

NSK Ltd.

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For Immediate Release

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CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006 (unaudited)

Financial Highlights

(Millions of yen)	Six months ended Sep. 30,		Change %
	2006	2005	
Net sales	¥ 349,266	¥ 302,903	15.3
Operating income	30,015	18,414	63.0
Ordinary income	27,756	16,899	64.2
Net income	17,281	9,953	73.6
(Yen)			
Net income per share			
Basic	¥ 32.01	¥ 18.46	
Diluted	31.98	¥ 18.46	

Financial Position

(Millions of yen)	As of Sep. 30,	As of Mar. 31,
	2006	2006
Total assets	¥ 746,197	¥ 743,032
Net assets	258,529	235,716
(%)		
Shareholders' equity to total assets	32.9%	31.7%
(Yen)		
Net assets per share	¥ 454.74	¥ 436.48

Cash Flow

(Millions of yen)	Six months ended Sep. 30,	
	2006	2005
Net cash provided by operating activities	¥ 22,877	¥ 20,295
Net cash used in investing activities	(18,943)	(15,283)
Net cash used in financing activities	(6,811)	(2,375)
Cash and cash equivalents at the end of the period	49,150	42,412

Consolidated Balance Sheets

(Millions of yen)	As of Sep. 30, 2006	As of Mar. 31, 2006	Increase/ Decrease
Assets			
Current assets	¥ 325,030	¥ 313,569	¥ 11,461
Cash and deposits	44,163	47,332	(3,169)
Notes and accounts receivable	125,611	115,232	10,379
Marketable securities	11,667	11,261	406
Inventories	105,266	101,337	3,929
Deferred tax assets	10,864	10,477	387
Other current assets	29,336	29,920	(584)
Less allowance for doubtful accounts	(1,879)	(1,992)	113
Non-current assets	421,166	429,462	(8,296)
Property, plant and equipment	251,525	250,230	1,295
Buildings and structures	73,275	73,583	(308)
Machinery and transportation equipment	121,510	117,541	3,969
Land	36,961	36,855	106
Other property, plant and equipment	19,778	22,249	(2,471)
Intangible assets	9,626	9,988	(362)
Investments and other assets	160,014	169,244	(9,230)
Investment securities	114,142	125,876	(11,734)
Prepaid pension costs	35,661	33,731	1,930
Deferred tax assets	2,797	2,825	(28)
Other investments and other assets	8,280	7,743	537
Less allowance for doubtful accounts	(867)	(933)	66
Total assets	¥ 746,197	¥ 743,032	¥ 3,165

Consolidated Balance Sheets (Continued)

(Millions of yen)	As of Sep. 30, 2006	As of Mar. 31, 2006	Increase/ Decrease
Liabilities			
Current liabilities	¥ 269,272	¥ 266,834	¥ 2,438
Notes and accounts payable	118,131	111,992	6,139
Short-term loans	80,046	80,184	(138)
Commercial paper	5,000	5,000	—
Current portion of corporate bonds	10,000	10,000	—
Accrued income taxes	7,488	7,845	(357)
Other current liabilities	48,605	51,812	(3,207)
Long-term liabilities	218,395	228,373	(9,978)
Corporate bonds	75,000	85,000	(10,000)
Long-term loans	52,409	42,733	9,676
Deferred tax liabilities	40,343	42,958	(2,615)
Accrued employees' retirement benefits	37,086	41,428	(4,342)
Accrued officers' retirement benefits	786	700	86
Reserves for environmental safety measures expenses	751	909	(158)
Other long-term liabilities	12,018	14,642	(2,624)
Total liabilities	487,668	495,208	(7,540)
Minority interests	—	12,107	—
Shareholders' equity			
Common stock	—	67,176	—
Capital surplus	—	78,097	—
Retained earnings	—	71,241	—
Unrealized holding gains on securities	—	42,297	—
Translation adjustments	—	(18,871)	—
Treasury stock	—	(4,224)	—
Total shareholders' equity	—	235,716	—
Total liabilities and shareholders' equity	—	743,032	—
Net assets			
Shareholders' equity	249,891	—	—
Common stock	67,176	—	—
Capital surplus	78,149	—	—
Retained earnings	108,736	—	—
Treasury stock	(4,170)	—	—
Differences on revaluation and translation	(4,289)	—	—
Unrealized holding gains on securities	36,058	—	—
Translation adjustments	(17,256)	—	—
Loss on retirement benefits obligation by subsidiaries in the U.K.	(23,091)	—	—
Stock acquisition rights	16	—	—
Minority interests	12,910	—	—
Total net assets	258,529	—	—
Total liabilities and net assets	¥ 746,197	¥ —	¥ —

