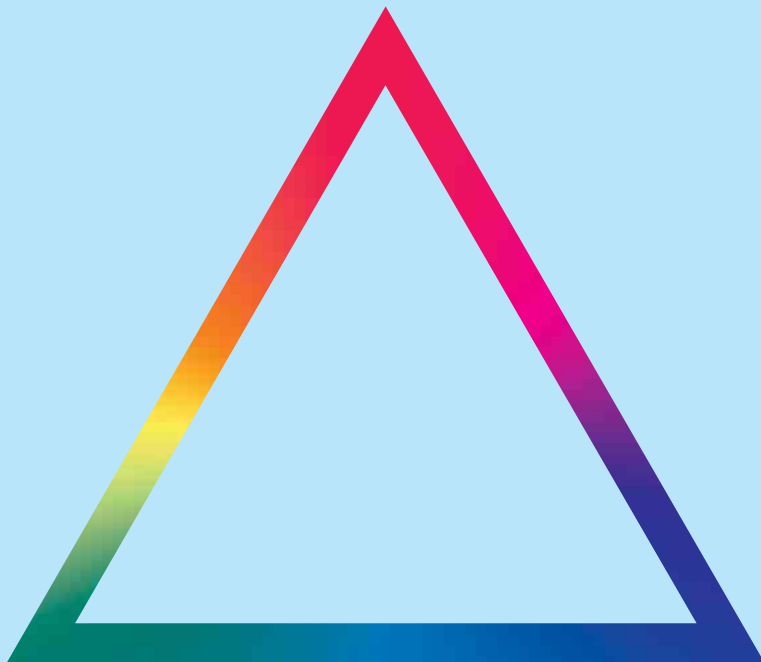


NACHI

INTERIM BUSINESS REPORT 2006

December 1, 2005 to May 31, 2006



NACHI-FUJIKOSHI CORP.

Stock Code: 6474

TO OUR SHAREHOLDERS

It's our pleasure to report to you about NACHI-FUJIKOSHI's interim business performance for the interim period ended May 31, 2006.

Business Environment

Despite surging prices for crude oil and raw materials and other causes for concern, Japan's economy continued to mount a steady recovery during the period under review. Growth was supported by strong production and capital expenditure in the automobile and industrial machinery sectors, as well as increased consumer spending. Overseas economic growth was also robust overall, reflecting solid private-sector demand in the U.S. economy, expansion in China and ASEAN markets, and a rebounding European market.

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 the Group's production, sales and service frameworks, both at home and abroad, and took steps to enhance productivity and bolster supply capabilities.

These actions resulted in net sales of ¥93.1 billion, up 9.7% from the same period of a year earlier. Sales to the Japanese market accounted for ¥65.1 billion (up 6.7% year on year), while overseas sales climbed 17.4% to ¥27.9 billion.

Turning to earnings, ordinary income rose ¥1.3 billion, or 25.0% year on year, to ¥6.9

billion. This improvement was posted despite escalating raw material and component prices, higher fixed expenses due to expansion and upgrade of production capacity 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 a loss on the sale and disposal of fixed assets, net income for the period under review was ¥3.3 billion.

We have decided, however, to postpone the payment of interim dividends for the time being.

By segment, sales in the machining segment climbed 12.2% to ¥34.8 billion. In addition to healthy sales of cutting tools and machine tools to the automobile and commercial aircraft sector, sales were buoyed by sharply higher growth in sales of industrial robots.

In the components segment, sales increased 10.5% to ¥48.9 billion. This growth stems from initiatives taken to strengthen our production framework in Japan and abroad to cope with growing demand for high-performance bearings and solenoid valves for automobiles, and hydraulic equipment for the construction equipment sector. We also recorded ¥9.2 billion in sales in the materials segment.

