

# SEMIANNUAL REPORT

For the six months ended September 30, 2004

## Operating Results and Financial Condition

In the current interim period, the Japanese economy has generally made steady progress, supported by strong export growth, an increase in private capital investment, and a moderate recovery in consumer spending.

The business environment surrounding the Nabtesco Group was affected by China's tight monetary policy, but it continued to be brisk in European and US markets due mainly to capital investment of automotive industries. In the Japanese market, good business conditions were sustained through production expansion backed by export growth.

Amid these conditions, we strove to pursue the benefits of consolidation in the Group, develop the stronger earning power of respective businesses, and carry out the reduction and effective use of employed capital.

As a result, the consolidated operating results for the current interim period were as follows: sales were 66.5 billion yen (up 10.0% from the same period of the prior year); operating profit was 5.2 billion yen (up 42.2% from the same period of the prior year); ordinary profit after non-operating income and expenses was 5.7 billion yen (up 48.3% from the same period of the prior year); and net income for the interim period was 3.4 billion yen (up 101.8% from the same period of the prior year).

In terms of cash flows, operating activities generated net cash of 4.5 billion yen (down 49.7% from the same period of the prior year). Net cash used by investing activities remained at 900 million yen (up 45.3% from the same period of the prior year) due to gains on sales of idle assets, which offset the capital investment of 1.8 billion yen. Accordingly, the Group's free cash flows amounted to 3.5 billion yen (down 50.8% from the same period of the prior year).

On the other hand, net cash used by financing activities was 2.8 billion yen (down 7.7% from the same period of the prior year) due to debt repayments and dividend payments, while the ending balance of cash and cash equivalents for the current interim period increased by 1.5 billion yen, which included those newly consolidated in the current interim period, to 15.9 billion (up 27.6% from the same period of the prior year). In addition, the balance of interest-bearing liabilities was 29.5 billion yen (down 14.0% from the same period of the prior year).

## Review of Operations

### [ Precision Equipment Business ]

In the Precision Equipment Business, sales increased by 3.3 billion yen (up 28.3% from the prior year) to 15.0 billion yen, and operating profit rose by 800 million yen (up 58.1% from the prior year) to 2.3 billion yen.

The sales of precision reduction gears for industrial robots sustained strong growth based on continued active capital investment by domestic and overseas automakers. In addition, the demand for machine tools and semiconductor-manufacturing equipment was also robust due to strong markets.

### [ Transport Equipment Business ]

In the Transport Equipment Business, sales increased by 700 million yen (up 4.4% from the prior year) to 17.2 billion yen, and operating profit rose by 400 million yen (up 87.0% from the prior year) to 800 million yen.

The sales of transport equipment for domestic railway vehicles saw sluggish growth, but those for overseas railway vehicles continued to be strong. Braking systems for automobiles sustained a high level of sales, thanks to the increase in replacement demand for new vehicles, which offset a reactionary decline to the emission control-based demand increase in fiscal 2003. The sales of engine control systems for marine vessels saw strong growth against the backdrop of a high rise in the number of vessels being constructed.

### [ Aircraft and Oil Hydraulic Equipment Business ]

In the Aircraft and Oil Hydraulic Equipment Business, sales increased by 700 million yen (up 4.5% from the prior year) to 17.5 billion yen, but operating profit decreased by 200 million yen (down 29.3% from the prior year) and remained at 600 million yen.

The aircraft equipment market continued to be very severe, while there were still no signs of recovery in the business climate for the commercial aircraft industry, affected by the market stagnating after terrorist attacks in the United States, the war in Iraq, etc.

Oil hydraulic equipment posted strong sales due to the booming European and American markets, despite the impact of a drop in capital investment due to China's monetary tightening policy on its market. Profitability, however, was reduced to deal with the increased procurement cost of raw materials and the rapid increase in production.

[ Industrial Equipment Business ]

In the Industrial Equipment Business, sales rose by 1.2 billion yen (up 7.9% from the prior year) to 16.6 billion yen, and operating profit also rose by 500 million yen (up 71.3% from the prior year) to 1.3 billion yen.

