

# NSK Ltd.

(URL <http://www.nsk.com>)

For Immediate Release

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## CONSOLIDATED RESULTS FOR THE YEAR ENDED MARCH 31, 2006 (unaudited)

### Financial highlights

	Year ended Mar. 31	Year ended Mar. 31	Change %
	2006	2005	
(Millions of yen)			
Net sales	¥ 628,474	¥ 580,989	8.2
Operating income	42,552	38,283	11.2
Ordinary income	38,916	33,100	17.6
Net income	25,586	22,349	14.5
(Yen)			
Net income per share			
Basic	¥ 47.28	¥ 41.35	
Diluted	47.26	40.78	

### Financial position

	As of Mar. 31,	As of Mar. 31,
	2006	2005
(Millions of yen)		
Total assets	¥ 743,032	¥ 628,583
Shareholders' equity	235,716	188,265
(%)		
Shareholders' equity to total assets	31.7%	30.0%
(Yen)		
Shareholders' equity per share	¥ 436.48	¥ 349.07

### Cash flow

	Year ended Mar. 31	Year ended Mar. 31
	2006	2005
(Millions of yen)		
Net cash provided by operating activities	¥ 66,332	¥ 57,987
Net cash used in investing activities	-62,386	-31,638
Net cash provided by financing activities	7,600	-46,129
Cash and cash equivalents at the end of year	51,812	39,387

# Consolidated balance sheets

(Millions of yen)	As of Mar. 31, 2006	As of Mar. 31, 2005	Increase/ Decrease
<b>Assets</b>			
Current assets	¥ 313,569	¥ 278,678	¥ 34,891
Cash and deposits	47,332	25,935	21,397
Notes and accounts receivable	115,232	111,821	3,411
Marketable securities	11,261	8,596	2,665
Inventories	101,337	81,730	19,607
Deferred tax assets	10,477	14,347	-3,870
Other current assets	29,920	37,648	-7,728
Less allowance for doubtful accounts	-1,992	-1,402	-590
Non-current assets	429,462	349,905	79,557
Property, plant and equipment	250,230	204,604	45,626
Buildings and structures	73,583	62,083	11,500
Machinery and transportation equipment	117,541	94,020	23,521
Land	36,855	26,570	10,285
Other property, plant and equipment	22,249	21,929	320
Intangible assets	9,988	8,385	1,603
Investments and other assets	169,244	136,915	32,329
Investment securities	125,876	92,727	33,149
Long-term loans	198	273	-75
Deferred tax assets	2,825	2,593	232
Prepaid pension costs	33,731	35,454	-1,723
Other investments and other assets	7,545	7,016	529
Less allowance for doubtful accounts	-933	-1,150	217
<b>Total assets</b>	<b>743,032</b>	<b>628,583</b>	<b>114,449</b>

**Consolidated balance sheets** (Continued)

(Millions of yen)	As of Mar. 31, 2006	As of Mar. 31, 2005	Increase/ Decrease
<b>Liabilities</b>			
Current liabilities	¥ 266,834	¥ 234,300	¥ 32,534
Notes and accounts payable	111,992	97,623	14,369
Short-term loans	80,184	75,655	4,529
Commercial paper	5,000	—	5,000
Current portion of corporate bonds	10,000	10,000	—
Accrued income taxes	7,845	5,753	2,092
Other current liabilities	51,812	45,268	6,544
Long-term liabilities	228,373	194,420	33,953
Corporate bonds	85,000	70,000	15,000
Long-term loans	42,733	51,529	-8,796
Deferred tax liabilities	42,958	22,484	20,474
Accrued employees' retirement benefits	41,428	34,281	7,147
Accrued officers' retirement benefits	700	414	286
Reserves for environmental safety measures expenses	909	—	909
Other long-term liabilities	14,642	15,710	-1,068
<b>Total liabilities</b>	<b>495,208</b>	<b>428,721</b>	<b>66,487</b>
<b>Minority interests</b>	<b>12,107</b>	<b>11,596</b>	<b>511</b>
<b>Shareholders' equity</b>			
Common stock	67,176	67,176	—
Capital surplus	78,097	77,925	172
Retained earnings	71,241	55,783	15,458
Unrealized holding gains on securities	42,297	21,244	21,053
Translation adjustments	-18,871	-29,447	10,576
NSK treasury stock	-4,224	-4,417	193
<b>Total shareholders' equity</b>	<b>235,716</b>	<b>188,265</b>	<b>47,451</b>
<b>Total liabilities and shareholders' equity</b>	<b>743,032</b>	<b>628,583</b>	<b>114,449</b>

