Notes to Consolidated Financial Statements

TDK Corporation and Subsidiaries

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Nature of Operations

The Company is a multinational manufacturer of ferrite products and a producer of inductor, ceramic and other components and recording media and systems. The Company, a Tokyo-based company founded in 1935 to commercialize ferrite, now manufactures and sells a broad range of products. The Company's two business segments are electronic materials and components, and recording media and systems, which accounted for 78% and 22% of net sales, respectively, for the year ended March 31, 2003. The main products which are manufactured and sold by the two business segments are as follows:

a) Electronic materials and components products:

Ferrite cores, Ceramic capacitors, High-frequency components, Inductors, GMR heads, and Semiconductors

b) Recording media and systems products:

Audio tapes, Video tapes, CD-Rs, MDs, DVDs, and PC cards

The Company sells electronic materials and components products to electric and communication equipment manufacturers and audio equipment manufacturers, mainly in Asia and Japan, and recording media and systems products to distribution agents and audio equipment manufacturers, mainly in Japan, Europe, and North America.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein reflect certain adjustments, not recorded on the primary books of the Company and subsidiaries, to present the financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. Such adjustments relate principally to accounting for issue costs for debt with stock purchase warrants, retirement and severance benefits and impairment of long-lived assets including goodwill.

(c) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. The investments in affiliates in which the Company's ownership is 20% to 50% and the Company exercises significant influence over their operating and financial policies are accounted for by the equity method.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(d) Cash Equivalents

Cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less.

(e) Marketable Securities

The Company classifies its debt and equity securities into one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income until realized.

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method.

(g) Depreciation

Depreciation of property, plant and equipment is principally computed by the declining-balance method for assets located in Japan and of certain foreign subsidiaries and by the straight-line method for assets of other foreign subsidiaries based on the following estimated useful lives:

Buildings	3 to 60 years
Machinery and equipment	2 to 22 years

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(i) Stock Option Plan

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" defines a fair value based method of accounting for a stock option. SFAS 123 gives an entity a choice of recognizing related compensation expense by adopting the fair value method or to continue to measure compensation using the intrinsic value-based method prescribed under Accounting Principles Board Opinion No.25 ("APB 25"), "Accounting for Stock Issued to Employees", the former standard. As such, stock-based compensation cost is recognized by the Company only if the market price of the underlying common stock exceeds the exercise price on the date of grant. The Company chose to use the measurement prescribed by APB 25, and no compensation cost for the stock option plan has been incurred in fiscal 2003, fiscal 2002 and fiscal 2001. The following table illustrates the effect on net income (loss) and net income (loss) per share if the fair-value-based method had been applied to all outstanding and unvested awards with such costs recognized ratably over the vesting period of the underlying instruments.

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Net income (loss), as reported	**¥12,019**	(25,771)	43,983	**$100,158**
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax	**(241)**	(280)	(207)	**(2,008)**
Pro forma net income (loss)	**11,778**	(26,051)	43,776	**98,150**
Basic and diluted net income (loss) per share:				
As reported	**¥ 90.56**	(193.91)	330.54	**$ 0.75**
Pro forma	**88.74**	(196.02)	328.98	**0.74**

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends FASB Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation". SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The adoption of SFAS 148 did not have a material effect on the Company's consolidated financial position and results of operations.

(j) Advertising Costs

Advertising costs are expensed as incurred.

(k) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards No. 52 ("SFAS 52"), "Foreign Currency Translation". Under SFAS 52, the assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are generally excluded from the statements of income and are accumulated in stockholders' equity as a component of accumulated other comprehensive income (loss).

(l) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles in the United States of America. Significant items subject to such estimates and assumptions include the valuation of intangible assets, property, plant and equipment, trade receivables, inventories, and deferred income tax assets, and assumptions related to the estimation of actuarial determined employee benefit obligations. Actual results could differ from those estimates.

(m) Accounting for the Impairment or Disposal of Long-Lived Assets

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes both Statement of Financial Accounting Standards No.121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No.30 ("Opinion 30"), "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. The Company adopted the provision of SFAS 144 on April 1, 2002. The adoption of SFAS 144 did not have a material effect on the Company's consolidated financial position or results of operations.

The Company's long-lived assets and certain identifiable intangibles with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(n) Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", and Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets". SFAS 141 requires the use of the purchase method of accounting for business combinations. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. Under SFAS 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets are amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead is tested for impairment until its life is determined to no longer be indefinite.

The Company conducts its annual impairment test at the end of each fiscal year.

(o) Derivative Financial Instruments

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". In June 2000, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standards No. 138 ("SFAS 138"), "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133". Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. SFAS 133, as amended, and 138 are effective for fiscal years beginning after June 15, 2000. The Company adopted SFAS 133 and 138 as of April 1, 2001. The cumulative effect adjustment upon the adoption of SFAS 133 and 138, net of the related income tax effect, resulted in a decrease to accumulated other comprehensive income of approximately ¥90 million. This amount was reclassified from accumulated other comprehensive income to earnings during the year ended March 31, 2002. The Company has not elected to apply hedge accounting subsequent to the adoption of SFAS 133 and 138, and changes in the fair value of derivatives are recognized in earnings in the period of the changes.

Prior to the adoption of SFAS 133 and 138, the Company and certain of its subsidiaries used derivative financial instruments with off-balance-sheet risk, such as currency swaps, interest rate swaps, forward foreign exchange contracts and currency option contracts, to limit their exposure to fluctuations in foreign exchange rates and interest rates. Gains and losses on foreign exchange instruments that qualified for hedge accounting treatment were recognized in the same period in which gains or losses from the transaction being hedged were recognized. The differential to be paid or received on interest rate swap agreements was recognized over the life of the agreement as an adjustment to interest expense. Derivative financial instruments that did not meet the criteria for hedge accounting were marked to market.

