

# NSK Ltd.

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

For Immediate Release

October 27, 2005

## CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2005 (unaudited)

### Financial highlights

	Six months ended September 30		Change %
	2005	2004	
(Millions of yen)			
Net sales	¥ 302,903	¥ 287,287	5.4
Operating income	18,414	19,456	-5.4
Ordinary income	16,899	17,755	-4.8
Net income	9,953	11,816	-15.8
(Yen)			
Net income per share			
Basic	¥ 18.46	¥ 21.91	
Diluted	¥ 18.46	¥ 21.57	

### Financial position

	As of	As of
	September 30, 2005	March 31, 2005
(Millions of yen)		
Total assets	¥ 659,259	¥ 628,583
Shareholders' equity	208,376	188,265
(%)		
Shareholders' equity to total assets	31.6%	30.0%
(Yen)		
Shareholders' equity per share	¥ 386.38	¥ 349.07

### Cash Flow

	Six months ended September 30	
	2005	2004
(Millions of yen)		
Net cash provided by operating activities	¥ 20,295	¥ 20,952
Net cash used in investing activities	-15,283	-13,492
Net cash used in financing activities	-2,375	-20,937
Cash and cash equivalents at end of period	42,412	45,198

# Consolidated balance sheets

(Millions of yen)	As of September 30, 2005	As of March 31, 2005	Increase/ Decrease
<b>Assets</b>			
Current assets	¥ 286,501	¥ 278,678	¥ 7,823
Cash and deposits	31,861	25,935	5,926
Notes and accounts receivable	115,840	111,821	4,019
Marketable securities	8,498	8,596	-98
Inventories	90,231	81,730	8,501
Deferred tax assets	9,497	14,347	-4,850
Other current assets	32,419	37,648	-5,229
Less allowance for doubtful accounts	-1,848	-1,402	-446
Non-current assets	372,758	349,905	22,853
Property, plant and equipment	216,561	204,604	11,957
Buildings and structures	63,406	62,083	1,323
Machinery and transportation equipment	100,476	94,020	6,456
Land	26,609	26,570	39
Other property, plant and equipment	26,069	21,929	4,140
Intangible assets	8,793	8,385	408
Investments and other assets	147,402	136,915	10,487
Investment securities	104,744	92,727	12,017
Prepaid pension costs	33,821	35,454	-1,633
Deferred tax assets	2,597	2,593	4
Other investments and other assets	7,266	7,290	-24
Less allowance for doubtful accounts	-1,027	-1,150	123
<b>Total assets</b>	<b>659,259</b>	<b>628,583</b>	<b>30,676</b>

**Consolidated balance sheets** (Continued)

(Millions of yen)	As of September 30, 2005	As of March 31, 2005	Increase/ Decrease
<b>Liabilities</b>			
Current liabilities	¥ 261,695	¥ 234,300	¥ 27,395
Notes and accounts payable	102,832	97,623	5,209
Short-term loans	86,690	75,655	11,035
Current portion of corporate bonds	20,000	10,000	10,000
Accrued income taxes	3,939	5,753	-1,814
Other current liabilities	48,232	45,268	2,964
Long-term liabilities	176,925	194,420	-17,495
Corporate bonds	60,000	70,000	-10,000
Long-term loans	40,395	51,529	-11,134
Deferred tax liabilities	28,513	22,484	6,029
Accrued employees' retirement benefits	33,630	34,281	-651
Accrued officers' retirement benefits	536	414	122
Other long-term liabilities	13,849	15,710	-1,861
<b>Total liabilities</b>	<b>438,621</b>	<b>428,721</b>	<b>9,900</b>
Minority interests	12,261	11,596	665
<b>Shareholders' equity</b>			
Common stock	67,176	67,176	—
Capital surplus	77,948	77,925	23
Retained earnings	62,767	55,783	6,984
Unrealized holding gains on securities	29,329	21,244	8,085
Translation adjustments	-24,460	-29,447	4,987
NSK treasury stock	-4,384	-4,417	33
<b>Total shareholders' equity</b>	<b>208,376</b>	<b>188,265</b>	<b>20,111</b>
<b>Total liabilities and shareholders' equity</b>	<b>659,259</b>	<b>628,583</b>	<b>30,676</b>

