



# 2003 Annual Report

YKK CORPORATION  
April 2002 – March 2003

# Contents

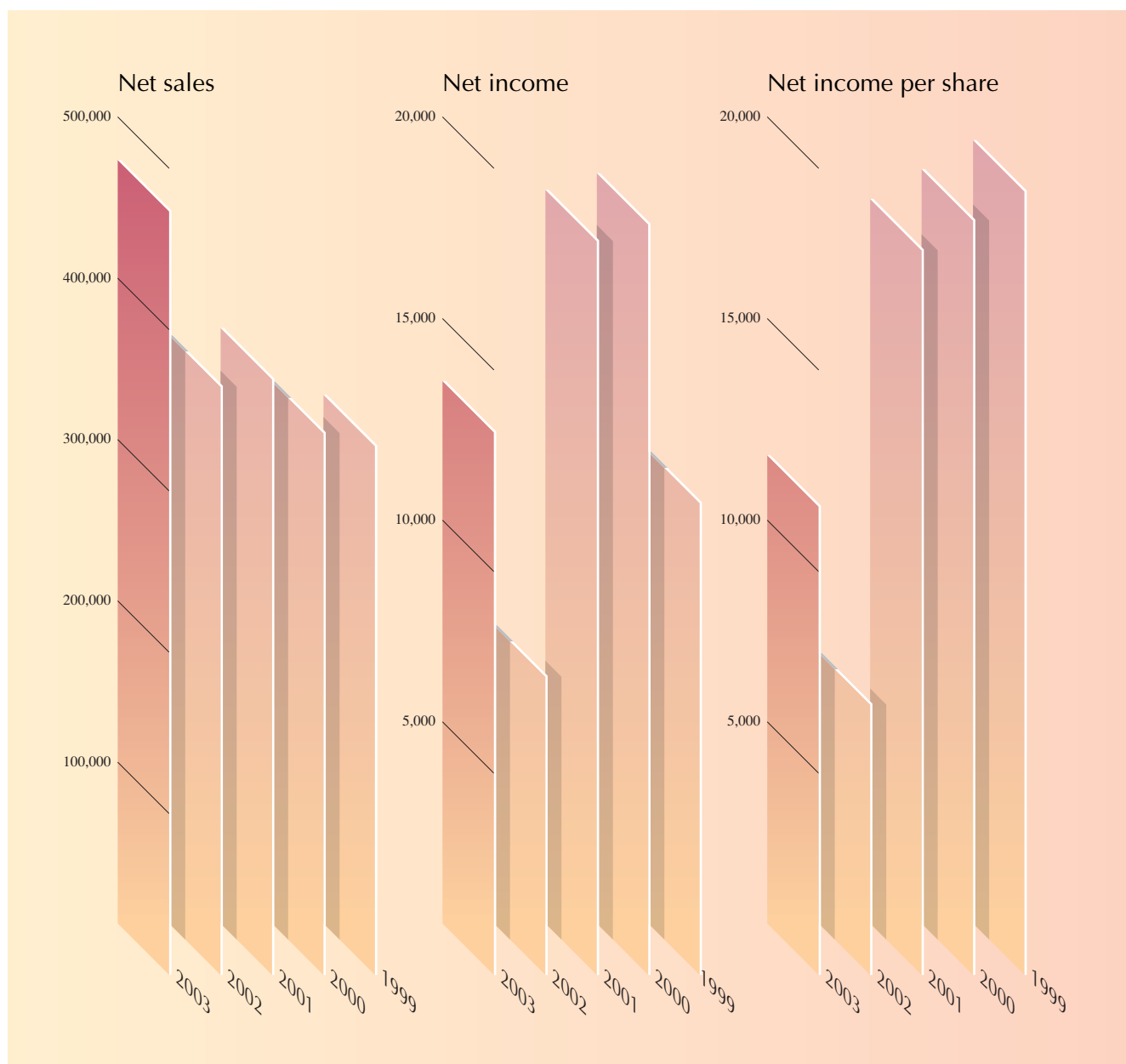
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# Financial Highlights

YKK Corporation and Consolidated Subsidiaries

Years ended 31st March	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Net sales</b>	¥473,307	¥364,554	\$3,944,225
<b>Net income</b>	13,452	7,393	112,100
	yen		U.S. dollars
<b>Net income per share</b>	¥ 11,611	¥ 6,703	\$ 96.76

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120=U.S.\$1.





## Message from the President



Last year 2002, the Japanese economy continued to be afflicted by various structural problems, including the "hollowing out" of industries, apprehensions about worsening deflationary trends, and lingering bad debts. Under these circumstances, many companies were forced to restructure or shut down, actions that damaged employment conditions.

The global economy also remained generally stagnant, with the outcome of the Iraq question remaining undetermined.

Nevertheless, the Fastening Products Division managed to achieve growth in both sales and profits.

In terms of sales, declines in Japan were offset by brisk overseas sales. With respect to profits, expansion efforts in the U.S. and East Asian regions contributed to significant profit recovery.

In the Architectural Products Division, while sales remained roughly equivalent to the previous year, profits recovered sharply after a similarly abrupt decline, due to combined efforts of YKK AP Inc. and YKK Architectural Products Manufacturing Group to implement cost reductions and structural reforms, functioning as a single entity.

Both sales and profits are expected to decline at the Machinery Engineering Division due to shrinking demand for facilities at overseas fastening businesses.

The business results of the YKK Group for fiscal 2002 managed to attain significant improvements over the previous year, thanks to significant revenue recovery in the Fastening Products Division and the Architectural Products Division, positioned as the two pillars of the Group.

YKK positions fiscal 2003 as a significant year, a year in which to lay a course toward continuous expansion of profits, based on our determination not to remain content with the one-time recovery of the previous year.



In the midst of severe business conditions, the YKK Group intends to expedite second-stage operational structural reforms for the two core business divisions to sustain and expand profitability.

In addition, we plan to enhance our "YKK" brands for fastening products and "YKK AP" for architectural products by making the most of their respective strengths. This will allow us to ensure mid-to-long-term operational growth and expansion.

In fiscal 2003, we plan to dramatically accelerate operational structural reforms and brand enhancements to clarify the directions in which future business structures will shift and to identify customer trends, with the ultimate goal of enhancing our true competitiveness. In these efforts, we will continue to rely on your support and guidance.

Tadahiro Yoshida  
President



Changi Airport Station , Singapore (YKK AP Project)

# Consolidated Financial Review

Looking at world economies during fiscal 2002, we see that inventory adjustment in the U.S. was completed and the economy started making a slight comeback. However, falling share prices against a background of corporate malfeasance, together with the effects of the war in Iraq, clouded the economic landscape. In Europe, economies clearly floundered, and in Asia, with rises in consumer spending and exports, economies began to recover.

In Japan, the year was typified by hollowing out of industry, fears of deflation, the bad debt problem, and other such structural defects, which caused corporations to restructure and retrench, which led to worsening concerns about employment.

Although the economic environment left a great deal to be desired, the YKK Group (YKK and consolidated subsidiaries) continued to place new products on the market and strove to strengthen response to customers and improve the level of customer satisfaction. Also, culminating a program that has been under way for some years, we established YKK AP Inc. (formerly YKK Architectural Products Inc.), a wholly owned subsidiary, on October 1, 2002. This move integrated the architectural products organization and completed our reorganization of this sector. Consequently, net sales by division were as follows:

Fastening Products Division (including sales within the segment) :	¥193,072 million (US\$1,609 million)
Architectural Products Division (including sales within the segment) :	¥273,366 million (US\$2,278 million)
Machinery and Engineering Division (including sales within the segment) :	¥ 26,538 million (US\$ 221 million)
Other Divisions (including sales within the segment) :	¥ 25,041 million (US\$ 209 million)
Elimination or Corporate :	(¥ 44,711 million) (US\$ 373 million)
Total Sales :	¥473,307 million (US\$3,944 million)

Total sales increased by 29.8% compared to last year's sales of ¥364,554 million (US\$2,741 million), which was in turn a 1.3% decline against the previous year.