(p) Net Income per Share

Basic net income per share has been computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company. Stock options were not included in the calculation of diluted earnings per share for the years ended March 31, 2003, 2002 and 2001 as their effect would be antidilutive.

(q) Revenue Recognition

The Company recognizes revenue when (i) persuasive evidence of an arrangement exists which is generally in the form of a purchase order or a signed contract; (ii) delivery has occurred and title and risk of loss have transferred; (iii) the sales price is fixed and determinable, and (iv) collectibility is probable.

(r) New Accounting Standards

Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)

In May 2000, the Emerging Issues Task Force reached a final consensus on Issue 00-14 ("EITF 00-14"), "Accounting for Certain Sales Incentives". EITF 00-14 addresses accounting and reporting standards for sales incentives such as coupons or rebates that are provided by vendors or manufacturers and are exercisable by customers at the point of sale.

In January 2001, the Emerging Issues Task Force also reached a final consensus on a portion of Issue 00-22 ("EITF 00-22"), "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". EITF 00-22 addresses accounting and reporting standards for sales incentives such as royalty programs or rebates that are offered to customers by vendors only if the customer completes a specified cumulative level of revenue transactions with the vendor or remains a customer of the vendor for a specified time period.

In April 2001, the Emerging Issues Task Force also reached a final consensus on a portion of Issue 00-25 ("EITF 00-25"), "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services". EITF 00-25 addresses the income statement characterization of consideration, other than that directly addressed in EITF 00-14, from a vendor (typically a manufacturer or distributor) to a customer (typically a retailer or wholesaler) in connection with the sale to the customer of the vendor's products or promotion of sales of the vendor's products by the customer. EITF 00-14 and EITF 00-25 were subsequently codified in and superseded by Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" on which the Emerging Issues Task Force reached a final consensus.

The Company adopted EITF 01-9 on April 1, 2002. However, consolidated financial statements for the prior periods have been reclassified to comply with the income statement display requirements. The adoption results in a reduction in net sales for the years ended March 31, 2002 and 2001 of ¥4,518 million and ¥10,825 million, respectively, and corresponding decrease in selling, general and administrative expenses, with no effect on net income.

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 did not have a material effect on the Company's consolidated financial positions and results of operations.

Guarantor's Accounting and Disclosure Requirements for Guarantees

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The Company adopted the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The disclosure provisions of FIN 45 are effective for consolidated financial statements as of March 31, 2003. The adoption of FIN 45 did not have a material effect on the Company's consolidated financial positions and results of operations.

Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No.46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB No.51". FIN 46 addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. FIN 46 applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Company will apply FIN 46 to variable interest entities created before February 1, 2003 by September 30, 2003. The impact on the Company's consolidated financial statements is immaterial.

New Accounting Standards Not Yet Adopted

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived assets, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. The Company is required to adopt the provisions of SFAS 143 on April 1, 2003. Currently, the effect on the Company's consolidated financial statements of adopting SFAS 143 has not been determined.

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2 (“EITF 03-2”), “Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities”. EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees’ Pension Fund (“EPF”) plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the separation process of the substitutional portion from the entire EPF plan (which includes a corporation portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets. The separation process is considered the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. The Company has not decided whether it will transfer the substitutional portion to the government. Accordingly, the impact on the Company’s financial statements, if any, can not be determined until a decision is made and the substitutional portion of the benefit obligation and plan assets are transferred to the government.

(s) Reclassifications

Certain reclassifications have been made to the prior year’s consolidated financial statements to conform to the presentation used for the year ended March 31, 2003.

2. Financial Statement Translation

The consolidated financial statements are expressed in yen, the functional currency of the Company. Supplementally, however, the Japanese yen amounts as of and for the year ended March 31, 2003, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥120=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2003. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

3. Foreign Operations

Amounts included in the consolidated financial statements relating to subsidiaries operating in foreign countries are summarized as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Net assets	**¥304,645**	312,539	317,844	**$2,538,708**
Net sales	**436,062**	391,740	439,750	**3,633,850**
Net income (loss)	**9,101**	(20,519)	(5,239)	**75,842**

4. Investments and Advances

Investments and advances at March 31, 2003 and 2002, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Marketable securities	**¥ 6,064**	8,283	**$ 50,533**
Nonmarketable securities	**1,406**	4,864	**11,717**
Investments in affiliates	**11,861**	6,524	**98,842**
Other	**3,247**	4,594	**27,058**
	¥22,578	24,265	**$188,150**

Investments in affiliates accounted for by the equity method consist of 26.1% of the common stock of Semiconductor Energy Laboratory Co., Ltd., a research and development company, 50.0% of the common stock of Tokyo Magnetic Printing Co., Ltd., a magnetic products manufacturing company, and six other affiliated companies, collectively, which are not significant. The unamortized portion of the excess of cost over the Company’s share of net assets of affiliated companies was ¥562 million ($4,683 thousand) at March 31, 2003. In accordance with SFAS 142, this equity-method goodwill is no longer amortized, but is being analyzed for impairment.

Investments and advances include available-for-sale securities. Information with respect to such securities at March 31, 2003 and 2002, is as follows:

	2003				2002			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):								
Investments and advances:								
Equity securities	**¥3,384**	**193**	**11**	**3,566**	4,389	596	–	4,985
Debt securities	**2,495**	**3**	**–**	**2,498**	3,274	24	–	3,298
. . . .	**¥5,879**	**196**	**11**	**6,064**	7,663	620	–	8,283
US Dollars (Thousands):								
Investments and advances:								
Equity securities	**$28,200**	**1,608**	**92**	**29,716**				
Debt securities	**20,792**	**25**	**–**	**20,817**				
	$48,992	**1,633**	**92**	**50,533**				

Debt securities classified as available-for-sale at March 31, 2003 mature in fiscal 2004 through 2006 (weighted average remaining term of 1.3 years).

