YUASA CORPORATION

# Annual Report 2003

Recharging Growth

# Profile

**Yuasa Corporation is one of the world's leading battery manufacturers, with lead-acid batteries for automotive and industrial applications forming the company's core business. In terms of sales, we hold down fourth spot in the world lead-acid battery market. Underpinning this presence is a global network of production bases, including wholly owned local subsidiaries and joint ventures with overseas partners. Yuasa has 17 bases in Japan, 18 in Asia and Oceania, 7 in Europe and Africa, and 1 in North and South America.**

**Cautionary Statement With Respect to Forward-Looking Statements**

This annual report contains forward-looking statements concerning Yuasa Corporation and its consolidated subsidiaries' current plans, projections, strategies and performance. These forward-looking statements are not historical facts. Rather, they represent the assumptions and beliefs of Yuasa Corporation's management based on information currently available. Yuasa Corporation therefore wishes to caution readers that actual results may differ materially from expectations, and that forward-looking statements are subject to a number of risks and uncertainties.

## Contents

# Financial Highlights

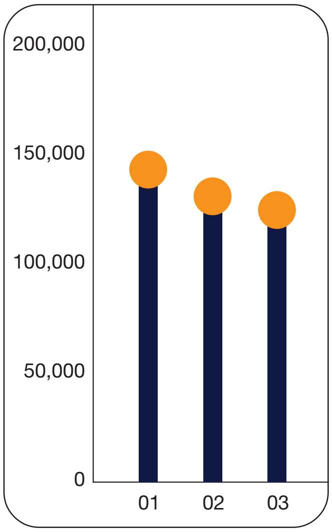
YUASA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended 31st March, 2001, 2002 and 2003

| | Japanese yen (millions) | | | U.S. dollars (thousands) |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2003 |
| **For the Year:** | | | | |
| Net sales | ¥150,562 | ¥138,704 | ¥132,213 | $1,099,942 |
| Operating income | 4,834 | 2,767 | 4,105 | 34,151 |
| Net income (loss) | 3,439 | (946) | 1,257 | 10,458 |
| Capital expenditures | 7,480 | 6,178 | 4,994 | 41,547 |
| Depreciation and amortization | 5,219 | 5,319 | 4,685 | 38,977 |
| **At Year-End:** | | | | |
| Total assets | 149,251 | 164,933 | 150,171 | 1,249,343 |
| Total shareholders' equity | 35,261 | 41,528 | 40,817 | 339,576 |
| **Per Share of Common Stock** (Yen and U.S. dollars): | | | | |
| Net income (loss) | 19.41 | (5.34) | 7.11 | 0.059 |
| Cash dividends | 3.00 | – | 3.00 | 0.025 |
| **Ratios:** | | | | |
| ROE | 9.8% | – | 3.1% | |
| Equity ratio | 23.6% | 25.2% | 27.2% | |

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥120.20=U.S.$1

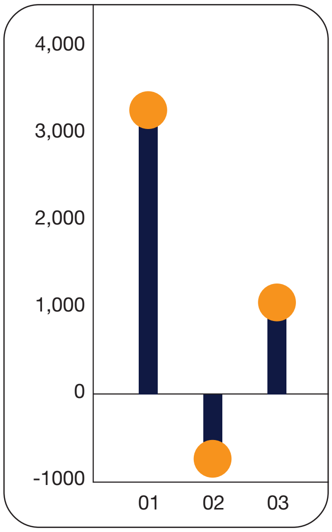
**Net Sales**

(¥ millions)



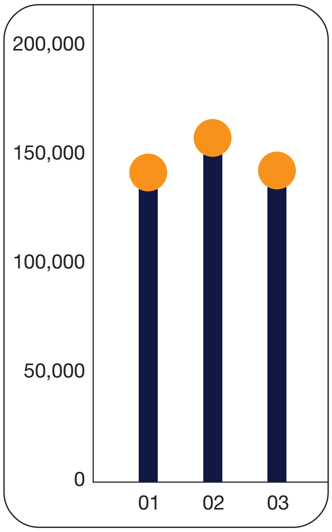

**Net Income (Loss)**

(¥ millions)




**Total Assets**

(¥ millions)



# Message From the President

**Guided by our basic management philosophy of maximizing shareholder value and raising customer satisfaction, Yuasa is promoting greater efficiency and streamlining operations to enhance competitiveness, raise earnings and improve its financial position. Business activities are carried out with the view to making Yuasa an internationally trusted and respected company.**

In fiscal 2003, ended March 31, 2003, a growing sense of uncertainty clouded the Japanese economy. The economy fared relatively well in the first half of the year, but tumbled downhill thereafter. Exports, which had been a driving force, peaked out as the world economy saw a dramatic slowdown, prompted by the downturn of the previously robust U.S. economy. Sluggish production levels and plummeting stock prices were some of the other factors that cast a pall over the economy. Another cause of concern for the Japanese economy was the effect that Severe Acute Respiratory Syndrome (SARS) would have on the strong Asian economies, especially China.

Against this backdrop, we concentrated on raising sales across the company and continued our efforts to reduce costs. Unfortunately, consolidated net sales slid ¥6,491 million, or 4,7%, to ¥132,213 million due to a marked drop in demand. This can be attributed to the continual shifting of production offshore and curbs by companies on capital expenditures, particularly investments in IT.

On the earnings front, our efforts to lower our cost profile as part of our second-stage structural reforms made a significant contribution to earnings during the year. These gains were, however, negated by a fall in the capacity utilization rate because of a sharp decline in sales volume. Consequently, operating income was ¥4,105 million and ordinary income was ¥2,998 million. Net income was ¥1,257 million, as gains of ¥2,683 million on the sale of property, plant and equipment were offset by extraordinary losses of ¥2,899 million from such factors as the devaluation of investments securities caused by a sharp fall in stock prices.

## Basic Stance on Corporate Governance and Strategies

Yuasa's stance on corporate governance is embodied in our basic management policy of maximizing shareholder value and raising customer satisfaction. We also implement measures necessary to gain the trust of other stakeholders.