# Consolidated statements of operations

(Millions of yen)	Six months ended September 30		
	2005	2004	Change %
Net sales	¥ 302,903	¥ 287,287	5.4
Cost of sales	235,641	222,979	5.7
Gross profit	67,261	64,307	4.6
Selling, general and administrative expenses	48,846	44,851	8.9
Operating income	18,414	19,456	-5.4
Non-operating income:	3,890	3,788	2.7
Interest and dividend income	930	916	1.5
Equity in earnings of affiliated companies	1,635	1,283	27.4
Other	1,324	1,589	-16.7
Non-operating expenses:	5,405	5,489	-1.5
Interest expenses	2,241	2,520	-11.1
Other	3,163	2,968	6.6
Ordinary income	16,899	17,755	-4.8
Extraordinary income:	3,960	1,840	115.2
Gain on sales of investment securities	2,526	781	223.2
Gain on sales of property, plant and equipment	1,434	—	—
Gain on transfer to defined contribution pension plan	—	1,059	—
Extraordinary losses:	1,811	90	—
Restructuring expenses	1,811	—	—
Loss on devaluation of investment securities	—	90	—
Income before income taxes and minority interests	19,048	19,505	-2.3
Income taxes:			
Current	3,371	4,612	-26.9
Deferred	5,102	2,472	106.4
Minority income in earnings of consolidated subsidiaries	621	604	2.9
Net income	9,953	11,816	-15.8

# Consolidated statements of surplus

(Millions of yen)	Six months ended September 30		Increase/ Decrease
	<u>Decrease</u>	<u>2004</u>	<u>Decrease</u>
<b>Capital surplus</b>			
Capital surplus at the beginning of period	<u>¥ 77,925</u>	<u>¥ 77,923</u>	<u>¥ 2</u>
Increase in capital surplus	22	0	22
Gain on disposal of NSK treasury stock	22	0	22
Capital surplus at the end of period	<u>77,948</u>	<u>77,924</u>	<u>24</u>
<b>Retained earnings</b>			
Retained earnings at the beginning of period	<u>55,783</u>	<u>58,856</u>	<u>-3,073</u>
Increase in retained earnings	9,953	11,816	-1,863
Interim net income	9,953	11,816	-1,863
Decrease in retained earnings	<u>2,969</u>	<u>20,041</u>	<u>-17,072</u>
Dividends	2,969	2,970	-1
Loss on retirement benefit liabilities of UK subsidiaries	—	17,070	-17,070
Retained earnings at the end of period	<u>62,767</u>	<u>50,631</u>	<u>12,136</u>

# Consolidated statements of cash flows

Six months ended September 30

(Millions of yen)