The proceeds from sale and settlement of available-for-sale securities are ¥1,511 million ($12,592 thousand), ¥323 million and ¥6,253 million for the years ended March 31, 2003, 2002 and 2001, respectively. The gross realized gains on the sale and settlement of available-for-sale securities are ¥4 million ($33 thousand), ¥120 million and ¥999 million for the years ended March 31, 2003, 2002 and 2001, respectively. The gross realized loss on the sale and settlement of available-for-sale securities is ¥74 million for the year ended March 31, 2001. The Company recorded a write-down of ¥3,302 million ($27,517 thousand) and ¥327 million on certain available-for-sale securities representing other-than-temporary declines in the fair value of the available-for-sale securities for the years ended March 31, 2003 and 2002, respectively. During 2001, the Company contributed equity securities of ¥34,573 million to a pension trust. The gross realized gains and losses on this contribution were ¥13,329 million and ¥811 million, respectively.

5. Inventories

Inventories at March 31, 2003 and 2002, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Finished goods	**¥33,151**	38,671	**$276,258**
Work in process	**21,681**	25,348	**180,675**
Raw materials	**19,085**	27,130	**159,042**
	¥73,917	91,149	**$615,975**

6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates at March 31, 2003 and 2002, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	Weighted average interest rate	
	2003	2002	**2003**	**2003**	2002
Short-term bank loans	**¥1,431**	1,655	**$11,925**	**2.54%**	4.35%

At March 31, 2003, unused short-term credit facilities for issuance of commercial paper amounted to ¥36,060 million ($300,500 thousand).

Long-term debt at March 31, 2003 and 2002, is set forth below:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Loans from banks, unsecured, due fiscal 2003			
(weighted average: 2002–13.79%)	**¥ –**	140	**$ –**
Other (weighted average: 2003–9.98%, 2002–10.19%)	**582**	976	**4,850**
	582	1,116	**4,850**
Less current installments	**488**	657	**4,067**
	¥ 94	459	**$ 783**

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

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2004	¥488	$4,067
2005	87	725
2006	7	58
	¥582	$4,850

As is customary in Japan, short-term and long-term bank loans are made under general agreements that provide that under certain circumstances security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due the bank.

7. Income Taxes

The Company and its domestic subsidiaries are subject to a national corporate tax of 30%, an inhabitants tax of between 5.2% and 6.2% and a deductible enterprise tax of between 9.6% and 10.1%, which in the aggregate resulted in a statutory rate of approximately 41% in the years ended March 31, 2003, 2002 and 2001.

Amendments to Japanese tax regulations were enacted into law on March 24,2003. As a result of this amendment, the statutory income tax rate was reduced from approximately 41% to 40% effective from April 1, 2004. Current income taxes were calculated at the rate of 41%, in effect for the years ended March 31, 2003, 2002 and 2001, respectively.

Deferred tax assets and liabilities expected to be settled or realized by March 31, 2004 were calculated at the rate of 41%, and those expected to be settled or realized after April 1, 2004 were calculated at the rate of 40%.

The effects of the income tax rate reduction on deferred income tax balances as of March 31, 2003 reduced the net deferred tax asset by approximately ¥1,044 million ($8,700 thousand).

The effective tax rate of the companies for the years ended March 31, 2003, 2002 and 2001, are reconciled with the Japanese statutory tax rate in the following table:

	2003	2002	2001
Japanese statutory tax rate	**41.0%**	(41.0)%	41.0%
Expenses not deductible for tax purposes	**0.5**	0.2	0.3
Non taxable income	**(2.4)**	(1.0)	(0.0)
Amortization of goodwill	**–**	–	1.4
Difference in statutory tax rates of foreign subsidiaries	**(22.6)**	(3.0)	(14.1)
Change in the valuation allowance	**14.8**	4.8	(0.3)
Change in enacted tax laws and rates	**5.8**	–	–
Currency translation adjustment	**(3.3)**	–	–
Special tax deduction	**(4.7)**	(2.0)	(3.2)
Other	**0.2**	3.1	5.6
Effective tax rate	**29.3%**	(38.9)%	30.7%

Total income taxes for the years ended March 31, 2003, 2002 and 2001 are allocated as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Income (loss) before income taxes	**¥ 5,296**	(16,994)	19,792	**$ 44,133**
Stockholders' equity:				
Foreign currency translation adjustments	**(242)**	642	(1,893)	**(2,017)**
Net unrealized gains (losses) on securities	**(166)**	436	(6,404)	**(1,383)**
Minimum pension liability adjustments	**(10,950)**	(24,901)	9,587	**(91,250)**
Total income taxes	**¥ (6,062)**	(40,817)	21,082	**$(50,517)**

Income (loss) before income taxes and income taxes for the years ended March 31, 2003, 2002 and 2001, are summarized as follows:

		Income (loss) Before Income Taxes	Income Taxes		
			Current	Deferred	Total
Yen (Millions):	2003				
	Japanese	**¥ 6,932**	**(1,929)**	**5,977**	**4,048**
	Foreign	**11,149**	**2,924**	**(1,676)**	**1,248**
		¥ 18,081	**995**	**4,301**	**5,296**
	2002				
	Japanese	¥ (20,395)	(660)	(14,483)	(15,143)
	Foreign	(23,302)	(2,537)	686	(1,851)
		¥ (43,697)	(3,197)	(13,797)	(16,994)
	2001				
	Japanese	¥ 64,394	25,832	(10,662)	15,170
	Foreign	122	4,946	(324)	4,622
		¥ 64,516	30,778	(10,986)	19,792
U.S. Dollars (Thousands):	2003				
	Japanese	**$ 57,767**	**(16,076)**	**49,809**	**33,733**
	Foreign	**92,908**	**24,367**	**(13,967)**	**10,400**
		$150,675	**8,291**	**35,842**	**44,133**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2002, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Deferred tax assets:			
Trade accounts receivable, principally due to allowance for doubtful debt	**¥ 486**	609	**$ 4,050**
Inventories	**625**	552	**5,208**
Accrued business tax	**31**	–	**258**
Accrued expenses	**3,215**	3,042	**26,792**
Retirement and severance benefits	**9,465**	5,374	**78,875**
Net operating loss carryforwards	**13,215**	16,494	**110,125**
Tax credit carryforwards	**1,429**	2,294	**11,908**
Minimum pension liability adjustments	**38,613**	28,615	**321,775**
Other	**2,218**	3,764	**18,484**
Total gross deferred tax assets	**69,297**	60,744	**577,475**
Less valuation allowance	**(9,690)**	(7,444)	**(80,750)**
Net deferred tax assets	**¥59,607**	53,300	**$496,725**
Deferred tax liabilities:			
Investments, principally due to differences in valuation	**(6,420)**	(6,156)	**(53,500)**
Undistributed earnings of foreign subsidiaries	**(738)**	(714)	**(6,150)**
Property, plant, and equipment, principally due to differences in depreciation	**(515)**	(1,334)	**(4,292)**
Net unrealized gains on securities	**(77)**	(241)	**(642)**
Other	**(514)**	(1,025)	**(4,283)**
Total gross deferred tax liabilities	**(8,264)**	(9,470)	**(68,867)**
Net deferred tax assets	**¥51,343**	43,830	**$427,858**

The net changes in the total valuation allowance for the years ended March 31, 2003, 2002 and 2001, are an increase of ¥2,246 million ($18,717 thousand), ¥1,798 million and ¥4,687 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at March 31, 2003.

At March 31, 2003, the Company and certain subsidiaries have net operating loss carryforwards for income tax purposes of ¥36,023 million ($300,192 thousand) which are available to offset future taxable income, if any.

Periods available to offset future taxable income vary in each tax jurisdiction and range from one year to an indefinite period as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Within 1 year	¥ 68	$ 567
1 to 5 years	14,076	117,300
5 to 20 years	11,400	95,000
Indefinite periods	10,479	87,325
	¥36,023	$300,192

Certain subsidiaries have tax credit carryforwards for income tax purposes of ¥1,429 million ($11,908 thousand) which are available to reduce future income taxes, if any. Approximately ¥455 million ($3,792 thousand) of the tax credit carryforwards expire in fiscal 2018, while the remainder have an indefinite carryforward period.

Net deferred income tax assets and liabilities at March 31, 2003 and 2002, are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Prepaid expenses and other current assets	**¥ 7,555**	7,961	**$ 62,958**
Deferred income taxes (noncurrent assets)	**43,948**	37,021	**366,233**
Other current liabilities	**(147)**	(554)	**(1,225)**
Deferred income taxes (noncurrent liabilities)	**(13)**	(598)	**(108)**
	¥51,343	43,830	**$427,858**

As of March 31, 2003, the Company did not recognize deferred tax liabilities of approximately ¥43,083 million ($359,025 thousand) for certain portions of undistributed earnings of foreign subsidiaries because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of March 31, 2003, the undistributed earnings of these subsidiaries are approximately ¥178,373 million ($1,486,442 thousand).

8. Retirement and Severance Benefits

The Company and certain subsidiaries have noncontributory retirement and severance plans that provide for pension or lump-sum payment benefits, based on length of service and certain other factors, to employees who retire or terminate their employment for reasons other than dismissal for cause. In addition, the majority of the employees of the Company are covered by a contributory pension plan, whose benefits are based on length of service and certain other factors and include a portion representing the government social security welfare pension. The Company's funding is in accordance with income tax and welfare pension regulations. In addition, in September 2000, the Company contributed equity securities with a fair value of ¥34,573 million and cash of ¥15,315 million to the pension trust. The Company also has an unfunded retirement plan for statutory auditors.

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Change in benefit obligations:			
Benefit obligations at beginning of period	**¥238,838**	230,733	**$1,990,317**
Service cost	**9,383**	8,924	**78,192**
Interest cost	**5,985**	6,359	**49,875**
Plan participants' contributions	**621**	660	**5,175**
Plan amendments	**(4,838)**	(16,816)	**(40,317)**
Actuarial loss (gain)	**11,594**	21,359	**96,617**
Benefits paid	**(10,346)**	(12,752)	**(86,217)**
Translation adjustment	**(612)**	371	**(5,100)**
Benefit obligations at end of period	**250,625**	238,838	**2,088,542**
Change in plan assets:			
Fair value of plan assets at beginning of period	**166,253**	179,558	**1,385,442**
Actual return on plan assets	**(17,914)**	(15,584)	**(149,283)**
Employer contributions	**7,293**	9,564	**60,775**
Plan participants' contributions	**621**	660	**5,175**
Benefits paid	**(9,400)**	(8,154)	**(78,333)**
Translation adjustment	**(280)**	209	**(2,333)**
Fair value of plan assets at end of period	**146,573**	166,253	**1,221,443**
Funded status	**(104,052)**	(72,585)	**(867,099)**
Unrecognized net transition obligation being recognized over 18 years	**(6,377)**	(7,708)	**(53,142)**
Unrecognized net actuarial loss	**142,621**	117,092	**1,188,508**
Unrecognized prior service benefit	**(20,312)**	(16,816)	**(169,267)**
Net amount recognized	**¥ 11,880**	19,983	**$ 99,000**
Amounts recognized in consolidated balance sheets consist of:			
Retirement and severance benefits	**(84,971)**	(49,992)	**(708,092)**
Intangible assets	**251**	134	**2,092**
Accumulated other comprehensive income	**96,600**	69,841	**805,000**
Net amount recognized	**¥ 11,880**	19,983	**$ 99,000**
Actuarial present value of accumulated benefit obligations at end of period	**¥229,466**	215,808	**$1,912,217**

Net periodic benefit cost for the years ended March 31, 2003, 2002 and 2001, consisted of the following:

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Components of net periodic benefit cost:				
Service cost	**¥ 9,383**	8,924	10,923	**$ 78,192**
Interest cost	**5,985**	6,359	6,390	**49,875**
Expected return on plan assets	**(3,678)**	(4,321)	(4,417)	**(30,650)**
Amortization of transition assets	**(1,331)**	(1,331)	(1,331)	**(11,092)**
Recognized actuarial loss	**5,963**	3,461	2,598	**49,691**
Amortization of unrecognized prior service benefit	**(1,342)**	–	–	**(11,183)**
Net periodic benefit cost	**¥14,980**	13,092	14,163	**$124,833**

The weighted-average discount rates used in determining the present value of benefit obligations and expected long-term rate of return on assets were 2.1% and 2.6% for 2003 and 2002, respectively. The rates of increase in future compensation levels were 3.0% for 2003 and 2002.

Plan assets comprise primarily listed stock, bonds and other interest-bearing securities.

9. Legal Reserve and Dividends

The Japanese Commercial Code, amended effective on October 1, 2001, provides that an amount equal to at least 10% of cash dividends and of certain other items be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of common stock. The portion of such aggregated amount in excess of 25% of common stock may become available for dividends subsequent to release to retained earnings. Certain foreign subsidiaries are also required to appropriate earnings to legal reserves under the laws of the respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the periods represent dividends paid out during the periods and related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the dividend proposed by the Board of Directors of ¥25 ($0.21) per share aggregating ¥3,316 million ($27,633 thousand) in respect of the year ended March 31, 2003, or for the related appropriation to the legal reserve.

Cash dividends per common share are computed based on dividends paid for the year.

10. Stock Option Plan

The Company obtained approval of the ordinary general meeting of shareholders held on June 27,2002 regarding the issue of stock acquisition rights as stock options (the Stock Acquisition Rights) for Board members and select senior executives, pursuant to Articles 280-20 and 280-21 of the Japanese Commercial Code, as amended. Upon approval, the Board of Directors has adopted resolutions to issue at no charge an aggregate of 2,236 Stock Acquisition Rights, each representing a stock option to purchase 100 shares of common stock of the Company, to the current 7 Directors on the Board and 190 select senior executives. The Stock Acquisition Rights issued on August 9, 2002 are exercisable during the period from August 1, 2004 to July 31, 2008. The amount to be paid by qualified persons upon the exercise of each Stock Acquisition Rights is set at ¥5,909 ($49.24) per share of common stock, which was calculated by a formula approved by shareholders at the said annual shareholders meeting and is subject to an adjustment in certain events, including but not limited to a stock split, stock dividend and issue of new shares at a price less than the current market price of the shares of the Company. The exercise price of each Stock Acquisition Right was equal to or greater than the fair market value of the Company’s common stock on the date of grant. To cover these options the Company purchased on the Tokyo Stock Exchange a total of 223,600 common shares with an aggregate purchase price of ¥1,209 million ($10,075 thousand) from August 12,2002 through August 19,2002.

The Ordinary General Meeting of Shareholders held on June 28, 2001 approved to implement the Company’s stock option plan for Directors and certain employees of the Company, and to purchase the Company’s own shares for transfer to them under the plan, pursuant to Article 210-2 of the Japanese Commercial Code. Stock options (rights to purchase common shares) were provided to the then 12 Directors on the Board and 184 associate directors and officials in amounts ranging from 500 to 10,000 common shares each, exercisable from August 1, 2003 to April 30, 2007, at an exercise price of ¥6,114 per share, which was calculated by a formula approved by shareholders at the said annual shareholders meeting and is subject to an adjustment in certain events, including but not limited to a stock split, stock dividend and issue of new shares at price less than the current market price of the shares of the Company. The exercise price of each Stock Acquisition Right was equal to or greater than the fair market value of the Company’s common stock on the date of grant. To cover these options the Company purchased on the Tokyo Stock Exchange a total of 158,000 common shares with an aggregate purchase price of ¥917 million from July 2, 2001 through July 23, 2001.

The Ordinary General Meeting of Shareholders held on June 29, 2000 approved to implement the Company’s stock option plan for Directors and certain employees of the Company, and to purchase the Company’s own shares for transfer to them under the plan, pursuant to Article 210-2 of the Japanese Commercial Code. Stock options (rights to purchase common shares) were provided to the then 13 Directors on the Board and 191 associate directors and officials in amounts ranging from 500 to 10,000 common shares each, exercisable from August 1, 2002 to April 30, 2006, at an exercise price of ¥15,640 per share, which was calculated by a formula approved by shareholders at the said annual shareholders meeting and is subject to an adjustment in certain events, including but not limited to a stock split, stock dividend and issue of new shares at price less than the current market price of the shares of the Company. The exercise price of each Stock Acquisition Right was equal to or greater than the fair market value of the Company’s common stock on the date of grant. To cover these options the Company purchased on the Tokyo Stock Exchange a total of 170,400 common shares with an aggregate purchase price of ¥2,665 million from July 3, 2000 through August 2, 2000.