Consolidated Statements of Operations

(Millions of yen)	Six months ended Sep. 30,		
	2006	2005	Change %
Net sales	¥ 349,266	¥ 302,903	15.3
Cost of sales	269,058	235,641	14.2
Gross profit	80,207	67,261	19.2
Selling, general and administrative expenses	50,191	48,846	2.8
Operating income	30,015	18,414	63.0
Non-operating income:	4,601	3,890	18.3
Interest and dividend income	1,255	930	35.0
Equity in earnings of affiliated companies	1,535	1,635	(6.1)
Other	1,810	1,324	36.7
Non-operating expenses:	6,860	5,405	26.9
Interest expenses	2,578	2,241	15.0
Other	4,282	3,163	35.4
Ordinary income	27,756	16,899	64.2
Extraordinary income:	229	3,960	(94.2)
Gain on sales of investment securities	—	2,526	—
Gain on sales of property, plant and equipment	229	1,434	(84.0)
Extraordinary losses:	—	1,811	—
Restructuring expenses	—	1,811	—
Income before income taxes and minority interests	27,985	19,048	46.9
Income taxes:			
Current	8,135	3,371	141.3
Deferred	1,794	5,102	(64.8)
Minority interests	773	621	24.5
Net income	¥ 17,281	¥ 9,953	73.6

Consolidated Statements of Shareholders' Equity

Six months ended Sep. 30, 2006
(Millions of yen)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at Mar. 31, 2006	¥67,176	¥78,097	¥71,241	¥(4,224)	¥212,290
Increase (decrease) during the period					
Cash dividends			(3,784)		(3,784)
Net income			17,281		17,281
Increase in surplus resulting in changes in settlement period for consolidated subsidiaries and affiliates accounted for by equity method			906		906
Repurchase of treasury stock				(67)	(67)
Sales of treasury stock		52		121	173
Net increase (decrease) during the period, except for items under shareholders' equity			23,091		23,091
Total increase in the period	—	52	37,494	54	37,601
Balance at Sep. 30, 2006	¥67,176	¥78,149	¥108,736	¥(4,170)	¥249,891

	Valuation and translation adjustment				Stock acquisition rights	Minority interests	Total net assets
	Unrealized holding gains on securities	Translation adjustments	Loss on retirement benefits obligation by subsidiaries in U.K.	Total valuation and translation adjustment			
Balance at Mar. 31, 2006	¥42,297	¥(18,871)	¥ —	¥ 23,425	¥ —	¥12,107	¥247,823
Increase (decrease) during the period							
Cash dividends							(3,784)
Net income							17,281
Increase in surplus resulting in changes in settlement period for consolidated subsidiaries and affiliates accounted for by equity method							906
Repurchase of treasury stock							(67)
Sales of treasury stock							173
Net increase (decrease) during the period, except for items under shareholders' equity	(6,238)	1,615	(23,091)	(27,714)	16	802	(3,804)
Total increase (decrease) in the period	(6,238)	1,615	(23,091)	(27,714)	16	802	10,705
Balance at Sep. 30, 2006	¥36,058	¥(17,256)	¥(23,091)	¥(4,289)	¥ 16	¥12,910	¥258,529

Note:

Increase in surplus resulting in changes in settlement period for consolidated subsidiaries and affiliates accounted for by equity method include changes in 40 consolidated subsidiaries and 3 affiliates accounted for by the equity method, which mainly changed their settlement period from December 31 to March 31.

Consolidated Statements of Surplus

(Millions of yen)	Six months ended Sep. 30, <u>2005</u>
Capital surplus	
Capital surplus at the beginning of the period	<u>¥ 77,925</u>
Increase in capital surplus	22
Gain on sales of treasury stock	22
Capital surplus at the end of the period	<u>77,948</u>
Retained earnings	
Retained earnings at the beginning of the period	<u>55,783</u>
Increase in retained earnings	<u>9,953</u>
Net income	9,953
Decrease in retained earnings	<u>2,969</u>
Dividends	2,969
Retained earnings at the end of the period	<u>¥ 62,767</u>