In the automatic door-related area, sales for buildings continued to be favorable. In the industrial machinery area, sales for automatic food filling and wrapping machines, and machine tools, were strong due to equipment investment by the domestic and overseas food industries and the automotive industry.

Outlook for the full fiscal year

In the business environment for the second half of fiscal 2004, there are concerns over discouraging factors such as the impact of monetary tightening on the Chinese market, soaring costs of basic materials including crude oil, the future of the US economy, and currency movement. Thus, the trends in the business climate are unpredictable.

Under these circumstances, we will work to develop new businesses and accelerate the development and introduction of new products while concentrating on reducing the cost of the products.

Projected performance for fiscal 2004 is greater than originally anticipated. The Group expects sales of 135.0 billion yen, an operating profit of 10.0 billion yen, an ordinary profit of 10.3 billion yen, and a current net income of 5.4 billion yen. The ROE is projected to be 10.8%.

CONSOLIDATED FINANCIAL HIGHLIGHTS (Unaudited)

For the six months ended September 30, 2004 and 2003

	Millions of Yen	
	September 30, 2004	September 30, 2003
<b>For the Year:</b>		
Net sales	¥66,538	¥60,497
Overseas net sales		
Gross profit	15,735	13,570
Operating profit	5,242	3,688
Income before income taxes and minority interests	5,475	2,705
Net income	3,461	1,715
Overseas net sales		
Composition of overseas net sales (%)	16,033	—
	24.1%	—
<b>At Year-end:</b>		
Total shareholders' equity	50,314	44,770
Total assets	132,899	129,760
<b>Per Share Data:</b>		
	Yen	
Net income	¥27.24	¥13.50

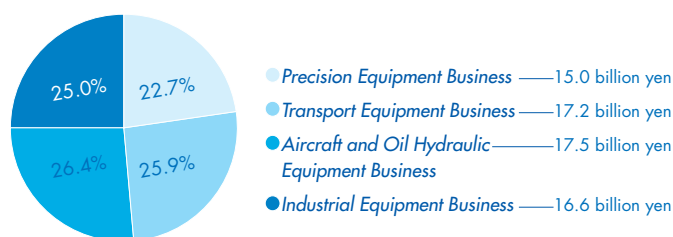
Notes: The computation of net income per share is based on the average number of shares outstanding during each period. The average number of shares for the six-month periods ended September 30, 2004 and 2003, were 127,059,853 and 127,060,654, respectively.

SEGMENT INFORMATION (Unaudited)

For the six months ended September 30, 2004 and 2003

	Millions of Yen	
	September 30, 2004	September 30, 2003
<b>Net sales</b>		
Precision Equipment Business	15,099	11,765
Transport Equipment Business	17,241	16,513
Aircraft and Oil Hydraulic Equipment Business	17,533	16,771
Industrial Equipment Business	16,664	15,446
<b>Operating profit</b>		
Precision Equipment Business	2,321	1,468
Transport Equipment Business	864	461
Aircraft and Oil Hydraulic Equipment Business	675	955
Industrial Equipment Business	¥1,381	¥806

COMPOSITION OF NET SALES BY BUSINESS SEGMENT



## CONSOLIDATED BALANCE SHEETS (Unaudited)

As of September 30, 2004 and March 31, 2004

	Millions of Yen		Thousands of U.S.dollars
	September 30, 2004	March 31, 2004	September 30, 2004
<b>ASSETS</b>			
<b>Current assets</b>	<b>¥74,476</b>	<b>¥70,889</b>	<b>\$670,653</b>
Cash and time deposits	16,311	14,801	146,880
Trade notes and accounts receivable	38,939	38,581	350,644
Inventories	15,557	13,226	140,090
Deferred tax assets	2,431	2,416	21,891
Other current assets	1,617	2,233	14,561
Less allowance for doubtful receivables	(379)	(368)	(3,413)
<b>Investments and other assets</b>	<b>11,905</b>	<b>12,423</b>	<b>107,203</b>
Investments in securities	9,474	9,334	85,312
Other assets	2,686	3,394	24,187
Less allowance for doubtful receivables	(255)	(305)	(2,296)
<b>Property, plant and equipment, net of accumulated depreciation</b>	<b>42,722</b>	<b>42,896</b>	<b>384,710</b>
Land	14,482	14,881	130,410
Buildings and structures	16,134	16,386	145,286
Machinery and equipment	11,378	10,965	102,458
Construction in progress	728	664	6,556
<b>Other assets</b>	<b>3,796</b>	<b>4,475</b>	<b>34,183</b>
Deferred tax assets	1,827	2,492	16,452
Intangible assets	1,969	1,983	17,731
<b>Total assets</b>	<b>¥132,899</b>	<b>¥130,683</b>	<b>\$1,196,749</b>