In June 2001, we adopted the executive officer system, with the view to improving the efficiency of and speeding up management decision-making and the execution of business strategy. This system clearly separates the roles of management decision-making and oversight from day-to-day operations. The following October we introduced an in-house company system to promote greater efficiency in the management of our operations with the ultimate goal of lifting earnings. In October last year, we took a further step in this regard by separating our strongly performing Film Systems Business and establishing it as a new company.

Regarding internal control, our activities in this vitally important area for ensuring compliance were centered on the Management Audit Office. As we move forward, we will redouble our efforts to create an even stronger system for internal control.

### Basic Policy on the Distribution of Earnings

Our basic stance on the distribution of earnings balances the need to build internal reserves for investing in the development of new businesses, R&D and other strategic areas over the medium and long term to drive earnings growth and improve our financial position. It is also founded on our desire to continue paying a stable dividend to shareholders. The dividend applicable to the year was ¥3 per share.

### Management Targets

In managing Yuasa, we place emphasis on consolidated net sales, ROE and earnings per share (EPS) as our key management metrics. We have set the minimum goals of achieving consolidated net sales of ¥150 billion, ROE of 7.1% and EPS of ¥19.19 by the end of March 2006. To achieve these goals, we will promote efforts to reduce costs in Japan. Actions will include amalgamating production bases and trimming purchasing costs and distribution expenses. We also aim to bring products from China and the rest of the Asian region to the Japanese market. Overseas, we plan to ramp up production capacity at our bases in Asia, which will underpin a sales framework offering high-quality, low-cost products at competitive prices.

### Medium- to Long-Term Corporate Strategy

Over the medium and long term, we will pursue the dual goals of generating higher earnings from mainstay lead-acid batteries and power systems, while promoting the development of new technologies and products so as to expand the scope of our business.

While the Japanese marketplace remains difficult amid declining levels of capital expenditures and stiff, price-based competition, we will work to expand sales by bringing to the market competitively priced products produced at low cost by manufacturing bases in China and elsewhere in Asia.

In terms of the development of our overseas operations, our focus will be on achieving greater efficiency and rebuilding businesses from a global standpoint, taking into consideration economic circumstances in each country, the earnings of overseas Group members and other factors.

August 2003

Naruo Otsubo

**Naruo Otsubo**

President and Representative Director

The Osadano Plant in Kyoto is the largest of Yuasa Corporation's three production facilities in Japan. Ongoing automation of the plant is yielding cost savings and gradually lifting productivity toward the highest level in the industry. The plant will also be capable of producing a large variety of high-value-added batteries in small production runs.

# Reallocating Resources

With our operating environment expected to remain difficult in the near term, our top priority is to generate earnings by ensuring that we grow sales amid a climate of falling prices.

In April 2003, Yuasa Battery (Shunde) Co., Ltd.'s newly completed automotive-use lead-acid battery plant came on line as planned in China's Guangdong Province. This plant will play an instrumental role in allowing us to bring low-cost products to the Japanese market to compete against stiff, price-based competition and expand sales.

We are also effectively utilizing our production bases in the Asian region to cater for the needs of Japanese automakers who are shifting their production offshore. In this regard, we will continue to push ahead with our goal to ensure that we can supply products anywhere in the world that are of a uniform quality.

Our cost profile will be improved through two concurrent strategies. One is to raise productivity by integrating production bases in Japan. The other is to continue our drive from last year to lower costs. Different approaches are being used for variable expenses and fixed costs, but the common aim of reduction remains the same. With regard to variable expenses, our main focus is to procure more materials and components from overseas sources. Fixed expenses will be trimmed by improving productivity through such actions as seeking efficiency gains in peripheral work processes.

Moreover, we are reviewing our R&D framework to shorten development lead-times and hold development costs to a minimum. Simultaneously, we want to quickly turn R&D into viable products so as to broaden our business horizon.

In tandem with the above actions, we are focused on improving our financial position. In the past fiscal year we were able to reduce inventories and we also achieved a substantial reduction in interest-bearing debt through measures such as the introduction of a cash management system (CMS) and the securitization of notes receivable at the parent company and certain Group companies. More of the same is called for, with CMS to be used in more Group companies. Furthermore, the introduction of a supply chain management system (SCM) to manage inventories more effectively, and the use of IT for managing funds will enable us to continue to reduce total assets, theredy promoting greater capital efficiency.

