

# Message from the President



Kazuyuki Matsumoto,  
President & CEO

**We will further intensify management that "challenges" keeping Long-term Vision in mind, while maintaining increases in both sales and profits**

At the start of fiscal year ended March 31, 2006, we established the Long-term Vision, which stipulates targets to be achieved after ten years from now. At the same time, we also developed the Mid-term Business Plan for three years from FY2006 to FY2008 as the first step action plan, and started FY2006.

In FY2006, the first year of the mid-term business plan, we actively challenged execution of our operations concentrating on the two management aspects of making strategic arrangements for realization of the Long-term Vision and continuing to expand our businesses in various fields we have built up so far. As a result, both consolidated net sales and profits for FY2006 increased. I believe our management policies also showed successful results to some extent.

We will continue to strive to enlarge our corporate value. Please look forward to the future of Nabtesco.

## Net income jumping by 46.0% from preceding year

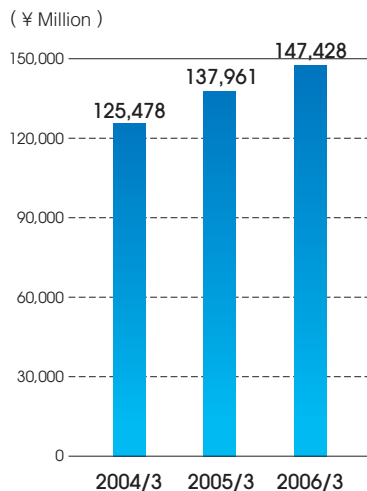
The Japanese economy in the fiscal year under review stably continued a moderate recovery trend, supported by expansion of private capital investment and consumer spending backed by positive corporate earnings, despite unstable factors such as higher oil prices.

The business environment surrounding Nabtesco Group also remained robust helped by capital spending of the automobile industry and booming construction machinery.

In such environment, our group developed the mid-term business plan and we were able to make a good start in FY2006, the first year of the business plan.

Concerning "creation of new product and business" and "aggressive penetration into overseas markets" targeted in the mid-term business plan, the Company showed

## Net sales



successful results such as starting exports of drive units for wind turbines, delivery of brake system for China's new national inter-city railroad project, order receipt for high-voltage power units for aircrafts from the USA, and sales expansion of platform screen doors in Asian region.

For better productivity, we started expanding the Tsu plant (Mie Pref.) in expectation of an increase of demand for precision reduction gears for industrial robots, and invested capital in other plants.

As a result, our consolidated net sales for FY2006 increased by 6.9% from the previous year to ¥147.4 billion, and consolidated net income for FY2005 climbed 46.0% from the last year to ¥8.2 billion. ROA and ROE were 5.9% and 14.1%, respectively.

### Promoting Improvement of Management Bases so as to achieve Goals in Long-term Vision

The fiscal year 2006 was in a sense the first year of the 3-year period of challenges from the viewpoint of the Long-term Vision, which stipulates targets to be achieved after

ten years from now. Accordingly, in fiscal 2006, we promoted improvement of our management bases aiming to achieve the future goals. In other words, fiscal 2006 was the year we made strategic arrangements for realization of the future targets.

First of all, the Company started the extension work of the Tsu plant, the main plant of the precision equipment company. In the precision equipment business, the Company is planning to develop a variety of applications of our precision reduction gears including application to machine tools, in addition to application to industrial robots. The extension work of Tsu plant for boosting production capacity was started as a prior investment focusing on expansion of applicable markets, and production capacity after completion of the expansion will increase by 60% from the current level of production.

And with respect to Harmonic Drive-type reduction gears business in the USA, we integrated, in December 2005, our operations with Harmonic Drive Systems Inc., which had different areas of advantageous technology from ours. The Company established Harmonic Drive LLC by consolidating each company's subsidiaries in the USA.

## Long-term vision and summary of medium-term management strategy

### Long-term Vision

Global company group growing with society  
-Challenge, Creation and Progress to higher stage-  
<Management targets at the end of the next ten years>  
Net sales: ¥220,000 million  
Operating income to net sales: 15%  
Return on equity (ROE): 15% or more

### Medium-term Management Strategy

- 1) Creation of new product and new business  
We will address as an important issue the creation of new products and new business based on our strengthened and evolved motion control technologies, and will concentrate on the launch of products and businesses, which will be a source of profit 10 years later.
- 2) Strengthening of profitability of the existing business  
We will actively invest in businesses with high profitability and high growth-potential, and will work on the strengthening of superiority, and the overcoming of weakness, of each business.

### 3) Aggressive penetration into overseas markets

We will make aggressive penetration into overseas market. Specifically, we will focus on business development in Chinese and European markets positioning China as a promising market where long-term growth can be expected and Europe as an important market for our products.

### 4) CSR-conscious management

We will carry out stakeholder (e.g., shareholders, business partners, employees, and society) conscious management. We will also respect and comply with local laws, regulations, cultures, etc., and will conduct business with high ethical standards. Further, we will focus on environmental concerns.

