

# NSK Ltd.

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

For Immediate Release

July 29, 2004

## CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED JUNE 30, 2004 (unaudited)

### Financial highlights

	First quarter ended June 30 2004	First quarter ended June 30 2003	Change
(Millions of yen)			
Net sales	¥ 140,268	¥125,699	
Operating income	9,530	4,148	
Ordinary income	8,480	3,414	
Net income	4,853	1,355	
(Yen)			
Net income per share			
Basic	¥ 9.00	¥ 2.51	
Diluted	8.87	—	

### Financial position

	As of June 30, 2004	As of March 31, 2004
(Millions of yen)		
Total assets	¥ 628,905	¥ 621,877
Shareholders' equity	177,708	188,662
(%)		
Shareholders' equity to total assets	28.3%	30.3%
(Yen)		
Shareholders' equity per share	¥ 329.53	¥ 349.83

### Cash Flow

	First quarter ended June 30 2004	First quarter ended June 30 2003
(Millions of yen)		
Net cash provided by operating activities	¥ 17,450	¥ 9,879
Net cash used in investing activities	-5,589	-2,556
Net cash used in financing activities	-7,481	-1,404
Cash and cash equivalents at end of the year	62,910	64,996

# Consolidated balance sheets

(Millions of yen)	As of June 30, 2004	As of March 31, 2004	Increase/ Decrease
<b>Assets</b>			
Current assets	¥ 304,730	¥ 295,491	¥ 9,239
Cash and deposits	47,443	43,533	3,910
Notes and accounts receivable	122,897	121,208	1,689
Marketable securities	9,396	9,385	11
Inventories	77,188	75,905	1,283
Deferred tax assets	12,412	11,447	965
Other current assets	36,645	35,263	1,382
Less allowance for doubtful accounts	-1,253	-1,252	-1
Non-current assets	324,174	326,386	-2,212
Property, plant and equipment	194,991	196,810	-1,819
Buildings and structures	62,834	63,721	-887
Machinery and transportation equipment	91,059	90,493	566
Land	25,903	26,426	-523
Other property, plant and equipment	15,193	16,169	-976
Intangible assets	8,529	8,368	161
Investments and other assets	120,653	121,207	-554
Investment securities	88,641	88,483	158
Deferred tax assets	4,088	3,619	469
Prepaid pension costs	21,707	22,223	-516
Other investments and other assets	8,053	8,595	-542
Less allowance for doubtful accounts	-1,837	-1,714	-123
<b>Total assets</b>	<b>¥ 628,905</b>	<b>¥ 621,877</b>	<b>¥ 7,028</b>

**Consolidated balance sheets** (Continued)

(Millions of yen)	As of June 30, 2004	As of March 31, 2004	Increase/ Decrease
<b>Liabilities</b>			
Current liabilities	¥ 242,771	¥ 245,588	¥ -2,817
Notes and accounts payable	89,192	83,713	5,479
Short-term loans	81,661	77,418	4,243
Current portion of bonds payable	26,989	36,989	-10,000
Income taxes payable	3,588	6,708	-3,120
Other current liabilities	41,339	40,759	580
Long-term liabilities	196,175	175,548	20,627
Bonds payable	70,000	70,000	—
Long-term loans	62,273	62,141	132
Deferred tax liabilities	20,090	16,722	3,368
Accrued employees' retirement benefits	34,429	17,316	17,113
Accrued officers' retirement benefits	—	1,729	-1,729
Other long-term liabilities	9,381	7,638	1,743
<b>Total liabilities</b>	<b>438,947</b>	<b>421,137</b>	<b>17,810</b>
Minority interests	12,249	12,077	172
<b>Shareholders' equity</b>			
Common stock	67,176	67,176	—
Capital surplus	77,923	77,923	—
Retained earnings	46,488	58,856	-12,368
Unrealized holding gains on securities	20,201	19,127	1,074
Translation adjustments	-29,710	-30,061	351
NSK treasury stock	-4,371	-4,361	-10
<b>Total shareholders' equity</b>	<b>177,708</b>	<b>188,662</b>	<b>-10,954</b>
<b>Total liabilities and shareholders' equity</b>	<b>¥ 628,905</b>	<b>¥ 621,877</b>	<b>¥ 7,028</b>

