

報告書

ANNUAL REPORT 2005

MANUFACTURING SOLUTION

TOTAL MANUFACTURING SOLUTION

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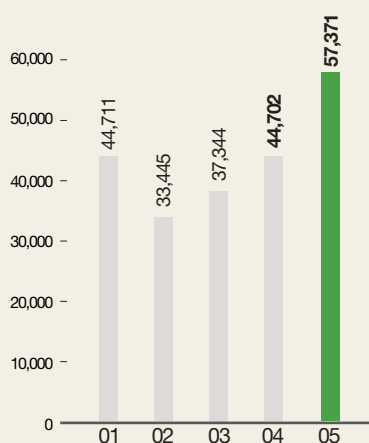
Sodick Co., Ltd.

Consolidated Financial Highlights

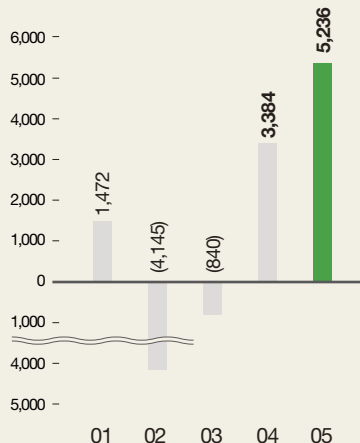
	Millions of yen (except Per Share Data)		Thousands of U.S. dollar (except Per Share Data)
	2005	2004	2004
For The Year :			
Net Sales	¥ 57,371	¥ 44,702	\$ 534,230
Operating income	6,815	4,759	63,460
Net income	5,236	3,384	48,757
At Year-end :			
Total assets	68,150	59,189	634,603
Total shareholders' equity	22,572	15,569	210,187
	Yen		U.S. dollars
Per share Data :			
Net income			
Basic	¥ 113.22	¥ 78.26	\$ 1.05
Diluted	110.81	68.32	1.03
Shareholders' equity	479.15	353.76	4.46

Notes : The U.S. dollar amounts are provided for convenience only and have been converted at the rate of ¥107.39 to \$1, the approximate rate of exchange in effect at March 31, 2005

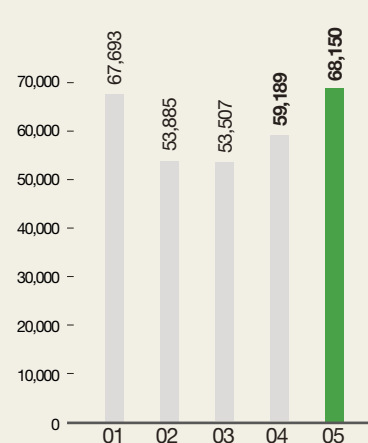
Net Sales (Millions of yen)



Net Income (loss) (Millions of yen)



Total Assets (Millions of yen)



In this annual report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

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Create, Implement, and Achieve
We develop industry-leading products while supporting the manufacturing process, based on the philosophy we have followed since we were established.

Sodick's name is based on the Japanese words, "Souzou," "Dikkou," and "Curou, Kokufuku," which means create, implement, and achieve. The company name expresses our strongly held philosophy of creating new ideas, implementing them as new products, sustained hard work, and triumphing over the challenge to improve our customers' manufacturing processes. Based on that philosophy, the Sodick Group develops new technologies and innovative product groups that enable our customers to manufacture their products, and at the same time, constantly offers the entire market place products that make a difference.

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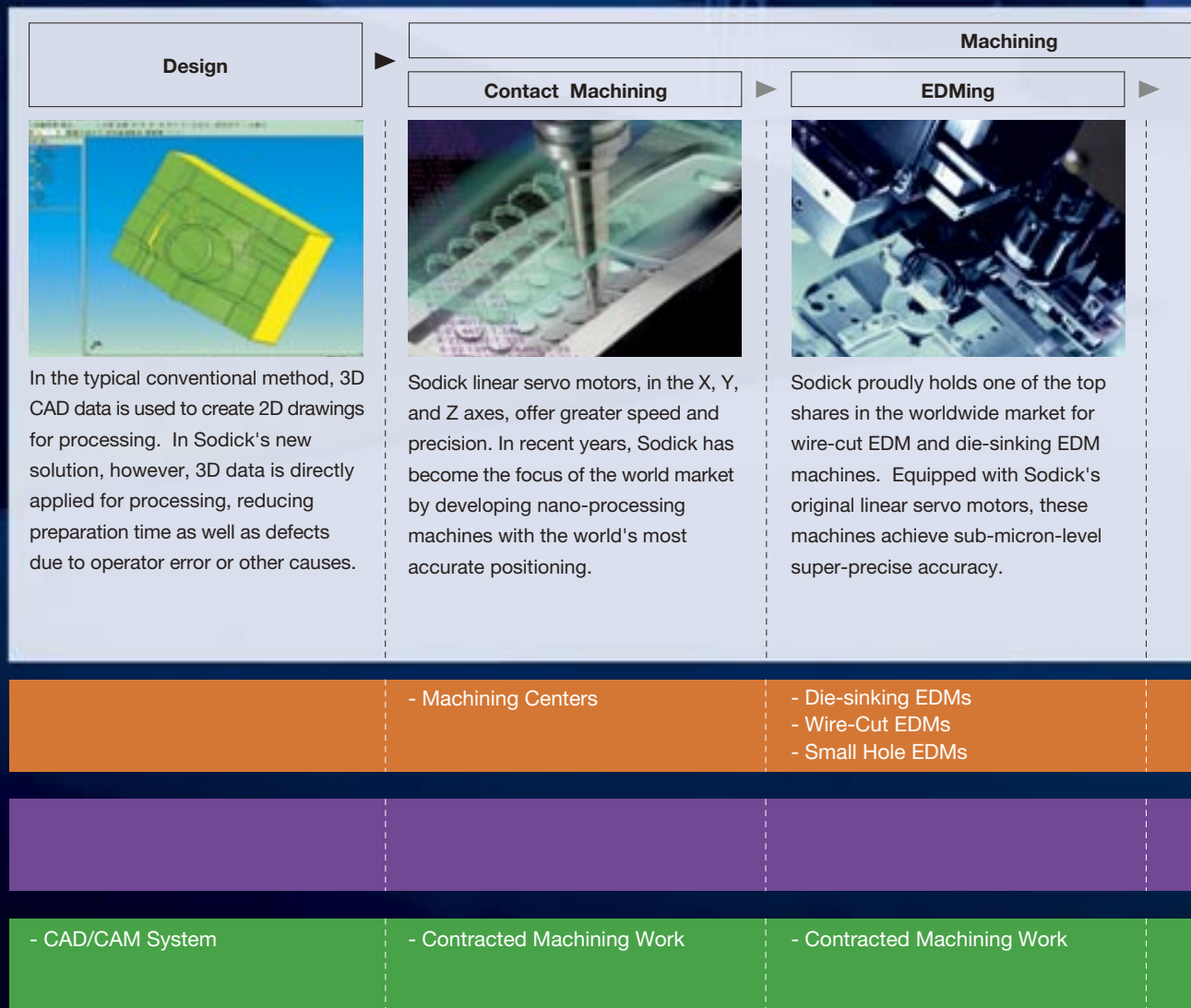
Contents

Business Domain	04	Financial Section	
Interview with the President	06	Consolidated Balance Sheets	22
Review of Operations		Consolidated Statements of Operations	24
Operations At a Glance	10	Consolidated Statements of Shareholders' Equity	25
Machine Tools	12	Consolidated Statements of Cash Flows ...	26
Industrial Machines	14	Notes to Consolidated Financial Statements	27
Others	15	Independent Auditors' Report	43
Special Feature:		Corporate Information	44
Total Manufacturing Solutions for the Future ..	16		
With a Greater Variety of Intellectual Resources	17		
With a Greater Global Presence	18		
With Greater Quality	20		

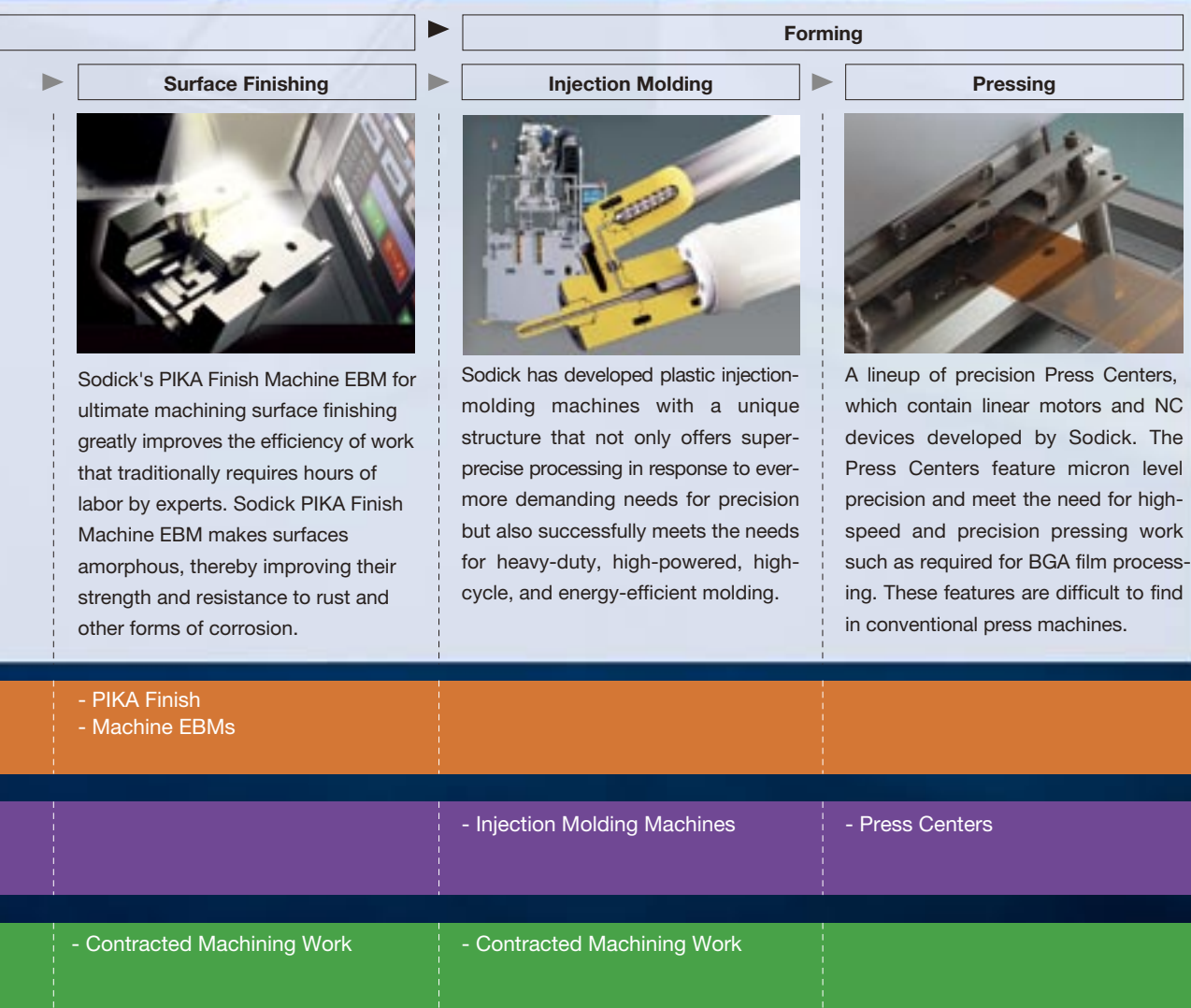
Total Manufacturing Solution

Helping customers solve problems in all manufacturing processes.