As of September 30, 2004 and March 31, 2004

	Millions of Yen		Thousands of U.S.dollars
	September 30, 2004	March 31, 2004	September 30, 2004
<b>LIABILITIES</b>			
<b>Current liabilities</b>	<b>¥53,342</b>	<b>¥52,442</b>	<b>\$480,342</b>
Notes and accounts payable - trade	25,530	24,134	229,896
Short-term bank loans	8,685	9,213	78,208
Current portion of long-term debt	8,310	9,510	74,831
Income taxes payable	1,108	1,748	9,977
Accrued employees' bonuses	2,531	2,213	22,792
Other current liabilities	7,178	5,624	64,638
<b>Long-term Liabilities</b>	<b>25,926</b>	<b>27,302</b>	<b>233,463</b>
Long-term debt	12,513	13,095	112,679
Retirement benefits : Employees	12,571	12,803	113,201
Retirement benefits : Management	155	691	1,396
Other long-term liabilities	687	713	6,187
Total liabilities	79,268	79,744	713,805
<b>MINORITY INTERESTS</b>			
Minority interests	3,317	3,221	29,869
<b>SHAREHOLDERS' EQUITY</b>			
Common stock	10,000	10,000	90,050
Capital surplus	17,709	17,709	159,468
Retained earnings	21,461	18,677	193,255
Net unrealized holding gains on securities	2,288	2,473	20,603
Foreign currency translation adjustments	(1,039)	(1,060)	(9,356)
Treasury stock, at cost	(105)	(81)	(945)
Total shareholders' equity	50,314	47,718	453,075
<b>Total liabilities and shareholders' equity</b>	<b>¥132,899</b>	<b>¥130,683</b>	<b>\$1,196,749</b>

## CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

Six months period ended September 30, 2004 and 2003

	Millions of Yen		Thousands of U.S.dollars
	September 30, 2004	September 30, 2003	September 30, 2004
<b>Net sales</b>	<b>¥66,538</b>	<b>¥60,497</b>	<b>\$599,172</b>
Cost of sales	50,803	46,927	457,479
<b>Gross profit</b>	<b>15,735</b>	<b>13,570</b>	<b>141,693</b>
Selling, general and administrative expenses	10,493	9,882	94,489
<b>Operating profit</b>	<b>5,242</b>	<b>3,688</b>	<b>47,204</b>
Other income (expenses)			
Interest and dividend income	64	38	576
Interest expense	(260)	(330)	(2,341)
Equity in earnings of affiliates	452	437	4,070
Foreign exchange gain (loss), net	95	(127)	855
Gain on sales of investments in securities	—	118	—
Gain on sales of property, plant and equipment	158	6	1,423
Loss on disposal of property, plant and equipment	(89)	(112)	(801)
Cancellation charges on early termination of facility leasing arrangements	(335)	—	(3,017)
Retirement benefits expenses	—	(1,183)	—
Others, net	148	170	1,333
Total	233	(983)	2,098
<b>Income before income taxes and minority interests</b>	<b>5,475</b>	<b>2,705</b>	<b>49,302</b>
Income taxes - current	1,070	1,320	9,635
Income taxes - deferred	809	(463)	7,285
Minority interests	135	133	1,216
<b>Net income</b>	<b>¥3,461</b>	<b>¥1,715</b>	<b>\$31,166</b>

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Six months period ended September 30, 2004 and 2003

