

# NSK Ltd.

(URL <http://www.nsk.com>)

For Immediate Release

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## CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED DECEMBER 31, 2003 (unaudited)

### Financial highlights

	Nine months ended Dec. 31 2003	<Reference> Year ended Mar. 31 2003
(Millions of yen)		
Net sales	¥383,504	¥ 522,820
Operating income	16,668	17,847
Ordinary income	12,235	10,821
Net income (loss)	8,993	-2,670
(Yen)		
Net income per share		
Basic	¥ 16.68	¥ -5.22
Diluted	¥ 16.52	—

### Financial position

	As of Dec. 31, 2003	As of Mar. 31, 2003
(Millions of yen)		
Total assets	¥ 606,169	¥ 593,098
Shareholders' equity	184,477	170,566
(%)		
Shareholders' equity to total assets	30.4%	28.8%
(Yen)		
Shareholders' equity per share	¥ 342.08	¥ 316.27

### Cash Flow

	Nine months ended Dec. 31 2003	<Reference> Year ended Mar. 31 2003
(Millions of yen)		
Net cash provided by operating activities	¥ 23,859	¥ 30,961
Net cash used in investing activities	-14,605	-16,223
Net cash used in financing activities	-16,105	-11,819
Cash and cash equivalents at end of the year	51,934	58,938

# Consolidated balance sheets

(Millions of yen)	As of December 31,	As of March 31,	
	2003	2003	Increase Decrease
<b>Assets</b>			
Current assets	¥ 282,917	¥ 285,749	¥ -2,832
Cash and deposits	37,970	37,271	699
Notes and accounts receivable	114,189	113,513	676
Marketable securities	9,592	17,565	-7,973
Inventories	79,970	83,487	-3,517
Other current assets	42,300	35,186	7,114
Less allowance for doubtful accounts	-1,104	-1,276	172
Non-current assets	323,251	307,349	15,902
Property, plant and equipment	196,179	198,635	-2,456
Buildings and structures	64,026	65,282	-1,256
Machinery and transportation equipment	90,304	95,517	-5,213
Land	25,985	22,915	3,070
Other property, plant and equipment	15,863	14,920	943
Intangible assets	8,459	2,732	5,727
Investments and other assets	118,612	105,981	12,631
Investment securities	82,911	79,697	3,214
Prepaid pension costs	22,448	14,842	7,606
Deferred tax assets	5,578	5,325	253
Other investments and other assets	9,524	7,577	1,947
Less allowance for doubtful accounts	-1,850	-1,461	-389
<b>Total assets</b>	<b>¥ 606,169</b>	<b>¥ 593,098</b>	<b>¥ 13,071</b>

**Consolidated balance sheets (Continued)**

(Millions of yen)	As of December 31,	As of March 31,	
	2003	2003	Increase Decrease
<b>Liabilities</b>			
Current liabilities	¥ 212,830	¥ 227,314	¥ -14,484
Notes and accounts payable	82,833	87,382	-4,549
Short-term loans	84,251	93,102	-8,851
Current portion of bonds payable	10,000	10,000	—
Income taxes payable	4,024	3,816	208
Other current liabilities	31,721	33,012	-1,291
Long-term liabilities	196,936	183,481	13,455
Bonds payable	96,989	106,989	-10,000
Long-term loans	58,696	57,688	1,008
Accrued employees' retirement benefits	18,404	6,503	11,901
Accrued officers' retirement benefits	1,659	1,668	-9
Other long-term liabilities	21,187	10,631	10,556
<b>Total liabilities</b>	<b>409,767</b>	<b>410,795</b>	<b>-1,028</b>
Minority interests	11,923	11,736	187
<b>Shareholders' equity</b>			
Common stock	67,176	67,176	—
Capital surplus	77,924	77,923	1
Retained earnings	56,010	48,366	7,644
Unrealized holding gains on securities	15,551	5,133	10,418
Translation adjustments	-27,808	-23,670	-4,138
Treasury stock	-4,375	-4,362	-13
<b>Total shareholders' equity</b>	<b>184,477</b>	<b>170,566</b>	<b>13,911</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥ 606,169</b>	<b>¥ 593,098</b>	<b>¥ 13,071</b>

