

**NACHI**



# **BUSINESS REPORT 2007**

December 1, 2006 to November 30, 2007

**NACHI-FUJIKOSHI CORP.**

Stock Code: 6474

# TO OUR SHAREHOLDERS

I am delighted to report to you about NACHI-FUJIKOSHI's business performance for the fiscal year ended November 30, 2007.

## Business Environment

During the period under review, Japan's economy continued to make a modest recovery. This reflected increased corporate earnings supported by strong exports, although crude oil and raw material prices rose and capital expenditure was postponed in certain sectors. Overseas economic growth was also robust overall, mainly due to expansion in Asian markets and a rebound in the European economy, although the U.S. economy has slowed.

## Business Progress and Results

In this environment, the NACHI-FUJIKOSHI Group improved and augmented its systems on the marketing, manufacturing and development fronts, and vigorously promoted "NACHI Business." The latter enabled us to provide linked products, technologies and services in response both to increasing worldwide automobile production centered on Japanese manufacturers and to the growing markets of the industrial machinery sectors, including construction equipment and aircraft.

These actions resulted in record net sales and earnings on a consolidated basis for the second consecutive term.

Net sales amounted to ¥193.6 billion, up 3.7% from the previous fiscal year. Sales to the Japanese market accounted for ¥129.5 billion (up 0.8% year on year), while overseas sales climbed 10.1% to ¥64.1 billion.

Turning to earnings, operating income increased ¥1.2 billion, or 7.8% year on year, to ¥16.7 billion, ordinary income rose 7.9% to ¥15.2 billion, and net income for the year under review increased 7.6% to ¥7.8 billion. These improvements were posted despite rising raw material and component prices, higher fixed expenses due to expansion of the production system and other factors. Such concerns were largely offset by improved capacity utilization stemming from increased sales and production, as well as enhanced productivity and other total cost reduction efforts.

## Cash Dividends

In recognition of business performance during the year and of projected business growth in the future, the Company paid a cash dividend of ¥8 per share, the same amount as in the previous fiscal year.

## Future Action

Looking ahead, firm growth is expected to continue in the automobile and industrial machinery sectors against the backdrop of expanding markets in newly emerging econo-

mies. Meanwhile, issues fueling future uncertainty also abound: economic slowdown in the U.S., fluctuations in the yen-dollar currency exchange market, and price trends in crude oil and raw material markets all contribute to a business environment in which we must proceed cautiously.

Given these circumstances, the NACHI-FUJIKOSHI Group will strive to establish a stable earnings base by reinforcing the linkage between every aspect of our operations. Moreover, we will strive to boost corporate value by upholding the NACHI brand, a name trusted across the globe in the manufacturing field.

I thank all of our shareholders for your continued support and understanding.

February 2008



Kensuke Imura, President

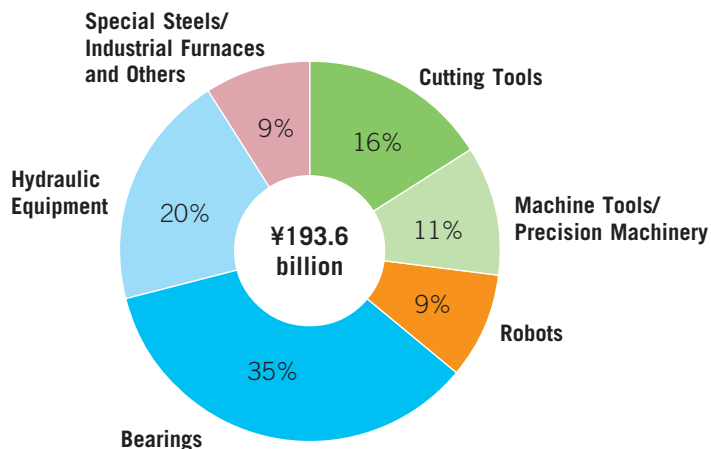


## About the Cover Design

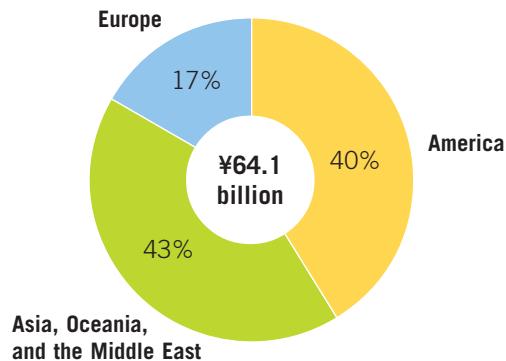
The triangle symbolizes the notion of "Sei-Han-Go," or "Fusing discrete and opposing ideas into one," the Group corporate philosophy implicit in the meaning of "Fuji" in our name.