Future Prospects

Looking ahead, while relatively firm growth in the automotive and industrial machinery sectors is expected to continue, issues fueling future uncertainty also abound. Among these, sharply higher prices for crude oil and raw materials, the possibility of an economic slowdown in the U.S. and China, and fluctuations

in the yen-dollar exchange market, are potential issues of concern. In short, the business environment will continue to warrant no optimism for the time being.

Given these circumstances, the NACHI-FUJIKOSHI Group will pursue management that fosters growth opportunities on a variety of fronts, whether in marketing, manufacturing, procurement, development, human resources or finance. In establishing a stable earnings base, we are determined to take profit growth yet another step forward.

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

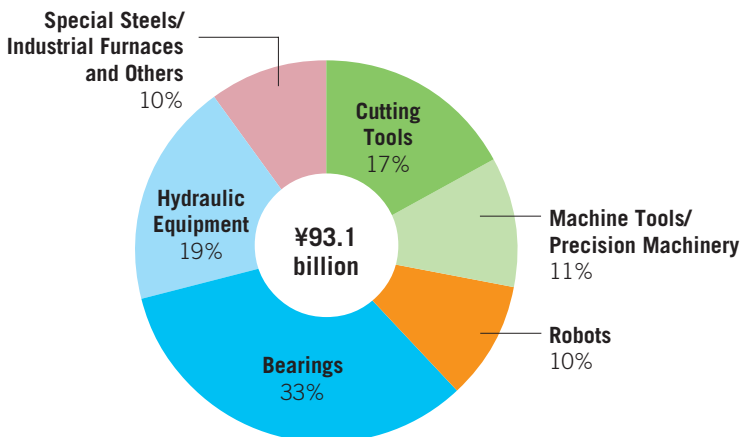
August 2006

Kensuke Imura, President

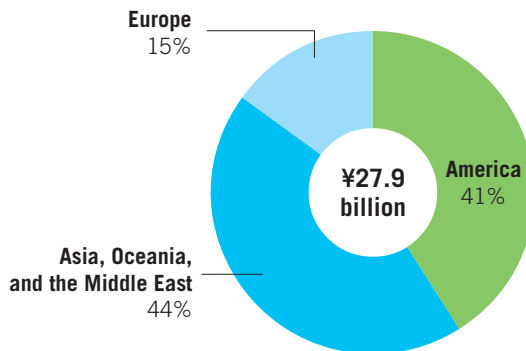


RESULTS OF OPERATIONS

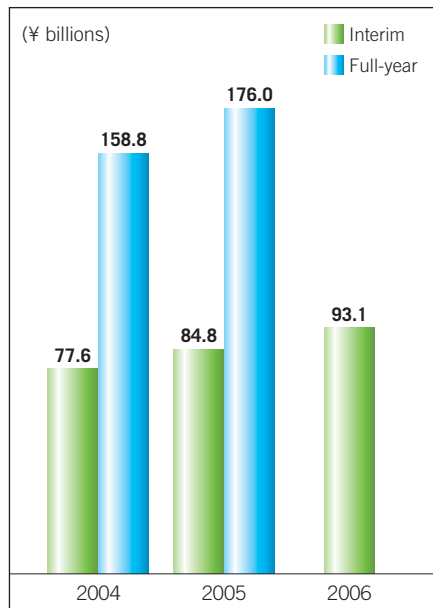
Sales by Business Segments (Consolidated)



