

NACHI

BUSINESS REPORT 2006

December 1, 2005 to November 30, 2006



NACHI-FUJIKOSHI CORP.

Stock Code: 6474

TO OUR SHAREHOLDERS

It's our pleasure to report to you about NACHI-FUJIKOSHI's business performance for the fiscal year ended November 30, 2006.

Business Environment

During the period under review, Japan's economy maintained its modest recovery. This reflected higher capital expenditure and improved employment conditions, although fluctuations in crude oil and raw material prices and other causes for concern were still apparent. Overseas economic growth was also robust overall, reflecting solid growth in the U.S. economy, expansion in China and ASEAN markets, and a rebounding European economy.

Business Progress and Results

In this environment, the NACHI-FUJIKOSHI Group worked on the marketing, manufacturing and development fronts to promote the "NACHI Business" concept in the global market, capitalizing on the sophisticated, interconnected business management that has become a Group trademark. We improved and augmented the Group's production framework and equipment, both at home and abroad, and took steps to enhance productivity and bolster supply capabilities. We also responded to flourishing demand in the automobile and industrial machinery sectors by supplying reliable products and technologies offering high performance and high precision.

These actions resulted in net sales of ¥186.7 billion, up 6.1% from the previous fiscal year. Sales to the Japanese market accounted for ¥128.4 billion (up 1.6% year on year), while overseas sales climbed 17.6% to ¥58.2 billion.

Turning to earnings, ordinary income rose ¥2.1 billion, or 17.7% year on year, to ¥14.1 billion. This improvement was posted despite rising raw material and component prices, higher fixed expenses due to improvement of the production framework and other factors during the year. These 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. After accounting for an extraordinary loss due to operational streamlining expenses, net income for the year under review was ¥7.3 billion.

Cash Dividends

In recognition of business performance during the year and as a token of appreciation to shareholders for their dedicated support and to meet their expectations, the Company intends to pay a cash dividend of ¥8 per share, an increase of ¥1 from the previous fiscal year.

Future Action

Looking ahead, firm growth is expected to continue in the industrial machinery sector, while capital expenditure in the automobile

sector is expected to enter a temporary correction phase. Meanwhile, issues fueling future uncertainty also abound: price trends in crude oil and raw material markets, economic slowdown in the U.S., and fluctuations in the yen-dollar exchange market all contribute to a business environment that will continue to warrant no optimism for the time being.

Given these circumstances, the NACHI-FUJIKOSHI Group will strive to establish a stable earnings base by reinforcing the interconnections between every aspect of our operations and setting our business on a solid footing. 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 2007

Kensuke Imura, President

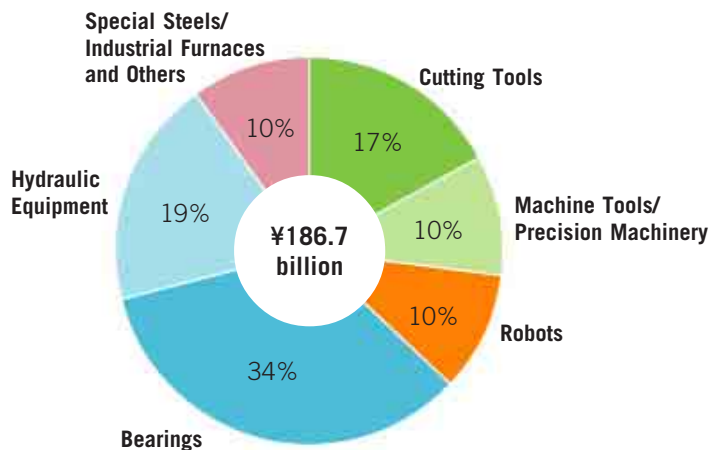


About the Cover Design

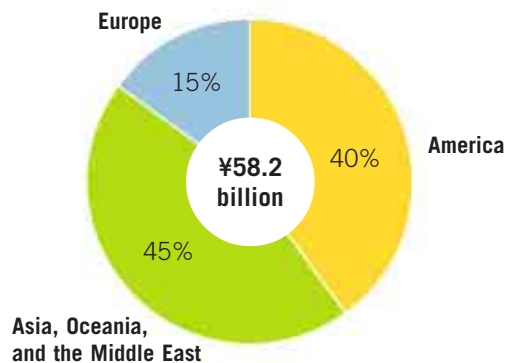
The triangle symbolizes the notion of "Sei-Han-Go," or "Fusing discrete and opposing ideas into one," the Group corporate philosophy implicit in the meaning of "Fuji" in our name.

