

Koyo

ANNUAL REPORT 2003

For the year ended March 31, 2003



KOYO SEIKO CO., LTD.

MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

It is our pleasure to report to you on Koyo Seiko's business performance for the fiscal year ended March 31, 2003.

Concerning the state of Japan's economy during this period, although positive trends such as a rise in exports brought about by increased external demand were seen, reduced capital expenditures and a worsening employment picture caused stagnant personal consumption, which along with other factors resulted in a strong sense of uncertainty as to the economy's direction.

Regarding economies around the world, despite a recovery of the U.S. economy and resultant mild expansion of economies in Asia and elsewhere during the first half of the period, economies worldwide were stagnant during the second half, particularly in Europe.

Given such economic circumstances, the Koyo Group during this period strove to improve the efficiency of its manufacturing operations and strengthen its quality control and R&D structures. As a result, consolidated sales of 446,779 million yen were achieved, an increase of 42,485 million yen, or 10.5 percent, over the previous year's result.

Results by product division were as shown below.

Sales of bearings grew to 211,569 million yen, an increase of 5.9 percent from the previous term, fueled in particular by strong sales to the automotive sector.

Sales of steering products rose to 179,841 million yen, an increase of 21.6 percent, mainly as a result of significantly improved sales of electric power steering in Europe.

Sales in other product divisions fell slightly from the previous term to 55,369 million yen as a result of decreased sales of industrial furnaces to IT industries and other factors.

In regard to profit, increased sales and successful cost reduction efforts led to a consolidated operating income of 11,643 million yen and a consolidated net gain of 8,233 million yen, both increases from the previous period.

Concerning consolidated cash flows, net cash from operating activities was 25,432 million yen, 3,383 million yen higher than the previous year's result; net cash from investing activities was a negative 22,527 million yen, which as a result of decreased outlays for the acquisition of fixed assets and other factors was 7,576 million yen above the previous year's result; and net cash from financing activities was a negative 25,368 million yen, 38,854 million yen below the previous year's result. After factoring in a gain realized from new consolidations and a currency translation loss, cash and cash equivalents at the period's end were 24,295 million yen, a decline of 22,555 million yen from the amount at the previous term's end.

Regarding the outlook for the future, unstable international situations are creating significant concern over the direction of America's economy and the type of influence it will exert on Asian and European economies. Similarly, many in Japan are predicting a decline in the country's level of exports, and the current deflationary trend makes it difficult to hope for a domestically fueled expansion of capital expenditures and personal consumption. Overall, the business climate surrounding Koyo Seiko is expected to become increasingly severe.

Given such conditions, the Koyo Group will focus on strengthening its cost competitiveness, technology development capability, and quality control structure. In addition, it will aim to improve profitability through the production of bearings and steering products worldwide at optimal locations in its network of manufacturing bases.

While pursuing the above objectives on a groupwide basis, we will strive to improve our financial base and business results to enable the appropriate handling of all changes in the business environment.

We sincerely request the continued strong support of our shareholders.



Hiroshi Inoue
Chairman

Hiroshi Inoue



Kohshi Yoshida
President

Kohshi Yoshida

Profile March 2003

Foundation:	January, 1921	
Capital:	25,894 million yen	
Number of Employees:	6,185	
Products:	Ball & Roller Bearings	Drive Shafts
	Ball Bearing Units	Oil Seals
	Bearing Relating Products	Machine Tools
	Steering Gear Systems	Industrial Heat Treatment Furnaces etc.