The Fastening Products Division spent the year in a world economy that showed a less than transparent view of the future. Japanese apparel makers continued to shift production overseas, so sales in Japan decreased. However, world apparel makers were concentrating on China and East Asian countries, and the area has become a global garment-making capital. YKK sales in that region increased. Considering the business environment, YKK started restructuring our marketing and manufacturing. As a result, our sales (including sales within the segment) declined by 2.7%, which also reflects changes in foreign exchange rates.

The Architectural Products Division saw declining demand in the domestic market, along with continuing severe pricing competition. Nevertheless, the YKK Architectural Products Division and the YKK AP Group worked very closely to create superior products and build regional distribution networks, pursuing ever-greater rationalization and further cost-cutting. Also, as noted above, our wholly-owned subsidiary, YKK AP Inc. was established on October 1, 2002. The results of our efforts saw sales (including sales within the segment) leap by 74.1% compared to last year's figure.

The Machinery and Engineering Division saw good engineering results through the installation of extruding facilities at overseas factories and the installation of construction material production equipment. Nevertheless, finishing facilities showed a downturn that brought sales (including sales within the segment) for the division down by 13.1% compared to last year.

Other Divisions were about the same as last year in overseas markets, but domestic sales were down by 7.2% compared with last year, due to the lackluster economy.

As a percentage of sales, cost of sales stood at 67.3%, down by 3.2 percentage points from the previous year. Further, selling, general, and administrative expenses were 26.8% of sales, an increase of 2.7 percentage points.

Overall, net income was ¥13,452 million (US\$ 112 million), up 82.0% from fiscal 2001.

Net income per share was ¥11,611 (US\$96.76), increase from ¥6,704 (US\$50.41) for the previous year.

The dividend per share was ¥1,800 (US\$15.00), or 18% per annum.

# Five-Year Summary

YKK Corporation and Consolidated Subsidiaries

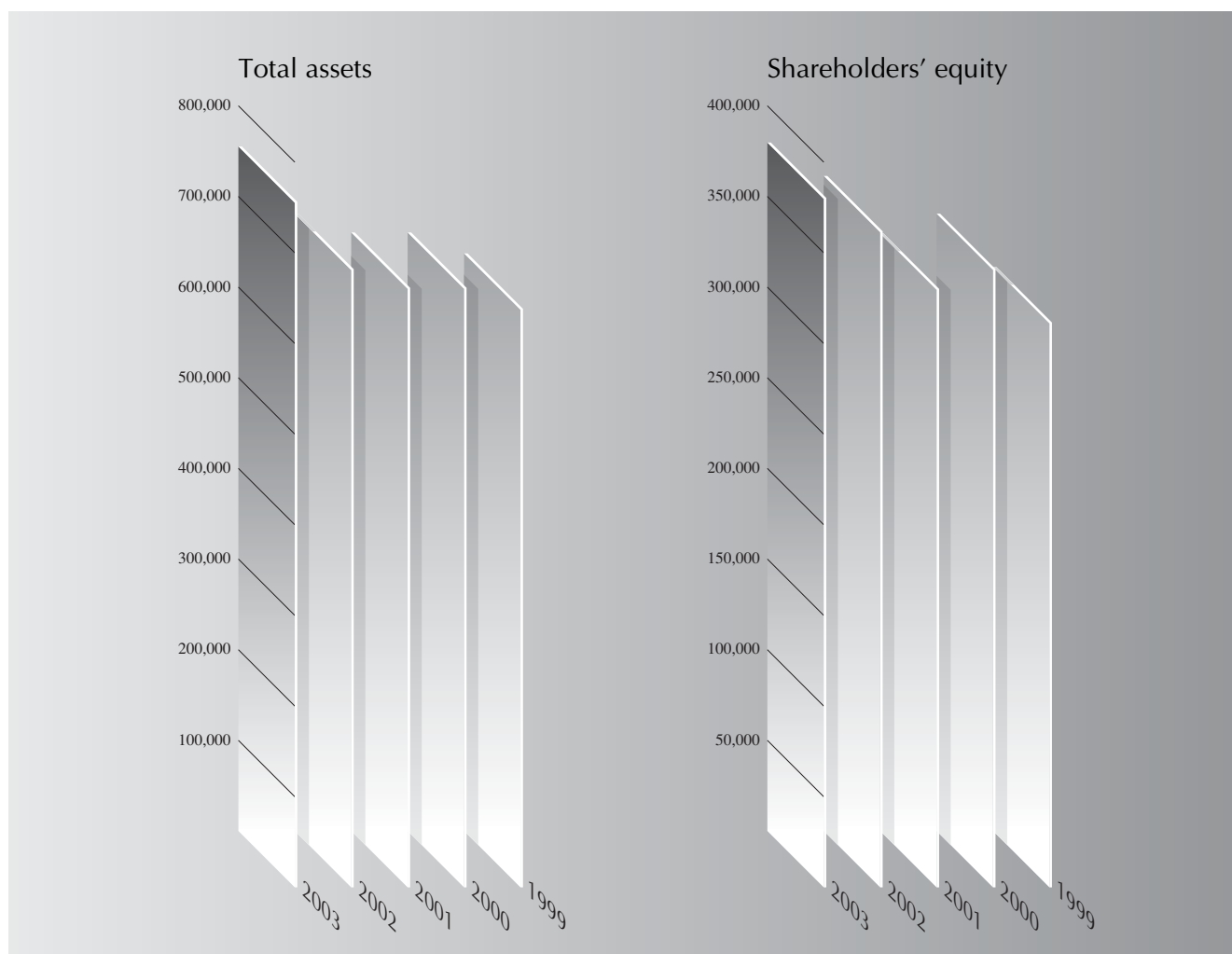
Millions of yen and thousands of U.S. dollars  
except per share figures

Years ended 31st March	2003	2002	2001	2000	1999	2003
<b>For the Fiscal Year:</b>						
Net sales	¥473,307	¥364,554	¥369,190	¥335,816	¥327,750	\$3,944,225
Income before income taxes, minority interests, equity in earnings and translation adjustments	24,009	15,918	42,838	32,435	27,593	200,075
Income taxes	9,717	5,706	18,076	11,803	14,401	80,975
Net income	13,452	7,393	18,194	18,606	11,697	112,100
<b>Per Share Data:</b>						
Net income	¥ 11,611	¥ 6,703	¥ 17,965	¥ 18,705	¥ 19,424	\$ 96.76
Cash dividends	1,800	1,800	1,800	1,800	1,950	15.00
<b>At Year End:</b>						
Total assets	¥755,137	¥680,852	¥660,254	¥660,180	¥637,133	\$6,292,808
Shareholders' equity	379,724	361,306	329,548	340,487	311,009	3,164,367

Notes: (1) U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120=U.S.\$1.

(2) The computation of the above amounts per share has been based on the average number of shares outstanding during each period.

(3) Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective period.