RESULTS OF OPERATIONS

Sales by Business Segments



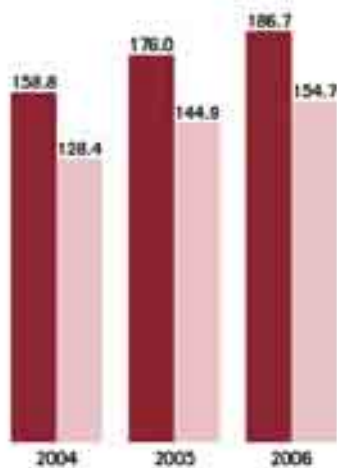
Overseas Sales



Net Sales

(¥ billions)

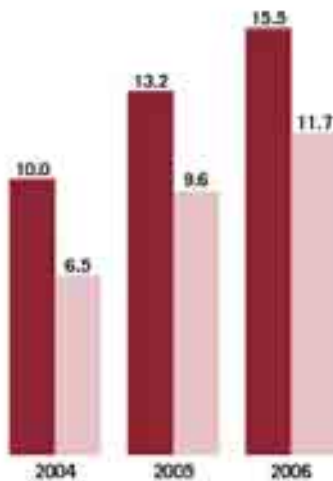
■ Consolidated
■ Non-consolidated



Operating Income

(¥ billions)

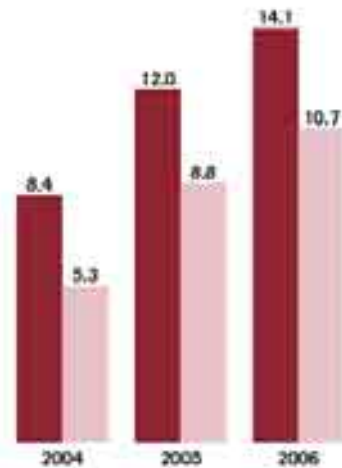
■ Consolidated
■ Non-consolidated



Ordinary Income

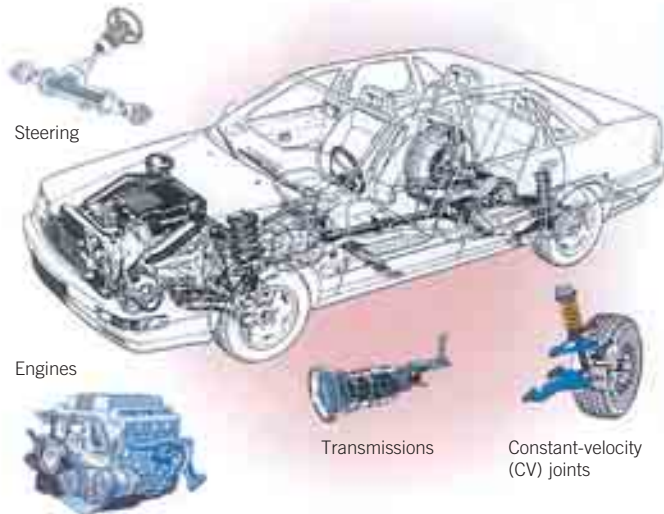
(¥ billions)

■ Consolidated
■ Non-consolidated



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



Wheel drive motors



Swing motors

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

Components

In pursuit of greater safety and

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	2006		2005	
	(As of November 30, 2006)		(As of November 30, 2005)	
ASSETS:				
Current assets	90,894	79,544		
Cash and cash equivalents	13,406	10,027		
Notes and accounts receivable	42,220	36,850		
Inventories	30,097	28,336		
Deferred tax assets	3,047	2,480		
Other	2,417	2,146		
Allowance for doubtful accounts	(294)	(297)		
Fixed assets	95,213	84,427		
Property, plant and equipment	72,393	63,360		
Buildings and structures	21,744	19,444		
Machinery and equipment	39,731	34,714		
Land	7,226	6,967		
Construction in progress	1,852	981		
Other	1,838	1,252		
Intangible fixed assets	429	532		
Software	332	410		
Other	96	122		
Investments and advances	22,390	20,534		
Investment securities	19,230	17,405		
Long-term loans receivable	150	90		
Deferred tax assets	866	1,003		
Other	2,181	2,078		
Allowance for doubtful accounts	(38)	(42)		
Total assets	186,107	163,972		