# Consolidated statements of income

(Millions of yen)	First quarter	First quarter	Change
	ended June 30 2004	ended June 30 2003	
			%
Net sales	¥ 140,268	¥ 125,699	11.6
Cost of sales	108,685	99,887	8.8
Selling, general and administrative expenses	22,052	21,664	1.8
Operating income	<u>9,530</u>	<u>4,148</u>	<u>129.7</u>
Non-operating income:	<u>1,878</u>	<u>1,872</u>	<u>0.4</u>
Interest and dividend income	597	499	19.5
Equity in earnings of affiliated companies	551	774	-28.8
Other	729	597	22.1
Non-operating expenses:	<u>2,928</u>	<u>2,606</u>	<u>12.4</u>
Interest expenses	1,292	1,587	-18.6
Other	1,635	1,018	60.6
Ordinary income	<u>8,480</u>	<u>3,414</u>	<u>148.4</u>
Extraordinary income:	<u>650</u>	<u>707</u>	<u>-8.1</u>
Gain on sales of investment securities	650	194	234.5
Gain on sales of investments in affiliated companies	—	513	—
Extraordinary losses:	<u>68</u>	<u>101</u>	<u>-32.3</u>
Loss on sales of investments in affiliated companies	68	101	-32.3
Income before income taxes and minority interests	<u>9,062</u>	<u>4,020</u>	<u>125.4</u>
Income taxes:			
Current taxes	2,688	5,647	-52.4
Deferred taxes	1,179	-3,122	—
Minority income in earnings of consolidated subsidiaries	341	140	142.5
Net income	<u>¥ 4,853</u>	<u>¥ 1,355</u>	<u>258.2</u>

# Consolidated statement of surplus

(Millions of yen)	First quarter ended June 30 2004	First quarter ended June 30 2003	Increase/ Decrease
<b>Capital surplus</b>			
Capital surplus at the beginning of period	¥ 77,923	¥ 77,923	—
Capital surplus at the end of period	¥ 77,923	¥ 77,923	—
<b>Retained earnings</b>			
Retained earnings at the beginning of period	¥ 58,856	¥ 48,366	¥ 10,490
Increase in retained earnings	¥ 4,853	¥ 1,355	¥ 3,498
Net income	4,853	1,355	3,498
Decrease in retained earnings	¥ 17,221	¥ —	¥ 17,221
Loss on retirement benefit liabilities of UK subsidiaries	17,221	—	17,221
Retained earnings at the end of period	¥ 46,488	¥ 49,721	¥ -3,233

# Consolidated statements of cash flows

(Millions of yen)