# Consolidated Balance Sheets

YKK Corporation and Consolidated Subsidiaries

For the Years ended 31st March, 2003 and 2002	Millions of yen	Thousands of U.S. dollars (Note 2)	
	2003	2002	2003
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Notes 5 and 14)	¥ 65,305	¥ 49,930	\$ 544,208
Time deposits and short-term investments in securities (Note 4)	6,614	3,636	55,117
Notes and accounts receivable (Note 5):			
Trade	137,910	55,231	1,149,250
Unconsolidated subsidiaries and affiliated companies (Note 12)	430	27,241	3,583
Allowance for doubtful accounts	(5,297)	(2,396)	(44,142)
	133,043	80,076	1,108,692
Inventories (Notes 3 and 5)	127,812	107,448	1,065,100
Short-term loans receivable (Note 12)	–	16,943	–
Deferred tax assets (Note 7)	6,844	3,847	57,033
Other current assets	10,034	14,073	83,617
<b>Total current assets</b>	<b>349,654</b>	<b>275,955</b>	<b>2,913,783</b>
<b>Investments and advances:</b>			
Investments in unconsolidated subsidiaries and affiliated companies	2,763	6,188	23,025
Investments in other securities (Notes 4 and 5)	16,783	18,502	139,858
<b>Total investments and advances</b>	<b>19,547</b>	<b>24,691</b>	<b>162,892</b>
<b>Property, plant and equipment (Notes 5 and 10):</b>			
Land	70,266	65,365	585,550
Buildings and structures	329,961	321,016	2,749,675
Machinery and equipment	492,408	479,006	4,103,400
Construction in progress	5,062	4,497	42,183
	897,698	869,887	7,480,817
<b>Accumulated depreciation</b>	<b>(566,866)</b>	<b>(538,370)</b>	<b>(4,723,883)</b>
<b>Property, plant and equipment, net</b>	<b>330,831</b>	<b>331,516</b>	<b>2,756,925</b>
<b>Other assets:</b>			
Deferred tax assets (Note 7)	23,510	23,716	195,917
Other	31,592	24,971	263,267
<b>Total other assets</b>	<b>55,103</b>	<b>48,688</b>	<b>459,192</b>
<b>Total assets</b>	<b>¥755,137</b>	<b>¥680,852</b>	<b>\$6,292,808</b>



For the Years ended 31st March, 2003 and 2002

	Millions of yen	2002	Thousands of U.S. dollars (Note 2)
	<b>2003</b>		<b>2003</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 5)	¥ 41,328	¥ 51,538	\$ 344,400
Current portion of long-term debt (Note 5)	18,417	20,259	153,475
Notes and accounts payable: Trade	68,507	49,244	570,892
Construction	4,698	4,733	39,150
	73,205	53,978	610,042
Employees' savings deposits	32,244	23,757	268,700
Accrued income taxes (Note 7)	6,657	1,194	55,475
Deferred tax liabilities (Note 7)	172	449	1,433
Other current liabilities	55,686	26,146	464,050
<b>Total current liabilities</b>	227,711	177,325	1,897,592
<b>Long-term liabilities:</b>			
Long-term debt (Note 5)	42,790	65,064	356,583
Liability for employees' severance indemnities (Note 6)	82,318	58,379	685,983
Liability for officers' severance indemnities	1,566	777	13,050
Deferred tax liabilities (Note 7)	5,322	5,059	44,350
Other long-term liabilities	5,499	3,158	45,825
<b>Total long-term liabilities</b>	137,498	132,437	1,145,817
<b>Minority interests in consolidated subsidiaries</b>	10,202	9,782	85,017
<b>Contingent liabilities (Note 11)</b>			
<b>Shareholders' equity (Note 8):</b>			
Common stock:			
Authorized: 4,260,000 shares in 2003 and 2002			
Issued: 2003 – 1,192,271.70 shares			
2002 – 1,138,746.00 shares	11,922	11,387	99,350
Capital surplus	32,922	14,451	274,350
Retained earnings (Note 16)	364,171	352,715	3,034,758
Unrealized holding gain on other securities, net	46	438	383
Translation adjustments	(29,022)	(17,685)	(241,850)
Treasury common stock, at cost:			
1,192 thousand shares in 2003	(316)	–	(2,633)
<b>Total shareholders' equity</b>	379,724	361,306	3,164,367
<b>Total liabilities and shareholders' equity</b>	¥755,137	¥680,852	\$6,292,808

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income

YKK Corporation and Consolidated Subsidiaries

For the Years ended 31st March, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
<b>Sales and other income:</b>			
Net sales	¥473,307	¥364,554	\$3,944,225
Gain on sales of treasury stock	–	2,478	–
Exchange gain, net	–	28	–
Gain on exemption from obligation for benefits related to future employees' services under substitutional portion of severance benefit plan	8,509	–	70,908
Interest and other	6,313	10,918	52,608
	488,131	377,979	4,067,758
<b>Costs and expenses:</b>			
Cost of sales (Note 9)	318,738	256,858	2,656,150
Selling, general and administrative expenses (Note 9)	126,831	88,088	1,056,925
Interest expense	3,643	4,827	30,358
Exchange loss, net	178	–	1,483
Loss on disposal of inventories	2,505	978	20,875
Loss on sales or disposal of property, plant and equipment	2,778	3,223	23,150
Loss on investments in other securities	2,090	2,000	17,417
Amortization of unrecognized severance benefit obligation of subsidiaries merged in the current year	942	–	7,850
Other	6,411	6,083	53,425
	464,121	362,060	3,867,675
<b>Income before income taxes and minority interests</b>	24,009	15,918	200,075
<b>Income taxes (Note 7):</b>			
Current	11,023	8,196	91,858
Deferred	(1,306)	(2,489)	(10,883)
	9,717	5,706	80,975
<b>Income before minority interests</b>	14,292	10,211	119,100
<b>Minority interests in net income of consolidated subsidiaries</b>	(839)	(2,818)	6,992
<b>Net income</b>	¥ 13,452	¥ 7,393	\$ 112,100

yen

U.S. dollars (Note 2)

## Per share of common stock:

Net income: Basic	¥ 11,611	¥ 6,703	\$ 96.76
Diluted	–	–	–
Cash dividends	1,800	1,800	15.00
Net assets	323,143	317,857	2,692.86

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

YKK Corporation and Consolidated Subsidiaries

For the Years ended 31st March, 2003 and 2002	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2002	2003
<b>Common stock</b>			
Beginning of year	¥ 11,387	¥ 10,667	\$ 94,892
Add: Issuance of shares in exchange for shares of YKK ARCHITECTURAL PRODUCTS Inc.	535	–	4,458
Issuance of shares in exchange for shares of YKK FUDOSAN Co., Ltd.	–	720	–
End of year	¥ 11,922	¥ 11,387	\$ 99,350
<b>Capital surplus</b>			
Beginning of year	¥ 14,451	¥ 4,088	\$ 120,425
Add: Increase upon issuance of shares in exchange for shares of YKK ARCHITECTURAL PRODUCTS Inc.	18,471	–	153,925
Increase upon issuance of shares in exchange for shares of YKK FUDOSAN Co., Ltd.	–	10,363	–
End of year	¥ 32,922	¥ 14,451	\$ 274,350
<b>Retained earnings</b>			
Beginning of year	¥352,715	¥347,204	\$2,939,292
Add: Net income	13,452	7,393	112,100
Increase in number of consolidated subsidiaries	79	–	658
Inclusion of merged companies previously accounted for by equity method	1	134	8
Revaluation of fixed assets of certain foreign subsidiaries	2	–	17
Deduct: Decrease in number of consolidated subsidiaries	–	(20)	–
Cash dividends paid	(2,049)	(1,887)	(17,075)
Bonuses paid to directors and corporate auditors	(29)	(108)	(242)
End of year	¥364,171	¥352,715	\$3,034,758
<b>Net unrealized holding loss on securities</b>			
Balance at beginning of the year	¥ 438	¥ 1,830	\$ 3,650
Net change during the year	(392)	(1,392)	(3,267)
Balance at end of the year	¥ 46	¥ 438	\$ 383
<b>Translation adjustments</b>			
Balance at beginning of the year	¥ (17,685)	¥ (32,940)	\$ (147,375)
Net change during the year	(11,337)	15,255	(94,475)
Balance at end of the year	¥ (29,022)	¥ (17,685)	\$ (241,850)
<b>Treasury common stock</b>			
Balance at beginning of the year	¥ –	¥ (1,301)	\$ –
Net change during the year	(316)	1,301	(2,633)
Balance at end of the year	¥ (316)	¥ –	\$ (2,633)

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

YKK Corporation and Consolidated Subsidiaries

Thousands of  
U.S. dollars  
(Note 2)

