

# NSK Ltd.

For Immediate Release

November 20, 2001

## CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2001 (unaudited)

### Financial highlights

(Millions of yen)	Six months ended September 30		
	2001	2000	Change %
Net sales	¥ 252,419	¥ 268,494	-6.0
Operating income	4,926	12,151	-59.5
Ordinary income	1,984	7,869	-74.8
Net income (Yen)	3,653	5,959	-38.7
Net income per share			
Basic	¥ 6.51	¥ 10.62	
Diluted	6.51	10.53	

### Financial position

(Millions of yen)	As of	As of	As of
	September 30, 2001	September 30, 2000	March 31, 2001
Total assets	¥ 646,784	¥ 696,029	¥ 680,457
Shareholders' equity (%)	216,466	229,234	227,383
Shareholders' equity to total assets (Yen)	33.5%	32.9 %	33.4 %
Shareholders' equity per share	¥ 385.66	¥ 408.43	¥ 405.12

### Cash Flow

(Millions of yen)	Six months ended September 30	
	2001	2000
Net cash provided by operating activities	¥ 8,964	¥ 12,539
Net cash used in investing activities	-14,625	-7,091
Net cash provided by financing activities	1,185	719
Cash and cash equivalents at end of the year	42,494	67,482

# Consolidated balance sheets

(Millions of yen)	As of September 30, As of March 31,		Increase (Decrease)
	2001	2001	
<b>Assets</b>			
Current assets	¥ 305,825	¥ 321,575	¥ -15,750
Cash and deposits	21,367	18,746	2,621
Notes and accounts receivable	136,226	148,007	-11,781
Marketable securities	22,220	23,134	-914
Inventories	104,607	102,324	2,283
Other current assets	22,489	30,517	-8,028
Less allowance for doubtful accounts	-1,085	-1,155	70
Non-current assets	340,958	358,881	-17,923
Property, plant and equipment	211,216	201,574	9,642
Buildings and structures	63,211	59,889	3,322
Machinery and transportation equipment	99,837	94,103	5,734
Land	24,820	25,688	-868
Other property, plant and equipment	23,346	21,892	1,454
Intangible fixed assets	2,429	2,279	150
Investments and other assets	127,312	155,027	-27,715
Investment securities	117,661	146,235	-28,574
Deferred tax assets	1,716	1,004	712
Other investments and other assets	9,592	9,233	359
Less allowance for doubtful accounts	-1,657	-1,446	-211
<b>Total assets</b>	<b>¥ 646,784</b>	<b>¥ 680,457</b>	<b>¥ -33,673</b>

**NSK Ltd. (Consolidated)**

(Millions of yen)	As of September 30,	As of March 31,	
	<u>2001</u>	<u>2001</u>	<u>Increase</u> <u>(Decrease)</u>
<b>Liabilities</b>			
Current liabilities	¥ 259,052	¥ 261,952	¥ -2,900
Notes and accounts payable	91,574	104,963	-13,389
Short-term bank loans	108,732	95,210	13,522
Commercial paper	—	10,000	-10,000
Current portion of corporate bonds	10,270	273	9,997
Accrued income taxes	4,533	5,222	-689
Other current liabilities	43,941	46,282	-2,341
Long-term liabilities	<u>158,736</u>	<u>179,749</u>	<u>-21,013</u>
Corporate bonds	106,989	116,989	-10,000
Long-term debt	23,920	23,285	635
Deferred tax liabilities	2,722	13,913	-11,191
Accrued employees' retirement benefits	14,648	14,986	-338
Accrued officers' retirement benefits	1,403	1,565	-162
Other long-term liabilities	9,052	9,009	43
Total liabilities	<u>417,788</u>	<u>441,701</u>	<u>-23,913</u>
Minority interests	<u>12,528</u>	<u>11,372</u>	<u>1,156</u>
<b>Shareholders' equity</b>			
Common stock	67,176	67,175	1
Capital surplus	82,360	82,359	1
Consolidated retained earnings	76,705	74,453	2,252
Net unrealized gains on other securities	10,155	27,107	-16,952
Translation adjustments	-19,535	-23,315	3,780
Treasury stock	-344	-344	0
Common stock of the parent company held by subsidiaries	-51	-51	—
Total shareholders' equity	<u>216,466</u>	<u>227,383</u>	<u>-10,917</u>
Total liabilities and shareholders' equity	<u>¥ 646,784</u>	<u>¥ 680,457</u>	<u>¥ -33,673</u>