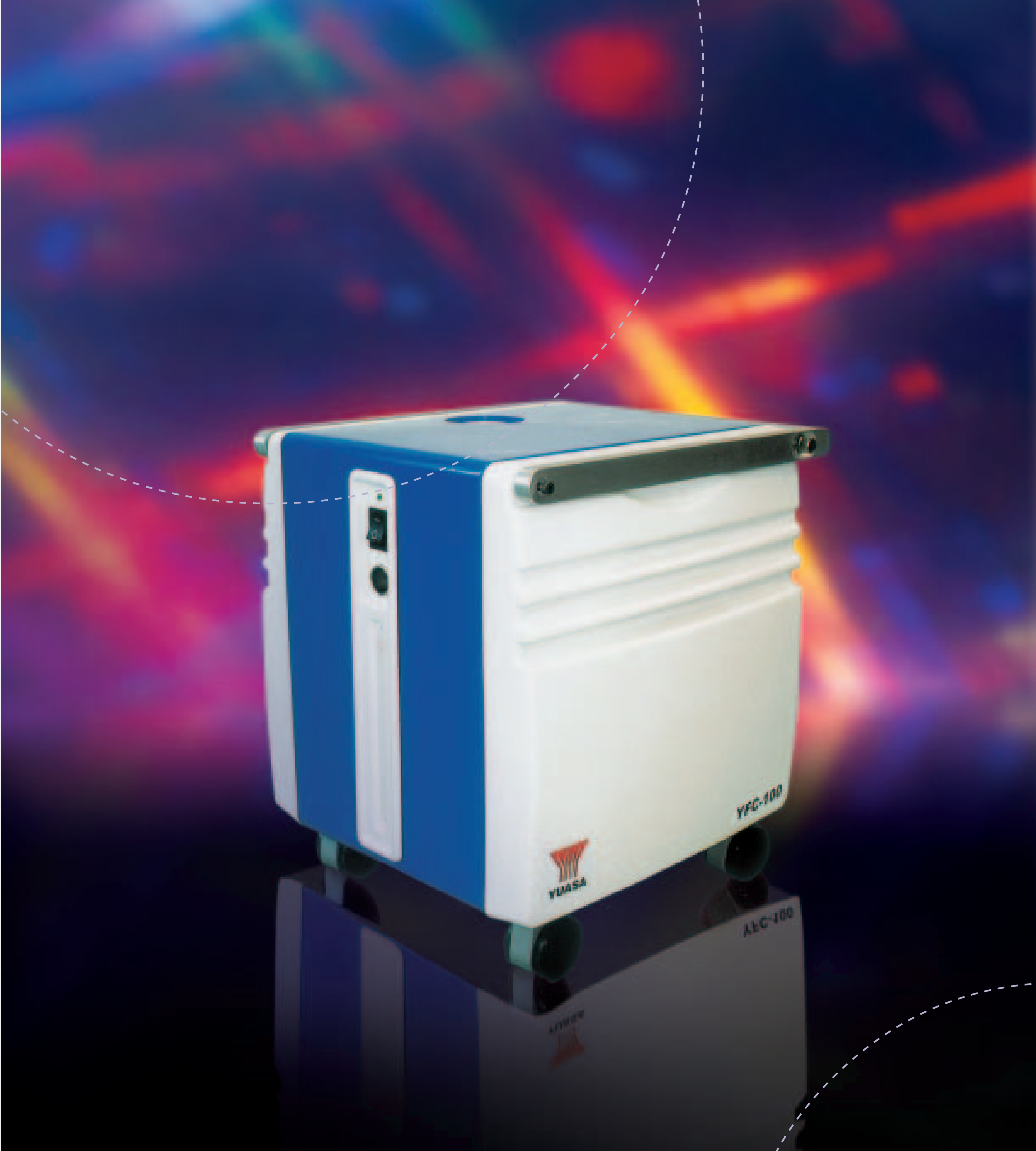
# Realigning Production

Although the world lead-acid battery industry is seeing stiffer price competition, the market is still expanding steadily. Lead-acid batteries, which account for about 80% of rechargeable battery production worldwide, are reasonably priced relative to other batteries and have come to play a major role as a crucial power source for the society. The world lead-acid battery market is projected to enjoy steady, albeit marginal, annual growth, while Japan's market is expected to reach a plateau.

We have taken our cue from these trends. We intend to increase production volumes by raising capacity at our Asian bases and realign our domestic sales network to reduce costs. This structure will be instrumental in expanding sales worldwide, resulting in higher sales revenues and earnings. Our production bases in Asia can produce products at a significantly lower cost than those in Japan. In Japan, therefore, our focus is on high value-added products and we are integrating bases and reducing the workforce. The slack from the Japanese bases will be taken up by Asian production bases, where we are upping capacity. By transferring our technology and expertise to Asian factories, we will be able to produce high-quality products at a lower cost. The shift of production to Asia will enable us to make profits on products sold in Japan and enhance our competitiveness in world markets.

As we reshape our production framework, we are aggressively working to expand sales channels. We are reviewing sales channels in Japan while expanding existing routes and strengthening newly opened direct sales channels. Our production and sales bases overseas are developing strategies to meet sales and earnings targets. In particular, we are devoting our energies to growing sales of made-in-Asia products in overseas markets.


The VOLTZ-SY, Yuasa' highest-performance battery for automotive applications, is the first battery made in Japan to employ a double-lid structure. These and other aspects of the battery make the VOLTZ-SY highly reliable and hold spilling and leaks to a minimum, making it virtually maintenance free, with no refilling required during its working life.




Yuasa developed the world's first Direct Methanol Fuel Cell (DMFC) stack that generates electricity directly using a methanol solution instead of by reforming hydrogen. In March 2003, sales started of 100W and 300W output power systems based on this technology.

# Refocusing on Growth Markets

Further expansion of the information and communications market is expected to drive an approximate 3% annual increase in demand for sealed lead-acid industrial-use batteries in Japan and overseas over the coming years. For relatively low value-added products, our strategy is to curb production costs through mass production in Asia and generate higher sales to secure profits. On the other hand, high value-added products will be produced in Japan, where we will concentrate on developing and bringing to market new products that are less subject to price competition.

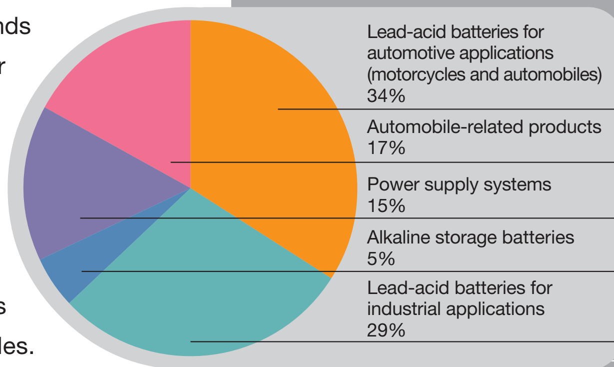
The high-growth IT sector is also emerging as a major market. We have already begun volume production of some products for this sector. Strong growth is projected for our less-than 10kVA mini-UPS (Uninterruptible Power Supplies). Given that we are manufacturing and selling mini-UPS using products we produce in Asia, we expect Asia-based products to be a driving force for higher sales.

Furthermore, we plan to progressively market new products developed from our wealth of expertise and technological capabilities. Examples include a nickel-hydrogen battery for hybrid electric vehicles (EVs) that takes up only 40% of the space of existing cylindrical batteries, and AA- and AAA-size nickel metal hydride batteries, developed jointly with a major U.S. battery manufacturer. The latter can be recharged in only 15 minutes.

### Operating Areas

Yuasa's mission is to contribute to a harmonious relationship between humankind and nature by creating clean energy and power systems. Supplying a host of products for a wide range of fields is our way of doing so. Our product lineup extends from automotive and industrial-use batteries to large-scale backup power supplies for telecommunications systems and small backup power supplies for computer systems and emergency purposes.