Members of the Board and Officers

Chairman	Hiroshi Inoue	Director	Tetsuo Inui
President	Kohshi Yoshida	Director	Katsuji Nakajima
Executive Vice-President	Fumio Morishita	Director	Yuji Doi
Senior Executive Director	Kiyoshi Takeda	Director	Kenji Sasaki
Senior Executive Director	Toshikatsu Taniguchi	Director	Toshihiko Daido
Executive Director	Michiro Kajiwara	Director	Hideki Sato
Executive Director	Taisuke Senoo	Director	Masakazu Moriyama
Executive Director	Masakazu Nagai	Director	Tsutomu Nemoto
Executive Director	Kunihiko Kato	Director	Hideo Kuwabara
Executive Director	Mitsuhiro Ikeda		
Executive Director	Masaomi Sou	Corporate Auditor	Nobutoshi Maeda
Executive Director	Kazuro Kajiwara	Corporate Auditor	Kazuo Takeda
Director	Teruyuki Minoura	Corporate Auditor	Mitsuo Kinoshita
Director	Toshio Kajikawa	Corporate Auditor	Hiromasa Iwaki
Director	Shuji Miyawaki		

Shareholders' Information March 2003

Among 500,000,000 authorized shares of Koyo Seiko Co., Ltd. 196,175,184 shares are issued. The number of shareholders is 8,126 as of March 31, 2003.

A total of 101,095,248 shares (51.5 %) of issued shares are held by financial organizations, 66,301,898 shares (33.8%) by other Japanese corporations, 16,454,271 shares (8.4%) by individuals, 794,890 shares (0.4 %) by security companies, and 11,528,877 (5.9 %) by foreign companies and individuals.

Major shareholders and their owned shares in thousands are as follows:

Toyota Motor Corp. (48,569)
Nippon Life Insurance Co. (14,873)
The Master Trust Bank of Japan, Ltd. (11,058)
Resona Bank, Ltd. (9,749)
The Sumitomo Trust & Banking Co., Ltd. (9,729)
Sumitomo Mitsui Banking Corp. (6,046)
Japan Trustee Services Bank, Ltd. (5,712)
The Bank of Tokyo-Mitsubishi, Ltd. (5,378)
UFJ Trust Bank Ltd. (5,082)
Toyota Tsusho Corp. (4,745)

CONSOLIDATED BALANCE SHEETS

March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
ASSETS			
Current assets:			
Cash	¥ 22,235	¥ 41,409	\$ 184,985
Time deposits	2,460	1,830	20,468
Short-term investments	154	4,150	1,283
Notes and accounts receivable:			
Trade	112,808	98,321	938,503
Unconsolidated subsidiaries and affiliates	5,395	5,265	44,885
Other	10,079	9,920	83,849
	128,282	113,506	1,067,237
Allowance for doubtful accounts	(613)	(665)	(5,096)
	127,669	112,841	1,062,141
Inventories	70,761	78,586	588,694
Deferred tax assets	6,886	4,667	57,287
Other current assets	4,705	5,337	39,136
Total current assets	234,870	248,820	1,953,994
Investments and advances:			
Investments in securities	11,193	13,573	93,123
Investments in and advances to unconsolidated subsidiaries and affiliates	21,963	20,247	182,719
	33,156	33,820	275,842
Property, plant and equipment:			
Buildings and structures	107,979	105,503	898,327
Machinery and equipment	389,181	388,504	3,237,783
	497,160	494,007	4,136,110
Accumulated depreciation	(361,039)	(352,487)	(3,003,655)
	136,121	141,520	1,132,455
Land	27,129	27,470	225,700
Construction in progress	7,550	8,041	62,809
	170,800	177,031	1,420,964
Deferred tax assets	11,849	13,987	98,580
Other assets	6,885	5,604	57,275
	¥ 457,560	¥ 479,262	\$ 3,806,655

The consolidated financial statements include the accounts of Koyo Seiko Co., Ltd. and these of its major subsidiaries and affiliates. These forty-one subsidiaries and five affiliates are as listed below:

(SUBSIDIARIES)

KOYO ELECTRONICS INDUSTRIES CO., LTD.
 KOYO MACHINE INDUSTRIES CO., LTD.
 DAIBECA CO., LTD.
 KOYO THERMO SYSTEMS CO., LTD.
 ISE SEIKO CO., LTD.
 KOYO SEIATSU CO., LTD.
 TOKYO KOYO BEARING CO., LTD.
 NIPPON NEEDLE ROLLER MANUFACTURING CO., LTD.
 KOYO SALES CO., LTD.
 UTSUNOMIYA KIKI CO., LTD.
 KOYO NETSUSHORI CO., LTD.
 KOYO SEALING TECHNO CO., LTD.
 KYUEI YOUKO CO., LTD.
 MEIWA SHOKO CO., LTD.
 EIKO SEIMITSU CO., LTD.

