

# Five-year Summary of Selected Financial Data

NTN Corporation and Consolidated Subsidiaries  
Years ended March 31

	<i>(Millions of yen except per share amount)</i>					<i>(Thousands of U.S. dollars except per share amount)</i>
	2004	2003	2002	2001	2000	2004
<b>FOR THE YEAR DATA</b>						
Net sales .....	¥ 357,394	¥ 342,745	¥ 324,339	¥ 340,551	¥ 326,474	\$ 3,381,531
Operating income .....	24,709	20,785	8,140	14,335	9,675	233,787
Income (loss) before income taxes* .....	18,181	6,198	(701)	6,888	(41,822)	172,022
Net income (loss) .....	11,032	2,657	(132)	4,289	(24,677)	104,381
Capital expenditures .....	38,092	25,264	21,088	24,123	26,013	360,413
Depreciation .....	23,979	23,838	24,400	23,402	24,122	226,880
R&D expenditures .....	13,543	12,255	11,706	10,618	9,779	128,139
<b>AT YEAR-END DATA</b>						
Total assets .....	¥ 460,341	¥ 467,198	¥ 462,895	¥ 478,945	¥ 494,677	\$ 4,355,578
Shareholders' equity .....	142,487	134,928	138,532	138,625	143,874	1,348,160
Number of employees .....	11,885	11,810	11,989	12,619	12,770	11,885
<b>PER SHARE DATA</b>						
Shareholders' equity .....	¥ 308.27	¥ 291.82	¥ 299.27	¥ 299.44	¥ 310.77	\$ 2.92
Net income (loss)						
–Basic .....	23.54	5.70	(0.29)	9.26	(53.30)	0.22
–Diluted .....	21.87	5.51	-	8.78	-	0.21
Cash dividends .....	5.50	5.00	5.50	6.00	6.50	0.05
<b>OTHER INFORMATION</b>						
Net income (loss)/Total assets (ROA) .....	2.4%	0.6%	(0.03%)	0.9%	(5.0%)	2.4%
Net income (loss)/Shareholders' equity (ROE) .....	8.0%	1.9%	(0.1%)	3.0%	(15.6%)	8.0%
Shareholders' equity ratio .....	31.0%	28.9%	29.9%	28.9%	29.1%	31.0%

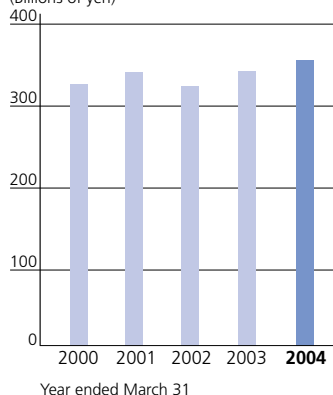
\* Income (loss) before income taxes and minority interests

	<i>Millions of yen</i>					<i>Thousands of U.S. dollars</i>
	2004	2003	2002	2001	2000	2004
<b>SEGMENT INFORMATION</b>						
By business						
Bearings .....	¥ 228,615	¥ 220,685	¥ 215,558	¥ 230,017	¥ 224,819	\$ 2,163,071
CVJs .....	102,959	98,875	86,785	86,318	81,382	974,160
Precision equipment .....	25,820	23,185	21,996	24,216	20,273	244,299
By region						
Japan .....	¥ 176,202	¥ 170,010	¥ 169,080	¥ 195,134	¥ 183,936	\$ 1,667,159
North America .....	86,084	92,696	87,774	85,925	86,399	814,495
Europe .....	58,243	47,871	38,748	30,449	27,602	551,074
Asia and other areas .....	36,865	32,168	28,737	29,043	28,537	348,803

Notes: 1) U.S. dollar amounts have been translated from yen, for convenience only, using the approximate exchange rate at March 31, 2004, which was U.S.\$1=¥105.69.

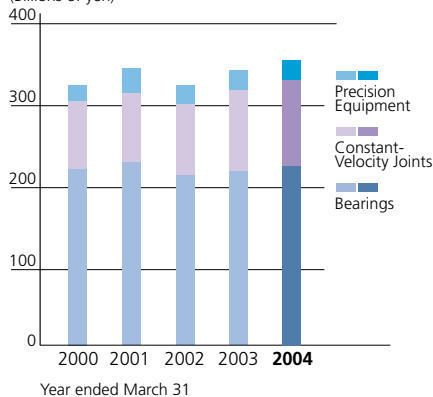
## Net sales

(Billions of yen)



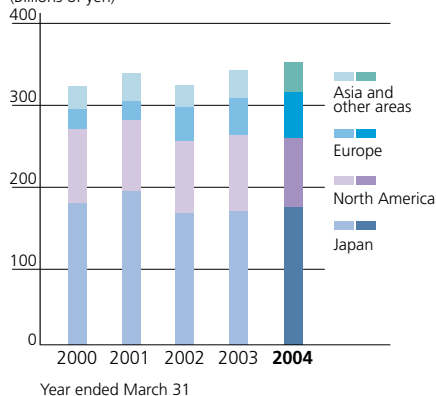
## Sales by business segment

(Billions of yen)



## Sales by region

(Billions of yen)



## Scope of Consolidation

As of March 31, 2004, NTN had 32 consolidated subsidiaries, including 9 domestic and 23 overseas subsidiaries. There were a total of five affiliates (overseas) that were accounted for by the equity method. The following were the changes in the scope of consolidation for the fiscal year under review.

- Consolidated (1 company added):
  - NTK Precision Axle Corp. (newly established)
- Equity method (2 companies added)
  - Beijing NTN-Seohan Driveshaft Co., Ltd. (newly established)
  - Asahi Forge of America Corp. (new investment)
- (1 company removed)
  - Société Nouvelle de Transmissions du Mans (Sold)

## Sales and Income

### Sales Performance

Consolidated net sales for the fiscal year ended March 31, 2004 amounted to ¥357,394 million, increasing ¥14,649 million, or 4.3% from the previous fiscal year. Consolidated net sales increase would have been to ¥16,928 million, excluding ¥2,279 million currency impact. Overseas sales totaled ¥181,192 million, rising ¥8,457 million, or 4.9% year-on-year. Overall, overseas sales contributed 50.7% of net sales, edging up 0.3% from the prior fiscal year. Overseas sales contributions by region were North America, 24.1%; Europe, 16.3%; and Asia and others, 10.3%.

### Sales by Business Segment

Regarding bearing business in Japan, sales for general machinery industry and for distributors increased, while automotive business also remained solid. Sales also increased to auto manufacturers in Europe, China, and the ASEAN countries. On the other hand, in North America, in addition to the impact of currency adjustments due to the weakening of the dollar, sales to the general machinery industry and distributors declined. Overall, however, sales of bearings increased ¥7,930 million, or 3.6%, to ¥228,615 million.

Constant-velocity joint (CVJ) sales rose ¥4,084 million, or 4.1%, to ¥102,959 million. Against the backdrop of the impact of currency adjustments due to the weakening of the dollar and price declines caused by intensified competition, sales struggled in Japan and North America. In Europe, however, sales to Renault increased substantially and the start up of mass-production by Guangzhou NTN-Yulon Drivetrain Co., Ltd., in China also contributed to the overall growth in CVJ sales.

Sales in the precision equipment segment were boosted by an increase in sales of liquid crystal repair devices and other systems. Sales climbed ¥2,635 million, or 11.4%, to ¥25,820 million.

