

Financial Review

The Nissin Kogyo Group is made up of the parent company, three domestic and eight overseas consolidated subsidiaries, and four affiliates accounted for by the equity method. Group companies are primarily engaged in the manufacture and sales of brake systems and components for automobiles.

Business Results

In the fiscal year ended March 31, 2003, net sales climbed 14.3% to ¥114,032 million, buoyed by higher sales in North America and Asia. While cost of sales rose 14.1% year on year to ¥94,475 million in line with the higher sales, efforts to rein in costs resulted in an improvement in the cost of sales ratio by 0.2 of a percentage point to 82.8%.

Selling, general and administrative (SG&A) expenses jumped 22.4% to ¥6,896 million, with SG&A expenses as a percentage of net sales 0.5 of a percentage point higher at 6.1%. This increase was mainly attributable to higher R&D expenses in Japan and expenses incurred in launching new products, coupled with increased R&D expenses in North America. The preceding factors resulted in operating income of ¥12,660 million, an 11.7% improvement over the previous year. The operating income ratio dipped 0.3 of a percentage point to 11.1%.

Other expenses of ¥977 million were recorded, compared with other income of ¥1,034 million in the previous year. The main component of this was a currency exchange loss of ¥1,270 million stemming from sharp appreciation of the yen and depreciation of the Brazilian *real*. As a result, income before income taxes and minority interests slipped 5.6% to ¥11,683 million, with net income declining 18.7% to ¥5,133 million. Earnings per share (primary) fell from ¥435.72 in the previous year to ¥232.44. (Earnings per share (primary) changed from ¥435.72 to ¥290.48 following a 1-1.5 stock split in May 2002). Dividend per share was ¥21 for the year.

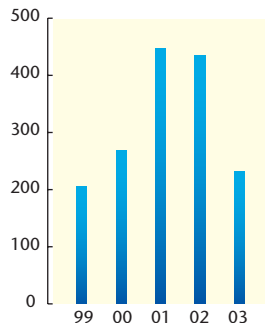
Breakdown by Geographic Segment

Japan—Sales edged down 2.2% year on year to ¥54,356 million, due largely to the elimination of higher sales to consolidated subsidiaries, such as a local Thailand-based company that was made into a subsidiary. This was despite a higher capacity utilization rate resulting from the launch of new types of ABS and knuckles. Operating income declined 6.6% to ¥6,644 million, primarily from steps taken to respond to calls from customers for lower pricing, increased costs for launching new products, and the effect of foreign currency translation.

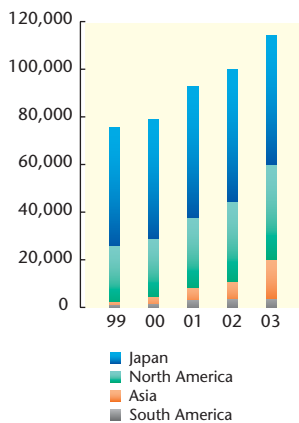
North America—Sales rose 18.1% year on year to ¥40,009 million, owing to increased production in North America by Japanese automakers, an increasing number of cars fitted with the company's ABS, and expanded sales of parts for all-terrain vehicles (ATVs). Operating income, meanwhile, fell 36.5% to ¥1,530 million, triggered by an increase in R&D expenses, and other expenses incurred in the marketing of new products as well as the effects of a prolonged strike by dock workers in the United States.

Asia—Sales soared 132.1% year on year to ¥16,174 million on a continuation of robust demand for motorcycles and four-wheeled vehicles in Indonesia, which boosted sales by ¥3,017 million. This was accompanied by an increase in sales of ¥5,301 million from the consolidation of a Thai company previously accounted for by the equity method. Operating income also climbed 96.3% to ¥4,208 million, lifted by a ¥1,345 million increase in earnings in Indonesia on the higher sales and consolidation of the former equity-method affiliate in Thailand.