Consolidated Statements of Cash Flows

(Millions of yen)	Six months ended Sep. 30,	
	2006	2005
Operating activities		
Income before income taxes and minority interests	¥ 27,985	¥ 19,048
Depreciation and amortization	16,892	13,695
Amortization of excess of cost over net assets acquired	—	205
Amortization of goodwill	350	—
(Decrease) increase in allowance for doubtful accounts	(136)	335
(Decrease) increase in provision for retirement benefits and prepaid pension cost	(7,728)	1,978
Interest and dividend income	(1,255)	(930)
Interest expense	2,578	2,241
Equity in earnings of affiliated companies	(1,535)	(1,635)
Gain on sales of property, plant and equipment	(229)	(1,434)
Gain on sales of investment securities	—	(2,526)
(Increase) in notes and accounts receivable	(3,613)	(3,308)
(Increase) in inventories	(1,953)	(7,584)
Increase in notes and accounts payable	4,700	5,166
Other	(4,545)	568
Subtotal	31,509	25,821
Interest and dividends received	3,589	1,856
Interest paid	(2,797)	(2,272)
Income taxes paid	(9,423)	(5,110)
Net cash provided by operating activities	22,877	20,295
Investing activities		
Proceeds from sales of marketable securities	1,500	—
Additions to property, plant and equipment	(19,503)	(21,758)
Proceeds from sales of property, plant and equipment	490	2,182
Acquisition of investment securities	(921)	(28)
Proceeds from sales of investment securities	20	5,033
Payments for sales of subsidiaries' stock resulting in changes in scope of consolidation	—	(130)
Payments for acquisition of stock in companies accounted for by equity method	—	(618)
Proceeds from sales of stock in companies accounted for by equity method	—	782
Payments for advances	(15)	(17)
Proceeds from collection of advances	39	100
Other	(552)	(828)
Net cash used in investing activities	(18,943)	(15,283)
Financing activities		
Net increase in short-term loans	7,914	4,439
Increase in Long-term loans	10,116	0
Long-term debt – repayments	(10,935)	(3,733)
Payments for redemption of corporate bonds	(10,000)	—
Payments for acquisition of treasury stock	(43)	(20)
Dividends paid	(3,781)	(2,966)
Dividends paid to minority stockholders	(196)	(86)
Other	114	(8)
Net cash used in financing activities	(6,811)	(2,375)
Effect of exchange rate changes on cash and cash equivalents	160	388
Net (decrease) increase in cash and cash equivalents	(2,716)	3,024
Cash and cash equivalents at the beginning of the period	51,812	39,387
Increase in cash and cash equivalents resulting in changes in settlement period for consolidated subsidiaries	54	—
Cash and cash equivalents at the end of the period	¥ 49,150	¥ 42,412

Sales by Business Segment

(Millions of yen)	Six months ended Sep. 30, 2006						Consolidated
	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	
Sales to third parties	¥ 105,548	¥ 192,231	¥ 38,909	¥ 12,575	¥ 349,266	¥ —	¥ 349,266
Intersegment sales and transfers	—	—	—	10,006	10,006	(10,006)	—
Total	105,548	192,231	38,909	22,581	359,272	(10,006)	349,266
Operating expenses	91,979	181,403	32,915	21,278	327,577	(8,326)	319,250
Operating income	¥ 13,568	¥ 10,828	¥ 5,993	¥ 1,303	¥ 31,694	¥ (1,679)	¥ 30,015

(Millions of yen)	Six months ended Sep. 30, 2005						Consolidated
	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	
Sales to third parties	¥ 94,839	¥ 168,796	¥ 32,242	¥ 7,024	¥ 302,903	¥ —	¥ 302,903
Intersegment sales and transfers	—	—	—	4,716	4,716	(4,716)	—
Total	94,839	168,796	32,242	11,740	307,619	(4,716)	302,903
Operating expenses	84,746	161,325	30,364	10,913	287,350	(2,861)	284,488
Operating income	¥ 10,092	¥ 7,471	¥ 1,877	¥ 826	¥ 20,269	¥ (1,854)	¥ 18,414

Sales by Geographical Segment

(Millions of yen)	Six months ended Sep. 30, 2006						Consolidated
	Japan	Americas	Europe	Asia	Total	Eliminations and other	
Sales to third parties	¥ 201,587	¥ 49,960	¥ 58,696	¥ 39,022	¥ 349,266	¥ —	¥ 349,266
Interarea sales and transfers	52,237	252	3,065	10,520	66,075	(66,075)	—
Total	253,824	50,212	61,761	49,542	415,341	(66,075)	349,266
Operating expenses	231,609	48,199	58,574	44,990	383,373	(64,122)	319,250
Operating income	¥ 22,215	¥ 2,013	¥ 3,187	¥ 4,551	¥ 31,967	¥ (1,952)	¥ 30,015

