

NSK Ltd.

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

For Immediate Release

May 13, 2005

CONSOLIDATED RESULTS FOR THE YEAR ENDED MARCH 31, 2005 (unaudited)

Financial highlights

	Year ended March 31		Change %
	2005	2004	
(Millions of yen)			
Net sales	¥ 580,989	¥ 522,217	11.3
Operating income	38,283	25,972	47.4
Ordinary income	33,100	19,119	73.1
Net income	22,349	14,293	56.4
(Yen)			
Net income per share			
Basic	¥ 41.35	¥ 26.12	
Diluted	40.78	25.83	

Financial position

	As of	As of
	March 31, 2005	March 31, 2004
(Millions of yen)		
Total assets	¥ 628,583	¥ 621,877
Shareholders' equity	188,265	188,662
(%)		
Shareholders' equity to total assets	30.0%	30.3%
(Yen)		
Shareholders' equity per share	¥ 349.07	¥ 349.83

Cash Flow

	Year ended March 31	
	2005	2004
(Millions of yen)		
Net cash provided by operating activities	¥ 57,987	¥ 37,889
Net cash used in investing activities	-31,638	-16,958
Net cash used in financing activities	-46,129	-20,730
Cash and cash equivalents at end of the year	39,387	58,993

Consolidated balance sheets

(Millions of yen)	As of March 31,		Increase Decrease
	2005	2004	
Assets			
Current assets	¥ 278,678	¥ 295,491	¥ -16,813
Cash and deposits	25,935	43,533	-17,598
Notes and accounts receivable	111,821	121,208	-9,387
Marketable securities	8,596	9,385	-789
Inventories	81,730	75,905	5,825
Deferred tax assets	14,347	11,447	2,900
Other current assets	37,648	35,263	2,385
Less allowance for doubtful accounts	-1,402	-1,252	-150
Non-current assets	349,905	326,386	23,519
Property, plant and equipment	204,604	196,810	7,794
Buildings and structures	62,083	63,721	-1,638
Machinery and transportation equipment	94,020	90,493	3,527
Land	26,570	26,426	144
Other property, plant and equipment	21,929	16,169	5,760
Intangible assets	8,385	8,368	17
Investments and other assets	136,915	121,207	15,708
Investment securities	92,727	88,483	4,244
Long-term loans	273	349	-76
Deferred tax assets	2,593	3,619	-1,026
Prepaid pension costs	35,454	22,223	13,231
Other investments and other assets	7,016	8,246	-1,230
Less allowance for doubtful accounts	-1,150	-1,714	564
Total assets	¥ 628,583	¥ 621,877	¥ 6,706

Consolidated balance sheets (Continued)

(Millions of yen)	As of March 31,	As of March 31,	
	2005	2004	Increase Decrease
Liabilities			
Current liabilities	¥ 234,300	¥ 245,588	¥ -11,288
Notes and accounts payable	97,623	83,713	13,910
Short-term loans	75,655	77,418	-1,763
Current portion of bonds payable	10,000	36,989	-26,989
Income taxes payable	5,753	6,708	-955
Other current liabilities	45,268	40,759	4,509
Long-term liabilities	194,420	175,548	18,872
Bonds payable	70,000	70,000	—
Long-term loans	51,529	62,141	-10,612
Deferred tax liabilities	22,484	16,722	5,762
Accrued employees' retirement benefits	34,281	17,316	16,965
Accrued officers' retirement benefits	414	1,729	-1,315
Other long-term liabilities	15,710	7,638	8,072
Total liabilities	428,721	421,137	7,584
Minority interests	11,596	12,077	-481
Shareholders' equity			
Common stock	67,176	67,176	—
Capital surplus	77,925	77,923	2
Retained earnings	55,783	58,856	-3,073
Unrealized holding gains on securities	21,244	19,127	2,117
Translation adjustments	-29,447	-30,061	614
NSK treasury stock	-4,417	-4,361	-56
Total shareholders' equity	188,265	188,662	-397
Total liabilities and shareholders' equity	¥ 628,583	¥ 621,877	¥ 6,706

Consolidated statements of income

(Millions of yen)	Year ended March 31		Change %
	2005	2004	
Net sales	¥ 580,989	¥ 522,217	11.3
Cost of sales	450,305	409,900	9.9
Selling, general and administrative expenses	92,400	86,345	7.0
Operating income	<u>38,283</u>	<u>25,972</u>	<u>47.4</u>
Non-operating income:	<u>7,046</u>	<u>7,673</u>	<u>-8.2</u>
Interest and dividend income	1,406	1,424	-1.3
Equity in earnings of affiliated companies	3,078	2,943	4.6
Other	2,561	3,305	-22.5
Non-operating expenses:	<u>12,229</u>	<u>14,526</u>	<u>-15.8</u>
Interest expenses	5,005	6,058	-17.4
Other	7,223	8,467	-14.7
Ordinary income	<u>33,100</u>	<u>19,119</u>	<u>73.1</u>
Extraordinary income:	<u>2,363</u>	<u>8,504</u>	<u>-72.2</u>
Gain on sales of investment securities	1,304	7,663	-83.0
Gain on transfer to defined contribution pension plan	1,059	—	—
Gain on sales of investments in affiliated companies	—	840	—
Extraordinary losses:	<u>432</u>	<u>1,172</u>	<u>-63.1</u>
Loss on disposal of property, plant and equipment	193	1,147	-83.1
Loss on sales of investments in affiliated companies	157	24	530.4
Loss on devaluation of investment securities	81	—	—
Income before income taxes and minority interests	<u>35,031</u>	<u>26,451</u>	<u>32.4</u>
Income taxes:			
Current taxes	8,890	9,461	-6.0
Tax refunds	—	194	—
Deferred taxes	2,711	2,206	22.9
Minority income in earnings of consolidated subsidiaries	1,080	684	57.9
Net income	<u>¥ 22,349</u>	<u>¥ 14,293</u>	<u>56.4</u>