For the Years ended 31st March, 2003 and 2002

	Millions of yen		
	2003	2002	2003
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests	¥24,009	¥15,918	\$200,075
Depreciation and amortization	42,678	44,230	355,650
(Reversal of) provision for allowance for doubtful accounts	(1,007)	740	(8,392)
(Reversal of) provision for accrued severance benefits	(2,463)	3,018	(20,525)
Gain on sales of property, plant and equipment	(1,044)	(791)	(8,700)
Loss on sales or disposal of property, plant and equipment	2,778	3,223	23,150
Gain on sales of treasury stock	–	(2,478)	–
Loss on investments in other securities	2,090	2,000	17,417
Interest and dividend income	(1,403)	(1,501)	(11,692)
Interest expense	3,643	4,827	30,358
(Decrease) increase in notes and accounts receivable	(23,519)	18,370	(195,992)
Increase (decrease) in inventories	13,773	(15,686)	114,775
Increase in accounts payable	(1,361)	(1,946)	(11,342)
Other	6,468	(6,707)	53,900
Subtotal	64,643	63,218	538,692
Interest and dividends received	1,522	1,540	12,683
Interest paid	(3,747)	(4,898)	(31,225)
Income taxes paid	(6,788)	(19,092)	(56,567)
Net cash provided by operating activities	55,629	40,767	463,575
<b>Cash flows from investing activities</b>			
(Increase) decrease in time deposits and short-term investments in securities	(3,588)	1,554	(29,900)
Acquisition of property, plant and equipment	(37,655)	(50,282)	(313,792)
Proceeds from sales of property, plant and equipment	2,493	2,832	20,775
Acquisition of intangible assets	(3,022)	(2,941)	(25,183)
Increase in investments in securities	(125)	(1,124)	(1,042)
Increase in additional investments in consolidated subsidiaries	(34)	(2,293)	(283)
Proceeds from investments in subsidiaries resulting from acquisition of shares (Note 14)	1,931	–	16,092
Payment on exchange of shares	(26)	–	(217)
Increase in short-term loans receivable	16,879	9,424	140,658
Other	159	144	1,325
Net cash used in investing activities	(22,988)	(42,685)	(191,567)
<b>Cash flows from financing activities</b>			
Increase in short-term borrowings, net	10,437	1,958	86,975
Proceeds from long-term debt	768	6,482	6,400
Repayment of long-term debt	(12,644)	(12,426)	(105,367)
Proceeds from issuance of commercial paper	–	15,000	–
Redemption of commercial paper	(5,000)	(10,000)	(41,667)
Redemption of bonds	(13,484)	–	(112,367)
Proceeds from sales of treasury stock	–	3,780	–
Cash dividends paid and other	(2,483)	(2,689)	(20,692)
Net cash (used in) provided by financing activities	(22,406)	2,103	(186,717)
Effect of exchange rate changes on cash and cash equivalents	(2,257)	1,924	(18,808)
Adjustment for exclusion of subsidiaries from consolidation	–	(14)	–
Increase resulting from initial consolidation of subsidiaries	7,661	–	63,842
Increase resulting from a merger of subsidiaries	82	–	683
Increase in cash and cash equivalents	15,719	2,096	130,992
Cash and cash equivalents at beginning of year (Note 14)	49,444	47,348	412,033
Cash and cash equivalents at end of year (Note 14)	¥65,164	¥49,444	\$543,033

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

YKK Corporation and Consolidated Subsidiaries

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### Preparation of financial statements

YKK Corporation (the “Company”) and consolidated subsidiaries in Japan maintain their records and prepare their financial statements in accordance with the provisions set forth in the Commercial Code of Japan and in conformity with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and its overseas subsidiaries, in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan, and incorporate certain reclassifications to make them more meaningful to readers outside Japan.

The notes to the consolidated financial statements include certain information which is not required under accounting principles and practices generally accepted in Japan but is presented herein as additional information. As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year’s financial statements have been reclassified to conform to the current year’s presentation.

### Basis of consolidation and investments in affiliated companies

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. The accounts of the consolidated subsidiaries are included on the basis of financial periods which end on, or three months prior to, 31st March. All significant inter-company balances and transactions have been eliminated in consolidation.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

The differences arising from the cost of the companies’ investments in subsidiaries and affiliates over the equity in their net assets at the dates of acquisition are amortized on a straight-line basis over 10 years. Minor differences are charged or credited to income in the year of acquisition.

### Translation of foreign currencies

Current and non-current monetary accounts denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the current rates and the resulting translation gain or loss is included in the statements of income and retained earnings.

All asset and liability accounts of the overseas subsidiaries and affiliates are translated into Japanese yen at the rates of exchange in effect at the balance sheet date, and all income and expense accounts are translated into yen at the appropriate rates as of the balance sheet date. The components of shareholders’ equity, except for net income for the year, are translated into yen at their historical exchange rates.

### Cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### Inventories

Inventories of the Company and its domestic consolidated subsidiaries are valued primarily at cost determined by the moving average method. Inventories of the overseas consolidated subsidiaries are valued primarily at the lower of cost or market, cost being determined on an average basis.

### Securities

Securities, except for investments in unconsolidated subsidiaries and affiliates, are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain, net of the applicable income taxes, included directly in shareholders’

equity. Unrealized holding loss for the current year has been charged to income. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

### **Property, plant and equipment and depreciation**

Property, plant and equipment is stated at cost. Depreciation at the Company and at its domestic consolidated subsidiaries is calculated primarily by the declining-balance method at rates based on estimated useful lives ranging from 3 to 55 years for buildings and structures, and from 2 to 15 years for machinery and equipment except for buildings acquired on or subsequent to 1st April, 1998 on which depreciation is calculated by the straight-line method. Depreciation at the overseas consolidated subsidiaries is computed primarily by the straight-line method. Maintenance and minor repairs are charged to income as incurred; major renewals and improvements are capitalized.

Software development costs at the Company and its domestic consolidated subsidiaries are amortized by the straight-line method over an expected useful life of 5 years. Software development costs at the overseas subsidiaries are amortized by the straight-line method.

### **Liability for severance indemnities**

Accrued employees' severance indemnities of the Company and its domestic consolidated subsidiaries as of the balance sheet dates have been provided mainly at an amount calculated based on the severance indemnities obligation and the fair value of the pension plan assets as of the balance sheet dates as adjusted for unrecognized prior service cost and unrecognized actuarial gain or loss. The severance indemnities obligation is attributed to each period by the straight-line method over the average remaining years of service of the eligible employees. The net severance indemnities obligation at transition is being amortized over a period of five years.

Prior service cost is being amortized as incurred by straight-line method over a period of 14 \_ 15 years which is within the average remaining years of service of the eligible employees.

Actuarial gain on loss is amortized in the year following the year in which the gain or loss is recognized, primarily by the straight-line method over a period of 13 \_ 18 years which is within the average remaining years of service of the eligible employees.

Foreign consolidated subsidiaries, which have their own severance indemnities plans, account for these as prescribed by the accounting principles generally accepted in their respective countries.

In addition, subject to the shareholders' approval, directors and corporate auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded severance indemnities plans. Provision for the indemnity for severance indemnities for those officers has been made at an estimated amount.

See Note 6 for the method of accounting for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under the Welfare Pension Fund Plan.

### **Income taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed.

### **Research and development expenses**

Research and development expenses are charged to income as incurred.

### **Derivative financial instruments**

The Company and certain consolidated subsidiaries are exposed to risk arising from fluctuation in foreign currency exchange rates and interest rates. In order to manage this risk, the Company and certain consolidated subsidiaries enter into various derivative transactions including forward foreign exchange contracts and interest-rate swaps.

Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

## Leases

The Company and certain consolidated subsidiaries lease equipment and software under non-cancelable leases referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

## Amounts per share

In accordance with a new accounting standard for earnings per share which went into effect on 1st April, 2002, net income per share for the year ended 31st March, 2003 was calculated based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. Amounts per share of net assets at 31st March, 2003 was computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

No diluted net income per share has been presented for the years ended 31st March, 2003 and 2002 because the Company had not issued any warrants or convertible bonds.

Net income and net assets per share for the year ended 31st March, 2002 has been recomputed based on this new accounting standard and is restated in the accompanying financial statements.