	2005	2004
<b>Operating activities</b>		
Income before income taxes and minority interests	¥ 19,048	¥ 19,505
Depreciation and amortization	13,695	13,147
Amortization of excess of cost over net assets acquired	205	285
Increase (Decrease) in allowance for doubtful accounts	335	-84
Increase (Decrease) in provision for retirement benefits	1,978	-17,117
Interest and dividend income	-930	-916
Interest expense	2,241	2,520
Equity in earnings of affiliated companies	-1,635	-1,283
Gain on sales of property, plant and equipment	-1,434	—
Gain on sales of investment securities	-2,526	-781
Loss on devaluation of investment securities	—	90
Increase in notes and accounts receivable	-3,308	-6,411
Increase in inventories	-7,584	-976
Increase in notes and accounts payable	5,166	8,430
Other	568	10,882
Subtotal	25,821	27,290
Interest and dividends received	1,856	2,851
Interest paid	-2,272	-2,653
Income taxes paid	-5,110	-6,536
Net cash provided by operating activities	20,295	20,952
<b>Investing activities</b>		
Additions to property, plant and equipment	-21,758	-15,096
Proceeds from sales of property, plant and equipment	2,182	1,367
Acquisition of investment securities	-28	-111
Proceeds from sales of investment securities	5,033	1,278
Proceeds from sales of subsidiaries' stock resulting in changes in scope of consolidation	-130	—
Acquisition of affiliated companies' stock	-618	—
Proceeds from sales of affiliated companies' stock	782	—
Payments for advances	-17	-95
Proceeds from collection of advances	100	85
Other	-828	-919
Net cash used in investing activities	-15,283	-13,492
<b>Financing activities</b>		
Net increase (decrease) in short-term loans	4,439	-8,127
Long-term debt – borrowing	0	674
Long-term debt – repayments	-3,733	-1,124
Payments for redemption of corporate bonds	—	-10,000
Payments for acquisition of NSK treasury stock	-20	-21
Dividends paid	-2,966	-2,158
Dividends paid to minority stockholders	-86	-112
Other	-8	-68
Net cash used in financing activities	-2,375	-20,937
Effect of exchange rate changes on cash and cash equivalents	388	-316
Net increase (decrease) in cash and cash equivalents	3,024	-13,794
Cash and cash equivalents at the beginning of year	39,387	58,993
Cash and cash equivalents at end of period	42,412	45,198

## Sales by business segment

Six months ended September 30, 2005							
(Millions of yen)	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 94,839	¥ 168,796	¥ 32,242	¥ 7,024	¥ 302,903	¥ —	¥ 302,903
Intersegment sales and transfers	—	—	—	4,716	4,716	-4,716	—
Total	94,839	168,796	32,242	11,740	307,619	-4,716	302,903
Operating expenses	87,746	161,325	30,364	10,913	287,350	-2,861	284,488
Operating income	10,092	7,471	1,877	826	20,269	-1,854	18,414

Six months ended September 30, 2004							
(Millions of yen)	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 91,880	¥ 155,523	¥ 32,411	¥ 7,471	¥ 287,287	¥ —	¥ 287,287
Intersegment sales and transfers	—	—	—	3,336	3,336	-3,336	—
Total	91,880	155,523	32,411	10,808	290,624	-3,336	287,287
Operating expenses	82,517	146,551	29,805	10,250	269,125	-1,293	267,831
Operating income loss	9,363	8,971	2,605	558	21,499	-2,043	19,456

## Sales by geographical segment

Six months ended September 30, 2005							
(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 181,480	¥ 43,224	¥ 49,306	¥ 28,891	¥ 302,903	¥ —	¥ 302,903
Interarea sales and transfers	45,888	227	4,076	6,155	56,348	-56,348	—
Total	227,369	43,451	53,383	35,046	359,251	-56,348	302,903
Operating expenses	211,788	42,106	51,766	32,813	338,475	-53,986	284,488
Operating income	15,580	1,344	1,616	2,233	20,776	-2,361	18,414

Six months ended September 30, 2004							
(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 173,192	¥ 40,022	¥ 48,461	¥ 25,611	¥ 287,287	¥ —	¥ 287,287
Interarea sales and transfers	40,122	260	2,993	5,485	48,861	-48,861	—
Total	213,314	40,282	51,454	31,096	336,148	-48,861	287,287
Operating expenses	197,746	39,076	48,724	29,403	314,951	-47,120	267,831
Operating income	15,567	1,205	2,730	1,693	21,197	-1,741	19,456

## Sales by customer location

### Six months ended September 30, 2005

(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 44,560	¥ 49,682	¥ 52,312	¥ 146,555
Consolidated net sales	—	—	—	302,903
Ratio of overseas sales to consolidated net sales	14.7%	16.4%	17.3%	48.4%