(Millions of yen)	Six months ended Sep. 30, 2005						Consolidated
	Japan	Americas	Europe	Asia	Total	Eliminations and other	
Sales to third parties	¥ 181,480	¥ 43,224	¥ 49,306	¥ 28,891	¥ 302,903	¥ —	¥ 302,903
Interarea sales and transfers	45,888	227	4,076	6,155	56,348	(56,348)	—
Total	227,369	43,451	53,383	35,046	359,251	(56,348)	302,903
Operating expenses	211,788	42,106	51,766	32,813	338,475	(53,986)	284,488
Operating income	¥ 15,580	¥ 1,344	¥ 1,616	¥ 2,233	¥ 20,776	¥ (2,361)	¥ 18,414

Sales by Customer Location

	Six months ended Sep. 30, 2006			
(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 51,386	¥ 58,913	¥ 62,573	¥ 172,873
Consolidated net sales				349,266
Ratio of overseas sales to consolidated net sales	14.7%	16.9%	17.9%	49.5%

	Six months ended Sep. 30, 2005			
(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 44,560	¥ 49,682	¥ 52,312	¥ 146,555
Consolidated net sales				302,903
Ratio of overseas sales to consolidated net sales	14.7%	16.4%	17.3%	48.4%

Management Policy Statement

1. Basic Policy

NSK Ltd.'s goal is to establish itself as a world-class company by further increasing the value of our corporate brand. Consistent with our corporate philosophy of "Contributing to the World through our Motion & Control technology," our goals are:

- (1) To improve the QCDS (i.e. Quality, Cost, Delivery and Service) capabilities of our engineering, manufacturing and sales operations so that we will be able to meet the increasingly diverse needs of our customers and become the No.1 company in terms of customer satisfaction.
- (2) To continue to reduce negative environmental impact by effectively using our expertise in tribology, the science of anti-friction and lubrication technologies, which is our core technology and forms the basis of our entire business.
- (3) To be the outstanding corporate citizen in all the international locations where we operate.

2. Dividends

NSK places great importance on shareholder returns and will maintain our basic policy of issuing consistent dividends. In the future, greater emphasis will be placed on our dividend payout ratio and ensure that dividends better reflect our consolidated business results.

3. Policy on Lowering the Minimum Investment Unit

NSK recognizes the importance of lowering the minimum investment amount required for purchasing company shares. The Company is in the process of deciding the appropriate investment unit, with due consideration to factors such as the liquidity of company shares in the stock market, stock prices, and composition of company shareholders.

4. Key Indicators

NSK aims to increase return on equity (ROE) and recognizes operating income margin as a key indicator of profit stability and the importance of asset efficiency and cash flow.

5. Mid -Term Strategies

In the first Mid-Term Plan (from the year ended March 31, 2004 to year ended March 31, 2006), NSK's objective was to increase profitability by improving cost structure and to drive forth a growth strategy. In addition, the company adopted the "company with committee" form of corporate governance as a means of improving internal monitoring functions and reinforcing risk management as part of its effort to increase management transparency and accountability.

In the next Mid-Term Plan (from the year ending March 31, 2007 to year ending March 31, 2009), NSK will continue on the growth strategy implemented in the prior mid-term plan as well as improving cost efficiencies. Furthermore, we will make every effort to become strong by not only expanding the scale of our business but also improving our financial position. Our mid-term vision is to "Become No.1 in total quality", which includes quality in products and in all services. To realize this vision, we have put in place the following four key strategies:

- (1) Strengthening manufacturing capability
- (2) Reinforcing product development capabilities
- (3) Strengthening global management capabilities
- (4) Improving profitability of overseas operations

6. Key Management Tasks

NSK's most important tasks will be to accomplish its mid-term goals and fulfill its social responsibility, while improving corporate value. To contribute to profit targets and accelerate our transition to a company that can generate greater earnings, NSK has committed to global capital spending that will form the foundations for future growth. The following are tasks related to the key strategies in the Mid-Term Plan.

(1) Strengthening manufacturing capability

NSK seeks to improve the manufacturing systems' ability to respond flexibly to changes. At the same time, emphasis will be made to further develop fundamental quality through expansion of NSK's production innovation system. These activities are not limited to the manufacturing system but have been expanded to sales, R&D, and administrative operations. In addition to increasing production and asset efficiency, NSK will promote better information flow and standardization of business tasks as a means of accelerating the business process. NSK is also strengthening strategic partnerships with suppliers and accelerate global procurement to reinforce cost reduction and stabilize procurement.