Cash dividends per share represent the cash dividends proposed by the Board of Directors and approved by the shareholders as applicable to the respective years.

## Treasury stock and reduction of legal reserves

Effective 1st April, 2002, the Company and its consolidated subsidiaries adopted a new accounting standard for treasury stock and reduction of legal reserves. The effect of the adoption of this new standard was immaterial for the year ended 31st March, 2003.

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## 2. U.S. DOLLAR AMOUNTS

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The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥120.00 = U.S.\$1.00, the approximate rate of exchange in effect on 31st March, 2003. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

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## 3. INVENTORIES

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Inventories at 31st March, 2003 and 2002 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
Finished products	¥ 40,171	¥ 41,957	\$ 334,758
Work in process	58,180	34,408	484,833
Raw materials and supplies	29,459	31,082	245,492
	<u>¥127,812</u>	<u>¥107,448</u>	<u>\$1,065,100</u>

#### 4. SECURITIES

Marketable securities classified as held-to-maturity securities and other securities at 31st March, 2003 and 2002 were as follows:

##### Marketable held-to-maturity debt securities

31st March, 2003	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Unrecognized gain (loss)	Carrying value	Fair value	Unrecognized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	¥ 67	¥ 72	¥ 5	\$ 558	\$ 600	\$42
Other	180	186	6	1,500	1,550	50
Subtotal	247	259	11	2,058	2,158	92
Securities whose fair value does not exceed their carrying value:						
Government bonds	4	4	–	33	33	–
Other	41	41	(0)	342	342	(3)
Subtotal	46	46	(0)	383	383	(3)
Total	¥294	¥305	¥11	\$2,450	\$2,542	\$92

31st March, 2002	Millions of yen		
	Carrying value	Fair value	Unrecognized gain
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ 62	¥ 65	¥2
Corporate bonds	16	16	–
Other	117	122	5
Subtotal	197	205	7
Securities whose fair value does not exceed their carrying value:			
Government bonds	4	4	–
Other	50	50	–
Subtotal	55	55	–
Total	¥252	¥260	¥7

##### Marketable securities – other

31st March, 2003	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrecognized gain (loss)	Acquisition cost	Carrying value	Unrecognized gain (loss)
Securities whose fair value exceeds their carrying value:						
Stocks	¥1,089	¥1,191	¥ 102	\$ 9,075	\$ 9,925	\$ 850
Debt securities:						
Government bonds	174	180	5	1,450	1,500	42
Other	155	163	8	1,292	1,358	67
Subtotal	1,418	1,534	115	11,817	12,783	958
Securities whose fair value does not exceed their carrying value:						
Stocks	3,804	3,435	(368)	31,700	28,625	(3,067)
Subtotal	3,804	3,435	(368)	31,700	28,625	(3,067)
Total	¥5,223	¥4,970	¥(252)	\$43,525	\$41,417	\$(2,100)



31st March, 2002	Millions of yen		
	Acquisition cost	Carrying value	Unrecognized gain (loss)
Securities whose fair value exceeds their carrying value:			
Stocks	¥2,049	¥2,789	¥ 740
Debt securities:			
Government bonds	68	69	–
Subtotal	2,117	2,858	740
Securities whose fair value does not exceed their carrying value:			
Stocks	6,129	4,060	(2,068)
Debt securities:			
Government bonds	92	91	–
Other	1,111	1,102	(9)
Subtotal	7,333	5,254	(2,078)
Total	¥9,451	¥8,113	¥(1,337)

Non-marketable securities classified as other securities at 31st March, 2003 and 2002 were as follows:

*Non-marketable securities – other*

Carrying value	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unlisted stocks	¥11,544	¥11,429	\$96,200

No significant sales of securities classified as other securities were made in the years ended 31st March, 2003 and 2002.

The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at 31st March, 2003 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Debt securities:						
Government bonds	¥ 33	¥116	¥ –	\$ 275	\$ 967	\$ –
Corporate bonds	–	1	–	–	8	–
Other	235	307	72	1,958	2,558	600
Total	¥269	¥424	¥72	\$2,242	\$3,533	\$600

## 5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at 31st March, 2003 consisted principally of unsecured loans maturing within 365 days, at interest rates ranging from 0.23% to 26.97% per annum (from 0.03% to 24.24% in 2002).

Long-term debt at 31st March, 2003 and 2002 was as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
2.175% unsecured notes due 2002	¥ –	¥10,000	\$ –
2.375% unsecured notes due 2004	10,000	10,000	83,333
1.7% unsecured notes due 2004	10,000	10,000	83,333
1.65% unsecured notes due 2005	10,000	10,000	83,333
1.57% unsecured notes due 2006	10,000	10,000	83,333
6.28% unsecured notes due 2004	2,997	3,298	24,975
6.75% unsecured notes due 2005	112	3,947	933
1.9% secured notes due 2005	100	100	833
1.6% secured notes due 2004	100	–	833
2.3% secured notes due 2005	200	–	1,667
0% to 16.6% loans, principally from banks and insurance companies, due from 2003 to 2015:			
Secured	4,555	5,122	37,958
Unsecured	13,142	22,855	109,517
	61,208	85,323	510,067
Less: Current portion	18,417	20,259	153,475
	<b>¥42,790</b>	<b>¥65,064</b>	<b>\$356,583</b>

Assets pledged as collateral for short-term and long-term loans totaled ¥6,904 million (\$57,533 thousand) and ¥7,042 million at 31st March, 2003 and 2002, respectively, and are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
Cash and cash equivalents	¥ 1,751	¥ 624	\$ 14,592
Notes and accounts receivable	–	1,313	–
Inventories	1,467	1,203	12,225
Investments in other securities	179	492	1,492
Property, plant and equipment	27,989	26,429	233,242
	<b>¥31,387</b>	<b>¥30,063</b>	<b>\$261,558</b>

The aggregate annual maturities of long-term debt outstanding at 31st March, 2003 are summarized as follows:

<i>Year ending 31st March</i>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2004	¥18,517	\$154,308
2005	16,580	138,167
2006	11,360	94,667
2007	10,482	87,350
2008	14	117
2009 and thereafter	4,252	35,433
	<b>¥61,208</b>	<b>\$510,067</b>

## 6. LIABILITY FOR EMPLOYEES' SEVERANCE INDEMNITIES AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans and welfare pension fund plans or tax-qualified pension plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of

which are determined by reference to their basic salary, length of service, and the conditions under which termination occurs. Certain overseas consolidated subsidiaries have also adopted defined benefit plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets as of 31st March, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
Projected benefit obligation	¥(161,689)	¥(141,489)	\$(1,347,408)
Plan assets at fair value	42,378	68,481	353,150
Funded status	(119,311)	(73,007)	(994,258)
Net unrecognized employees' severance benefit obligation at transition	(440)	1,122	(3,667)
Unrecognized prior service cost	383	(3,541)	3,192
Unrecognized actuarial gain or loss	37,050	17,046	308,750
	<u>¥ (82,318)</u>	<u>¥ (58,378)</u>	<u>\$ (685,983)</u>

The government-sponsored portion of the benefits under the welfare pension fund plan has been included in the amounts presented in the above table for the year ended 31st March, 2002.

On 1st January, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employees' services under the substitutional portion of the welfare pension fund plans. In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the sep-

aration of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its welfare pension fund plans as of the date of approval of its exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related pension plan assets had been completed as of that date. As a result of the accounting treatment for the separation, the Company recognized a gain of ¥8,509 million (\$70,908 thousand) for the year ended 31st March, 2003. The pension assets which are to be transferred were calculated at ¥51,791 million (\$431,592 thousand) at 31st March, 2003.

