

INNOVATION
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ANNUAL REPORT 2006

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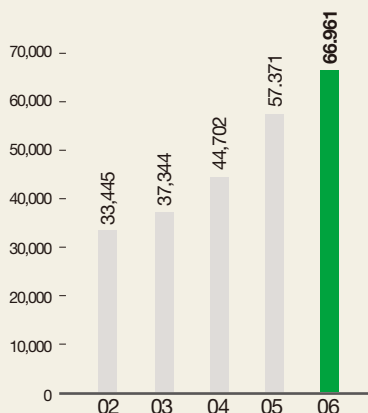
Sodick Co., Ltd.

Consolidated Financial Highlights

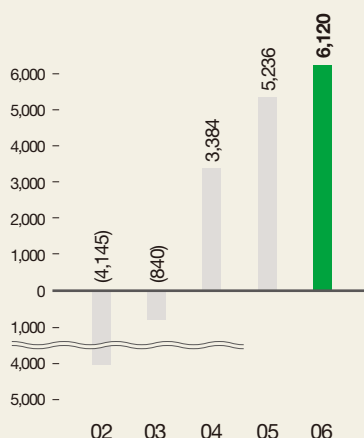
	Millions of yen (except Per Share Data)		Thousands of U.S. dollar (except Per Share Data)
	2006	2005	2006
For The Year :			
Net Sales	¥ 66,961	¥ 57,371	\$ 570,026
Operating income	7,020	6,815	59,760
Net income	6,120	5,236	52,098
At Year-end :			
Total assets	82,210	68,150	699,838
Total shareholders' equity	29,428	22,572	250,515
	Yen		U.S. dollars
Per share Data :			
Net income			
Basic	¥ 129.36	¥ 113.22	\$ 1.10
Diluted	-	110.81	-
Shareholders' equity	625.74	479.15	5.33

Notes : The U.S. dollar amounts are provided for convenience only and have been converted at the rate of ¥117.47 to \$1, the approximate rate of exchange in effect at March 31, 2006

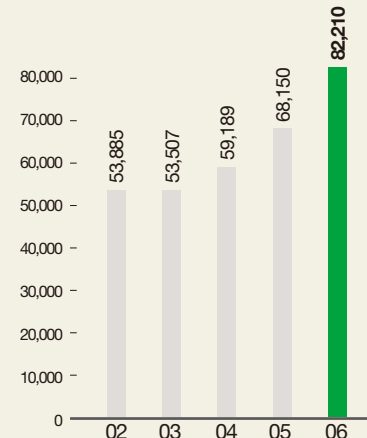
Net Sales (Millions of yen)