The Sodick Group, based on its Total Manufacturing Solution concept, assists with all manufacturing processes ranging from CAD/CAM product design to the machining of dies, molds and parts by electrical discharge machines (EDMs) and machining centers, surface finishing with electron beam surface finishing machines (Specifically, PIKA Finish Machine EBMs), and forming with injection molding machines and linear presses . By obtaining the latest technologies in the world of manufacturing, Sodick is able to offer optimal solutions for customers' manufacturing problems.



Concept



Interview with the President



President

Shigeo Shioda

A handwritten signature in white ink, appearing to read "S Shioda", with a horizontal line underneath.

Q 1

Looking back over the 2004 fiscal year, how would you analyze the results?

In the 2004 fiscal year, the Sodick group succeeded in improving its performance, reaching the highest profit level for over 15 years. We are grateful for the support of the shareholders in helping us achieve this.

First, let's look at the economic situation surrounding the Sodick group in the period under review. The adverse effects of the leap in steel and oil prices arising from the expansion of the Chinese economy and the prolonging Iraq conflict were increasing production prospect from Japanese automakers and the full-scale expansion of IT and digital electronic home appliances, as well as a global rise in demand for machine tools. This energized the performance of the die & mold business, one of our most important customer bases, and as a result of these factors, we were able to expand steadily around the axes of the domestic and Asian markets.

On the North and South American market, the US economy continued to recover and sales primarily in the medical equipment and aerospace manufacturing sectors expanded steadily. As for the European market, while different industries continued to relocate their production base to China and other Asian countries, the demand for our products expanded particularly in the automotive and tool manufacturing markets of Russia and other Eastern European countries as well as the aerospace-related industries in France.

On the production side, our manufacturing subsidiaries Sodick (Thailand) Co., Ltd. and Suzhou Sodick Special Equipment Co., Ltd. in China invested aggressively in the expansion and renewal of plants and machinery, increasing the production capacity of CNC electrical discharge machines, our major product line, by about 30 percent. As a result, in January 2005 our cumulative shipments of machines, equipped with linear motors, broke through the 10,000 unit mark.

In the industrial machinery sector, Sodick Plustech Co., Ltd. invested to enhance manufacturing capacities. In other sectors, Sodick New Material Co., Ltd. newly established an industrial ceramic manufacturing plant and worked to increase manufacturing capacity.

In the area of product development, we developed new machine models and technologies in each business segment in order to respond to customer needs in various parts of the world. Among them is the AQ300L, a small wire electrical discharge machine targeting the European, American, and Asian markets, and the AQ560L, another wire electrical discharge machine targeting the Chinese market.

In our Sales activity, we demonstrated the excellence of our products to the customers, ranging from ultra-precision machine tools to efficiency prioritized processing machines, by presenting them at the IMTS 2004 exhibition, held in the United States in September 2004, and at the JIMTOF 2004 exhibition, held in Tokyo in November of the same year, as well as numerous other exhibitions and events in Japan and abroad. In addition we hosted private showings in each of our branches and locations across Japan in the period from December 2004 to February 2005.

As a result of these initiatives, our consolidated sales in the accounting period under review rose 12.669 billion yen, or 28.3 percent, to reach 57.371 billion yen. Concerning profitability, operating income rose 2.056 billion yen, or 43.2 percent, to reach 6.815 billion yen, and net profit leapt 1.852 billion yen, or 54.7 percent, to reach 5.236 billion yen.

Q 2

Risk management is necessary for growth to continue. Please be specific on this point, including projected performance for the next period.

The results for our group tend to rely heavily on the customer's will to invest in equipment. In order to achieve more stable corporate growth, we are carrying out research and development investment focusing on efficiency in each of our group companies. Our business strategies are to expand our customer base by offering an unprecedented variety of products and services, and to greatly curtail the effects of economic fluctuations on business results.

In order to achieve these aims and to establish a system that can obtain stable profits, we are carrying out continuous research and development to build new products with even greater added value, and to disperse business sector risk through expanding our product variety.

Specific examples include the machining centers produced and sold by Sodick Engineering Co., Ltd., the industrial ceramics produced and sold by Sodick New Material Co., Ltd. and the electronic beam processing machines developed and manufactured by Sodick Electron Co., Ltd.

During the 2004 fiscal year, the sale of machining centers produced by Sodick Engineering Co., Ltd. doubled, due to their growing reputation among customers that process high precision molds and parts.

The industrial ceramics products produced by Sodick New Material, first developed as materials for our electrical discharging machines has now expanded after they were evaluated as important materials also for inspection equipment for liquid crystal panels.

Interview with the President

We believe that these new products will continue to perform well in the next fiscal year. As for the electron beam processing machines, Sodick Electron Ltd. is currently in a transitional period from the product development and to marketing stage, and in the next fiscal year we expect they will also be able to contribute to risk dispersal for our corporate group results.

As for the business prospect for the 2004 fiscal year, as a result of carrying out these initiatives, we predict sales of 63 billion yen, operating profit of 8.3 billion yen, and current net income of 5.35 billion yen.

Q 3

The growth strategy that has been discussed will require even greater efforts to advance the Group's global strategy. What specific initiatives will be implemented?

The management strategy of the Sodick group is to further globalise its businesses by establishing a system that does not depend heavily on individual market fluctuation, and to disperse risk. We aim to do this through offering the optimum products for each market, split into the five world sectors of Japan; China, Hong Kong and Taiwan; other Asian countries; Europe; and North and South America.

The shift in manufacturing from Europe and the US to China and other Asian nations has led to constant growth in the share of our sales and profits from the market in Chinese regions.



In the Japanese market, we anticipate sales expansion of high value-added machines that can produce dies, molds and parts in the micro processing field, currently difficult to manufacture in China and other Asian countries.

Japan, Europe, America, and other countries around the world are actively investing in capital equipments in China as the world manufacturing center. Recently, however, the Chinese regions have become a great market for consumer durables—it is no longer just a supply source of industrial products. Since Sodick established the software company Shanghai Sodick Software on the Chinese mainland in a joint venture with Shanghai Jiao Tong University in 1991, we have been developing business to constantly stay ahead of the competition.

To reinforce this dominance, Sodick CPC Co., Ltd. was established in April 2004 with a mission to integrate our group businesses in the Chinese regions and to establish a single regional organization from development through manufacturing, sales to user support. We aim to exploit the voice of the customers in the Chinese market in our product development, carry out product development appropriate to the market, and increase our share of this growing market.

Our sales are expanding in other Asian regions as well. From South Korea, which is competitive in IT and digital related industries, to Southeast Asia, where automotive manufacturing is thriving particularly, in Thailand the “Detroit of the East,” we are progressing in the development of new product lines which will better suit the specific production in these locations.

In the American market, we believe we are achieving our targets, such as gaining operating profits for the last two consecutive years, due chiefly to our improved business in the medical equipment and aerospace sectors as a result of initiatives that include reviewing our customer base and raising direct marketing ratios.

In the European region, we are moving to a dual operation system in the current accounting period in order to develop sales activity and user support more aggressively in the high-growth areas of Russia and Eastern Europe. This system comprises Sodick Deutschland

GmbH, which oversees sales and other activities in Germany, Switzerland, Czech Republic, Austria, and other countries where German is widely spoken, and Sodick Europe Ltd., which oversees sales and other activities in other European countries. Finally, the sales of machining centers, our new product line, are currently focused in Japan. But beginning with the next accounting period onward, we are aiming to establish a sales and support system to expand sales in Asia, Europe, and America.

Q 4

What kind of company do you want Sodick to be in the future? Please tell us about your mid and long-term vision.

Looking at the world economy, we see the demand for consumer durables, such as cars and cell phones, rising continuously due to the growing national incomes in BRICs (Brazil, Russia, India, and China) and the Eastern European countries.

However, while it is good that more people can acquire comfortable and convenient lifestyles, producing and consuming more goods in the same way as before will have an enormous impact on the environment. Among our customers is automobile manufacturers who are eagerly engaged in the development of fuel-saving hybrid or fuel cell vehicles. Sodick contributes to society by assisting these customers in manufacturing products is considerate environmental issues such as reducing CO2 exhaust and power consumption.

Japan is a country without natural resources. In the future as in the past, it can only develop by importing raw materials from overseas, processing them with value added knowledge,

and selling resulting products to other countries. To maintain this national strategy in the future, the mission imposed for our group is to continue developing machines that are indispensable for Japanese manufacturing. One products we developed along this basis is a nano-processing machine “the Nano100” with a positioning accuracy that is among the best in the world.

The Nano100 concentrates the technology that our company has built up with its customers since its founding. It is the machine tool that realizes the dreams of the designer and the machine operator. We are feeding back the know-how gained from the development of this Nano100 to each business and developing even more competitive machines. We wish not to be just a supplier of good machines but to be a company that can continue to make people’s dreams come true.

To meet the expectations of a broad array of stakeholders, including investors and, of course, customers, we devote significant time and resources to ensuring that our risk management is appropriate, that we comply with laws and regulations, and that our corporate governance is sound. We will move to implement management that is constantly aware of the need for transparency in both internal and external matters by establishing a robust internal audit function and other internal controls in a timely manner.



Share of Net Sales

Machine Tools

69%

Industrial Machines

20%

Others

11%

Review of Operations

Operations At a Glance

Main Products

CNC die-sinking EDMs,
CNC wire-cut EDMs,
Machining Centers,
Small hole drilling EDMs

High precision
injection-molding machines,
precision ceramics worktables

High-precision molds and
electronics parts,
CAD/CAM systems,
Ceramic Components

Business Strategy

Develop more business with existing customers by focusing promotional activities on the unparalleled excellence of Sodick's numerically controlled machines equipped with 3D CAD/CAM; high-speed, high-precision, high-value-added, and energy-efficient linear technology; and other original technologies.

Seek development of new products and resolve cost-cutting and other development issues to take precise, stable molding technology to the next level. Simultaneously move forward with the establishment of a sales system capable of addressing growing demand in the global market.

Other operations are positioned as a place for application of the Group's products to bring new solutions to customers. This raises the level of the Sodick Group's technologies by applying them in other industries.

THE 2004 FISCAL YEAR Topics

- 30 percent enhancement in Machine tool production by Sodick (Thailand) Co., Ltd and Suzhou Sodick Special Equipment Co., Ltd. in China.
- Launched development and sale of new NC wire electric discharge machine models: the AQ300L, AQ327L, AQ537L, and AQ560L.
- Huge sales increase of MC430L machining centers.

- Held a private exhibition "Sodick Plustech Fair 2004" at the expansion of the main plant in Kaga
- Development and sale of new injection molding machine models.
- Development of a silicon injection molding machine (LIM).

- Sodick New Material Co., Ltd. built a new ceramic manufacturing plant.
- Sodick's ceramic bearing guide for inspection equipment of liquid crystal panels. won the "Award for Manufacturing Components" by the Nikkan Kogyo Shimbun Co. (Japan Industry Newspaper)
- Development and sale was launched of CG300 great thrust AC coreless linear motor.