	First quarter ended June 30 2004	First quarter ended June 30 2003
<b>Operating activities</b>		
Income before income taxes and minority interests	¥ 9,062	¥ 4,020
Depreciation and amortization	6,381	6,407
Amortization of excess of cost over net assets acquired	142	—
Increase (decrease) in allowance for doubtful accounts	141	265
Increase (decrease) in provision for retirement benefits	986	1,328
Interest and dividend income	-597	-499
Interest expense	1,292	1,587
Equity in earnings of affiliated companies	-551	-774
Gain on sales of investment securities	-650	-194
Loss on devaluation of investment securities	68	108
Gain on sales of investments in affiliated companies	—	-513
(Increase) in notes and accounts receivable	-2,265	-1,531
(Increase) decrease in inventories	-2,048	750
Increase (decrease) in notes and accounts payable	5,613	-1,640
Other	5,239	4,624
Subtotal	22,815	13,938
Interest and dividends received	2,529	1,425
Interest paid	-1,547	-1,901
Income taxes paid	-6,347	-3,583
Net cash provided by operating activities	17,450	9,879
<b>Investing activities</b>		
Additions to property, plant and equipment	-7,111	-3,552
Proceeds from sales of property, plant and equipment	1,017	1,842
Acquisition of investment securities	-43	-14
Proceeds from sales of investment securities	1,033	510
Sales of investment in affiliated companies, net of cash	—	-218
Payments for advances	-89	-216
Proceeds from collection of advances	22	38
Other	-418	-945
Net cash used in investing activities	-5,589	-2,556
<b>Financing activities</b>		
Net increase (decrease) in short-term bank loans	4,520	-1,402
Long-term debt – borrowing	736	1,947
Long-term debt – repayments	-655	-560
Payments for redemption of bonds	-10,000	—
Payments for acquisition of NSK treasury stock	-8	-2
Dividends paid	-1,926	-1,198
Dividends paid to minority stockholders	-112	-37
Other	-35	-150
Net cash used in financing activities	-7,481	-1,404
Effect of exchange rate changes on cash and cash equivalents	-461	139
Net increase (decrease) in cash and cash equivalents	3,917	6,058
Cash and cash equivalents at beginning of the year	58,993	58,938
Cash and cash equivalents at end of the year	¥ 62,910	¥ 64,996

## Sales by product segment

First quarter ended June 30, 2004							
(Millions of yen)	Industrial bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 45,235	¥ 75,410	¥ 15,987	¥ 3,635	¥ 140,268	¥ —	¥ 140,268
Inter-segment sales and transfers	—	—	—	608	608	-608	—
<b>Total</b>	<b>45,235</b>	<b>75,410</b>	<b>15,987</b>	<b>4,244</b>	<b>140,877</b>	<b>-608</b>	<b>140,268</b>
Operating expenses	40,648	70,825	14,986	4,099	130,558	179	130,738
Operating income (loss)	¥ 4,587	¥ 4,584	¥ 1,001	¥ 145	¥ 10,318	¥ -788	¥ 9,530

First quarter ended June 30, 2003							
(Millions of yen)	Industrial bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 43,479	¥ 69,109	¥ 9,463	¥ 3,646	¥ 125,699	¥ —	¥ 125,699
Inter-segment sales and transfers	—	—	—	1,326	1,326	-1,326	—
<b>Total</b>	<b>43,479</b>	<b>69,109</b>	<b>9,463</b>	<b>4,973</b>	<b>127,025</b>	<b>-1,326</b>	<b>125,699</b>
Operating expenses	41,024	66,233	10,259	4,602	122,120	-569	121,551
Operating income (loss)	¥ 2,455	¥ 2,875	¥ -796	¥ 371	¥ 4,905	¥ -757	¥ 4,148

## Sales by geographic segment

First quarter ended June 30, 2004							
(Millions of yen)	Japan	The Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 84,827	¥ 19,385	¥ 23,503	¥ 12,552	¥ 140,268	¥ —	¥ 140,268
Inter-area sales and transfers	19,336	93	1,334	2,532	23,296	-23,296	—
<b>Total</b>	<b>104,163</b>	<b>19,478</b>	<b>24,837</b>	<b>15,085</b>	<b>163,564</b>	<b>-23,296</b>	<b>140,268</b>
Operating expenses	96,750	18,870	23,569	14,297	153,487	-22,749	130,738
Operating income (loss)	¥ 7,412	¥ 608	¥ 1,268	¥ 787	¥ 10,076	¥ -546	¥ 9,530