The components of severance benefit expenses for the years ended 31st March, 2003 and 2002 are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
Service cost	¥ 7,915	¥6,606	\$ 65,958
Interest cost	5,915	5,184	49,292
Expected return on plan assets	(2,714)	(2,733)	(22,617)
Amortization of net severance benefit obligation at transition	438	374	3,650
Amortization of unrecognized actuarial gain or loss	1,264	815	10,533
Amortization of prior service cost	(242)	(300)	(2,017)
Amortization of unrecognized severance benefit obligation of subsidiaries merged in the current year	942	-	7,850
Net periodic pension cost	13,519	9,946	112,658
Gain on exemption from obligation for benefits related to future employees' services under substitutional portion of severance benefit plan	(8,509)	-	(70,908)
	<u>¥ 5,009</u>	<u>¥9,946</u>	<u>\$ 41,742</u>

The assumptions used in the actuarial calculation for the above plans for the years ended 31st March, 2003 and 2002 were as follows:

	<b>2003</b>	2002
Discount rates	3.0% per annum	4.0% per annum
Expected rate of return on plan assets	4.0% per annum	4.0% per annum

## 7. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rate of approximately 41% for the years ended 31st March, 2003 and 2002. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 41% to 40%

effective fiscal years beginning after 31st March, 2004. The effect of this change in the statutory tax rate was to decrease deferred tax assets by ¥323 million (\$2,692 thousand) and to increase deferred income taxes by ¥324 million (\$2,700 thousand) for the year ended 31st March, 2003.

A reconciliation of the difference between the statutory tax rate and effective tax rate for the year ended 31st March, 2003 has not been presented because this difference was less than 5% and thus was immaterial.

The effective tax rate reflected in the consolidated statement of income and retained earnings for the year ended 31st March, 2002 differs from the statutory tax rate for the following reasons:

	2002
Statutory tax rate	41.0%
Effect of:	
Income of certain overseas consolidated subsidiaries whose statutory tax rate is lower than that of domestic consolidated subsidiaries	(14.7)
Expenses not deductible for income tax purposes	3.2
Income tax credit	(15.1)
Dividend income not deductible for income tax purposes	15.3
Increase in valuation allowance	4.1
Other, net	2.1
Effective tax rate	<u>35.9%</u>

The significant components of deferred tax assets and liabilities at 31st March, 2003 and 2002 were as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
Deferred tax assets: Accrued severance benefits	¥ 25,717	¥17,597	\$ 214,308
Accrued bonuses	5,722	-	47,683
Unrealized profit	5,290	4,485	44,083
Net operating loss carryforwards	3,741	3,351	31,175
Other	8,333	5,468	69,442
Gross deferred tax assets	48,805	30,902	406,708
Less: Valuation allowance	(15,696)	(655)	(130,800)
Total deferred tax assets	33,109	30,247	275,908
Deferred tax liabilities: Depreciation	4,248	5,241	35,400
Other	3,999	2,950	33,325
Total deferred tax liabilities	8,248	8,191	68,733
Net deferred tax assets	<u>¥ 24,860</u>	<u>¥22,055</u>	<u>\$ 207,167</u>

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## 8. SHAREHOLDERS' EQUITY

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The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of such reserve and capital surplus equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock

account, the amount of any such excess is available for appropriation by resolution of the shareholders.

The retained earnings account in the accompanying consolidated financial statements at 31st March, 2003 included the legal reserve of ¥2,666 million (\$22,217 thousand).

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## 9. RESEARCH AND DEVELOPMENT EXPENSES

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Research and development expenses included in manufacturing costs and in selling, general and administrative expenses for the years ended 31st March, 2003 and 2002

totalled ¥20,188 million (\$168,233 thousand) and ¥17,017 million, respectively.

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## 10. LEASES

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### *Lessees' accounting*

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation and net book value of the leased assets at 31st March, 2003 and 2002, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

*Millions of yen*

	<b>2003</b>			<b>2002</b>		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥3,341	¥1,902	¥1,438	¥1,941	¥1,116	¥825
Intangible assets	45	9	35	—	—	—
Total	¥3,387	¥1,912	¥1,474	¥1,941	¥1,116	¥825

*Thousands of U.S. dollars*

	<b>2003</b>		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	\$27,842	\$15,850	\$11,983
Intangible assets	375	75	292
Total	\$28,225	\$15,933	\$12,283

Lease payments relating to finance leases accounted for as operating leases amounted to ¥700 million (\$5,833 thousand) and ¥440 million for the years ended 31st March, 2003 and 2002, respectively. Depreciation of the leased

assets is calculated by the straight-line method over the respective lease terms and amounted to ¥700 million (\$5,833 thousand) and ¥440 million for the years ended 31st March, 2003 and 2002, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to 31st March, 2003 for finance lease transactions accounted for as operating leases are summarized as follows:

<i>Year ending 31st March</i>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2004	¥ 606	\$ 5,050
2005 and thereafter	867	7,225
<b>Total</b>	<b>¥1,474</b>	<b>\$12,283</b>

The minimum rental payments subsequent to 31st March, 2003 for operating leases with noncancelable lease terms in excess of one year are summarized as follows:

<i>Year ending 31st March</i>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2004	¥ 74	\$ 617
2005 and thereafter	104	867
<b>Total</b>	<b>¥178</b>	<b>\$1,483</b>

### *Lessees' accounting*

The following pro forma amounts represent the acquisition costs accumulated depreciation and net book value of the leased assets to finance leases accounted for as operating leases at 31st March, 2003:

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>		
			<b>2003</b>			<b>2003</b>
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥605	¥363	¥241	\$5,042	\$3,025	\$2,008
Intangible assets	331	151	180	2,758	1,258	1,500
<b>Total</b>	<b>¥937</b>	<b>¥515</b>	<b>¥421</b>	<b>\$7,808</b>	<b>\$4,292</b>	<b>\$3,508</b>

Lease income relating to finance leases accounted for as operating leases amounted to ¥213 million (\$1,775 thousand) for the year ended 31st March, 2003. Depreciation of the leased assets amounted to ¥35 million (\$292 thousand) for the year ended 31st March, 2003.

Future minimum lease income (including the interest portion thereon) subsequent to 31st March, 2003 for finance lease transactions accounted for as operating leases are summarized as follows:

<i>Year ending 31st March</i>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2004	¥368	\$3,067
2005 and thereafter	459	3,825
<b>Total</b>	<b>¥828</b>	<b>\$6,900</b>

## 11. CONTINGENT LIABILITIES

Contingent liabilities at 31st March, 2003 and 2002 for notes discounted and guarantees given in the ordinary course of business amounted to approximately ¥907 million (\$7,558 thousand) and ¥1,662 million, including ¥751 million (\$6,258 thousand) and ¥954 million, respectively, for loans guaranteed on behalf of certain suppliers.

An obligation for the repayment of a long-term loan amounting to ¥1,939 million (\$16,158 thousand) was transferred to a financial institution which a subsidiary of the Company then paid. However, the obligation to the original creditor for repayment still remains with this subsidiary.

## 12. RELATED PARTY TRANSACTIONS

The Company entered into transactions with an affiliate which were accounted for by the equity method for the years ended 31st March, 2003 and 2002.

These are summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
Sales of architectural products during the year	¥77,930	¥113,318	\$649,417
Notes and accounts receivable at end of year	¥ –	¥ 26,310	\$ –
Short-term loans receivable from affiliate at end of year	¥ –	¥ 16,831	\$ –
Rent received from affiliate during the year	¥ 560	¥ 1,960	\$ 4,667

The sales prices of the architectural products were negotiated on an arm's-length basis based on the market prices and on the production costs incurred by the Company. Interest rates and rent were determined based on similar transactions in the market.

## 13. DERIVATIVES

Various derivatives including forward foreign exchange contracts and interest-rate swaps utilized by the Company and certain of its consolidated subsidiaries entail a degree of market risk. However, the Company and these consolidated subsidiaries do not anticipate significant risks resulting from their open derivatives positions which have all

been designated as hedges. The Company is exposed to credit risk in the event of nonperformance by the counterparties to the derivatives, but any such loss would not be material because the Company and consolidated subsidiaries enters into such transactions only with financial institutions with high credit ratings.