# Consolidated statements of income

(Millions of yen)	Six months ended September 30		
	2001	2000	Change %
Net sales	¥ 252,419	¥ 268,494	-6.0
Cost of sales	206,476	216,545	-4.6
Selling, general and administrative expenses	41,016	39,798	3.1
Operating income	<u>4,926</u>	<u>12,151</u>	<u>-59.5</u>
Non-operating income:	<u>3,707</u>	<u>5,136</u>	<u>-27.8</u>
Interest and dividend income	1,433	1,300	10.3
Equity in earnings of affiliated companies	1,089	1,613	-32.5
Other	1,184	2,223	-46.7
Non-operating expenses:	<u>6,650</u>	<u>9,417</u>	<u>-29.4</u>
Interest and dividends expenses	3,953	5,232	-24.4
Other	2,696	4,185	-35.6
Ordinary income	<u>1,984</u>	<u>7,869</u>	<u>-74.8</u>
Extraordinary income:	<u>9,508</u>	<u>19,049</u>	<u>-50.1</u>
Gain on sales of investment securities	232	1,113	-79.1
Gain on sales of property, plant and equipment	9,276	—	—
Gain on contribution of securities to employees' retirement benefit trust	—	16,983	—
Gain on sales of investments in affiliated companies	—	952	—
Extraordinary losses:	<u>1,753</u>	<u>17,907</u>	<u>-90.2</u>
Costs related to business restructuring	245	—	—
Loss on devaluation of investment securities	1,508	—	—
Amortization of net retirement benefit obligation at transition	—	17,907	—
Income before income taxes and minority interests	<u>9,739</u>	<u>9,011</u>	<u>8.1</u>
Income taxes:			
Current	5,177	3,672	41.0
Deferred	692	-649	—
Minority interests in earnings of consolidated subsidiaries	215	28	651.6
Net income	<u>¥ 3,653</u>	<u>¥ 5,959</u>	<u>-38.7</u>

# Consolidated statements of cash flows

Six months ended September 30

(Millions of yen)

	2001	2000
<b>Operating activities</b>		
Income before income taxes and minority interests	¥ 9,739	¥ 9,011
Depreciation and amortization	13,295	12,419
Amortization of excess of cost over net assets acquired	381	—
Increase (Decrease) in allowance for doubtful accounts	132	-266
Decrease in provision for retirement benefits	-391	-1,298
Interest and dividend income	-1,433	-1,300
Interest expense	3,953	5,232
Loss on devaluation of investment securities	1,508	—
Equity in earnings of affiliated companies	-1,089	-1,613
Gain on sales of property, plant and equipment	-9,276	-519
Gain on sales of investment securities	-232	-1,113
Gain on sales of investments in affiliated companies	—	-952
Decrease (increase) in notes and accounts receivable	12,500	-15,990
Decrease (increase) in inventories	-454	2,791
Increase (Decrease) in notes and accounts payable	-14,354	5,768
Other	2,591	7,088
Subtotal	16,870	19,257
Interest and dividends received	2,174	3,201
Interest paid	-4,130	-4,003
Income taxes paid	-5,950	-5,916
Net cash provided by operating activities	8,964	12,539
<b>Investing activities</b>		
Payments for acquisition of property, plant and equipment	-21,564	-14,366
Proceeds from sales of property, plant and equipment	9,368	2,048
Payments for purchase of investment securities	-2,703	-237
Proceeds from sales of investment securities	294	5,026
Proceeds from sales of subsidiaries' stock	—	1,107
Proceeds from acquisition of subsidiaries' stock resulting in changes in consolidation	273	—
Proceeds from sales of subsidiaries' stock resulting in changes in consolidation	—	945
Payments for additional acquisition of affiliated companies' stock	-75	-1,040
Payments for advances	-121	-26
Proceeds from collection of advances	52	27
Other	-149	-574
Net cash used in investing activities	-14,625	-7,091
<b>Financing activities</b>		
Net increase (decrease) in short-term bank loans	12,945	-9,891
Decrease in commercial paper	-10,000	—
Proceeds from origination of long-term debt	1,691	3,736
Payments for repayment of long-term debt	-2,038	-9,658
Proceeds from issuance of bonds	—	20,000
Payments for redemption of bonds	—	-1,690
Dividends paid	-1,683	-1,401
Dividends paid to minority stockholders	-27	-23
Other	297	-353
Net cash provided by financing activities	1,185	719
Effect of exchange rate changes on cash and cash equivalents	257	-298
Net decrease (increase) in cash and cash equivalents	-4,217	5,869
Cash and cash equivalents at beginning of the year	46,712	61,613
Cash and cash equivalents at end of the year	¥ 42,494	¥ 67,482