(2) Reinforcing product development capabilities

To support growth strategy with quality and quantity, NSK is improving comprehensive technology through the collaboration of the four capabilities: Basic Research Capability, Development Capability, Design Engineering Capability, and Production Engineering Capability. By developing new high-value added products, which meet market demands, NSK will increase the sales market share of new products.

(3) Strengthening global management capabilities

NSK seeks to establish an organizational structure for developing global management and enhancing training and education in "monozukuri", or craftsmanship. At the same time, NSK is strengthening internal monitoring systems and corporate governance systems to accelerate the decision-making process and increase management efficiency.

(4) Improving profitability of overseas operations

NSK will focus on improving the sales structure and manufacturing capabilities in Americas, Europe, and Asia.

NSK recognizes that energy conservation is a social responsibility and will strive to contribute to global environment protection and sustainable development. NSK will:

- (1) Comply with Europe's chemical substance regulations ahead of the deadline.
- (2) Strengthen supervision over chemical substances in each process from procurement of parts and materials to shipment.
- (3) Supply products that accelerate response to changing global regulations.

With these methods, NSK will reinforce commitment to environmental conservation. To further contribute to global environment protection, NSK will place emphasis on meeting customer demands for better energy efficiency, expand line-up of environment-friendly products, and continue to provide stable of supply through its global locations. Also, to continue to build a trustworthy relationship with our various stakeholders, NSK will continue its efforts to improve environmental management levels.

Overview of the Six Months Ended September 30, 2006

The Japanese economy recovered gradually in the first half of the period, backed by increases in consumer spending and capital investment. The economic environment in the U.S. continued to grow. However, consumer spending and capital investment slow down, and housing investments declined. European economies exhibited steady recovery including increases of production and export in Germany. In Asia, countries such as Thailand and South Korea experienced gradual economic expansion, and the Chinese economy continued to grow.

NSK Groups' manufacturing locations continue to operate at high levels due to the positive global economic environment, healthy capital expenditures, and recovery in demand in the semiconductor and liquid crystal production equipment sectors.

Our consolidated net sales for the first half ended September 30, 2006, totaled ¥349,266 million, a year-on-year increase of 15.3%. Efforts were made to offset increases in material costs through improved capacity utilization resulting from expansion in sales and production, improvement of productivity, reduction of external procurement costs, and improvement in export profit margins due to the depreciation of the yen. As a result, our operating income increased by 63.0% year on year to ¥30,015 million. Our ordinary income was ¥27,756 million, a year-on-year increase of 64.2%, and the net income after adjusting for income taxes, deferred taxes and minority interests in earnings of consolidated subsidiaries, was ¥17,281 million, a year-on-year increase of 73.6%.

Net Sales by Business Segments

Industrial Machinery Bearings

Domestic demand from steel and construction machinery increased, and demand from the electrical machinery and IT sectors were also healthy. In Americas, demand from aftermarket in Brazil declined, but sales to construction machinery manufacturers in the U.S. increased. In Europe, sales to home appliances strengthened, and sales to wind turbine and machine tools also increased. Demand in Asia also became robust including increase in sales to machine tools, aftermarket, and electrical machinery and IT sectors in China, steel and machine tools sectors in South Korea, and electrical machinery sector in ASEAN. As a result, overall industrial machinery bearings sales amounted to ¥105,548 million, a year-on-year increase of 11.3%. Operating income was ¥13,568 million, a year-on-year increase of 34.4 % due to improved capacity utilization resulting from volume growth and improvement in export profit margins due to the depreciation of the yen.

Automotive Products

Sales of automotive bearings including hub unit bearings used in wheels, standard ball bearings, and needle roller bearings increased. Sales of automotive components also increased with domestic demand for electric power steering (EPS) systems and automatic transmission (AT) components. There was also robust demand for steering columns in the Americas, Thailand and China, and for EPS systems in Europe. As a result, net sales increased 13.9% year on year to ¥192,231 million. Operating income also increased 44.9%, a year on year to ¥10,828 million due to improved capacity utilization resulting from volume growth and reduction of external procurement costs.

Precision Machinery and Parts

In addition to continuing strong demand in the machine tools industry, demand for semiconductor and liquid crystal production equipment recovered, and sales of photofabrication equipment for LCD color filter production increased. Overall sales totaled ¥38,909 million, a year-on-year increase of 20.7%. Operating income was ¥5,993 million, a year-on-year increase of 219.2% due to improved capacity utilization resulting from volume

growth and reduction in labor cost achieved through productivity improvement.