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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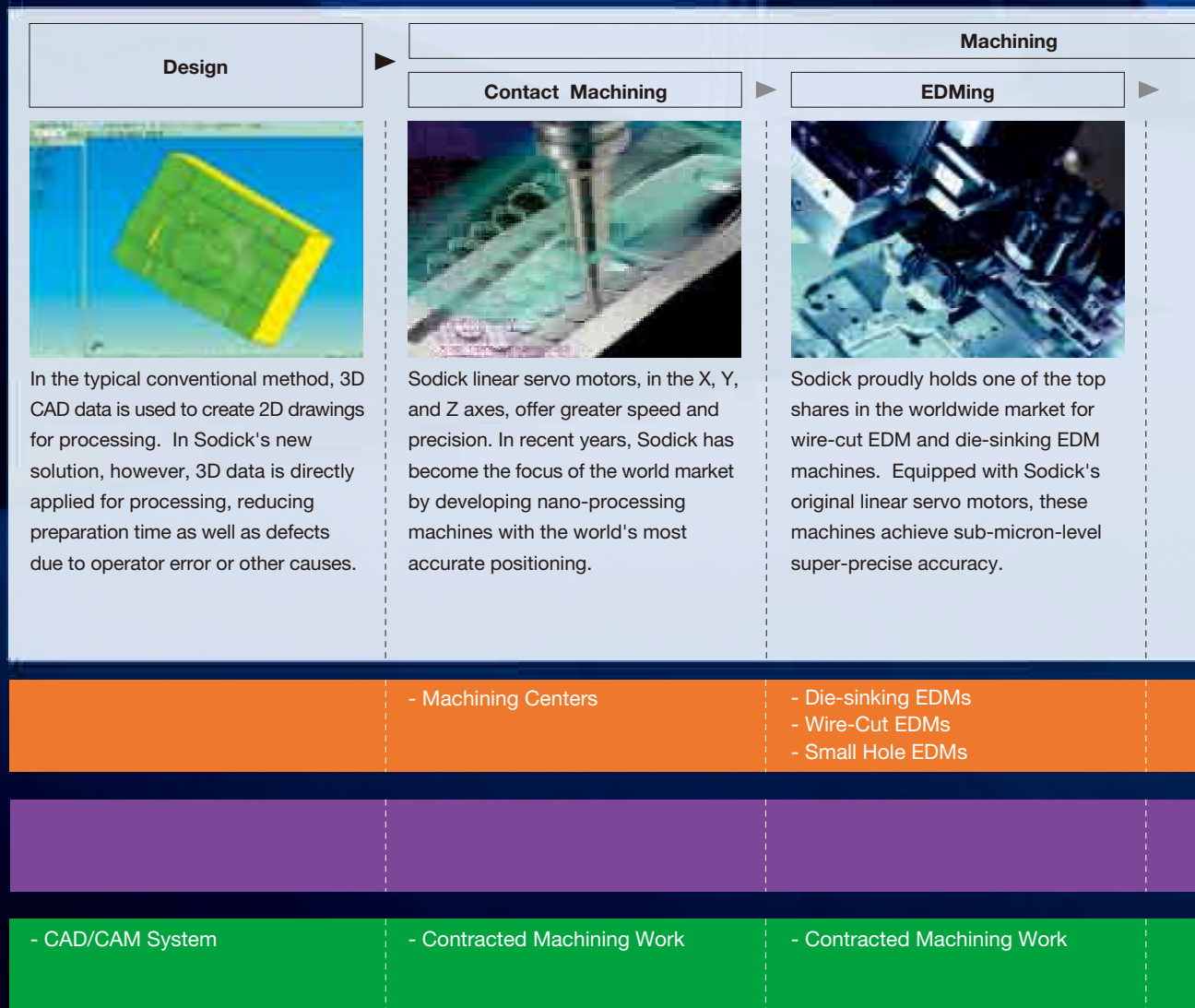
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Total Manufacturing Solution

Helping customers solve problems in all manufacturing processes.

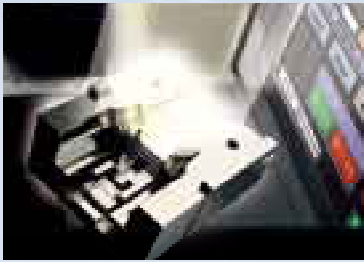
The Sodick Group, based on its Total Manufacturing Solution concept, assists with all manufacturing processes ranging from CAD/CAM product design to the machining of dies, molds and parts by electrical discharge machines (EDMs) and machining centers, surface finishing with electron beam surface finishing 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

Forming

Surface Finishing



Sodick's PIKA Finish Machine EBM for ultimate machining surface finishing greatly improves the efficiency of work that traditionally requires hours of labor by experts. Sodick PIKA Finish Machine EBM makes surfaces amorphous, thereby improving their strength and resistance to rust and other forms of corrosion.

- PIKA Finish
- Machine EBMs

Injection Molding



Sodick has developed plastic injection-molding machines with a unique structure that not only offers super-precise processing in response to ever-more demanding needs for precision but also successfully meets the needs for heavy-duty, high-powered, high-cycle, and energy-efficient molding.

- Injection Molding Machines

Pressing



A lineup of precision Press Centers, which contain linear motors and NC devices developed by Sodick. The Press Centers feature micron level precision and meet the need for high-speed and precision pressing work such as required for BGA film processing. These features are difficult to find in conventional press machines.