Non-consolidated Net Sales




### Composition of Sales

In fiscal 2003, ended March 31, 2003, lead-acid batteries for motorcycles and automobiles accounted for 34% of total net sales. Lead-acid batteries for forklifts and other industrial vehicles constituted 29% of total net sales. Automobile-related products, power systems used as emergency backup in the event of a power outage or other unanticipated event and alkaline batteries represented 17%, 15% and 5% of total net sales, respectively.

### Topics

#### Lead-Acid Batteries

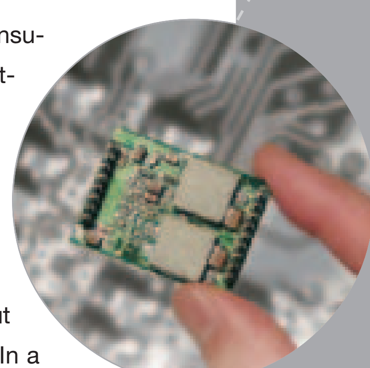
#### Small Valve-Regulated Lead-Acid Battery—The RE7-12H

Yuasa has started selling the RE7-12H series of small valve-regulated lead-acid (VRLA) batteries that have a long life and high output. The new series offers even higher output than the well-received RE7-12 series of small VRLA batteries. The batteries last for 6-8 years under normal usage conditions, the same level as existing products, but generate approximately 40% more power. These characteristics make them ideal for use in mini-UPS (Uninterruptible Power Supplies), which require high output.

RE7-12H

#### DC-DC Converters—CE Series

In May 2002, Yuasa started sales of its CE series of self-developed non-insulated DC-DC converters with low voltage and high power that are compatible with ICs, such as FPGAs (Field Programmable Gate Arrays). They are targeted at companies looking to reduce development costs and shorten lead-times for developing image processing circuits for plasma displays, information communications devices and other industrial equipment, and control systems for game consoles and similar devices. There are two types of converters: output voltage 3.3V (5A) and 1.8V/1.5V (5A), and output voltage 2.5V (5A) and 1.8V/1.5V (5A). Each has an input voltage of 5V. In a wide operating temperature range, these converters achieve high efficiency of 93%, a quick transient response and an impressively low level of output noise.



CE Series

## Power Supply Systems

### Portable Fuel Cells—YFC-100

In December 2002, Yuasa began testing two power supply systems capable of producing 100W and 300W of electricity using a Direct Methanol Fuel Cell (DMFC) stack that generates electricity directly with a highly safe, low-density methanol solution instead of by reforming hydrogen. Yuasa used the data gathered from the tests on these prototype power supplies, the first of their type in the world, to successfully commercialize a safe, easy-to-use and portable fuel cell, the 100W YFC-100. Sales started in March 2003. The YFC-100 is expected to be used in a number of ways, including the distribution of power in areas without electricity, camping and during emergencies.


YFC-100

### Mini-UPS "YUMIC-SLA" Series

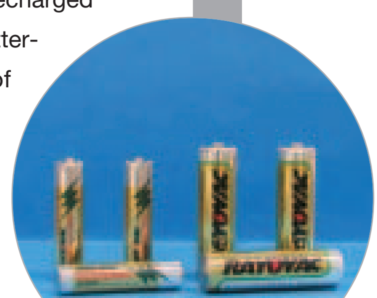
Yuasa develops and supplies mini-UPS as vital back-up power supply systems mainly for computers and peripheral equipment in support of a networked society. The company's latest series of products, the YUMIC-SLA series, went on sale in April 2002, augmenting Yuasa's lineup of mini-UPS with low capacity (750VA and 1kVA). Able to be monitored by the user, these new products are line interactive with an input and output of 100V (single phase) under normal operating conditions. With the YUMIC-SLA series, Yuasa has demonstrated again its commitment to supporting customers' sophisticated needs in an increasingly advanced networked society.


YUMIC-SLA

## Other Businesses

### 15-Minute Rechargeable Nickel-Hydrogen Batteries

Yuasa has teamed up with major U.S. battery manufacturer Rayovac Corporation to develop a revolutionary, high-capacity nickel metal hydride battery that can be recharged in only 15 minutes, a world first. Existing rechargeable nickel metal hydride batteries typically require around 1 hour to recharge. Produced from the fusion of each company's proprietary technologies, this groundbreaking battery will be manufactured in two sizes, AA and AAA, by Yuasa affiliate Green Energy Technology Co., Ltd., located in Tianjin, China. Rayovac plans to start shipping the batteries worldwide in the latter half of 2003.



Nickel-Hydrogen Batteries

# Financial Review

## Scope of Consolidation

The Yuasa Group consists of Yuasa Corporation (the Company), 28 subsidiaries, and 14 affiliated companies. Of the 28 subsidiaries, 26 are consolidated companies. The equity method does not apply to the 2 unconsolidated subsidiary, but does apply to 5 affiliated companies. The other 9 affiliated companies are not accounted for by the equity method.

## Operating Environment

The Japanese economy was relatively solid in the first half of the year under review. Thereafter, the outlook for the economy became clouded in increasing uncertainty. Exports, which had been a driving force, peaked out as the global economy lost momentum in the wake of the slowdown in the previously strong U.S. economy. Other factors casting a pall over the economic outlook included sluggish production activity and plummeting stock prices.

## Net Sales and Operating Income

In this uncertain climate, the Yuasa Group mustered its collective strengths in an attempt to lift sales. The continuing shift of production offshore and curbs on capital expenditures by companies, particularly investments in IT, however, severely dampened demand. This resulted in a ¥6,491 million, or 4.7%, decline in consolidated net sales to ¥132,213 million.

On the earnings front, operating income rose ¥1,337 million, or 48.3%, to ¥4,105 million, and ordinary income jumped ¥1,367 million, or 83.8%, to ¥2,998 million, as a result of continuous efforts to cut costs in all areas.