Machine Tools



Greater Ease of Use, Speed, and Performance ——— Technology based on linear technology to achieve even greater customer satisfaction.

Business Overview

The machine tools business has been a part of Sodick since its establishment. And although it joined the market relatively late, through original research and development, it has achieved exceptional levels of precision, performance and efficiency unrivaled by competing products and has become one of the market share leaders in the global EDM market, its main products line.

The Sodick Group believes linear technology is critical for next-generation manufacturing and, since 1999, has equipped nearly all of its products with Sodick linear servo motors. Linear technology offers significant benefits, such as high speed, high accuracy, and high responsiveness, which go beyond conventional machining performance. While conventional ballscrew drives have contacting surfaces, linear motor drives have no contacting surfaces other than the guide. Thus, the linear motor drive has no motion error or the need to change parts due to friction. Sodick simplified the structure of its linear servo motors, achieving greater ease of assembly and maintenance. Furthermore, improvements have also been made in terms of size while achieving vibration and noise reduction.

In 2001, Sodick successfully applied its linear technology in developing the Nano100, a nano-processing machine with the world's greatest positioning accuracy. And in 2002, it launched a series of super-precise linear machining centers equipped with Sodick linear servo motors. As machines specialized in high-precision machining, extremely small-diameter hole drilling, high-precision plastic machining, and other types of high-precision work, these products have received outstanding evaluations from the market.

In August 2003, Sodick shipped the world's first CNC EDM equipped with 3D CAD/CAM. This machine directly imports 3D solid model data and automatically creates optimal machining conditions, resulting in dramatic increases in performance and efficiency that exceed those possible by an expert operator.

With state-of-the-art products such as the PIKA Finish Machine EBM, which finishes machined surfaces by exposing them to an electron beam, Sodick works every day to develop high-performance, high-value-added machines that can satisfy the needs of even more potential customers.



Overview of the 2004 fiscal year

Customers for our machine tool business are mainly companies in the automobile, aerospace, medical or the electronics industry. In recent years, the manufacturing facilities in these industries have been shifting from North America and Europe to China and other parts of Asia. This shift has made it difficult for Sodick to increase its sales in North and South America and Europe. However, it has opened the door to significant sales increases in Asia, and principally China, where the field of high-precision machining, one of Sodick's key markets, has seen growing demand.

The widespread distribution of digital household electronics such as liquid crystal screens, plasma TVs, and digital cameras in Japan in the first half of the 2004 fiscal year led to rising demand for the dies and molds used to manufacture the precision parts that go into these products. This has expanded the demand for Sodick's machine tools as equipment to make these precision dies and molds.

In the second half of the year, despite a growing surplus in these domestic electronic component inventories, the rising demand for electronic components in the automobile industry, which has incorporated more and more electronic devices, eventually brought second-half sales to outperform the result of the first-half.

In response to this vigorous demand, Sodick undertook to step up manufacturing capacity from the 2003 fiscal year. In the 2004 fiscal year, the machine tool manufacturing capacity, centered on electrical

discharge machines (EDM), increasing about 30 percent over the previous fiscal year at our major manufacturing bases of Sodick (Thailand) Co., Ltd. and Suzhou Sodick Special Equipment Co., Ltd. in China.

In the domestic market, sales expanded for the AP Series ultra-precise CNC (computer-numerical control) wire electrical discharge machines, which are aimed at high value-added fields including narrow pitch connectors and automobile part molds, and for the MC430L ultra-precise machining centers, which are focused on the machining of high precision molds and the manufacturing of electrodes for electrical discharge machining.

Also, along with the expansion of the Chinese market, the sales of the AQ360L CNC wire electrical discharge machine—the strategic machine for the Chinese market announced during the previous consolidated fiscal year—increased threefold over the previous period.

We also focused on the development of new models, such as the AQ327/537L Premium 7 Series wire electrical discharge machines with the world's fastest cutting speed, increased automation capability, and optimum surface roughness were announced in September 2004.

As a result of developing and selling products optimized for different markets, the 2004 fiscal year profit and revenue in this business area soared, with sales rising year-on-year by 9.031 billion yen (up 29.3 percent) to reach 39.819 billion and operating profit increasing 1.194 billion yen (up 21.7 percent) to reach 6.689 billion yen.

Business Group

Business Group	Development	Production	Sales	Maintenance Service
CNC EDM	Sodick Co., Ltd.	Sodick (Thailand) Co., Ltd Suzhou Sodick Special Equipment Co., Ltd. Sodick Co., Ltd.	Sodick Co., Ltd.	Sodick High-Tech Co., Ltd. J&S Company
Machining Center	Sodick High-Tech Co., Ltd. SEG Company	Sodick High-Tech Co., Ltd. SEG Company	Sodick Co., Ltd. Sodick High-Tech Co., Ltd. SEG Company	Sodick High-Tech Co., Ltd. SEG Company
PIKA Finish Machine EBM	Sodick Electron Co., Ltd.	Sodick Electron Co., Ltd.	Sodick Electron Co., Ltd.	Sodick Electron Co., Ltd.
EDM Peripheral devices, Tooling, and Consumables	Sodick High-Tech Co., Ltd. KHS Company	Sodick High-Tech Co., Ltd. KHS Company	Sodick High-Tech Co., Ltd. KHS Company	Sodick High-Tech Co., Ltd. KHS Company
Ceramics for machine parts	Sodick New Material Co., Ltd.	Sodick New Material Co., Ltd.	*Sells as machine parts to Sodick Co., Ltd.	

Overseas Sales and Service Companies

Geographic Territory	Company Name	Geographic Territory	Company Name
North and Central America	Sodick Inc.	Hong Kong	Sodick (H.K.) Co., Ltd
Germany, Austria, Switzerland etc.	Sodick Deutschland GmbH	Taiwan	Sodick (Taiwan) Co., Ltd
Other parts of Europe	Sodick Europe Ltd.	Thailand, Vietnam	Sodick Engineering Service(Thailand)Co.,Ltd.
China	Sodick Electromechanical (Shanghai) Co., Ltd.	Singapore, Malaysia, Indonesia, Australia	Sodick Singapore Pte, Ltd.

Realizing high-precision, heavy-duty, high-power, high-cycle, energy-efficient injection molding to meet customer needs.

Business Overview

This business, which is the youngest of the major injection molding machine manufacturers, started as one of Sodick's internal operations in 1988. In the beginning, its target customers were high-precision molded part manufacturers who used both Sodick's EDMs and small high-precision molds, and the business focused on meeting their needs. The business has grown by supplying injection-molding machines, which were ideal for high-cycle processing of lightweight, thin, short and small parts. Later, in July 1994, the internal operation was spun off as Sodick Plustech Co., Ltd. and that company completed its IPO on the JASDAQ in August 2001.

Sodick has created unique structures for all of its machines and parts, enabling high-precision, heavy-duty, high-power, high-cycle, energy efficient injection molding.

These particular features bring outstanding performance in the production of thin-walled products and products using transparent plastic. Sodick Plastic injection-molding machines are being used to form lenses for cell phones and conventional digital cameras; pickup lenses for CD and DVD players; flat panel display parts; and other products in the field of advanced electronics.

Overview of FY2004

In May 2004, we held the Sodick Plustech Fair, a private exhibition at our main factory in Kaga. On this occasion we announced new injection molding machines (seven EH2 Series models and one vertical VRE Series model), a new peripheral equipment product named the Clear Melt System (plasticity support device), and a horizontal moving

small-scale ejector robot. While launching each of these products to the market, we also developed a silicon molding machine (LIM), as a new market entry product, and promoted it by positively displaying it at various industry trade fairs together with our other products.

As for the precision injection molding machine series, the rise in the number of precision plastic components for digital household electronics and automobiles led to a further rise in demand for Sodick Plustech molding machines capable of high-quality, high-cycle processing.

The sales of precision XY stages for inspection equipment for liquid crystal panels also performed well against a background of ever-larger liquid crystal devices. In particular, domestic and Asian-bound sales increased largely.

Further, with the slogan of CS21 ("Customer Satisfaction 21" performing our daily work keeping the customer in mind at all times and looking at things from the customer's viewpoint so as to provide products and services that can satisfy the customer), we worked to strengthen the corporate system through systematic quality management applied to the whole company and by positively undertaking price-cutting initiatives, office efficiencies and other measures.

As a result of these efforts, Sodick's sales in this business segment rose 2.354 billion yen (up 25.8 percent) year on year to reach 11.461 billion yen, and operating profit rose 191 million yen (up 38.5 percent) to reach 687 million yen.

Business Group

The industrial machines business is composed of Sodick Plustech Co., Ltd. and its affiliates, whose principal business activities include development, manufacturing, and sale of high-precision injection-molding machines and sales of precision ceramics worktables and other products. More detailed information is provided below.

Development, manufacturing, sales, and maintenance of injection molding machines
Sales of precision ceramics work table

Sodick Plustech Co., Ltd.

Sales and maintenance in overseas markets

China	Plustech (Tianjin) Co., Ltd. Neo Plustech (Shanghai) Co., Ltd.
Hong Kong	Plustech (Hong Kong) Co., Ltd.
Taiwan	Neo Plustech Taiwan Co., Ltd.
Singapore	Plustech (Singapore) Co., Ltd.
Thailand	Neo Plustech Asia Co., Ltd.

Note: The foreign based companies listed above are non-consolidated subsidiaries

Providing products that meet customer demands with technology rooted in the origins of manufacturing.

Business Overview

The Sodick Group pursues various businesses under the theme of "assisting customers' manufacturing endeavors."

Meeting customer needs on an ongoing basis means constantly addressing the latest technical challenges and acquiring cutting-edge technology and know-how. The original Sodick technology that results from this continuous pursuit helps the companies that use Sodick products achieve manufacturing with a competitive edge.

Other operations is a place for applying the wide variety of products and technologies Sodick has developed since its founding to create and provide to customers new business models that support their manufacturing endeavors.

Specifically, other operations perform a wide variety of services including the following:

1. Development and sale of the Dipro series of CAD/CAM software products, which are ideal for mold design.
2. Providing every manufacturing solution from CAD/CAM-based mold design to mold production by EDMs and machining centers, and injection molding of precision electronic and automobile parts.
3. Application of ceramics (developed for use in Sodick machine parts and that allow creation of large-scale products) to create machine parts and measurement parts for other companies.

MIR Co., Ltd., which manufactures and sells precision molds and molded products, also devotes significant attention to manufacturing technology and the establishment of manufacturing environments and has successfully acquired ISO9001: 2000 and ISO14001 certifications.

Overview of FY2004

Demands for precision electronic components increased at our consolidated subsidiaries in Japan, China, and Thailand as a result of the expansion of the global digital household electronics related industries as well as the rising automobile production and increasing use of electronic devices in automobiles.

Moreover, in the 2004 fiscal year, Sodick introduced the Nano 100 nano-processing machine, with an aim to apply fine processing technology in cutting-edge manufacturing areas such as IT, optical fiber communication, and medical equipment.

A new factory was built in Ishikawa prefecture of Kaga city, an initiative to strengthen the manufacturing capacity of Sodick New Material Co., Ltd., which undertakes direct sales of industrial ceramics as components for inspection equipment for liquid crystal panels.