# Consolidated statements of income

(Millions of yen)	Nine months ended Dec. 31 2003	Ratio against sales %	Year ended Mar. 31 2003	Ratio against sales %
Net sales	¥ 383,504	100.0	¥ 522,820	100.0
Cost of sales	302,580	78.9	420,104	80.4
Gross profit	80,924	21.1	102,715	19.6
Selling, general and administrative expenses	64,256	16.8	84,867	16.2
Operating income	16,668	4.3	17,847	3.4
Non-operating income:	5,175	1.4	8,100	1.6
Interest and dividend income	1,080	0.3	1,815	0.4
Equity in earnings of affiliated companies	1,881	0.5	3,378	0.6
Other	2,213	0.6	2,905	0.6
Non-operating expenses:	9,608	2.5	15,126	2.9
Interest expenses	4,597	1.2	6,567	1.3
Other	5,010	1.3	8,558	1.6
Ordinary income	12,235	3.2	10,821	2.1
Extraordinary income:	5,482	1.4	15,977	3.1
Gain on sales of investment securities	4,968	1.3	3,203	0.6
Gain on sales of investments in affiliated companies	513	0.1	—	—
Gain on contribution of securities to employees' retirement benefit trust	—	—	11,891	2.3
Gain on sales of property, plant and equipment	—	—	881	0.2
Extraordinary losses:	776	0.2	28,925	5.6
Loss on sales of investments in affiliated companies	7	0.0	844	0.2
Loss on disposal of property, plant and equipment	769	0.2	—	—
Costs related to business restructuring	—	—	15,030	2.9
Loss on devaluation of investment securities	—	—	12,899	2.5
Provision for accrued retirement benefits	—	—	151	0.0
Income before income taxes and minority interests	16,941	4.4	-2,127	-0.4
Income taxes:				
Current taxes	6,389	1.7	5,380	1.0
Tax refunds	—	—	216	0.0
Deferred taxes	1,190	0.3	-4,193	-0.8
Minority interests in earnings of consolidated subsidiaries	366	0.1	—	—
Minority losses in earnings of consolidated subsidiaries	—	—	426	0.1
Net income (loss)	¥ 8,993	2.3	¥ -2,670	-0.5

# Consolidated statement of surplus

(Millions of yen)	Nine months ended Dec. 31 2003	Year ended Mar. 31 2003
<b>Capital surplus</b>		
Capital surplus at the beginning of period	<u>¥ 77,923</u>	<u>¥ 77,923</u>
Increase in capital surplus	0	—
Gain on disposal of NSK treasury stock	0	—
Capital surplus at the end of period	<u>¥ 77,924</u>	<u>¥ 77,923</u>
<b>Retained earnings</b>		
Retained earnings at the beginning of period	<u>¥ 48,366</u>	<u>¥ 53,921</u>
Increase in retained earnings	¥ 8,993	¥ —
Net income	8,993	—
Decrease in retained earnings	¥ 1,349	¥ 5,554
Net loss	—	2,670
Dividends	1,349	2,711
Directors' bonus	—	172
Retained earnings at the end of period	<u>¥ 56,010</u>	<u>¥ 48,366</u>

# Consolidated statements of cash flows

(Millions of yen)

	Nine months ended Dec. 31 2003	Year ended Mar. 31 2003
<b>Operating activities</b>		
Income (loss) before income taxes and minority interests	¥ 16,941	¥ -2,127
Depreciation and amortization	20,232	28,812
Amortization of excess of cost over net assets acquired	285	—
Increase (decrease) in allowance for doubtful accounts	199	-1,060
Increase (decrease) in provision for retirement benefits	2,218	-15,076
Interest and dividend income	-1,080	-1,815
Interest expense	4,597	6,567
Equity in earnings of affiliated companies	-1,881	-3,378
Gain on sales of property, plant and equipment	—	-881
Loss on disposal of property, plant and equipment	769	—
Gain on sales of investment securities	-4,968	-3,203
Loss on devaluation of investment securities	—	12,899
Gain on sales of investments in affiliated companies	-513	—
Loss on sales of investments in affiliated companies	7	844
Business restructuring expenses	—	2,087
Decrease (increase) in notes and accounts receivable	-5,811	-2,354
Decrease (increase) in inventories	1,728	10,577
Increase (decrease) in notes and accounts payable	305	1,316
Other	-932	3,252
Subtotal	32,096	36,459
Interest and dividends received	2,675	3,367
Interest paid	-4,845	-7,475
Income taxes paid	-6,066	-1,389
Net cash provided by operating activities	23,859	30,961
<b>Investing activities</b>		
Additions to property, plant and equipment	-15,213	-24,734
Proceeds from sales of property, plant and equipment	2,880	3,065
Acquisition of investment securities	-29	-1,088
Proceeds from sales of investment securities	8,364	7,227
Acquisition of subsidiaries' stock resulting in changes in the scope of consolidation	-9,339	—
Payments arising from sales of subsidiaries' stock resulting in changes in the scope of consolidation	-355	—
Proceeds from sales of subsidiaries' stock resulting in changes in the scope of consolidation	—	1,046
Acquisition of affiliated companies' stock	-95	-565
Payments for advances	-395	-178
Proceeds from collection of advances	156	198
Other	-576	-1,194
Net cash used in investing activities	-14,605	-16,223
<b>Financing activities</b>		
Net increase (decrease) in short-term bank loans	-2,222	-7,025
Long-term debt – borrowing	4,219	13,014
Long-term debt – repayments	-5,396	-11,148
Proceeds from issuance of bonds	—	20,000
Payments for redemption of bonds	-10,000	-20,000
Payments for acquisition of NSK treasury stock	-12	-3,665
Dividends paid	-2,553	-2,721
Dividends paid to minority stockholders	-37	-140
Other	-102	-132
Net cash used in financing activities	-16,105	-11,819
Effect of exchange rate changes on cash and cash equivalents	-153	-539
Net increase (decrease) in cash and cash equivalents	-7,004	2,380
Cash and cash equivalents at beginning of the year	58,938	56,558
Cash and cash equivalents at end of the year	¥ 51,934	¥ 58,938

