

Consolidated Financial Review

Nabtesco Corporation

Years ended March 31, 2006 and 2005

Consolidated Subsidiaries and Affiliated Companies

The number of the Company's consolidated subsidiaries is 33. Breakdown by industry is precision equipment business: 7 (of which overseas subsidiaries: 3); transportation equipment business: 10 (of which overseas subsidiaries: 6); aircraft and oil hydraulic equipment business: 3 (of which overseas subsidiaries: 3); and industrial equipment business: 13 (of which overseas subsidiaries: 4). The affiliated companies under equity method totals to 9 companies: precision equipment business: 1 (of which overseas affiliates: 1); transportation equipment business: 4 (of which overseas affiliate: 1); aircraft and oil hydraulic equipment business: 1 (of which overseas affiliates: 0); and industrial equipment business: 3 (of which overseas affiliates: 0).

Overview

The Japanese economy in fiscal year ended March 31, 2006 stably continued a gradual recovery trend, supported by expansion of private capital investment and consumer spending with positive earnings of companies, despite unstable factors such as higher oil prices.

The business environment surrounding the Nabtesco Group 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 have made a good start in FY 2006, the first year of the business plan.

Concerning "creating new products and business" and "active entry into overseas market", the company showed successful results such as beginning export of drive unit for wind turbines, delivery of brake system for China's new national inter-city railroad project, order receipt for high voltage electric power unit for aircrafts from U.S., and sales expansion of platform screen doors in Asian region.

For better productivity, we started expanding the Tsu plant (Mie Prefecture) in expectation of demand increase of precision reduction gear for industry robots, and also actively invested capital in each plant.

As a result, our consolidated sales increased by 6.9% from the previous year to ¥147.4 billion, and consolidated net income increased by 46.0% to ¥8.2 billion.

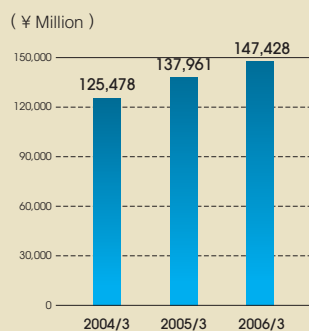
Review of Operations and Forecasts by Business Segment

Precision equipment business

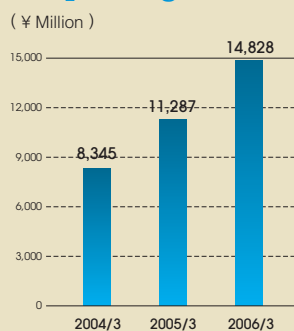
Net sales and operating income in precision equipment business were increased by 4.9% and 13.2% from the previous period to ¥34.2 billion and ¥5.7 billion, respectively.

Operating income increased, helped by brisk sales of precision reduction gear for industry robots and for machine tools with active capital spending in automobile manufacturers both in domestic and overseas, as well as by recovery of those for semiconductor manufacturing equipment.

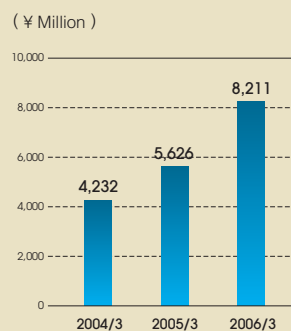
Net sales



Operating income



Net income



Forecast

Expected sales and operating income in precision equipment business are ¥30.4 billion and ¥4.9 billion, respectively.

Both sales and income are anticipated to drop, due to decreased demand of precision reduction gear with capital spending of automobile manufacturers who are main user of industrial robots entering a trough phase, and divestiture of subsidiary.

■ Transport equipment business

Net sales and operating income in transport equipment business were increased by 4.8% and 61.9% from previous period to ¥37.5 billion and ¥3.5 billion, respectively.

For railroad vehicles products, although the production of new products for the Shinkansen (domestic bullet train) remained at low levels due to the trains entering a development period, new vehicles for conventional railroad line and repair parts were brisk. Brake systems for high-speed trains on existing track in China rose.

In the automobile-related business, sales remained flat with an increase in air brake system for commercial vehicles helped by brisk domestic demand, and a decrease in seat occupancy sensor for passenger automobiles due to specification change of manufacturer.

In marine propulsion control systems, increased number of

newly built ships both in domestic and overseas contributed in sales.

Forecast

Expected sales and operating income in transport equipment business are ¥40.2 billion and ¥3.4 billion, respectively.