Consolidated statements of surplus

(Millions of yen)	Year ended March 31		Increase Decrease
	2005	2004	
Capital surplus			
Capital surplus at the beginning of period	<u>¥ 77,923</u>	<u>¥ 77,923</u>	<u>¥ —</u>
Increase in capital surplus	<u>2</u>	<u>—</u>	<u>2</u>
Gain on disposal of NSK treasury stocks	2	—	2
Capital surplus at the end of period	<u>¥ 77,925</u>	<u>¥ 77,923</u>	<u>¥ 2</u>
Retained earnings			
Retained earnings at the beginning of period	<u>¥ 58,856</u>	<u>¥ 48,366</u>	<u>¥ 10,490</u>
Decrease in retained earnings	<u>¥ 25,422</u>	<u>¥ 3,803</u>	<u>¥ 21,619</u>
Dividends	5,930	3,505	2,425
Directors' bonus	49	208	-159
Decrease due to reduction of the number of affiliated companies	—	85	-85
Loss on disposal of NSK treasury stock	—	2	-2
Loss on retirement benefit liabilities of UK subsidiaries	19,442	—	19,442
Net income	¥ 22,349	¥ 14,293	¥ 8,056
Retained earnings at the end of period	<u>¥ 55,783</u>	<u>¥ 58,856</u>	<u>¥ -3,073</u>

Consolidated statements of cash flows

(Millions of yen)	Year ended March 31	
	2005	2004
Operating activities		
Income before income taxes and minority interests	¥ 35,031	¥ 26,451
Depreciation and amortization	27,435	26,909
Amortization of excess of cost over net assets acquired	570	427
Decrease (increase) in allowance for doubtful accounts	-442	208
Decrease (increase) in provision for retirement benefits	-16,849	1,375
Interest and dividend income	-1,406	-1,424
Interest expense	5,005	6,058
Equity in earnings of affiliated companies	-3,078	-2,943
Loss on disposal of property, plant and equipment	193	1,147
Gain on sales of investment securities	-1,304	-7,663
Loss on devaluation of investment securities	81	—
Gain on sales of investments in affiliated companies	—	-840
Loss on sales of investments in affiliated companies	157	24
Decrease (increase) in notes and accounts receivable	10,280	-12,863
Increase (decrease) in inventories	-5,171	5,658
Increase in notes and accounts payable	13,776	1,216
Other	5,181	3,993
Subtotal	69,461	47,735
Interest and dividends received	4,231	2,912
Interest paid	-5,147	-6,185
Income taxes paid	-10,557	-6,573
Net cash provided by operating activities	57,987	37,889
Investing activities		
Additions to property, plant and equipment	-33,741	-21,646
Proceeds from sales of property, plant and equipment	1,854	3,376
Acquisition of investment securities	-133	-34
Proceeds from sales of investment securities	2,206	12,415
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	-871	-355
Increase in investments in affiliated companies	—	-589
Proceeds from sales of investments in affiliated companies	—	133
Payments for advances	-226	-459
Proceeds from collection of advances	220	204
Other	-946	-663
Net cash used in investing activities	-31,638	-16,958
Financing activities		
Net decrease in short-term bank loans	-12,306	-8,878
Long-term debt – borrowing	962	8,745
Long-term debt – repayments	-2,223	-7,749
Proceeds from issuance of bonds	10,000	—
Payments for redemption of bonds	-36,989	-10,000
Payments for acquisition of treasury stock	-58	-17
Dividends paid	-5,126	-2,698
Dividends paid to minority stockholders	-231	-126
Other	-157	-6
Net cash provided by financing activities	-46,129	-20,730
Effect of exchange rate changes on cash and cash equivalents	175	-145
Net decrease (increase) in cash and cash equivalents	-19,605	54
Cash and cash equivalents at beginning of the year	58,993	58,938
Cash and cash equivalents at end of the year	¥ 39,387	¥ 58,993