## Sales by product segment

Nine months ended December 31, 2003

(Millions of yen)	Bearings	Automotive components	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 246,102	¥ 94,557	¥ 32,134	¥ 10,710	¥ 383,504	¥ —	¥ 383,504
Inter-segment sales and transfers	—	—	—	4,491	4,491	-4,491	—
Total	246,102	94,557	32,134	15,202	387,996	-4,491	383,504
Operating expenses	229,936	91,585	33,525	14,230	369,277	-2,440	366,836
Operating income (loss)	¥ 16,165	¥ 2,971	¥ -1,390	¥ 972	¥ 18,719	¥ -2,051	¥ 16,668

Year ended March 31, 2003

(Millions of yen)	Bearings	Automotive components	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 321,960	¥ 150,663	¥ 34,898	¥ 15,297	¥ 522,820	¥ —	¥ 522,820
Inter-segment sales and transfers	—	—	—	4,682	4,682	-4,682	—
Total	321,960	150,663	34,898	19,980	527,502	-4,682	522,820
Operating expenses	299,817	146,402	41,189	18,854	506,264	-1,291	504,972
Operating income (loss)	22,142	4,260	-6,290	1,126	21,238	-3,391	17,847

## Sales by geographic segment

Nine months ended December 31, 2003

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 229,436	¥ 55,991	¥ 63,298	¥ 34,778	¥ 383,504	¥ —	¥ 383,504
Inter-area sales and transfers	56,559	296	2,963	7,518	67,338	-67,338	—
Total	285,996	56,287	66,262	42,296	450,842	-67,338	383,504
Operating expenses	271,111	55,426	65,428	39,318	431,285	-64,448	366,836
Operating income (loss)	¥ 14,884	¥ 861	¥ 833	¥ 2,977	¥ 19,557	¥ -2,889	¥ 16,668

Year ended March 31, 2003

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 319,465	¥ 77,083	¥ 81,483	¥ 44,786	¥ 522,820	¥ —	¥ 522,820
Inter-area sales and transfers	76,069	302	3,517	12,715	92,605	-92,605	—
Total	395,535	77,386	85,001	57,502	615,425	-92,605	522,820
Operating expenses	378,368	75,387	87,352	52,960	594,068	-89,095	504,972
Operating income (loss)	¥ 17,167	¥ 1,999	¥ -2,351	¥ 4,541	¥ 21,357	¥ -3,510	¥ 17,847

## Sales by customer location

Nine months ended December 31, 2003

(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 57,284	¥ 63,197	¥ 60,938	¥ 181,420
Consolidated sales				383,504
Ratio of overseas sales to consolidated sales	% 14.9	% 16.5	% 15.9	% 47.3

Year ended March 31, 2003

(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 81,785	¥ 81,418	¥ 80,356	¥ 243,560
Consolidated sales				522,820
Ratio of overseas sales to consolidated sales	% 15.6	% 15.6	% 15.4	% 46.6



# Overview of the nine months ended December 31, 2003

The Japanese economy showed steady recovery in the third quarter of fiscal 2003 (i.e. the three months ended December 31, 2003) with robust exports to China and other Asian countries, as well as an increase in domestic capital expenditures. However, unemployment rates remain high and income levels have not improved, therefore consumer demand remains stagnant.

In the U.S., high-tech industries have started to recover, lead by stronger demand for personal computers. In Europe, Germany recorded its first negative GDP growth in a decade, and the strong euro continues to slow the speed of recovery. In Asia, China is increasing its presence, not only as the production center of the world but also as the world's largest market.