### Six months ended September 30, 2004

(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 41,107	¥ 48,590	¥ 46,910	¥ 136,607
Consolidated net sales	—	—	—	287,287
Ratio of overseas sales to consolidated net sales	14.3%	16.9%	16.4%	47.6%

# 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.

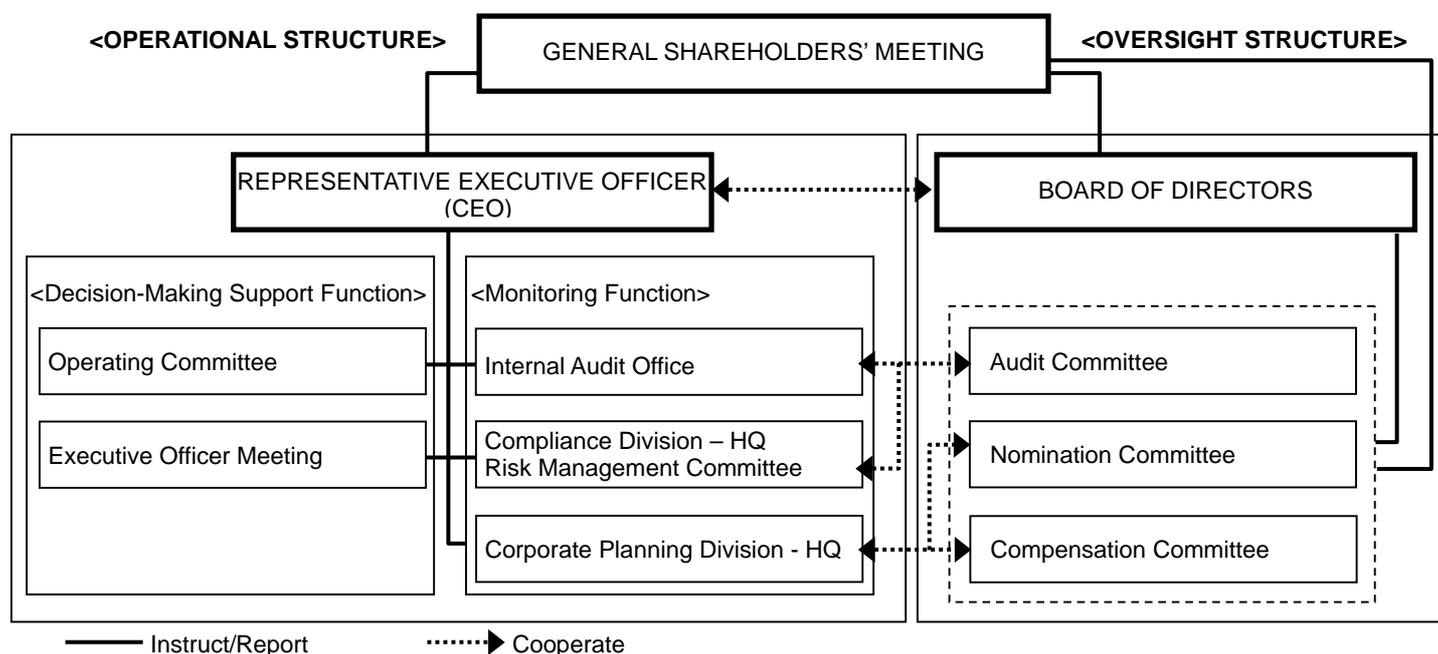
Beginning in 1999, NSK has continued to strengthen its corporate governance structure through measures such as introducing a voluntary executive officers system, appointing an independent director, and establishing a voluntary Executive Compensation Committee. To further accelerate this process, NSK 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 independent 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 September 30, 2005, there were 12 directors, including 4 independent 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 12 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 independent 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, including 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 2005 business results were Mr. Yasunobu Furukawa, Mr. Kazuhiro Sekiguchi, and Mr. Takao Kamiya, who were supported by a further 7 certified accountants and 13 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 Independent Directors**

Mr. Hiromu Okabe, who is one of our independent directors, is also Chairman of Denso Corporation, with which NSK has a business relationship. The other independent directors have no other affiliation with NSK, whether it be of a personal, capital, or any other nature.