# Consolidated statements of operations

(Millions of yen)	Year ended Mar. 31		Change %
	2006	2005	
Net sales	¥ 628,474	¥ 580,989	8.2
Cost of sales	487,717	450,305	8.3
Gross profit	140,757	130,683	7.7
Selling, general and administrative expenses	98,204	92,400	6.3
Operating income	42,552	38,283	11.2
Non-operating income:	8,816	7,046	25.1
Interest and dividend income	1,795	1,406	27.7
Equity in earnings of affiliated companies	3,727	3,078	21.1
Other	3,293	2,561	28.6
Non-operating expenses:	12,452	12,229	1.8
Interest expenses	4,566	5,005	-8.8
Other	7,886	7,223	9.2
Ordinary income	38,916	33,100	17.6
Extraordinary income:	7,561	2,363	219.9
Gain on sales of investment securities	5,879	1,304	350.6
Gain on sales of property, plant and equipment	1,681	—	—
Gain on transfer to defined contribution pension plan	—	1,059	—
Extraordinary losses:	3,409	432	688.2
Restructuring expenses	2,499	—	—
Cost related to reserves for environmental safety measures expenses	909	—	—
Loss on disposal of property, plant and equipment	—	193	—
Loss on sales of investments in affiliated companies	—	157	—
Loss on devaluation of investment securities	—	81	—
Income before income taxes and minority interests	43,068	35,031	22.9
Income taxes:			
Current	11,925	8,890	34.1
Deferred	4,486	2,711	65.5
Minority income in earnings of consolidated subsidiaries	1,069	1,080	-1.0
Net income	25,586	22,349	14.5

# Consolidated statements of surplus

(Millions of yen)	Year ended Mar. 31 2006	Year ended Mar. 31 2005	Increase / Decrease
<b>Capital surplus</b>			
Capital surplus at the beginning of year	¥ 77,925	¥ 77,923	¥ 2
Increase in capital surplus	171	2	169
Gain on disposal of NSK treasury stock	171	2	169
Capital surplus at the end of year	78,097	77,925	172
<b>Retained earnings</b>			
Retained earnings at the beginning of year	55,783	58,856	-3,073
Decrease in retained earnings	10,128	25,422	-15,294
Dividends	6,479	5,930	549
Directors' bonus	—	49	-49
Loss on retirement benefit liabilities of UK subsidiaries	3,649	19,442	-15,793
Net income	25,586	22,349	3,237
Retained earnings at the end of year	71,241	55,783	15,458