Under these conditions, NSK has strived to improve profitability throughout the Group, and as a result, our consolidated net sales for the nine months ended December 31, 2003, totaled ¥383,504 million and operating income was ¥16,668 million. Operating income margin was 4.3%, an improvement of 0.9 points compared to 3.4% for fiscal 2002.

## Net sales by product category

### Bearings

Strong demand from the automotive industry continued both in Japan and overseas, pushing sales levels higher than the same period last year. Sales of general industrial bearings increased sharply in Japan, but remained weak in Europe and the Americas. As a result, overall bearings sales amounted to ¥246,102 million with an operating income of ¥16,165 million.

### Automotive components

Domestic demand for automotive components remained stable, although overall sales in Japan decreased following our withdrawal from the seat belt business. Overseas, sales increased sharply in the Americas and Asia, but growth in Europe remained weak. As a result, sales totaled ¥94,557 million, and operating income was ¥2,971 million.

### Precision machinery and parts, mechatronic products

Demand from the domestic IT industry and machine tool sectors have shown a sharp recovery, and sales are at much higher levels compared to the same period last year. Sales in Asia were also strong, but sales in the Americas did not recover. European sales also remain sluggish. Overall, sales totaled ¥32,134 million. Profitability is improving, but operating income ended with a loss of ¥1,390 million.

### Other

Sales of other products totaled ¥10,710 million, with operating income of ¥972 million.

## Net sales by region

### Japan

Bearing sales to the machine tool sector, general machinery sector and the aftermarket have all increased compared to the same period last year, but sales to the electric and IT industries have decreased, as manufacturers continue to transfer production overseas and fluid dynamic bearings become more popular in these industries. Although total car production has decreased compared to the previous year, we were able to increase automotive bearing sales

due to an increase in demand from the truck sector. Overall, sales of automotive components fell due to the effect of our withdrawal from the seat belt business, but sales of our automatic transmission components continue to grow strongly. Sales of precision machinery and parts increased dramatically due to the sharp recovery of the semiconductor industry and increased production of machine tools. As a result, overall sales totaled ¥229,436 million. Excluding the effect of the withdrawal from the seat belt business, this was an increase compared to the same period last year. Operating income was ¥14,884 million.

## **The Americas**

Bearing sales to the automotive industry remained strong while sales to the general industrial sector remained flat. Healthy demand continued for automotive components, but automotive sales decreased due to the effect of our withdrawal from the seat belt business. Sales of precision machinery and parts remained flat. Together with the effect of the sharp appreciation of the yen, overall sales for the region ended lower than the same period last year, at ¥55,991 million with operating income of ¥861 million.

## **Europe**

With the delay in the economic recovery of Germany and the rest of Europe, bearing sales remained sluggish, with weak demand from the general industrial sector. Sales to the automotive industry increased. Sales levels of automotive components and precision machinery and parts both ended lower than the same period last year, but after taking into account the effect of the weaker yen against the euro, sales ended in a year on year increase at ¥63,298 million. As result of profit improvement measures, we recorded operating income of ¥833 million.

## **Asia and Oceania**

Economic growth in China and increased local production in the region pushed bearing sales up for both automotive and general industrial use. Sales of precision machinery and parts are also steadily recovering. Local production of automotive components has increased sharply, but due to the effect of our withdrawal from the seat belt business, automotive components sales ended lower that the same period last year. After taking into account the effect of foreign exchange fluctuations, sales in Asia totaled ¥34,778 million, with operating income of ¥2,977 million.

## **Cash Flow**

Cash flow provided by operating activities in the nine months ended December 31, 2003 was ¥23,859 million with income before income taxes and minority interests providing ¥16,941 million and depreciation and amortization providing ¥20,232 million in cash.

Additions to property, plant and equipment used ¥15,213 million in cash, acquisition of subsidiaries' stock resulting in changes in the scope of consolidation used ¥9,339 million, while proceeds from sales of investment securities provided cash of ¥8,364 million. As a result, net cash flow used in investing activities totaled ¥14,605 million.

Cash flow used in financing activities was ¥16,105 million, with ¥3,399 million in cash used to reduce net borrowings, ¥10,000 million used for the redemption of corporate bonds, and ¥2,553 million used to pay dividends.

In aggregate, the net decrease in cash and cash equivalents was ¥7,004 million, resulting in cash and cash equivalents at the end of the period to total ¥51,934 million.

# Forecast for the year ending March 31, 2004

(Millions of yen)	Year ending March 31 2004
Net sales	¥ 508,000
Operating income	23,000
Ordinary income	17,000
Net income	10,000

<Reference> Projected net income per share for the year ending March 31, 2004: ¥18.54

We have not revised our forecasts for the full year ending March 31, 2004.

## Notes

All forecasts are based on a number of assumptions and are subject to change. 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.