## Sales by product segment

Six months ended September 30, 2001

(Millions of yen)	Bearings	Automotive components	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 155,513	¥ 65,407	¥ 20,852	¥ 10,646	¥ 252,419	—	¥ 252,419
Inter-segment sales and transfers	—	—	—	5,318	5,318	-5,318	—
<b>Total</b>	<b>155,513</b>	<b>65,407</b>	<b>20,852</b>	<b>15,964</b>	<b>257,738</b>	<b>-5,318</b>	<b>252,419</b>
Operating expenses	148,796	65,317	21,411	15,205	250,731	-3,238	247,493
Operating income (loss)	¥ 6,717	¥ 89	¥ -558	¥ 758	¥ 7,006	¥ -2,080	¥ 4,926

## Sales by geographic segment

Six months ended September 30, 2001

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 151,183	¥ 38,378	¥ 42,299	¥ 20,557	¥ 252,419	—	¥ 252,419
Interarea sales and transfers	39,639	190	1,667	7,690	49,188	-49,188	—
<b>Total</b>	<b>190,823</b>	<b>38,569</b>	<b>43,967</b>	<b>28,247</b>	<b>301,607</b>	<b>-49,188</b>	<b>252,419</b>
Operating expenses	186,172	36,877	46,106	25,946	295,102	-47,609	247,493
Operating income (loss)	¥ 4,651	¥ 1,692	¥ -2,138	¥ 2,301	¥ 6,505	¥ -1,578	¥ 4,926

Six months ended September 30, 2000

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 173,074	¥ 40,099	¥ 36,174	¥ 19,145	¥ 268,494	—	¥ 268,494
Interarea sales and transfers	42,396	218	1,431	6,831	50,878	-50,878	—
<b>Total</b>	<b>215,470</b>	<b>40,318</b>	<b>37,606</b>	<b>25,976</b>	<b>319,372</b>	<b>-50,878</b>	<b>268,494</b>
Operating expenses	204,772	37,514	39,057	23,830	305,174	-48,831	256,343
Operating income (loss)	¥ 10,698	¥ 2,804	¥ -1,450	¥ 2,146	¥ 14,198	¥ -2,046	¥ 12,151

# Management Policy Statement

## 1. Basic Policy

NSK's primary objective is to meet the increasingly global and diverse needs of our customers, and establish an unrivalled reputation for reliability by maximizing our capabilities through efforts in engineering, manufacturing and sales. Second, through tribology, the science of anti-friction and lubrication technologies, we aim to contribute to the advancement of society and reduce environmental impact. Third, as our manufacturing bases continue to expand around the world, NSK seeks to be a good corporate citizen in the locations where it operates. Through these three objectives, we aim to be recognized as an excellent, world-class company of the 21st century.

## 2. Dividends

NSK places great importance on shareholder returns. As such, we seek to issue a consistent dividend, taking into account a range of factors such as financial performance and dividend payout ratios.

## 3. Mid- and Long-Term Strategies

NSK pursues a policy of 'select and focus' and endeavors to build a framework of global expansion in order to comply to the changes in business environment and for the efficient use of management resources, both inside and outside the company. First, to achieve global cost competitiveness, we are expanding our network of optimally located production sites while developing ever more efficient manufacturing processes domestically and overseas. NSK is also actively expanding in new automotive markets such as electric power steering (EPS) and continuously variable transmissions (CVTs) while forging global strategic alliances. In addition, we are utilizing manufacturing bases in South-East Asia, China, South Korea and eastern Europe to expand our global logistics network as we seek to firmly establish NSK's position as the world leader in ball bearings.