### Sales by Region

In Japan, sales for general machinery such as construction machinery and machine tools increased, as did sales to distributors. Among automotive products, sale of CVJs showed sluggish growth, but bearing sales were robust. As a result, overall sales in Japan advanced ¥6,192 million, or 3.6%, to ¥176,202 million.

There was a recovery in the North American automobile market in the second half, but sales to general machinery industry and distributors were flat. In addition, the negative impact of the weakening U.S. dollar was a significant factor in the ¥6,612 million, or 7.1%, decline in North American sales, to ¥86,084 million.

European sales jumped ¥10,372 million, or 21.7%, to ¥58,243 million. The increase could be attributed to the appreciation of the Euro, a substantial increase in sales of CVJs, and solid sales of bearings to auto manufacturers.

In Asia and other areas, sales to auto manufacturers in ASEAN countries continued to be robust and the start up of mass-production by NTN-Nidec (Zhejiang) Corp. in China also contributed to sales growth. Overall sales in Asia and other areas rose ¥4,697 million, or 14.6%, to ¥36,865 million.

### ■ Cost of Sales and Selling, General and Administrative Expenses

Cost of sales amounted to ¥282,594 million, and the percentage of cost to overall sales improved 0.5% to 79.1%. This improvement was principally achieved through revisions in vendor prices and lower variable costs due reorganizing and consolidating suppliers, improvement in VAVE and personnel expenses reduction (achieved through the implementation of an early retirement program and productivity gains). These areas, which were specifically targeted under the Company's business structural reform programs, NEW Plan21, contributed to overall cost reductions.

Selling, general, and administrative expenses amounted to ¥50,091 million, and the percentage of cost to overall sales improved 0.3% to 14.0%. The improvement can be attributed to reduced personnel and other costs due to NEW Plan 21.

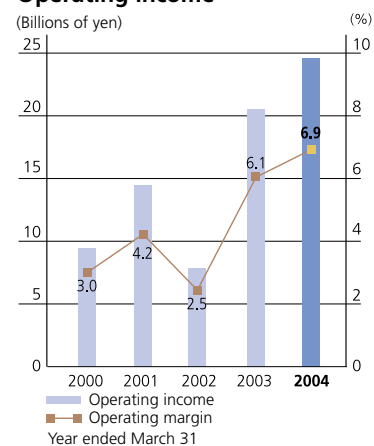
### ■ Income

Operating income climbed ¥3,924 million, or 18.9%, compared with the previous fiscal year, to ¥24,709 million. Operating margin edged up 0.8%, to 6.9% due to improvements in the ratios of selling, general and administrative expenses and cost of sales to net sales.

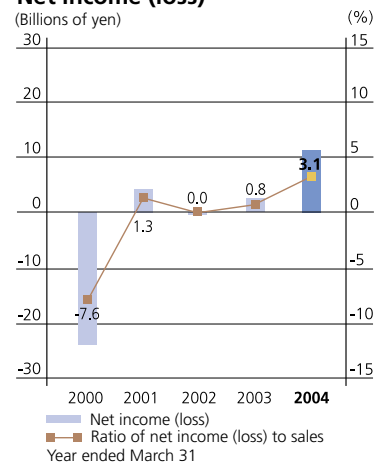
Other non-operating income and expenses amounted to a net expense of ¥6,528 million. Non-operating income totaled ¥863 million and included ¥569 million in equity in earnings of affiliates and ¥294 million in interest and dividend income. Non-operating expenses totaled ¥7,391 million. Among the major expense items were a ¥2,792 million interest paid, a ¥2,596 million in restructuring costs that included a ¥2,119 million loss on reorganization of production at a U.S subsidiary and a ¥477 million subsidiary reconciliation loss. In addition, interest paid, net of interest and dividends received, decreased ¥369 million. In the previous fiscal year, other non-operating income and expenses amounted to a net expense of ¥14,587 million due to a ¥14,485 million gain on return of substitutional portion of employees' Welfare Pension Fund Plan, ¥11,399 million in restructuring costs that included a ¥10,988 million provision of a reserve for the employees' early retirement program, a ¥411 million loss on the liquidation of a subsidiary, a ¥5,944 million for reserve provision for product defect compensation, and a ¥2,564 million loss on devaluation of investments in securities. In comparison, therefore, other non-operating income and expenses increased by ¥8,059 million during fiscal year 2003.

As a result, the Company reported income before income taxes and minority interests of ¥18,181 million, up ¥11,983 million from the previous year. Consolidated net income amounted to ¥11,032 million, increasing ¥8,375 million year-on-year. Net income per share for the fiscal year was ¥23.54 and cash dividends of ¥5.50 per share were declared.

#### Operating income



#### Net income (loss)



## R&D and Capital Expenditures

### ■ Research and Development

In line with its NEW Plan 21, the Company concentrated its business resources on strategic products—including CVJs, axle units, needle roller bearings, precision bearings, aerospace bearings, and automobile clutches—during fiscal 2003. In addition, the Company worked to shorten development times by pursuing an R&D structure that operates around the clock. Reflecting these efforts, R&D expenditures for the fiscal year increased ¥1,287 million, or 10.5%, to ¥13,543 million, representing 3.8% of consolidated net sales. The breakdown of R&D expenses by business segment was ¥7,688 million for bearings, up ¥777 million year-on-year; ¥4,760 million for CVJs, up ¥555 million; and ¥1,094 million for precision equipment, down ¥45 million from the prior fiscal year.

### ■ Capital Expenditures

Capital expenditures for the fiscal year were primarily focused on increasing production capacity, implementing labor savings and rationalization, maintaining and upgrading present facilities, enhancing the safety of those facilities, and new product R&D. In total, capital expenditures increased ¥12,828 million, or 50.8%, from the prior fiscal year to ¥38,092 million.

A total of ¥23,601 million was invested in the bearing segment, an increase of ¥9,046 million from the previous fiscal year. Expenditures were made for the expansion of hub bearing manufacturing facilities at American NTN Bearing Mfg. Corp. and for buildings, plant, and equipment at NTN-Nidec (Zhejiang) Corp. and Shanghai NTN Corp. Facilities at the parent company's Iwata Works' Needle Roller Bearing Plant and Kuwana Works also received investment.

In the CVJ segment, the Company increased its capital expenditures by ¥3,383 million, to ¥13,629 million. Major allocations included the expansion of manufacturing facilities at NTN Transmissions Europe and NTN Driveshaft, Inc. as well as facilities at the CVJ plants at NTN's Iwata Works.

Capital investment in precision equipment amounted to ¥861 million, up ¥399 million from the prior fiscal year. Funds were principally invested in manufacturing-related areas at the Company's Nagano Works.

All expenditures were funded with internally generated funds. Depreciation in the fiscal year under review amounted to ¥23,979 million, up ¥141 million year-on-year.

## Financial Position and Cash Flows

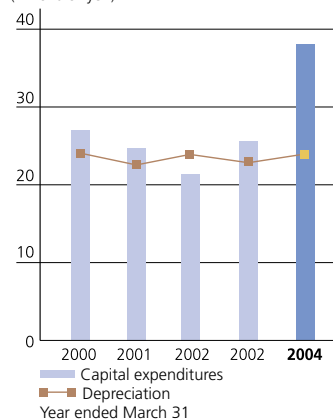
### ■ Financial Position

As of March 31, 2004, total assets amounted to ¥460,341 million, dropping ¥6,857 million from the previous year. The turnover ratio of total assets rose slightly from the previous fiscal year, increasing 0.05, to 0.78.

