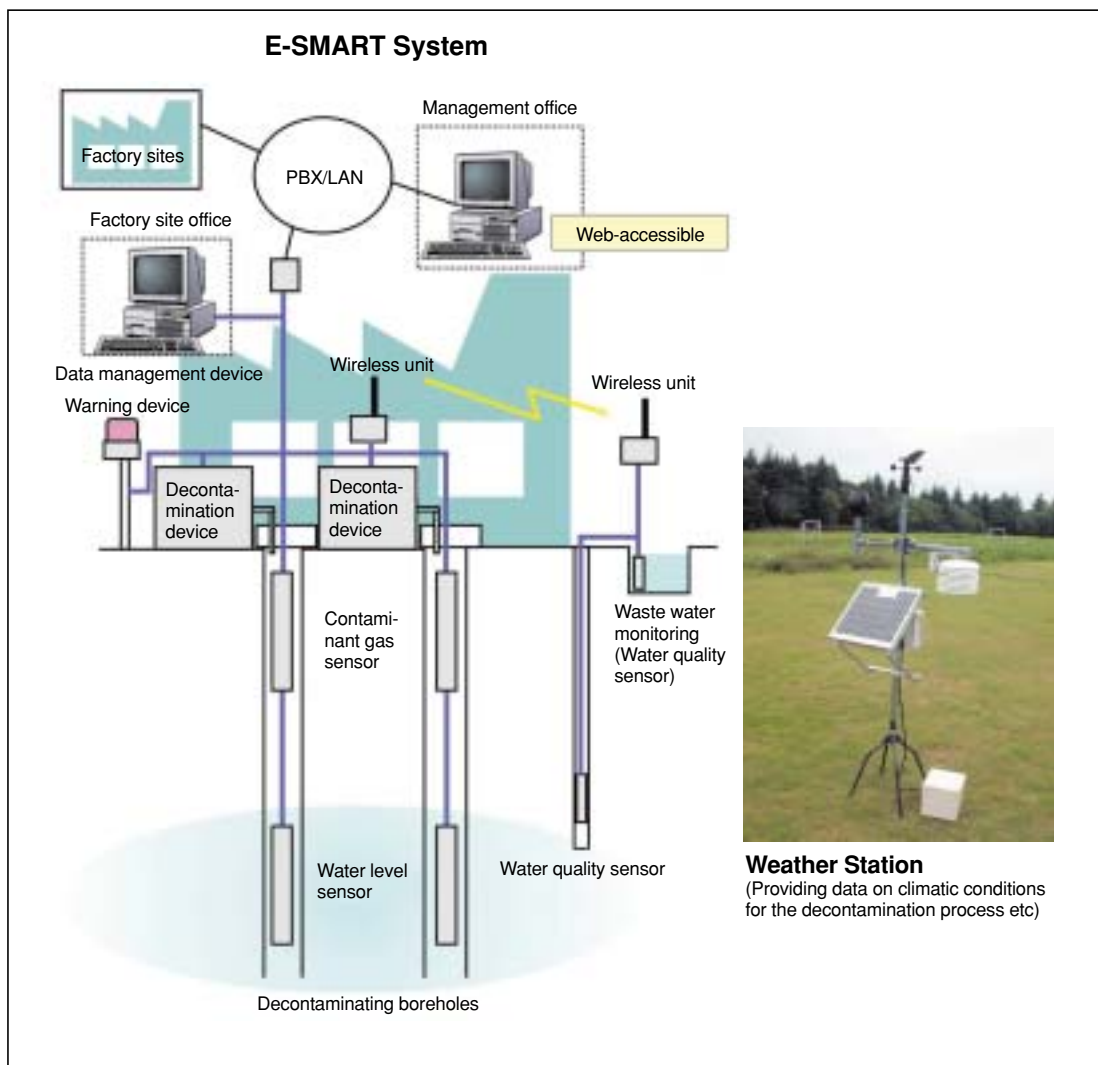
Stair Climbing Boring Robot

Stair climbing boring robot can cope with narrow and frequent flights of stairs at stations and other urban locations

individual employees will see wide swings in their remuneration year by year. This new system consists of:

1. achievement/business results and position/responsibilities being the basis of personnel evaluation and salaries,
2. restructuring of the retirement allowance and pension system and
3. the introduction of a mandatory retirement age for Board members.

This is a remuneration system designed to reduce personnel costs in order to maintain profitability, while at the same time providing incentives with a stock option plan being prepared. Also in order to cope with the solution provider type of new business, the employee training programme is being re-organized. The "K21 Project", the new personnel system project, is already in planning and after six months' prototype operation will be formally introduced at the beginning of financial 2004. As a provisional measure for 2003, all directors and employees have had their basic salaries reduced and this should produce an overall reduction in remuneration of 12 % or ¥1.1bn over the full year.



OYO Technical Briefing

Soil Contamination Measures Act (2002)

The preamble in Clause 1 states that the aim of the Act is to determine measures to correctly grasp the extent of contamination by the specified substances and achieve the prevention of damage to human health by the contamination thereby dealing with contamination and protecting the people's health. It establishes a framework for responsibility for undertaking decontamination procedures.

It would be fair to say that during the high growth period of the 1950s and 1960s the attitude to industrial site contamination and waste water treatment was fairly cavalier. Consequently, Japan is typically some twenty years delayed on other advanced countries in dealing with the problem of soil and ground water contamination by industrial waste and harmful substances. While the recent Act is an advance on the previous system of regulations defining permissible levels of contamination and then applying moral suasion through administrative guidance, there is still much need for more clearly defining financial responsibility and setting up a Super Fund system to deal with costs.

Investors having a portfolio of Japanese equities, however, should be reassured that Japanese blue chips, the larger and financially stronger companies, were well aware of the contamination cases in the EU and US, having often been directly

Table 1

Consulting, Planning, Remediation and Monitoring of a contaminated site

Consulting

Initial study of records available such as overall site geology prior to any site levelling, past ownership, history of industrial activities, site plans, local well water sampling records etc. Interviews of persons associated with the site are particularly useful in getting leads and narrowing down the likely problems and their scope. Overall review of the site is made taking surface soil samples and gas emissions from the surface of the site. Detailed review means boring surveys, ground water surveys including permeability, flows, flow speeds, water quality etc.

Planning

Based on an understanding of the hydrology of the site, the contamination sources and their structure, multi-phase multi-substance flow dispersal analysis etc appropriate measures can be proposed based on an estimation of the risk structure, remediation costs and acceptable budgets within acceptable time frames.

Remediation

Remediation can take a number of forms: either there is treatment or the contamination being sealed off. Treatment can mean chemical treatment in situ, extraction in situ, removal of the contaminated soil etc. Sealing-off can mean chemical treatment to prevent further leaching and sealing or simple sealing.

Monitoring

Monitoring of the site to confirm the success of the remediation procedures and continuing review of the environmental impact to the area around the site.

Source: OYO

involved via their overseas subsidiaries. In Japan they have dealt with the problem since the late 1980s on a voluntary basis and in advance of any specific legal requirement as such. This was on account of their unwillingness to risk adverse publicity given a public opinion very sensitive to contamination issues.

Therefore it is best to understand that the major companies in chemicals, electricals, metal products etc have made strenuous efforts to clean up their sites and present Environmental Reports and PRTR information in order to avoid being the butt of media criticism. Such information can be viewed on blue chip corporate websites and is a good indication of sound corporate governance in the environmental arena. However, smaller and financially weaker companies can represent an investment risk.

Technically speaking, coping with a contaminated site means Consulting, Planning, Remediation and Monitoring per Table 1 opposite with approximately 10% of the cost being involved in Consultation and Planning and 90% in Remediation. Monitoring represents a minimal running cost. Table 2 is far from complete but does show a ten year pattern of contamination problems ranked by industry sector so indicating the possibility of exposure to soil contamination liability.

As a rough guide, the cost of removing, transporting and disposing of one cubic meter of generally contaminated soil is ¥60,000. Thus a one hectare site contaminated to a depth of 5m represents a liability of around ¥3bn.

Table 2

Soil contamination cases notified to local government 1991 to 2001 (Survey result)

Industry	Cases	Industry	Cases	Industry	Cases
Electrical machinery	173	Medical services	10	Wood and wood products	3
Metal forming	121	Academic research facilities	9	Vehicle maintenance	3
Chemicals	102	Rubber products	8	Amusement facilities	2
Dry cleaning	87	Railways	7	Construction materials wholesaling	2
General machinery	84	Educational facilities	6	Retail other	2
Vehicle manufacturing	67	General construction	6	Car parking	1
Non-ferrous metals	56	Manufacturing other	6	Coal mining	1
Waste disposa	150	Electrical power	5	Leather and hide products	1
Iron and steel	42	Film and video production	5	Local authorities	1
Gas	37	Paper pulp	5	Metal mining	1
Textiles manufacturing	31	Printing	5	Plant installation	1
Precision machinery	28	Other products and services	4	Other	143
Ceramics and cement	20	Food manufacturing	3		
Plastics manufacturing	13	Oil refining	3		
				Total	1,154

Source: Ministry of Environment

Note: Voluntarily notified under prior legislation to local government and as surveyed by the Ministry

In operations reform, the operating system is being restructured, the cost accounting system updated and ISO management systems for product quality and environmental control are being introduced.

In-house and External Venturing ¥1.0bn being Invested

An early start is to be made to encouraging new ventures via an in-house venture system and the setting up of a venture fund. Over five years, out of the ¥1.0bn total investment fund, ¥0.3bn will be invested in in-company ventures and ¥0.7bn in external ventures.