# RESULTS OF OPERATIONS (Consolidated)

## Sales by Business Segments

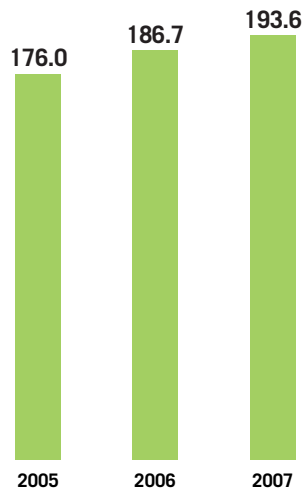


## Overseas Sales



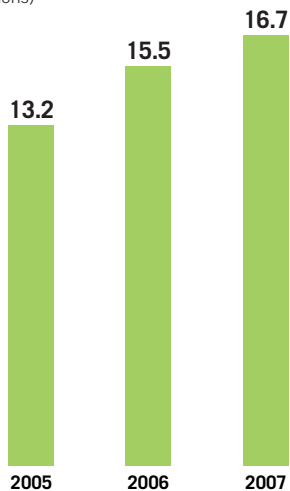
### Net Sales

(¥ billions)



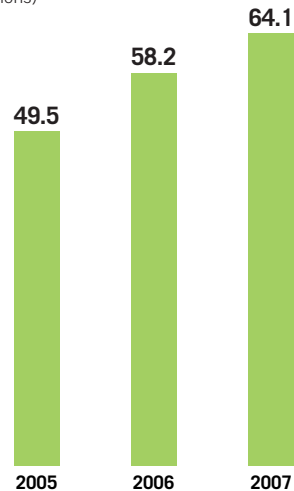
### Operating Income

(¥ billions)



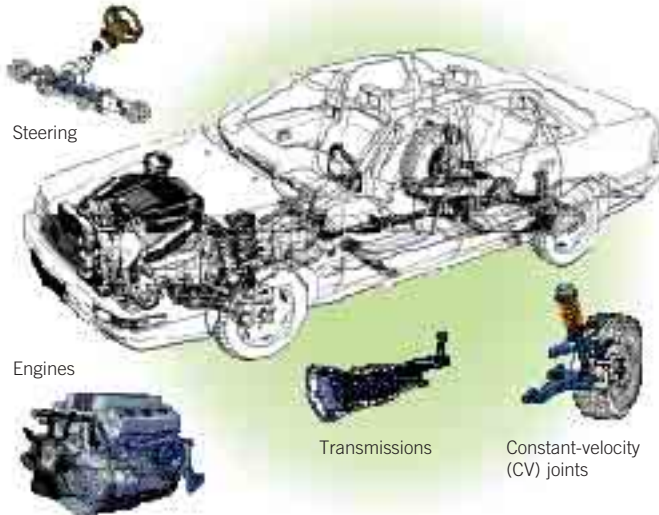
### Overseas Sales

(¥ billions)



# THE NACHI BUSINESS NETWORK—Contributing to the Progress of the

**Automobiles** Products for a safe, comfortable and smooth ride



**Aircraft** Achieving high productivity and high-precision processing for jet engine components



Turbine discs and blades

**Bullet Trains**  
Ensuring high speed, safety and comfort



Undercarriages

**Utility (Small Shovels)**  
Massive power in an energy efficient, compact package



**Products used in everything from automobiles, aircraft, bullet trains, small — Technologies that create, handle and drive everything. And there's**

## Machining & Robots

Supporting production line automation with the required high performance and high precision