- Press Centers

- Contracted Machining Work

- Contracted Machining Work

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 2005 fiscal year, how would you analyze the results?

On August 3rd of this year, we will celebrate the 30th anniversary of Sodick's foundation. We are very happy to achieve record sales and profits for this commemorative year and I would like to thank all the shareholders sincerely for their guidance and encouragement.

First, let's look at the economic situation surrounding the Sodick group in the period under review. Amidst rising prices for raw materials such as oil and metals, the Japanese economy continued its steady recovery and a large improvement was seen in corporate results and employment. In the machine tools industry, machine tool orders in 2005 reached 1,363,203 million yen (the second highest figure since 1990), supported by strong demand in capital investment worldwide. In this environment, our group strengthened the production capacity of its overseas manufacturing bases to respond to strong demand while at the same time developing new products that meet customer needs in ultra-precise, large-product processing and automation.

We also launched dynamic sales operations, establishing new offices in important markets where continued growth can be expected, including Ho Chi Minh City Vietnam, where economic growth has been remarkably high; Memphis, Tennessee in the US, home to major medical equipment manufacturers; and Bangalore India, known as India's Silicon Valley.

Moreover, as part of the measures to raise our group's corporate value, our consolidated subsidiary Sodick High Tech Co., Ltd. was listed on Nippon New Market's Heracles standard of the Osaka Securities Exchange on December 28, 2005.

As a result, the group's consolidated sales rose by 9,590 million yen, or 16.7 percent, to reach 66,961 million yen. On the profit and loss statement, consolidated operating profits rose by 1,394 million yen, or 19.8 percent, to 8,428 million yen, while consolidated net profits rose by 883 million yen, or 16.9 percent, to 6,119 million yen.

Q 2

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

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

investments 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.

With an overseas sales ratio of 51.8 percent, the Sodick group's performance depends to a large extent on the economic situation in foreign countries. Currency fluctuations can affect performance, since transactions with our local subsidiaries are calculated in American dollars, Euros, and other currencies. At least 90 percent of our major machine tool products are manufactured at local subsidiaries in Thailand and China. Accordingly, a sudden rise in Thai baht and Chinese yuan on the currency markets would have a major impact on manufacturing costs, and may affect the group's performance.

There are no changes predicted in vigorous capital investment for the automotive and electronics industries centering on China and the rest of the Asian region. Considering this, consolidated sales in fiscal 2006 ending in March 2007 are predicted to reach 7,300 million yen (up 9 percent), operating income 9,100 million yen (up 29.6 percent), ordinary income 8,400 million yen (down 0.3 percent), and net profits 5,100 million yen (down 16.7 percent due to a rising tax burden). The average exchange rates assumed for the predictions above are 109 yen per dollar, 140 yen per euro, and 2.85 yen per Thai baht.

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?

We are currently building a production and sales structure that focuses on market trends, dividing the global market into five areas; Japan, China, Asia, the US, and Europe. We are focusing our efforts on the Chinese and Asian markets that provide our group's industrial base and are expecting the importance of these markets to increase. Sodick sells more than 1,000 EDMs each year in mainland China, Hong Kong, and Taiwan. Considering that we were selling around 300 units just five years ago, the expansion is astonishing.