	Millions of Yen		Thousands of U.S.dollars
	September 30, 2004	September 30, 2003	September 30, 2004
<b>Operating activities:</b>			
Income before income taxes and minority interests	¥5,475	¥2,705	\$49,302
Depreciation and amortization	2,151	2,160	19,369
Reversal of allowance for doubtful receivables	(41)	(81)	(369)
(Reversal of) provision for retirement benefits	(779)	1,096	(7,015)
Interest and dividend income	(64)	(38)	(576)
Interest expense	260	330	2,341
Foreign exchange gains	(0)	(3)	(0)
Equity in earnings of affiliates	(452)	(437)	(4,070)
Gain on sales of property, plant and equipment	(158)	(6)	(1,423)
Loss on disposal of property, plant and equipment	89	112	801
Cancellation charges on early termination of facility leasing arrangements	335	—	3,017
Gain on sales of investments in securities	—	(118)	—
Bonuses to directors	(81)	(54)	(729)
Others, net	16	8	144
Change in operating assets and liabilities:			
Trade notes and accounts receivable	(595)	4,002	(5,358)
Inventories	(2,197)	117	(19,784)
Other assets	(86)	1,156	(774)
Notes and accounts payable	1,609	(609)	14,489
Consumption tax payable	(21)	(52)	(189)
Other liabilities	828	(247)	7,456
Sub-total	6,289	10,041	56,632
Interest and dividends received	251	84	2,260
Interest paid	(272)	(345)	(2,449)
Income taxes paid	(1,738)	(778)	(15,651)
Net cash provided by operating activities	4,530	9,002	40,792
<b>Investing activities</b>			
Purchases of property, plant and equipment	(1,857)	(1,982)	(16,722)
Proceeds from sales of property, plant and equipment	1,311	50	11,805
Purchases of investments in securities	(320)	(573)	(2,881)
Proceeds from sales of investments in securities	33	450	297
Others, net	(164)	232	(1,477)
Net cash used in investing activities	(997)	(1,823)	(8,978)
<b>Financing activities</b>			
Decrease in short-term loans	(546)	(851)	(4,917)
Proceeds from long-term loans	—	195	—
Repayment of long-term loans	(1,771)	(1,629)	(15,948)
Proceeds from issuance of common stock	—	145	—
Purchases of treasury stock	(25)	(29)	(225)
Cash dividends paid	(504)	(474)	(4,538)
Net cash used in financing activities	(2,846)	(2,643)	(25,628)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>5</b>	<b>59</b>	<b>45</b>
<b>Increase in cash and cash equivalents</b>	<b>692</b>	<b>4,595</b>	<b>6,231</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>14,477</b>	<b>7,930</b>	<b>130,365</b>
<b>Increase in cash and cash equivalents due to addition of consolidated subsidiaries</b>	<b>815</b>	<b>—</b>	<b>7,339</b>
<b>Cash and cash equivalents at end of period</b>	<b>¥15,984</b>	<b>¥12,525</b>	<b>\$143,935</b>

**CORPORATE DATA**

As of October 1, 2004

<b>Company Name</b>	Nabtesco Corporation	
<b>Established</b>	September 29, 2003	
<b>Head Office</b>	9-18, Kaigan 1-chome, Minato-ku, Tokyo 105-0022, Japan TEL +81-3-3578-7070 FAX +81-3-3578-7237	
<b>Capital</b>	10 billion yen	
<b>Employees</b>	Non-consolidated basis	2,049 persons
	Consolidated basis	4,071 persons
<b>Stock Listing</b>	First Section, Tokyo Stock Exchange	
<b>Board Members</b>	Chairman of the Board	Shigeo Iwatare
	President & CEO	Makoto Okitsu
	Senior Managing Directors, Directors of the Board	Yuzo Honda Hitoshi Tanaka
	Managing Directors, Directors of the Board	Morio Yamanaka Shinichi Akiyama
	Directors of the Board	Kazuyuki Matsumoto Hiroshi Sawa Osamu Takata Noriaki Nagashima
	Statutory Auditors	Shigeaki Hagihara Kohsuke Matsuda
	External Statutory Auditors	Kosuke Funai Tetsuya Ishimaru Koichi Shibayama
<b>Web Site</b>	<a href="http://www.nabtesco.com">http://www.nabtesco.com</a>	