Precision tools



Machine tools



Ultra-precise processing machinery with nano-level precision



Large-sized glass substrate transfer robot



High-performance bearings

# World of Product Manufacturing

## Industrial Machinery Realizing outstanding precision and efficiency



Machine tools



Injection molding machines

## Homes & Lifestyle Familiar parts of everyday life



Seismic isolator



DIY products



Moveable roof domes

## Electrical & Electronic Devices

From home appliances to IT



Aspheric lenses used in digital equipment



shovels, and machine tools to mobile phones, digital cameras and LCD TVs always something new on the horizon. "Wonders from NACHI, Art in NACHI"

comfort

## Materials & Heat Treatment

Supporting high performance and superb quality



Hydraulic equipment for construction and industrial machines



Solenoid valves for automobiles



Special steels



Coating, carburizing and other surface modification technologies



# FINANCIAL STATEMENTS

## Consolidated Balance Sheets

Item	2007 (As of November 30, 2007)	2006 (As of November 30, 2006)
<b>ASSETS:</b>		
<b>Current assets</b>	<b>99,833</b>	<b>90,894</b>
Cash and cash equivalents	20,996	13,406
Notes and accounts receivable	41,149	42,220
Inventories	31,326	30,097
Deferred tax assets	3,660	3,047
Other	2,979	2,417
Allowance for doubtful accounts	(279)	(294)
<b>Fixed assets</b>	<b>101,946</b>	<b>95,213</b>
<b>Property, plant and equipment</b>	<b>82,024</b>	<b>72,393</b>
Buildings and structures	28,643	21,744
Machinery and equipment	43,229	39,731
Land	7,659	7,226
Construction in progress	1,018	1,852
Other	1,473	1,838
<b>Intangible fixed assets</b>	<b>402</b>	<b>429</b>
Software	335	332
Other	66	96
<b>Investments and advances</b>	<b>19,519</b>	<b>22,390</b>
Investment securities	16,255	19,230
Long-term loans receivable	149	150
Deferred tax assets	837	866
Other	2,305	2,181
Allowance for doubtful accounts	(28)	(38)
<b>Total assets</b>	<b>201,779</b>	<b>186,107</b>

(¥ millions)

Item	2007 (As of November 30, 2007)	2006 (As of November 30, 2006)
<b>LIABILITIES:</b>		
<b>Current liabilities</b>	<b>100,815</b>	<b>91,259</b>
Notes and accounts payable	38,830	35,988
Short-term bank loans	33,789	33,867
Other accounts payable	10,982	9,282
Other	17,211	12,120
<b>Long-term liabilities</b>	<b>39,523</b>	<b>39,989</b>
Bonds and long-term debt	28,201	26,619
Allowance for retirement benefits	7,226	8,171
Other	4,096	5,197
<b>Total liabilities</b>	<b>140,338</b>	<b>131,248</b>
<b>NET ASSETS:</b>		
<b>Shareholders' equity</b>	<b>56,223</b>	<b>49,918</b>
Common stock	16,074	16,074
Additional paid-in capital	11,571	11,452
Retained earnings	28,760	22,548
Treasury stock	(183)	(157)
<b>Revaluations and translation adjustments</b>	<b>2,854</b>	<b>3,283</b>
Unrealized gains on available-for-sale securities	6,067	7,531
Translation adjustments	(3,212)	(4,247)
<b>Minority interests</b>	<b>2,362</b>	<b>1,656</b>
<b>Total net assets</b>	<b>61,440</b>	<b>54,859</b>
<b>Total liabilities and net assets</b>	<b>201,779</b>	<b>186,107</b>

## Consolidated Statements of Income

(¥ millions)

Item	2007	2006
	(For the year ended November 30, 2007)	(For the year ended November 30, 2006)
<b>Net sales</b>	<b>193,670</b>	<b>186,722</b>
<b>Operating income</b>	<b>16,774</b>	<b>15,555</b>
<b>Ordinary income</b>	<b>15,286</b>	<b>14,161</b>
Extraordinary income	1,045	624
Extraordinary losses	2,765	1,594
Income before income taxes and minority interests	13,567	13,191
<b>Net income</b>	<b>7,858</b>	<b>7,304</b>

## Consolidated Statements of Cash Flows

(¥ millions)

Item	2007	2006
	(For the year ended November 30, 2007)	(For the year ended November 30, 2006)
<b>Cash flows from operating activities</b>	<b>20,769</b>	<b>10,221</b>
<b>Cash flows from investing activities</b>	<b>(11,060)</b>	<b>(18,812)</b>
<b>Cash flows from financing activities</b>	<b>(1,469)</b>	<b>11,627</b>
<b>Net increase in cash and cash equivalents</b>	<b>8,322</b>	<b>3,186</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>12,643</b>	<b>9,231</b>
<b>Cash and cash equivalents at end of the year</b>	<b>20,965</b>	<b>12,643</b>