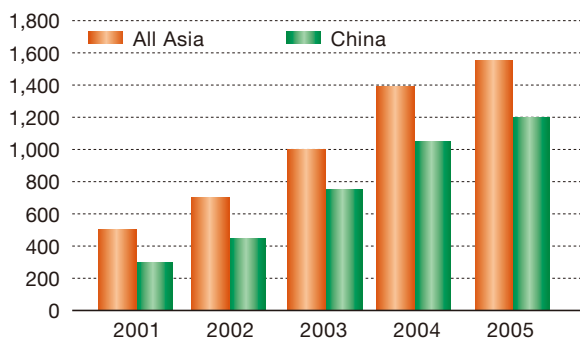


Figure 2: Unit sales trends for EDMs in Asian markets



Economic growth has been remarkable not just in China, but also in Russia, Eastern Europe, India, and South America. Demand for Sodick products for use in consumer durable production bases is expected to grow in these markets too. To meet this rising demand, the decision was taken to build a new plant in Amoy, China. In July 2006, the local subsidiary Sodick (Amoy) Co., Ltd. was established, and the start of plant operations is planned for July 2007. Amoy possesses one of China's leading harbor facilities, which provides an ideal location for shipping the completed products. Moreover, the production bases in Suzhou (China), Bangkok (Thailand), and the Japanese headquarters are between only two to four and a half hours away to each other by plane, and we are planning for these plants to provide technical support to enable an early smooth launch of Amoy Plant operations.

With opening of the new plant, Sodick's EDMs will be produced at four production bases with an overall manufacturing capacity of 4,500 units in fiscal 2007, rising to an estimated 5,500 units in fiscal 2009. As with Sodick (Thailand) Co., Ltd, the Amoy plant will make its major components in house based on Sodick's original technology, and this should be able to reduce the manufacturing costs in China even further. Risks from politics and natural phenomena can also be reduced further by geographically dispersing production of major components and products.

Regarding the North American and European markets, we anticipate huge growth in high value-added businesses such as the automobile, aerospace, and medical treatment and bio industries. The North American and European markets are strongly competitive, and Sodick's market shares in these regions are lower than those in other regions in the world. To address this, we are exploiting our original technology and strengthening product development appropriate for the European and American markets, while also taking initiatives to raise motivation among leaders in the local sales subsidiaries.

We built new sales and after-service bases during the consolidated 2005 fiscal year to service the new markets of India and Vietnam. We plan to continue building new offices in Asian markets, including China, to facilitate sales expansion.

As a strategy for new product development, the Sodick group aims to build a system that enables the spread of risk and

acquisition of stable profits by promoting new businesses on the results of research and development. Specific examples include injection molding machines produced and sold by Sodick Plustech Co., Ltd., machining centers produced and sold by Sodick High Tech Co., Ltd., and industrial ceramics produced and sold by Sodick EMG Co., Ltd. Promising products for the future include electron beam processing machines being developed by Sodick Electron Co., Ltd., and consumables for numerical control (NC) EDMs developed by Sodick EWS Co., Ltd. We are convinced that the production and sale of these new products will help to strengthen further the structure of the Sodick group.

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.

The molding industry that comprises Sodick group's customers is a generally low-key industry which cannot easily be followed by the naked eye of the general public, yet it is steadily growing worldwide. However, because molds integrate very high level technologies, however, a newly prosperous country cannot suddenly establish itself in this area. To follow the process of industrial development in these countries, the assembly plants of major manufacturers demanding cheap labor costs first enter these countries. Then major and midsize suppliers come in to supply components to these companies. After that mold manufacturers finally appear, and mold production begins in these regions. The customers recognize the mold's performance as a very important factor in strengthening cost and capability competitiveness of their final products. The Sodick group is building a system that enables the same level of technical service support anywhere in the world, and is pushing forward to win the customers' trust as a company that contributes to manufacturing.

Customers' technological demands are growing constantly, and significant numbers of Japanese customers require precision processing of one micron meter or smaller.

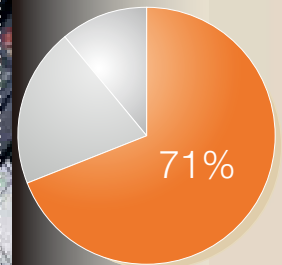
Today Sodick sells machines capable of processing at the single micron level as a routine (and no special) function. The development of these machines involves a great deal of cutting-edge nano-processing core technologies, into which Sodick has been putting tremendous development efforts. Sodick has concentrated the core technologies developed to enhance the performance of its EDMs, such as CNCs, motion controllers, linear motors, and ceramics, and it exploits their synergies to develop even more advanced nano-processing machines. By feeding the developed technology back into EDMs, in fiscal 2005 we developed the nano-EDM AE05, that drills the smallest hole in the world. In the future, all these state-of-the-art technologies will be applied to other Sodick group products and their use will be promoted in manufacturing industries. For this purpose, we aim to set up research facilities as a matter of urgency that will enable creation of ultra-precise processing machine groups.