Total current assets at year-end amounted to ¥235,071 million, decreasing ¥11,369 million. Significant year-on-year changes are as follows: Inventories, for which cost reduction measures are proceeding with high priority, declined ¥9,164 million. Excluding the effect of ¥2,168 million in currency translations, inventory fell ¥6,995 million on a real basis. Cash and cash equivalents decreased ¥8,082 million, while notes and accounts receivable increased ¥4,734 million, reflecting sales growth. The inventory turnover ratio for the year improved 0.58 from the previous year to 4.28.

### Capital expenditures and depreciation

(Billions of yen)



Current liabilities at year-end were ¥169,685 million, decreasing ¥67,619 million. Major changes included a ¥50,000 million decrease in the current portion of unsecured bonds and a ¥10,988 million decrease in reserve for employees' early retirement program, which was implemented in May 2003. As a result, net working capital, excluding the current portion of long-term debt, increased ¥6,250 million to ¥65,386 million, and the liquidity ratio, excluding the current portion of long-term debt, increased 6.9% from the previous year to 138.5%.

Interest-bearing debt increased ¥2,645 million during the fiscal year. Excluding the effect of ¥4,575 million in currency translation adjustments, interest-bearing debt actually expanded ¥7,220 million. During the fiscal year, the Company redeemed a ¥50,000 million straight bond and made a ¥30,000 million straight bond issue and a ¥30,000 million Euro Yen Zero Coupon Convertible Bonds issue. The Company plans to apply these funds to capital investments in preparation for increased production in the current fiscal year and beyond. The interest-bearing debt-to-total assets ratio rose 1.0%, to 35.6%.

During the fiscal year, shareholders' equity increased ¥7,559 million, to ¥142,487 million. Major items included a ¥8,610 million advance in retained earnings, a ¥4,102 million increase in net unrealized holding gains on securities, and a ¥5,074 million decline in translation adjustments. The shareholders' equity ratio rose 2.1% from the previous fiscal year, to 31.0%. The shareholders' equity ratio on a market value basis was 52.8%, climbing 6.3% from the prior fiscal year. Based on shares outstanding at the end of the fiscal year, shareholders' equity per share amounted to ¥308.27, an increase of ¥16.45 per share year-on-year.

Note: Shareholders' equity ratio on a market value basis = market value of shares/total assets

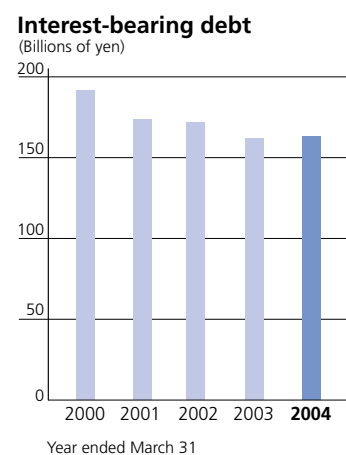
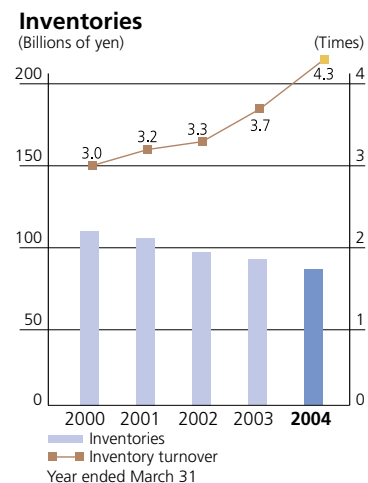
## ■ Cash Flows

For the fiscal year ended March 2004, net cash provided by operating activities amounted to ¥21,142 million, decreasing ¥27,279 million from the previous fiscal year. This decline can be mainly attributed to a special charge of ¥20,446 million in severance payments under the early retirement program.

From this net cash, the Company made expenditures of ¥36,414 million in payments for property, plant and equipment among net cash used in investing activities totaling ¥34,990 million, which were up ¥10,903 million year-on-year. In financing activities, the Company made bond redemptions totaling ¥50,000 million and earned ¥59,758 million in proceeds from bond issues. Net cash used in financing activities, therefore, amounted to ¥6,044 million, up ¥15,969 million from the previous fiscal year.

Currency adjustments reduced cash and cash equivalents by ¥328 million. As a result, cash and cash equivalents at end of the year totaled ¥42,158 million, down ¥8,082 million, from the prior fiscal year.

Excluding the severance payments under the early retirement program, net cash provided by operating activities was ¥41,588 million and net cash used in investing activities was ¥34,990 million. The difference—free cash flow—amounted to ¥6,598 million. In addition, excluding the severance payments under the early retirement program, the proportion of net cash provided by operating activities to net sales was 11.6%, declining 2.5% from the previous fiscal year.



# Consolidated Balance Sheets

NTN Corporation and Consolidated Subsidiaries  
March 31, 2004 and 2003

	2004	2003	2004
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents <i>(Note 3)</i> .....	¥ 42,158	¥ 50,240	\$ 398,884
Short-term investments .....	66	256	624
Trade receivables:			
Notes .....	18,568	17,843	175,684
Accounts .....	72,864	68,859	689,412
Allowance for doubtful accounts .....	(399)	(403)	(3,775)
	<b>91,033</b>	86,299	<b>861,321</b>
Inventories <i>(Note 4)</i> .....	83,565	92,729	790,661
Deferred income taxes <i>(Note 14)</i> .....	7,850	9,961	74,274
Other current assets .....	10,399	6,955	98,392
Total current assets .....	<b>235,071</b>	246,440	<b>2,224,156</b>
Property, plant and equipment <i>(Note 5)</i> :			
Land .....	23,792	22,095	225,111
Buildings and structures .....	109,756	109,091	1,038,471
Machinery, equipment and vehicles .....	427,992	429,469	4,049,503
Construction in progress .....	13,877	8,299	131,299
	<b>575,417</b>	568,954	<b>5,444,384</b>
Less accumulated depreciation .....	<b>(394,283)</b>	(393,036)	<b>(3,730,561)</b>
Property, plant and equipment, net .....	<b>181,134</b>	175,918	<b>1,713,823</b>
Investments and other assets:			
Investment securities <i>(Note 3)</i> .....	14,317	8,926	135,462
Investments in unconsolidated subsidiaries and affiliates .....	7,434	7,928	70,338
Deferred income taxes <i>(Note 14)</i> .....	17,409	23,385	164,718
Other assets .....	4,976	4,601	47,081
Total investments and other assets .....	<b>44,136</b>	44,840	<b>417,599</b>
Total assets .....	<b>¥ 460,341</b>	¥ 467,198	<b>\$ 4,355,578</b>