KJK CO., LTD.

KOYO CORPORATION OF U.S.A.
 KOYO STEERING LYON S.A.S.
 KOYO STEERING DIJON SAINT ETIENNE S.A.S.
 KOYO BEARINGS (EUROPE) LTD.
 KOYO ROMANIA S.A.
 KOYO STEERING SYSTEMS OF USA INC.
 KOYO DELAWARE INC.
 KOYO STEERING EUROPE S.A.S.
 HYDROPERFECT INTERNATIONAL S.A.
 WUXI KOYO BEARING CO., LTD.
 KOYO STEERING (THAILAND) CO., LTD.
 KOYO MANUFACTURING (THAILAND) CO., LTD.
 THAI KOYO CO., LTD.
 KOYO BEARING DALIAN CO., LTD.
 EUROPA-KOYO B.V.

KOYO FRANCE S.A.

KOYO (U.K.) LTD.
 KOYO DEUTSCHLAND GMBH
 KOYO LATIN AMERICA, S.A.
 KOYO AUSTRALIA PTY. LTD.
 KOYO CANADA INC.
 KOYO IBERICA, S.A.
 KOYO SINGAPORE BEARING PTE. LTD.
 AUTOMATIONDIRECT. COM INC.
 KOYO MACHINERY U.S.A., INC.
 (AFFILIATES)
 FUJIKIKO CO., LTD.
 TRW KOYO STEERING SYSTEMS CO.
 KOYO ITALIA S.R.L.
 SONA KOYO STEERING SYSTEMS LTD.
 KENTUCKY ADVANCED FORGE, LLC

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans	¥ 79,890	¥ 83,352	\$ 664,642
Current portion of long-term debt	6,357	39,726	52,886
Notes and accounts payable:			
Trade	82,641	87,683	687,528
Unconsolidated subsidiaries and affiliates	3,253	4,399	27,066
Construction	4,828	6,997	40,163
Other	15,225	9,020	126,664
	105,947	108,099	881,421
Income tax payable	4,103	1,909	34,132
Accrued expenses	10,976	8,618	91,317
Accrued employees' bonuses	8,173	7,870	67,995
Other current liabilities	4,553	3,502	37,883
Total current liabilities	219,999	253,076	1,830,276
Long-term debt	80,300	67,045	668,051
Accrued indemnities from retirement benefit plan	39,478	46,928	328,438
Accrued severance indemnities for members of the board of directors and corporate auditors	1,104	1,326	9,180
Deferred tax liabilities	1,451	1,207	12,074
Other liabilities	1,435	666	11,940
Total liabilities	343,767	370,248	2,859,959
Minority interests in consolidated subsidiaries	8,503	9,069	70,738
Shareholders' equity:			
Common stock			
Authorized—500,000 thousand shares			
Issued—196,175 thousand shares in 2003 and 2002	25,894	25,894	215,421
Additional paid-in capital	60,665	60,665	504,698
Consolidated retained earnings	24,987	17,534	207,879
Unrealized gain on other securities	2,329	2,913	19,377
Translation adjustments on foreign currency financial statements	(8,552)	(7,048)	(71,147)
Less: treasury share	(33)	(13)	(270)
Total shareholders' equity	105,290	99,945	875,958
	¥457,560	¥ 479,262	\$3,806,655

Conversion Rate ¥120.20 per One U.S. Dollar

KOYO SEIKO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
**CONSOLIDATED STATEMENTS OF INCOME
AND RETAINED EARNINGS**