For large-scale ceramics, Sodick's ceramic bearing guide gained a great deal of attention, including winning the "Award for Manufacturing Components" by the Nikkan Kogyo Shimbun Co. (Japan Industrial Newspaper)

As for the development of linear motors for the general market, a unique refrigeration structure (patent pending) enabled us to develop and launch the CG300, an AC coreless linear motor with maximum instant thrust of 3600N, among the best in the industry.

As a result of the above, sales in this business area rose 1.263 billion yen (up 25.7 percent) year on year to 6.178 billion yen, and operating profit rose 528 million yen (up 330 percent) to 688 million yen.

Business Group

Development and sale of Dipro series CAD/CAM system software for mold creation.	Sodick Co., Ltd.
Design and manufacture of molds and electronic parts, and forming of plastic, using Sodick CNC EDMs and machining centers, and Sodick Plastic injection-molding machines.	MIR Co., Ltd. Suzhou MIR Mechatronics Elements Co., Ltd
Forming of plastic products using Sodick Plastic injection-molding machines and for sale in the Thai market.	Fine Puls21 (Thailand) Co., Ltd.
Development, manufacture, and sale of various types of ceramic products to outside parties.	Sodick New Material Co., Ltd.
Development and sale of control software.	Shanghai Sodick Software Co., Ltd

Special Feature

Total Manufacturing Solution for the Future

Providing the Total Manufacturing Solution to More Customers and Achieving Greater Customer Satisfaction

The Sodick Group's Total Manufacturing Solution supports all customer manufacturing processes and is made possible by the overall capabilities of its machine tool, industrial machine, and other business operations.

To bring this original business concept to an even wider array of customers and achieve greater customer satisfaction, the Group focuses on the following three themes.

The Group will continue to enhance its presence and competitiveness by supporting customers' manufacturing endeavors with a greater variety of intellectual resources, a greater global presence, and greater quality.



With a Greater Variety of Intellectual Resources

Developing original, advanced technologies and industry-leading products under the research and development theme of "nano and solutions."

The Sodick Group's customer base spans a diversified group of industries including automobiles, home electronics, semiconductors, precision devices, optical equipment, and LCDs. These industries are characterized by intense competition and the need to constantly introduce new products to the market. Product manufacturing molds are used for shorter periods of time and create greater varieties.

Additionally, because of their machining precision and efficiency, Sodick machines, which were originally intended for the machining of molds, are also now being used for the direct manufacturing (without the use of molds) of high-value-added products for medical and biotech, aerospace, and other applications.

To meet the wide variety of needs of a wide variety of customers, Sodick is working to further refine the Group's original technology and enhance its product line.

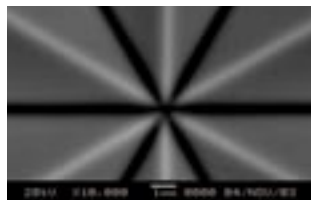
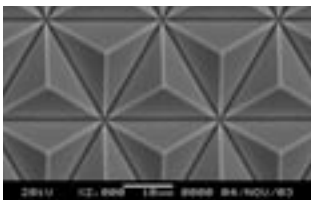
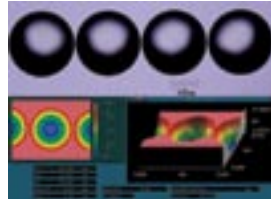
Development of the Nano-Processing Machine

There now appears to be no end in sight for the manufacturing industry's shift to China. However, manufacturing continues to be performed in Japan for digital home electronics and semiconductor devices, and key parts for hybrid automobiles and other cutting-edge products, all of which require sophisticated manufacturing know-how.

To support super-precise manufacturing processes that are likely to remain in Japan, the Sodick Group, in December 2001, completed the Nano100 which is capable of 1nm positioning accuracy, the world's highest standard.

Development of the Nano100 was possible because Sodick has linear motor technology, including Sodick linear servo motor control technology; ceramic; and other advanced technologies. The Nano100 meets the high-precision machining needs of the industries mentioned above and could also be used to produce small, highly detailed molds and parts for biotech equipment.

Sodick has positioned the Nano100 as the core of its next generation of products and will broaden its support for the manufacturing industry.



CNC Technology / Linear Technology

To have full control of machine motors, the Sodick Group has developed its own computerized numerical control (CNC) devices since its establishment. Sodick knew that if it did not manufacture its own NC devices, performance improvements and product quality would be limited, and feared that it would be unable to provide products that would satisfy its customers.

As Sodick has continued to produce its own CNC devices, it has now reached the point of being able to produce its own high-performance linear servo motors, which, in addition to offering high speed, acceleration and precision, are maintenance free and compact. Sodick linear servo motors are used by other machine manufacturers, as well.



Ceramic Development Technology

Among other things, it is important that machine tool parts have high rigidity, a low thermal effect, and high resistance to aged deterioration; in addition to being lightweight. Ceramic machine parts offer an ideal combination of all these qualities.

The Sodick Group uses its own ceramic materials to make not only structural parts for the Nano100, which boasts the world's greatest accuracy, and the EXC100L, a super-precise wire-cut EDM, but also key parts for many other products, as well.

Sodick New Materials Co., Ltd. has launched outside marketing activities targeting major high-tech companies and this field is expected to grow.



With a Greater Global Presence

We are advancing the globalization of our production and sales facilities to support manufacturing endeavors throughout the world.

The Sodick Group addresses the world market by dividing it into five areas — Japan · China, Hong Kong and Taiwan · Asia (excluding Japan · China, Hong Kong and Taiwan) · North and South America · Europe — and develops its market responses after carefully analyzing developments in each of these five areas.

Sodick has established Technical Centers at core facilities in each of these areas to enhance sales and service activities. Technical Centers are showrooms that offer customers' total solutions based on the machines and products available from Sodick's three businesses. Technical Centers offer not only sales opportunities but also answers questions on technical issues.

For production, we are shifting production facilities to overseas locations such as Thailand, China, that offer the advantages of both low costs and high quality. In the field of R&D, we have established Sodick America Corporation in the US, where the latest information technology comes together. Sodick America Corporation works together with the R&D division of Sodick's Japanese headquarters to perform research in advance NC control systems.



Shifting Production Facilities to Overseas Locations

Currently, approximately 95% of Sodick machine tools are manufactured overseas. Sodick (Thailand) Co., Ltd. manufactures approximately 65% of the total, while Suzhou Sodick Special Equipment Co., Ltd. handles approximately 30%. Both companies manufacture primarily machines designed for volume production.

As of June 30, 2005, Sodick (Thailand) Co., Ltd. had produced a combined total of 14,103 CNC EDMs and is currently working at a pace of 200/month. At the same time, Suzhou Sodick Special Equipment Co., Ltd. had produced a total of 3,667 CNC EDMs and is currently working at a pace of 100/month.

Super-high-precision machines, extremely large machines, and specialized machines are made at the Fukui Plant in Japan. All industrial machines are made at the Kaga Plant, also located in Japan.



Sinking Roots into China, Hong Kong, and Taiwan

Sodick has been actively pursuing business in China, now increasingly seen as “the world’s manufacturing center” since the beginning of the 1990s, and our activities there have been praised as pioneering not only within the machine tool industry but also among Japanese manufacturers in general.

Suzhou Sodick Special Equipment Co., Ltd is in charge of development and production of new EDM models for the Chinese market. Suzhou STK Foundry Co., Ltd. was established in 1995 together with TOWA Corp., Kanematsu KGK Corp., and a Chinese company as a joint venture for economically producing high-quality iron castings for machine structures. This company’s castings are also provided to Sodick’s production facilities in Thailand. Suzhou MIR Mechatronics Elements Co., Ltd. produces high-precision molds and parts with Sodick Group machines, brought into

business solutions offered by the Group.

Additionally, Sodick CPC Co., Ltd. was established in April 2004 with a mission to integrate group businesses in the China region and to build a single system leading from development through manufacturing and sales through to user support. Sales and customer support activities in China, Hong Kong, and Taiwan are pursued through a total of 22 locations – 17 for machine tools and 5 for industrial machines. These locations perform everything from machine repair and maintenance to operator training, so that customers can use our machines with confidence.

With Greater Quality

Working to further strengthen our quality assurance system as part of our efforts to bring customers a sense of safety and confidence.

Responding to customer demands, the Sodick Group constantly works without compromise to achieve the highest possible performance and quality in its products.

Nearly all of Sodick's machine tool production has been transferred overseas, but each overseas production facility has built its own quality assurance system that meets or exceeds the quality that was previously achieved in Japan.

Quality Assurance at Sodick (Thailand) Co., Ltd.

Sodick (Thailand) Co., Ltd., which has been in operation since 1990, performs all aspects of work to improve product quality from development of new models and improvement of functions on existing models to after-market support.

It acquired certifications for the ISO9002 international quality assurance standard in 1997 and the ISO9001:2000 standard in 2001 to perform these activities with greater organizational efficiency, and is providing high-quality products to the world market.

Specific quality improvement activities include the following:

1. Gathering of information together with the quality assurance office in Japan

Internal telephone lines and a company LAN are maintained on a dedicated, round-the-clock international communications circuit linking the Group's Thai and Japanese operations, and information on improvements and problems is exchanged as needed.

2. Monthly Quality System Meeting

The company determines the true cause of problems found in field claims and process claims and examines ways to prevent recurrences. Additionally, the president of Sodick (Thailand) Co., Ltd. and the manager responsible for creating quality reports participate in monthly quality system meetings held in Japan.

3. 5S Activities

Sodick (Thailand) Co., Ltd. supports the activities of the 5S (Seiri [streamlining], Seiton [organizing], Seiketu [hygiene], Seisou [cleaning], Situke [discipline]) Committee and performs monthly patrols.

4. Recommendation System

The company receives employee recommendations on quality, costs, waste, workability, and other topics and issue financial rewards to employees who submit outstanding proposals.

5. Training System

The company provides training according to job level for everyone from new hires to management.

6. Information Dissemination

The technical support department distributes various types of information in English to sales and service offices throughout the world.

Additionally, the number of veteran Thai employees with at least 10 years of experience has recently increased. These veterans are aiding the company to provide high-quality products through activities discussed above.



Quality Assurance at Suzhou Sodick Special Equipment Co., Ltd. and Shanghai Sodick Software Co., Ltd.

Suzhou Sodick Special Equipment Co., Ltd., which has been in full-scale operation since 1995, describes its quality objectives as "putting the customer first, building a solid base of research results, encouraging the participation of all employees, and learning from the old to create the new" and conducts the four following activities.

1. Holds a monthly quality assurance meeting as part of its effort to perfect its quality management system.
2. Holds a semiannual internal quality examination meeting to analyze the status of quality management system operations.
3. Has been pursuing weekly 5S evaluation activities since June 2003 to effectively improve the production environment and assure improvements in quality.
4. Has established a schedule for "5S patrols," which are conducted weekly by two teams totaling six members, each of whom represents one of the company's departments. Findings of these teams are presented in weekend production meetings and ways to correct problems are considered.

Additionally, the temperature of production areas is set at 25°C with a tolerance of 3°C and monitored 24 hours a day.

Suzhou Sodick Special Equipment Co., Ltd. acquired ISO9002 certification in 1998 and ISO9001:2000 certification in 2003 for the full range of work spanning design and development, production, and service for EDMs.