# Consolidated statements of cash flows

(Millions of yen)	Year ended Mar. 31	
	2006	2005
<b>Operating activities</b>		
Income before income taxes and minority interests	¥ 43,068	¥ 35,031
Depreciation and amortization	30,099	27,435
Amortization of excess of cost over net assets acquired	490	570
Increase (Decrease) in allowance for doubtful accounts	309	-442
Increase (Decrease) in provision for retirement benefits and prepaid pension cost	2,344	-16,849
Interest and dividend income	-1,795	-1,406
Interest expense	4,566	5,005
Equity in earnings of affiliated companies	-3,727	-3,078
Gain on sales of property, plant and equipment	-1,681	—
Loss on disposal of property, plant and equipment	—	193
Gain on sales of investment securities	-5,879	-1,304
Loss on devaluation of investment securities	—	81
Loss on sales of investments in affiliated companies	—	157
Decrease (Increase) in notes and accounts receivable	3,491	10,280
Increase (Decrease) in inventories	-10,665	-5,171
Increase(Decrease) in notes and accounts payable	10,069	13,776
Other	6,404	5,181
Subtotal	77,095	69,461
Interest and dividends received	3,757	4,231
Interest paid	-4,414	-5,147
Income taxes paid	-10,105	-10,557
Net cash provided by operating activities	66,332	57,987
<b>Investing activities</b>		
Additions to property, plant and equipment	-47,157	-33,741
Proceeds from sales of property, plant and equipment	3,148	1,854
Acquisition of investment securities	-42	-133
Proceeds from sales of investment securities	9,655	2,206
Acquisition of subsidiaries' stock resulting in changes in scope of consolidation	-27,539	—
Net cash outflows from sales of subsidiaries' stock resulting in changes in scope of consolidation	-130	-871
Proceeds from sales of stock in companies accounted for by equity method	782	—
Payments for advances	-73	-226
Proceeds from collection of advances	158	220
Other	-1,187	-946
Net cash used in investing activities	-62,386	-31,638
<b>Financing activities</b>		
Net increase (decrease) in short-term loans	336	-12,306
Net Increase in commercial paper issued	5,000	—
Increase in long-term debt	7,772	962
Decrease in long -term debt	-13,978	-2,223
Proceeds from the issue of corporate bonds	25,000	10,000
Payments for redemption of corporate bonds	-10,000	-36,989
Payments for acquisition of NSK treasury stock	-59	-58
Dividends paid	-5,935	-5,126
Dividends paid to minority stockholders	-131	-231
Other	-402	-157
Net cash provided by financing activities	7,600	-46,129
Effect of exchange rate changes on cash and cash equivalents	878	175
Net increase (decrease) in cash and cash equivalents	12,424	-19,605
Cash and cash equivalents at the beginning of year	39,387	58,993
Cash and cash equivalents at the end of year	51,812	39,387

## Sales by business segment

Year ended March 31, 2006

(Millions of yen)	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 195,556	¥ 353,124	¥ 65,831	¥ 13,962	¥ 628,474	¥ —	¥ 628,474
Intersegment sales and transfers	—	—	—	9,562	9,562	-9,562	—
Total	195,556	353,124	65,831	23,525	638,037	-9,562	628,474
Operating expenses	173,496	335,735	60,263	22,220	591,717	-5,794	585,922
Operating income	22,060	17,388	5,567	1,304	46,320	-3,768	42,552
Assets	227,506	263,429	60,889	87,698	639,522	103,509	743,032
Depreciation expenses	11,662	15,455	3,868	298	31,284	-1,185	30,099
Capital expenditure	17,088	30,048	2,700	397	50,236	-1,452	48,784

Year ended March 31, 2005

(Millions of yen)	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 185,473	¥ 316,169	¥ 64,186	¥ 15,160	¥ 580,989	¥ —	¥ 580,989
Intersegment sales and transfers	—	—	—	8,078	8,078	-8,078	—
Total	185,473	316,169	64,186	23,239	589,067	-8,078	580,989
Operating expenses	165,523	300,420	59,420	21,395	546,760	-4,054	542,706
Operating income	19,949	15,748	4,765	1,844	42,307	-4,024	38,283
Assets	238,574	233,148	66,178	20,107	558,009	70,574	628,583
Depreciation expenses	10,900	13,759	3,659	314	28,633	-1,197	27,435
Capital expenditure	13,845	19,614	5,659	192	39,312	-1,152	38,160

## Sales by geographical segment

Year ended March 31, 2006

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 379,103	¥ 89,879	¥ 97,457	¥ 62,034	¥ 628,474	¥ —	¥ 628,474
Interarea sales and transfers	97,063	484	7,479	13,746	118,772	-118,772	—
Total	476,166	90,363	104,936	75,780	747,247	-118,772	628,474
Operating expenses	440,610	87,954	100,699	70,635	699,900	-113,978	585,922
Operating income	35,556	2,408	4,236	5,145	47,347	-4,794	42,552
Assets	631,829	65,243	78,207	82,245	857,526	-114,494	743,032

Year ended March 31, 2005

(Millions of yen)	Japan	Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥ 355,179	¥ 79,871	¥ 93,343	¥ 52,595	¥ 580,989	¥ —	¥ 580,989
Interarea sales and transfers	84,280	644	6,825	11,610	103,361	-103,361	—
Total	439,460	80,515	100,168	64,205	684,350	-103,361	580,989
Operating expenses	408,042	77,973	95,378	60,942	642,337	-99,631	542,706
Operating income	31,417	2,542	4,790	3,262	42,013	-3,730	38,283
Assets	571,460	55,257	73,906	62,985	763,609	-135,025	628,583