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

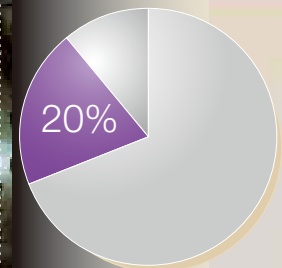
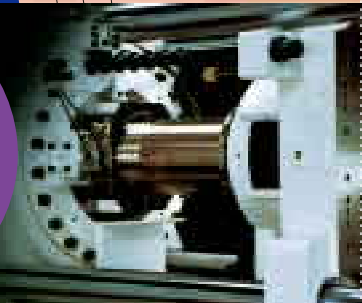
Machine Tools



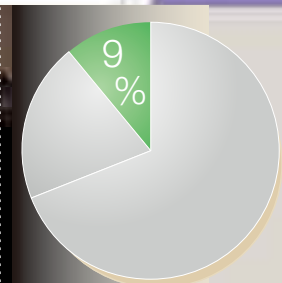
Review of Operations

Operations At a Glance

Industrial Machines



Others



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 2005 FISCAL YEAR Topics

- A rapid growth in EDM sales focused on Japan and Asia, led to an expansion of production capacity in fiscal 2004
- Launch and development of the AP500L, (new CNC wire-cut EDM) and AQ15L /AM45 (CNC die-sinker EDMs).
- Development of the Ultra NANO 100 nano-processing machine, the AE05 nano EDM, and the AZ150L nano machining center.

- ISO 14001 certification acquired at Kaga head office factory.
- Sales launch of LS Series silicon injection molding machine.

- Steady growth of molds and precision molding business.
- Period of transition led to slight fall in demand for CAD/CAM and precision ceramic business.

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 FY2005

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 Sodick group's machine tools business continued to perform well in fiscal 2005. In the first half it benefited chiefly from Japan's domestic automotive industry, and in the second half from the sustained recovery in the electronics industries of China and other Asian countries as well as the general recovery among European industries.

Under this circumstance, Sodick took positive steps to develop business, by opening new offices aimed at expanding sales and supporting customers in new markets including China, Vietnam, and India.

In the current period, we launched two new products: the large-size die-sinker EDM AQ15L, which makes large scale dies for car bumpers and instrument panels in the steadily booming auto industry, and the AP500L, a mid-sized, high-precision wire-cut EDM that can produce precision press and mold tools, also for automotive makers.

In the pioneering field of ultra-precision processing, Sodick has developed the Ultra NANO 100, that has achieved a minimum unit of control of 0.07 nanometers; the AZ150 ultra-precision machining center, that is capable of sub-micron processing; and the nano EDM AE05, which can drill the world's smallest hole. The AE05 won the Nippon Brand Prize, awarded by the Kogyo Shimbun newspaper, for one of the ten best new products of 2005.

Meanwhile, sales of the wire-cut EDMs AQ360L and AQ560L grew. These machines are strategically positioned to exploit the expansion of the Chinese market, focused on the electronics industry. For precision machining centers, we announced the MC650L, a large-scale version of the MC430L, one of our flagship products. This machine enables workpiece processing on an unprecedented scale. The increasing of demand for these machine tools also led to a growth in peripheral devices, consumables, and after-sales service.

As a result, Sodick's machine tools sales rose by 7.718 billion yen, or 19.4 percent, over the figure for fiscal 2004 to reach 47.537 billion yen. On the profit and loss statement, rising sales of flagship products AQ327L and AQ537L pushed up the unit price of the machines, but the sudden jump in the cost of stainless steel, copper, and other raw materials, and the mid-period leap in the currency exchange rate of the Thai baht (Thailand is a major manufacturing location for our machine tools) against the yen resulted in higher unit costs. Consequently, the rise in operating profits was held to 483 million yen, or 7.2 percent, to total 7.171 billion yen.