### **Activities Implemented to Reinforce the Corporate Governance Structure in The First Half of Fiscal 2005**

The major meetings convened during the first half of fiscal year ended March 31, 2006 (between April 1, 2005 to September 30, 2005) were as follows:

General Shareholders' Meeting:	June 29, 2005
Board of Directors:	6 meetings
Compensation Committee:	2 meetings
Nomination Committee:	1 meetings
Audit Committee:	7 meetings

# Overview of the six months ended September 30, 2005

The Japanese economy recovered gradually in the first half of the period, backed by steady increases in consumer spending and capital investment, although weakness remained in the exporting and IT areas.

The economic environment in the U.S. remained healthy with increases in production and consumer expenditures. European economies exhibited steady recovery, although recovery of German domestic demand lagged. In Asia, countries such as China and Thailand continued to experience economic growth, although South Korea saw a decline in its exporting activities.

NSK group manufacturing locations continue to operate at maximum levels due to the positive global environment and healthy capital expenditures despite demand weakness in the semiconductor and LCD production equipment sector.

Our consolidated net sales for the first quarter ended September 30, 2005, totaled ¥302,903 million, a year-on-year increase of 5.4%. Efforts were made to offset increases in material costs through increases in sales prices, production enhancements activities, and reduction of procurement costs. However, our operating income was ¥18,414 million and ordinary income was ¥16,899 million, a year-on-year decrease of 5.4%, and 4.8% respectively, due to increases in capital expenditures and distribution costs.

The net income after adjusting for income taxes, deferred taxes and minority interests in earnings of consolidated subsidiaries, was ¥9,953 million, a year-on-year decrease of 15.8%, including extraordinary income such as gains on sales of investment securities and property, plant and equipment, and fixed assets equipment to ¥2,526 million and ¥1,434 million respectively, and extraordinary loss of restructuring expense for ¥1,811 million from our North American operation.

## Net sales by product category

### Industrial machinery bearings

Demand from the domestic machine tool industry, electric equipment, and the aftermarket strengthened during the course of the period. In the North America, demand from aftermarket became healthy. Demand from general industry and aftermarket in Europe, also became more robust due to sales expansion activities. However, sales in the electric and IT sectors declined in Asia. As a result, overall industrial machinery bearings sales amounted to ¥94,839 million, a year-on-year increase of 3.2%. Operating income was ¥10,092 million, a year-on-year increase of 7.8 %.

### Automotive products

Sales of HUB unit bearings used in wheels increased worldwide. Sales of automotive components also increased with strong domestic demand for electric power steering systems and automatic transmission components. There was also robust demand for steering columns in the Americas and Thailand. As a result, net sales increased 8.5% year-on-year to ¥168,796 million. Operating income was ¥7,471 million, a year-on-year decrease of 16.7%. This decrease can be attributed to increases in material prices, labor and capital expenditures, and distribution costs.

## Precision machinery and parts, mechatronic products

Demand for protofabrication equipment for LCD production equipment increased and demand for industrial machine and injection molding machines were healthy, while sales to semiconductor and liquid crystal equipment sectors declined. Overall sales totaled ¥32,242 million, a year-on-year decrease of 0.5%. Operating income was ¥1,877 million, a year-on-year decrease of 27.9%.

## Other

Sales of other products totaled ¥11,740 million, a year-on-year increase of 8.6% due to increase in sale of manufacturing equipment to NSK group companies. Operating income was ¥826 million, a year-on-year increase of 48.0%. This increase can be attributed to sales of non-core business in Europe.