## Sales by customer location

	Year ended March 31, 2006			
(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 92,367	¥ 98,165	¥ 107,880	¥ 298,413
Consolidated net sales				628,474
Ratio of overseas sales to consolidated net sales	14.7%	15.6%	17.2%	47.5%

	Year ended March 31, 2005			
(Millions of yen)	Americas	Europe	Asia	Total
Overseas sales	¥ 82,279	¥ 93,625	¥ 94,838	¥ 270,743
Consolidated net sales				580,989
Ratio of overseas sales to consolidated net sales	14.2%	16.1%	16.3%	46.6%

# Management Policy Statement

## 1. Basic Policy

NSK Ltd.'s goal is to establish itself as a world-class company by 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 locations where we operate, including all international manufacturing locations.

## 2. Dividends

NSK places great importance on shareholder returns. We will maintain our basic policy of consistently paying stable dividends and place greater emphasis on our dividend payout ratio to ensure that dividends more closely reflect our consolidated business results.

## 3. Policy on Lowering the Minimum Investment Unit

NSK recognizes that lowering the minimum investment amount is an important matter to be decided by taking into consideration liquidity of company shares in the stock market, changes in stock prices, and composition of company shareholders. The Company is in the process of deciding the appropriate investment unit due to the general changes in the stock market.

## 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 global effort to increase management transparency and accountability.

In the next Mid-Term Plan (from the year ended March 31, 2007 to year ended 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 enhance our global presence 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 its "Advanced Production Systems (APS)" or 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 environmentally-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 level.

## Overview of year ended March 31, 2006

The Japanese economy recovered gradually in the year ended March 31, 2006, backed by steady increases in consumer spending and capital investment, although weakness remained in the exporting and IT areas.

Although the economic environment in the U.S. was influenced by hurricane damage and a jump in energy prices, the overall economy remained healthy with increases in consumer expenditures and housing expenditures. European economies exhibited steady recovery with increases in exporting and production in Germany. In Asia, the economy in South Korea saw a decline in growth in exporting, but countries such as China, Taiwan, and Thailand continued to experience economic growth.

Under these circumstances, NSK Group promoted activities for improvement profitability such as production innovation and reformation of balance sheet. Also, NSK aggressively developed our growth strategy especially in industrial machinery bearings and automotive products.

As a result, the year ended March 31, 2006, became a year of record sales and profits. Our consolidated net sales totaled ¥628,474 million (a year-on-year increase of 8.2%). Our operating income was ¥42,552 million (a year-on-year increase of 11.2%). This result reflected the effects of operation capacity with expanding sales and production, improvement of productivity, reduction of costs such as external procurement cost, and improvement of export estimate due to depreciation of Yen. Our ordinary income was ¥38,916 million (a year-on-year increase of 17.6%), due to increase of profit on sales of investment securities and decrease of interest expenses.

Net income after adjusting for income taxes, deferred taxes and minority interests in earnings of consolidated subsidiaries, was ¥25,586 million (a year-on-year increase of 14.5%), including extraordinary income such as gains on sales of investment securities and property, plant and equipment, and fixed assets equipment to ¥5,879 million and ¥1,681 million respectively, and extraordinary loss consisting of restructuring expense for ¥2,499 million in our North American and European operation.

## Net sales by product category

### Industrial machinery bearings

Demand from the domestic machine tool industry, electric equipment, steel, and car industry strengthened during the year. In the Americas, demand from the aftermarket was healthy in the North and Latin America, although sales to the electric machinery and general industry decreased due to appreciation of Brazilian Real and transfer of demand to overseas locations. Demand from aftermarket, electric and general industries strengthened in Europe. In Asia, sales to steel and machine tool industry were healthy, while demand from electric and IT sectors declined in the Asean nations and South Korea. As a result, overall industrial machinery bearings sales amounted to ¥195,556 million (a year-on-year increase of 5.4%). Operating income was ¥22,060 million (a year-on-year increase of 10.6 %) due to better operating efficiency with increase in sales and sales prices, which offset increases in material prices, labor and capital expenditures.