Business results by product segment

Year ended March 31, 2005

(Millions of yen)	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 185,473	¥ 316,169	¥ 64,186	¥ 15,160	¥ 580,989	¥ —	¥ 580,989
Inter-segment sales and transfers	—	—	—	8,078	8,078	-8,078	—
Total	185,473	316,169	64,186	23,239	589,067	-8,078	580,989
Operating expenses	165,523	300,420	59,420	21,395	546,760	-4,054	542,706
Operating income	19,949	15,748	4,765	1,844	42,307	-4,024	38,283
Assets	238,574	233,148	66,178	20,107	558,009	70,574	628,583
Depreciation expenses	10,900	13,759	3,659	314	28,633	-1,197	27,435
Capital expenditure	¥ 13,845	¥ 19,614	¥ 5,659	¥ 192	¥ 39,312	¥ -1,152	¥ 38,160

Year ended March 31, 2004

(Millions of yen)	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 176,299	¥ 285,830	¥ 47,072	¥ 13,015	¥ 522,217	¥ —	¥ 522,217
Inter-segment sales and transfers	—	—	—	6,463	6,463	-6,463	—
Total	176,299	285,830	47,072	19,479	528,681	-6,463	522,217
Operating expenses	164,142	270,116	47,111	18,300	499,670	-3,425	496,245
Operating income (loss)	12,157	15,713	-39	1,178	29,010	-3,038	25,972
Assets	213,612	245,059	57,160	15,722	531,554	90,322	621,877
Depreciation expenses	11,450	13,074	3,208	320	28,053	-1,144	26,909
Capital expenditure	¥ 8,322	¥ 14,519	¥ 3,870	¥ 76	¥ 26,789	¥ -475	¥ 26,313

Business results by geographic segment

Year ended March 31, 2005

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 355,179	¥ 79,871	¥ 93,343	¥ 52,595	¥ 580,989	¥ —	¥ 580,989
Inter-area sales and transfers	84,280	644	6,825	11,610	103,361	-103,361	—
Total	439,460	80,515	100,168	64,205	684,350	-103,361	580,989
Operating expenses	408,042	77,973	95,378	60,942	642,337	-99,631	542,706
Operating income	¥ 31,417	¥ 2,542	¥ 4,790	¥ 3,262	¥ 42,013	-3,730	¥ 38,283
Assets	¥ 571,460	¥ 55,257	¥ 73,906	¥ 62,985	¥ 763,609	¥ -135,025	¥ 628,583

Year ended March 31, 2004

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 316,028	¥ 73,290	¥ 85,390	¥ 47,508	¥ 522,217	¥ —	¥ 522,217
Inter-area sales and transfers	75,792	463	4,454	10,103	90,813	-90,813	—
Total	391,820	73,753	89,845	57,611	613,031	-90,813	522,217
Operating expenses	368,883	73,169	87,226	53,833	583,113	-86,868	496,245
Operating income	¥ 22,937	¥ 584	¥ 2,618	¥ 3,778	¥ 29,918	¥ -3,945	¥ 25,972
Assets	¥ 536,203	¥ 55,171	¥ 78,394	¥ 59,157	¥ 728,926	¥ -107,049	¥ 621,877

Sales by customer location

	Year ended March 31, 2005			
(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 82,279	¥ 93,625	¥ 94,838	¥ 270,743
Consolidated sales				580,989
Ratio of overseas sales to consolidated sales	% 14.2	% 16.1	% 16.3	% 46.6

	Year ended March 31, 2004			
(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 74,885	¥ 85,391	¥ 83,295	¥ 243,572
Consolidated sales				522,217
Ratio of overseas sales to consolidated sales	% 14.3	% 16.4	% 15.9	% 46.6

Management Policy Statement

1. Basic Policy

NSK Ltd.'s goal is to establish itself as a world-class company by improving its management capabilities to stay ahead of the rapid changes in the business environment and by further increasing the value of our corporate brand. Consistent with our corporate philosophy of "Contributing to the World through our Motion & Control technology," our goals are:

- (1) To improve the QCDS (i.e. Quality, Cost, Delivery and Service) capabilities of our engineering, manufacturing and sales operations so that we will be able to meet the increasingly diverse needs of our customers and become the No.1 company in terms of customer satisfaction.
- (2) To continue to reduce negative environmental impact by effectively using our expertise in tribology, the science of anti-friction and lubrication technologies, which is our core technology and forms the basis of our entire business.
- (3) To be the outstanding corporate citizen in all the locations where we operate, including all international manufacturing locations.

2. Dividends

NSK places great importance on shareholder returns and will maintain our basic policy of issuing consistent dividends. In the future, greater emphasis will be placed on our dividend payout ratio and ensure that dividends better reflect our consolidated business results.

3. Policy on Lowering the Minimum Investment Unit

NSK recognizes the importance of lowering the minimum investment amount required for purchasing company shares. The Company is in the process of deciding the appropriate investment unit, with due consideration to factors such as the liquidity of company shares in the stock market, stock prices, and composition of company shareholders.

4. Key Indicators

NSK aims to increase return on equity (ROE) and recognizes operating income margin as a key indicator of profit stability and the importance of asset efficiency and cash flow.

5. Mid- and Long-Term Strategies

NSK's corporate vision, incorporated in the mid-term business plan established in fiscal 2003, is "To become a world leader in technology and QCDS (Quality, Cost, Delivery and Service) and become No.1 in customer satisfaction."