As one part of the organizational reforms, an office was established to handle ventures and management planning. This new Management Planning Office will be responsible for setting up the in-company ventures and act as a clearing house for external venture proposals. In particular the new provisions for academia/industry co-operation for the commercial development of university research into new technology will be exploited by the Office. That is also true for commercial agreements and M&A opportunities with companies operating in other industry sectors.

Improving Profitability with Group Management Efficiency

The OYO parent company accounted for just over 55 % of consolidated turnover in financial 2002 and it is vital not only to improve its contribution to consolidated accounts but to improve Group management efficiency. This is an important target for financial 2003. This means applying greater business selection and focussing in the Group and business criteria need major revision in order to raise subsidiary results.

For the domestic subsidiaries, instrumentation technology services are handled by OYO Geo-monitoring, which is being made the focal point for management resources and currently outsourced instruments are to be manufactured in-house. OYO International which has reported losses for several years on the poor trend of business in South East Asia is to wind up its Singapore local subsidiary.

On the other hand the joint venture with RMS of the US, OYO RMS, and the joint venture with Kajima Corporation, Engineering & Risk Services, in risk management and risk engineering respectively are seeing a steady favorable trend and together in financial 2002 reported a net profit of ¥54m so contributing to consolidated results. Both the President of OYO RMS, Takashi Kanemori, and the President of Engineering & Risk Services, Akira Ando, stress the importance of "the benefit of venturing with a partner and responding to market requirements".

Among overseas subsidiaries, TrueTime was sold to Symmetricom of the US in an equity plus cash transaction in October of last year. It is the intention to pursue this policy of appropriate evaluation of profitability and technology among the overseas subsidiaries.

Financial Section

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FINANCIAL REVIEW

Profit and Loss Account

Consolidated turnover was ¥50.4bn down 2.8% yoy and by business segment this was ¥34.3bn for Geo-engineering services down 7.8% yoy and for Instrument sales ¥16.1bn up 9.9% yoy.

Geo-engineering services continued to experience poor trading conditions with lower Public Works Expenditure leading to increased competition and the value of the average order received was down by 8.6% yoy. Demand from central government and public corporations continued relatively firm, however demand from local authorities was weak reflecting their worsening fiscal situation. Demand from the private sector was adversely affected by the poor trend among the electric power companies in particular and was down sharply.

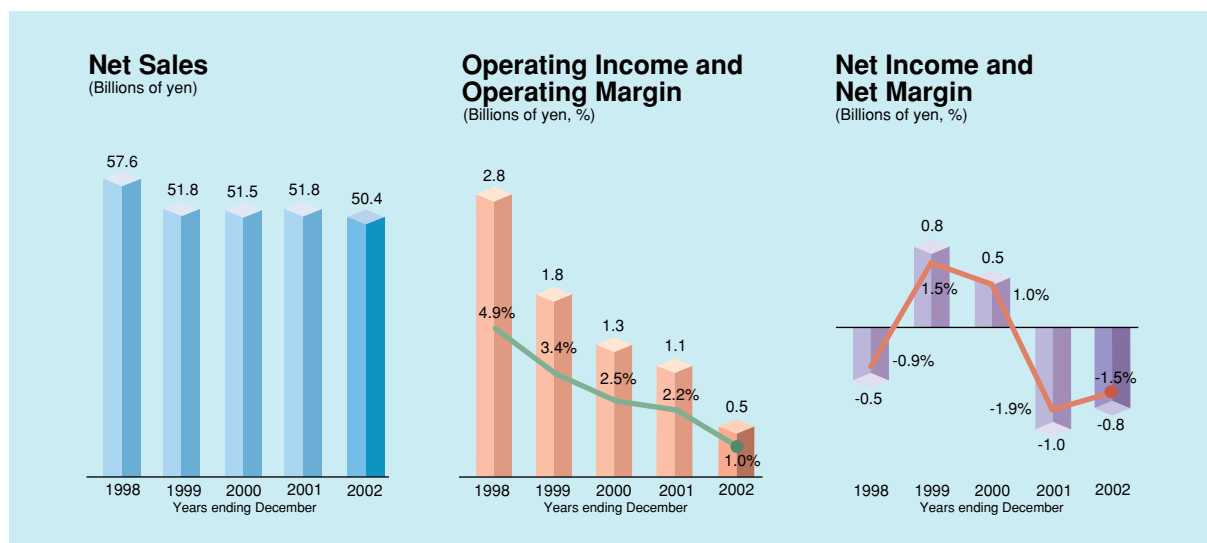
Domestic instrument sales were down sharply with poor demand from central government and from construction consulting companies. In the US the important subsidiary, OYO Geospace, which is active in oil and natural gas exploration instrumentation, saw US\$15.8m of sales for the Reservoir Characterization and Monitoring System that was launched in the third quarter of 2002, but the poor trend in oil exploration activity meant that overall the subsidiary reported net sales up by only 2.2% yoy. However, US results were supported strongly by the buoyant trend of sales at Klein Associates, which is active in sea floor surveying instrumentation.

By geographical segment, Japanese domestic net sales were ¥34.5bn down 9.2% yoy, while overseas sales were ¥15.8bn up 15.0% on the strong trend in overseas instrumentation sales, which is the speciality of the overseas subsidiaries, and the overseas portion rose 4.9 percentage points to 31.5%.

Operating profit was ¥0.5bn down 54.5% yoy and the operating margin was 1.0% and down 1.2 percentage points yoy. This poor result occurred for a number of reasons.

The parent company gross profit margin was 27.8% down 0.1 percentage point yoy and the fall in sales of 11.9% yoy could not be absorbed by the efforts to reduce SGA expenses and the operating profit margin was 1.1% down 1.5 percentage points yoy.

The US subsidiaries' gross profit margin fell by 2.2 percentage points, while the favorable sales trend meant that the impact on operating profit was held to a decline of just 0.1 percentage point yoy (prior year a decline of 0.5 percentage point). At OYO Geospace the decline in sales prices of existing products in the competitive environment squeezed margins as did the bankruptcy of trading partners leading to an irrecoverable loss of \$1.2m and the operating profit was just \$0.4m down 76.6% yoy. The recently incorporated physical investigations and sewer services subsidiaries saw growing losses and apart from the limited number of successes mentioned above, the general trend was poor.



Among non-operating and extra-ordinary items, the poor trend of the Tokyo Stock Exchange led to valuation losses on investment securities. Also the equity method consolidated US subsidiary, TrueTime, was sold in exchange for shares in Symmetricom, the acquiring company, whose shares declined in value subsequent to the disposal and a valuation loss arose. Total investment securities valuation losses were ¥0.8bn, forex losses ¥0.1bn, stock write-offs ¥0.2bn etc meant that on non-operating and extra-ordinary account there was an overall loss of ¥1.1bn (prior year ¥2.5bn loss).

The pre-tax loss was ¥0.6bn (prior year ¥1.3bn loss) and the net loss ¥0.8bn (prior year ¥1.0bn). In view of the fact that a loss was reported for the second year running and that the market environment is so adverse, the proposed dividend was reduced by ¥2.5 making ¥10 for the full year.

Balance Sheet

Consolidated total assets were ¥72.0bn and down ¥1.4bn or 1.9% yoy. There are three major reasons for this result: 1. investments in unconsolidated subsidiaries and affiliates were down ¥1.0bn yoy on the disposal of TrueTime, 2. costs of uncompleted geo-engineering services were down ¥0.9bn on the lower trend in orders received and 3. inventories (stock) were down ¥0.8bn on the adjustment of stock balances and writing down of certain items.

Liabilities showed little change apart from the increase in US subsidiaries' short term borrowing up ¥0.5bn yoy.

Shareholders' equity was down ¥1.4bn or 2.5% yoy on account of the loss for the year and the payment of the dividend lowering retained earnings by ¥1.1bn or 4.1% yoy and a net purchase of treasury stock of ¥0.6bn was also made.

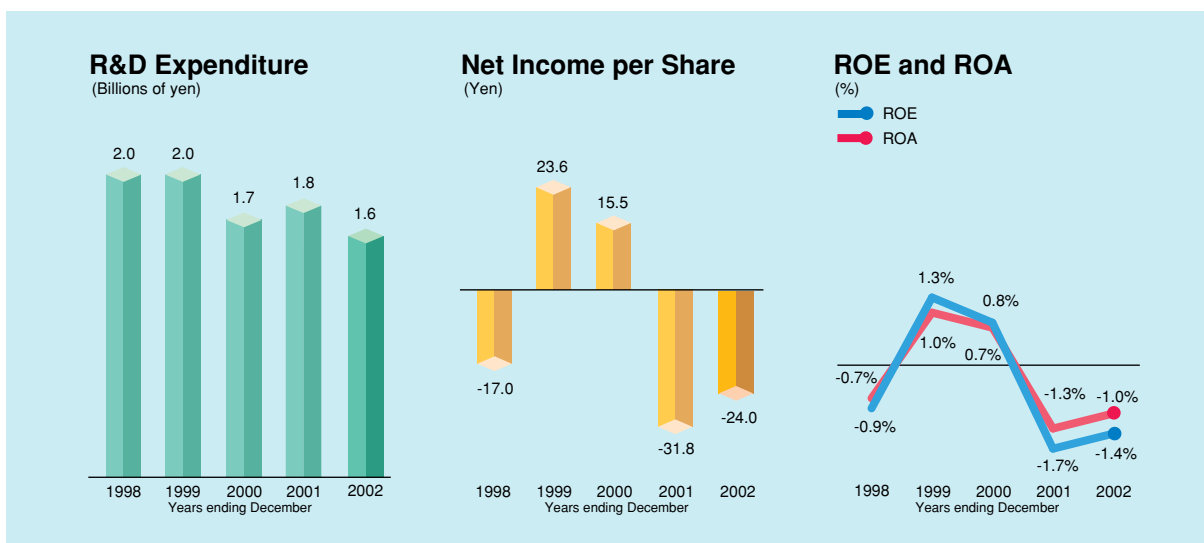
Cash Flow

Cash flow from operating activities was a positive ¥3.9bn (prior year a negative ¥0.5bn). This turnaround of ¥4.4bn reflects principally lower tax payments ¥0.4bn, lower orders received reducing the level of uncompleted geo-engineering services by ¥0.5bn, retirement reserve increase etc as a prior year item dropping out ¥0.6bn, a cycle of project completion and payment receipt reducing sales debtors by ¥0.8bn, lower pre-tax loss ¥0.8bn, decrease in inventories ¥1.7bn etc.