	2004	2003	2004
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
<b>Liabilities, minority interests and shareholders' equity</b>			
Current liabilities:			
Short-term bank loans <i>(Note 5)</i> .....	¥ 71,362	¥ 81,071	\$ 675,201
Current portion of long-term debt <i>(Note 5)</i> .....	1,224	50,953	11,581
Trade payables:			
Notes .....	28,231	27,052	267,111
Accounts .....	39,773	39,712	376,318
	<b>68,004</b>	66,764	<b>643,429</b>
Accrued income taxes <i>(Note 14)</i> .....	3,171	2,067	30,003
Deferred income taxes <i>(Note 14)</i> .....	13	13	123
Reserve for employees' early retirement incentive plans <i>(Note 13)</i> .....	-	10,988	-
Other current liabilities .....	25,911	25,448	245,160
Total current liabilities .....	<b>169,685</b>	237,304	<b>1,605,497</b>
Long-term liabilities:			
Long-term debt <i>(Note 5)</i> .....	91,505	29,422	865,787
Accrued retirement benefits for employees <i>(Note 6)</i> .....	46,305	53,646	438,121
Accrued retirement benefits for directors and statutory auditors .....	450	519	4,258
Reserve for product defect compensation .....	2,657	4,500	25,140
Deferred income taxes <i>(Note 14)</i> .....	2,093	2,863	19,803
Other long-term liabilities .....	1,669	1,866	15,791
Total long-term liabilities .....	<b>144,679</b>	92,816	<b>1,368,900</b>
Minority interests .....	3,490	2,150	33,021
Contingent liabilities <i>(Note 8)</i>			
Shareholders' equity <i>(Notes 7 and 17)</i> :			
Common stock .....			
Authorized – 800,000,000 shares .....			
Issued– 463,056,775 shares at March 31, 2004 and 2003 ..	39,599	39,599	374,671
Capital surplus .....	52,623	52,622	497,900
Retained earnings .....	59,332	50,722	561,378
Net unrealized holding gain on securities <i>(Note 14)</i> .....	4,967	865	46,996
Translation adjustments .....	(13,683)	(8,609)	(129,464)
	<b>142,838</b>	135,199	<b>1,351,481</b>
Treasury stock, at cost; 834,186 shares in 2004 and 681,313 shares in 2003 .....	(351)	(271)	(3,321)
Net shareholders' equity .....	<b>142,487</b>	134,928	<b>1,348,160</b>
Total liabilities, minority interests and shareholders' equity .....	¥ 460,341	¥ 467,198	\$ 4,355,578

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Income

NTN Corporation and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	2004	2003	2004
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
Net sales .....	¥ 357,394	¥ 342,745	\$ 3,381,531
Cost of sales (Note 12) .....	282,594	272,748	2,673,801
Gross profit .....	74,800	69,997	707,730
Selling, general and administrative expenses (Note 12) .....	50,091	49,212	473,943
Operating income .....	24,709	20,785	233,787
Other income (expenses):			
Interest and dividend income .....	294	326	2,782
Interest expense .....	(2,792)	(3,193)	(26,417)
Equity in earnings of affiliates .....	569	431	5,384
Gain on return of substitutional portion of employees' Welfare Pension Fund Plans (Note 6) .....	-	14,485	-
Restructuring costs (Note 13) .....	(2,596)	(11,399)	(24,562)
Provision for reserve for product defect compensation .....	-	(5,944)	-
Loss on devaluation of investment securities .....	-	(2,564)	-
Other, net .....	(2,003)	(6,729)	(18,952)
Income before income taxes and minority interests .....	18,181	6,198	172,022
Income taxes (Note 14):			
Current .....	3,021	4,259	28,583
Deferred .....	3,948	(1,046)	37,355
Income before minority interests .....	6,969	3,213	65,938
Minority interests in subsidiaries .....	11,212	2,985	106,084
Net income .....	(180)	(328)	(1,703)
Net income .....	¥ 11,032	¥ 2,657	\$ 104,381

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Shareholder's Equity

NTN Corporation and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	2004	2003	2004
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
<b>Common stock:</b>			
Balance at beginning and end of the year .....	¥ 39,599	¥ 39,599	\$ 374,671
<b>Capital surplus:</b>			
Balance at beginning of the year .....	¥ 52,622	¥ 52,622	\$ 497,890
Gain on sales of treasury stock .....	1	-	10
Balance at end of the year .....	¥ 52,623	¥ 52,622	\$ 497,900
<b>Retained earnings:</b>			
Balance at beginning of the year .....	¥ 50,722	¥ 50,409	\$ 479,913
Increase in retained earnings resulting from merger with an affiliate not accounted for by the equity method ....	-	2	-
Decrease in retained earnings resulting from merger with an unconsolidated subsidiary .....	(89)	-	(842)
Net income .....	11,032	2,657	104,381
Appropriations:			
Cash dividends .....	(2,311)	(2,314)	(21,866)
Bonuses to directors and statutory auditors .....	(22)	(26)	(208)
Loss on sales of treasury stock .....	-	(6)	-
Balance at end of the year .....	¥ 59,332	¥ 50,722	\$ 561,378
<b>Net unrealized holding gain on securities:</b>			
Balance at beginning of the year .....	¥ 865	¥ 1,425	\$ 8,184
Net change during the year .....	4,102	(560)	38,812
Balance at end of the year .....	¥ 4,967	¥ 865	\$ 46,996
<b>Translation adjustments:</b>			
Balance at beginning of the year .....	¥ (8,609)	¥ (5,435)	\$ (81,455)
Net change during the year .....	(5,074)	(3,174)	(48,009)
Balance at end of the year .....	¥ (13,683)	¥ (8,609)	\$ (129,464)

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

NTN Corporation and Consolidated Subsidiaries  
Years ended March 31, 2004 and 2003

	2004	2003	2004
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 1)</i>
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests .....	¥ 18,181	¥ 6,198	\$ 172,022
Adjustments for:			
Depreciation and amortization .....	23,979	23,838	226,880
Amortization of consolidation adjustments .....	(1,057)	–	(10,001)
Increase in allowance for doubtful accounts .....	32	244	303
Decrease in accrued retirement benefits for employees .....	(7,164)	(13,387)	(67,783)
Payments of employees' retirement benefits under employees' early retirement incentive plans .....	20,446	–	193,453
(Decrease) increase in accrued retirement benefits for directors and statutory auditors .....	(69)	28	(653)
(Decrease) increase in reserve for employees' early retirement incentive plans .....	(10,988)	10,988	(103,964)
(Decrease) increase in reserve for product defect compensation .....	(1,843)	4,500	(17,438)
Interest and dividend income .....	(294)	(326)	(2,782)
Interest expense .....	2,792	3,193	26,417
Translation adjustments and foreign exchange loss, net .....	648	491	6,131
Equity in earnings of affiliates .....	(569)	(431)	(5,384)
Loss on devaluation of investment securities .....	–	2,564	–
Increase in trade receivables .....	(7,262)	(3,606)	(68,710)
Decrease in inventories .....	7,192	4,197	68,048
Increase in trade payables .....	1,503	12,604	14,221
Payments of bonuses to directors and statutory auditors .....	(22)	(28)	(208)
Other .....	138	2,454	1,305
Subtotal .....	45,643	53,521	431,857
Interest and dividend income received .....	953	945	9,017
Interest expense paid .....	(2,921)	(3,231)	(27,637)
Payments of employees' retirement benefits under employees' early retirement incentive plans .....	(20,446)	–	(193,453)
Income taxes paid .....	(2,087)	(2,814)	(19,746)
Net cash provided by operating activities .....	21,142	48,421	200,038
<b>Cash flows from investing activities:</b>			
Decrease (increase) in short-term investments .....	¥ 190	¥ (154)	\$ 1,798
Purchases of property, plant and equipment .....	(36,414)	(24,821)	(344,536)
Purchases of other assets .....	(712)	(1,297)	(6,737)
Proceeds from sales of investment securities and other .....	1,645	2,051	15,564
Other .....	301	134	2,848
Net cash used in investing activities .....	(34,990)	(24,087)	(331,063)
<b>Cash flows from financing activities:</b>			
Decrease in short-term bank loans, net .....	(5,965)	(8,265)	(56,439)
Proceeds from long-term loans .....	4,362	3,655	41,272
Repayment of long-term loans, including current portion .....	(1,140)	(3,732)	(10,786)
Issuance of bonds .....	59,758	–	565,408
Redemption of bonds .....	(50,000)	–	(473,082)
Issuance of common stock assigned to minority shareholders of consolidated subsidiaries .....	1,384	996	13,095
Cash dividends paid .....	(2,311)	(2,314)	(21,866)
Other .....	(44)	(265)	(416)
Net cash provided by (used in) financing activities .....	6,044	(9,925)	57,186
Effect of exchange rate changes on cash and cash equivalents .....	(328)	(272)	(3,103)
Net (decrease) increase in cash and cash equivalents .....	(8,132)	14,137	(76,942)
Cash and cash equivalents at beginning of the year .....	50,240	36,072	475,353
Increase in cash and cash equivalents resulting from merger with an affiliate not accounted for by the equity method .....	–	31	–
Increase in cash and cash equivalents resulting from merger with an unconsolidated subsidiary .....	50	–	473
Cash and cash equivalents at end of the year .....	¥ 42,158	¥ 50,240	\$ 398,884