A summary of the status of the Company's three stock option plans as of March 31, 2003, 2002 and 2001, and of the activity during the years ending on those dates is as follows:

	2003		2002		2001		2003
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Weighted average exercise price
		Yen		Yen			U.S. Dollars
Outstanding at beginning of year	**328,400**	**11,057**	170,400	15,640	–	–	**92.14**
Granted	**223,600**	**5,909**	158,000	6,114	170,400	15,640	**49.24**
Exercised	**–**	**–**	–	–	–	–	**–**
Forfeited or Expired	**1,000**	**5,909**	–	–	–	–	**49.24**
Outstanding at end of year	**551,000**	**8,977**	328,400	11,057	170,400	15,640	**74.81**
Exercisable at end of year	**170,400**	**15,640**	–	–	–	–	**130.33**

Information about stock options outstanding at March 31, 2003 is as follows:

	Options Outstanding			
Range of exercise prices	Number outstanding at March 31, 2003	Weighted average remaining contractual life	Weighted average exercise price	
Yen			Yen	U.S. Dollars
5,909	**222,600**	5.3	5,909	49.24
6,114	**158,000**	4.1	6,114	50.95
15,640	**170,400**	3.1	15,640	130.33
5,909 to 15,640	**551,000**	4.3	8,977	74.81

The fair value of these stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2003	2002	2001
Grant-date fair value	**¥1,569 ($13.08)**	¥1,567	¥4,127
Expected life	**4.0 years**	3.9 years	3.9 years
Risk-free interest rate	**0.35%**	0.34%	0.89%
Expected volatility	**39.96%**	39.86%	37.92%
Expected dividend yield	**0.80%**	1.03%	0.40%

11. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 2003, 2002 and 2001, are as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Foreign currency translation adjustments:				
Balance at beginning of period	**¥ (7,773)**	(23,798)	(50,237)	**$ (64,775)**
Adjustments for period	**(18,747)**	16,025	26,439	**(156,225)**
Balance at end of period	**(26,520)**	(7,773)	(23,798)	**(221,000)**
Net unrealized gains (losses) on securities:				
Balance at beginning of period	**379**	(329)	6,499	**3,158**
Adjustments for period	**(269)**	708	(6,828)	**(2,242)**
Balance at end of period	**110**	379	(329)	**916**
Minimum pension liability adjustments:				
Balance at beginning of period	**(36,605)**	(724)	(14,519)	**(305,042)**
Adjustments for period	**(15,809)**	(35,881)	13,795	**(131,741)**
Balance at end of period	**(52,414)**	(36,605)	(724)	**(436,783)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of period	**(43,999)**	(24,851)	(58,257)	**(366,659)**
Adjustments for period	**(34,825)**	(19,148)	33,406	**(290,208)**
Balance at end of period	**¥(78,824)**	(43,999)	(24,851)	**$(656,867)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2003, 2002 and 2001, are as follows:

	Yen (Millions)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2003			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	**¥(19,751)**	**242**	**(19,509)**
Reclassification adjustments for the portion of gains and losses realized upon liquidation of investments in foreign entities	**762**	**–**	**762**
Net foreign currency translation adjustments	**(18,989)**	**242**	**(18,747)**
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	**104**	**(41)**	**63**
Reclassification adjustments for (gains) losses realized in net income	**(539)**	**207**	**(332)**
Net unrealized gains (losses)	**(435)**	**166**	**(269)**
Minimum pension liability adjustments	**(26,759)**	**10,950**	**(15,809)**
Other comprehensive income (loss)	**¥(46,183)**	**11,358**	**(34,825)**
2002			
Foreign currency translation adjustments	¥ 16,667	(642)	16,025
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	1,144	(436)	708
Minimum pension liability adjustments	(60,782)	24,901	(35,881)
Other comprehensive income (loss)	¥(42,971)	23,823	(19,148)
2001			
Foreign currency translation adjustments	¥ 24,546	1,893	26,439
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising for period	(691)	242	(449)
Reclassification adjustments for (gains) losses realized in net income	(12,541)	6,162	(6,379)
Net unrealized gains (losses)	(13,232)	6,404	(6,828)
Minimum pension liability adjustments	23,382	(9,587)	13,795
Other comprehensive income (loss)	¥ 34,696	(1,290)	33,406

	U.S. Dollars (Thousands)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2003			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	**$(164,592)**	**2,017**	**(162,575)**
Reclassification adjustments for the portion of gains and losses realized upon liquidation of investments in foreign entities	**6,350**	**–**	**6,350**
Net foreign currency translation adjustments	**(158,242)**	**2,017**	**(156,225)**
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	**867**	**(342)**	**525**
Reclassification adjustments for (gains) losses realized in net income	**(4,492)**	**1,725**	**(2,767)**
Net unrealized gains (losses)	**(3,625)**	**1,383**	**(2,242)**
Minimum pension liability adjustments	**(222,991)**	**91,250**	**(131,741)**
Other comprehensive income (loss)	**$(384,858)**	**94,650**	**(290,208)**

12. Leases

The companies occupy offices and other facilities under various cancellable lease agreements expiring in fiscal 2004 through 2005. Lease deposits made under such agreements, aggregating ¥1,838 million ($15,317 thousand) and ¥1,896 million, at March 31, 2003 and 2002, respectively, are included in investments and advances on the accompanying consolidated balance sheets.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of March 31, 2003:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2004	¥ 4,245	$ 35,375
2005	2,861	23,842
2006	2,087	17,392
2007	1,673	13,941
2008	1,170	9,750
Later years	1,072	8,933
	¥13,108	$109,233

13. Commitments and Contingent Liabilities

At March 31, 2003, commitments outstanding for the purchase of property, plant and equipment approximated ¥5,925 million ($49,375 thousand).

The Company and certain of its subsidiaries provide guarantees to third parties of bank loans of its employees. The guarantees for the employees are principally made for their housing loans. For each guarantees issued, if the employees default on a payment, the Company would be required to make payments under its guarantees. The maximum amount of undiscounted payments the Company would have to make in the event of default is ¥7,247 million ($60,392 thousand) at March 31, 2003. As of March 31, 2003, the Company's guarantees that were issued or amended after December 31, 2002 are not material.

Several claims and legal actions against the Company and certain subsidiaries are pending. Provision has been made for the estimated liabilities for certain items. In the opinion of management, based upon discussion with counsel, any additional liability will not materially affect the consolidated financial position and results of operations of the Company.