## Other Income (Expenses) and Net Loss

Other income (expenses) declined from ¥4,556 million to ¥1,322 million. Interest and dividend income decreased 7.3% to ¥280 million. This mainly reflected a 28.5% fall in interest expenses from ¥1,873 million to ¥1,339 million due mainly to efforts to repay interest-bearing liabilities. In addition, the Company booked a loss on sales of investment securities and a write-down of investment securities, as well as aggressively disposing of poorly performing and underutilized assets. As a result of the above, the Company recorded a net income of ¥1,257 million.

## Geographic Segment Information

years ended 31st March

| | Net Sales | | Operating Income | |
|---|---|---|---|---|
| | Japanese yen (millions) | | Japanese yen (millions) | |
| | 2002 | **2003** | 2002 | **2003** |
| Japan | ¥ 99,727 | **¥ 95,369** | ¥ 756 | **¥1,792** |
| Europe/USA | 25,266 | **23,932** | 946 | **947** |
| Asia | 17,252 | **17,131** | 977 | **1,327** |
| Elimination and corporate | (3,541) | **(4,219)** | 86 | **37** |
| Total | ¥138,704 | **¥132,213** | ¥2,767 | **¥4,105** |

Operating results by geographic segment are as follows.

(Japan)
Net sales declined 4.4% year on year to ¥95,369 million, mainly due to declining overall demand and falling sales prices. Continuing actions to pare costs, however, produced a 136.9% increase in operating income to ¥1,792 million.

(Europe and North America)
Net sales decreased 5.3% to ¥23,932 million due to declining volumes. But operating income edged up 0.1% to ¥947 million on continuing strong sales of high-value-added products and the benefits of restructuring.

(Asia)
Net sales edged down 0.7% to ¥17,131 million due to lower volumes of lead-acid batteries for industrial applications. Operating income climbed 35.8% to ¥1,327 million, reflecting successful efforts to lower costs.

## Financial Position
Total assets as of March 31, 2003 stood at ¥150,171 million, down 9.0% from a year earlier. Current assets decreased 13.5% to ¥65,652 million. Notes and accounts receivable decreased 13.9% to ¥36,655 million. Property, plant and equipment decreased 10.9% to ¥51,154 million, due mainly to sale and leaseback of machinery and equipment in the company.

Current liabilities decreased 16.3% to ¥75,699 million and long-term liabilities increased 1.4% to ¥31,412 million. Total liabilities were ¥107,112 million, down 11.8% from the previous year-end.

## Capital Expenditures
The Yuasa Group invests in the construction and renewal of facilities to streamline production and conduct research and development. In battery and power supply systems operations, capital expenditures amounted to ¥3,219 million in fiscal 2002, primarily for facilities to streamline the production of lead-acid batteries for automotive and industrial applications. Capital expenditures in other businesses totaled ¥1,774 million, with investments concentrated on facilities to improve the production efficiency of environment-related equipment and systems.

## Cash Flows
Cash and cash equivalents at March 31, 2003 were ¥4,533 million, ¥3,919 million less than a year ago.

(Cash Flows From Operating Activities)
Operating activities provided net cash of ¥12,690 million, ¥7,801 million more than in the previous fiscal year. This mainly reflected decreases in notes and accounts receivable and inventories.

(Cash Flows From Investing Activities)
Investing activities provided net cash of ¥3,331 million, compared with net cash used of ¥7,556 million in the previous fiscal year. Cash was primarily provided by the sale of some operating assets.

(Cash Flows From Financing Activities)
Financing activities used net cash of ¥19,445 million, compared with net cash provided of ¥1,808 million in the previous fiscal year. Outflows mainly represented repayments of debt.

# Consolidated Balance Sheets

YUASA CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of 31st March, 2002 and 2003

| ASSETS | Japanese yen (millions) 2002 | 2003 | U.S. dollars (thousands) 2003 |
|---|---|---|---|
| **Current Assets:** | | | |
| Cash and time deposits | ¥ 8,815 | ¥ 4,651 | $ 38,694 |
| Notes and accounts receivable, trade | 42,589 | 36,655 | 304,950 |
| Marketable securities (Note 2) | 2 | – | – |
| Inventories (Notes 2 and 3) | 22,118 | 18,367 | 152,804 |
| Deferred income taxes | 666 | 1,156 | 9,617 |
| Prepaid expenses and other current assets | 2,052 | 5,150 | 42,845 |
| Allowance for doubtful accounts | (316) | (330) | (2,745) |
| Total Current Assets | 75,928 | 65,652 | 546,190 |
| **Property, Plant and Equipment** (Note 2): | | | |
| Land | 22,771 | 22,731 | 189,110 |
| Buildings and structures | 13,647 | 13,733 | 114,251 |
| Machinery and equipment | 17,930 | 12,232 | 101,764 |
| Tools and furniture | 1,523 | 1,215 | 10,108 |
| Construction in progress | 1,538 | 1,240 | 10,316 |
| Total Property, Plant and Equipment | 57,412 | 51,154 | 425,574 |
| **Investments and Other Assets:** | | | |
| Investment securities (Note 2) | 21,673 | 20,702 | 172,230 |
| Investment in and advances to subsidiaries and affiliates | 22 | 22 | 183 |
| Long-term deferred income taxes | 4,759 | 6,406 | 53,295 |
| Other assets | 5,137 | 6,232 | 51,847 |
| Total Investments and Other Assets | 31,592 | 33,364 | 277,571 |
| Total Assets | ¥164,933 | ¥150,171 | $1,249,343 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Japanese yen (millions) 2002 | 2003 | U.S. dollars (thousands) 2003 |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Notes and accounts payable, trade | ¥ 26,124 | ¥ 26,542 | $ 220,815 |
| Short-term bank borrowings (Note 4) | 45,916 | 24,976 | 207,787 |
| Current portion of long-term debt (Note 4) | 12,170 | 10,500 | 87,354 |
| Accrued income taxes (Notes 2 and 5) | 271 | 702 | 5,840 |
| Accrued expenses | 4,309 | 4,572 | 38,037 |
| Other current liabilities | 1,660 | 8,405 | 69,925 |
| Total Current Liabilities | 90,453 | 75,699 | 629,775 |
| **Long-Term Liabilities:** | | | |
| Long-term debt (Note 4) | 19,586 | 19,179 | 159,559 |
| Liability for employees' retirement benefits (Note 7) | 4,038 | 3,879 | 32,271 |
| Liability for directors' and auditors' retirement benefits (Note 7) | 547 | 623 | 5,183 |
| Other long-term liabilities | 6,799 | 7,730 | 64,309 |
| Total Long-Term Liabilities | 30,972 | 31,412 | 261,331 |
| **Minority Interests** | 1,979 | 2,241 | 18,644 |
| **Shareholders' Equity:** | | | |
| Common stock | | | |
| Authorized—330,000,000 shares; | | | |
| Issued: 2001—177,184,635 shares | | | |
| 2002—177,184,635 shares | 13,127 | 13,127 | 109,210 |
| Additional paid-in capital | 11,579 | 11,603 | 96,531 |
| Appraisal gains | 8,974 | 9,228 | 76,772 |
| Retained earnings | 9,370 | 10,554 | 87,804 |
| Net unrealized losses on other marketable securities | (1,735) | (2,998) | (24,942) |
| Foreign currency translation adjustments | 239 | (612) | (5,092) |
| Treasury stock, at cost | (2) | (85) | (707) |
| Common stock held by subsidiary companies | (25) | – | – |
| Total Shareholders' Equity | 41,528 | 40,817 | 339,576 |
| Total Liabilities and Shareholders' Equity | ¥164,933 | ¥150,171 | $1,249,343 |