## 4. Strengthening Corporate Governance

In June 1999, NSK introduced an executive officer system, streamlined the board of directors to an optimal level, and appointed an outside director. This has enabled the separation of the board's corporate decision-making and monitoring functions from management's execution of corporate policy, thus creating a faster and more effective top management structure. A younger generation of executives is being appointed, and the top management of our major subsidiaries now concurrently hold executive posts in the parent company, both in an effort to bolster group management. A committee on executive compensation was set up, headed by the outside director, to examine executive compensation systems aimed at increasing transparency.

## 5. Key Management Tasks

Following the sudden deterioration of the economic environment, we will fundamentally review our business foundations through the reorganization of our production systems, both inside and outside Japan, by reforming our employment and procurement systems, as well as further reducing costs by the implementation of even stricter fixed-cost cutting measures. We will also continue to reduce inventory and interest-bearing debt, and improve pension fund financing in order to reinforce the financial position and profitability of NSK.

We will further revolutionize our production methods, which are the foundation of any manufacturer's competitiveness, and shall be taking part in the development of "e" innovation

activities, aimed to improve service to our customers and distributors, and drastically change our work procedures. We shall also take active part in environmental protection activities in accordance with our “Mid-term strategy”.

Our restructuring activities are helping to build an effective group management structure to deliver strong consolidated financial performance.

## **6. Key Indicators**

NSK aims to increase ROE and recognizes operating income margin as a key indicator of stable profitability and the importance of asset efficiency and cash flow.

# Overview of the six months ended September 30, 2001

The Japanese economy recorded a weak first half for fiscal 2001, with the sharp decline in information technology (IT)-related demand, low stock prices and instability of the domestic financial system causing production and investment activities in the private sectors and private consumption to remain sluggish.

Looking overseas, private consumption in the U.S. remained stable, but the general economy showed stronger signs of going into recession due to the weak demand from the IT industry and decline in capital expenditure. Private consumption in Europe also remained stable, but the economy is rapidly deteriorating due to the fall in exports caused by weak overseas demand. Asia, too, saw continued large-scale production and inventory reductions following the sharp decline in exports of semiconductors and electronic devices.

Under these conditions, the NSK Group has further enforced activities to reduce fixed costs, etc. together with continued efforts to improve productivity and reduce expenses. However, the consolidated net sales for the six months ended September 30, 2001, decreased to ¥252,419 million, down 6.0% (¥16,075 million) from the same period last year. Operating income fell to ¥4,926 million, or 59.5% (¥7,225 million) below last year, while ordinary income was ¥1,984 million, or 74.8% (¥5,885 million) below last year.

Sale of the former Tamagawa Plant site brought about ¥9,276 million in extraordinary income, while a loss of ¥1,508 million on devaluation of investment securities was appropriated as extraordinary losses.

Consequently, after deduction of income taxes and minority interests, net profits decreased to ¥3,653 million, or 38.7% (¥2,306 million) below the same period last year.

## Net sales by product category

### Bearings

Overall bearings sales amounted to ¥155,513 million, down 1.9% (¥2,994 million) from the same period last year due to the fall in domestic sales to all sectors, especially to the electronic and IT industries, as well as sales, mainly to the IT-related industries, being sluggish in Asia. Operating income was ¥6,717 million.

### Automotive components

Although sales of electric power assisted steering (EPS) systems increased in Europe, the fall in domestic automobile production brought down domestic sales, resulting in overall sales of automotive related products to decrease to ¥65,407 million, 3.5% (¥2,404 million) below the same period last year. Operating income was ¥89 million.

### Precision machinery and parts, mechatronic products

Following the bursting of the "IT Bubble", domestic sales to the semiconductor production equipment and machine tool sectors fell sharply, as did overseas sales, especially in the U.S. This resulted in sales decreasing to ¥20,852 million, down 26.3% (¥7,422 million) from the same period last year, with an operating loss of ¥558 million.