### 5) Reforming organizational climate

We will establish a system to promote "group-wide optimum" through efficient and effective personnel allocation. We will also prioritize the foster of technology personnel and overseas staff from a long-term perspective.

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We believe that we can deploy effectively and flexibly the reduction gears business of this type from now on.

Lastly, in December 2005, we sold whole shares of LogIT Corporation, our subsidiary then. LogIT was founded to carry out a new business in 1999, and had showed successful results for far. However, we could not enjoy synergy effects from LogIT, because it was the only IT-related company in the Nabtesco Group. In consequence, we sold all the shares of LogIT we owned as a part of our strategy to enhance our management base through concentration of management resources to core businesses.

### Specific activities for Mid-term Business Plan

The comprehensive business-tie-up in the oil hydraulic equipment business between former Teijin Seiki Co., Ltd. and former NABCO Ltd. triggered the foundation of Nabtesco. The oil hydraulic equipment business for FY2006 saw completion of a new type of traveling units resulting from integration of both company's technologies, and started mass production of the units as the product symbolizing the integration of both companies' operations.

In the welfare equipment field, Nabtesco succeeded in developing the "Hybrid Knee", an intelligent prosthetic knee joint for the next generation, thanks to the integration of oil hydraulic, pneumatic and microcomputer-control technologies, and put the products on the market on a full scale in April 2006.

As for the area of wind turbines, we are growing active receiving a large order to be delivered in the following

year. In the aerospace business, we were able to newly enter into the field of the electrical systems by receiving orders for "Rack & Panel" (high voltage power unit) for the Boeing 787, a next-generation passenger aircraft. Sales of the Rack & Panels are expected to amount to about ¥20 to ¥30 billion during 20 years from 2007 when the first delivery is scheduled.

Furthermore, we started delivery of products compatible with electrically controlled engines, which are expected to grow in response to the global movement to tighten exhaust emission control for vessels.

Now Nabtesco is promoting a company-wide project to further accelerate the "creation of new product and new business". Based on the keyword of "growth and change" the Company collected highly potential development themes from each department and accepted about 1,000 themes. Now the Company is narrowing down the themes by the standard of utilizing the Company's advantages, and carrying out researches for marketability. We expect that actual new products and new businesses developed from such themes can be announced from the next year. Nabtesco is also making all effort to change employees' consciousness towards "strengthening profitability of the existing businesses". To review our existing operations drastically, we introduced a concrete standard of comparison that focused on being the top company in terms of profitability in each product or business field instead of a vague consciousness for profitability. With this standard, we intend to create a challenging environment where the motto is "If other companies can do it, so can we".

Each business unit is now planning its own improvement plan according to its characteristics to achieve specific targets. We are evaluating our operations into two



categories: those that create value added and those that do not. As for the operations capable of creating value added, we will plan measures for improvement in efficiency, and concerning those unable to create value added, we are planning on conducting contraction or work saving measures, or possible abolition of such operations.

Furthermore, the Company is promoting activities that take advantage of effects from business integration to the utmost extent. For instance, we now have seven plants, but the former Teijin Seiki's plants and the former NABCO's plants have different measures for improving plant efficiency and productivity. We expect efficiency and productivity of manufacturing sites will sharply rise if our employees in charge of plant management or production technology actually visit these plants and confirm such differences. So, the Company is frequently holding a plant study session to promote reforms and change of consciousness.

#### Forecast for the fiscal year ended March 2007

The Japanese economy is expected to expand at a healthy pace, with brisk domestic economic condition and roaring Chinese market anticipating the Beijing Olympics. However, there are some indications of possible adverse effects on the economy such as oil and material prices anticipated to continue at a high level, as well as uncertainties in foreign exchange rate or the upward trend in interest rate.

For business environment of our group, capital spending in automobile manufacturers who are the main users of industrial robots is now moving into adjustment period,



and China's new national inter-city railroad project is now well underway. In addition, the civil aviation sector is rapidly recovering and construction machinery both in domestic and overseas market are expected to be brisk.

In these surroundings, our group plans, in the second year of mid-term business plan, to actively develop market both in domestic and overseas and create new products, in order to achieve goals set in the business plan. Also, we will make efforts on cost reduction through building the best production system and improving productivity.

#### To Our Shareholders

We believe that the Company should be a "worthwhile existence" for all stakeholders such as shareholders, trading partners, employees and society. To be worthwhile means 1) the Company should be useful for stakeholders by growing and developing at a long-term scale; and 2) the Company continues to be trusted by society. In other words, we believe the continual enlargement of corporate value is our Company's mission. The Company recognizes "CSR-conscious management" as one of the most important issues for the Mid-term Business Plan and considers that continual enlargement of corporate value directory leads to the implementation of CSR-conscious management. There is an old Japanese business proverb: "All three parties are happy". This means the trading partners are happy, the company is happy and society is happy as well. Japanese business already possess similar concept to CSR from the old days. We have much to learn from our predecessors.

Nabtesco is a development-type of a manufacturing company. Consequently, continual capital spending is vital for continual development. We are certain well-balanced distribution of profits to "dividends for shareholders" and "capital expenditure for future growth" is important. We would like to assure you that you can trust the future of the Company.