Cash flow from investing activities was in total a negative ¥1.5bn (prior year negative ¥3.7bn) mainly reflecting the lower level of activity in securities and investment securities.

Cash flow from financing activities was a negative ¥0.6bn (prior year increase of ¥0.3bn) principally reflecting the purchase of treasury stock of ¥0.6bn.

Cash and cash equivalents were ¥16.2bn at the year end up ¥1.8bn or 12.4% yoy.



CONSOLIDATED FINANCIAL STATEMENTS

OYO Corporation and its consolidated subsidiaries

Consolidated Balance Sheets

December 31, 2001 and 2002

	<i>(Millions of Yen)</i>		<i>(Thousands of U.S. Dollars) (Note 3)</i>
	2001	2002	2002
ASSETS			
Current Assets:			
Cash in hand and at bank (Note 4)	¥12,240	¥13,681	\$114,057
Marketable securities (Note 5)	3,125	3,329	27,753
Accounts and notes receivable:			
Trade	11,793	11,650	97,124
Subsidiaries and an affiliate	46	39	324
	11,839	11,689	97,448
Less: allowance for bad debts	(130)	(115)	(959)
	11,709	11,574	96,489
Costs of uncompleted geo-engineering services	6,221	5,292	44,122
Inventories (Note 6)	6,179	5,415	45,139
Deferred tax assets	708	704	5,870
Other current assets	1,397	1,135	9,463
Total current assets	41,579	41,130	342,893
Investments and Advances:			
Investments in securities (Note 5)	5,859	5,898	49,167
Investments in unconsolidated subsidiaries and affiliates (Note 8)	1,336	406	3,386
Long-term loans and other investments	1,649	1,695	14,132
Less: allowance for bad debts	(53)	(62)	(515)
	8,791	7,937	66,170
Property, Plant and Equipment:			
Buildings and structures	14,059	14,086	117,433
Machinery and equipment	10,884	11,204	93,400
	24,943	25,290	210,834
Less: accumulated depreciation	(13,914)	(14,375)	(119,840)
	11,029	10,915	90,994
Land (Note 7)	7,035	7,119	59,353
Construction in progress	207	218	1,813
	18,271	18,252	152,160
Intangibles and Deferred Charges			
Deferred tax assets	2,048	2,048	17,072
Other	2,731	2,630	21,926
	4,779	4,678	38,998
	¥73,420	¥71,997	\$600,221

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

	(Millions of Yen)		(Thousands of U.S. Dollars) (Note 3)
	2001	2002	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 9)	¥ 1,908	¥ 2,434	\$ 20,292
Accounts and notes payable:			
Trade	2,796	2,661	22,181
Subsidiaries and an affiliate	22	3	25
	<u>2,818</u>	<u>2,664</u>	<u>22,206</u>
Income taxes payable (Note 10)	151	358	2,987
Advances received on uncompleted geo-engineering services	975	739	6,160
Reserve for accrued bonuses	321	307	2,556
Other current liabilities	2,500	2,276	18,976
Total current liabilities	<u>8,673</u>	<u>8,778</u>	<u>73,177</u>
Long-term Debt (Note 9)	538	510	4,254
Reserve for Retirement Benefits (Note 11)	3,929	3,925	32,722
Deferred Tax Liabilities	571	255	2,123
Other Long-term Liabilities	62	4	38
Minority Interests in Consolidated Subsidiaries	3,898	4,155	34,640
Shareholders' Equity:			
Common stock:			
Authorized: 120,000,000 Shares at December 31, 2001 and 2002			
Issued: 32,082,573 Shares at December 31, 2001 and 2002	16,175	16,175	134,844
Additional paid-in capital	15,906	15,906	132,603
Revaluation losses on lands	(1,121)	(1,123)	(9,361)
Retained earnings (Note 2 (15))	26,532	25,440	212,091
Unrealized losses on "Other Securities"	(96)	(111)	(928)
Adjustment arising from foreign currency financial statement translation	(1,049)	(706)	(5,887)
Treasury stock (Note 12)	(598)	(1,211)	(10,095)
Total shareholders' equity	<u>55,749</u>	<u>54,370</u>	<u>453,267</u>
	<u>¥73,420</u>	<u>¥71,997</u>	<u>\$600,221</u>

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

OYO Corporation and its consolidated subsidiaries

Consolidated Statements of Income

for the years ended December 31, 2001 and 2002

	<i>(Millions of Yen)</i>		<i>(Thousands of U.S. Dollars) (Note 3)</i>
	2001	2002	2002
Net Sales (Notes 15 and 16):			
Geo-engineering services	¥37,151	¥34,253	\$285,560
Instrument sales	14,650	16,102	134,241
	<u>51,801</u>	<u>50,355</u>	<u>419,801</u>
Cost of Sales (Notes 15 and 16):			
Geo-engineering services	26,505	24,325	202,789
Instrument sales	9,357	10,699	89,198
	<u>35,862</u>	<u>35,024</u>	<u>291,987</u>
Gross profit	15,939	15,331	127,814
Selling, General and Administrative Expenses (Notes 13 and 14):	14,791	14,809	123,459
Operating income	<u>1,148</u>	<u>522</u>	<u>4,355</u>
Other Revenue (Expenses) (Note 15):			
Interest and dividend income	146	96	806
Interest expenses	(139)	(157)	(1,313)
Loss on sale/disposal of properties, net	(22)	(71)	(595)
Write-down of investments in securities	(558)	(842)	(7,022)
Gain on sale of marketable securities	12	1	13
Gain on sale of investments in securities	133	12	102
Gain (loss) on sale of investments in and advances to subsidiaries and an affiliate	23	(11)	(95)
Insurance premium income	46	95	790
Foreign exchange gain (loss)	198	(115)	(962)
Equity in earning of affiliates	(89)	(68)	(569)
Amortization of net retirement benefit obligation at transition date	(1,491)	(17)	(146)
Early retirement expenses	(713)	(11)	(93)
Reversal of allowance for doubtful accounts	—	33	282
Extraordinary gain based on the Statement of financial accounting standard No.141 "Business combination" recognized by the U.S. subsidiary.	—	86	718
Loss on disposal of inventories	—	(179)	(1,497)
Other, net	(6)	65	547
	<u>(2,460)</u>	<u>(1,083)</u>	<u>(9,034)</u>
Loss before income taxes	(1,312)	(561)	(4,679)
Income Taxes (Note 10):			
Current	229	264	2,201
Deferred	(664)	(212)	(1,767)
	<u>(435)</u>	<u>52</u>	<u>434</u>
Minority Interests in Earnings of Consolidated Subsidiaries	127	138	1,147
Net Loss	<u>¥(1,004)</u>	<u>¥(751)</u>	<u>\$ (6,260)</u>
	<i>(Yen)</i>		<i>(U.S. Dollars) (Note 3)</i>
Per Share Data (Note 2 (19)):			
Net loss	¥(31.8)	¥(24.0)	\$(0.20)
Cash dividends	¥ 12.5	¥ 10.0	\$ 0.08
Weighted Average Number of Shares (thousands)	31,588	30,951	30,951

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

OYO Corporation and its consolidated subsidiaries
Consolidated Statements of Shareholders' Equity

for the years ended December 31, 2001 and 2002

(Millions of Yen)

	Number of shares of common stock	Common stock	Additional paid-in capital	Revaluation gains/ (losses) on lands	Retained earnings	Unrealized gains/ (losses) on "Other Securities"	Adjustment arising from foreign currency statement financial translation	Treasury stocks	Total
Balance at December 31, 2000	32,082,573	¥16,175	¥15,906	¥ —	¥27,946	¥ —	¥ —	¥ (603)	¥59,424
Net loss for the year ended December 31, 2001	—	—	—	—	(1,004)	—	—	—	(1,004)
Cash dividends	—	—	—	—	(395)	—	—	—	(395)
Directors' bonuses	—	—	—	—	(15)	—	—	—	(15)
Revaluation losses on lands	—	—	—	(1,121)	—	—	—	—	(1,121)
Unrealized losses on "Other Securities"	—	—	—	—	—	(96)	—	—	(96)
Adjustment arising from foreign currency statement translation	—	—	—	—	—	—	(1,049)	—	(1,049)
Disposal of treasury stocks, net of acquisition costs	—	—	—	—	—	—	—	5	5
Balance at December 31, 2001	<u>32,082,573</u>	<u>¥16,175</u>	<u>¥15,906</u>	<u>¥(1,121)</u>	<u>¥26,532</u>	<u>¥ (96)</u>	<u>¥(1,049)</u>	<u>¥ (598)</u>	<u>¥55,749</u>
Net loss for the year ended December 31, 2002	—	—	—	—	(751)	—	—	—	(751)
Increase arising from exclusion of consolidation of subsidiaries	—	—	—	—	64	—	—	—	64
Revaluation losses on lands	—	—	—	(2)	2	—	—	—	—
Cash dividends	—	—	—	—	(393)	—	—	—	(393)
Directors' bonuses	—	—	—	—	(14)	—	—	—	(14)
Net unrealized losses on "Other Securities"	—	—	—	—	—	(15)	—	—	(15)
Adjustment arising from foreign currency statement translation	—	—	—	—	—	—	343	—	343
Acquisition of treasury stocks	—	—	—	—	—	—	—	(613)	(613)
Balance at December 31, 2002	<u>32,082,573</u>	<u>¥16,175</u>	<u>¥15,906</u>	<u>¥(1,123)</u>	<u>¥25,440</u>	<u>¥(111)</u>	<u>¥ (706)</u>	<u>¥(1,211)</u>	<u>¥54,370</u>