## Consolidated Statement of Changes in Shareholders' Equity (For the year ended November 30, 2007)

(¥ millions)

Item	Shareholders' equity					Revaluations and translation adjustments			Minority interests	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Translation adjustments	Total revaluations and translation adjustments		
<b>Balance as of November 30, 2006</b>	<b>16,074</b>	<b>11,452</b>	<b>22,548</b>	<b>(157)</b>	<b>49,918</b>	<b>7,531</b>	<b>(4,247)</b>	<b>3,283</b>	<b>1,656</b>	<b>54,859</b>
<b>Changes during the fiscal year</b>										
Dividends from retained earnings			(1,989)		(1,989)					(1,989)
Net income			7,858		7,858					7,858
Acquisition of treasury stock				(58)	(58)					(58)
Disposal of treasury stock		119		33	152					152
Increase due to consolidation of equity method affiliates			15		15					15
Minimum pension liability adjustments of overseas subsidiary			279		279					279
Other			47		47					47
Net changes in items other than shareholders' equity						(1,464)	1,034	(429)	705	276
<b>Total changes during the fiscal year</b>	<b>–</b>	<b>119</b>	<b>6,211</b>	<b>(25)</b>	<b>6,304</b>	<b>(1,464)</b>	<b>1,034</b>	<b>(429)</b>	<b>705</b>	<b>6,580</b>
<b>Balance as of November 30, 2007</b>	<b>16,074</b>	<b>11,571</b>	<b>28,760</b>	<b>(183)</b>	<b>56,223</b>	<b>6,067</b>	<b>(3,212)</b>	<b>2,854</b>	<b>2,362</b>	<b>61,440</b>

# TOPICS

## Topics1 Bolstering the Engineering Business in World Markets

### NACHI Engineering established

We set up NACHI Engineering Co., Ltd. as a core base for various engineering services, including the re-sharpening and recoating of precision cutting tools and robot maintenance.

NACHI-FUJIKOSHI is expanding its engineering business in many parts of the world, providing our customers with total support ranging from consulting services to products, technologies and after-sales services.



NACHI Engineering  
(Ayase City, Kanagawa Prefecture, May 2007)



NACHI (Shanghai) Precision Tools Co., Ltd.  
(Shanghai, China)



NACHI Precision North Carolina Inc.  
(North Carolina, U.S.)

## Topics2 Broadening Alliances

### Joint development in magnesium alloy business with Sankyo Tateyama Aluminium



We have succeeded in commercializing the production of high-quality magnesium alloy sheets by combining our processing technologies with those of Sankyo Tateyama Aluminium, Inc.

Going forward, we will expand the market for magnesium alloys in a wide range of sectors, from electrical and electronic devices to automobiles and industrial machinery. (May 2007)



### GS MILL cutting tools awarded "Monodzukuri Manufacturing Award (Machine Parts Award)"

With their superior resource- and energy-saving characteristics as well as high productivity, GS MILL cutting tools are developed, manufactured and sold in cooperation with Sumitomo Electric Hardmetal Corp.

High-quality manufacturing requires precision cutting tools that meet global standards, and as such GS MILL cutting tools are highly acclaimed by the market and won this coveted award for the third consecutive year.

(Award sponsored by The Nikkan Kogyo Shimbum, March 2007)



## Topics3 Focusing on the Development of Materials Technology

### Establishment of R&D Material

We have established R&D Material at the Higashi-Toyama Plant as a NACHI business base for R&D for materials, heat treatment and coatings.

At the plant, we are focusing on the development of materials for new applications, and on saving resources.



(Higashi-Toyama Plant, May 2007)

### Developing FM ALLOY, a high-performance super-alloy

We have succeeded in commercializing this high-performance super-alloy through the development of a new manufacturing technique and the installation of special melting furnaces.

FM ALLOY will be used in sectors requiring new types of functional parts such as aircraft and ultra-precision machinery.



(Higashi-Toyama Plant, October 2007)

**FM ALLOY: An alloy suited to numerous applications.**



## Topics4 Strengthening Our Robot Business

At the 2007 International Robot Exhibition, we introduced the Presto MR20, a new platform robot featuring 7-axes and multiple joints

We recently developed this new-concept robot that can move with human-like flexibility and exhibited it at the 2007 International Robot Exhibition, where it attracted much attention.