Consolidated Statements of Income

(¥ millions)

Item	2006		2005	
	(For the year ended November 30, 2006)		(For the year ended November 30, 2005)	
Net sales	186,722	176,014		
Operating income	15,555	13,252		
Ordinary income	14,161	12,032		
Extraordinary income	624	310		
Extraordinary losses	1,594	2,850		
Income before income taxes and minority interests	13,191	9,492		
Net income	7,304	5,179		

(¥ millions)

Item	2006		2005	
	(As of November 30, 2006)		(As of November 30, 2005)	
LIABILITIES:				
Current liabilities	91,259	88,548		
Notes and accounts payable	35,988	36,334		
Short-term bank loans	33,867	30,916		
Other accounts payable	9,282	8,715		
Other	12,120	12,581		
Long-term liabilities	39,989	29,364		
Bonds and long-term debt	26,619	15,983		
Allowance for retirement benefits	8,171	8,969		
Other	5,197	4,411		
Total liabilities	131,248	117,913		
MINORITY INTERESTS:				
Minority interests	–	564		
SHAREHOLDERS' EQUITY:				
Common stock	–	16,074		
Additional paid-in capital	–	11,435		
Retained earnings	–	16,747		
Unrealized gains on available-for-sale securities	–	6,732		
Translation adjustments	–	(5,382)		
Treasury stock	–	(112)		
Total shareholders' equity	–	45,495		
Total liabilities, minority interests and shareholders' equity	–	163,972		
NET ASSETS:				
Shareholders' equity	49,918	–		
Common stock	16,074	–		
Additional paid-in capital	11,452	–		
Retained earnings	22,548	–		
Treasury stock	(157)	–		
Revaluations and translation adjustments	3,283	–		
Unrealized gains on available-for-sale securities	7,531	–		
Translation adjustments	(4,247)	–		
Minority interests	1,656	–		
Total net assets	54,859	–		
Total liabilities and net assets	186,107	–		

Consolidated Statements of Cash Flows

(¥ millions)

Item	2006		2005	
	(For the year ended November 30, 2006)		(For the year ended November 30, 2005)	
Cash flows from operating activities	10,221	14,674		
Cash flows from investing activities	(18,812)	(11,062)		
Cash flows from financing activities	11,627	(7,779)		
Net increase (decrease) in cash and cash equivalents	3,186	(4,009)		
Cash and cash equivalents at beginning of the year	9,231	13,191		
Cash and cash equivalents at end of the year	12,643	9,231		

Consolidated Statement of Changes in Shareholders' Equity (For the year ended November 30, 2006)

(¥ 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		
Balance as of November 30, 2005	16,074	11,435	16,747	(112)	44,145	6,732	(5,382)	1,349	564	46,059
Changes during the fiscal year										
Dividends from retained earnings			(1,741)		(1,741)					(1,741)
Bonuses for directors appropriated from earnings			(95)		(95)					(95)
Net income			7,304		7,304					7,304
Acquisition of treasury stock				(58)	(58)					(58)
Disposal of treasury stock		16		13	30					30
Decrease in retained earnings accompanying increase in consolidated subsidiaries			(8)		(8)					(8)
Minimum pension liability adjustments of overseas subsidiary			330		330					330
Other			10		10					10
Net changes in items other than shareholders' equity						799	1,135	1,934	1,092	3,026
Total changes during the fiscal year	-	16	5,801	(44)	5,772	799	1,135	1,934	1,092	8,799
Balance as of November 30, 2006	16,074	11,452	22,548	(157)	49,918	7,531	(4,247)	3,283	1,656	54,859

Non-consolidated Balance Sheets

(¥ millions)