Sales of railroad equipment products is anticipated to grow, helped by sales for the new national inter-city railroad project in China, as well as brisk domestic replacement demands.

Sales of equipment for commercial vehicles and marine vessel engine remote control system propulsion control systems are expected to be flat.

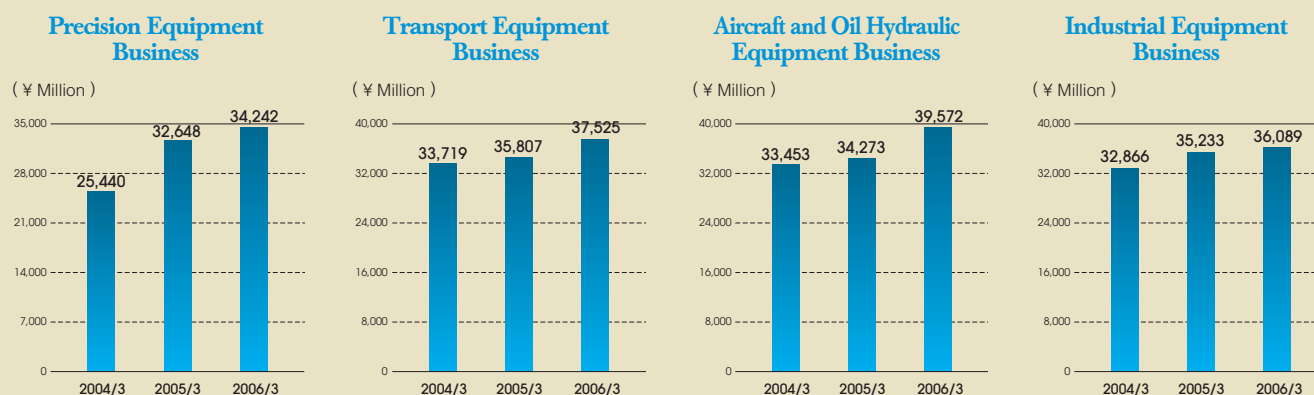
■ Aircraft and oil hydraulic equipment business

The sales and operating income in aircraft and oil hydraulic equipment business increased by 15.5% and 186.8% from the previous period to ¥39.5 billion and ¥2.2 billion, respectively.

The outlook is positive as a sales of aircraft equipment are increasing, supported by the recovery trend in the civil aviation sector. Obtaining large amount of orders for "Rack and Panel" (high voltage electric power unit) for the Boeing 787 Aircraft was also achieved.

In oil hydraulic equipments, sales of traveling units and valves increased, backed by expanding global demand of hydraulic excavators and mini excavators.

Net Sales by Business Segment



Consolidated Financial Review

Nabtesco Corporation

Years ended March 31, 2006 and 2005

Forecast

Expected sales and operating income in aircraft and oil hydraulic equipment business are ¥45.3billion and ¥2.5 billion, respectively.

A sale of aircraft equipment is anticipated to increase, buoyed by rapid recovery of the civil aviation sector.

Sales is anticipated rise in oil hydraulic equipment, with brisk construction machinery both in domestic and overseas market, as well as increased order of drive unit for wind turbines is expected both for domestic and overseas market.

Industrial equipment business

Sales and operating income in industrial equipment business were increased by 2.4% and 1.8% from the previous year to ¥36 billion and ¥3.2 billion, respectively.

In automatic doors related business, the demand remained flat due to difficult situation in the

market despite slight recovery trend of investment in construction. The mainstay automatic doors for general purpose edged up with increased market share, and platform screen doors for China and South Korea rose.

In industrial machinery related business, machine tools fared well, supported by active capital spending in the automobile industry, but the sales declined with decreased overseas demand mainly from South Korea for automatic food packaging machines.

Forecast

Expected sales and operating income in industrial equipment business are ¥36.1 billion and ¥3.7billion, respectively.

Sales of automatic door related products will increase with expanded share and food packaging machines are also anticipated to recover, but the total sales will remain flat and income will edge up due to divestiture and change in business structure.

Note: Inter-segment sales have not been eliminated from sales figures.