Summarized below are the contract amounts and the estimated fair value of the derivatives positions outstanding at 31st March, 2003 and 2002:

<i>31st March, 2003</i>	<i>Millions of yen</i>			<i>Thousands of U.S. dollars</i>		
	Contract amount	Estimated fair value	Unrealized gain (loss)	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Sell: US\$	¥926	¥919	¥ 6	\$7,717	\$7,658	\$ 50
Buy: US\$	96	95	(1)	800	792	(8)
<b>Total</b>			<b>¥(5)</b>			<b>\$(42)</b>

<i>31st March, 2002</i>	<i>Millions of yen</i>		
	Contract amount	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Sell: US\$	¥1,822	¥1,995	¥(173)
Buy: JPY¥	4	4	–
US\$	51	52	–
AU\$	660	687	26
<b>Total</b>			<b>¥(145)</b>

Note: The contract amounts of the forward foreign exchange contracts at 31st March, 2003 and 2002 exclude those entered into in order to hedge receivables and payables denominated in foreign currencies, which have been translated and are reflected at the corresponding contract rates in the accompanying consolidated balance sheets.

#### 14. SUPPLEMENTARY CASH FLOW INFORMATION

Cash and cash equivalents in the consolidated statements of cash flows include bank overdrafts in accordance with "Accounting Standards for Consolidated Statements of Cash Flows."

The following table represents a reconciliation of cash and cash equivalents at 31st March, 2003 and 2002:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2003</b>	2002	<b>2003</b>
Cash and cash equivalents in consolidated balance sheets	¥65,305	¥49,930	\$544,208
Bank overdrafts	(140)	(485)	(1,167)
Cash and cash equivalents in consolidated statements of cash flows	<u>¥65,164</u>	<u>¥49,444</u>	<u>\$543,033</u>

The following is a summary of assets and liabilities of the consolidated subsidiaries as of 31st January, 2003 which, upon acquisition of their shares, were included in consolidation for the year ended March 31, 2003:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
Current assets	¥8,202		\$68,350
Non-current assets	2,035		16,958
Current liabilities	(5,695)		(47,458)
Non-current liabilities	(3,444)		(28,700)
Other	(931)		(7,758)
Acquisition costs	166		1,383
Cash and cash equivalents held by subsidiaries at acquisition	2,096		17,467
Proceeds from investments in subsidiaries resulting from acquisition of their shares	<u>¥1,931</u>		<u>\$16,092</u>

The following is a summary of the assets and liabilities of YKK AP Inc. and four other related companies at 30th September, 2002 which were included in consolidation upon the exchange of shares effective 1st October, 2002:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
Current assets	¥154,115		\$1,284,292
Non-current assets	21,676		180,633
Current liabilities	(124,267)		(1,035,558)
Non-current liabilities	(28,552)		(237,933)

As a result of the exchange of shares of the Company for those of YKK AP Inc. and the four companies referred to above, common stock and capital surplus increased by ¥535 million (\$4,458 thousand) and ¥18,470 (\$153,917 thousand), respectively.



## 15. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of fasteners and fastening, architectural and other products and related machinery in Japan and overseas.

Until the year ended 31st March, 2002, the business segment information was presented in three major categories: the fastening products segment which includes zippers and related parts and materials, the architectural products segment which includes window sashes and frames, doors and curtain walling, and a segment entitled "other" which includes machinery for the production of zippers.

Effective the year ended 31st March, 2003, the Company changed its classification present machinery products separately (these had been formerly included in the "other" segment because the Company identified the machinery products business as one of its significant operations as a result of a review of the global business strategy of the YKK group. In addition, the aluminum refining business, which was previously included in the architectural products segment, has been included in the "other" segment in order to unify this category with that used for management purposes effective the year ended 31st March, 2003.

As a result of the above changes, the business segments of the Company and its consolidated subsidiaries are divided into four categories: the fastening products segment, the architectural products segment, the machinery segment and a segment entitled "other," which includes the aluminum refining business, management and real estate agency operations.

In addition, the geographical segments in terms geographical areas and of overseas sales have been changed effective the year ended 31st March, 2003 to unify the segmentation with that used for management purposes. Until the year ended 31st March, 2002, the geographical segment was divided primarily based on the five geographical areas i.e., Japan, North America, Europe, Asia and Other regions. Under the new category effective for the year ended 31st March, 2003, the geographical segment was divided into six areas, i.e., Japan, North Central America, South America, Europe Mideast Africa, East Asia, South-Asia Oceania. The geographical segments with respect to information on overseas sales has also been changed to the same categories as above.

The following tables summarize the business and geographical segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2003 and 2002. The business and geographical segment information for the year ended 31st March, 2002 has been reclassified based revised categories and is restated in the tables as follows:

### Business segments

Year ended or as of 31st March, 2003							<i>Millions of yen</i>	
	Fasteners	Architectural products	Machinery	Other	Total	Eliminations or corporate	Consolidated	
<b>I. Sales and operating income</b>								
Sales to third parties	¥193,036	¥273,270	¥ 1,546	¥ 5,454	¥473,307	¥ –	¥473,307	
Intergroup sales and transfers	36	96	24,992	19,586	44,711	(44,711)	–	
Total sales	193,072	273,366	26,538	25,041	518,019	(44,711)	473,307	
Operating expenses	165,353	270,485	24,648	24,642	485,129	(39,560)	445,569	
Operating income	¥ 27,718	¥ 2,881	¥ 1,890	¥ 399	¥ 32,890	¥ (5,151)	¥ 27,738	
<b>II. Assets, depreciation and capital expenditures</b>								
Total assets	¥283,176	¥314,682	¥21,379	¥162,947	¥782,185	¥(27,048)	¥755,137	
Depreciation	24,079	13,581	1,412	2,443	41,517	836	42,353	
Capital expenditures	22,006	17,498	474	1,985	41,964	(1,200)	40,764	

Thousands of U.S. dollars

<i>Year ended or as of 31st March, 2003</i>	Fasteners	Architectural products	Machinery	Other	Total	Eliminations or corporate	Consolidated
<b>I. Sales and operating income</b>							
Sales to third parties	\$1,608,633	\$2,277,250	\$ 12,883	\$ 45,450	\$3,944,225	\$ –	\$3,944,225
Intergroup sales and transfers	300	800	208,267	163,217	372,592	(372,592)	–
Total sales	1,608,933	2,278,050	221,150	208,675	4,316,825	(372,592)	3,944,225
Operating expenses	1,377,942	2,254,042	205,400	205,350	4,042,742	(329,667)	3,713,075
Operating income	\$ 230,983	\$ 24,008	\$ 15,750	\$ 3,325	\$ 274,083	\$ (42,925)	\$ 231,150
<b>II. Assets, depreciation and capital expenditures</b>							
Total assets	\$2,359,800	\$2,622,350	\$178,158	\$1,357,892	\$6,518,208	\$(225,400)	\$6,292,808
Depreciation	200,658	113,175	11,767	20,358	345,975	6,967	352,942
Capital expenditures	183,383	145,817	3,950	16,542	349,700	(10,000)	339,700

Millions of yen

<i>Year ended or as of 31st March, 2002</i>	Fasteners	Architectural products	Machinery	Other	Total	Eliminations or corporate	Consolidated
<b>I. Sales and operating income</b>							
Sales to third parties	¥198,113	¥156,994	¥ 2,180	¥ 7,265	¥364,554	¥ –	¥364,554
Intergroup sales and transfers	415	69	28,351	19,705	48,542	(48,542)	–
Total sales	198,529	157,064	30,531	26,971	413,096	(48,542)	364,554
Operating expenses	177,704	154,746	28,095	26,097	386,634	(41,687)	344,947
Operating income	¥ 20,824	¥ 2,317	¥ 2,445	¥ 874	¥26,462	¥ (6,855)	¥ 19,607
<b>II. Assets, depreciation and capital expenditures</b>							
Total assets	¥283,981	¥187,598	¥24,331	¥168,053	¥663,965	¥16,887	¥680,852
Depreciation	24,916	13,931	1,532	2,519	42,900	943	43,843
Capital expenditures	35,242	14,258	1,362	2,328	53,191	(811)	52,379