### Automotive products

Sales of HUB unit bearings used in wheels and needle bearings increased worldwide. Sales of automotive components also increased with strong domestic demand for electric power steering systems and automatic transmission components. There was also robust demand for steering columns in the Americas, Thailand, and China. As a result, net sales increased to ¥353,124 million (a year-on-year increase of 11.7%). Operating income was ¥17,388 million (a year-on-year increase of 10.4%) This increase can be attributed to effective operation with increase of sales and reduction of external procurement, which covers increases in material prices, labor and capital expenditures, and general and administrative expenses.

### Precision machinery and parts

Demand from industrial machinery and injection molding machines were healthy, and sales to semiconductor and liquid crystal equipment sectors recovered gradually. Also, photofabrication equipment for LCD production saw a robust increase. As a result, overall sales totaled ¥65,831 million (a year-on-year increase of 2.6%). Operating income was ¥5,567 million (a year-on-year increase of 16.8%), due to reduction of labor costs due to productivity improvement, withdrawal from some unprofitable products, and increase in photofabrication equipment for LCD production.

### Other

Sales of other products totaled ¥23,525 million (a year-on-year increase of 1.2%), due to sales of non-core business in Europe, although sales of manufacturing equipment to NSK group companies were increased. Operating income was ¥1,304 million (a year-on-year decrease of 29.3%) due to increase of cost of sales of manufacturing equipment to NSK group companies.

## Net sales by region

### Japan

Sales of industrial machinery bearings to machine tool industry, electric equipment, steel, and car industry were healthy. Sales of automotive products such as needle bearings, electric power steering systems, and automatic transmission components increased. Sales of precision machinery and parts to industrial machinery and injection molding were healthy, and semiconductor and liquid crystal equipment sectors recovered gradually in the end of year. As a result, overall sales in Japan totaled ¥476,166 million (a year-on-year increase of 8.4%). Operating income was ¥35,556 million (a year-on-year increase of 13.2%). This result reflected the effective operation with increase of sales, reduction of external procurement, and improvement of export estimate due to depreciation of Yen.

### The Americas

Sales of industrial machinery bearings to the aftermarket were healthy, although sales to the electrical and general industry declined. The demand from automotive manufacturers, especially from Japanese automotive manufactures, pushed up sales of automotive products. Sales of precision machinery and parts to semiconductor production equipment manufacturers declined. Net sales totaled ¥90,363 million (a year-on-year increase of 12.2%) with increase due to exchange rate fluctuations. Operating income, which was affected by increase in cost such as restructuring expense and decrease in sales for precision and machinery parts, was ¥2,408 million (a year-on-year decrease of 5.3%).

### Europe

Sales of industrial machinery bearings to the aftermarket and electric equipment increased. Sales of automotive bearings were good, while sales of automotive components declined due to discontinuing of manufacturing present model. Net sales in Europe totaled ¥104,936 million (a year-on-year increase of 4.8%). Operating income was ¥4,236 million (a year-on-year decrease of 11.6%). This decrease is attributed to increases in material prices, appreciation of Polish Zloty, and loss from doubtful receivables, although efforts were made to operate effectively with increase of sales and reduction of distribution costs.

### Asia and Oceania

Although there was a decline in sales of industrial machinery bearings to the electric and IT sector in South Korea and the Asean nations, sales to steel and machine tool industry in China and South Korea were healthy. Sales of automotive products increased in Asean nations, China, and South Korea. Sales of precision machinery and parts were favorable in South Korea and Thailand. Overall sales in Asia totaled ¥75,780 million (a year-on-year increase of 18.0%), and operating income, which reflected effective operation with increase of sales, was ¥5,145 million (a year-on-year increase of 57.7%).

## Financial Position

Looking at our consolidated cash flow for the year ended March 31, 2006, net cash flow provided by operating activities amounted to ¥66,332 million, including ¥43,068 million in income before deferred taxes and minority interests, and ¥30,099 million provided by depreciation and amortization.

Net cash flow used in investing activities was ¥62,386 million. Increases were due to gain on sales of investment securities, but this was offset by acquisition of property, plant and equipment and change in holdings of companies accounted for by the equity method.

Cash was used for redemption of corporate bonds and dividends. However, with proceeds from the issue of corporate bonds for ¥25,000, net cash used in financing activities amounted to total ¥7,600 million.