NSK endeavors to become a company capable of producing profits consistently, regardless of the volatile changes in the surrounding business environment, by pursuing the following activities:

- (1) Aggressive promotion of growth strategies in areas where we can expect high profitability and growth.
- (2) Production innovation activities to strengthen our production system.
- (3) Quality improvement activities to increase the reliability of the "NSK" brand.
- (4) Balance sheet reforms to strengthen our financial position.

NSK will also further reinforce its human resources, necessary to accomplish the above activities, continue to strategically focus its global management resources, and will actively seek global alliances without limiting ourselves to past practices.

6. Key Management Tasks

To contribute to profit targets and accelerate our transition to a company that can generate even greater earnings, NSK has committed to implementing global capital expenditures that will form the foundations of future growth. In fiscal 2005, we will reinforce our industrial machinery bearing manufacturing sites such as the Fujisawa Plant in Japan. We will also invest in our automotive products production facilities such as NSK Needle Bearing Ltd.'s Haruna Plant (Japan) and Changshu NSK Needle Bearing Co., Ltd. (China), where needle roller bearings are manufactured for automotive use. Further capital investment will also be made in NSK Steering Systems Co., Ltd. in Japan and NSK Steering Systems Europe Poland Sp. z o. o. to increase manufacturing capacity of electric power steering systems.

NSK is also fully committed to strengthening its "market oriented" R&D capabilities. By combining out state-of-the-art technologies and tribology know-how acquired through our long experience in the business, we aim to further improve the functions of existing products as well as develop new and innovative products designed to meet the challenges of the future.

Regarding profitability improvement measures, NSK is expanding the scope of its "Advanced Production Systems (APS)" production innovation activities, as a means of restructuring the management system of the entire NSK Group. These activities are not limited only to the manufacturing system but has been expanded to include the R&D, sales, and administrative operations. At the same time, production capabilities, which form the basis of Japanese craftsmanship or "monozukuri" is being improved through development of "new concept" production facilities. Improvements of this type combined with NSK's comprehensive technological know-how in R&D and production preparation systems will enable us to improve the quality of our products as well as increase production efficiency and return on investments.

NSK is actively engaged in environmental activities. Society's demands for reduction of negative environmental impact has increased, symbolized by the Kyoto Protocol and numerous regulations being drafted in many countries restricting the use of harmful chemicals. In response to this growing demand, NSK is continuing to expand the lineup of environmentally-friendly products that, for example, are effective in increasing energy efficiency of our customers' products. At the same time, we are introducing new production methods that will comply with Europe's chemical substance regulations ahead of schedule. We expect these types of activities to increase our competitiveness from an environmental point of view. Furthermore, as a means of improving the level of our environmental management and to build a trustworthy relationship with our various stakeholders, we will endeavor to disclose relevant information in a fair and timely manner.

7. Corporate Governance Policy and Structure

Basic Corporate Governance Policy

NSK recognizes "corporate governance" as a system that, under the close surveillance of the Board of Directors, enables the operational organizations to focus on expanding business and improving profitability, thus achieving our ultimate goal of increasing shareholder value and increasing management transparency.

In order to do this, we have implemented the following measures:

- (1) The Board of Directors has relinquished a large portion of its decision-making authority to the operational organizations to speed-up decision-making processes.
- (2) The oversight organizations and the operational organizations are working in cooperation to reinforce internal monitoring functions.
- (3) The Company has reinforced the monitoring functions of its business operations.