Item	2006	2005
	(As of November 30, 2006)	(As of November 30, 2005)
ASSETS:		
Current assets	62,161	52,316
Fixed assets	93,175	82,781
Total assets	155,336	135,098
LIABILITIES:		
Current liabilities	72,634	68,286
Long-term liabilities	33,526	22,427
Total liabilities	106,161	90,714
SHAREHOLDERS' EQUITY:		
Common stock	-	16,074
Additional paid-in capital	-	11,435
Retained earnings	-	10,429
Unrealized gains on available-for-sale securities	-	6,539
Treasury stock	-	(95)
Total shareholders' equity	-	44,383
Total liabilities and shareholders' equity	-	135,098
NET ASSETS:		
Shareholders' equity	41,813	-
Common stock	16,074	-
Additional paid-in capital	11,452	-
Retained earnings	14,426	-
Treasury stock	(140)	-
Revaluations and translation adjustments	7,361	-
Total net assets	49,175	-
Total liabilities and net assets	155,336	-

Non-consolidated Statements of Income

(¥ millions)

Item	2006	2005
	(For the year ended November 30, 2006)	(For the year ended November 30, 2005)
Net sales	154,708	144,929
Operating income	11,760	9,664
Ordinary income	10,704	8,841
Extraordinary income	89	90
Extraordinary losses	1,021	1,498
Income before income taxes	9,772	7,433
Net income	5,834	4,480

TOPICS

Topics1 Launch of Major NACHI Dealers Conference

Making contacts that transcend industries and regions, deepening partnerships

In November 2006, NACHI-FUJIKOSHI invited dealers representing 45 major companies from such fields as cutting tools, bearings and hydraulics to a conference designed to make contacts that cut across existing business frameworks. The ultimate aim was to improve NACHI Business.

(November 2006)



Topics2 Global Expansion of the Engineering Business

NACHI-FUJIKOSHI is nurturing new businesses through newly established bases in Japan and overseas specializing in engineering services, including the re-sharpening and recoating of cutting tools and robot maintenance.



NACHI Engineering Established

We set up NACHI Engineering Co., Ltd. to consolidate and expand various engineering services, including for machine tools and robots, along with our showrooms and demonstration facilities. This move will enhance our technical support for customers.

(Ayase City, Kanagawa Prefecture. Completion scheduled for April 2007)

NACHI (Shanghai) Precision Tools Co., Ltd.

Established in Shanghai in March 2006 as a base for precision tool engineering services, this company will advance business in the Chinese market together with bearings manufacturer Shanghai NACHI Bearings Co., Ltd., band saw manufacturer Shanghai NACHI Saw Corp. and sales company NACHI (Shanghai) Co., Ltd.



Opening of the NACHI Galaxy China showroom



NACHI Precision North Carolina Inc.

Located in the southeastern United States, home to numerous automakers, this company has begun a business involving the re-sharpening and recoating of precision cutting tools.

(Established May 2006)



Topics3 Synergies Through Alliances

At the 23rd Japan International Machine Tool Fair (JIMTOF 2006), NACHI-FUJIKOSHI exhibited jointly with Sumitomo Electric Hardmetal Corp. in the cutting tool sector, and with GPA (Gear Production Alliance), Kashifuji Works Ltd. and Kanzaki Kogyokoki Manufacturing Co., Ltd. in the machine tool sector. The exhibitions were instrumental in promoting the attractions of the latest processing technology to customers from Japan and overseas.



Topics4 New Product—the Artis SC400LC Clean Robot



We recently launched sales of this 6-axis, multi-jointed clean robot boasting the world's best handling capabilities. This newly developed robot safely, precisely and speedily handles glass substrates for increasingly larger flat panel displays.



FUJIKOSHI Hospital—Part of the FUJIKOSHI Story

FUJIKOSHI Hospital began as a medical clinic for FUJIKOSHI employees that was opened by founder Kohki Imura in 1934. The clinic expanded as the company grew and has contributed to the development of the region's healthcare as one of Toyama prefecture's leading general hospitals. In 1951, we agreed to the prefecture's request to administer the hospital, which became the present-day Toyama Prefectural Central Hospital.

In 1958, we built a new FUJIKOSHI Hospital at the side of the company's present-day main entrance. Then in 1989, the hospital moved to a new building in front of the main entrance to commemorate the company's 60th anniversary.

In the fall of 2006, an extra 1,830 square meters of wards were added in a 3-storey wing on the west side of the hospital, thereby expanding the existing area to 6,560 square meters.