For the year ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales	¥ 446,779	¥404,294	\$ 3,716,961
Cost of sales	372,295	341,938	3,097,293
Gross profit	74,484	62,356	619,668
Selling, general and administrative expenses	62,841	58,946	522,803
Operating income	11,643	3,410	96,865
Other income (expenses):			
Interest and dividend income	513	600	4,269
Interest expense	(3,183)	(3,609)	(26,480)
Foreign currency exchange gain, net	488	1,719	4,064
Loss on sales or disposal of property, plant and equipment, net	(775)	(164)	(6,447)
Equity in earnings of unconsolidated subsidiaries and affiliates	1,610	1,305	13,395
Other, net	3,654	(2,718)	30,388
	2,307	(2,867)	19,189
Income before income taxes and items listed below	13,950	543	116,054
Income taxes	5,301	2,856	44,097
Income taxes-deferred	614	(475)	5,112
Minority interests in net income (loss) of consolidated subsidiaries	(246)	34	(2,051)
Net income (loss)	8,281	(1,872)	68,896
Consolidated retained earnings:			
Balance at beginning of the year	17,534	22,097	145,872
Effect of hyperinflation accounting of consolidated subsidiary	699	—	5,811
Consolidation of additional subsidiaries and affiliates	(97)	(1,243)	(809)
Cash dividends	(1,177)	(1,177)	(9,791)
Bonuses to directors and statutory auditors	(253)	(271)	(2,100)
Balance at end of the year	¥ 24,987	¥ 17,534	\$ 207,879
Per share:		Yen	U.S. dollars
Net income (loss)	¥ 40.80	¥(9.54)	\$ 0.339
Cash dividends	6.00	6.00	0.050
Weighted average number of common shares outstanding(thousands)	196,175	196,175	196,175

KOYO SEIKO CO.,LTD. AND CONSOLIDATED SUBSIDIARIES
**CONSOLIDATED STATEMENTS OF
CASH FLOWS**

For the year ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash flows from operating activities			
Income before income taxes	¥ 13,950	¥ 543	\$ 116,054
Depreciation and amortization	23,149	23,387	192,590
Equity in earnings of unconsolidated subsidiaries and affiliates	(1,610)	(1,305)	(13,395)
Notes and accounts receivable	(13,299)	11,447	(110,637)
Inventories	7,838	6,180	65,207
Notes and accounts payable	(4,512)	(11,560)	(37,542)
Bonuses to directors and statutory auditors	(290)	(313)	(2,410)
Payment of income taxes	(3,099)	(5,343)	(25,779)
Other, net	3,305	(987)	27,495
Net cash provided by operating activities	25,432	22,049	211,583
Cash flows from investing activities			
(Increase) decrease in time deposits	(13)	207	(108)
Increase in marketable securities	3	1,003	25
Purchases of property, plant and equipment	(24,035)	(28,661)	(199,960)
Proceeds from sales of property, plant and equipment . . .	5,579	1,272	46,420
Increase in investments in securities	(3,097)	(5,127)	(25,761)
decrease in loans receivable	72	101	599
Other, net	(1,036)	1,102	(8,622)
Net cash used in investing activities	(22,527)	(30,103)	(187,407)
Cash flows from financing activities			
Increase (decrease) in short-term loans	(4,779)	3,836	(39,762)
Increase (decrease) in long-term debt	(19,856)	11,102	(165,192)
Cash dividends	(1,237)	(1,288)	(10,291)
Other, net	504	(164)	4,190
Net cash provided by financing activities	(25,368)	13,486	(211,055)
Exchange defference of cash and cash equivalents	(142)	411	(1,183)
Net increase (decrease) in cash and cash equivalents . .	(22,605)	5,843	(188,062)
Cash and cash equivalents at beginning of the year	46,850	40,490	389,766
Increase in cash and cash equivalents from additional consolidated subsidiaries	50	517	414
Cash and cash equivalents at end of the year	¥ 24,295	¥ 46,850	\$ 202,118