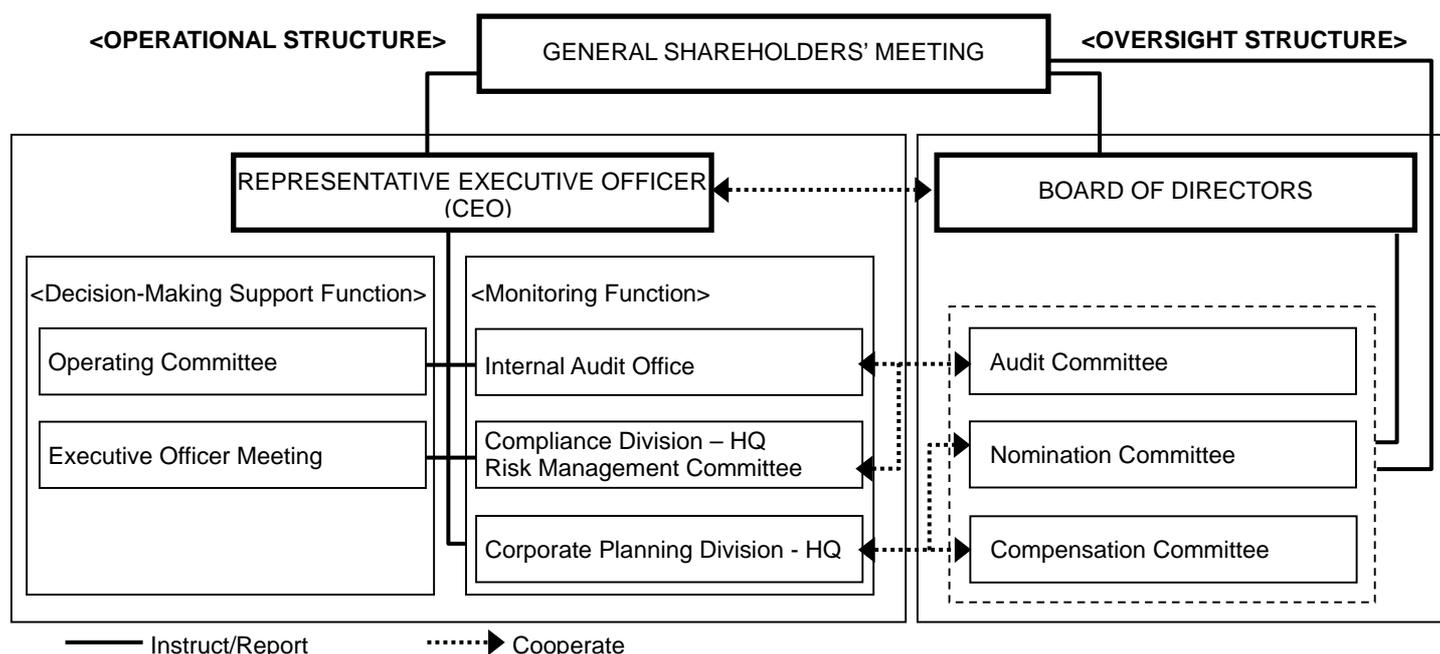
Beginning in 1999, NSK has continued to strengthen its corporate governance structure through measures such as introducing a voluntary executive officers system, appointing an independent director, and establishing a voluntary Executive Compensation Committee. To further accelerate this process, NSK adopted the "company-with-committees" system of corporate governance on June 29, 2004

Current Corporate Governance Structure regarding Decision-making, Execution and Monitoring of Managerial Organizations, etc.

As part of its managerial administrative organization, NSK's "Board of Directors" decides on important management issues such as basic management policies and monitors the executive officers. NSK also has an "Audit Committee," a "Compensations Committee," and a "Nomination Committee," each with outside directors holding the majority.

As for its operational structure, the chief executive officer with representative rights and executive officers that have been vested authority from the CEO to carry out day-to-day duties under the instruction of the CEO, are elected by the Board of Directors. The CEO and executive officers makes up the Operating Committee, which is a supplementary decision-making body. As of March 31, 2005, there were 11 directors, including three outside directors, and 35 executive officers including the CEO. In order to maintain the Board of Directors' monitoring functions in close conjunction with business operations, seven of the 11 directors double as executive officers.

NSK's Corporate Governance Structure



Internal Monitoring System and Risk Management System

- (1) Establishment of the "Internal Audit Office"
 The Internal Audit Office was established on June 29, 2004 in place of the former Audit Office, and is in charge of monitoring the legality, validity, and efficiency of Group operations. The Internal Audit Office will not only monitor the Group's internal management systems, but will also be in charge of drawing up improvement plans and advising on improvement activities based on audit results.
- (2) Establishment of the "Compliance Division – Headquarters"
 The existing divisions in charge of legal matters and corporate ethics were combined to form the new Compliance Division – Headquarters on June 29, 2004. The new Headquarters will ensure all laws, regulations and rules on corporate ethics are respected throughout the NSK Group. The Compliance Division – Headquarters carries out educational programs to increase awareness and recognition of our responsibilities to the society. It also plans, implements and monitors activities to guarantee compliance with laws and regulations.
- (3) Establishment of the "Disclosure Working Team"
 In line with the revision of the Tokyo stock Exchange's listings regulations in January 2005, NSK established a Disclosure Working Team within the Corporate Planning Division – Headquarters in February 2005. The Team is responsible of the fair and timely disclosure of important corporate information that may affect investors' investment decisions. The Disclosure Working Team gathers and controls information that may have to be publicly disclosed, and together with the internal monitoring organizations, organizes an internal structure that guarantees the fair and timely disclosure of all such information.

Internal Audits, Audit Committee Audits and Independent Auditor's Audit

The Audit Committee is composed of three non-executive directors, two of whom are outside directors. NSK has also established an Internal Audit Office that is under the direct supervision of the CEO. The Internal Audit Office is composed of 10 members, two of whom also hold positions in the secretariat of the Audit Committee. The Audit Committee executes Audit Committee audits in cooperation with the internal monitoring organizations, includes the Internal Audit Office.

The Internal Audit Office carries out on-site audits of Group organizations according to an audit schedule, which is prepared based on the results of routine monitoring activities and periodic risk assessments. The Internal Audit Office works as an internal check function as well as supports business process improvement activities.

Shin Nihon & Co., the independent accounting firm, has been solicited to audit NSK's financial results. The three individuals responsible for auditing NSK's fiscal 2004 business results were Mr. Yasunobu Furukawa, Mr. Masaichi Nakamura, and Mr. Takao Kamiya, who were supported by a further 10 certified accountants and 17 junior accountants.

The independent auditor will share its audit results with the Audit Committee and the Internal Audit Office. Furthermore, in addition to the audit reports, opinions among the three are shared on a regular basis.