(Thousands of U.S. dollars) (Note 3)

	Number of shares of common stock	Common stock	Additional paid-in capital	Revaluation gains/ (losses) on lands	Retained earnings	Unrealized gains/ (losses) on "Other Securities"	Adjustment arising from foreign currency statement financial translation	Treasury stocks	Total
Balance at December 31, 2001	32,082,573	\$134,844	\$132,603	\$(9,345)	\$221,198	\$(803)	\$(8,740)	\$(4,986)	\$464,771
Net loss for the year ended December 31, 2002	—	—	—	—	(6,260)	—	—	—	(6,260)
Increase arising from exclusion of consolidation of subsidiaries	—	—	—	—	529	—	—	—	529
Revaluation losses on lands	—	—	—	(16)	16	—	—	—	—
Cash dividends	—	—	—	—	(3,277)	—	—	—	(3,277)
Directors' bonuses	—	—	—	—	(115)	—	—	—	(115)
Net unrealized losses on "Other Securities"	—	—	—	—	—	(125)	—	—	(125)
Adjustment arising from foreign currency statement translation	—	—	—	—	—	—	2,853	—	2,853
Acquisition of treasury stocks	—	—	—	—	—	—	—	(5,109)	(5,109)
Balance at December 31, 2002	<u>32,082,573</u>	<u>\$134,844</u>	<u>\$132,603</u>	<u>\$(9,361)</u>	<u>\$212,091</u>	<u>\$(928)</u>	<u>\$(5,887)</u>	<u>\$(10,095)</u>	<u>\$453,267</u>

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

OYO Corporation and its consolidated subsidiaries
Consolidated Statements of Cash Flows
for the years ended December 31, 2001 and 2002

	(Millions of Yen)		(Thousands of U.S. Dollars) (Note 3)
	2001	2002	2002
Cash Flows from Operating Activities:			
Loss before income taxes	¥ (1,312)	¥ (561)	\$ (4,678)
Depreciation and amortization	1,880	1,959	16,335
Amortized amount for consolidation adjustment accounts	18	1	8
Equity in earnings of affiliates	89	68	569
Loss on write-down of investments in securities	558	842	7,022
Decrease in provision for accrued retirement benefits	(3,297)	—	—
Increase (decrease) in reserve for retirement benefits	3,929	(5)	(39)
Increase (decrease) in reserve for accrued bonuses	10	(16)	(137)
Interests and dividend income	(146)	(96)	(806)
Interests expenses	139	157	1,313
Gain on sale of marketable securities	(12)	(1)	(13)
Net loss on sale/disposal of properties	22	71	594
Loss (gain) on sale of investments in securities	(156)	10	89
Decrease (increase) in accounts and notes receivable	(533)	254	2,115
Decrease (increase) in inventories	(894)	784	6,536
Loss on disposal of inventories	—	179	1,496
Decrease (increase) in other current assets	(174)	346	2,888
Decrease in accounts and notes payable	(987)	(196)	(1,640)
Increase (decrease) in other current liabilities	545	(299)	(2,500)
Decrease in costs of uncompleted geo-engineering costs	382	929	7,745
Payment of director's bonuses	(21)	(20)	(169)
Other	15	(300)	(2,500)
Subtotal	55	4,106	34,228
Interests and dividend income received	146	96	806
Interests expenses paid	(139)	(157)	(1,313)
Income taxes paid	(593)	(178)	(1,484)
Net cash provided by (used in) operating activities	(531)	3,867	32,237
Cash Flows from Investing Activities:			
Decrease (increase) in time deposits	(77)	128	1,069
Payments for acquisition of marketable securities	(3,505)	(1,699)	(14,168)
Payments for acquisition of investments in securities	(3,698)	(2,479)	(20,673)
Proceeds from sale of marketable securities	3,774	2,248	18,748
Proceeds from sale of investments in securities	1,653	2,071	17,268
Payments for acquisition of properties	(1,664)	(2,121)	(17,686)
Proceeds from sale of properties	295	441	3,681
Payments for business acquisition	(367)	—	—
Other	(89)	(110)	(920)
Net cash used in investing activities	(3,678)	(1,521)	(12,681)
Cash Flows from Financing Activities:			
Increase in short-term loans	720	458	3,823
Repayment of long-term loans from banks and other financial institutions	(165)	(199)	(1,660)
Proceeds from long-term loans from banks and other financial institutions	111	150	1,257
Payments for acquisition of treasury stock	(3)	(612)	(5,108)
Proceeds from sale of treasury stock	9	—	—
Cash dividends paid	(401)	(400)	(3,339)
Net cash provided by (used in) financing activities	271	(603)	(5,027)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	67	17	142
Net decrease (increase) in Cash and Cash Equivalents	(3,871)	1,760	14,671
Cash and Cash Equivalents at Beginning of Year	18,296	14,425	120,260
Cash and Cash Equivalents of Newly Consolidated Subsidiaries at Beginning of Year	—	36	297
Cash and Cash Equivalents at End of Year	<u>¥14,425</u>	<u>¥16,221</u>	<u>\$ 135,228</u>

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

OYO Corporation and its consolidated subsidiaries Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by OYO Corporation (the "Company") and its consolidated subsidiaries. The Company and its domestic consolidated subsidiaries have maintained 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, which are different in certain respects from the application 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.

Certain reclassifications of account balances as disclosed in the consolidated financial statements in

Japan have been made so as to present them in a form which is more familiar to readers outside Japan.

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

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The Company had 46 majority-owned subsidiaries as at December 31, 2002 (45 as at December 31, 2001). The consolidated financial statements for the year ended December 31, 2002 include the accounts of the Company and its 38 majority-owned subsidiaries (39 for the year ended December 31, 2001) (the "Companies"). These 38 majority-owned subsidiaries, together with the closing date of their respective fiscal years, are listed below.

Name of subsidiary	Equity ownership percentage	Closing date
OYO Corporation, U.S.A. ⁽¹⁾	100.0%	September 30
OYO Geospace Corporation ⁽¹⁾⁽³⁾	51.4%	September 30
Klein Associates, Inc. ⁽¹⁾⁽²⁾	100.0%	September 30
Geometrics, Inc. ⁽¹⁾⁽²⁾	100.0%	September 30
Geophysical Survey Systems, Inc. ⁽¹⁾⁽²⁾	100.0%	September 30
Blackhawk Geoservices, Inc. ⁽¹⁾⁽²⁾	100.0%	September 30
Blackhawk – PAS, Inc. ⁽¹⁾⁽²⁾	100.0%	September 30
Kinemetrics, Inc. ⁽¹⁾⁽²⁾	100.0%	September 30
Robertson Geologging Ltd. ⁽¹⁾	95.6%	September 30
OYO International (Singapore) Pte Ltd. ⁽¹⁾⁽⁴⁾	100.0%	September 30
OYO International (Malaysia) Sdn Bhd ⁽¹⁾⁽⁴⁾	100.0%	September 30
OYO Resources Management Corporation	100.0%	September 30
Tohoku Boring Co., Ltd.	100.0%	September 30
NS Environmental Science Consultant Corporation	68.1%	September 30
Ocean Engineering Corporation	100.0%	September 30
Koei Corporation	86.9%	September 30
OYO Seismic Instrumentation Corporation	100.0%	September 30
OYO International Corporation	100.0%	September 30
OYO Geo-Monitoring Service Corporation ⁽⁵⁾	100.0%	September 30

Note: there are 19 other consolidated subsidiaries

(1) Overseas Subsidiary

(2) A wholly-owned subsidiary of OYO Corporation, U.S.A.

(3) A 51.4% owned subsidiary of OYO Corporation, U.S.A.

(4) A wholly-owned subsidiary of OYO International Corporation.

(5) A 6.7% owned subsidiary of OYO Resources Management Corporation.

The remaining 4 unconsolidated subsidiaries (6 for 2001) whose combined assets, net sales and net income in the aggregate are not significant compared to those of the consolidated financial statements of the Companies, therefore, have not been consolidated with the Company. For consolidation of the accounts of subsidiaries whose closing dates are not in agreement with the Company, necessary adjustments are made on significant intercompany transactions which took place during the periods between the

closing dates for the fiscal years of respective consolidated subsidiaries and that of the Company.

Unrealized inter company profits and losses among the Companies are entirely eliminated, and the portion thereof attributable to the minority interests is charged to the minority interests.

Elimination of the cost of investments in consolidated subsidiaries with the underlying equity in net assets of such subsidiaries has been made by the Company to include equity in the net income (loss)

of subsidiaries earned subsequent to the acquisition of each block of shares. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortized over a period of five years on a straight-line basis.

(2) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 4 unconsolidated subsidiaries (majority-owned) (6 for 2001) and 3 affiliates (meaning the companies' equity interest of which are owned 20 percent to 50 percent) (4 for 2001). The equity method is applied to the investments in 3 major affiliates (4 for 2001) since investments in the remaining unconsolidated subsidiaries and affiliate are not material for the consolidated financial statements.