Shanghai Sodick Software Co., Ltd., which develops control software for Sodick machines acquired ISO9001:2000 certification in 2001.



Financial Section

Contents

Consolidated Balance Sheets	22
Consolidated Statements of Income	24
Consolidated Statements of Shareholders' Equity	25
Consolidated Statements of Cash Flows	26
Notes to Consolidated Financial Statements	27
Independent Auditors' Report	43

Five-year Summary

	Millions of yen (except Per Share Data)					Thousands of U.S. dollars (except Per Share Data)
	2005	2004	2003	2002	2001	2005
Consolidated						
For The Year :						
Net Sales :	¥ 57,371	¥ 44,702	¥ 37,344	¥ 33,445	¥ 44,710	\$ 534,230
Machine tools	39,800	30,726	26,146	25,603	32,926	370,612
Industrial tools	11,428	9,088	6,435	4,022	6,707	106,416
Others	6,143	4,888	4,763	3,820	5,078	57,202
Cost of Sales	37,622	29,134	24,715	24,572	30,901	350,330
Operating income	6,815	4,759	2,159	(2,289)	1,570	63,460
Income (loss) before income taxes	5,774	4,374	(280)	(3,922)	1,884	53,767
Income taxes :	(143)	434	114	364	34	(1,331)
Current	1,085	792	135	164	353	10,103
Deferred	(1,228)	(358)	(21)	200	(319)	(11,434)
Net income (loss)	5,236	3,384	(840)	(4,145)	1,472	48,757
At Year-end :						
Total assets	68,150	59,189	53,507	53,885	67,693	634,603
Total shareholders' equity	22,572	15,569	9,739	10,973	14,222	210,187
Per share data (yen and U.S.dollars) :						
Net income (loss) :						
Basic	¥113.22	¥78.26	(¥20.57)	(¥101.49)	¥ 37.21	\$1.05
Diluted	110.81	68.32	-	-	31.50	1.03
Shareholders' equity	479.15	353.76	238.56	268.68	348.21	4.46
Cash dividends	10.00	3.00	-	-	5.00	0.09

Note: The U.S. dollar amounts are provided for convenience only and have been converted at the rate of ¥107.39 to \$1, the approximate rate of exchange in effect at March 31, 2005.

Consolidated Balance Sheets

Sodick Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current assets:			
Cash and cash equivalents (Notes 2,3 and 9)	¥ 8,146	¥ 8,229	\$ 75,854
Time deposits	28	219	261
Trade notes and accounts receivable (Notes 2 and 9)	21,849	17,712	203,455
Allowance for doubtful accounts (Note 2)	(1,185)	(1,070)	(11,035)
Inventories (Note 2)			
Finished goods	4,077	3,299	37,964
Work in process and raw materials	10,462	7,339	97,421
Deferred income taxes (Notes 2 and 8)	1,546	321	14,396
Other current assets (Note 9)	1,611	2,112	15,002
	<u>46,534</u>	<u>38,161</u>	<u>433,318</u>
Property, plant and equipment, at cost (Notes 2,6 and 9):			
Land	6,940	7,842	64,624
Buildings and structures	12,576	12,653	117,106
Machinery and equipment	9,632	9,270	89,692
Leased machinery	1,670	2,089	15,551
Construction in progress	667	69	6,211
	<u>31,485</u>	<u>31,923</u>	<u>293,184</u>
Less-Accumulated depreciation	(13,432)	(14,162)	(125,077)
	<u>18,053</u>	<u>17,761</u>	<u>168,107</u>
Investments and other assets:			
Investment securities (Notes 2,5 and 9)	1,557	1,226	14,499
Deferred income taxes (Notes 2 and 8)	129	—	1,201
Other	1,877	2,041	17,478
	<u>3,563</u>	<u>3,267</u>	<u>33,178</u>
Total Assets	<u>¥ 68,150</u>	<u>¥ 59,189</u>	<u>\$ 634,603</u>

The accompanying notes to the consolidated financial statements are an integral part of these balance sheets.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current liabilities:			
Short-term borrowings (Note 9)	¥ 13,933	¥ 12,957	\$ 129,742
Current portion of long-term debt (Note 9)	1,666	5,820	15,514
Trade notes and accounts payable (Note 2)	12,333	10,940	114,843
Income taxes payable (Notes 2 and 8)	781	698	7,273
Deferred income taxes (Notes 2 and 8)	26	—	242
Reserve for product warranties (Note 2)	143	—	1,332
Other current liabilities	5,189	4,285	48,318
	<u>34,071</u>	<u>34,700</u>	<u>317,264</u>
Long-term liabilities:			
Long-term debt (Note 9)	6,411	4,270	59,698
Liability for severance and retirement benefits (Notes 2 and 10)	973	758	9,060
Deferred income taxes (Notes 2 and 8)	289	178	2,691
Reserve for product warranties (Note 2)	144	—	1,341
Other long-term liabilities	769	442	7,162
	<u>8,586</u>	<u>5,648</u>	<u>79,952</u>
Minority interests	2,921	3,272	27,200
Contingent liabilities (Note 13)			
Shareholders' equity (Note 11):			
Common stock			
Authorized—98,000,000 shares at March 31, 2005 and 2004			
Issued—47,108,810 shares at March 31, 2005 and 44,056,632 shares at March 31, 2004	16,849	15,767	156,895
Additional paid-in capital	3,030	1,948	28,215
Retained earnings (Accumulated deficit)	3,328	(1,499)	30,990
Net unrealized holding gains on securities	327	263	3,045
Foreign currency translation adjustments	(908)	(883)	(8,455)
Less-Treasury stock, at cost:			
80,107 shares at March 31, 2005 and 47,920 shares at March 31, 2004	(54)	(27)	(503)
	<u>22,572</u>	<u>15,569</u>	<u>210,187</u>
Total liabilities and shareholders' equity	<u>¥ 68,150</u>	<u>¥ 59,189</u>	<u>\$ 634,603</u>

Consolidated statements of Income

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥ 57,371	¥ 44,702	\$ 534,230
Cost of sales (Note 2)	37,622	29,134	350,330
Gross profit	19,749	15,568	183,900
Selling, general and administrative expenses	12,934	10,809	120,440
Operating income	6,815	4,759	63,460
Other income (expenses):			
Interest expense	(518)	(577)	(4,824)
Interest and dividend income	50	57	466
Foreign exchange gains (losses), net	406	(569)	3,781
Losses on devaluation of investment securities	—	(10)	—
Losses on devaluation of land	(817)	—	(7,608)
Gains on sales of investment securities	10	893	93
Losses on sales of property, plant and equipment	(246)	—	(2,291)
Prior service cost for directors' and statutory auditors' retirement benefits (Note 2)	—	(186)	—
Other, net (Note 2)	74	7	690
Income before income taxes and minority interests	5,774	4,374	53,767
Income taxes (Notes 2 and 8)			
Current	1,085	792	10,103
Deferred	(1,228)	(358)	(11,434)
Total	(143)	434	(1,331)
Net income before minority interests	5,917	3,940	55,098
Minority interests	(681)	(556)	(6,341)
Net income	¥ 5,236	¥ 3,384	48,757

Net income per share (Note 12):	Yen		U.S. dollars
Basic	¥ 113.22	¥ 78.26	\$ 1.05
Diluted	110.81	68.32	1.03
Cash dividends, applicable to the year	10.00	3.00	0.09

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Common stock:			
Beginning balance	¥ 15,767	¥ 14,628	\$ 146,820
Conversion of convertible bond	1,082	1,139	10,075
Ending balance	<u>16,849</u>	<u>15,767</u>	<u>156,895</u>
Additional paid-in capital:			
Beginning balance	1,948	2,102	18,140
Conversion of convertible bond	1,082	1,139	10,075
Transfer to accumulated deficit	—	(1,293)	—
Ending balance	<u>3,030</u>	<u>1,948</u>	<u>28,215</u>
Retained earnings (Accumulated deficit):			
Beginning balance	(1,499)	(6,169)	(13,958)
Bonus to directors and corporate statutory auditors	(78)	(7)	(727)
Cash dividends paid	(367)	—	(3,417)
Transfer from additional paid-in capital	—	1,293	—
Adjustment for inclusion of subsidiaries in consolidation	36	—	335
Net income	5,236	3,384	48,757
Ending balance	<u>3,328</u>	<u>(1,499)</u>	<u>30,990</u>
Net unrealized holding gains on securities:			
Beginning balance	263	(193)	2,449
Increase in unrealized holding gains on securities	64	456	596
Ending balance	<u>327</u>	<u>263</u>	<u>3,045</u>
Foreign currency translation adjustment:			
Beginning balance	(883)	(623)	(8,222)
Adjustments from translation of foreign currency financial statements	(25)	(260)	(233)
Ending balance	<u>(908)</u>	<u>(883)</u>	<u>(8,455)</u>
Treasury stock:			
Beginning balance	(27)	(6)	(252)
Increase	(27)	(21)	(251)
Ending balance	<u>(54)</u>	<u>(27)</u>	<u>(503)</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities :			
Income before income taxes and minority interests	¥ 5,774	¥4,374	\$ 53,767
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities :			
Depreciation and amortization	1,897	1,672	17,665
Amortization of goodwill	19	332	177
Increase (Decrease) in allowance for doubtful accounts	29	(255)	270
Interest and dividend income	(49)	(57)	(466)
Interest expenses	518	577	4,824
Foreign exchange gains (losses), net	(240)	81	(2,235)
Equity gains of affiliated companies	(51)	(64)	(475)
Loss on devaluation of investment securities	—	10	—
Loss on devaluation of land	817	—	7,608
Increase in retirement allowances for directors and statutory auditors	—	268	—
Increase in trade notes and accounts receivable	(3,678)	(4,688)	(34,249)
Increase in inventories	(3,691)	(1,617)	(34,370)
Increase in trade notes and account payable	1,376	4373	12,813
Increase (Decrease) in discounted trade notes	390	(10)	3,632
Increase (Decrease) in other payables	(441)	506	(4,107)
Other, net	1,421	(295)	13,241
Sub total	4,091	5,207	38,095
Interest and dividends received	49	57	456
Interest paid	(513)	(626)	(4,777)
Income taxes paid	(903)	(133)	(8,409)
Net cash provided by operating activities	2,724	4,505	25,365
Cash flows from investing activities :			
Decrease in time deposits	191	150	1,779
Payments for purchases of property, plant and equipment	(3,247)	(2,453)	(30,236)
Proceeds from sales of property, plant and equipment	190	383	1,769
Payments for acquisition of intangible assets	(257)	(114)	(2,393)
Payments for acquisition of investment securities	(385)	(6)	(3,585)
Proceeds from sales of investment securities	188	1,496	1,751
Payments for acquisition of subsidiaries and affiliated companies	—	(116)	—
Collection of loan receivables	52	207	484
Other, net	(177)	43	(1,648)
Net cash used in investing activities	(3,445)	(410)	(32,079)
Cash flows from financing activities :			
Increase (Decrease) in short-term borrowings	843	(1,950)	7,850
Proceeds from long-term debt	4,265	3,644	39,715
Repayment of long-term debt	(4,759)	(4,149)	(44,315)
Proceeds from issuance of debenture bonds	1,500	440	13,968
Redemption of debenture bond	(855)	(2,924)	(7,962)
Proceeds from issuance of common stock to minority shareholders	15	1,392	140
Cash dividends paid	(468)	—	(4,358)
Repayment of finance leases obligations	—	(48)	—
Net cash provided by (used in) financing activities	541	(3,659)	5,038
Effect of exchange rate on cash and cash equivalents	27	(128)	251
Net increase (decrease) in cash and cash equivalents	(153)	308	(1,425)
Cash and cash equivalents beginning balance	8,229	7,921	76,627
Effect of increase in consolidated subsidiaries	70	—	652
Cash and cash equivalents ending balance (Note 3)	¥ 8,146	¥ 8,229	75,854

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Sodick Co., Ltd. and Consolidated Subsidiaries

Note 1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Sodick, Co. Ltd, (the “Company”) and consolidated domestic subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statement of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Financial Bureau of Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective April 1, 2005. The Company cannot currently estimate the effect of adopting the new accounting standard, because the Company has not yet completed its analysis.