Relationship between the Company and its Outside Directors

NSK does not have any conflicts of interest, whether it be of a personal, capital, or any other business nature, with its outside directors.

Activities Implemented to Reinforce the Corporate Governance Structure in Fiscal 2004

The major meetings convened during the fiscal year ended March 31, 2005 were as follows (The data for each of the three committees are for the period between June 29, 2004 to March 31, 2005):

General Shareholders' Meeting:	June 29, 2004
Board of Directors:	10 meetings
Compensation Committee:	4 meetings
Nomination Committee:	3 meetings
Audit Committee:	12 meetings

Overview of the year ended March 31, 2005

The Japanese economy remained on an overall recovery trend, with corporate earnings improving, capital expenditures continuing to expand, and consumer spending also gradually increasing. However, the recovery lost momentum in the second half of the year, due to a slow down in exports and weaker growth in consumer demand.

In the U.S., capital expenditures remained strong throughout the year, despite a slowdown in the recovery of the overall economy due to a weakening in consumer demand that started in the spring. The European economy continued to gradually recover, supported by healthy corporate earnings and increased exports. In Asia, the economies in China and Thailand continued to expand, while South Korea also started to recover.

Under these conditions, the NSK Group continues to engage in mid-term management issues, promoting group-wide production innovation activities and profitability improvement activities such as balance sheet reform, as well as aggressively implementing growth strategies, such as the expansion of our business in China. Our consolidated net sales for the year ended March 31, 2005, was ¥580,989 million, an increase of ¥58,772 million (+11.3%) from the previous term.

In terms of profitability, the rise in material costs such as steel had an adverse affect, but the effect of higher capacity utilization due to increased sales and production volumes, improved productivity, and reduction in procurement costs brought about an overall reduction in total costs. As a result, operating income was ¥38,283 million, up ¥12,311 million (+47.4%) from last year, while ordinary income was ¥ 33,100 million, a year-on-year increase of ¥13,981 million (+73.1%).

¥1,304 million in gains on sales of investment securities and a ¥1,059 million gain on the partial adoption of a defined contribution pension plan instead of the existing 100% defined benefit pension plan at the parent company and Japanese subsidiaries have been appropriated as extraordinary income, while a ¥193 million loss on disposal of property, plant and equipment and a ¥157 million loss on sales of affiliated companies' stocks were appropriated as extraordinary losses.

Consequently, after deducting for income taxes and minority interests, and including provisions for deferred income taxes based on the tax effect accounting method, net income totaled ¥22,349 million, an increase of ¥8,056 million (+56.4%) from the previous year.

In order to reflect our consolidated business results on our dividends, the Company will pay a year-end dividend of ¥5.5 per share, the same as the interim dividend. Dividend payment for the full-year will total ¥11.0 per share.

Business results by product category

Industrial machinery bearings

Domestic sales exceeded previous year's levels with continued strong demand from the machine tool, steel, railway, and general industrial sectors, as well as the aftermarket. Overseas, marketing activities targeted at the steel, machine tool industries and the aftermarket returned good results, leading to strong sales in the Americas and Europe, as well as China. Overall bearings sales totaled ¥185,473 million, up 5.2% from the previous term. Profits in Japan, the Americas and Europe all increased, leading to a total operating income of ¥19,949 million, a year-on-year increase of 64.1%.

Automotive products

Demand for automotive bearings, particularly needle roller bearings for automatic transmission applications, were strong in Japan. Sales in the Americas were much better than the previous year, and combined with expanding sales in both Europe and Thailand, led to a sharp overall increase in overseas sales. Sales of automotive components such as electric power steering systems and automatic transmission components increased in Japan, while sales of steering columns in the Americas and Thailand were also strong. As a result, sales of automotive products amounted to ¥316,169 million, up 10.6% from last year. An increase in R&D expenses and transportation costs caused operating income to remain flat compared to the previous year, for a total of ¥15,748 million, or a year-on-year increase of 0.2%.

Precision machinery and parts, mechatronic products

Demand from the semiconductor and liquid crystal display production equipment sectors declined in the latter half of the year, but full-year sales still managed to increase year-on-year. Demand from the general industrial sector and machine tool manufacturers remained strong throughout the year. Sales of our photofabrication equipment for LCD color filter production saw a sharp increase. Overall, sales increased 36.4% from the previous year to ¥64,186 million. Higher capacity utilization and the return to profitability of our American precision machinery business contributed to operating income of ¥4,765 million, compared to the operating loss of ¥39 million in the previous year.

Other

Sales to other sectors totaled ¥23,239 million, up 19.3% from the previous year due to the increase in sales of production equipment to Group companies both in and out of Japan. Operating income was ¥1,844 million, a year-on-year increase of 56.4%.

Business results by region

Japan

Sales of industrial machinery bearings, especially to the aftermarket and general industrial sectors, were strong, backed by the increase in capital expenditures. Sales of automotive products, particularly electric power steering systems and automatic transmission components, were also robust. Needle roller bearings for automotive applications and hub unit bearings also showed strong sales. Demand for precision machinery and parts from the semiconductor and liquid crystal display production equipment sectors grew weaker in the second half of the year, but demand from the machine tool industry remained strong throughout the year.