First quarter ended June 30, 2003							
(Millions of yen)	Japan	The Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 73,822	¥ 18,416	¥ 22,239	¥ 11,220	¥ 125,699	¥ —	¥ 125,699
Inter-area sales and transfers	19,296	62	976	2,699	23,035	-23,035	—
<b>Total</b>	<b>93,118</b>	<b>18,478</b>	<b>23,216</b>	<b>13,920</b>	<b>148,734</b>	<b>-23,035</b>	<b>125,699</b>
Operating expenses	88,931	18,183	23,354	12,631	143,100	-21,549	121,551
Operating income (loss)	¥ 4,187	¥ 295	¥ -137	¥ 1,289	¥ 5,633	¥ -1,485	¥ 4,148

## Sales by customer location

### First quarter ended June 30, 2004

(Millions of yen)	<u>The Americas</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
Overseas sales	¥ 19,879	¥ 23,491	¥ 23,160	¥ 66,531
Consolidated sales				140,268
Ratio of overseas sales to consolidated sales	% 14.2	% 16.7	% 16.5	% 47.4

### First quarter ended June 30, 2003

(Millions of yen)	<u>The Americas</u>	<u>Europe</u>	<u>Asia</u>	<u>Total</u>
Overseas sales	¥ 18,756	¥ 22,251	¥ 19,091	¥ 60,098
Consolidated sales				125,699
Ratio of overseas sales to consolidated sales	% 14.9	% 17.7	% 15.2	% 47.8

# Overview of the first quarter ended June 30, 2004

The Japanese economy recorded strong first quarter results, backed by the increase in capital expenditures and sharp recovery in corporate revenue, although weakness remained in the job market.

The economic environment overseas is also looking better, with both the U.S. and European economies on course towards a steady recovery, while in Asia, countries such as China and Thailand continued to experience economic growth

NSK continues to implement profitability improvement measures through production innovation activities and the implementation of strategic business plans, such as the expansion of our business in China. As a result, our consolidated net sales for the first quarter ended June 30, 2004, totaled ¥140,268 million, a year-on-year increase of 11.6%. Operating income was ¥9,530 million, ordinary income was ¥8,480 million, and net income was ¥4,853 million, a year-on-year increase of 129.7%, 148.4% and 258.2%, respectively.

## Net sales by product category

### Industrial Bearings

Robust demand from the domestic machine tool industry, general machinery sector and the aftermarket continued throughout the first quarter of fiscal 2004. Demand in Europe was affected by the delay in economic recovery, but sales were stable in the Americas and strong in Asia. As a result, overall industrial bearings sales amounted to ¥45,235 million, a year-on-year increase of 4.0%. The increase in profits in Japan and Europe contributed to operating income of ¥4,587 million, a year-on-year increase of 86.8%.

### Automotive products

Demand for automotive bearings in Japan was healthy, especially for needle roller bearings used in automatic transmissions. Overseas sales increased sharply, with demand in the Americas recovering from the previous year's weak results, and sales expansion activities in Europe and Asia beginning to bear fruit.

Sales of automotive components increased both in Japan and overseas, with an increase in domestic demand for electric power steering systems and automatic transmission components, and strong sales of steering columns in the Americas and Thailand.

As a result, sales increase 9.1% year-on-year to ¥75,410 million. Operating income was ¥4,584 million, a year-on-year increase of 59.5%, as result of profit increases in Japan and Europe.

### Precision machinery and parts

Demand from the semiconductor and liquid crystal display color filter production equipment manufacturers increased dramatically, and sales to the machine tool industry and general industrial sector continued to be strong, resulting in higher sale levels in Japan, the Americas and Asia. Overall sales totaled ¥15,987 million, a year-on-year increase of 68.9%. Operating income was ¥1,001 million compared to the ¥796 million operating loss for the same period last year.

### Other products

Sales of other products totaled ¥4,244 million, a year-on-year decrease of 14.7% due to the decrease in exports of manufacturing equipment. Operating income was ¥145 million, a year-on-year decrease of 60.8%.