NON-CONSOLIDATED BALANCE SHEETS

March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
ASSETS			
Current assets:			
Cash	¥ 8,662	¥ 26,806	\$ 72,065
Time deposits	2,217	4,114	18,443
Short-term investments	120	4,119	997
Notes and accounts receivable:			
Trade	41,887	40,191	348,477
Subsidiaries and affiliates	53,119	53,518	441,921
Other	4,594	3,682	38,218
	99,600	97,391	828,616
Allowance for doubtful accounts	(91)	(222)	(757)
	99,509	97,169	827,859
Inventories	25,735	28,470	214,105
Deferred tax assets	2,944	1,561	24,493
Other current assets	596	420	4,959
Total current assets	139,783	162,659	1,162,921
Investments and advances:			
Investments in securities	11,123	13,393	92,541
Investments in and advances to subsidiaries and affiliates	102,195	94,958	850,208
	113,318	108,351	942,749
Property, plant and equipment:			
Buildings and structures	59,350	58,871	493,760
Machinery and equipment	232,842	235,130	1,937,125
	292,192	294,001	2,430,885
Accumulated depreciation	(230,569)	(227,716)	(1,918,216)
	61,623	66,285	512,669
Land	16,554	16,870	137,717
Construction in progress	2,540	2,350	21,132
	80,717	85,505	671,518
Deferred tax assets	6,249	8,684	51,989
Other assets	2,578	1,932	21,443
	¥ 342,645	¥ 367,131	\$ 2,850,620

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans	¥ 30,850	¥ 30,850	\$ 256,656
Current portion of long-term debt	500	35,499	4,160
Notes and accounts payable:			
Trade	54,794	52,255	455,853
Subsidiaries and affiliates	16,562	25,062	137,787
Construction	5,927	6,736	49,312
Other	3,083	2,669	25,649
	80,366	86,722	668,601
Income tax payable	2,052	1,110	17,069
Accrued expenses	3,003	1,166	24,987
Accrued employees' bonuses	6,000	5,500	49,917
Other current liabilities	374	390	3,111
Total current liabilities	123,145	161,237	1,024,501
Long-term debt	75,000	55,500	623,960
Accrued indemnities from retirement benefit plan	24,399	32,971	202,988
Accrued severance indemnities for members of the board of directors and corporate auditors	305	340	2,534
Total liabilities	222,849	250,048	1,853,983
Shareholders' equity			
Common stock			
Authorized—500,000 thousand shares			
Issued—196,175 thousand shares in 2003 and 2002 . .	25,894	25,894	215,421
Additional paid-in capital	60,665	60,665	504,698
Legal reserve	5,865	5,865	48,800
Voluntary reserve	18,954	18,903	157,687
Retained earnings	6,041	2,885	50,256
Unrealized gain on other securities	2,404	2,874	20,002
Less : treasury share	(27)	(3)	(227)
Total shareholders' equity	119,796	117,083	996,637
	¥ 342,645	¥ 367,131	\$ 2,850,620

Conversion Rate ¥120.20 per One U.S. Dollar

NON-CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the year ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales	¥ 301,093	¥ 286,158	\$ 2,504,937
Cost of sales	263,639	253,887	2,193,338
Gross profit	37,454	32,271	311,599
Selling, general and administrative expenses	27,137	28,389	225,764
Operating income	10,317	3,882	85,835
Other income (expenses):			
Interest and dividend income	674	704	5,610
Interest expense	(1,170)	(1,152)	(9,736)
Foreign currency exchange gain, net	795	1,236	6,617
Loss on sales or disposal of property, plant and equipment, net	(658)	(106)	(5,475)
Other, net	(1,468)	(2,157)	(12,221)
	(1,827)	(1,475)	(15,205)
Income before income taxes	8,490	2,407	70,630
Income taxes	2,550	1,300	21,215
Income taxes-deferred	1,478	(682)	12,290
Net income	4,462	1,789	37,125
Retained earnings:			
Balance at beginning of the year	2,885	(4,783)	24,001
Cash dividends	(1,177)	(1,177)	(9,792)
Transfer to legal reserve	—	(100)	—
Transfer to voluntary reserves	(50)	7,245	(424)
Bonuses to directors and statutory auditors	(79)	(89)	(653)
Balance at end of the year	¥ 6,041	¥2,885	\$ 50,257
Per share:	Yen		U.S. dollars
Net income	¥ 22.30	¥9.12	\$ 0.186
Cash dividends	6.00	6.00	0.050
Weighted average number of common shares outstanding (thousands)	196,175	196,175	196,175