As a result, total Japan sales amounted to ¥439,460 million, or a 12.2% increase over the same period of the previous year. Operating income was ¥31,417 million or a 37.0% increase compared to the previous year.

The Americas

The recovery of the American economy led to stronger sales of industrial machinery bearings to the aftermarket, and strong demand from Japanese automakers led to an increase in sales of automotive products. Recovery in demand for our precision machinery and parts from the semiconductor production equipment manufacturers also contributed to increased sales.

As a result, sales in the Americas totaled ¥80,515 million or a 9.2% increase year-on-year, with operating income of ¥2,542 million or a 335.3% increase.

Europe

Sales of automotive products were strong, especially with the sharp increase in sales of automotive bearings, a direct result of intensive marketing activities. Sales of industrial machinery bearings and precision machinery products also increased as a result of marketing activities and the effect of the overall recovery in the European economy.

Sales finished at ¥100,168 million or 11.5% higher than the previous year. Operating income amounted to ¥4,790 million, a year-on-year increase of 82.9% as result of both increased sales and cost reduction efforts.

Asia and Oceania

Sales to the information technology (IT) sector in the ASEAN nations declined. However, demand for industrial machinery bearings was strong, particularly in China. Demand for automotive products was strong in Thailand, while demand for precision machinery products from the semiconductor and liquid crystal display production equipment sectors increased sharply in both Taiwan and South Korea.

Sales totaled ¥64,205 million, or an 11.4% increase over the previous year. Operating income declined by 13.6% to ¥3,262 million due to rising steel prices and start-up costs of new production facilities in China.

Cash Flow

Income before income taxes and minority interests, and depreciation and amortization, contributed cash of ¥35,031 million and ¥27,435 million respectively. Measures to reduce notes and accounts receivable resulted in net cash flow provided by operating activities to amount to ¥57,987 million.

Investments for future growth areas and the acquisition of property, plant and equipment resulted in net cash flow used in investing activities totaled ¥31,638 million.

¥36,989 million in cash was used for redemption of bonds, while a net decrease in loans used cash of ¥13,567 million. This exceeded the ¥10,000 million in cash provided by the issue of bonds.

As a result, net cash used in financing activities was ¥46,129 million.

In aggregate, the net decrease in cash and cash equivalents was ¥19,605 million, resulting in cash and cash equivalents at the end of the term to total ¥39,387 million.

The following is the trend of our consolidated cash flow:

	As of March 31, 2002	As of March 31, 2003	As of March 31, 2004	As of March 31, 2005
Ratio of net worth to total capital (%)	32.4	28.8	30.3	30.0
Ratio of net worth to total capital at market value (%)	47.1	29.3	44.5	47.3
Debt redemption period (Years)	9.0	8.6	6.5	3.6
Interest coverage ratio	4.2	4.1	6.1	11.3

- Ratio of net worth to total capital (%): Net worth/Total capital
- Ratio of net worth to total capital at market value (%): Market capital/Total capital
- Debt redemption period (Years): Interest bearing debts/ Net cash provided by operating activities
- Interest coverage ratio: Net cash provided by operating activities/Interest paid

(Notes) 1. All indices have been calculated based on consolidated data.

2. Market capital has been calculated as:

“Closing share price at the end of the term” × “Common shares outstanding at the end of term”

3. Interest-bearing debts refer to the total amount of bonds, loans and commercial paper appropriated on the balance sheet.

Risk Management

Due to the nature of our operations, the NSK Group is exposed to various risks, some of which are listed below: (Note: The following are risks that have been identified by the Company as of May 13, 2005, the date the Company announced its year-end business results for the year ended March 31, 2005.)

1. Country, Region, and Industry Risks

The NSK Group is exposed to both the economic environments of the countries it sells or manufactures its products in, as well as the business environments surrounding our customers' respective industries. The deterioration of economic conditions in relevant countries, regions and industries may have an effect on the NSK Group's ability to deliver sustained earnings.

2. Market Risks

The competition NSK is facing is intensifying at a global level. Market infiltration of low cost products produced by manufacturers from emerging countries is leading to tougher price competition. At the same time, overseas expansion of our customer base, particularly the automotive industry, requires the Company to respond by also reinforcing its overseas production sites, with any delay possibly resulting in a loss of business opportunity.

3. Customer-specific Risks

NSK's sales tend to center on certain industries. Nearly half of our revenue is attained from sales to the automotive industry, while sales of our precision machinery and parts are weighted towards the semiconductor production equipment and machine tool sectors. Therefore, a down-cycle in demand in these industries or inability to adjust our production capacity to customer demand would have a significant impact on our business.

4. Credit Risks

The Company believes most of its customers are relatively stable companies with fairly low credit risk. However, we must always be prepared for unanticipated bad debts as economic downturns and the effect of intensified global competition may have a negative impact on our customers' capital base.

5. Business Alliance Risks

Disputes regarding various issues may prevent our joint ventures from achieving the expected benefits and results.