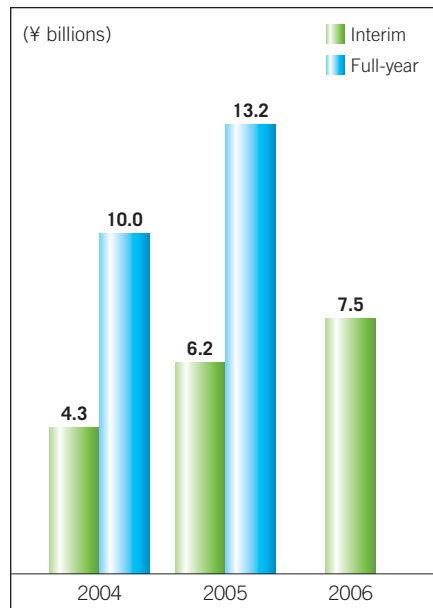
Overseas Sales



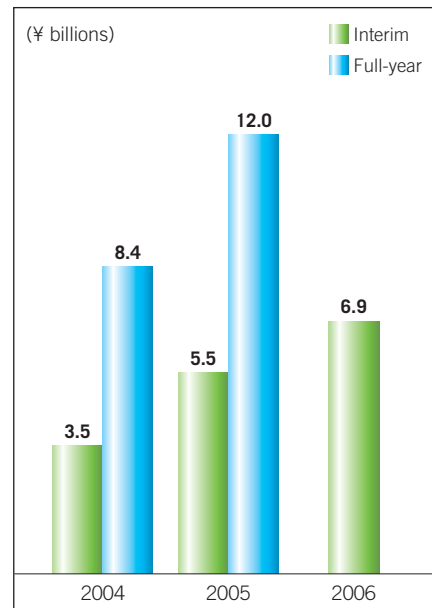
Net Sales



Operating Income



Ordinary Income



CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

Item	Interim 2006 (as of May 31, 2006)	Interim 2005 (as of May 31, 2005)
ASSETS:		
Current assets	82,438	75,290
Cash and cash equivalents	9,295	9,129
Notes and accounts receivable	38,681	34,806
Inventories	29,413	26,778
Other	5,048	4,577
Fixed assets	90,843	77,625
Property, plant and equipment	69,301	59,422
Buildings and structures	20,975	17,544
Machinery and equipment	37,936	32,641
Land	7,098	6,978
Other	3,290	2,258
Intangible fixed assets	448	1,633
Investments and advances	21,093	16,569
Investment securities	17,820	12,849
Other	3,273	3,719
Total assets	173,282	152,916

(¥ million)

Item	Interim 2006 (as of May 31, 2006)	Interim 2005 (as of May 31, 2005)
LIABILITIES:		
Current liabilities	94,975	80,005
Notes and accounts payable	37,284	34,080
Short-term bank loans	33,160	29,085
Other accounts payable	9,244	8,062
Other	15,286	8,777
Long-term liabilities	28,716	32,286
Bonds and long-term debt	15,123	19,790
Allowance for retirement benefits	8,506	9,328
Other	5,087	3,167
Total liabilities	123,692	112,291
NET ASSETS:		
Shareholders' Equity	45,651	41,971
Common stock	16,074	16,074
Additional paid-in capital	11,444	11,426
Retained earnings	18,274	14,573
Treasury stock	(142)	(102)
Revaluations and translation adjustments	2,700	(1,952)
Minority interests	1,238	603
Total net assets	49,590	40,624
Total liabilities and net assets	173,282	152,916

Consolidated Statements of Income

(¥ million)

Item	Interim 2006 (December 1, 2005– May 31, 2006)	Interim 2005 (December 1, 2004– May 31, 2005)
Net sales	93,118	84,890
Operating income	7,572	6,215
Ordinary income	6,927	5,543
Extraordinary income	78	157
Extraordinary losses	1,041	856
Income before income taxes and minority interests	5,965	4,844
Net income	3,373	2,831

Consolidated Statements of Cash Flows

(¥ million)

Item	Interim 2006 (December 1, 2005– May 31, 2006)	Interim 2005 (December 1, 2004– May 31, 2005)
Cash flows from operating activities	5,648	5,882
Cash flows from investing activities	(10,038)	(5,158)
Cash flows from financing activities	3,408	(5,548)
Net decrease in cash and cash equivalents	(858)	(4,817)
Cash and cash equivalents at beginning of the period	9,231	13,191
Cash and cash equivalents at end of the period	8,598	8,373