Presto MR20 can carry out a variety of the complex operations involved in a wide range of processes, including assembly, processing and transportation. We will use this robot to develop new markets centered on the industrial machinery sector.

The Japan Robot Association (Chairman: Kensuke Imura, president of NACHI-FUJIKOSHI) hosted the world's first "Robot Summit." The summit comprised the world's seven major robot manufacturers who assembled to discuss the future potential of robots and the business strategies of each company. (November 2007)



## Topics5 Proactive Investment in Competitive Products

Expanding the production system of the NACHI-FUJIKOSHI Group



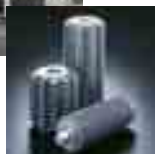
Established a new hydraulic drive motor factory for utility (small construction machinery) makers. (Namerikawa Plant, Toyama Prefecture, June 2007)



Expanded Yachi Plant of NACHI Tohoku Seiko Co., Ltd. Increased production of rotary center joints for utility makers (for largest market share in the world). (Yamagata City, October 2007)



Built a new factory of gear-cutting tools for precision gears. (Toyama Plant, August 2007)



Built a new machine parts processing factory at NACHI Machinery Engineering Co., Ltd. (Nagaresugi Plant, Toyama Prefecture, May 2007)

Strengthening the production system for high-performance bearings at three bases worldwide



Nachi Technology (Thailand) Co., Ltd. (Thailand)



Nachi Do Brasil Industria E Comercio Ltda. (Sao Paulo, Brazil)



Dongguan Nachi C.Y. Corporation (Guangdong, China)

# SHAREHOLDER INFORMATION (As of November 30, 2007)

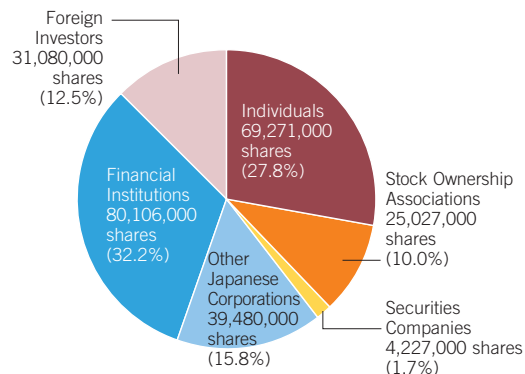
**Number of Shares Issued:** 249,193,436

**Number of Shareholders:** 34,961

**Major Shareholders:**

Shareholders	Number of shares held (thousand)	Shareholding ratio (%)
Toyota Motor Corporation	13,182	5.29
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	11,888	4.77
NACHI WANEI Stockholding	11,032	4.43
Employees Stock Ownership Plan	10,704	4.30
Japan Trustee Services Bank, Ltd.	9,325	3.74

**Breakdown of Shareholders**



# DIRECTORS (As of March 1, 2008)

*President and Representative Director*

Kensuke Imura

*Executive Vice President and Representative Director*

Hiroo Honma

*Executive Vice President and Representative Director*  
Masahiro Nagao

*Managing Director*

Hideki Kasahara

*Managing Director*

Yukihiko Tanaka

*Managing Director*

Noriyasu Shiba

*Managing Director*

Kenji Ishiguro

*Managing Director*

Kiyoshi Nakagawa

*Managing Director*

Masayuki Higeukon

*Director*

Masao Motobayashi\*

*Director*

Makoto Sasaki

*Director*

Hideo Terakoshi

*Director*

Zenshiro Kaneko

*Director*

Hiroshi Yamada

*Director*

Keiichi Ogino

*Standing Corporate Auditor*

Naoto Nakano

*Standing Corporate Auditor*

Atsushi Saguchi\*

*Standing Corporate Auditor*

Teruo Akashi

*Corporate Auditor*

Eiichi Fukushima\*

\*Outside director or outside corporate auditor

## ► Origin of the Corporate Name “FUJIKOSHI”

NACHI-FUJIKOSHI CORP. was founded in the city of Toyama in 1928. Kohki Imura, the founder, named the company FUJIKOSHI in order to give concrete expression to his creed that self sufficiency in machine tool supply is indispensable to Japan’s economic prosperity.