The translations of the Japanese yen amounts into U.S.dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S.dollars at this or any other rate of exchange.

Note 2 Significant Accounting and Reporting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries, except for certain minor subsidiaries. All significant intercompany transactions and account balances are eliminated.

The Company consolidates all significant investees who are controlled through substantial ownership of majority voting rights or existence of certain conditions.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Investments in affiliated companies (20% to 50% owned) are accounted for by the equity method. In addition, investments in companies of which the Company has at least 15% and less than 20% of the voting rights are also accounted for using the equity method in the cases where the Company has the ability to exercise significant influence over operating and financial policies of the investees.

The excess of cost over the underlying equity at acquisition dates of investments in subsidiaries and affiliates is being amortized using the straight-line method over the periods to be benefited.

(b) Cash and Cash Equivalents

For the purpose of consolidated statements of cash flows, cash and cash equivalents include, cash on hand, readily available deposits and short-term highly liquid investments with original maturities of three months or less.

(c) Foreign Currency Translation

Foreign currency receivables and payables are translated into Japanese yen at year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders’ equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rate used by the Company.

(d) Allowance for Doubtful Accounts

The Company and consolidated subsidiaries provide the allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(e) Inventories

Finished goods and work in process are stated at cost determined using the specific identification method. Raw materials and supplies are stated at cost, being determined by the first-in, first-out method.

(f) Securities

Based on the intent of holding, securities are classified as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average costs. Other securities with no available fair market value are stated at moving-average cost.

If equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounting for using the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(g) Property, Plant and Equipment

Depreciation of buildings is computed primarily using the straight-line method and depreciation of other property, plant and equipment is primarily provided on the declining-balance method over their estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures 3 to 50 years

Machinery and equipment 2 to 17 years

Ordinary maintenance and repairs are charged to costs as incurred.

Major replacements and betterments are capitalized.

(h) Software Costs

Amortization of software for internal use is computed using the straight-line method over the estimated useful lives (5 years). Amortization of software for sales is provided at the greater of the amounts computed using (a) the ratio that current unit sales for a product bear to the total of current and anticipated future unit sales for that product or (b) the straight-line method over the remaining estimated economic life of the product (3 years).

(i) Lease

Finance leases (except those that deem to transfer ownership of the leased property to the lessee) are accounted for in the same manner as operating leases.

(j) Severance and Retirement Benefits

(1) Employees' severance and retirement benefits

The Company and certain subsidiaries have a funded pension plan covering all its employees. Under the funded plan, the employees are entitled to lump-sum payments or pension payments.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2005 and 2004 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000, has been recognized as expenses in equal amounts over 5 years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized as income or expenses using the declining-balance method over 10 years commencing with the following period.

Unrecognized prior service cost is amortized by the straight-line method over a period of 10 years, which is less than estimated average remaining service period of employees.

(2) Directors' and statutory auditors' severance and retirement benefits

Retirement benefits to directors and statutory auditors, which are included in "Liability for Severance and retirement benefits" in the accompanying consolidated balance sheets, are subject to approval at a meeting of shareholders. Previously, severance and retirement benefits for directors and statutory auditors were recorded as expenses when paid. However, for purpose of more accurately matching them with the period in which they arise, an accrual method of recording such expenses has been employed from April 1, 2003.

(k) Product warranty

Previously, the Company accounted for costs of product warranties on the cash basis. Commencing in the year ended March 31, 2005, the Company changed its accounting method of costs of product warranties from the cash basis to the accrual basis and provisions for estimated costs related to product warranties are made at the time the products are sold to the customers. Estimated warranty expenses are provided based on historical warranty claim experience with consideration given to the expected level of future warranty costs.

The Company believes that this change provides a better matching of costs and revenues over the period of the warranty service.

The costs of product warranties incurred for the period ended March 31, 2005 were ¥169 million (\$1,574 thousand) and was charged to cost of sales. The costs of product warranties relating to the prior periods, amounting to ¥117 million (\$1,089 thousand), were charged to other expenses in the year ended March 31, 2005.

As a result, at March 31, 2005, operating income decreased by ¥169 million (\$1,574 thousand) and net income before income taxes and minority interests decreased by ¥287 million (\$2,673 thousand), compared with that would have been reported under the previous accounting policy.

(l) Research and Development

Research and development expenses are expensed as incurred. Research and development expenses for the years ended 31, 2005 and 2004 amounted to ¥1,624 million (\$15,122 thousand) and ¥1,311 million, respectively.

(m) Income Taxes

The Company and consolidated subsidiaries recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

Effective April 1, 2004, "Corporation Size-Based Enterprise Tax System" for the enterprise has been introduced. Due to the introduction, Accounting Standards Board of Japan issued Practical solutions Report No.12, "Practical Solution on Presentation for Size-Based Components of Corporate Enterprise Tax on Income Statements" on February 13, 2004, which prescribes new accounting standard for enterprise taxes. In compliance with the report, the value-added and the capital components of the enterprise taxes, which are not related to income, are included in selling, general and administrative expenses from this fiscal year.

As a result, selling, general and administrative expenses increased by ¥84 million (\$782 thousand), and operating income and income before income taxes and minority interests decreased by same amount as compared with the previous fiscal year.

(n) Derivatives and Hedge Accounting

The Company and consolidated subsidiaries are required to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

Also, if interest rate swap contracts and interest rate cap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract and interest rate cap contract are added to or deducted from the interest on the assets or liabilities for which the swap contract and the cap contracts were executed.

(o) Reclassifications

Certain reclassifications within the financial statements for the year ended March 31, 2004 have been made to conform to the presentation for the year ended March 31, 2005.

Note 3 Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash on hand and in banks	¥ 8,174	¥ 8,448	\$ 76,115
Time deposits with the original maturity over three months	(28)	(219)	(261)
Cash and cash equivalents	¥8,146	¥8,229	\$75,854

Note 4 Statement of Cash Flows

(1) The amounts of assets and liabilities of newly consolidated subsidiaries

For the year ended March 31, 2004, the company newly consolidated subsidiaries (Sodick Hightech Co.,Ltd, KHS Co., Ltd, J and S Co.,Ltd, MIR Co., Ltd, Sodick Electoron Co.,Ltd). The amounts of assets and liabilities at the beginning of the consolidation period of newly consolidated subsidiaries utilized in the computation for the current year consolidation and the acquisition costs of investments are as follows:

	Sodick Hightech Co., Ltd.		KHS Co., Ltd.		J and S Co., Ltd.		MIR Co., Ltd.		Sodick Electoron Co., Ltd.	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Current assets	9	90	16	153	51	485	14	132	12	113
Long-term assets	—	—	—	—	—	—	—	—	1	6
Goodwill	0	6	(6)	(56)	(4)	(40)	(3)	(25)	1	12
Current liabilities	(0)	(1)	(0)	(2)	(37)	(350)	(1)	(12)	(4)	(36)
Payment for purchases of subsidiaries' stock	10	95	10	95	10	95	10	95	10	95
Cash and cash equivalents	(9)	(89)	(10)	(95)	(10)	(95)	(10)	(95)	(10)	(95)
Acquisition cost of investment	1	6	0	0	0	0	0	0	0	0

(2) Noncash Investing and Financing Activities

(a) Conversion of Convertible bonds

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Increase in common stock	¥ 1,082	¥ 1,139	\$ 10,075
Increase in additional paid-in capital	1,082	1,139	10,075
Decrease in convertible bonds	¥ 2,164	¥	\$ 20,150

(b) Finance lease obligations incurred

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finance lease obligations incurred	¥112	¥ 11	\$ 1,043
	¥112	¥11	\$ 1,043

Note 5 Investment Securities

The following tables summarize acquisition costs and book values stated at fair value of securities with available fair values as of March 31, 2005:

Available-for-sale securities

Securities with book values exceeding acquisition costs

2005	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 561	¥ 1,130	¥ 569	\$ 5,224	\$ 10,522	\$ 5,298
Other	32	34	2	298	317	19
Total	¥ 593	¥ 1,164	¥ 571	\$ 5,522	\$ 10,839	\$ 5,317

Securities with book values not exceeding acquisition costs

2005	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 91	¥ 78	¥ (13)	\$ 847	\$ 726	\$ (121)
Other	139	132	(7)	1,295	1,230	(65)
Total	¥ 230	¥ 210	¥ (20)	\$ 2,142	\$ 1,956	\$ (186)

The following tables summarize book values of securities with no available fair values as of March 31, 2005:

2005	Book value	
	Millions of yen	Thousands of U.S. dollars
Non-consolidated subsidiaries and affiliates securities	¥ 133	\$ 1,238
Non-listed securities	50	466
Total	¥ 183	\$ 1,704

Available-for-sale securities with maturities are as follows:

2005	Millions of yen				Thousands of U.S. dollars			
	Within one year	Within five years	Within ten years	Over ten years	Within one year	Within five years	Within ten years	Over ten years
Investment trust	¥ —	¥ 3	¥ —	¥ —	\$ —	\$ 28	\$ —	\$ —
Total	¥ —	¥ 3	¥ —	¥ —	\$ —	\$ 28	\$ —	\$ —

The following tables summarize acquisition costs and book values stated at fair value of securities with available fair values as of March 31, 2004:

Available-for-sale securities

Securities with book values exceeding acquisition costs

2004	Millions of yen		
	Acquisition cost	Book value	Difference
Type			
Equity securities	¥ 503	¥ 959	¥ 456
Other	32	36	4
Total	¥ 535	¥ 995	¥ 460

Securities with book values not exceeding acquisition costs

2004	Millions of yen		
	Acquisition cost	Book value	Difference
Type			
Equity securities	¥ 94	¥ 75	¥ (19)
Total	¥ 94	¥ 75	¥ (19)

The following tables summarize book values of securities with no available fair values as March 31, 2004:

2004	Book value
	Millions of yen
Type	
Non-consolidated subsidiaries and affiliates securities	¥ 145
Non-listed securities	11
Total	¥ 156

Available-for-sale securities with maturities are as follows:

2004	Millions of yen			
	Within one year	Within five years	Within ten years	Over ten years
Type				
Investment trust	¥ —	¥ —	¥ 2	¥ —
Total	¥ —	¥ —	¥ 2	¥ —

Note 6 Leases

(a) Lessee

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and consolidated subsidiaries as of March 31, 2005 and 2004, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized.