### Other

Sales to other sectors totaled ¥10,646 million, down 23.4% (¥3,254 million) from the same period last year. Operating income was ¥758 million.

## Net sales by region

### Japan

Domestic bearing sales decreased sharply, especially to the electronic, IT industries and the aftermarket, while sales of precision machinery and parts to the semiconductor production equipment and machine tool sectors also fell substantially. As a result, net sales in Japan amounted to ¥151,183 million, down 12.6% (¥21,891 million) from the same period last year, while operating income was ¥4,651 million.

### The Americas

Sales in North America fell sharply due to the sharp decrease in automobile production and sluggish demand from the IT industry continuing from the end of 2000. The stabilization of inflation has kept sales strong in South America, especially in Brazil. However, this was not enough to prevent net sales for the Americas from decreasing to ¥38,378 million, down 4.3% (¥1,721 million) from the same period last year, while operating income was ¥1,692 million.

### Europe

Sales in Europe were good with increased sales of EPS systems, resulting in an increase in net sales to ¥42,299 million, up 16.9% (¥6,125 million) from the same period last year. However, factors such as the fall in local production resulted in an operating loss of ¥2,138 million. Business restructuring measures, such as the reorganization of production facilities and streamlining of administrative divisions shall be continued to stop the deterioration of profits.

### Asia and Oceania

The Asian economy was also partially affected by the global recession, but sales totaled ¥20,557, up 7.4% (¥1,412 million) from the same period last year, supported by an increase in local production in China. Operating income totaled ¥2,301 million.

## Cash Flow

Consolidated cash flow provided by operating activities was ¥8,964 million. Of this, income before income taxes and minority interests was ¥9,739 million, with depreciation and amortization at ¥13,295 million. The decrease in volumes led to a decrease in notes and accounts receivable that provided cash of ¥12,500 million, whereas a decrease in notes and accounts payable used cash of ¥14,354 million.

Cash flow used in investing activities was ¥14,625 million, with payments for the acquisition of property, plant and equipment of ¥21,564 million, and proceeds of ¥9,368 million arising from sales of property, plant and equipment.

Net cash provided by financing activities was ¥1,185 million. This includes net increase of debts of ¥12,598 million, expenditure of ¥10,000 million for the redemption of commercial paper, and payment of dividends of ¥1,711 million.

In aggregate, the net decrease in cash and cash equivalents (after adjustments for the effect of exchange rate changes on cash) was ¥4,217 million, resulting in cash and cash equivalents at end of the term of ¥42,494 million.

## Forecast for the year ending March 31, 2002

	(Millions of yen)
Net sales	¥ 480,000
Ordinary income	-5,500
Net income	-7,500

The slowing-down of economies in all regions of the world is expected to continue, especially in view of the drastic deterioration of the U.S. economy. In Japan, fears of further recession are growing ever stronger as unemployment and income figures continue to deteriorate. Furthermore, concerns are mounting that the September 11 terrorist attacks may prolong these extremely stagnant conditions.

In the wake of the sharp deterioration of the economic environment, NSK will reinforce the review of its business foundations, both domestically and overseas, and will perform further reorganization of its production system. This reorganization will involve not only the NSK group but also its suppliers. Employment systems and salaries will be fundamentally reviewed, and measures to further reduce fixed costs and improve profitability through reduction of inventory, etc., will be implemented. However, under the current economic conditions, NSK expects net sales for fiscal 2001 to decrease to ¥480,000 million, with ordinary loss and net loss of ¥-5,500 million and ¥-7,500 million, respectively. Please note that these estimate figures have been calculated using an estimated exchange rate of \$1=¥120 and 1 euro=¥108.

## Forecast for interim and year-end dividends

In view of the business results for the six months ended September 30, 2001 and the forecast for the year ending March 31, 2002, we are reducing the interim dividend to ¥2.50 per share instead of the planned ¥3.00 per share. We are also reducing the forecast of the dividend to be paid at the end of fiscal 2001, so that the dividend for the fiscal 2001 will total ¥5.00 per share.

### Notes

All forecasts are based on a number of assumptions and subject to significant risks and uncertainties. Actual financial results may differ materially and NSK Ltd. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report.