# Consolidated Statements of Income

YUASA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended 31st March, 2002 and 2003

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| **Net Sales** | ¥138,704 | ¥132,213 | $1,099,942 |
| **Cost of Sales** | 106,041 | 100,425 | 835,483 |
| Gross profit | 32,662 | 31,787 | 264,451 |
| **Selling, General and Administrative Expenses** | 29,895 | 27,682 | 230,300 |
| Operating income | 2,767 | 4,105 | 34,151 |
| **Other Income (Expenses):** | | | |
| Interest and dividend income | 302 | 280 | 2,329 |
| Interest expenses | (1,873) | (1,339) | (11,140) |
| Other, net (Note 9) | (2,986) | (263) | (2,188) |
| **Income (Loss) Before Provision for Income Taxes** | (1,789) | 2,782 | 23,145 |
| **Provision for Income Taxes** (Notes 2 and 5): | | | |
| Current | 637 | 2,585 | 21,506 |
| Deferred | (1,661) | (1,422) | 11,830 |
| **Minority Interests in Earnings of Consolidated Subsidiaries** | 181 | 361 | 3,003 |
| **Net Income (Loss)** | (946) | 1,257 | $ 10,458 |

| | Japanese yen | | U.S. dollars |
|---|---|---|---|
| **Per Share of Common Stock** (Note 6): | | | |
| Net income (loss) | ¥ (5.34) | ¥ 7.11 | $ 0.059 |
| Cash dividends | – | 3.00 | 0.025 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

YUASA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended 31st March, 2002 and 2003

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| **Common Stock:** | | | |
| Opening balance | ¥13,127 | ¥13,127 | $109,210 |
| Closing balance | ¥13,127 | ¥13,127 | $109,210 |
| **Additional Paid-in Capital:** | | | |
| Opening balance | ¥11,101 | ¥11,579 | $ 96,331 |
| Increased by consolidating subsidiaries | 478 | 23 | 191 |
| Closing balance | ¥11,579 | ¥11,603 | $ 96,531 |
| **Retained Earnings:** | | | |
| Opening balance | ¥10,948 | ¥ 9,370 | $ 77,953 |
| Net income (loss) | (946) | 1,257 | 10,458 |
| Cash dividends | (533) | – | – |
| Bonuses for directors and auditors | (2) | (2) | (17) |
| Other (Note 10) | (95) | (71) | (591) |
| Closing balance | ¥ 9,370 | ¥10,554 | $ 87,804 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

YUASA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended 31st March, 2002 and 2003

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| **Cash Flows From Operating Activities:** | | | |
| Income (loss) before provision for income taxes | ¥ (1,789) | ¥ 2,782 | $ 23,145 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities— | | | |
| Depreciation and amortization | 5,320 | 4,685 | 38,977 |
| Provision for retirement benefits | 43 | (20) | (166) |
| Interest and dividend income | (302) | (280) | (2,329) |
| Interest expenses | 1,873 | 1,339 | 11,140 |
| Equity in earnings of affiliated companies | (261) | (258) | (2,146) |
| Loss on sales of investment securities | 554 | 843 | 7,013 |
| Loss on revaluation of investment securities | 1,301 | 607 | 5,050 |
| Gain on sales of property, plant and equipment | – | (2,683) | (22,321) |
| Loss on disposal of property, plant and equipment | 1,133 | 473 | 3,935 |
| Decrease in notes and accounts receivable | 6,446 | 5,758 | 47,903 |
| Decrease in inventories | 1,334 | 3,765 | 31,323 |
| Decrease in notes and accounts payable | (2,486) | (2,533) | (21,073) |
| Other | (3,968) | 1,403 | 11,672 |
| Sub total | 9,198 | 15,883 | 132,138 |
| Interest and dividends received | 302 | 341 | 2,837 |
| Interest paid | (1,872) | (1,378) | (11,464) |
| Income taxes paid | (2,738) | (2,154) | (17,920) |
| Net cash provided by (used in) operating activities | ¥ 4,889 | ¥ 12,690 | $ 105,574 |
| **Cash Flows From Investing Activities:** | | | |
| Proceeds from sales of marketable securities | 50 | – | – |
| Payments for purchases of fixed assets | (6,324) | (4,431) | (36,864) |
| Proceeds from sales of fixed assets | 32 | 7,979 | 66,381 |
| Payments for purchases of investment securities | (3,328) | (2,773) | (23,070) |
| Proceeds from sales of investment securities | 4,111 | 1,889 | 15,715 |
| Increase in loan receivables | (358) | (294) | (2,446) |
| Collection of loan receivables | 135 | 244 | 2,030 |
| Other | (1,876) | 717 | 5,965 |
| Net cash provided by (used in) investing activities | ¥ (7,556) | ¥ 3,331 | $ 27,712 |
| **Cash Flows From Financing Activities:** | | | |
| (Decrease) in short-term borrowings | (2,625) | (20,940) | (174,210) |
| Proceeds from issuance of long-term debt | 10,999 | 15,348 | 127,687 |
| Repayments of long-term debt | (6,021) | (13,816) | (114,942) |
| Proceeds from sales of treasury stock | 3 | – | – |
| Payments for purchases of treasury stock | (5) | (22) | (183) |
| Dividends paid | (541) | (14) | (116) |
| Net cash provided by (used in) financing activities | ¥ 1,808 | ¥(19,445) | $(161,772) |
| **Effect of Exchange Rate Changes on Cash and Cash Equivalents** | 173 | (496) | (4,126) |
| **Net Decrease in Cash and Cash Equivalents** | (685) | (3,919) | (32,604) |
| **Cash and Cash Equivalents at Beginning of Year** | 8,478 | 8,453 | 70,324 |
| **Cash and Cash Equivalents Decreased by Consolidating Subsidiaries** | 659 | – | – |
| **Cash and Cash Equivalents at End of Year** | ¥ 8,453 | ¥ 4,533 | $ 37,712 |