The affiliates are listed below:

Name of company	Equity ownership percentage	Closing date
Iris Instrument S.A.	49%	December 31
OYO RMS Corporation	50%	September 30
Engineering & Risk Services Corporation	50%	March 31

Note: In October 2002, OYO Corporation U.S.A., a wholly owned subsidiary of the Company, sold all of its share holdings in TrueTime, Inc. (affiliate under the equity method until 2001), to Symmetricom, Inc.

The investments in the remaining unconsolidated subsidiaries and affiliate are carried at cost or less.

(3) Translation of Foreign Currency

Revenue and expense items arising from transactions denominated in foreign currencies are translated into Japanese yen in general at the rates effective at the respective transaction dates.

Foreign currencies and short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rate prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in determination of net income for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas unconsolidated subsidiaries and affiliates are translated at the historical rates prevailing at the transaction dates.

In translating the financial statements of subsidiaries or affiliates stated in foreign currencies into yen, for purposes of consolidation with the Company or for application of the equity method, all assets and liabilities are translated at current exchange rates, while capital stock and retained earnings are translated at historical exchange rates. All revenue and expense items for the year are translated at current exchange rates.

The net difference arising from the translation of the foreign currency financial statements is shown as "Adjustments on Foreign Currency Statement Translation" in the accompanying consolidated balance sheets.

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(5) Sales Recognition of Geo-engineering Service

The Company's primary business is to engage in geo-engineering services. The geo-engineering services of the Company, except for certain large-scale and long-term geo-engineering service contracts, are accounted for by the "completed contract method" under which the net sales and the related cost of sales for the completed contracts are recognized when the services are completed. The revenue for certain large-scale and long-term geo-engineering service contracts, the geo-engineering service term of which is over one year and the contract amount of which is ¥100 million and over, are accounted for by the "percentage-of-completion method." The accumulated cost of uncompleted geo-engineering services is shown as "Costs of uncompleted geo-engineering services" and the related advances received on uncompleted geo-engineering services are shown as "Advances received on uncompleted geo-engineering services" in the accompanying consolidated balance sheets.

(6) Costs of Uncompleted Geo-engineering Services

"Costs of uncompleted geo-engineering services" are stated at cost of each individual project basis.

(7) Inventories

Costs of uncompleted geo-engineering services are stated at cost being determined by the individually identified cost method. Finished products and merchandise, raw materials, and work-in-process of the Company are stated at cost being determined by the average method, and those of principal subsidiaries are stated at the lower of cost or market being determined by the first-in-first-out method.

When the net realizable value of certain items of inventories is substantially less than the carrying value (cost), and the decline of value is not expected to be recovered in the near future, appropriate write-downs are recorded on such items.

(8) Valuation of Securities

Until the year ended December 31, 2000, securities with market quotations were valued at the lower of cost or market value, and securities without market quotations are valued at cost, cost being determined by the moving average method. Additionally, appropriate write-downs were recorded for securities without market quotations in cases where their value had declined substantially and such impairments of the value are not deemed to be temporary.

However, effective from the year ended December 31, 2001, the valuation method for securities changed to the following:

Subsidiaries and affiliates are stated at cost, cost being determined by the moving average method "Other Securities" (with market quotations) are stated at market value determined using the closing

market price on the balance sheet date. Unrealized gains/losses are included directly in shareholders' equity. Cost of securities sold is determined by the moving average method.

"Other Securities" (without market quotations) are stated at cost, cost being determined by the moving average method.

(9) Property, Plant and Equipment

Depreciation of buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) held by the company and its domestic consolidated subsidiaries are computed by the straight-line method, and depreciation for the other property and equipment held by the company and its domestic consolidated subsidiaries are computed by the declining-balance method, at rates based upon the estimated useful lives of assets which are prescribed by the Japanese income tax laws. The range of useful lives is principally from 2 to 50 years for buildings and structures and 2 to 15 years for machinery and equipment.

Depreciation of property, plant and equipment held by overseas consolidated subsidiaries mainly computed by the straight-line method.

The cost of property and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(10) Amortization of Intangible Assets

Goodwill is amortized uniformly over certain periods (15 or 40 years), depending on the accounting standards in the country where the subsidiary is located. Computer software for internal use is amortized uniformly over 5 years by the straight-line method. Other intangible fixed assets are amortized by the straight-line method.

(11) Accounting for Finance Lease

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(12) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

The Company and its domestic subsidiaries adopted deferred tax accounting in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(13) Recognition of Certain Accrued Expenses

The Company and domestic consolidated subsidiaries provided for doubtful accounts. The amount provided is determined by applying a percentage based on past actual bad debt loss experience to the balance of total receivables, plus provision for specific amounts deemed necessary to cover possible losses on an individual account basis. Overseas consolidated subsidiaries make amount deemed necessary to cover possible losses estimated on an individual account basis.

Accrued bonuses to employees is provided for at the amount estimated to be payable by the Company and its domestic consolidated subsidiaries in the future.

Overseas consolidated subsidiaries do not record any accrued bonuses since there are no bonus payments program in those overseas consolidated subsidiaries.

(14) Reserve for Retirement Benefit

Until the ended December 31, 2000, the Company records accrued retirement benefits to employees at an amount equivalent to 100% of the benefits that would have been payable by the Company (determined by the Company's internal rules), if all employees had retired voluntarily at the balance sheet date, less the balance of found assets accumulated by the qualified funded pension plan.

Effective from the year ended December 31, 2001, accrued retirement benefits are provided based on the amount of the projected benefit obligation less the fair value of the pension plan assets at the end of the fiscal year.

The Company and its domestic consolidated subsidiaries each maintain a defined benefit tax-qualified pension plan and lump-sum severance payment. For some employees, the Company makes premium retirement payments that are not treated as retirement benefit obligations under the new standards for retirement benefit accounting.

(15) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved by the shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated statements of shareholders' equity represents the results of such appropriations which are applicable to the immediately preceding financial year but were approved by the shareholders' meeting and disposed of during this year.

Dividends are paid to shareholders on the shareholders' register at the end of each financial year. As is customary practice in Japan, the payment of bonuses to directors is made out of retained earnings instead of being charged to income of the year, which constitutes a part of appropriations cited above.

(16) Accounting Standard for Computer Software

On the accompanying Balance Sheet, software costs are classified in a software account, included within "Intangibles and Deferred Charges – Other." These costs are being amortized, using the straight-line method, over their estimated useful lives (5 years), as determined by the Company.

(17) Accounting Standard for Financial Instruments

Effective from the year ended December 31, 2001, the Company adopted the accounting standard for financial instruments ("Views on Establishment of Accounting Standards for Financial Instruments," issued by the Business Accounting Deliberation Council on January 22, 1999). Under the new standard, securities redeemable within one year should be listed as "Marketable securities" under "Current Assets," and "Other securities" should be listed as "Investments in securities." Accordingly, at the beginning of the period the Company transferred a total of ¥2,342 million (\$17,760 thousand) from "Marketable securities" under "Current Assets" to "Investments in Securities."

As a result of this change, "Income/(loss) before income taxes" increased by ¥25 million (\$187 thousand) and, as a result of revaluing "Other securities" to fair market value, an unrealized loss of ¥96 million (\$730 thousand) was reported as a separate component of "Shareholders' Equity," net of income taxes. Additionally, the value of "Marketable securities" declined by ¥7 million (\$52 thousand), "Deferred tax assets" (current) increased by ¥3 million (\$21 thousand), "Investments in Securities" decreased by ¥159 million (\$1,207 thousand) and "Deferred tax assets" (fixed) increased by ¥67 million (\$507 thousand).

(18) Accounting Standard for Foreign Currency Transactions, etc.

Effective from the year ended December 31, 2001, the Company adopted the revised accounting standard for foreign currency transactions ("Views on Revision of Accounting Standards for Foreign Currency Transactions, etc." issued by the Business Accounting Deliberation Council on October 22, 1999). This change had no material effect on the Company's Statement of Income. However, from 2001, the for-

ign currency adjustment, included within "Assets" in 2000, was included as a separate component of "Shareholders' Equity" and as part of the "Minority Interests in Consolidated Subsidiaries."

(19) Net Income Per Share

Net income per share of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent stock splits of common stock.

Since there is no dilutive effect of convertible bonds and bonds with warrants on net income per share, such information is not required to be disclosed.

3. U.S. Dollar Amounts

The Company maintains its accounting records in Japanese yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥119.95=U.S.\$1, the approximate exchange rate at the latest balance sheet date of December 31, 2002. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥119.95=U.S.\$1 or at any other rate.