The first two characters “不二” which read “Fuji” were picked from the Buddhist scriptures. A passage in the scriptures says “Justice and injustice appear to be different things. The truth is that they are “Fuji” (not two). They are one and the same”.

In other words, the true comprehension of objects is attainable only through penetrating observation from high above, ignoring the superficial appearances of such objects.

The third Chinese character “越” which reads “koshi,” has the same pronunciation as “高志” which means the general area along the Japan Sea since old days, and leads to the “Art” which we are aiming.

With these words, we are also aiming to improve technologies and to enhance the corporate value.

## ► Origin of the Trademark “NACHI”

NACHI brand name comes from “KUMANO-NACHI-TAISHA,” the Grand Shrine, that is the origin of Japan. It expresses strong entrepreneurial will.

In 1929, the Emperor Showa made a tour of the Kansai district to inspect industries as part of the encouragement of domestic production, and personally inspected a FUJIKOSHI hacksaw blade that was on display as an example of an outstanding domestic product at the Osaka Prefectural Office.

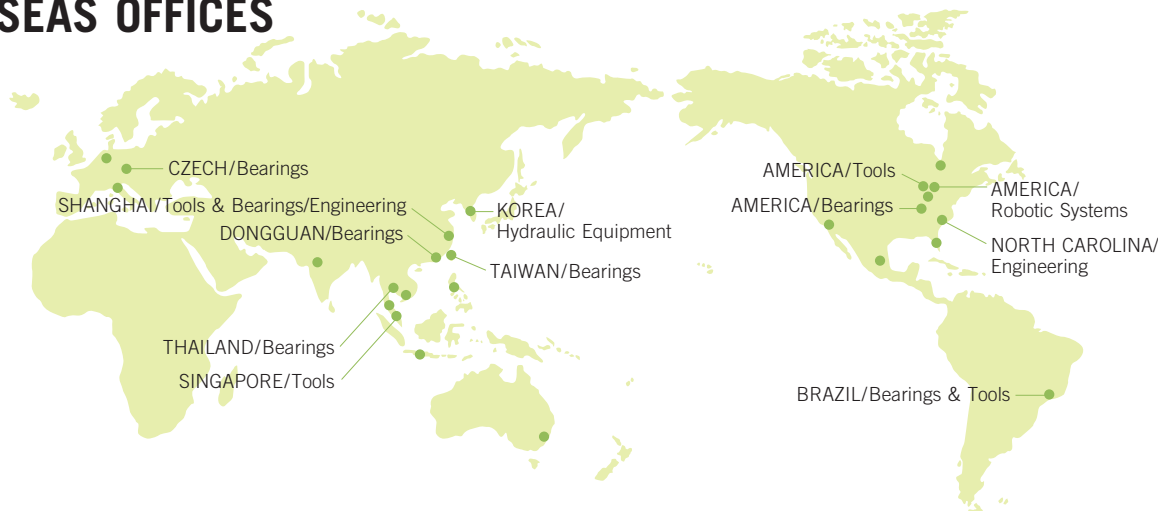
Overjoyed at the honor of entertaining the Emperor’s special attention, Kohki Imura decided to name his product “NACHI” after the name of the latest naval cruiser to be made in Japan, the very same vessel that the Emperor was sailing on for his tour.

Fujikoshi, in the early days of Showa, was still a fledging machine tool supplier. For Imura, “NACHI” was the word that best identified FUJIKOSHI products with the dignity of the Emperor.