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
2005						
Machinery and equipment	¥ 1,069	¥ 615	¥ 454	\$ 9,954	\$ 5,726	\$ 4,228
Tools and fixtures	58	29	29	540	270	270
	¥ 1,127	¥ 644	¥ 483	\$ 10,494	\$ 5,996	\$ 4,498
2004						
Machinery and equipment	¥ 1,473	¥ 570	¥ 903			
Tools and fixtures	76	33	43			
	¥ 1,549	¥ 603	¥ 946			

Lease payments of the Company and consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥177 million (\$1,648 thousand) and ¥297 million for the years ended March 31, 2005 and 2004, respectively.

Depreciation related to leased assets of the Company and consolidated subsidiaries computed by the straight-line method over the lease terms for the years ended March 31, 2005 and 2004, amounted to ¥177 million (¥1,648 thousand) and ¥297 million, respectively.

Future minimum payments (including the interest portion thereon) subsequent to March 31, 2005 under finance leases other than those, which transfer the ownership of the leased property to the Company, and consolidated subsidiaries are summarized as follows:

Year ended March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 163	\$ 1,518
2007 and thereafter	320	2,980
	¥ 483	\$ 4,498

(b) Lessor

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for operating lease at March 31, 2005 and 2004.

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
2005						
Machinery and equipment	¥ 1,007	¥ 586	¥ 421	\$ 9,377	\$ 5,457	\$ 3,920
	¥ 1,007	¥ 586	¥ 421	\$ 9,377	\$ 5,457	\$ 3,920
2004						
Machinery and equipment	¥ 1,276	¥ 716	¥ 560			
	¥ 1,276	¥ 716	¥ 560			

Lease income of the Company and consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥252million (\$2,347 thousand) and ¥271 million for the years ended March 31, 2005 and 2004, respectively.

Depreciation related to leased assets of the Company and consolidated subsidiaries computed using the straight-line method over the lease terms for the years ended March 31, 2005 and 2004, amounted to ¥161 million (\$1,499 thousand) and ¥208 million, respectively.

Future minimum income (including the interest portion thereon) subsequent to March 31, 2005 under finance leases other than those, which transfer the ownership of the leased property to the Company, and its consolidated subsidiaries, is summarized as follows:

Year ended March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 209	\$ 1,946
2007 and thereafter	544	5,066
	¥ 753	\$ 7,012

Note 7 Derivatives and Hedge Accounting

The Company and consolidated subsidiaries use foreign exchange forward contracts, foreign currency option contracts, interest rate swaps and interest rate caps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivables and interest rate increases with respect to borrowings, within the amounts of floating rate borrowings.

Forward foreign currency, foreign currency option, interest rate swaps and interest rate caps, are subject to risks of foreign exchange rate changes and interest rate changes, respectively.

The derivative transactions are executed and managed by the Company's Finance Department in accordance with the established policies and within the specified limits on the amounts of derivative transactions allowed.

The following summarizes hedging derivative financial instruments used by the Company and consolidated subsidiaries and items hedged:

Hedging instruments:

Interest rate swap contracts

Interest rate cap contracts

Hedged items:

Interest on loans payable

The Company and consolidated subsidiaries evaluate hedge effectiveness semi-annually by comparing the cumulative changes in cash flows from the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

The following tables summarize market value information as of March 31, 2005 and 2004 of derivative transactions for which hedge accounting has not been applied:

Currency related

	Type	Millions of yen				Thousands of U.S. dollars			
		Year ended March 31, 2005				Year ended March 31, 2005			
		Contracted amount	Over one year	Market value	Realized gains (losses)	Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Foreign currency option contracts								
	Sell	¥ 509				\$ 4,800			
	Call (U.S. dollars)	(4)	¥ —	¥ 2	¥ (2)	(38)	\$ —	\$ 19	\$(19)
	Buy	1,019				9,600			
	Put (U.S. dollars)	(7)	—	19	(12)	(65)	—	177	(112)

Currency related

	Type	Millions of yen			
		Year ended March 31, 2004			
		Contracted amount	Over one year	Market value	Realized gains (losses)
Items not traded on exchanges	Foreign exchange forward contracts on seller's side				
	Euro	¥ 408	¥ —	¥ 385	¥ 23
	U.S. dollars	108	—	106	2
	Total	¥ 516	¥ —	¥ 491	¥ 25

Note : Market values are based on prices submitted by the financial institution involved in the transactions.

Note 8 Income Taxes

Income taxes in Japan applicable to the Company and consolidated domestic subsidiaries consist of corporate tax, inhabitant tax and business tax.

Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the aggregate statutory income tax rates of 42.0% at March 31, 2004, and 40.7% at March 31, 2005, respectively.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2005 and 2004:

	2005	2004
Statutory tax rate	40.7%	42.0%
Tax rate differences between Japan and foreign subsidiaries countries	(6.3)	(1.9)
Non-deductible expenses	0.5	0.5
Per capital inhabitant tax	0.8	3.3
Loss carried forward	(7.8)	2.2
Valuation allowance	(34.9)	(39.4)
Other	4.5	3.2
Effective tax rate	(2.5)%	9.9%

Significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets;			
Allowance for doubtful accounts	¥ 318	¥ 508	\$ 2,961
Loss from valuation of inventories	357	404	3,324
Accrued bonuses	152	151	1,415
Loss from valuation of securities	490	406	4,563
Loss carried forward	1,775	2,227	16,529
Other	925	942	8,614
Total deferred tax assets	4,017	4,638	37,406
Valuation allowance	(2,300)	(4,317)	(21,418)
Net deferred tax assets	¥ 1,717	¥ 321	\$ 15,988

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax liabilities			
Net unrealized holding gains on securities	¥ 227	¥ 178	\$ 2,114
Foreign exchange gains	103	—	959
Other	26	—	242
Total deferred tax liabilities	¥ 356	¥ 178	\$ 3,315

Note 9 Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2005 and 2004 represent secured loans from the financial institutions.

The interest rates on short-term borrowings from banks and an insurance company were 0.8% to 5.2%, with the weighted average rate of 1.7% as of March 31, 2005 and 0.5% to 4.7% with the weighted average rate of 2.7% as of March 31, 2004, respectively.

Long-term debt as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
1.09% to 6.1% mortgage loans from banks and financial institutions, due in installments through 2014	¥ 6,137	¥ 6,631	\$ 57,146
Zero coupon JPY convertible bonds payable			
Japanese yen, due in 2004	—	3,019	—
0.54% debenture bonds due in 2007	220	220	2,049
1.30% debenture bonds due in 2009	500	—	4,656
0.26% debenture bonds due in 2009	1,000	—	9,312
0.78% debenture bonds due in 2006	220	220	2,049
	8,077	10,090	75,212
Less-Current portion included in current liabilities	(1,666)	(5,820)	(15,514)
	¥ 6,411	¥ 4,270	\$ 59,698

The following assets as of March 31, 2005 and 2004 were pledged as collateral for certain loans.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and cash equivalents	¥ 37	¥ 135	\$ 345
Trade notes and accounts receivable	335	502	3,119
Other current assets	190	433	1,769
Property, plant and equipment with a net book value	9,263	10,025	86,256
Investments securities	423	763	3,939

The Company and consolidated subsidiaries issued, the 0.78% debenture bonds of ¥220 million on September 26, 2003, the 0.54% debenture bonds of ¥220 million on February 25, 2004, the 1.30% debenture bonds of ¥500 million on September 30, 2004, and the 0.26% debenture bonds of ¥1,000 million on December 29, 2004.

The convertible bonds are convertible into common stock at option of the holders currently at conversion price of ¥709 per share. During the year ended March 31, 2005, the convertible bonds of ¥2,164 million were converted.

As is customary in Japan, substantially all of the bank borrowings are subject to a general agreement with each bank which provides, among other things, that the bank may request additional security for the loans concerned and may treat any security furnished to the bank for all present and future indebtedness and has the right to offset cash deposited against any short-term or long-term debt that becomes due, and, in case of default and certain other specified events, against all other debt payable to the bank. The Company has never been requested to submit such additional security.

As of March 31, 2005, the aggregate annual maturity of long-term debt subsequent to March 31, 2005, were as follows:

Year ended March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 1,666	\$ 15,514
2007	2,415	22,488
2008	1,187	11,053
2009	682	6,351
2010	1,656	15,420
2011 and thereafter	471	4,386
	¥ 8,077	\$ 75,212

Note 10 Employees' Severance and Retirement Benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥ (1,687)	¥ (1,610)	\$ (15,709)
Less fair value of plan assets	828	835	7,710
Funded status	(859)	(775)	(7,999)
Unrecognized net transition obligation	—	44	—
Unrecognized actuarial loss	198	283	1,844
Unrecognized prior service cost	52	—	484
Liability for severance and retirement benefit, net	¥ (609)	¥ (448)	\$ (5,671)

Included in the consolidated statements of operations for the years ended March 31, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs-benefits earned during the year	¥ 140	¥ 127	\$ 1,304
Interest cost on projected benefit obligation	33	32	307
Expected return on plan assets	(25)	(25)	(233)
Unrecognized actuarial loss	58	89	540
Unrecognized transition obligation	44	44	410
Severance and retirement benefit expenses	¥ 250	¥ 267	\$ 2,328

The discount rates used by the Company were 2.0% for the years ended March 31, 2005 and 2004. The rates of expected return on plan asset were 3.0% for the years ended March 31, 2005 and 2004, respectively.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the consolidated statements of operations using the declining-balance method over 10 years and the net transition obligation cost is recognized as an expense in equal amounts over 5 years.

Prior service costs are amortized by using the straight-line method over a period of 10 years.

Note 11 Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company and in accordance with the Commercial Code. In accordance with the Code, the declaration of annual and interim dividends and the related appropriations of retained earnings have not been reflected in the financial statements at the end of such fiscal or interim six-month periods.

On June 29, 2005, the general shareholders' meeting approved cash dividends of ¥235 million (\$2,188 thousand), or ¥5 (\$0.05) per share, payable to shareholders of record as of March 31, 2005. In conformity with the Code, this declaration of cash dividends is not reflected in the consolidated financial statements as of March 31, 2005.

Note 12 Per Share Data

Dividends per share shown in the consolidated statements of income have been presented on the accrual basis and include, in each fiscal period, dividends approved after each balance sheet date, but applicable to the fiscal period then ended.

Basic net income per share is calculated by dividing the net income for the period attributable to common shareholders by the weighted average number of shares of common stock outstanding during the period.

Diluted net income per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

The Zero-coupon JPY convertible bonds were considered as dilutive securities. In computing net income per share, net income is adjusted, net of income taxes, by interest expense when the inclusions are dilutive.

Note 13 Contingent Liabilities

As of March 31, 2005, the Company and certain subsidiaries were contingently liable for discounted notes receivable with banks of ¥2,623 million (\$24,425 thousand).

Note 14 Related Party Transactions

The Company purchases raw materials from Mep Co., Ltd. ("Mep"), and also receives the money related to supply of raw materials and rent of office and plant from Mep. A director and the former director of the Company own more than 50% of Mep.