### Geographical areas

Millions of yen

<i>Year ended or as of 31st March, 2003</i>	Japan	North Central America	South America	Europe Mideast	East Asia	South-Asia Oceania	Total	Eliminations or corporate	Consolidated
Sales to third parties	¥293,954	¥51,905	¥5,028	¥43,341	¥53,776	¥25,301	¥473,307	¥ –	¥473,307
Intergroup sales and transfers	33,357	4,632	19	620	2,099	12,936	53,666	(53,666)	–
Total sales	327,312	56,537	5,048	43,961	55,876	38,238	526,974	(53,666)	473,307
Operating expenses	317,359	54,204	4,330	38,286	48,304	36,760	499,244	(53,675)	445,569
Operating income	¥ 9,952	¥ 2,333	¥ 718	¥ 5,674	¥ 7,571	¥ 1,478	¥ 27,729	¥ 8	¥ 27,738
Total assets	¥422,036	¥58,001	¥7,189	¥47,915	¥98,795	¥69,239	¥703,177	¥51,959	¥755,137

<i>Thousands of U.S. dollars</i>									
<i>Year ended or as of 31st March, 2003</i>	Japan	North Central America	South America	Europe Mideast	East Asia	South-Asia Oceania	Total	Eliminations or corporate	Consolidated
Sales to third parties	\$2,449,617	\$432,542	\$41,900	\$361,175	\$448,133	\$210,842	\$3,944,225	\$ -	\$3,944,225
Intergroup sales and transfers	277,975	38,600	158	5,167	17,492	107,800	447,217	(447,217)	-
Total sales	2,727,600	471,142	42,067	366,342	465,633	318,650	4,391,450	(447,217)	3,944,225
Operating expenses	2,644,658	451,700	36,083	319,050	402,533	306,333	4,160,367	(447,292)	3,713,075
Operating income	\$ 82,933	\$ 19,442	\$ 5,983	\$ 47,283	\$ 63,092	\$ 12,317	\$ 231,075	\$ 67	\$ 231,150
Total assets	\$3,516,967	\$483,342	\$59,908	\$399,292	\$823,292	\$576,992	\$5,859,808	\$432,992	\$6,292,808

<i>Millions of yen</i>									
<i>Year ended or as of 31st March, 2002</i>	Japan	North Central America	South America	Europe Mideast	East Asia	South-Asia Oceania	Total	Eliminations or corporate	Consolidated
Sales to third parties	¥177,912	¥57,281	¥ 7,054	¥40,648	¥54,873	¥26,784	¥364,554	¥ -	¥364,554
Intergroup sales and transfers	34,969	3,604	133	820	1,634	13,572	54,734	(54,734)	-
Total sales	212,882	60,886	7,187	41,468	56,507	40,356	419,288	(54,734)	364,554
Operating expenses	204,746	61,012	6,114	37,044	51,457	36,492	396,868	(51,920)	344,947
Operating income (loss)	¥ 8,135	¥ (126)	¥ 1,072	¥ 4,423	¥ 5,050	¥ 3,863	¥ 22,420	¥ (2,813)	¥ 19,607
Total assets	¥297,172	¥66,391	¥12,574	¥44,712	¥92,875	¥74,791	¥588,519	¥92,332	¥680,852

### Overseas sales

<i>Millions of yen</i>						
<i>Year ended 31st March, 2003</i>	North Central America	South America	Europe Mideast Africa	East Asia	South-Asia Oceania	Total
I. Overseas sales	¥51,593	¥4,916	¥42,332	¥56,759	¥28,492	¥184,094
II. Consolidated sales						473,307
III. Overseas sales as a percentage of consolidated sales	10.9%	1.1%	8.9%	12.0%	6.0%	38.9%
<i>Thousands of U.S. dollars</i>						
I. Overseas sales	\$429,942	\$40,967	\$352,767	\$472,992	\$237,433	\$1,534,117
II. Consolidated sales						3,944,225
III. Overseas sales as a percentage of consolidated sales	10.9%	1.1%	8.9%	12.0%	6.0%	38.9%

<i>Millions of yen</i>						
<i>Year ended 31st March, 2002</i>	North Central America	South America	Europe Mideast Africa	East Asia	South-Asia Oceania	Total
I. Overseas sales	¥56,706	¥6,923	¥40,734	¥62,056	¥27,876	¥194,296
II. Consolidated sales						364,554
III. Overseas sales as a percentage of consolidated sales	15.6%	1.9%	11.2%	17.0%	7.6%	53.3%

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## 16. SUBSEQUENT EVENTS

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(a) The following appropriations of retained earnings were approved at a general meeting of the shareholders of the Company held on 26th June, 2003:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends (¥1,800 = \$15.00) per share	¥2,097	\$17,475
Bonuses to directors and corporate auditors	30	250

(b) The Company entered into an agreement under which all assets and liabilities of the Architectural Division are separated from the Company and then transferred to YKK AP Inc., a subsidiary of the Company, after a resolution of the Board of the Directors on 21st May, 2003. The agreement was approved by the shareholders at a general meeting of the shareholders held on 26th June, 2003. The agreement will become effective on 1st October, 2003 at which date the Company will subscribe for all shares of common stock (797,444 in total) which YKK AP Inc. will issue in exchange for the transfer of all assets and liabilities of the Architectural Division of the Company.

Information regarding YKK AP Inc. as of 31st March, 2003 is summarized as follows:

Name of the Company : YKK AP Inc.

Representative director : Tadahiro Yoshida

Share capital : ¥1,012 million (\$8,433 thousand)

Major business : Production, sales and construction of architectural products

Address : Chiyoda-ku, Tokyo, Japan

Financial summary of the architectural division as of 31st March, 2003:

	<i>Millions of yen</i>
Current assets	¥140,026
Non-current assets	18,752
Total	<u>¥158,779</u>

	<i>Millions of yen</i>
Current liabilities	¥108,053
Non-current liabilities	26,771
Shareholders' equity	23,954
Total	<u>¥158,779</u>

(c) As approved by resolution of the Board of Directors on 21st May, 2003, the Company issued unsecured notes of ¥10,000 million (\$83,333 thousand) on 20th June, 2003.

Information regarding the notes is summarized as follows:

Issue price: ¥100 for a face value of ¥100

Interest rate: 0.39% per year

Redemption date: 19th June, 2009

# Report of Independent Auditors

The Board of Directors  
YKK Corporation

We have audited the accompanying consolidated balance sheets of YKK Corporation and consolidated subsidiaries as of 31st March, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended 31st March, 2003, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion independently on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolida-

ted financial position of YKK Corporation and consolidated subsidiaries at 31st March, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the two years in the period ended 31st March, 2003 in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 15, the Company and its consolidated subsidiaries have changed business, geographical areas and overseas sales segments effective the year ended 31st March, 2003.

As described in Note 16, the Board of Directors at a meeting held on 21st May, 2003 resolved, and the shareholders at a general meeting of the shareholders held on 26th June, 2003 approved, that all assets and liabilities of the Architectural Division of the Company be separated from the Company and merged into YKK AP Inc., a subsidiary of the Company, effective 1st October, 2003.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Shin Nishimura & Co.*

Toyama, Japan  
June 26, 2003

*See Note 1 which explains the basis of preparation of the consolidated financial statements of YKK Corporation and consolidated subsidiaries under Japanese accounting principles and practices*

# Outline of YKK Corporation

Founded : January 1, 1934

Capital : 11,922,717,000 yen

Product Lines :

- 1) Fastening Products
  - Zip Fasteners
  - Snap Fasteners and Buttons
  - Textile and Plastic Products
- 2) Machinery for Fastening Products and Architectural Products

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Kurobe Manufacturing Center : 200, Yoshida, Kurobe-city, Toyama Pref.