In aggregate, the net increase in cash and cash equivalents was ¥12,424 million, resulting in cash and cash equivalents at the end of year to total ¥51,812 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
Ratio of net worth to total capital (%)	28.8	30.3	30.0	31.7
Ratio of net worth to total capital at market value (%)	29.3	44.5	47.3	74.3
Debt redemption period (Years)	8.6	6.5	3.6	3.4
Interest coverage ratio	4.1	6.1	11.3	15.0

- Ratio of net worth to total capital (%): Net worth/Total capital
- Ratio of net worth to total capital at market value (%): Market capital/Total capital
- Debt redemption period (Years): Interest bearing debts/ Net cash provided by operating activities
- 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)
Net sales	¥ 680,000
Operating income	52,000
Ordinary income	47,000
Net income	28,000

The forecasts have been made based on following factors.

●Foreign exchange rate :

U.S.\$1=¥108, 1Euro=¥136

●Industrial machinery bearings:

NSK expects profit to increase on a year-on-year basis due to the increasing demand accompanying the global economic expansion and steady capital expenditures.

●Automotive products

Automotive related production is expected to increase compared to the previous year, due to growing demand for automobiles, particularly Japanese manufactured ones. Profit is expected to increase on a year-on-year basis.

●Precision machinery and parts

Semiconductor and liquid crystal equipment sectors are expected to exhibit good demand, and the demand from industrial machinery and injection molding machines is expected to also increase. On year-on-year basis, profit is forecasted to increase.

●Others

The forecast for other businesses has been made taking into consideration the expected including business results of Amatsuji Steel Ball MFG Co., Ltd., which became NSK's consolidated subsidiary in March, 2006.

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.

## Risk Management

Due to the nature of our operations, the NSK Group is exposed to various risks, some of which are listed below: (Note: The following are risks that have been identified by the Company as of May 12, 2006, the date the Company announced its year-end business results for the year ended March 31, 2006.)

### 1. Country, Region, and Industry Risks

The NSK Group is exposed to both the economic environments of the countries it sells or manufactures its products in, as well as the business environments surrounding our customers' respective industries. The deterioration of economic conditions in relevant countries, regions and industries may have an effect on the NSK Group's business results and financial position.

### 2. Market Risks

The competition NSK is facing is intensifying at a global level. Market infiltration of low cost products produced by manufacturers from emerging countries is leading to tougher price competition. At the same time, overseas expansion of our customer base, particularly the automotive industry, requires the Company to respond by also reinforcing its overseas production sites, with any delay possibly resulting in a loss of business opportunity.

### 3. Customer-specific Risks

NSK's sales tend to center on certain industries. Nearly half of our revenue is attained from sales to the automotive industry, while sales of our precision machinery and parts are weighted towards the semiconductor production equipment and machine tool sectors. Therefore, a down-cycle in demand in these industries would have a significant impact on our business results.

### 4. Credit Risks

The Company believes most of its customers are relatively stable companies with fairly low credit risk. However, we must always be prepared for unanticipated bad debts as economic downturns and the effect of intensified global competition may have a negative impact on our customers' capital base.

### 5. Business Alliance Risks

Disputes regarding various issues may prevent our joint ventures from achieving the expected benefits and results.

### 6. Supplier Risks

Although the NSK Group manufactures steel balls, the main parts of bearings, due to the nature of certain materials and components, there are cases where it is technically impossible to diversify our supply base. In such cases, a supplier's lack of production capacity, quality problems, or shortage of raw materials may make procuring necessary materials or components impossible or force the Company to accept cost increases.

### 7. Quality Risks

An undetected critical defect in our products could cause a serious accident, forcing the Company not only to recall the product and disrupt our customers' production lines, but could result in huge compensation liabilities as well as cause major damage to the Company's reputation. The NSK Group is covered by a global product liability insurance policy, and for certain products, it is also covered by a recall insurance plan. However, these insurance plans do not necessarily cover all damages.

### 8. New Product Development Risks

Developing new products is an integral part of our business. However, for a variety of reasons, newly developed products may not be well-received by the market, our competitors may develop a product ahead of us, or our competitors may develop alternative products to take the place of our new product.