## Net sales by region

### Japan

Due to the increase in sales of industrial machinery bearings and automotive products, overall sales in Japan totaled ¥227,369 million, a year-on-year increase of 6.6% despite the decrease in sales of precision machinery and parts due to weaker demand from the semiconductor and LCD production equipment sectors. Operating income was ¥15,580 million, no increase nor decrease compared to the previous year. This result was caused by increases in material price, labor costs, and capital expenditures made to increase production capacity, and selling, general and administrative expenses, although operation was effective with increases of sales.

### The Americas

Sales of industrial machinery bearings to the aftermarket in middle and South America were healthy, although sales to the electrical industry declined. The demand from automotive manufacturers pushed up sales of automotive products. Decrease in demand for semiconductor production equipment manufacturers lead to a decline in sales of precision machinery and parts. Net sales totaled ¥43,451 million, an increase of 7.9% compared to the same period last year. Operating income, which was affected by increase in sales and sales price in general industry, was ¥1,344 million, a decrease of 11.6% compared to the same period last year.

### Europe

Sales of industrial machinery bearings to general industrial sectors and aftermarket saw an increase. Automotive products were good in automotive bearings, while steering column declined. Net sales in Europe totaled ¥53,383 million, a year-on-year increase of 3.7%. Operating income recorded a profit of ¥1,616 million, a decrease of 40.8% compared to the same period of the previous year. This decrease is attributed to adverse exchange rate fluctuations and loss for doubtful receivables.

### Asia and Oceania

Although there was a decline of industrial machinery bearings in sales to the electric and IT sector in South Korea and the Asean nations, sales of automotive products in China, the Asean nations, and South Korea were robust. Overall, sales in Asia, supported by operation of increased production, totaled ¥35,046 million and operating income was ¥2,233 million, a year-on-year increase of 12.7% and 31.9% respectively.

## Financial Position

Looking at our consolidated cash flow for the first half of fiscal 2005, net cash flow provided by operating activities amounted to ¥20,295 million with increases in notes and accounts receivable and inventories, including ¥19,048 million in income before income taxes and minority interests, and ¥13,695 million provided by depreciation and amortization.

Despite gain on sales of investment securities, investments for future growth areas, consisting of the acquisition of property, plant and equipment used cash of ¥21,758 million, resulting in net cash flow used in investing activities to total ¥15,283 million.

Cash was used for payment for dividends resulting in net cash used in financing activities to total ¥2,375 million.

In aggregate, the net increase in cash and cash equivalents was ¥3,024 million, resulting in cash and cash equivalents at end of the half of the period to total ¥42,412 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	As of September 30, 2005
Ratio of net worth to total capital (%)	32.4	28.8	30.3	30.0	31.6
Ratio of net worth to total capital at market value (%)	47.1	29.3	44.5	47.3	51.2
Debt redemption period (Years)	9.0	8.6	6.5	3.6	—
Interest coverage ratio	4.2	4.1	6.1	11.3	8.9

- 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 (Not calculated for the interim term.)
- 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.

## Forecast for the year ending March 31, 2006

	(Millions of yen)
Net sales	¥ 620,000
Operating income	41,000
Ordinary income	37,000
Net income	22,500

U.S. rate hikes, rising crude oil prices, impact of the hurricanes and the direction of the Chinese economy continue to add to market uncertainty. Still, sales of industrial machinery bearings, as well as automotive products, continued to increase. Under these conditions, NSK forecasts net sales of ¥620,000 million for the full year ending March 31, 2006. Operating income, ordinary income and net income are forecasted at ¥41,000 million, ¥37,000 million and ¥22,500 million, respectively.

Please note that the forecasts for the second half of fiscal 2005 have been calculated based on a foreign exchange rate of U.S. \$1=¥108, 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.

## 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. Asbestos, which is now a prohibited substance, was once used in some of the manufacturing locations. The Company recognizes that a huge expense may be incurred in removing asbestos from these premises.

#### 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.