4. Cash and Cash Equivalents

"Cash and cash equivalents" can be reconciled to "Cash in hand and at bank" as follows:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2001	2002	2002
Cash in hand and at bank	¥12,240	¥13,681	\$ 114,057
Securities	3,125	3,329	27,753
	15,365	17,010	141,810
Time deposits with a term of over 3 months	(199)	(71)	(591)
Securities investment trust instruments with maturity of more than 3 months	(741)	(718)	(5,991)
Cash and cash equivalents	¥14,425	¥16,221	\$135,228

5. Marketable Securities and Investments in Securities

A summary of "Other Securities" at December 31, 2001 and 2002 were as follows:

	(Millions of Yen)			(Millions of Yen)			(Thousands of U.S. Dollars)		
	2001			2002			2002		
	Cost	Book value (Estimated fair value)	Unrealized gain (loss)	Cost	Book value (Estimated fair value)	Unrealized gain (loss)	Cost	Book value (Estimated fair value)	Unrealized gain (loss)
Market value available:									
Stocks	¥1,737	¥1,866	¥ 129	¥2,046	¥1,974	¥ (72)	\$17,053	\$16,453	\$ (600)
Bonds – Corporate bonds	199	190	(9)	498	494	(4)	4,152	4,114	(38)
– Other	—	—	—	1,808	1,789	(19)	15,074	14,918	(156)
Other	5,496	5,208	(288)	1,128	1,029	(99)	9,404	8,582	(822)
	¥7,432	7,264	¥(168)	¥5,480	5,286	¥(194)	\$45,683	44,067	\$(1,616)
Market value not available:									
Total		1,720			3,941			32,853	
		¥8,984			¥9,227			\$76,920	

6. Inventories

Inventories as at December 31, 2001 and 2002 consisted of the following:

	<i>(Millions of Yen)</i>		<i>(Thousands of U.S. Dollars)</i>
	2001	2002	2002
Finished products and merchandise	¥1,173	¥1,234	\$10,287
Work-in-process	1,532	803	6,695
Raw materials	3,419	3,321	27,680
Supplies	55	57	477
	<u>¥6,179</u>	<u>¥5,415</u>	<u>\$45,139</u>

7. Land Revaluation

Pursuant to the Law Concerning Revaluation of Land (Article 34 of the law publicly announced March 31, 1998), land used for business operations has been

revalued. The gain/loss on revaluation of the land has been included in "Shareholders' Equity," net of income taxes.

Methods of revaluation

Standard land, as determined by Article 2.4 of the Enforcement Ordinance for the Law Concerning Revaluation of Land (Ministerial Ordinance 119, publicly announced on March 31, 1998) has been revalued using the method used for calculating inheritance tax (the "rosenka" method). Other land, as determined by Article 2.3 of the same ordinance has been revalued using the assessed value for land tax purposes, reflecting appropriate adjustments, detailed as follows:

Date of revaluation	December 31, 2001
Difference between year-end market price of revaluated land and book price after revaluation	(¥208) million ((\$1,742) thousand)

8. Investments in and Advances to Unconsolidated Subsidiaries and Affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at December 31, 2001 and 2002 were as follows:

	<i>(Millions of Yen)</i>			<i>(Thousands of U.S. Dollars)</i>
	2001	2002	2002	2002
	Investment in common stock	Percentage of ownership	Investment in common stock	Investment in common stock
Unconsolidated subsidiaries and affiliates:				
Iris Instruments S.A.	¥ 93	49.0%	¥130	\$1,085
TrueTime, Inc.	1,012	—	—	—
OYO RMS Corporation	106	50.0	116	969
Engineering & Risk Services Corporation	68	50.0	108	897
Others	57	—	52	435
	<u>¥1,336</u>		<u>¥406</u>	<u>\$3,386</u>

9. Short-term Debt and Long-term Debt

Loan details

December 31	<i>(Millions of Yen)</i>				
	2001				
Item	Beginning balance	Closing balance	Average rate of interest	Maturity	Notes
Short term debt	¥1,059	¥1,871	4.24	—	
Current portion of long term debt	21	37	6.26	—	
Long term debt repayable after one year or more	560	538	6.70	2003 – 2021	
Other interest bearing debt	—	—	—	—	—
Total	<u>¥1,640</u>	<u>¥2,446</u>	<u>—</u>	<u>—</u>	<u>—</u>

December 31	<i>(Millions of Yen)</i>				
	2002				
Item	Beginning balance	Closing balance	Average rate of interest	Maturity	Notes
Short term debt	¥1,871	¥2,396	2.67	—	
Current portion of long term debt	37	38	6.31	—	
Long term debt repayable after one year or more	538	510	6.74	2004 – 2021	
Other interest bearing debt	—	—	—	—	—
Total	<u>¥2,446</u>	<u>¥2,944</u>	<u>—</u>	<u>—</u>	<u>—</u>

(Thousands of U.S. Dollars)

December 31	2002				
	Beginning balance	Closing balance	Average rate of interest	Maturity	Notes
Short term debt	\$15,598	\$19,977	2.67	—	
Current portion of long term debt	305	315	6.31	—	
Long term debt repayable after one year or more	4,483	4,254	6.74	2004 - 2021	
Other interest bearing debt	—	—	—	—	—
Total	<u>\$20,386</u>	<u>\$24,546</u>	<u>—</u>	<u>—</u>	<u>—</u>

(Note 1) Annual maturities of long-term debt are as follows:

Year ended December 31, 2002	(Millions of Yen)	(Thousands of U.S. Dollars)
2003	¥41	\$344
2004	44	363
2005	46	382
2006	48	404

(Note 2)

Long-term debt as at December 31, 2001 and 2002 consisted of loans from banks and other financial institutions bearing interest at annual rates ranging from 3.8% to 8.25% and from 3.8% to 8.25%, respectively.

The following assets are pledged as collateral to secure long-term debt, including the current portion thereof, at December 31, 2001 and 2002:

	(Millions of Yen)	(Thousands of U.S. Dollars)
	2002	2002
Land	¥173	\$1,442
Buildings	95	789
	<u>268</u>	<u>2,231</u>

Secured long-term debt:

Current portion of long-term loans	10	83
Long-term loans	57	473
	<u>¥ 67</u>	<u>\$ 556</u>

10. Income Taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries for the years ended December 31, 2001 and 2002 consisted of corporate income tax (national), enterprise tax (local) and inhabitant taxes (local) at the approximate rates indicated below:

	2001	2002
Corporate income tax	30.0%	30.0%
Enterprise tax	10.1	10.1
Inhabitant taxes	8.1	8.1
	<u>48.2%</u>	<u>48.2%</u>

While enterprise tax is an income tax, the Japanese tax regulations permit treating enterprise tax as deductible when paid, whereas statutory tax rates for the year ended December 31, 2001 and 2002 are as follows:

	2001	2002
Statutory tax rate	<u>42.0%</u>	<u>42.0%</u>

Significant components of deferred tax assets and liabilities as at December 31, 2001 and 2002 were as follows:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2001	2002	2002
Deferred tax assets			
Losses carried forward	¥ 607	¥ 691	\$ 5,762
Provision for retirement benefits in excess of statutory limit	1,305	1,291	10,766
Disallowed loss on securities valuation	0	175	1,463
Loss on securities valuation	70	81	675
Reserve for accrued bonuses	63	83	689
Loss on write-down of inventories	158	198	1,650
Loss on land revaluation	812	813	6,779
Other	250	299	2,490
Total gross deferred tax assets	3,265	3,631	30,274
Less valuation allowance	(242)	(265)	(2,213)
Deferred tax assets	3,023	3,366	28,061
Deferred tax liabilities			
Adjustment on revaluation of fixed assets	516	516	4,296
Other	322	353	2,945
Deferred tax liabilities	838	869	7,241
Total gross deferred tax assets	<u>¥2,185</u>	<u>¥2,497</u>	<u>\$20,820</u>

Income tax expenses as shown in the accompanying consolidated statements of income substantially are different from the amounts computed by applying the above-mentioned statutory tax rates to "Income

before income taxes." The principal reasons such differences arise are that entertainment expenses for purposes of sales promotion, etc. are not allowable for tax deduction purpose as defined by the Japanese income tax law.

Difference between the statutory tax rate and the effective income tax rate under deferred tax accounting is reconciled to as shown below:

	2001	2002
Statutory tax rate of corporation tax	42.0%	42.0%
Adjustments	(Not stated due to net loss.)	(Not stated due to net loss.)

11. Reserve for Retirement Benefits

(1) The reserve for retirement benefit obligations as of December 31, 2001 and 2002 were as follows:

	<i>(Millions of Yen)</i>	<i>(Millions of Yen)</i>	<i>(Thousands of U.S. Dollars)</i>
	2001	2002	2002
1. Projected benefit obligation	¥(5,888)	¥(6,418)	\$(53,511)
2. Fair value of plan assets	1,685	1,833	15,283
3. Projected benefit obligation in excess of plan assets [(1) + (2)]	(4,203)	(4,585)	(38,228)
4. Unrecognized net obligation at transition	70	52	438
5. Unrecognized actuarial difference	234	642	5,354
6. Unrecognized prior service cost	—	—	—
7. Net liability recognized on balance sheets [(3) + (4) + (5) + (6)]	(3,899)	(3,891)	(32,436)
8. Prepaid pension cost	30	34	286
9. Liability for employees' retirement benefits [(7) - (8)]	¥(3,929)	¥(3,925)	\$(32,722)

Note: Certain consolidated subsidiaries have used a simplified method for calculating retirement benefit obligations.

(2) The net retirement benefit costs for the year ended December 31, 2001 and 2002 were as follows:

	<i>(Millions of Yen)</i>	<i>(Millions of Yen)</i>	<i>(Thousands of U.S. Dollars)</i>
	2001	2002	2002
1. Service costs	¥ 414	¥386	\$3,214
2. Interest expense	192	172	1,437
3. Expected earnings	(23)	(24)	(204)
4. Actuarial differential	—	46	390
5. Costs incurred due transition	1,491	18	146
6. Net retirement benefit costs [(1) + (2) + (3) + (4) + (5)]	¥2,074	¥598	\$4,983

Note: Consolidated subsidiaries using simplified calculation state retirement benefit cost as "Service Costs."