GLOBAL NETWORK

OFFICES

KOYO CANADA INC.
KOYO CORPORATION OF U.S.A. (SALES DIV.)
- Cleveland Office -
- Detroit Office -
KOYO STEERING SYSTEMS OF USA INC.
- Detroit Office -
KOYO DE MEXICO, S.A.
KOYO LATIN AMERICA, S.A.
KOYO ROLAMENTOS DO BRASIL LTDA.
THAI KOYO CO., LTD.
KOYO SINGAPORE BEARING (PTE.) LTD.
PHILIPPINE KOYO BEARING CORPORATION
KOYO SEIKO CO., LTD. SEOUL BRANCH
KOYO SEIKO CO., LTD. BEIJING LIAISON OFFICE
KOYO SEIKO CO., LTD. SHANGHAI LIAISON OFFICE
KOYO (SHANGHAI) CO., LTD.
KOYO AUSTRALIA PTY. LTD.
KOYO SEIKO CO., LTD. EUROPEAN CENTRAL OFFICE
KOYO STEERING EUROPE S.A.S.
KOYO KULLAGER SCANDINAVIA A.B.
KOYO (U.K.) LTD.
EUROPA-KOYO B.V.
KOYO DEUTSCHLAND GMBH
KOYO FRANCE S.A.
KOYO IBERICA, S.A.
KOYO ITALIA S.R.L.

TECHNICAL CENTERS

KOYO SEIKO CO., LTD.
North American Technical Center
KOYO STEERING SYSTEMS OF USA INC.
Steering Technical Center
KOYO SEIKO CO., LTD.
European Technical Centre
KOYO STEERING EUROPE S.A.S.
Koyo European Technical Center

BEARING PLANTS

KOYO CORPORATION OF U.S.A. (MANUFACTURING DIV.)
- Orangeburg Plant -
- Richland Plant -
KENTUCKY ADVANCED FORGE, LLC
WUXI KOYO BEARING CO., LTD.
DALIAN KOYO WAZHOU AUTOMOBILE BEARING CO., LTD.
KOYO BEARING DALIAN CO., LTD.
KOYO MANUFACTURING (THAILAND) CO., LTD.
KOYO MANUFACTURING (PHILIPPINES) CORP.
KOYO JICO KOREA CO., LTD.
KOYO BEARINGS (EUROPE) LTD.
KOYO ROMANIA S.A.

STEERING SYSTEM PLANTS

TRW KOYO STEERING SYSTEMS CO.
KOYO STEERING SYSTEMS OF USA INC.
KOYO STEERING ARGENTINA S.A.
KOYO STEERING BRASIL LTDA.
T&K AUTOPARTS SDN. BHD.
YUBEI KOYO STEERING SYSTEM CO., LTD.
FAW KOYO STEERING SYSTEMS CO., LTD.
KOYO STEERING (THAILAND) CO., LTD.
SONA KOYO STEERING SYSTEMS LTD.
KOYO STEERING LYON S.A.S.
KOYO STEERING DIJON SAINT ETIENNE S.A.S.
- Dijon Plant -
- Saint Etienne Plant -
HYDROPERFECT INTERNATIONAL S.A.
- Chennevieres Plant -
- Blois Plant -

KOYO SEIKO CO., LTD.

Head Office: No.5-8, Minamisemba 3-Chome, Chuo-ku, Osaka 542-8502, JAPAN

PHONE: 81-6-6245-6087

FAX: 81-6-6244-0814