## Net sales by region

### Japan

The recovery in capital expenditures led to an increase in sales of industrial bearings to the machine tool industry, general machinery sector and the aftermarket. Sales of automotive products such as electric power steering systems, automatic transmission components and needle roller bearings were also robust. Sales of precision machinery and parts to the semiconductor and liquid crystal display production equipment manufacturers, general machinery sector and machine tool industry also saw a sharp increase.

As a result, overall sales totaled ¥104,163 million and operating income was ¥7,412 million, a year-on-year increase of 11.9% and 77.0% respectively.

### The Americas

The recovery of the U.S. economy and strong sales to the Japanese automotive transplants pushed up sales of automotive products, while the recovery in demand from the semiconductor production equipment manufacturers lead to a sharp increase in precision machinery and parts sales. However, due to the negative effect of foreign exchange translations, the growth in sales was reduced to a year-on-year increase of 5.4%. Sales totaled ¥19,478 million and operating income was ¥608 million, an increase of 106.2% compared to the same period last year.

### Europe

Due to the delayed recovery of the European economy, sales of industrial bearings and precision machinery and parts were disappointing. On the other hand, sales of automotive products were robust, with sales expansion activities resulting in an increase in automotive bearing sales. Together with the positive effect of foreign exchange translations, sales in Europe totaled ¥24,837 million, a year-on-year increase of 7.0%, while operating income recorded a profit of ¥1,268 million compared to the ¥137 million operating loss in the previous year.

### Asia and Oceania

Although there was a decline in sales to the electric and IT sector in the Asean nations, strength continued in demand for industrial bearings, backed by strong demand from China. Sales of automotive products in Thailand were also robust. Overall, sales in Asia totaled ¥15,085 million, a year-on-year increase of 8.4%. Due to the appropriation of initial expenses related to the launching of new production facilities in China, operating income decreased 39.0% compared to the same period last year to ¥787 million.

## Cash Flow

Cash flow provided by operating activities in the first quarter of fiscal 2004 was ¥17,450 million with income before income taxes and minority interests providing ¥9,062 million, depreciation and amortization providing ¥6,381 million, increase in notes and accounts receivable using ¥2,265 million and increase in notes and accounts payable providing ¥5,613 million in cash.

Additions to property, plant and equipment used ¥7,111 million in cash, while proceeds from sales of property, plant and equipment provided cash of ¥1,017 million. As a result, net cash flow used in investing activities totaled ¥5,589 million.

Cash flow used in financing activities was ¥7,481 million, with ¥10,000 million in cash used to reimburse corporate bonds and ¥1,926 million used to pay dividends, while ¥4,520 million was provided by the net increase in short-term bank loans.

In aggregate, the net increase in cash and cash equivalents was ¥3,917 million, resulting in cash and cash equivalents at the end of the quarter to total ¥62,910 million.

# Forecast for the year ending March 31, 2005

(Millions of yen)	Six months ending September 30	Year ending March 31
	2004	2005
Net sales	¥ 285,000	¥ 567,000
Operating income	18,500	37,000
Ordinary income	15,500	30,000
Net income	9,000	17,500

<Reference> Projected net income per share for the year ending March 31, 2005: ¥32.45

Although we anticipate a slow-down in the economic recovery in the U.S. and uncertainty surrounds the sustainability of China's rapid economic expansion, we expect the current robust demand for our automotive products, precision machinery and parts, and industrial bearings to continue into the second quarter of fiscal 2004. Therefore, we have decided to revise our forecast for the six months ending September 30, 2004 upward.

Our new six month forecast for sales, operating income, ordinary income, and net income are as shown above. The previous forecast was ¥273,000 million, ¥16,500 million, ¥12,500 million, and ¥7,000 million, respectively.

Accordingly, we have also revised our year-end forecasts. Our previous year-end forecast for sales, operating income, ordinary income, and net income were ¥555,000 million, ¥35,000 million, ¥27,000 million and ¥15,500 million, respectively.

## Note

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.