(3) The assumptions used in the calculation of retirement benefit obligations are as follows:

	As of December 31, 2001	As of December 31, 2002
1. Discount rate	Parent company: 3.0%; Consolidated subsidiaries: 2.5%	2.5%
2. Expected return on plan assets	1.50%	1.50%
3. Method for periodically appropriating retirement benefits	Period fixed-amount basis	Period fixed-amount basis
4. Amortization period for prior service cost	—	—
5. Amortization period for net obligation at transition	Parent company: 1 year; Consolidated subsidiaries: 5 years	Parent company: 1 year; Consolidated subsidiaries: 5 years
6. Amortization period for unrecognized actuarial differences	5 years from the year following that in which they arise	5 years from the year following that in which they arise

Employees of OYO Corporation U.S.A. and its subsidiaries (the "U.S. Companies") are participants in the Parent's 401(k) Retirement Plan (the "Plan"), which covers substantially all eligible employees in the United States. The Plan is a qualified salary reduction plan in which all eligible participants may elect to have a percentage of their compensation contributed to the Plan, subject to certain guidelines issued by the Internal Revenue Service. Contributions by the U.S. Companies are discretionary. During the years ended September 30, 2001 and 2002, the U.S. Companies contributed approximately \$601,000 and \$531,700, respectively, to the Plan.

12. Stock Option Plan

The Company has adopted a stock option plan pursuant to the provisions of Article 210-2 (before revision) of the Commercial Code of Japan.

The plan was approved by the shareholders at the general meeting held on March 29, 2000 and the plan grants to Directors and employees options to purchase shares of common stock of the Company during the period from April 1, 2002 to March 30, 2007.

The maximum number of share options is 50,000 for directors and 450,000 for employees and the exercise price of the options is determined at 1.05 times of the monthly average market quotation during the immediately preceding month of option granting, subject to certain adjustments.

13. Research and Development Cost

The amounts of charges to income for the research and development activities of the Company for the years ended December 31, 2001 and 2002 were ¥1,759 million and ¥1,605 million (\$13,381 thousand), respectively.

14. Lease Transactions

(1) Finance Lease Contracts without Ownership-transfer

Finance leases, other than those which are deemed to transfer the ownership of the leased assets to lessees, are accounted for using a method similar to that applicable to ordinary operating leases. Had they been capitalized on the balance sheet, the following items would have been recognized on the balance sheet as at December 31, 2001 and 2002:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2001	2002	2002
Acquisition Cost Equivalent			
Machinery and equipment	¥ 380	¥ 415	\$ 3,462
Tools and fixtures	1,051	991	8,263
	<u>¥1,431</u>	<u>¥1,406</u>	<u>\$11,725</u>
Cumulative Depreciation			
Equivalent			
Machinery and equipment	¥ 93	¥ 155	\$ 1,293
Tools and fixtures	498	525	4,380
	<u>¥ 591</u>	<u>¥ 680</u>	<u>\$ 5,673</u>
Year-End Balance Equivalent			
Machinery and equipment	¥ 287	¥ 260	\$ 2,169
Tools and fixtures	553	466	3,883
	<u>¥ 840</u>	<u>¥ 726</u>	<u>\$ 6,052</u>
Future Lease Payments			
Within one year	¥ 286	¥ 283	\$ 2,358
Over one year	554	443	3,694
	<u>¥ 840</u>	<u>¥ 726</u>	<u>\$ 6,052</u>

Lease rental expense on finance lease contracts without ownership-transfer during the year ended December 31, 2001 and 2002 amounted to ¥338 million and ¥ 280 million (\$ 2,337 thousand).

(2) Operating Lease

The amount of outstanding future lease payments of the Company due at December 31, 2001 and 2002,

which included the portion of interest thereon, was summarized as follows:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2001	2002	2002
Future Lease Payments			
Within one year	¥194	¥177	\$1,474
Over one year	353	197	1,646
	<u>¥547</u>	<u>¥374</u>	<u>\$3,120</u>

15. Related Party Transactions

The Company's sales to and purchases from unconsolidated subsidiaries and an affiliate for the years ended, December 31, 2001 and 2002 were as follows:

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2001	2002	2002
Sales	¥ 60	¥ 81	\$ 671
Purchases	¥258	¥ 77	\$ 639
Interest and dividend income	¥ 2	¥ 2	\$ 19

16. Segment Information

(1) Segment Information by Type of Business

The Companies operate principally in the following three areas of business.

Geo-Engineering Services

.....Geo-engineering, planning, construction, environmental research, environmental assessment, etc.

Measuring Instruments

.....Measuring instruments for geo-engineering, oil search, sound wave searching, underground rader, and earthquake observation, etc.

	(Millions of Yen)				
	2001				
	Geo-engineering services	Measuring instrument	Total	Elimination and/or corporation	Consolidated total
Net Sales and Operating Income					
(1) Sales to outside customers	¥37,151	¥14,650	¥51,801	¥ —	¥51,801
(2) Inter-segment transactions	—	297	297	(297)	—
Total	<u>37,151</u>	<u>14,947</u>	<u>52,098</u>	<u>(297)</u>	<u>51,801</u>
Operating expenses	36,408	14,568	50,976	(323)	50,653
Operating income	<u>¥ 743</u>	<u>¥ 379</u>	<u>¥ 1,122</u>	<u>¥ 26</u>	<u>¥ 1,148</u>
Assets, Depreciation, and Capital Expenditure					
Total assets	¥36,237	¥17,163	¥53,400	¥20,020	¥73,420
Depreciation expenses	¥ 1,147	¥ 752	¥ 1,899	¥ (18)	¥ 1,881
Capital expenditures	¥ 926	¥ 1,047	¥ 1,973	¥ (9)	¥ 1,964

(Millions of Yen)

	2002				
	Geo-engineering services	Measuring instrument	Total	Elimination and/or corporation	Consolidated total
Net Sales and Operating Income					
(1) Sales to outside customers	¥34,253	¥16,102	¥50,355	¥ —	¥50,355
(2) Inter-segment transactions	—	409	409	(409)	—
Total	34,253	16,511	50,764	(409)	50,355
Operating expenses	33,982	16,293	50,275	(442)	49,833
Operating income	¥ 271	¥ 218	¥ 489	¥ 33	¥ 522
Assets, Depreciation, and Capital Expenditure					
Total assets	¥33,864	¥17,427	¥51,291	¥20,706	¥71,997
Depreciation expenses	¥ 1,039	¥ 934	¥ 1,973	¥ (13)	¥ 1,959
Capital expenditures	¥ 742	¥ 1,264	¥ 2,006	¥ (13)	¥ 1,993

(Thousands of U.S. Dollars)

	2002				
	Geo-engineering services	Measuring instrument	Total	Elimination and/or corporation	Consolidated total
Net Sales and Operating Income					
(1) Sales to outside customers	\$285,560	\$134,241	\$419,801	\$ —	\$419,801
(2) Inter-segment transactions	—	3,411	3,411	(3,411)	—
Total	285,561	137,652	423,212	(3,411)	419,801
Operating expenses	283,304	135,834	419,138	(3,692)	415,446
Operating income	\$ 2,257	\$ 1,818	\$ 4,074	\$ 281	\$ 4,355
Assets, Depreciation, and Capital Expenditure					
Total assets	\$282,313	\$145,290	\$427,603	\$172,618	\$600,221
Depreciation expenses	\$ 8,660	\$ 7,787	\$ 16,447	\$ (112)	\$ 16,335
Capital expenditures	\$ 6,186	\$ 10,542	\$ 16,728	\$ (110)	\$ 16,618

Notes: (1) Included in the "Elimination and/or corporation" column are common assets of ¥20,868 million (\$173,969 thousand) as at December 31, 2002, which mainly comprise surplus working funds (cash and marketable securities), long-term investment funds (investments in securities), and other assets which belong to the Group.

(2) "Depreciation expense" and "Capital expenditure" include long-term prepaid expenses and the related amortization.

(2) Segment Information by Geographical Region

(Millions of Yen)

	2001					
	Japan	North America	Other areas	Total	Elimination and/or corporation	Consolidated total
Net Sales						
(1) Sales to outside customers	¥38,027	¥12,803	¥ 971	¥51,801	¥ —	¥51,801
(2) Intersegment sales	161	230	18	409	(409)	—
Total	38,188	13,033	989	52,210	(409)	51,801
Operating expenses	37,118	12,941	1,037	51,096	(443)	50,653
Operating income (loss)	¥ 1,070	¥ 92	¥ (48)	¥ 1,114	¥ 34	¥ 1,148
Assets						
Total assets	¥39,012	¥15,190	¥ 762	¥54,964	¥18,456	¥73,420

(Millions of Yen)

	2002					
	Japan	North America	Other areas	Total	Elimination and/or corporation	Consolidated total
Net Sales						
(1) Sales to outside customers	¥34,513	¥13,871	¥1,971	¥50,355	¥ —	¥50,355
(2) Intersegment sales	168	256	17	441	(441)	—
Total	34,681	14,127	1,988	50,796	(441)	50,355
Operating expenses	34,187	14,233	1,911	50,331	(498)	49,833
Operating income (loss)	¥ 494	¥ (106)	¥ 77	¥ 465	¥ 57	¥ 522
Assets						
Total assets	¥36,846	¥14,614	¥1,216	¥52,676	¥19,321	¥71,997

(Thousands of U.S. Dollars)

	2002					Consolidated total
	Japan	North America	Other areas	Total	Elimination and/or corporation	
Net Sales						
(1) Sales to outside customers	\$287,729	\$115,643	\$16,429	\$419,801	\$ —	\$419,801
(2) Intersegment sales	1,394	2,134	146	3,674	(3,674)	—
Total	289,123	117,777	16,575	423,475	(3,674)	419,801
Operating expenses	285,005	118,664	15,930	419,599	(4,153)	415,446
Operating income (loss)	\$ 4,118	\$ (887)	\$ 645	\$ 3,876	\$ 479	\$ 4,355
Assets						
Total assets	\$307,177	\$121,838	\$10,134	\$439,149	\$161,072	\$600,221

Note: Included in the "Elimination and/or corporation" column are common assets of ¥20,868 million (\$173,969 thousand) as at December 31, 2002, which mainly comprise surplus working funds (cash and marketable securities), long-term investment funds (investment in securities), and other assets which belong to the Group.