# Notes to the Consolidated Financial Statements

NTN Corporation and Consolidated Subsidiaries  
March 31, 2004

## 1. Basis of Preparation

The accompanying consolidated financial statements of NTN Corporation (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The translation of yen amounts into U.S. dollar is included solely for the convenience of readers outside Japan and has been made at ¥105.69 = U.S.\$1.00, the exchange rate prevailing on March 31, 2004. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. The assets and liabilities of the newly consolidated subsidiaries are stated at fair value as of their respective dates of acquisition.

The financial statements of certain consolidated subsidiaries whose fiscal year end is December 31 have been included in consolidation on the basis of a full fiscal year closing on March 31 for consolidation purposes.

The differences between the cost and the underlying net equity in the net assets at the dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are amortized by the straight-line method over the appropriate periods.

### (b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

Assets and liabilities of overseas subsidiaries and affiliates are translated into yen at the exchange rates in effect on the respective balance sheet date, and shareholders' equity is translated at the respective historical rates. Revenue and expenses are translated at the average rates of exchange for the respective years. Differences arising from translation are reflected in shareholders' equity (presented as "Translation adjustments") and minority interests in the consolidated balance sheets.

### (c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

### (d) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the actual ratio of bad debts in the past and an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

### (e) Short-term investments and investment securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost based on the moving average method.

### (f) Inventories

Inventories are principally stated at cost determined by the average method.

### (g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed at rates based on the estimated useful lives of assets by the declining-balance method, except for the buildings and assets of overseas consolidated subsidiaries to which the straight-line method is principally applied.

The principal estimated useful lives are as follows:

Buildings and structures	10 to 50 years
Machinery, equipment and vehicles	5 to 12 years

### (h) Reserve for employees' early retirement incentive plans

The Company and certain domestic subsidiaries have introduced employees' early retirement incentive plans. During March 2003, 781 employees applied to join these plans and applications were closed. The Company and certain domestic subsidiaries provided a reserve for the expected payment of additional retirement benefits to these 781 employees and the related expenses at an estimated amount.

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**(i) Accrued retirement benefits for employees**

Accrued retirement benefits for employees have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss, and unrecognized prior service cost. The estimated benefit is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Prior service cost is amortized in the year in which the gain or loss is recognized primarily by the straight-line method over the estimated average remaining years of service of the eligible employees (principally 15 years).

Net unrecognized actuarial gain or loss is amortized commencing the year following the year in which the gain or loss was recognized primarily by the straight-line method over the estimated average remaining years of service of the eligible employees (principally 15 years).

**(j) Accrued retirement benefits for directors and statutory auditors**

Subject to approval at the shareholders' meeting, directors and statutory auditors of the Company are entitled to lump-sum payments under unfunded retirement benefit plans. The provision for retirement benefits for directors and statutory auditors has been made at an estimated amount based on the Company's internal regulations.

**(k) Reserve for product defect compensation**

During the year ended March 31, 2003, the Company encountered serious problems involving significant deficiencies in the quality of certain of its products. The Company has provided a reserve for product defect compensation at an estimated amount in order to cover the anticipated compensation.

**(l) Leases**

Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

**(m) Research and development costs and computer software**

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of income or to cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful life, generally a 5-year period.

**(n) Income taxes**

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities reported for financial purposes and the corresponding balances for tax reporting purposes.

**(o) Derivative financial instruments and hedging activities**

All derivatives are stated at fair value with any changes in fair value included in net income for the period in which they arise, except for derivatives which meet the criteria for deferral hedge accounting under which realized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

**(p) Appropriation of retained earnings**

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for the period do not reflect such appropriations.

### 3. Securities

(a) Information regarding marketable securities classified as other securities at March 31, 2004 and 2003 is summarized as follows:

	<i>Millions of yen</i>						<i>Thousands of U.S. dollars</i>		
	<b>2004</b>			2003			<b>2004</b>		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:									
Equity securities .....	¥ 5,132	¥ 13,454	¥ 8,322	¥ 2,954	¥ 4,774	¥ 1,820	\$ 48,557	\$ 127,297	\$ 78,740
Subtotal .....	<b>5,132</b>	<b>13,454</b>	<b>8,322</b>	2,954	4,774	1,820	<b>48,557</b>	<b>127,297</b>	<b>78,740</b>
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities .....	388	361	(27)	4,006	3,642	(364)	3,671	3,416	(255)
Other .....	42	25	(17)	42	28	(14)	398	236	(162)
Subtotal .....	<b>430</b>	<b>386</b>	<b>(44)</b>	4,048	3,670	(378)	<b>4,069</b>	<b>3,652</b>	<b>(417)</b>
Total .....	¥ 5,562	¥ 13,840	¥ 8,278	¥ 7,002	¥ 8,444	¥ 1,442	\$ 52,626	\$ 130,949	\$ 78,323

(b) The carrying value of non-marketable other securities at March 31, 2004 and 2003 is summarized as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2004</b>	2003	<b>2004</b>
Cash and cash equivalents:			
Money management funds .....	¥ 6,996	¥ 6,998	\$ 66,194
Investment securities:			
Unlisted equity securities .....	477	482	4,513
	¥ 7,473	¥ 7,480	\$ 70,707

### 4. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2004</b>	2003	<b>2004</b>
Finished goods .....	¥ 44,763	¥ 50,997	\$ 423,531
Work in process and raw materials .....	38,802	41,732	367,130
	¥ 83,565	¥ 92,729	\$ 790,661