During the years ended March 31, 2005 and 2004, the Company had the following transactions with Mep:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Purchase of raw materials	¥ 484	¥ 1,136	\$ 4,507
Supply of raw materials	107	247	996
Receipt of rent	4	10	37
Acquisition of securities	33	50	307

Due from and due to Mep as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Accounts payable	¥ —	¥ 62	\$ —
Other receivables	0	41	0

Note 15 Segment Information

(a) Business Segment Information

The Company and consolidated subsidiaries operate primarily in the production and sales of machine tools, industrial machinery and others. Machine tools comprise of CNC EDM machines, such as linear motor die-sinking EDMs, small hole drilling EDMs, linear motor equipped machining centers and equipment for these machines. Industrial machinery comprises of injection molding machines, linear servo motor equipped pressing machines and equipment for these machines. Others comprise of CAD/CAM systems for mold and die designing, software for FA (factory automation) system, ceramic products and their relevant equipment.

	Millions of yen					
	Machine tools	Industrial machinery	Others	Total	Eliminations and corporate	Consolidated
2005						
Sales to third parties	¥ 39,800	¥ 11,428	¥ 6,143	¥ 57,371	¥ —	¥ 57,371
Intersegment sales and transfers	19	33	35	87	(87)	—
Total sales	39,819	11,461	6,178	57,458	(87)	57,371
Cost of sales and selling, general and administrative expenses	33,130	10,774	5,490	49,394	1,162	50,556
Operating income	6,689	687	688	8,064	(1,249)	6,815
Identifiable assets	43,114	8,145	8,909	60,168	7,982	68,150
Depreciation	1,150	265	421	1,836	61	1,897
Capital expenditure	¥ 2,321	¥ 582	¥ 547	¥ 3,450	¥ 47	¥ 3,497

	Thousands of U.S. dollars					
	Machine tools	Industrial machinery	Others	Total	Eliminations and corporate	Consolidated
2005						
Sales to third parties	\$ 370,612	\$ 106,416	\$ 57,202	\$ 534,230	\$ —	\$ 534,230
Intersegment sales and transfers	177	307	326	810	(810)	—
Total sales	370,789	106,723	57,528	535,040	(810)	534,230
Cost of sales and selling, general and administrative expenses	308,502	100,326	51,121	459,949	10,821	470,770
Operating income	62,287	6,397	6,407	75,091	(11,631)	63,460
Identifiable assets	401,471	75,845	82,960	560,276	74,327	634,603
Depreciation	10,709	2,468	3,920	17,097	568	17,665
Capital expenditure	\$ 21,613	\$ 5,419	\$ 5,094	\$ 32,126	\$ 438	\$ 32,564

	Millions of yen					
	Machine tools	Industrial machinery	Others	Total	Eliminations and corporate	Consolidated
2004						
Sales to third parties	¥ 30,726	¥ 9,088	¥ 4,888	¥ 44,702	¥ —	¥ 44,702
Intersegment sales and transfers	62	19	27	108	(108)	—
Total sales	30,788	9,107	4,915	44,810	(108)	44,702
Cost of sales and selling, general and administrative expenses	25,293	8,611	4,755	38,659	1,284	39,943
Operating income	5,495	496	160	6,151	(1,392)	4,759
Identifiable assets	35,972	8,063	7,533	51,568	7,621	59,189
Depreciation	1,130	149	333	1,612	60	1,672
Capital expenditure	¥ 1,549	¥ 841	¥ 397	¥ 2,787	¥ 8	¥ 2795

(b) Geographical Segment Information

Geographical segment information for the years ended March 31, 2005 and 2004 was as follows:

	Millions of yen						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 38,468	¥ 3,513	¥ 3,697	¥ 11,693	¥ 57,371	¥ —	¥ 57,371
Interarea sales and transfers	13,072	265	205	14,606	28,148	(28,148)	—
Total sales	51,540	3,778	3,902	26,299	85,519	(28,148)	57,371
Cost of sales and selling, general and administrative expenses	44,501	3,619	4,174	24,691	76,985	(26,429)	50,556
Operating income	7,039	159	(272)	1,608	8,534	(1,719)	6,815
Identifiable assets	¥ 51,918	¥ 2,103	¥ 4,128	¥ 19,021	¥ 77,170	¥ (9,020)	¥ 68,150

	Thousands of U.S. dollars						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	\$ 358,208	\$ 32,712	\$ 34,426	\$ 108,884	\$ 534,230	\$ —	\$ 534,230
Interarea sales and transfers	121,725	2,468	1,909	136,008	262,110	(262,110)	—
Total sales	479,933	35,180	36,335	244,892	796,340	(262,110)	534,230
Cost of sales and selling, general and administrative expenses	414,387	33,699	38,868	229,919	716,873	(246,103)	470,770
Operating income	65,546	1,481	(2,533)	14,973	79,467	(16,007)	63,460
Identifiable assets	\$ 483,453	\$ 19,583	\$ 38,439	\$ 177,121	\$ 718,596	\$ (83,993)	\$ 634,603

	Millions of yen						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 30,885	¥ 2,519	¥ 3,494	¥ 7,804	¥ 44,702	¥ —	¥ 44,702
Interarea sales and transfers	6,982	301	31	8,918	16,232	(16,232)	—
Total sales	37,867	2,820	3,525	16,722	60,934	(16,232)	44,702
Cost of sales and selling, general and administrative expenses	33,118	2,790	3,907	15,466	55,281	(15,338)	39,943
Operating income	4,749	30	(382)	1,256	5,653	(894)	4,759
Identifiable assets	¥ 43,958	¥ 1,865	¥ 3,836	¥ 13,710	¥ 63,369	¥ (4,180)	59,189

(c) Overseas Sales Information

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 2005 and 2004, were summarized as follows:

	Millions of yen				Thousands of U.S. dollars			
	America	Europe	Asia	Total	America	Europe	Asia	Total
Overseas sales	¥3,697	¥ 4,013	¥ 19,037	¥ 26,747	\$ 34,426	\$ 37,368	\$ 177,270	\$ 249,064
Consolidated net sales	—	—	—	57,371	—	—	—	534,230
Consolidated net sales to consolidated net sales	6.4%	7.0%	33.2%	46.6%	6.4%	7.0%	33.2%	46.6%

	Millions of yen			
	America	Europe	Asia	Total
Overseas sales	¥ 2,685	¥ 3,504	¥ 14,689	¥ 20,878
Consolidated net sales	—	—	—	44,702
Consolidated net sales to consolidated net sales	6.0%	7.8%	32.9%	46.7%

Independent Auditors' Report

To the Shareholders and Board of Directors of Sodick Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Sodick Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sodick Co., Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

- (1) As discussed in Note 2 (k) to the consolidated financial statements, from the fiscal year ended March 31, 2005, Sodick Co., Ltd. changed the method of accounting for costs of product warranties.
- (2) As discussed in Note 2 (j) (2) to the consolidated financial statements, from the fiscal year ended March 31, 2004, Sodick Co., Ltd. changed the method of accounting for directors' and statutory auditors' severance and retirement benefits.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2005

Corporate Information



Corporate Profile

Corporate Name	Sodick Co., Ltd.
Head Office	3-12-1 Nakamachidai, Tsuzuki-ku, Yokohama, Kanagawa 224-8522, Japan Tel: +81-45-942-3111 Fax: +81-45-943-5835
Established	August 3, 1976
Capital	¥ 16,848,739,258 yen
Employees	186 (2,704 consolidated)
Connection subsidiary	31
Main Products	CNC die-sinking EDM CNC wire-cut EDM Small Hole Drilling EDM Nano Machine Machining Center CAD/CAM system for Mold Design System Injection Molding Machines Linear Servo Motor Press Center Precision Ceramic Parts PIKA Finish Machine EBM EDM Consumables and peripheries

Board of Directors and Corporate Auditors

Chairman	.....	Masaaki Suzuki
President	.....	Shigeo Shioda
Senior Managing Director	.....	Takashi Yamamoto
	.....	Kazuo Katoh
Managing Director	.....	Koji Taki
Director	.....	Katsuhide Fujiwara
	.....	Sadao Sano
	.....	Takeshi Ichikawa
	.....	Yuji Kaneko
	.....	Tomohide Kawamoto
Standing Statutory Auditor	.....	Haruhiko Nishijima
Statutory Auditors	.....	Sadao Simoyama
	.....	Saeji Kusunoki
	.....	Sakuo Ueno
	Akiyoshi Koyama

Company Location

Sodick Co., Ltd.

3-12-1 Nakamachidai, Tsuzuki-ku,
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E-mail: desk@sodick.co.jp
URL: <http://www.sodick.co.jp>
Tel : +81-45-942-3111 Fax: +81-45-943-7881

Sodick Plustech Co., Ltd.

2-7-20 Shinyokohama, kouhoku-ku
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Sodick Hightech Co., Ltd.

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Sodick CPC Co., Ltd.

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Yokohama, Kanagawa 222-0033, Japan
Tel : +81-45-473-5000 Fax: +81-45-473-4201

Overseas Subsidiaries

Development and production

Sodick (Thailand) Co., Ltd.

60/84 Moo-19, Soi-19, Navanakorn Industrial Estate Zone 3,
Phaholyothin Road, Klongneung, Klongluang, Patumthani
12120, Thailand
Tel:+662-529-2450~6 / Fax:+662-529-2459

Suzhou Sodick Special Equipment Co., Ltd.

No. 18 Zhuyuan Road, New District, Suzhou 215011, P. R. China
Tel:+86-512-6825-3533 / Fax:+86-512-6825-3405

Shanghai Sodick Software Co., Ltd.

471 Guiping Road, Xu Hui District, Shanghai 200233, P. R. China
Tel:+86-21-6485-1533 / Fax:+86-21-6485-1785

Sodick America Corporation

2182 Bering Drive, San Jose, CA 95131, U.S.A.
Tel:+1-408-943-1693 / Fax:+1-408-943-1694

Sales, After sales service

Sodick Inc.

1605 N. PENNY LANE, SCHAUMBURG, IL 60173. U.S.A.
Tel:+1-847-310-9000 / Fax:+1-847-310-9011

Sodick Deutschland GmbH/European Technical Center

Robert-Bosch-strasse 30, 71106 Magstadt, Germany
Tel:+49-0-7159-1676-0 / Fax:+49-0-7159-1676-21

Sodick Europe Ltd.

Rowley Drive, Baginton, Coventry, CV3 4LS, England
Tel:+44-2476-214314 / Fax:+44-2476-305680

Sodick (H.K.) Co., Ltd.

Unit 1201, One Peking, No.1 Peking Road, Tsim Sha Tsui,
Kowloon, Hong Kong
Tel:+852-2721-0200 / Fax:+852-2612-0562

Sodick Electromechanical (Shanghai)Co., Ltd.

Department east, the 12th floor, Fute xi yi lu, Waigaoqiao FTZ,
Shanghai, P. R. China
Tel:+86-21-5866-0666

Sodick Singapore Pte., Ltd.

71 Ubi Crescent #01-03/04 Excalibur Centre, Singapore 408571
Tel:+65-6746-9089 / Fax:+65-6746-9048

Sodick (Taiwan) Co., Ltd.

No.138, Lane52Pa-TheRoad, Lin-KouHsiang, TaipeiHsien,
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Tel:+886-2-2600-6648 / Fax:+886-2-2609-7224

Sodick Engineering Service(Thailand) Co., Ltd.

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Sodick Co., Ltd.