

FINANCIAL REVIEW

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

Business Results

In the fiscal year ended March 31, 2005, consolidated net sales rose 12.8% year on year to ¥140,964 million. This mainly reflected increased sales volumes of ABS and VSA in Japan and the effects of expanded sales, as well as strong sales of brake products for motorcycles and aluminum products in the fast-growing Asian markets.

In line with higher sales, cost of sales rose 13.3% to ¥118,060 million from a year earlier, and the cost of sales ratio edged up 0.4 of a percentage point to 83.8%. Although selling, general and administrative (SG&A) expenses increased 11.7% to ¥8,310 million, they declined 0.1 of a percentage point to 5.8% as a percentage of net sales. Operating income was ¥14,593 million, up 9.6%. The operating income ratio declined 0.3 of a percentage point to 10.4%.

Other expenses, net improved from ¥1,343 million in the previous year to ¥946 million in the year under review. As a result, income before income taxes and minority interests increased 14.0% to ¥13,647 million. Net income rose 31.4% to ¥6,755 million. Earnings per share rose from ¥232.89 to ¥307.29. Finally, Nissin Kogyo paid a full-year dividend of ¥42 per share.

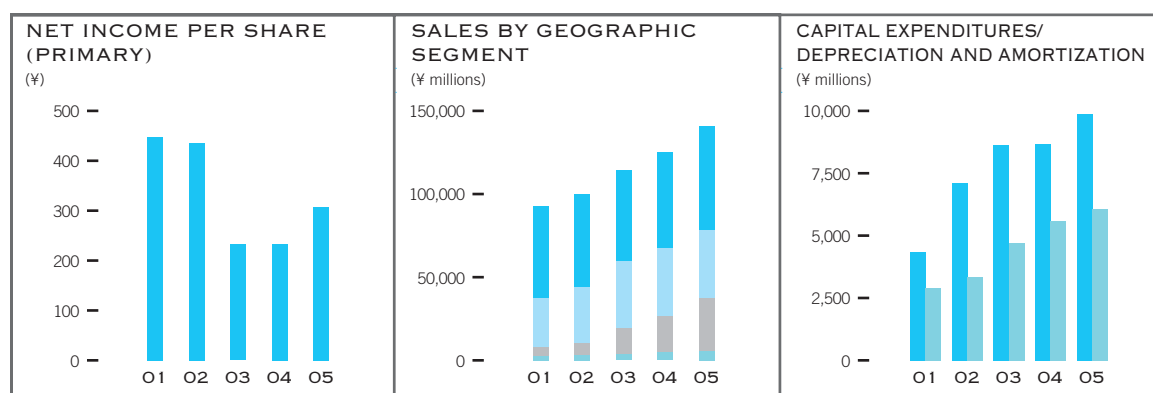
Breakdown by Geographic Segment

Japan—Sales increased 9.6% year on year to ¥62,727 million, mainly due to higher production of finished vehicles by major business partners and expanded sales to other companies. Operating income fell 9.4% to ¥5,186 million. This is largely attributable to surging steel prices and the appreciation of the yen against the U.S. dollar.

North America—Sales dropped 0.5% to ¥41,040 million. During the year under review, the segment posted higher revenues on a local currency basis, the result of strong sales of vehicles that underwent full model changes, an increased number of vehicles equipped with Nissin Kogyo products, and the start of full-scale production at certain U.S. motorcycle manufacturers, a new source of demand for the company's products. However, sales fell when converted into yen. Operating income was ¥1,141 million, down 38.4% from the previous year. Although the company absorbed lower sales prices caused by stiffer competition through cost reductions, earnings declined because of the higher cost of imported parts due to currency movements.

Asia—Sales jumped 44.8% to ¥31,547 million. This sharp rise in sales, despite the impact of currency exchange rates, was the result of favorable market conditions for motorcycles in ASEAN countries, expansion of the aluminum products business, and consolidation of a Chinese company. Although currency exchange rates impacted earnings, operating income rose 43.7% to ¥7,378 million, thanks to higher sales in Thailand and Indonesia and efforts to lower costs.

South America—Sales climbed 20.5% to ¥5,649 million, reflecting increased motorcycle production by major clients and expanded sales of aluminum products. Despite higher sales, operating income edged up only 3.1% to ¥637 million. This marginal increase was attributable to the effects of currency exchange rates and a shortening of the depreciation period for molds, an action taken to improve the company's financial position.



Note: A 1-1.5 stock split was conducted in May 2002.

Legend: Japan (dark blue), North America (light blue), Asia (grey), South America (teal)

Legend: Capital Expenditures (dark blue), Depreciation and Amortization (teal)

Capital Expenditures

Capital expenditures increased 13.9% during the year to ¥9,864 million. This was attributable to the construction of new factories in Indonesia, Thailand, China, and Vietnam to raise production capacity in order to respond to higher orders from local clients in the Asian region. Another factor was the completion of an integrated aluminum knuckle production line at U.S. subsidiary Nissin Brake Ohio.

R&D Expenditures

R&D expenditures rose 9.7% to ¥6,089 million compared to the previous fiscal year. During the year under review, VSA and a new aluminum rear caliper were newly adopted for use in two models and one model, respectively. In addition, Nissin Kogyo developed a new brake master cylinder, which is 30% shorter than conventional products. These cylinders were adopted for use in a variety of vehicles in Japan. ABS products specifically geared for motorcycles were selected for use by a U.S. manufacturer and three models in Japan. Finally, Nissin Kogyo developed a vertical brake master cylinder that features superior control and power for use in “super sports motorcycles.” This cylinder was adopted for use in two models in Japan.

Financial Position

Total assets at the fiscal year-end amounted to ¥96,897 million, up ¥12,698 million from the previous year. Current assets stood at ¥51,526 million, an increase of ¥8,904 million, due in large part to an increase in cash and bank deposits, and notes and accounts receivable accompanying higher sales. Property, plant and equipment, net rose ¥3,437 million to ¥31,103 million, the result mainly of an increase in machinery and equipment, and vehicles and fixtures for improving capacity. Finally, investments and other assets rose ¥357 million to ¥14,267 million.

Current liabilities increased ¥4,492 million to ¥29,384 million compared to a year ago. Long-term liabilities were ¥4,228 million, up ¥709 million. This was partially due to an increase in deferred income taxes.

Shareholders' equity, net rose ¥6,018 million to ¥54,295 million due to a ¥5,216 million year-on-year increase in consolidated retained earnings. The shareholders' equity ratio decreased 1.3 percentage points to 56.0%. Return on equity rose 2.0 percentage points to 13.2%.

Cash Flows

Cash and cash equivalents as of March 31, 2005 stood at ¥14,468 million, up ¥3,103 million compared with the previous fiscal year-end.

Net cash provided by operating activities was ¥13,291 million, or ¥224 million more than the previous year. The main components were income before income taxes and minority interests of ¥13,647 million and depreciation and amortization of ¥6,077 million, which were partially offset by income taxes paid of ¥3,492 million.

Net cash used in investing activities was ¥9,870 million, or ¥1,083 million more than the previous year, mainly due to cash of ¥9,864 million used to purchase property and equipment.

Free cash flows decreased ¥858 million from the previous year, to ¥3,421 million.

Net cash used in financing activities was ¥250 million, ¥1,862 million less than the previous year. This mainly reflected a ¥934 million increase in short-term borrowings, offset by ¥523 million for the payment of dividends, and dividends paid to minority shareholders of ¥659 million.