14. Risk Management Activities and Derivative Financial Instruments

The Company and its subsidiaries operate internationally which exposes them to the risk of changes in foreign exchange rates and interest rates, and therefore utilize derivative financial instruments to reduce these risks. The Company and its subsidiaries do not hold or issue financial instruments for trading purposes. The Company is exposed to credit related losses in the event of nonperformance by the counterparties to those financial instruments, but does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of currency swaps, interest rate and currency swaps, interest rate swaps and forward foreign exchange contracts is represented by the fair values of contracts with a positive fair value at the reporting date.

The Company and one of its subsidiaries have currency swaps and interest rate and currency swaps with certain financial institutions to limit their exposure to fluctuations in foreign exchange rates and interest rates involved mainly in loans made by the Company to its subsidiaries in a total amount of ¥13,794 million ($114,950 thousand) and ¥13,269 million at March 31, 2003 and 2002, respectively. These swaps require the Company and the subsidiary to pay principally euros and U.S. dollars and to receive Japanese yen at a specified rate on specific dates. The remaining terms of these swaps range from two months to 2.5 years as of March 31, 2003. Gains or losses on currency swaps are included in interest expense, other income or other deductions in the consolidated statements of income. The Swap contracts are measured at fair value and are included in prepaid expenses and other current assets or other current liabilities, as the case may be, in the consolidated balance sheets.

Forward exchange contracts have been entered into to hedge adverse effects of foreign currency exchange rate fluctuations mainly on foreign-currency-denominated trade receivables and foreign-currency-denominated forecasted transactions.

At March 31, 2003 and 2002, the Company and certain of its subsidiaries had forward exchange contracts to sell and buy foreign currencies (principally U.S. dollars, Euro and Malaysian ringgit) for a contract amount of ¥19,016 million ($158,467 thousand) and ¥7,577 million, respectively.

15. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practicable:

(a) Cash and cash equivalents, Trade receivables, Short-term debt, Trade payables, Accrued salaries and wages, Accrued expenses, and Other current liabilities.

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Investments and advances

The fair values of investments and advances are estimated based on quoted market prices for these instruments. For other securities for which there are no quoted market prices, a reasonable estimate of fair values could not be made without incurring excessive costs. Additional information pertinent to the value of unquoted investments is provided below.

(c) Long-term debt

The fair values of each of the Company's long-term debts are estimated based on the amount of future cash flows associated with each instrument discounted using the Company's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

(d) Currency Swaps, Currency and Interest Rate Swaps, Interest Rate Swaps and Forward Foreign Exchange Contracts

The fair values of currency swaps, currency and interest rate swaps, interest rate swaps and forward foreign exchange contracts are estimated by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2003 and 2002, are summarized as follows:

	Yen (Millions)				U.S. Dollars (Thousands)	
	2003		2002		**2003**	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Nonderivatives:						
Assets:						
Investments and advances for which it is:						
Practicable to estimate fair value	**¥7,089**	**7,089**	10,507	10,507	**$59,075**	**59,075**
Not practicable to estimate fair value	**1,406**	**–**	4,864	–	**11,717**	**–**
Liability:						
Long-term debt, including current portion	**(582)**	**(582)**	(1,116)	(1,116)	**(4,850)**	**(4,850)**
Derivatives:						
Currency and interest rate swaps in a:						
Gain position	**6**	**6**	64	64	**50**	**50**
Loss position	**(293)**	**(293)**	(379)	(379)	**(2,442)**	**(2,442)**
Forward foreign exchange contracts in a:						
Gain position	**42**	**42**	1	1	**350**	**350**
Loss position	**(3)**	**(3)**	(60)	(60)	**(25)**	**(25)**

The carrying amounts of the nonderivative assets and liabilities are included in the consolidated balance sheets under the indicated captions. The carrying amounts of the currency swaps, the currency and interest rate swaps, the interest rate swaps and forward foreign exchange contracts in a gain position are included in prepaid expenses and other current assets, while those in a loss position are included in other current liabilities.

It is not practicable to estimate the fair value of investments in untraded companies. Management believes that the carrying amounts approximate fair value.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

16. Restructuring Charges

During the year ended March 31, 2003, the Company recorded a restructuring charge of ¥5,345 million ($44,542 thousand). As a result of the restructuring, a total of 1,302 regular employees were terminated through March 31,2003. The Company and domestic subsidiaries released 237 employees in Japan and overseas subsidiaries released 1,065 employees mainly in the Americas and Europe. The Company recorded a workforce reduction charge of approximately ¥2,346 million ($19,550 thousand) relating primarily to severances. The Company recorded a restructuring charge of ¥2,999 million ($24,992 thousand) mainly relating to losses in the disposal of property, plant and equipment in Japan, in the Americas and in Europe.

The downturn in the U.S. economy from the fourth quarter ended March 31, 2001 and the recent reduction in IT investment volume on a world-wide basis had an adverse effect on the Company. Under the circumstances, the Company believes offering competitive pricing is essential to maintaining its advantageous position in the market of electronic components. Additionally, many of the Company's customers who manufacture consumer products have transferred their manufacturing facilities to Asian countries, in particular China. As a result, the Company, as a supplier of electronic components to these customers, will be required to transfer certain of its factories to these Asian countries in order to meet the customer's logistical needs. Given the global economic conditions, the Company decided to restructure its organization to improve its competitive and financial position on a world-wide basis. The structural reforms implemented over the past two years, including manufacturing plant integration and closure, reduction of headcount and other rationalization plans, have almost been accomplished on schedule through March 31, 2003.

During the year ended March 31, 2002, the Company recorded a restructuring charge of ¥25,872 million. As a result of the restructuring, a total of 5,066 regular employees were terminated across all business functions, operating units and geographic regions through March 31, 2002. The Company recorded a workforce reduction charge of approximately ¥19,884 million relating primarily to severances. In Japan, the Company released 853 employees and domestic subsidiaries released 1,709 employees. Overseas subsidiaries released 2,504 employees mainly in the Americas and Asia (excluding Japan). The Company recorded a restructuring charge of ¥5,988 million mainly relating to losses in the disposal of property, plant and equipment in Japan and in the Americas. The Company reorganized several production lines to strengthen the competitive power of the existing plant in Asia.