## 5. Short-term Bank Loans and Long-term Debt

Short-term bank loans principally represent short-term notes with average annual interest rates of 1.41% and 1.58% at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2004</b>	2003	<b>2004</b>
Loans from banks and other financial institutions, due through 2009, at an average annual interest rate of 3.0% .....	¥ <b>12,729</b>	¥ 10,375	\$ <b>120,438</b>
0.85% unsecured convertible bonds due 2004 .....	–	30,000	–
1.85% unsecured bonds due 2003 .....	–	20,000	–
2.14% unsecured bonds due 2006 .....	<b>10,000</b>	10,000	<b>94,616</b>
2.7% unsecured bonds due 2009 .....	<b>10,000</b>	10,000	<b>94,616</b>
0.48% unsecured bonds due 2008 .....	<b>10,000</b>	–	<b>94,616</b>
0.76% unsecured bonds due 2010 .....	<b>20,000</b>	–	<b>189,233</b>
Zero coupon unsecured convertible bonds due 2009 .....	<b>30,000</b>	–	<b>283,849</b>
	<b>92,729</b>	80,375	<b>877,368</b>
Less current portion .....	<b>(1,224)</b>	(50,953)	<b>(11,581)</b>
	¥ <b>91,505</b>	¥ 29,422	\$ <b>865,787</b>

The zero coupon unsecured convertible bonds are convertible at any time up to and including March 4, 2009 into shares of common stock of the Company at the conversion price of ¥740 (\$7.00) per share.

The assets pledged as collateral for short-term bank loans and long-term loans at March 31, 2004 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Land .....	¥ <b>1,058</b>	\$ <b>10,010</b>
Buildings and structures .....	<b>816</b>	<b>7,721</b>
Total .....	¥ <b>1,874</b>	\$ <b>17,731</b>

Short-term bank loans and long-term loans secured by such collateral at March 31, 2004 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Short-term bank loans .....	¥ <b>1,918</b>	\$ <b>18,147</b>
Long-term loans .....	<b>52</b>	<b>492</b>
Total .....	¥ <b>1,970</b>	\$ <b>18,639</b>

The assets pledged as a foundation mortgage at March 31, 2004 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Land .....	¥ <b>95</b>	\$ <b>899</b>
Buildings and structures .....	<b>174</b>	<b>1,646</b>
Machinery, equipment and vehicles .....	<b>75</b>	<b>710</b>
Total .....	¥ <b>344</b>	\$ <b>3,255</b>

Short-term bank loans and long-term loans secured by the foundation mortgage at March 31, 2004 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Short-term bank loans .....	¥ 44	\$ 417
Long-term loans .....	33	312
<b>Total .....</b>	<b>¥ 77</b>	<b>\$ 729</b>

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

<i>Year ending March 31,</i>	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2005 .....	¥ 1,224	\$ 11,581
2006 .....	8,641	81,758
2007 .....	11,889	112,489
2008 .....	819	7,749
2009 .....	40,156	379,941
2010 and thereafter .....	30,000	283,850
	<b>¥ 92,729</b>	<b>\$ 877,368</b>

## 6. Accrued Retirement Benefits for Employees

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans ("WPFs"), tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain overseas consolidated subsidiaries also have defined benefit plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2004</b>	2003	<b>2004</b>
Retirement benefit obligation .....	¥ (110,042)	¥ (122,480)	\$ (1,041,177)
Plan assets fair value .....	48,930	38,714	462,958
Unfunded retirement benefit obligation .....	(61,112)	(83,766)	(578,219)
Unrecognized actuarial loss .....	18,043	33,455	170,716
Unrecognized prior service cost .....	(3,236)	(3,335)	(30,618)
<b>Accrued retirement benefits for employees .....</b>	<b>¥ (46,305)</b>	<b>¥ (53,646)</b>	<b>\$ (438,121)</b>

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2004</b>	2003	<b>2004</b>
Service cost .....	¥ 4,254	¥ 5,307	\$ 40,250
Interest cost .....	3,574	6,096	33,816
Expected return on plan assets .....	(1,374)	(3,232)	(13,000)
Amortization:			
Actuarial loss .....	2,272	1,294	21,496
Prior service cost .....	(217)	(465)	(2,053)
<b>Retirement benefit expenses .....</b>	<b>¥ 8,509</b>	<b>¥ 9,000</b>	<b>\$ 80,509</b>

Pursuant to the enactment of the Defined Benefit Corporate Pension Plan Law, the Company and certain domestic consolidated subsidiaries obtained approval from the Minister of Health, Labour and Welfare on February 17, 2003, for an exemption from future retirement benefit obligations with respect to the substitutional portion of the employee WFPF which the Company operates on behalf of the Japanese government. The Company and certain domestic consolidated subsidiaries accounted for the separation of the substitutional portion of the benefit obligation from the

corporate portion of the benefit obligation under its employee WFPF as of the date of approval of the exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related pension plan assets had been completed as of that date. As a result, a gain of ¥14,485 million was recognized and recorded as "gain on return of substitutional portion of employees' Welfare Pension Fund Plans," a component of other income in the consolidated statement of income for the year ended March 31, 2003.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2004 and 2003 are summarized as follows:

	2004	2003
Discount rate .....	<b>Principally 2.6%</b>	Principally 2.6%
Expected rate of return on plan assets .....	<b>Principally 4.0%</b>	Principally 4.0%

## 7. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and bonuses to directors and statutory auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of stated capital. The Code also provides that additional paid-in capital and the legal reserve are not available for dividends, but may be used to reduce or eliminate a capital deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for

appropriation by resolution of the shareholders. Additional paid-in capital and the legal reserve are included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets and statements of shareholders' equity. The legal reserve of the Company amounted to ¥8,639 million (\$81,739 thousand) at March 31, 2004 and 2003.

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted a new accounting standard for treasury stock and the reversal of the legal reserves. The effect of the adoption of this standard on the consolidated results of their operations for the year ended March 31, 2003 was immaterial.

## 8. Contingent Liabilities

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2004 were as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Trade notes receivable discounted with banks .....	<b>¥ 419</b>	<b>\$ 3,964</b>

## 9. Finance Leases Without Covenants Transferring Ownership of Properties to Lessees

### (a) Lessees' accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2004 and 2003, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	<i>Millions of yen</i>						<i>Thousands of U.S. dollars</i>		
	<b>2004</b>			<b>2003</b>			<b>2004</b>		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Building and structures ....	¥ 2,639	¥ 1,435	¥ 1,204	¥ 2,638	¥ 1,316	¥ 1,322	\$ 24,969	\$ 13,577	\$ 11,392
Machinery, equipment and vehicles .....	718	466	252	1,576	1,245	331	6,793	4,409	2,384
Other assets .....	97	60	37	83	44	39	918	568	350
.....	¥ 3,454	¥ 1,961	¥ 1,493	¥ 4,297	¥ 2,605	¥ 1,692	\$ 32,680	\$ 18,554	\$ 14,126

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥336 million (\$3,179 thousand) and ¥552 million for the years ended March 31, 2004 and 2003, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥336 million (\$3,179 thousand) and ¥552 million for the years ended March 31, 2004 and 2003, respectively.

Future minimum lease payments subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2004 .....	¥ 247	\$ 2,337
2005 and thereafter .....	1,246	11,789
Total .....	¥ 1,493	\$ 14,126

The acquisition costs and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

#### (b) Lessors' accounting

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at March 31, 2004 and 2003:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<b>2004</b>	<b>2003</b>	<b>2004</b>
Machinery, equipment and vehicles			
Acquisition cost .....	¥ 69	¥ 69	\$ 653
Accumulated depreciation .....	(62)	(60)	(587)
Net book value .....	¥ 7	¥ 9	\$ 66

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥7 million (\$66 thousand) and ¥6 million for the years ended March 31, 2004 and 2003, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases amounted to ¥2 million (\$19 thousand) for the years ended March 31, 2004 and 2003.