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.
Machining Center	Sodick High-Tech Co., Ltd.	Sodick High-Tech Co., Ltd.	Sodick High-Tech Co., Ltd.	Sodick High-Tech Co., Ltd.
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.	Sodick High-Tech Co., Ltd.	Sodick High-Tech Co., Ltd.	Sodick High-Tech Co., Ltd.
Ceramics for machine parts	Sodick EMG Co., Ltd.	Sodick EMG 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.

Industrial Machines

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 FY2005

In fiscal 2005, the industrial machines division strengthened its corporate quality even further by having its manufacturing, sales, and service departments work together to ensure quality and on-time delivery that would satisfy customers, tackling especially with the issues of quality control, reduction in cost of goods, new technology development, and business efficiency throughout the company. In September 2005, we exhibited the LS Series, which handles liquid silicon, the LD Series,

which is aimed at small-sized precision components and other high tech products were exhibited at IPF (International Plastic Fair) 2005, a global industry expo, held in Makuhari Messe. The new products were well received because of their technological advantage and cultivated a new demand, which developed into new active proposals to number of corporate groups. The technology advantage of these new machine series is expected to increase the demand for our products.

In each individual machine category, sales of injection molding machines rose as a result of the strong performance of the domestic automobile industry and the South Korean and Taiwanese IT industries. As for special machines category, however, sales declined slightly from the previous year as our business efforts focusing on precision XY stages for liquid crystal inspection and manufacturing devices did not meet its expectation, with many customers going through transition periods in equipment investment.

In the meantime, our manufacturing production base at our Kaga, Ishikawa prefecture, acquired ISO14001 international environment management system certification on February 22, 2006 from the Japan Audit and Certification Organization for Environment and Quality (JACO).

As a result of these activities, our industrial machines sales rose by 1.971 billion yen, or 17.2 percent, over the figure for fiscal 2004 to reach 13.432 billion yen. Profits were hit, however, by an urgent need to invest in new equipment to accommodate soaring production along with increasing personnel, outsourcing, and materials costs. Profits were also affected by an increase in freight costs and sales commissions accompanying the expansion in exports. Consequently, operating profits fell by 150 million yen, or 21.8 percent, to 537 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

North America

Plustech Inc.

China

Neo Plustech (Shanghai) Co., Ltd.

Korea

Sodick Plustech Korea / TRUE TRADING Co.,Ltd

Hong Kong

Plustech (Hong Kong) Co., Ltd.

Taiwan

Neo Plustech Taiwan Co., Ltd.

Singapore

Plustech Singapore Pte., 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 FY2005

In the manufacturing and sales of precision molds and precision molding products, which make up three-quarters of Sodick's "others" business, there was growing customer attention to the high quality of our mold products. Connectors that link to control equipment, such as multi-pin connectors on electronic equipment, high-pressure connectors for the automotive industry, and narrow-pitch connectors for IT equipment, became more and more sophisticated, and we used specialized product lines that integrate processes from mold design to resin molding and assembly to offer high-quality products to customers.

Among these, special specification molds of the automobile component connector series went into full operation and contributed to a rise in sales. Direct sales of precision ceramic components declined, however, affected by a transitional period for capital investment occurring in our customer industries of liquid crystal inspection and manufacturing equipment. Sales of CAD/CAM software also declined, owing to our flagship Dipro Win products still loaded with 2D software amidst the trend toward 3D manufacturing.

As a result of the above, sales in this business area fell by 1.4 billion yen, or 2.3 percent, over the figure for fiscal 2004 to 6.038 billion yen. Meanwhile, operating profits fell by 154 million yen, or 22.4 percent, from fiscal 2004 to 533 million yen due to a rise in the development costs of CAD/CAM software.