Income Statement Analysis

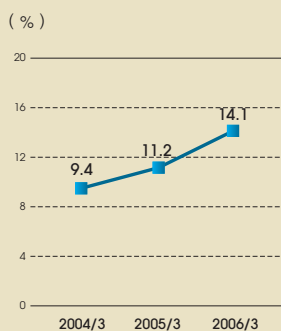
Consolidated net sales for FY2006 increased 6.9% compared with the same period of the preceding year to ¥147.428 billion. Cost of sales rose by 6.0% from the same period last year to ¥111.542 billion, and consolidated gross profit accounted for ¥35.886 billion, an increase by 9.6% compared with the same period a year ago. Gross profit to net sales was 24.3%, up by 0.6 point on a year-on-year basis.

Selling, general and administrative expenses (SG&A expenses) decreased 1.8% compared with the same period a year earlier to ¥21.058 billion, and SG&A expenses to net sales was 14.3%, a fall by 1.2 point compared with a year earlier.

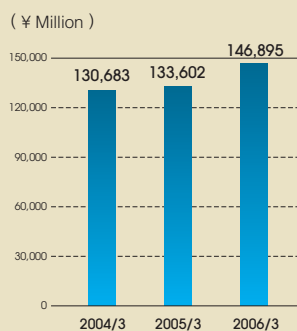
As a result, consolidated operating income increased 31.4% against a year ago to ¥14.828 billion, and operating income to net sales was 10.1%, a 1.9 point up on a year-on-year basis.

Income before income taxes was ¥14.288 billion, a climb by

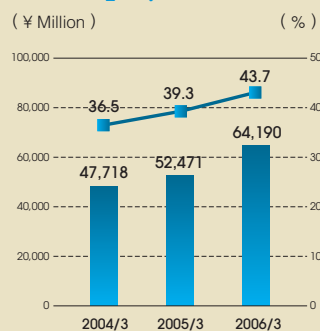
Return on Equity



Total assets



Shareholders' Equity Equity Ratio



54.9% compared with the same period of the previous year, which is attributable mainly to an increase in operating income and a decrease in other losses.

In consequence, consolidated net income for FY2006 rose by 46.0% against a year ago to ¥8.211 billion, and net income to net sales was 5.6%, a rise by 1.5 point on a year-on-year basis.

Balance Sheet Analysis

Total assets as of the end of March 2006 increased by 9.9% compared with the end of the preceding year to ¥146.895 billion.

Current assets rose by 9.8% from the end of the previous year to ¥82.501 billion, due mainly to an increase in cash and deposits with improvement of liquidity on hand and an increase in inventories in response to brisk sales.

Fixed assets rose by 10.2% against the end of March 2005 to ¥64.393 billion, thanks primarily to an increase in investment in securities in investments and other assets.

Total liabilities as of the end of March 2006 increased by 1.5% on a year-on-year basis to ¥78.941 billion.

Current liabilities rose by 10.9% compared with the end of the last year to ¥60.138 billion, owing mainly to an increase in income taxes payable.

Fixed liabilities decreased by 20.1% against the end of the preceding year to ¥18.803 billion, due to repayment of long-term loans.

The Company is positively promoting repayment of interest-bearing debt. The outstanding amount of interest-bearing debt as of the end of the current fiscal year fell by 23.4% from the end of March 2005 to ¥19.186 billion. As a result, debt to equity ratio was 0.3 times, a fall by 0.18 point from the end of the previous year.

Shareholders' equity as of the end of March 2006 was ¥64.190 billion, an increase by 22.3% from the end of March 2005, which is attributable mainly to an increase in net unrealized gains on securities helped by brisk stock markets and the increase of accumulated earnings brought by an increase of net income.

As a result, shareholders' equity ratio advanced by 4.4 point against the end of the last year to 43.7%, and ROE increased

by 2.9 points on a year-on-year basis to 14.1%.

Cash Flow Analysis

Net cash provided by operating activities amounted ¥16.406 billion, an increase by 47.8% compared with the same period of the preceding year, due primarily to an increase in income before income taxes.

Net cash used in investing activities expanded by 7.2% on a year-on-year basis to ¥4.896 billion, hurt by a decrease in proceeds from sale of fixed assets, despite proceeds from sale of investment securities. As a result, free cash flow at the year-end increased by 76.2% from the end of the last year to ¥11.509 billion.

Net cash used in financing activities contracted by 6.9% compared with the end of March 2005 to ¥7.273 billion, helped by being free of repayment of debentures, despite repayment of loans and cash dividend paid.

In consequence, cash and cash equivalents as of the end of March 2006 increased by 31.8% from the end of March 2005 to ¥18.497 billion.