Other

Sales in other business segment totaled ¥22,581 million, a year-on-year increase of 92.3%, and operating income was ¥1,303 million, a year-on-year increase of 57.7%. These results included effects of Amatsuji Steel Ball Manufacturing Co., Ltd., which became NSK's wholly owned subsidiary in March 2006.

Net Sales by Region

Japan

Sales to the steel, construction machinery, electrical and IT sectors were robust. In the automotive products segment, sales of needle roller and hub-unit bearings increased. EPS systems and AT components also experienced healthy demand. In addition, sales of precision machinery and parts to the semiconductor and liquid crystal production equipment increased. There were other increases due to the acquisition of Amatsuji Steel Ball Manufacturing Co. Ltd. As a result, overall sales in Japan totaled ¥253,824 million, a year-on-year increase of 11.6%. Operating income was ¥22,215 million, a year-on-year increase of 42.6%. This increase in operating income is a result of improved capacity utilization resulting from volume growth, improvement in export profit margins due to the depreciation of the yen, reduction of external procurement cost, and consolidating Amatsuji Steel Ball Manufacturing Co., Ltd.

The Americas

Sales of industrial machinery bearings to aftermarket decreased in Brazil. However, sales to construction machinery in U.S. increased. Sales of hub unit bearings used in wheels and steering columns were healthy in automotive products segment, and sales to semiconductor production equipment manufacturers lead to an increase in sales in precision machinery and parts segment. Net sales totaled ¥50,212 million, an increase of 15.6% compared to the same period last year with increase resulting from exchange rate fluctuations. Operating income, which was affected by increase in sales price and reduction of external procurement cost, was ¥2,013 million, an increase of 49.7% compared to the same period last year.

Europe

Sales of industrial machinery bearings saw an increase in home appliances, wind turbine and machine tools sectors. Sales of hub unit bearings used in wheels and EPS systems produced in Poland pushed up sales in automotive products segment. In precision machinery and parts segment, sales to machine tools industry and semiconductor production equipment manufacturers increased. With increase resulting from exchange rate fluctuations, sales in Europe totaled ¥61,761 million, a year-on-year increase of 15.7%. Operating income was ¥3,187 million, an increase of 97.1% compared to the same period last year due to improved capacity utilization resulting from volume growth and reduction of external costs.

Asia and Oceania

In industrial machinery bearings segment, sales to machine tools, aftermarket, and electrical machinery and IT sectors in China increased. Sales to steel and machine tools in South Korea, and sales to electrical machinery in ASEAN also increased. Sales of automotive products were healthy in each region including ASEAN, China and South Korea. In South Korea and Taiwan, sales of precision machinery and parts strengthened. Overall, sales totaled ¥49,542 million, a year-on-year increase of 41.4% with increase resulting from exchange rate fluctuations. Our operating income was ¥4,551 million, a year-on-year increase of 103.8% due to improved capacity utilization resulting from volume growth.

Financial Position

Looking at our consolidated cash flow for the first half of fiscal 2006, net cash flow provided by operating activities amounted to ¥22,877 million with increases in notes and accounts receivable and inventories, including ¥27,985 million in income before income taxes and minority interests, and ¥16,892 million provided by depreciation and amortization.

Including the acquisition of property, plant and equipment, which is investment for future growth areas, cash flow used in investing activities totaled ¥18,943 million.

Cash was used for payment for dividends resulting in net cash used in financing activities to total ¥6,811 million.

In aggregate, the net decrease in cash and cash equivalents was ¥2,716 million, resulting in cash and cash equivalents at the end of the period to total ¥49,150 million.

The following is the trend of our consolidated cash flow:

	As of March 31, 2003	As of March 31, 2004	As of March 31, 2005	As of March 31, 2006	As of September 30, 2006
Ratio of shareholders' equity to total assets (%)	28.8	30.3	30.0	31.7	32.9
Ratio of shareholders' equity to total assets at market value (%)	29.3	44.5	47.3	74.3	72.2
Debt redemption period (Years)	8.6	6.5	3.6	3.4	—
Interest coverage ratio	4.1	6.1	11.3	15.0	8.2

- Ratio of shareholders' equity to total assets (%): Shareholders' equity/Total assets
- Ratio of shareholders' equity to total assets at market value (%): Market capital/Total capital
- Debt redemption period (Years): Interest bearing debts/ Net cash provided by operating activities (Not calculated for the interim term.)
- Interest coverage ratio: Net cash provided by operating activities/Interest paid

(Notes) 1. All indices have been calculated based on consolidated data.