# CORPORATE INFORMATION (As of November 30, 2007)

<b>Foundation:</b>	December 21, 1928	
<b>Capital:</b>	¥16 billion	
<b>Number of Employees:</b>	5,802 (Consolidated) 2,734 (Non-consolidated)	
<b>Major Products:</b>	Machining Cutting Tools, Forming Tools, Cutting Saws, Precision Forming, Machine Tools, Precision Machinery, Machining Systems Robots Robot Systems, Electronic Equipment Components Bearings, Hydraulic Equipment, Automotive Parts, Seismic Isolation Systems Materials & Heat Treatment Special Steels, Industrial Furnaces, Coating	
<b>Major Domestic Offices and Plants:</b>		
Toyama Head Office	1-1-1, Fujikoshi-Honmachi, Toyama 930-8511, Japan	Tel: +81-76-423-5111
Tokyo Head Office	Shiodome Sumitomo Bldg. 17F, 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-0021, Japan	Tel: +81-3-5568-5111
Eastern Japan Main Branch	Shiodome Sumitomo Bldg. 17F, 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-0021, Japan	Tel: +81-3-5568-5280
Central Japan Main Branch	Nachi Nagoya Bldg., 2-120-3, Takayashiro, Meitou-ku, Nagoya 465-0095, Japan	Tel: +81-52-769-6811
Western Japan Main Branch	Nachi Osaka Bldg., 2-3-7, Honjo-nishi, Higashi-Osaka 578-8522, Japan	Tel: +81-6-6748-2510
Toyama Plant	1-1-1, Fujikoshi-Honmachi, Toyama 930-8511, Japan [Cutting Tools / Machine Tools / Robots / Bearings]	Tel: +81-76-423-5111
Higashi-Toyama Plant	3-1-1, Yoneda-machi, Toyama 931-8511, Japan [Special Steels] 3-2-1, Nakada, Toyama 931-8453, Japan [Hydraulic Equipment]	Tel: +81-76-438-4411 Tel: +81-76-438-8970
Namerikawa Plant	176, Ogake, Namerikawa 936-0802, Japan [Precision Machinery / Hydraulic Equipment / Automotive Hydraulics / Industrial Furnaces / Coating / Precision Forming]	Tel: +81-76-471-2101
<b>Major Overseas Subsidiaries:</b>		
NACHI AMERICA INC.	17500 Twenty-Three Mile Road, Macomb, Michigan, 48044, U.S.A.	Tel: +1-586-226-5151
NACHI EUROPE GmbH	Bischofstrasse 99, 47809, Krefeld, GERMANY	Tel: +49-(0)2151-65046-0
NACHI TECHNOLOGY (THAILAND) CO., LTD.	3/16 M, 2, Rojana Industrial Estate Nongbua, Ban Khai, Rayong, 21120, THAILAND	Tel: +66-38-961-682
NACHI (SHANGHAI) CO., LTD.	Yitong Industry Zone 258, Fengmao Rd. Malu Town, Jiading, Shanghai 201801, CHINA	Tel: +86-(0)21-6915-2200

## OVERSEAS OFFICES



# INVESTOR INFORMATION

<b>Stock Code:</b>	6474
<b>Record Date:</b>	Voting rights at General Meeting of Shareholders November 30 Year-end dividend November 30 Interim dividend May 31
<b>Ordinary General Meeting of Shareholders:</b>	February
<b>Unit:</b>	1,000 shares
<b>Shareholders' Register Custodian:</b>	The Chuo Mitsui Trust and Banking Company, Ltd. 3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan
<b>Shareholders' Register Custodian Administrative Office:</b>	The Chuo Mitsui Trust and Banking Company, Ltd. Stock Transfer Agency Department 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Toll-free: 0120-78-2031 (Toll-free in Japan)
<b>Shareholders' Register Custodian Handling Office:</b>	The Chuo Mitsui Trust and Banking Company, Ltd., Branches throughout Japan Japan Securities Agents, Ltd., Head office and branches throughout Japan
<b>Stock Transfer Fees:</b>	Free
<b>URL:</b>	<a href="http://www.nachi-fujikoshi.co.jp/">http://www.nachi-fujikoshi.co.jp/</a>

## To Request Purchase of Additional Shares for Holdings Less Than the Minimum Trading Unit

NACHI-FUJIKOSHI has introduced a system that allows the purchase of additional shares for holdings less than the normal trading unit. This system enables shareholders with holdings under trading unit (1,000 shares) to purchase the shares needed to meet this minimum requirement.

Also, shareholders wishing to sell holdings of less than trading unit can follow procedures for the buyback of shares.

Please contact the Shareholders' Register Custodian (see left) for more information. (Please note: Shareholders using the securities depository system should contact their securities firm.)

## Wonders from NACHI, Art in NACHI

Exciting Technology - that's Art.

In the dictionary, "Art" means "Work showing inventive ability or skill;" and "A skill that is obtained through study, practice and refined technique." The Latin root word, "ars," includes the idea of yearning for beauty. We want everything we do to be Art. NACHI plays each role in creating the technology, developing the skill and building the expertise. As a producer of high technology, NACHI is fashioning wonders. There is going to be Art in NACHI.

**NACHI**