NON-CONSOLIDATED FINANCIAL STATEMENTS

Non-Consolidated Balance Sheets

Item	Interim 2006 (as of May 31, 2006)	Interim 2005 (as of May 31, 2005)
ASSETS:		
Current assets	53,439	50,942
Cash and cash equivalents	3,784	5,594
Notes and accounts receivable	31,040	26,678
Inventories	16,193	15,079
Other	2,421	3,589
Fixed assets	88,365	75,624
Property, plant and equipment	51,269	43,115
Buildings and structures	15,901	12,916
Machinery and equipment	27,149	23,485
Land	5,678	5,119
Other	2,540	1,593
Intangible fixed assets	336	390
Investments and advances	36,759	32,118
Investment securities	16,680	11,215
Equity and investments in subsidiaries	17,306	16,793
Other	2,772	4,109
Total assets	141,805	126,566

(¥ million)

Item	Interim 2006 (as of May 31, 2006)	Interim 2005 (as of May 31, 2005)
LIABILITIES:		
Current liabilities	73,911	61,938
Notes and accounts payable	40,240	34,615
Short-term bank loans	18,090	15,188
Other accounts payable	5,784	5,749
Other	9,795	6,384
Long-term liabilities	21,663	24,929
Bonds and long-term debt	12,022	15,864
Allowance for retirement benefits	6,808	7,774
Other	2,832	1,290
Total liabilities	95,574	86,868
NET ASSETS:		
Shareholders' Equity	39,175	35,890
Common stock	16,074	16,074
Additional paid-in capital	11,444	11,426
Retained earnings	11,782	8,474
Treasury stock	(126)	(85)
Revaluations and translation adjustments	7,055	3,807
Total net assets	46,231	39,698
Total liabilities and net assets	141,805	126,566

Non-Consolidated Statements of Income

(¥ million)

Item	Interim 2006 (December 1, 2005– May 31, 2006)	Interim 2005 (December 1, 2004– May 31, 2005)
Net sales	76,784	69,784
Operating income	5,843	4,723
Ordinary income	5,479	4,340
Extraordinary income	88	70
Extraordinary losses	440	360
Income before income taxes	5,126	4,050
Net income	3,189	2,525

TOPICS

● Development of Safety Confirming Hydraulic Systems

[Electromagnetic valve equipped with Legato monitoring switch]

The Company's high-performance hydraulic equipment for industrial machinery was honored with the "Machine Part Award" at the third "Manufacturing Parts Grand Prize." The Nikkan Kogyo Shimbun, Ltd., a major business and industry newspaper in Japan, is the main sponsor of the prize.

(March 2006)



Legato Bold, Lithe

Development of a "safety confirming" system that will block operation until safety is confirmed once a hazard is detected.

● Increasing Corporate Value Through Dedication to the Art of Manufacturing

[NEWS 23 Tetsuya Chikushi]

Reporters from this television news program came to find out more about why manufacturing specialist NACHI-FUJIKOSHI has gained the attention of fund managers in Japan.

(Program aired on February 24, 2006)



[The Fujikoshi College of Manufacturing] offers a two-year course through which Group employees gain the ability to identify and rectify frontline manufacturing problems, learn leadership skills and how to act with resolve. Guest lecturers are invited in from universities and from among the Group's suppliers, helping to further foster employees' interdisciplinary knowledge.



● Expansion of the Engineering Business for Machining

Newly established bases in the Japanese, American and Chinese markets specializing in the re-sharpening and recoating of cutting tools are helping to spur global expansion of the engineering business for machining.

NACHI (Shanghai) Precision Tools Co., Ltd.

Opening of the NACHI Galaxy China showroom

A new company was established in Shanghai specializing in resharpener and recoating broaches, forming racks and other precision cutting tools. China is also home to several key NACHI-FUJIKOSHI bases: bearings manufacturer **Shanghai Nachi Bearings Co., Ltd.**, band saw manufacturer **Shanghai Nachi Saw Corp.**, and sales company **Nachi (Shanghai) Co., Ltd.**

(March 2006)



NACHI Precision North Carolina Inc.