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued for domestic reporting purposes. YUASA Corporation (the “Company”) and its domestic consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles and practices in Japan. Its foreign subsidiaries maintain their accounts in conformity with those of each country of their domicile. These financial statements are examined by KINKIDAIICHI AUDIT CORPORATION.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥120.20=U.S.$1, the approximate exchange rate on 31st March, 2003. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be converted into U.S. dollar amounts.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together, the “Companies”). All significant intercompany balances and transactions have been eliminated in consolidation.

The revaluation adjustments for the preparation of the accompanying consolidated financial statements are directly reflected in retained earnings.

Investments in certain unconsolidated subsidiaries and significant affiliates are stated at cost plus equity in undistributed earnings. Consolidated net income includes the Company’s equity in the current net income of such companies, after elimination of unrealized intercompany profits.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Differences, not significant in amount, between the cost and the underlying net equity of investments in consolidated subsidiaries, and in unconsolidated subsidiaries and affiliates which are accounted for by the equity method, are charged or credited to income in the year of acquisition.

### (b) Translation of foreign currency accounts

Prior to 1st April, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective 1st April, 2000, the Companies adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short- and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income. The adoption of revised accounting standards for foreign currency transactions did not have a material effect on the accompanying consolidated financial statements.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

Prior to 1st April, 2000, differences arising from such translations were shown as “Foreign currency translation adjustments” as either asset or liability in the consolidated balance sheets.

Effective 1st April, 2000, such differences are shown as “Foreign currency translation adjustments” in a separate component of shareholders’ equity in accordance with the revised accounting standard for foreign currency transactions.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the annual average exchange rate.

### (c) Accounting for Financial Instruments

Effective from the fiscal year ended March 31, 2002, with regard to the methods for valuation of other marketable securities with market prices, the Companies have applied accounting standards for financial instruments as set forth in the "Opinion Regarding the Establishment of Accounting Standards for Financial Products," issued by the Business Accounting Deliberative Council on January 22, 1999.

### (d) Inventories

Inventories are stated at average cost.

### (e) Property, plant and equipment

Property, plant and equipment are stated at book value.

Accumulated depreciation of tangible assets was ¥59,535 million. Depreciation is computed by the declining-balance method, at rates based on the following range of estimated useful lives of assets.

Buildings and structures . . . . . . . . . . . . . . . . 7–50 years
Machinery and equipment . . . . . . . . . . . . . . . 2–17 years

Depreciation of assets at the Kyoto Osadano Plant is, however, computed by the straight-line method.

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

### (f) Income taxes

The Company and its consolidated subsidiaries compute and record income taxes currently payable based upon taxable income determined in accordance with applicable tax laws.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

## 3. INVENTORIES

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

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Finished goods | ¥15,158 | ¥12,852 | $106,922 |
| Work in process | 4,252 | 3,301 | 27,463 |
| Raw materials | 2,707 | 2,214 | 18,419 |
| | ¥22,118 | ¥18,367 | $152,804 |

## 4. SHORT-TERM BANK BORROWINGS AND LONG-TERM DEBT

Short-term bank borrowings take the form of overdrafts. The principal ranges of annual interest rates applicable to short-term bank borrowings outstanding at 31st March, 2002 and 2003 were from 0.96% to 7.25% and from 0.97% to 6.22%, respectively.

Long-term debt as of 31st March, 2002 and 2003 consisted of the following:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Loans from banks, insurance companies and government-sponsored agencies due in installments to 2009 | ¥31,757 | ¥29,680 | $246,922 |
| Less—current portion of long-term debt | 12,170 | 10,500 | 87,354 |
| | ¥19,586 | ¥19,179 | $159,559 |

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

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

| Years ending 31st March | Japanese yen (millions) | U.S. dollars (thousands) |
|---|---|---|
| 2003 | ¥10,500 | $ 87,354 |
| 2004 | 4,379 | 36,431 |
| 2005 | 10,007 | 83,253 |
| 2006 and after | 4,794 | 39,884 |
| | ¥29,680 | $246,922 |

## 5. INCOME TAXES

The provision for income taxes for the years ended 31st March, 2002 and 2003 consisted of the following:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Current income tax expense | ¥ 637 | ¥ 2,585 | $ 21,506 |
| Deferred income tax | (1,661) | (1,422) | (11,830) |
| Total | ¥(1,023) | ¥ 1,163 | $ 9,676 |

The effective income tax rates of the Companies differ from the normal Japanese statutory rates for the years ended 31st March, as follows:

| | 2002 | 2003 |
|---|---|---|
| Normal Japanese statutory rates | 40.9% | 39.5% |
| Increase (decrease) in taxes resulting from: | | |
| Permanently non-deductible items | (4.3)% | 4.8% |
| Difference of tax rates of an overseas subsidiary | 21.9% | (7.9)% |
| Other, net | (1.3)% | 5.5% |
| Effective tax rates | 57.2% | 41.9% |

The Company and its domestic subsidiaries are subject to Japanese national and local taxes based on income. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets or liabilities at 31st March, 2002 and 2003 were as follows:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Deferred tax assets: | | | |
| Enterprise taxes | ¥ 56 | ¥ 47 | $ 391 |
| Pension and severance costs | 1,516 | 1,569 | 13,053 |
| Accrued expenses | 382 | 519 | 4,318 |
| Other | 3,471 | 5,428 | 45,158 |
| Deferred tax assets | 5,425 | 7,563 | 62,920 |
| Deferred tax liabilities: | | | |
| Other | (355) | (349) | (2,903) |
| Deferred tax liabilities | (355) | (349) | (2,903) |
| Net deferred tax assets | 5,069 | 7,213 | 60,008 |

## 6. NET INCOME AND CASH DIVIDENDS PER SHARE

Net income and cash dividends per share are computed based on the weighted-average number of shares issued during each year.