2. Market capital has been calculated as:

“Closing share price at the end of the term” × “Common shares outstanding at the end of term”

3. Interest-bearing debts refer to the total amount of bonds, loans and commercial paper appropriated on the balance sheet.

Forecast for the Year Ending March 31, 2007

(Millions of yen)	Year ending Mar. 31, 2007
Net sales	¥ 705,000
Operating income	61,000
Ordinary income	56,500
Net income	34,500

The forecasts have been made based on following foreign exchange rate.

For the second half of the year ending March 31, 2007

U.S.\$1=¥115, 1Euro=¥145

There are some uncertainties such as continued pressure on material price, slow down in economy in the U.S., and adjustment in demand from semiconductor and liquid crystal production equipment manufacturers. However, demand in industrial machinery bearings segment is expected to remain robust. Overall demand in automotive products segments is also expected to remain healthy, although sales to some automotive manufacturers have declined.

Under these conditions, NSK revised its forecast for the year ending March 31, 2007. Net sales are forecasted to be ¥705,000 million. Operating income, ordinary income and net income are forecasted at ¥61,000 million, ¥56,500 million and ¥34,500 million respectively.

Notes

All forecasts are based on a number of assumptions and are subject to change. Actual financial results may differ materially and NSK Ltd. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report.

For reference only

Forecast announced in August 2006

(Millions of yen)	Year ending Mar. 31 2006
Net sales	¥ 690,000
Operating income	55,500
Ordinary income	50,000
Net income	30,000

Business Risks and Other Risk Factors

Listed below are the principal risk factors that have the potential to affect the NSK Group, including its business development, performance and financial position. This analysis is based on the best information available to the NSK Group on the release date of the financial results for the first half of the year ending March 31, 2007 (November 1, 2006).

1. Economic Conditions in Countries, Regions and Industries

The business performance and financial position of the NSK Group could be adversely affected by deterioration in the economic environment resulting from fluctuations in economic conditions in the specific countries and regions in which we sell and manufacture products, or from fluctuations in business conditions in the industries to which its customers and suppliers belong.

2. Market Changes and Competition

Competition for sales is intensifying on a global scale. There is a risk of increasing price competition resulting from rapid growth in sales of low-priced products made by manufacturers in emerging economies, and of a loss of sales opportunities if the NSK Group lags behind in the establishment of offshore production operations with global expansion by its customers, especially those in automobile-related industries.

3. Reliance of Specific Industries

There is a risk that the business performance and financial position of the NSK Group could be adversely affected by sudden declines in demand in the industries on which it is heavily reliant, especially the automotive sector, which accounts for over one-half of its sales, as well as the semiconductor industry and machine tool industry, which are key markets for its precision machinery and parts.

4. Credit Risks

Though most of the NSK Group's customers are believed to be companies with relatively low credit risk, it is always possible that a customer's capital position may be weakened by an economic recession or escalating competition in global markets. There is a risk that this could result in unexpected bad debts.

5. Business Alliance Risks

There is a risk that a dispute with a partner could prevent an alliance from yielding the anticipated benefits.

6. Reliance on Specific Suppliers

Steel balls, which are key components for bearings, are manufactured within the NSK Group. However, the range of suppliers for materials and other parts may be limited because of the characteristics of some products. There are also risks of supply problems or cost increases if a supplier has insufficient production capacity, quality problems, and difficulty obtaining raw materials due to shortages in the market.

7. Increase in Material Price

Cost of materials or parts may increase due to continued pressure on prices of steel and crude oil. Efforts are being made to further reduce costs and to reflect these increases in the sales prices, using value engineering activities. However, if we cannot fully absorb these cost increases, the business performance and financial position of the NSK Group could be adversely affected.

8. Quality Risks

There is a risk of substantial costs and a loss of public reputation resulting from the consequences of a failure to detect a serious product defect, including a serious accident, product recall or interruption of a customer's production operations. The NSK Group has obtained global product liability insurance, as well as product recall insurance for some items. However, this cover may not be sufficient to cover losses, including compensation for damages.

9. Product Development Risks

In its product development activities, the NSK Group is exposed to various risks, including the risks that new products may not be embraced by the market, that competitors may develop similar products faster than the NSK Group, or that other companies may introduce products that supersede new products developed by the NSK Group.