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 EMG 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

Sodick's core technologies achieve nano processing

“Sodick constantly undertakes research and development by receiving customer requests and considering what is needed to meet those requests and to improve the performance of CNC EDMs. This includes developing innovative, original technologies that general machine-tool manufacturers do not possess.

We call these our core technologies, and our series of nano-processing machines have been developed by combining and integrating these core technologies.”

◆ See the Sodick website for details.

1 Core technologies

Linear motors

Achieves high-speed, high-precision movement while saving energy

Linear motors are far superior to ball-screw motors in terms of motion speed and precision positioning. The relative absence of mechanical contact points, moreover, makes them highly responsive as well as stable over the long term.

Ultra Nano -100



This ultimate linear technology machine has achieved ultra-precision positioning of 0.5 nanometers and dimension accuracy of 2 to 3 nanometers for the first time ever. By reorganizing Sodick's original core technologies, we have established complete dominance in the single-to sub-nano meter range.

2 Core technologies

NC devices

Controls that fully exploit the performance of Sodick products

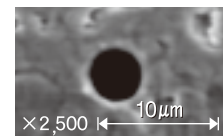
A numerical control (NC) device controls the actions of machine tools and robots through numerical data and servo mechanisms.

Space Series AE05

The Space Series is a cluster of linear motor-driven, ultra-precision nano-processing machines with a minimum drive unit of less than 1 to 5 nanometers and a machining profile accuracy of less than 5 to 100 nanometers. Since we have achieved processing power that makes manufacturing look as though it were made in weightlessness, we have named it the Space Series.



AE05



▲ The world's smallest hole through AE05 discharge processing

4 Core technologies

Ceramics

Sodick's ceramic technology is used in various field.

Ceramic materials are absolutely vital in ultra-precision processing because they undergo extremely little thermal distortion.

3 Core technologies

Motion controller

Drives linear motors quickly and accurately

The role of the motion controller is to control the linear motors speed and accuracy of movement based on instructions from the NC device.

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.



Sodick America Corporation (San Jose)



Sodick Inc. (LA/CHICAGO/NJ)



Sodick Europe Ltd.(U.K.)



Sodick Deutschland GmbH (Germany)



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, 2006, Sodick (Thailand) Co., Ltd. had produced a combined total of 16,161 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 4,698 CNC EDMs and is currently working at a pace of 100/month.

Besides, to meet this rising demand from the emerging markets, the decision was taken to build a new plant in Amoy, China. In July 2006, the local subsidiary Sodick (Amoy) Co., Ltd. was established, and the start of plant operations is planned for July 2007.

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

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Five-year Summary

	Millions of yen (except Per Share Data)					Thousands of U.S. dollars (except Per Share Data)
	2006	2005	2004	2003	2002	2006
Consolidated						
For The Year :						
Net Sales :	¥ 66,961	¥ 57,371	¥ 44,702	¥ 37,344	¥ 33,445	\$ 570,026
Machine tools	47,518	39,800	30,726	26,146	25,603	404,512
Industrial tools	13,420	11,428	9,088	6,435	4,022	114,242
Others	6,023	6,143	4,888	4,763	3,820	51,272
Cost of Sales	45,556	37,622	29,134	24,715	24,572	387,809
Operating income	7,020	6,815	4,759	2,159	(2,289)	59,760
Income (loss) before income taxes	8,415	5,774	4,374	(280)	(3,922)	71,627
Income taxes :	1,856	(143)	434	114	364	15,791
Current	1,589	1,085	792	135	164	13,518
Deferred	267	(1,228)	(358)	(21)	200	2,273
Net income (loss)	6,120	5,236	3,384	(840)	(4,145)	52,098
At Year-end :						
Total assets	82,210	68,150	59,189	53,507	53,885	699,838
Total shareholders' equity	29,428	22,572	15,569	9,739	10,973	250,515
Per share data (yen and U.S.dollars) :						
Net income (loss) :						
Basic	¥129.36	¥113.22	¥78.26	(¥20.57)	(¥101.49)	\$1.10
Diluted	-	110.81	68.32	-	-	-
Shareholders' equity	625.74	479.15	353.76	238.56	268.68	5.33
Cash dividends	15.00	10.00	3.00	-	-	0.13

Note: The U.S.dollar amounts are provided for convenience only and have been converted at the rate of ¥117.47 to \$1, the approximate rate of exchange in effect at March 31, 2006.