In the southeastern United States, where numerous automobile and parts manufacturers are concentrated, this company is spreading the NACHI Business concept by specializing in the re-sharpening and recoating of precision machinery.

(May 2006, established in Charlotte, North Carolina, USA)



● Developing Markets in India



The India Representative Office was established on the outskirts of the capital New Delhi.

(March 2006)

SHAREHOLDER INFORMATION (As of May 31, 2006)

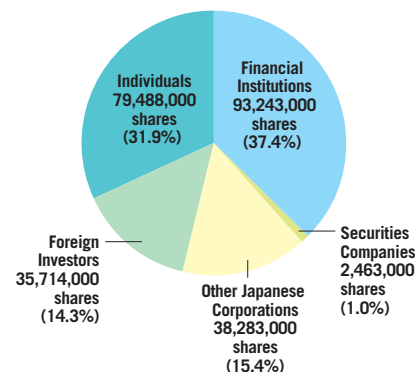
Number of Outstanding Shares: 249,193,436

Number of Shareholders: 31,758

Major Shareholders:

Shareholders	Number of shares held (thousand)	Shareholding ratio (%)
Toyota Motor Corporation	13,182	5.29
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,639	5.07
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	11,888	4.77
Japan Trustee Services Bank, Ltd. (Trust Account)	11,644	4.67
Employees Stock Ownership Plan	10,361	4.16
NACHI WANEI Stockholding	10,228	4.10
The Bank of New York Europe Limited, Luxembourg	9,987	4.01

Breakdown of Shareholders



DIRECTORS (As of August 2006)

President and Representative Director
Kensuke Imura

Executive Vice President
Teruo Akashi

Executive Vice President
Hiroo Honma

Managing Director
Hideki Kasahara

Managing Director
Masahiro Nagao

Managing Director
Yukihiko Tanaka

Managing Director
Fumihide Hidano

Managing Director
Noriyasu Shiba

Managing Director
Satoshi Nomiyama

Director
Shohei Itoh

Director
Kenji Ishiguro

Director
Makoto Sasaki

Director
Hideo Terakoshi

Director
Kiyoshi Nakagawa

Director
Masao Itoh

Director
Masayuki Higeukon

Standing Corporate Auditor
Naoto Nakano

Standing Corporate Auditor
Atsushi Saguchi

Corporate Auditor
Kunitame Isaki

Corporate Auditor
Eiichi Fukushima

CORPORATE INFORMATION (As of May 31, 2006)

Foundation: December 21, 1928

Capital: ¥16,000 million

Number of Employees: 5,542 (Consolidated) 2,535 (Non-Consolidated)

Major Products:

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

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

INVESTOR INFORMATION

Stock Code:	6474
Fiscal Year-end:	November 30
Ordinary General Meeting of Shareholders:	February
Unit (One <i>tangen</i>):	1,000 shares
Record Date for Shareholders Entitled to Receive Payment of Dividends:	November 30 (Record date for shareholders entitled to receive payment of interim dividends: May 31)
Transfer Agent:	The Chuo Mitsui Trust and Banking Company, Ltd. 3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan
Transfer Agent's Administrative Office:	The Chuo Mitsui Trust and Banking Company, Ltd. Stock Transfer Agency Department 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Tel: +81-3-3323-7111 Toll-free: 0120-78-2031 (Toll-free in Japan)
Transfer Agent's 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 a system that allows the purchase of additional shares for holdings less than the normal trading unit. This system enables shareholders with holdings under one *tangen* (1,000 shares) to purchase the shares needed to meet this minimum requirement.

Shareholders wishing to sell holdings of less than one *tangen* should follow the old procedures for the buyback of shares.

Please contact the transfer agent (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