10. Intellectual Property Risks

There is a risk that the NSK Group will not be able to establish intellectual property rights or obtain permission to use the intellectual property rights of third parties, that the NSK Group will be accused of infringing the property rights of third parties, or that it may not be possible to eliminate counterfeit products effectively in certain regions.

11. Overseas Expansion Risks

There is a risk that the NSK Group will not be able to recover its investment in overseas operations as planned, that regional factors may prevent the start-up of new production sites according to plan, or that it will become necessary to relocate or close production operations. There are also unavoidable risks relating to business conditions and regulatory systems specific to countries or regions in which the NSK Group has established business operations.

12. Disaster and Terrorist Risks

The production and sales activities of the NSK Group could be adversely affected if the Group or its customers or suppliers suffer material losses or human casualties as a result of earthquakes, floods fires or other disasters, or riots, terrorist incidents or anti-Japanese activities.

13. Compliance Risks

The NSK Group has established a code of business ethics and is working to ensure compliance with laws and regulations. However, changes in business condition may result in inadvertent violation of laws and regulations, resulting in economic penalties.

14. Litigation Risks

Though the NSK Group has obtained insurance cover against product liability suits resulting from product defects, such insurance does not provide unlimited indemnity for compensation costs incurred by the Group. There is also a risk of litigation other than product liability suits.

15. Information Management Risks

The NSK Group handles substantial amounts of important business information and personal information in the course of its business activities and cannot rule out the possibility of unforeseeable situations leading to the leakage of such information. There is a risk that such a situation would result in a loss of public reputation, and that substantial costs would be incurred.

16. Information Disclosure and Shareholder Income Risks

The NSK Group has established timely disclosure systems and strives to ensure the fair and timely disclosure of company data and the reliability of its financial reports. However, there is a risk that shareholder value in the market may be reduced, and that shareholder interests may be adversely affected if the NSK Group is unable to adjust appropriately to the establishment or amendment of laws, regulations, notifications or other requirements, changes in stock exchange rules, or environmental changes, or if inadequate checking of operational processes relating to financial reporting results in inaccuracies in the information disclosed.

17. Environmental Risks

There is a risk that the NSK Group's business activities may result in environmental problems, such as emissions of substances that cause environmental loads or soil contamination. In the accounting period ended March 31, 2006, the Group established a cost related to environmental safety measures in its accounts to provide for expenditure on countermeasures, removal measures or other requirements concerning substances that are currently subject to usage restrictions, such as asbestos. However, there is a risk that other environmental problems may arise, with consequences that may include the payment of compensation for

damages, clean-up expenses, the imposition of fines, or a suspension of production. There is also a risk that the establishment of new regulations will result in a substantial cost burden.

18. Information Systems Risks

The NSK Group uses on-line systems and networks in operations relating to its supply chain, including production, sales and logistics. There is a possibility that these systems could fail, and that the restoration of services would require a substantial period of time. There is also the possibility of disruption resulting from delays in the improvement of existing systems, or from the development and introduction of new systems. Such problems could hinder production and sales activities and impact the production plans of customers and suppliers, exposing the NSK Group to the risk of claims for compensation and a loss of reputation.

19. Recruitment Risks

The NSK Group recognizes that the recruitment and training of human resources with excellent abilities and technical knowledge are essential to maintaining competitiveness. Because of imbalances in the age mix of its workforce, the Group anticipates a sharp increase in the number of workers retiring in the next few years. However, there is growing competition for workers with skills in the NSK Group's fields of activity, and if the Group is unable to secure sufficient new workers, its operations could be adversely affected by a failure to pass on skills.

20. Labor Dispute Risks

There is a risk that differences in labor practices in overseas countries and regions, or unforeseeable contingencies, such as changes in the legal environment or economic environment, may cause labor relations to deteriorate, leading to labor disputes and other problems.

21. Foreign Exchanges and Interest Rate Risks

The NSK Group employs hedging, in accordance with internal guidelines, against exchange rate fluctuations affecting trading transactions, investments and other transactions denominated in foreign currencies, and against fluctuations in interest rates payable on its interest-bearing debts. However, the risk of adverse effects on the Group's business performance or financial position cannot be entirely eliminated.

22. Retirement Benefit Liabilities

NSK Ltd., its subsidiaries in Japan and some overseas subsidiaries have established approved retirement annuity system and unfunded lump-sum payment plans in the defined-benefit pension plans. There is a risk that the business performance and financial position of the NSK Group may be adversely affected by related factors, such as changes in assumptions concerning retirement benefits and obligations, or deterioration in returns from the investment of pension assets.