#### 9. Intellectual Property Rights and Risks

Any third party claim of invalidity of our intellectual property rights or infringement upon their rights, the inability to obtain permission to use third party patents, or the inability to eliminate illegal products that infringe our intellectual property rights from the market may all impact our business performance.

#### 10. Global Business Expansion Risks

In expanding business overseas, NSK faces risks such as the possibility of being unable to recover invested capital or launch production at new production sites as planned. The Company may also face various situations where it would be forced to move production locations or, in the extreme event, exit a country. The Company also faces inevitable environmental and regulatory risks unique to a particular country or region.

#### 11. Disaster and Terrorist Risks

Disasters such as earthquakes, floods, and fires, as well as riots, terrorist incidents and anti-Japanese activities are of great concern to the NSK Group, as they may not only cause damage or injury to Company property and personnel, but also negatively impact the Company's production and sales activities.

#### 12. Compliance Risks

The NSK Group has issued *NSK's Business Ethics Regulations* to ensure that laws and regulations are observed. However, the Company still faces the risk that an illegal act may be carried out, damaging the Company's reputation as well as bringing about the possibility of being economically sanctioned.

#### 13. Legal Risks

As a manufacturer, the NSK Group is covered by a global product liability insurance policy, in the event that the Company may be sued for product liability of a defective product. However, this insurance plan does not guarantee unlimited coverage for all damages. The possibility of legal disputes regarding issues other than product liability-related lawsuits cannot also be dismissed.

#### 14. Information Management Risks

In the event that, for some unforeseen reason, important business information or personal information is leaked from the Company, this would not only damage the Company's reputation but also require huge expenses to take the necessary corrective measures.

#### 15. Information disclosure and shareholder income Risks

NSK group maintains management system for fair and timely disclosure of information and ensures credibility of financial reporting. However, in the events, such as constitution or change of applicable laws or bans, and revision of rules of stock markets, for that the company could not make sufficient countermeasure adjusting to internal and outer circumstances changes, or could not examine the business process on financial reports, may cause decline in shareholder value in the market and disadvantages for shareholder.

#### 16. Environmental Risks

The Company may inadvertently cause damage to the environment, through activities such as the inappropriate use of environmental impact substances or soil pollution.

Although expenses for measures and removal of asbestos have been posted as cost related to accrued provision for environmental safety measures in the fiscal year 2006, other environmental problems may cause damages such as compensation for loss, increase purification cost, fine, possibility of production stoppage. Also, enforcement of new regulation may result in huge cost.

#### 17. Information Systems Risks

Any glitch in the current computer systems regarding the supply chain or any confusion resulting in changes made to existing computer system, should occur, in the future, the Company renewed or altered its computer systems. This can potentially disrupt production and sales activities, and seriously affect our customers' production plans, which in turn could result in compensation liabilities as well as damage our reputation.

**18. Human Resource Sourcing Risks**

The NSK Group regards the recruiting and retaining of skilled and talented personnel vital in maintaining our competitiveness. Looking at our current demographics of our workforce, the number of employees reaching retirement in the next few years is expected to increase sharply. Demand for talented personnel is increasing throughout the job market and if the NSK Group cannot secure sufficient new talent, this would render a serious problem to the transfer of skill and know-how, and consequently negatively impact the entire Group's business operations.

**19. Labor Dispute Risks**

Differences in local labor practices and regulations, changes in the economic environment, and other unexpected phenomena could all result in labor disputes that may disrupt business operations.

**20. Foreign Exchange and Interest Rate Risks**

In order to reduce the negative impact of foreign exchange and interest rate fluctuations, the NSK Group is using forward exchange contracts consistent with internal guidelines to hedge exchange risks. However, it is impossible to entirely eliminate such risks.

**21. Retirement Benefit Liabilities**

NSK Ltd. has adopted approved retirement annuity system and termination allowance plan as a defined benefit pension plan. This plan is also followed by the Company's subsidiaries in Japan, as well as a number of overseas subsidiaries. The NSK Group's retirement benefit expenses and liabilities are calculated using assumptions such as discount rates and expected rate of return on plan assets. Any changes in these assumptions, may have a negative impact on the NSK Group's overall financial performance and balance sheet.