Future minimum lease receipts subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2004 .....	¥ 6	\$ 57
2005 and thereafter .....	11	104
Total .....	¥ 17	\$ 161

The imputed interest income is included in the above amounts.

## 10. Operating Leases

Future minimum lease payments subsequent to March 31, 2004 for noncancelable operating leases were as follows:

Year ending March 31,	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2004 .....	¥ 157	\$ 1,486
2005 and thereafter .....	1,155	10,928
Total .....	¥ 1,312	\$ 12,414

## 11. Derivative Financial Instruments

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries principally to reduce interest rate and foreign exchange rate risk, and consist of forward foreign exchange contracts, currency options, currency swaps, interest-rate options and interest-rate swaps. The Company and its consolidated subsidiaries do not hold or issue derivative financial instruments for speculative purposes.

The Company is exposed to certain market risk arising from its interest-rate swap agreements. The Company is also exposed to the risk of credit loss in the event of nonperformance by the counterparties with respect to interest-rate swap agreements; however, the Company does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high credit ratings.

The Company and its consolidated subsidiaries have established policies which include maximum upper limits and

reporting obligations for derivative transactions and comply fully with these guidelines. Derivative transactions are entered into by the Company's Finance Department and its subsidiaries. The Company carries out mutual supervision and monitoring of its derivative transactions in accordance with management policies and its consolidated subsidiaries apply the same approach. Each derivative transaction of the Company is reported to the director responsible when entered into. The consolidated subsidiaries are required to report the status of their derivatives positions to the Company on a monthly basis and are also required to consult with the Company when they enter into derivative transactions other than forward foreign exchange contracts.

At March 31, 2004 and 2003, all derivatives utilized by the Company and its consolidated subsidiaries met the criteria for deferral hedge accounting.

## 12. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses totaled ¥13,543 million (\$128,139 thousand) and ¥12,255 million for the years ended March 31, 2004 and 2003, respectively.

## 13. Restructuring Costs

Restructuring costs for the years ended March 31, 2004 and 2003 consisted of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Loss on reorganization of manufacturing facilities at subsidiaries in the U.S.A. ....	¥ 2,119	¥ –	\$20,049
Loss on liquidation of subsidiaries .....	477	411	4,513
Provision of a reserve for employees' early retirement incentive plans .....	–	10,988	–
	¥ 2,596	¥ 11,399	\$24,562

## 14. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporate tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 41.3% for the years ended March 31, 2004 and 2003. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The effective tax rates for the years ended March 31, 2004 and 2003 differ from the Company's statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate .....	<b>41.3%</b>	41.3%
Permanent non-deductible expenses .....	<b>0.6</b>	1.5
Permanent non-taxable income .....	<b>(2.2)</b>	(6.2)
Elimination of dividend income .....	<b>4.3</b>	12.7
Equity in earnings of affiliates .....	<b>(1.3)</b>	(2.9)
Decrease in deferred tax assets resulting from a change in the statutory tax rate .....	<b>1.3</b>	7.4
Tax loss carryforwards of subsidiaries whose tax effect is not recognized .....	–	4.9
Other .....	<b>(5.7)</b>	(6.9)
Effective tax rates .....	<b>38.3%</b>	51.8 %

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets at March 31, 2004 and 2003 are presented below:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Deferred tax assets:			
Accrued retirement benefits for employees .....	¥ 16,890	¥ 18,608	\$ 159,807
Inventories .....	1,587	2,254	15,016
Foreign tax credit carryforwards .....	931	–	8,809
Tax loss carryforwards .....	5,259	4,460	49,759
Reserve for employees' early retirement incentive plans .....	–	4,542	–
Reserve for product defect compensation .....	1,063	1,800	10,058
Accrued expenses .....	2,646	2,085	25,035
Loss on devaluation of investment securities .....	326	644	3,084
Unrealized holding loss on securities .....	–	151	–
Depreciation and amortization .....	180	–	1,703
Other .....	1,445	1,343	13,673
Total gross deferred tax assets .....	<b>30,327</b>	35,887	<b>286,944</b>
Less valuation allowance .....	<b>(285)</b>	(326)	<b>(2,697)</b>
Deferred tax assets .....	<b>30,042</b>	35,561	<b>284,247</b>
Deferred tax liabilities:			
Depreciation and amortization .....	<b>(2,959)</b>	(3,698)	<b>(27,997)</b>
Unrealized holding gain on securities .....	<b>(3,329)</b>	(728)	<b>(31,498)</b>
Reserve for deferred gain on property included in retained earnings .....	<b>(464)</b>	(481)	<b>(4,390)</b>
Other .....	<b>(137)</b>	(184)	<b>(1,296)</b>
Deferred tax liabilities .....	<b>(6,889)</b>	(5,091)	<b>(65,181)</b>
Net deferred tax assets .....	¥ 23,153	¥ 30,470	\$ 219,066

In accordance with a law on amendments to local tax laws, etc. announced on March 31, 2003, the Company and its domestic consolidated subsidiaries at March 31, 2003 applied a statutory tax rate of 40.0% to the calculation of deferred tax assets which are expected to be reversed on April 1, 2004 and

thereafter. The effect of this change in the statutory tax rate was to decrease deferred tax assets at March 31, 2003 and net income for the year then ended by ¥438 million and ¥457 million, respectively, and to increase net unrealized holding gain on securities at March 31, 2003 by ¥19 million.

## 15. Amounts Per Share

	<i>Yen</i>		<i>U.S. dollars</i>
	<b>2004</b>	2003	<b>2004</b>
Net income:			
Basic .....	¥ <b>23.54</b>	5.70	<b>\$ 0.22</b>
Diluted .....	<b>21.87</b>	5.51	<b>0.21</b>
Cash dividends applicable to the year .....	<b>5.50</b>	5.00	<b>0.05</b>
Net assets .....	<b>308.27</b>	291.82	<b>2.92</b>

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

The amount per share of net assets is computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

## 16. Segment Information

### (1) Geographic Segment Information

Segment information by geographic area for the years ended March 31, 2004 and 2003 is summarized as follows:

<i>Millions of yen</i>							
<b>2004</b>							
	Japan	North America	Europe	Asia and other areas	Total	Elimination	Consolidated
External sales .....	¥ 188,170	¥ 86,002	¥ 58,492	¥ 24,730	¥ 357,394	¥ –	¥ 357,394
Intersegment sales ...	76,343	756	216	161	77,476	(77,476)	–
Total sales .....	264,513	86,758	58,708	24,891	434,870	(77,476)	357,394
Operating expenses ..	247,787	84,327	55,751	23,412	411,277	(78,592)	332,685
Operating income ....	¥ 16,726	¥ 2,431	¥ 2,957	¥ 1,479	¥ 23,593	¥ 1,116	¥ 24,709
Assets .....	¥ 333,781	¥ 87,867	¥ 48,707	¥ 24,391	¥ 494,746	¥ (34,405)	¥ 460,341