In addition to an upgraded Health Center, the new wing features wider corridors and larger doors for barrier-free access. The hospital first floor is divided into a Checkup Center, and internal medicine rooms

for outpatient consultation and treatment, to offer greater convenience to both people receiving medical checkups and outpatients.

The second floor holds the Dialysis Center, whose activities were previously dispersed among three separate locations. The wards and smaller patients' rooms that used to be on the third and fourth floors are now also on one floor.

Our founder was well known for a calligraphic scroll that read "a healthy spirit and a healthy body." True to this, the hospital aims to provide meticulous healthcare, increasing the wellbeing and deepening the trust of everyone who uses it.



11-65 Higashi Ishi-gane-machi, Toyama 930-0964, Japan
Tel: 076-424-2881

SHAREHOLDER INFORMATION (As of November 30, 2006)

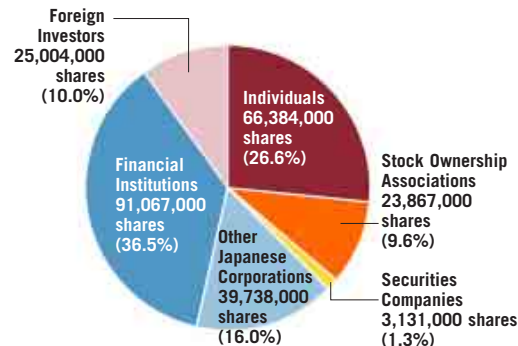
Number of Shares Issued: 249,193,436

Number of Shareholders: 34,487

Major Shareholders:

Shareholders	Number of shares held (thousand)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd.	13,862	5.56
Toyota Motor Corporation	13,182	5.29
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	11,888	4.77
Employees Stock Ownership Plan	10,470	4.20
NACHI WANEI Stockholding	10,395	4.17

Breakdown of Shareholders



DIRECTORS (As of February 21, 2007)

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
Fumihide Hidano

Managing Director
Noriyasu Shiba

Managing Director
Kenji Ishiguro

Managing Director
Kiyoshi Nakagawa

*Director**
Masao Motobayashi

Director
Makoto Sasaki

Director
Hideo Terakoshi

Director
Masayuki Higeukon

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, 2006)

Foundation:	December 21, 1928	
Capital:	¥16 billion	
Number of Employees:	5,613 (Consolidated) 2,633 (Non-consolidated)	
Major Products:	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, Coating, Industrial Furnaces	
Major Domestic Offices and Plants:		
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]	Tel: +81-76-438-4411
	3-2-1, Nakada, Toyama 931-8453, Japan [Hydraulic Equipment]	Tel: +81-76-438-8970
Namerikawa Plant	176, Ogake, Namerikawa 936-0802, Japan [Precision Machinery / Automotive Hydraulics / Industrial Furnaces / Coating / Precision Forming]	Tel: +81-76-471-2101
Major Domestic Subsidiaries:		
NACHI Kanto Co., Ltd.	Shiodome Sumitomo Bldg. 17F, 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-0021, Japan	Tel: +81-3-5568-5190
NACHI Kansai Co., Ltd.	Nachi Osaka Bldg., 2-3-7, Honjo-nishi, Higashi-Osaka 578-8522, Japan	Tel: +81-6-6748-2530
NACHI Tokai Co., Ltd.	Nachi Nagoya Bldg., 2-120-3, Takayashiro, Meitou-ku, Nagoya 465-0095, Japan	Tel: +81-52-769-6911

OVERSEAS OFFICES



I INVESTOR INFORMATION

Stock Code:	6474
Record Date:	Voting rights at General Meeting of Shareholders November 30 Year-end dividend November 30 Interim dividend May 31
Ordinary General Meeting of Shareholders:	February
Unit:	1,000 shares
Shareholders' Register Custodian:	The Chuo Mitsui Trust and Banking Company, Ltd. 3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan
Shareholders' Register Custodian Administrative Office:	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)
Shareholders' Register Custodian Handling Office:	The Chuo Mitsui Trust and Banking Company, Ltd., Branches throughout Japan Japan Securities Agents, Ltd., Head office and branches throughout Japan
Stock Transfer Fees:	Free
URL:	http://www.nachi-fujikoshi.co.jp/

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