6. Supplier Risks

Due to the nature of certain materials and components, there are cases where it is technically impossible to diversify our supply base. In such cases, a supplier's lack of production capacity, quality problems, or shortage of raw materials may make procuring necessary materials or components impossible or force the Company to accept cost increases.

7. Quality Risks

An undetected critical defect in our products could cause a serious accident, forcing the Company not only to recall the product and disrupt our customers' production lines, but could result in huge compensation liabilities as well as cause major damage to the Company's reputation. The NSK Group is covered by a global product liability insurance policy, and for certain products, it is also covered by a recall insurance plan. However, these insurance plans do not necessarily cover all damages.

8. New Product Development Risks

Developing new products is an integral part of our business. However, for a variety of reasons, newly developed products may not be well-received by the market, our competitors may develop a product ahead of us, the newly developed product or technology may not be viable for protection under intellectual property laws, or our competitors may develop alternative products to take the place of our new product.

9. Intellectual Property Rights and Risks

Any third party claim of invalidity of our intellectual property rights or infringement upon their rights, the inability to obtain permission to use third party patents, or the inability to eliminate illegal products that infringe our intellectual property rights from the market may all impact our business performance.

10. Global Business Expansion Risks

In expanding business overseas, NSK faces risks such as the possibility of being unable to recover invested capital or launch production at new production sites as planned. The Company may also face various situations where it would be forced to move production locations or, in the extreme event, exit a country. The Company also faces inevitable environmental and regulatory risks unique to a particular country or region.

11. Disaster and Terrorist Risks

Disasters such as earthquakes, floods, and fires, as well as riots, terrorist incidents and anti-Japanese activities are of great concern to the NSK Group, as they may not only cause damage or injury to Company property and personnel, but also negatively impact the Company's production and sales activities.

12. Compliance Risks

The NSK Group has issued *NSK's Business Ethics Regulations* to ensure that laws and regulations are observed. However, the Company still faces the risk that an illegal act may be carried out, damaging the Company's reputation as well as bringing about the possibility of being economically sanctioned.

13. Legal Risks

As a manufacturer, the NSK Group is covered by a global product liability insurance policy, in the event that the Company may be sued for product liability of a defective product. However, this insurance plan does not guarantee unlimited coverage for all damages. The possibility of legal disputes regarding issues other than product liability-related lawsuits cannot also be dismissed.

14. Information Management Risks

In the event that, for some unforeseen reason, important business information or personal information is leaked from the Company, this would not only damage the Company's reputation but also require huge expenses to take the necessary corrective measures.

15. Environmental Risks

If the Company were to cause damage to the environment, through activities such as the inappropriate use of environmental impact substances or polluting the soil, the Company would face the risk of damage compensation, expenses for removing the damage/pollutant, fines, and the effect of production stoppages. The possibility also exists that the Company will have to appropriate a large amount of money to comply with new environmental regulations.

16. Information Systems Risks

Any glitch in our current computer systems or if any confusion should occur when, in the future, the Company renewed or altered its computer systems, this can potentially disrupt production and seriously affect our customers' production plans, which in turn could result in compensation liabilities as well as damage our reputation.

17. Human Resource Sourcing Risks

The NSK Group regards the recruiting and retaining of skilled and talented personnel vital in maintaining our competitiveness. Looking at our current demographics of our workforce, the number of employees reaching retirement in the next few years is expected to increase sharply. Demand for talented personnel is increasing throughout the job market and if the NSK Group cannot secure sufficient new talent, this would render a serious problem to the transfer of skill and know-how, and consequently negatively impact the entire Group's business operations.

18. Labor Dispute Risks

Differences in local labor practices and regulations, changes in the economic environment, and other unexpected phenomena could all result in labor disputes that may disrupt business operations.

19. Foreign Exchange and Interest Rate Risks

In order to reduce the negative impact of foreign exchange and interest rate fluctuations, the NSK Group is using forward exchange contracts consistent with internal guidelines to hedge exchange risks. However, it is impossible to entirely eliminate such risks.

20. Retirement Benefit Liabilities

NSK Ltd. has adopted a defined benefit pension plan. This plan is also followed by the Company's subsidiaries in Japan, as well as a number of overseas subsidiaries. The NSK Group's retirement benefit expenses and liabilities are calculated using assumptions such as discount rates and expected rate of return on plan assets. Any changes in these assumptions, may have a negative impact on the NSK Group's overall financial performance and balance sheet.

Forecast for the year ending March 31, 2006

	(Millions of yen)
Net sales	¥ 610,000
Operating income	41,000
Ordinary income	37,000
Net income	22,500

The depreciation of the U.S. dollar, sharp rise in steel and oil prices, and a fear of a slow down in the Chinese economy are some of the factors that must be considered when looking at the outlook for the fiscal year ending March 31, 2006.

Under these economic conditions, NSK expects net sales for fiscal 2005 to total ¥610,000 million, with operating income, ordinary income and net income of ¥41,000 million, ¥37,000 million and ¥22,500 million, respectively.

Please note that these estimate figures have been calculated using an estimated foreign exchange rate of U.S. \$1=¥104, and 1 Euro=¥136.

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.