## 7. RETIREMENT BENEFITS

***(1) For employees***

The Company and its domestic consolidated subsidiaries have a defined benefit pension plan covering substantially all of their employees. The amounts of the termination and retirement allowances are determined on the basis of length of service and the current basic rates at the time of termination or retirement.

Effective 1st April, 2001, the Companies adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at 31st March, 2003 consisted of the following:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Projected benefit obligation | ¥ 20,780 | ¥ 20,161 | $ 167,729 |
| Fair value of plan assets | (1,866) | (1,508) | (12,546) |
| Unrecognized transitional obligation | (14,082) | (12,946) | (107,704) |
| Unrecognized actuarial loss | (792) | (1,828) | (15,208) |
| Net liability for retirement benefits | 4,038 | 3,879 | 32,271 |

The components of net periodic benefit costs for the years ended 31st March, were as follows:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Service cost | ¥ 909 | ¥ 983 | $ 8,178 |
| Interest cost | 666 | 567 | 4,717 |
| Expected return on plan assets | (52) | (46) | (383) |
| Amortization of transitional obligation | 1,031 | 1,107 | 9,210 |
| Net periodic benefit costs | 2,555 | 2,611 | 21,722 |

Assumptions used for the year ended 31st March, 2003 are set forth as follows:

| | |
|---|---|
| Discount rate | 2.5% |
| Expected rate of return on plan assets | 2.5% |
| Amortization period of actuarial gain/loss | Primarily 10 years |
| Amortization period of transitional obligation | 15 years |

***(2) For directors and auditors***

The Company and its consolidated subsidiaries also provided for retirement benefits to directors and auditors based on pertinent rules which are calculated as the estimated amount to be paid if all directors and auditors retired at the balance sheet date.

## 8. CONTINGENT LIABILITIES

Contingent liabilities of the Company and its consolidated subsidiaries as at 31st March, 2002 and 2003 were as follows:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Guarantees of loans | ¥9,550 | ¥6,206 | $51,631 |

## 9. OTHER INCOME (EXPENSES), NET

"Other, net" in "Other income (expenses)" for the years ended 31st March, 2002 and 2003 comprised the following:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Gain on sales of fixed assets | ¥ 7 | ¥ 2,683 | $22,321 |
| Loss on disposal of property, plant and equipment | (1,133) | (473) | (3,935) |
| Loss on sales of investment securities | (554) | (843) | (7,013) |
| Write-down of investment securities | (1,301) | (607) | (5,050) |
| Other | (5) | (1,022) | (8,502) |
| | ¥(2,986) | ¥ (263) | $ (2,188) |

## 10. RETAINED EARNINGS

Other changes in retained earnings for the years ended 31st March, 2002 and 2003 were as follows:

| | Japanese yen (millions) | | U.S. dollars (thousands) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Adjustments of retained earnings at beginning of the year for inclusion in or exclusion from consolidation or the equity method of accounting for subsidiaries and affiliates | ¥ 40 | ¥ – | $ – |
| Other | (136) | (71) | (591) |
| | ¥ (95) | (71) | $ (591) |

# Report of Independent Certified Public Accountants on the Consolidated Financial Statements

The Board of Directors
Yuasa Corporation

We have examined the accompanying consolidated balance sheets of Yuasa Corporation and consolidated subsidiaries as of 31st March, 2002 and 2003, and the related consolidated statements of income, shareholders' equity and statements of cash flows in yen. Our examinations were made in accordance with auditing standards generally accepted in Japan, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements expressed in yen present fairly the financial position of Yuasa Corporation and consolidated subsidiaries as of 31st March, 2002 and 2003, and the results of their operations and cash flows for both of the two years in the periods ended 31st March, 2003, in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the period.

We have reviewed the translation of the accompanying 2002 consolidated financial statements into U.S. dollars, and, in our opinion, the consolidated financial statements have been properly translated into U.S. dollars on the basis set forth in Note 1 to the consolidated financial statements.

KINKIDAIICHI AUDIT CORPORATION

Osaka, Japan
27th June, 2003

# Corporate Data

(As of 31st March, 2003)

**Company Name:**
Yuasa Corporation

**Head Office:**
2-3-21, Kosobe-cho, Takatsuki-shi,
Osaka 569-1115, Japan

**Date of Establishment:**
13th April, 1918

**Common Stock:**
¥13,127 million

**Number of Employees:**
1,478

**Authorized Shares:**
330,000,000

**Issued Shares:**
177,184,635

**Number of Shareholders:**
21,327

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# Board of Directors and Corporate Auditors

(As of 27th June, 2003)

**Honorary Chairman**
Teruhisa Yuasa

**President***
Naruo Otsubo

**Senior Managing Director***
Tokusaburo Jimbo

**Senior Managing Director***
Yukio Kimura

**Managing Director**
Tsuyoshi Noto

**Managing Director**
Kan Akiyama

**Director**
Masaaki Nakamura

**Director**
Osamu Hamada

**Director**
Paul Michael Ehlerman

**Corporate Auditor**
Masanao Yano

**Corporate Auditor**
Tatsuo Hashi

**Corporate Auditor**
Nobuaki Ogawa

**Corporate Auditor**
Hitoshi Kadokawa

* Representative Director

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