<i>Millions of yen</i>							
<b>2003</b>							
	Japan	North America	Europe	Asia and other areas	Total	Elimination	Consolidated
External sales .....	¥ 182,649	¥ 92,702	¥ 47,953	¥ 19,441	¥ 342,745	¥ –	¥ 342,745
Intersegment sales ...	67,030	264	75	8	67,377	(67,377)	–
Total sales .....	249,679	92,966	48,028	19,449	410,122	(67,377)	342,745
Operating expenses ..	236,877	88,867	46,681	17,563	389,988	(68,028)	321,960
Operating income ....	¥ 12,802	¥ 4,099	¥ 1,347	¥ 1,886	¥ 20,134	¥ 651	¥ 20,785
Assets .....	¥ 333,507	¥ 94,901	¥ 46,791	¥ 18,788	¥ 493,987	¥ (26,789)	¥ 467,198

<i>Thousands of U.S. dollars</i>							
<b>2004</b>							
	Japan	North America	Europe	Asia and other areas	Total	Elimination	Consolidated
External sales .....	\$ 1,780,396	\$ 813,719	\$ 553,430	\$ 233,986	\$ 3,381,531	\$ –	\$ 3,381,531
Intersegment sales ...	722,329	7,153	2,044	1,523	733,049	(733,049)	–
Total sales .....	2,502,725	820,872	555,474	235,509	4,114,580	(733,049)	3,381,531
Operating expenses ..	2,344,470	797,871	527,496	221,515	3,891,352	(743,608)	3,147,744
Operating income ....	\$ 158,255	\$ 23,001	\$ 27,978	\$ 13,994	\$ 223,228	\$ 10,559	\$ 233,787
Assets .....	\$ 3,158,113	\$ 831,365	\$ 460,848	\$ 230,779	\$ 4,681,105	\$ (325,527)	\$ 4,355,578

**(2) Overseas sales**

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2004 and 2003 are summarized as follows:

	<i>Millions of yen</i>							
	<b>2004</b>				<b>2003</b>			
	North America	Europe	Asia and other areas	Total	North America	Europe	Asia and other areas	Total
Overseas sales	<b>¥ 86,084</b>	<b>¥ 58,243</b>	<b>¥ 36,865</b>	<b>¥ 181,192</b>	¥ 92,696	¥ 47,871	¥ 32,168	¥ 172,735
Consolidated net sales	–	–	–	<b>357,394</b>	–	–	–	342,745
Overseas sales as a percentage of consolidated sales	<b>24.1%</b>	<b>16.3%</b>	<b>10.3%</b>	<b>50.7%</b>	27.0%	14.0%	9.4%	50.4%

	<i>Thousands of U.S. dollars</i>			
	<b>2004</b>			
	North America	Europe	Asia and other areas	Total
Overseas sales	<b>\$ 814,495</b>	<b>\$ 551,074</b>	<b>\$ 348,803</b>	<b>\$ 1,714,372</b>
Consolidated net sales	–	–	–	<b>\$ 3,381,531</b>

**17. Subsequent Events**

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a shareholders' meeting held on June 29, 2004:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Year-end cash dividends (¥3.0 = \$0.03 per share) .....	<b>¥ 1,387</b>	<b>\$ 13,123</b>
Bonuses to directors .....	<b>110</b>	<b>1,041</b>
Bonuses to statutory auditors .....	<b>10</b>	<b>95</b>

## Report of Independent Auditors

The Board of Directors  
NTN Corporation

We have audited the accompanying consolidated balance sheets of NTN Corporation and consolidated subsidiaries as of March 31, 2004 and 2003 and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NTN Corporation and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

June 29, 2004

*Ernst & Young ShinNihon*

# NTN Group Investment Holdings

As of March 31, 2004

<b>Consolidated Subsidiaries</b>	<i>Paid-in capital</i>	<i>Holding in percent</i>
NTN BEARING SERVICE CO., LTD. ....	¥450,000,000	100
KYOEI NTN CORP. ....	¥20,000,000	100
NTN KONGO CORP. ....	¥1,000,000,000	100
NTN ENGINEERING PLASTICS CORP. ....	¥100,000,000	100
NTN POWDER METAL CORP. ....	¥400,000,000	40[60]
NTN MIKUMO COMPANY LTD. ....	¥450,000,000	100
NTN CASTING CORP. ....	¥450,000,000	100
NTN KISHIWADA CORP. ....	¥20,000,000	100
NTN KINAN CORP. ....	¥450,000,000	100
NTN USA CORP. ....	US.\$97,820,000	100
NTN BEARING CORP. OF AMERICA ....	US.\$24,700,000	100(100)
NTN DRIVESHAFT, INC. ....	US.\$38,580,000	100(100)
AMERICAN NTN BEARING MFG. CORP. ....	US.\$24,330,000	100(100)
NTN-BOWER CORP. ....	US.\$67,000,000	100(100)
NTN-BCA CORP. ....	US.\$16,000,000	100(100)
NTK PRECISION AXLE CORP. ....	US.\$10,000,000	60(60)
NTN BEARING CORP. OF CANADA LTD. ....	CAN.\$20,100,000	100
NTN SUDAMERICANA, S.A. ....	US.\$700,000	100
NTN WÄLZLAGER (EUROPA) G.m.b.H. ....	EURO 14,500,000	100
NTN KUGELLAGERFABRIK (DEUTSCHLAND) G.m.b.H. ....	EURO 18,500,000	100
NTN BEARINGS (UK) LTD. ....	STG.£2,600,000	100(0.04)
NTN FRANCE S.A. ....	EURO 3,700,000	99.999(0.006)
NTN TRANSMISSIONS EUROPE ....	EURO 71,727,792	85
NTN BEARING-SINGAPORE (PTE) LTD. ....	S.\$36,000,000	100(0.969)
NTN CHINA LTD. ....	HK.\$2,500,000	100
NTN BEARING-THAILAND CO., LTD. ....	BAHT 600,000,000	100(99.999)
NTN MANUFACTURING (THAILAND) CO., LTD. ....	BAHT 611,000,000	99.999(99.999)
NTN BEARING-MALAYSIA SDN.BHD. ....	M.\$350,000	60(60)
NTN KOREA CO., LTD. ....	WON 500,000,000	100
SHANGHAI NTN CORP. ....	US.\$20,000,000	95
NTN-NIDEC (ZHEJIANG) CORP. ....	US.\$21,000,000	60
GUANGZHOU NTN-YULON DRIVETRAIN CO., LTD. ....	US.\$10,000,000	60

## **Affiliated Companies Accounted for by the Equity Method**

TUNG PEI INDUSTRIAL CO., LTD. ....	NT.\$1,257,232,620	27.35
TAIWAY LTD. ....	NT.\$160,000,000	36.25
UNIDRIVE PTY. LTD. ....	A.\$5,000,000	40
BEIJING NTN-SEOHAN DRIVESHAFT CO., LTD. ....	US.\$5,000,000	40
ASAHI FORGE OF AMERICA CORP. ....	US.\$6,100,000	32.8(32.8)

(Notes)

1. NTN Corporation's share of voting rights in NTN POWDER METAL CORP. is less than 50%. As this company is substantially controlled by NTN Corporation, however, it is treated as a subsidiary.
2. Under "Holding in percent," the figure in parentheses indicates the percentage of indirectly owned, and is included as part of the total holding. The figure in brackets indicates the percentage owned by parties having close ties with the Company. It is not included in the ownership percentage.