Changes of the restructuring liabilities for the years ended March 31,2003 and 2002, are outlined as follows:

	Yen (Millions)					
	2003			2002		
	Workforce reduction	Loss on disposal of property, plant and equipment	Total	Workforce reduction	Loss on disposal of property, plant and equipment	Total
Beginning balance	¥11,272	–	11,272	–	–	–
Costs and expenses	2,346	2,999	5,345	19,884	5,988	25,872
Payments	13,392	2,999	16,391	8,612	5,988	14,600
Ending balance	¥ 226	–	226	11,272	–	11,272

	U.S.Dollars (Thousands)		
Beginning balance	$ 93,933	–	93,933
Costs and expenses	19,550	24,992	44,542
Payments	111,600	24,992	136,592
Ending balance	$ 1,883	–	1,883

Restructuring liabilities are included in Accrued expenses in the consolidated balance sheets.

Through March 31,2003, the Company has paid ¥5,119 million ($42,659 thousand) of the ¥5,345 million ($44,542 thousand) restructuring charges. The Company anticipates that substantially all of the remaining restructuring costs will be paid by the end of first quarter of fiscal 2004.

Through March 31,2002, the Company had paid ¥14,600 million of the ¥25,872 million restructuring charges. The Company had paid all of the remaining restructuring costs by the end of first quarter of fiscal 2003.

17. Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standards No.142 ("SFAS 142"), "Goodwill and Other Intangible Assets", effective April 1, 2001. Under SFAS 142, goodwill is no longer amortized but is reviewed for impairment annually, or more frequently if certain indicators arise. In addition, the statement requires reassessment of the useful lives of previously recognized intangible assets. With the adoption of SFAS 142, the Company ceased amortization of goodwill as of April 1, 2001. As of March 31, 2003, the Company completed a goodwill impairment test. No impairment was indicated at that time.

The components of acquired intangible assets excluding goodwill at March 31, 2003 and 2002, are as follows:

	Yen (Millions)						U.S. Dollars (Thousands)		
	2003			2002			**2003**		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized intangible assets:									
Patent	**¥11,213**	**1,122**	**10,091**	1,339	897	442	**$ 93,442**	**9,350**	**84,092**
Software	**6,985**	**3,471**	**3,514**	6,401	2,672	3,729	**58,208**	**28,925**	**29,283**
Other	**2,235**	**692**	**1,543**	2,430	479	1,951	**18,625**	**5,766**	**12,859**
Total	**20,433**	**5,285**	**15,148**	10,170	4,048	6,122	**170,275**	**44,041**	**126,234**
Unamortized intangible assets	**¥ 1,270**		**1,270**	1,143		1,143	**$ 10,583**		**10,583**

The patent addition during the year ended March 31, 2003 principally represents an acquisition to accelerate the Company's position at the leading edge of refining materials and process technologies in electronics materials and components.

Aggregate amortization expense for the years ended March 31, 2003, 2002 and 2001 are ¥1,762 million ($14,683 thousand), ¥1,394 million and ¥1,027 million, respectively. Estimated amortization expense for the next five years is: ¥2,358 million in 2004, ¥1,999 million in 2005, ¥1,791 million in 2006, ¥1,399 million in 2007, and ¥1,090 million in 2008.

The changes in the carrying amount of goodwill by segment for the year ended March 31, 2003 is as follows:

	Yen (Millions)			U.S. Dollars (Thousands)		
	Electronic materials and components	Recording media and systems	Total	Electronic materials and components	Recording media and systems	Total
April 1, 2001	¥11,002	497	11,499			
Additions	106	–	106			
Translation adjustment	(105)	–	(105)			
March 31, 2002	11,003	497	11,500	$ 91,691	4,142	95,833
Additions	3,553	–	3,553	29,608	–	29,608
Translation adjustment	(922)	–	(922)	(7,683)	–	(7,683)
March 31, 2003	¥13,634	497	14,131	$113,616	4,142	117,758

The goodwill addition during the year ended March 31, 2003 principally represents the excess of purchase price over the fair value of assets acquired and liabilities assumed for several immaterial acquisitions made during the year.

Reconciliation of reported net income (loss) and net income (loss) per share to the amounts adjusted for the exclusion of goodwill amortization for the years ended March 31, 2003, 2002 and 2001, are as follows:

	Yen (Millions except per share amounts)			U.S. Dollars (Thousands except per share amounts)
	2003	2002	2001	**2003**
Net income (loss):				
Reported net income (loss)	**¥12,019**	(25,771)	43,983	**$100,158**
Goodwill amortization (net of tax)	**–**	–	2,149	**–**
Adjusted net income (loss)	**¥12,019**	(25,771)	46,132	**$100,158**
Basic and diluted net income (loss) per share:				
Reported net income (loss)	**¥ 90.56**	(193.91)	330.54	**$ 0.75**
Goodwill amortization (net of tax)	**–**	–	16.15	**–**
Adjusted net income (loss)	**¥ 90.56**	(193.91)	346.69	**$ 0.75**

18. Supplementary Information

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
(a) Statement of Operations				
Research and development	**¥31,862**	38,630	36,970	**$265,517**
Rent	**9,410**	11,538	9,616	**78,417**
Maintenance and repairs	**11,534**	11,437	14,649	**96,117**
Advertising costs	**5,546**	10,489	12,398	**46,217**
(b) Statement of Cash Flows				
Cash paid during year for:				
Interest	**¥ 646**	1,162	555	**$ 5,383**
Income taxes	**¥(1,270)**	22,026	26,163	**$(10,583)**

Noncash activities

In 2003 and 2002, there were no material noncash investing and financing activities.

In 2001, the Company contributed equity securities of ¥34,573 million to a pension trust.