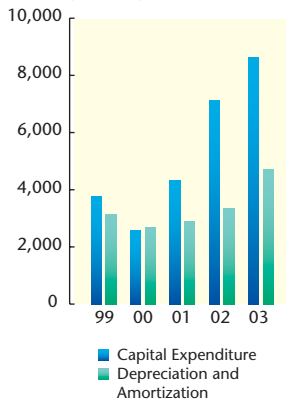
Net Income Per Share
(Primary)
(¥)



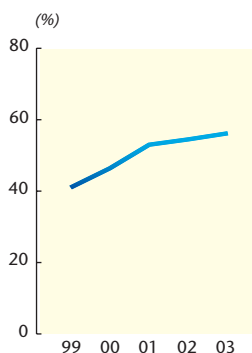
Net Sales by Geographic Segment
(¥ millions)



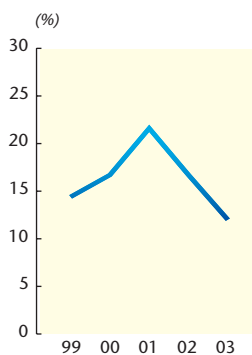
Capital Expenditure/
Depreciation and Amortization
(¥ millions)



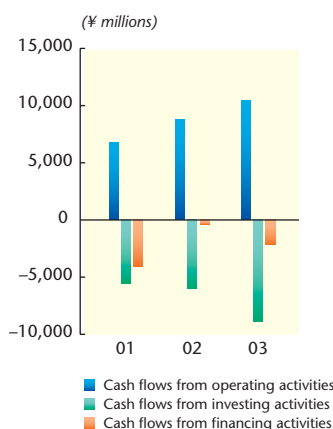
Shareholders' Equity Ratio



Return on Equity



Cash Flows



South America—Despite negative effects stemming from currency translation differences, strong demand for motorcycles lifted sales 4.0% higher to ¥3,491 million. Operating income rose 154.3% year on year to ¥456 million on higher sales and the benefits of cost-reduction activities.

Capital Expenditures

Capital expenditures increased 21.3% during the year to ¥8,641 million. Reasons for this increase included the launch of new products, as well as steps taken to augment supply capabilities to cope with expanding markets. Other contributing factors were measures enacted to achieve a sturdier business structure and additional R&D investments.

R&D Expenditures

R&D expenditures increased 29% to ¥4,583 million during the year. By the fiscal year ending March 2005, R&D expenditures are anticipated to nearly double those for the year ended March 31, 2002, with the number of R&D personnel set to grow 1.5 times. These targeted increases are expected to impart a substantial boost to product and production technology development capabilities, while further broadening and strengthening Nissin Kogyo's quad-polar R&D organization spanning Japan, Asia, the United States and Europe.

Financial Position

Total assets at the fiscal year-end amounted to ¥77,944 million, a year-on-year increase of ¥1,980 million. Current assets ended ¥1,601 million higher at ¥40,031 million, the net effect of a ¥917 million decline in marketable securities and a ¥2,111 million increase in notes and accounts receivable. Property, plant and equipment rose ¥2,714 million over the previous fiscal year-end to ¥25,779 million, due to a ¥6,099 million increase in machinery and transportation equipment. Investments and other assets fell ¥2,335 million to ¥12,133 million, mainly the result of a ¥2,244 million decline in investment securities compared to the previous fiscal year-end.

Current liabilities rose ¥170 million to ¥24,769 million. Long-term liabilities, meanwhile, declined ¥1,092 million to ¥2,545 million, mostly due to a ¥1,070 million decrease in deferred income taxes.

Shareholders' equity rose ¥2,420 million to ¥43,816 million due to an increase of ¥4,678 million in retained earnings compared with the previous year-end. As a result, the equity ratio rose 1.7 percentage points to 56.2%. Return on equity declined 4.7 percentage points to 12.0%.

Cash Flows

Cash and cash equivalents stood at ¥9,533 million, a decline of ¥855 million compared with the previous fiscal year-end.

Net cash provided by operating activities increased ¥1,649 million to ¥10,439 million, largely due to income before income taxes and minority interests of ¥11,683 million and depreciation and amortization of ¥4,712 million. These factors were partly offset by income taxes paid of ¥5,037 million.

Net cash used in investment activities rose ¥2,873 million to ¥8,870 million. The main reason for this increase was an outlay of ¥8,641 million for the purchase of property and equipment in line with an aggressive regimen of capital expenditures.

Free cash flows declined ¥1,225 million to ¥1,569 million.

Net cash used in financing activities increased ¥1,782 million to ¥2,148 million, primarily due to ¥795 million for the repayment of short-term bank loans, ¥402 million for the payment of dividends, and dividend payments to minority shareholders of ¥906 million.