(3) Overseas Sales

	(Millions of Yen)		(Thousands of U.S. Dollars)
	2001	2002	2002
Overseas Sales	¥14,016	¥16,125	\$134,432
North America	7,969	9,625	80,244
Other areas	6,047	6,500	54,188
Consolidated Net Sales	¥51,801	¥50,355	\$419,801
Overseas Sales/Consolidated Net Sales	27.1%	32.0%	32.0%
North America	15.4%	19.1%	19.1%
Other areas	11.7%	12.9%	12.9%

Note: "Overseas Sales" consists of exports from the parent company and sales of consolidated subsidiaries outside Japan (but excludes transactions among consolidated subsidiaries).

17. Derivatives

The Company enters derivative transactions in order to minimize risks associated with foreign exchange rate fluctuations. Its policy is not to undertake such transactions for investment purposes.

The Company enters derivative transactions for the purpose of minimizing foreign exchange risks associated with its foreign-currency-denominated obligations.

The Company engages in currency swap transactions. Currency swap transactions carry risk associated with foreign exchange fluctuations. Since the Company deals only with highly creditworthy financial institutions, the credit risk is deemed minimal.

With approval of top management, the finance and accounting department executes and manages the Company's derivative contracts, subject to internal rules governing transaction authority and transaction limits.

Supplementary information:

With respect to market value of derivative transactions, the contract amount of each transaction is either a nominal contract amount or a notional principal amount and, therefore, does not accurately reflect the size of the risk involved in the transaction.

Currency-related

December 31	(Millions of Yen)			Unrealized gain/loss
	Contract amount	Portion exceeding 1 year	Market value	
Type of Transaction				
Non-market transactions				
Currency swaps				
Receive fixed (US\$)				
Pay fixed (¥)	¥2,002	¥786	¥22	¥22
Total	¥2,002	¥786	¥22	¥22

December 31	(Thousands of U.S.Dollars)			
	2002			
	Contract amount	Portion exceeding 1 year	Market value	Unrealized gain/loss
Type of Transaction				
Non-market transactions				
Currency swaps				
Receive fixed (US\$)				
Pay fixed (¥)	<u>\$16,692</u>	<u>\$6,558</u>	<u>\$192</u>	<u>\$192</u>
Total	<u>\$16,692</u>	<u>\$6,558</u>	<u>\$192</u>	<u>\$192</u>

Notes: (1) Market values are based on prices submitted by the financial institutions involved in the transactions.
(2) In fiscal 2001, the Company does not engage in derivative transactions.

18. Subsequent Events

Appropriations of retained earnings of the Company in respect of the year ended December 31, 2002 proposed by the Board of Directors and approved at the shareholders' meeting of the Company held on March 27, 2003 are as follows:

	(Millions of Yen)	(Thousands of U.S. Dollars)
Loss of the Company not disposed of at December 31, 2002	¥ 96	\$ 801
Appropriations:		
Reversal of voluntary provision	1,000	8,337
Cash dividends (¥3.75 per share)	116	967
Unappropriated retained earnings of the Company to be carried forward	<u>¥ 980</u>	<u>\$8,171</u>

Report of Independent Accountants

The Board of Directors OYO Corporation

We have audited the consolidated balance sheets of OYO Corporation and its consolidated subsidiaries as of December 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied 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 OYO Corporation and its consolidated subsidiaries as of December 31, 2001 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1 and 2) applied on a consistent basis.

As explained in Note 2 to the consolidated financial statements, the Company and its consolidated subsidiaries have adopted amended or new Japanese financial accounting standards for financial instruments, employees' retirement benefits, and foreign currency translation effective for the year ended December 31, 2001.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
March 27, 2003

Board of Directors, Officers and Corporate Auditors

Chairman of The Board*

Takeshi Ohkubo

President*

Moriyuki Taya

Director and Senior Executive Officers

Naobumi Daibo
Katsuhiko Kobayashi
Tomofumi Nakamura
Tateo Suzuki

Director and Executive Officers

Hideo Wakasa
Kiyoshi Mamiya
Tsuneaki Iwasaki
Mitsuru Honjo

Standing Corporate Auditor

Yuhei Kono

Corporate Auditors

Masato Ohta
Satoru Morikawa

Senior Executive Officer

Yukihiko Okabe

Executive Officers

Keiji Tonouchi
Hiroshi Takita
Keiichi Hirata
Masayoshi Shibuki
Kenji Yoshinaga
Akihiko Nakagami
Yuichi Mitsuo
Yoshinori Maeda
Koji Kawamoto
Kazuhiko Sasaki
Masaru Narita
Takashi Tokushige
Kazunori Nishida
Tadashi Yoshioka
Yasunori Shoji
Takeichiro Ohhashi
Yoshinori Sone

*Representative Director

(as of April 1, 2003)

Corporate Data

Incorporated

May 2, 1957

Paid-in capital

¥16,174,600 thousand (U.S.\$134,844 thousand)

Number of employees

1,156 (as of December 31, 2002)

Number of sales offices

63 (as of April 1, 2003)

Listing

The Tokyo Stock Exchange (First Section)

Code number

9755

Number of shareholders

12,007 (as of December 31, 2002)

Shares of common stock issued and outstanding

32,082,573 (as of December 31, 2002)

Trading unit

100 shares

Financial year

January 1 to December 31

Annual shareholders' meeting

March

Transfer agent

Tokyo Securities Transfer Agent Co. Ltd.
5-1, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0005
Tel: 03-3212-4611

Auditor

ChuoAoyama Audit Corporation
2-5, Kasumigaseki 3-chome, Chiyoda-ku,
Tokyo 100-6088
Tel: 03-5532-3200

OYO's Major Subsidiaries and Affiliates

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[Subsidiaries]

OYO Resources Management Corporation

Chiyoda-ku, Tokyo, Japan
(Sale of software & hardware products for geological & environmental investigation, temporary personnel agency, nonlife insurance agency)
* URL:<http://www.oyorm.co.jp>

Tohoku Boring Co., Ltd

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(Geological investigation, landslip prevention and well drilling)

NS Environmental Science Consultant Corporation

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(Environmental surveys and environmental assessment)
* URL:<http://www.ns-kankyo.co.jp>

Ocean Engineering Corporation

Bunkyo-ku, Tokyo, Japan
(Marine surveying and investigation)
* URL:http://www1.odn.ne.jp/ocean_eng
E-mail: ocean-eng@pop17.odn.ne.jp

Koei Corporation

Shinjuku-ku, Tokyo, Japan
(Civil engineering services related design, surveying and investigation and project management)
* URL:<http://www.koei-ds.co.jp>

OYO Seismic Instrumentation Corporation

Saitama, Saitama, Japan
(Sale of seismometers) and saismological instrumentation services
* URL:<http://www.oyosi.co.jp>

OYO International Corporation

Chiyoda-ku, Tokyo, Japan
(Geotechnical, environmental and disaster prevention engineering services)
E-mail: oic@oyointer.com

OYO Geo-monitoring Service Corporation

Kawaguchi, Saitama, Japan
(Geo-monitoring service and instruments rental)
* URL:<http://www.oyoks.co.jp>

[Overseas Subsidiaries]

OYO International (Malaysia) Sdn. Bhd.

Selangor, Malaysia
(Geotechnical and environmental engineering services)
E-mail: oyo@tm.net.my

OYO Corporation U.S.A.

Pasadena, California, U.S.A.
(Holding company of US & UK operating subsidiaries)

Klein Associates, Inc.

Salem, New Hampshire, U.S.A.
(Manufacturing and sale of sonar systems for marine investigation)
URL:<http://www.kleinsonar.com>
E-mail: mail@kleinsonar.com

Kinometrics, Inc.

Pasadena, California, U.S.A.
(Manufacturing and sale of seismometers, strong motion seismometers and seismic observation systems)
URL:<http://www.kinometrics.com>
E-mail: sales@kmi.com

Blackhawk-PAS, Inc.

Greenville, South Carolina, U.S.A.
(Sewer pipe inspection, evaluation, and assessment)
URL:<http://www.blackhawk-pas.com>

Geometrics, Inc.

San Jose, California, U.S.A.
(Manufacturing and sale of geophysical instruments)
URL:<http://www.geometrics.com>
E-mail: sales@mail.geometrics.com

Blackhawk GeoServices, Inc.

Golden, Colorado, U.S.A.
(Geophysical services)
URL:<http://www.blackhawkgeo.com>
E-mail: info@blackhawkgeo.com

Geophysical Survey Systems, Inc.

North Salem, New Hampshire, U.S.A.
(Manufacturing and sale of ground penetrating radar systems)
URL:<http://www.geophysical.com>
E-mail: sales@geophysical.com

OYO Geospace Corporation

Stafford, Texas, U.S.A.
(Holding company of the oil exploration instruments subsidiaries)
URL:<http://www.geospacecorp.com>
E-mail: sales@geospacecorp.com

Robertson Geologging Limited

Deganwy, Conwy, U.K.
(Manufacturing and sale of slimhole logging systems)
URL:<http://www.geologging.com>
E-mail: sales@geologging.com

[Affiliates]

OYO RMS Corporation

Minato-ku, Tokyo, Japan
(Damage risk evaluation and risk management for earthquake and typhoon disasters)
URL:<http://www.oyorms.co.jp>
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Engineering & Risk Services Corporation

Minato-ku, Tokyo, Japan
(Natural disaster engineering and risk analyzing services) and environmental site assessment
URL:<http://www.ers-co.co.jp>
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[Overseas Affiliates]

IRIS Instruments S.A.

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* Japanese only