Consolidated Balance Sheets

Sodick Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and cash equivalents (Notes 3 and 11)	¥ 12,228	¥ 8,174	\$104,095
Trade notes and accounts receivable (Note 11)	26,390	21,849	224,653
Allowance for doubtful accounts	(884)	(1,185)	(7,525)
Inventories (Note 5)	16,626	14,539	141,534
Deferred tax assets (Note 10)	1,289	1,546	10,973
Other current assets (Note 11)	1,433	1,611	12,198
	<u>57,082</u>	<u>46,534</u>	<u>485,928</u>
Property, plant and equipment, at cost (Notes 7 and 11):			
Land	6,879	6,940	58,560
Buildings and structures	13,211	12,576	112,463
Machinery and equipment	11,194	9,632	95,292
Leased machinery	1,574	1,670	13,399
Construction in progress	121	667	1,030
	<u>32,979</u>	<u>31,485</u>	<u>280,744</u>
Less-Accumulated depreciation	(14,258)	(13,432)	(121,376)
	<u>18,721</u>	<u>18,053</u>	<u>159,368</u>
Investments and other assets:			
Investment securities (Notes 6 and 11)	3,624	1,557	30,850
Deferred tax assets (Note 10)	152	129	1,294
Other	2,631	1,877	22,398
	<u>6,407</u>	<u>3,563</u>	<u>54,542</u>
Total assets	<u>¥82,210</u>	<u>¥68,150</u>	<u>\$ 699,838</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)
	2006	2005	2006
Current liabilities:			
Short-term borrowings (Note 11)	¥ 16,369	¥ 13,933	\$ 139,346
Current portion of long-term debt (Note 11)	2,387	1,666	20,320
Trade notes and accounts payable	14,077	12,333	119,835
Income taxes payable (Note 10)	955	781	8,130
Deferred tax liabilities (Note 10)	162	26	1,379
Reserve for product warranties	190	143	1,617
Other current liabilities	5,826	5,189	49,596
	39,966	34,071	340,223
Long-term liabilities:			
Long-term debt (Note 11)	7,434	6,411	63,284
Directors' and statutory auditors' severance and retirement benefits	492	364	4,188
Liability for severance and retirement benefits (Note12)	700	609	5,959
Deferred income taxes (Note10)	440	289	3,746
Reserve for product warranties	164	144	1,396
Other long-term liabilities	593	769	5,048
	9,823	8,586	83,621
Minority interests	2,993	2,921	25,479
Contingent liabilities (Note 15)			
Shareholders' equity (Note 13):			
Common stock			
Authorised-150,000,000 shares at March 31, 2006 and 98,000,000 shares at March 31, 2005			
Outstanding-47,108,810 shares at March 31, 2006 and 2005	16,849	16,849	143,432
Additional paid-in capital	3,033	3,030	25,819
Retained Earnings	8,998	3,328	76,598
Net unrealized holding gains on securities	696	327	5,925
Foreign currency translation adjustments	(92)	(908)	(783)
Less-Treasury stock, at cost:			
79,200 shares at 31st March, 2006 and 80,107 shares at 31st March, 2005	(56)	(54)	(476)
	29,428	22,572	250,515
Total liabilities, minority interests and shareholders' equity	¥ 82,210	¥ 68,150	\$ 699,838

Consolidated statements of Income

Sodick Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales	¥ 66,961	¥ 57,371	\$ 570,026
Cost of sales	45,556	37,622	387,809
Gross profit	21,405	19,749	182,217
Selling, general and administrative expenses	14,385	12,934	122,457
Operating income	7,020	6,815	59,760
Other income (expenses):			
Interest expense	(446)	(518)	(3,797)
Interest and dividend income	108	50	919
Equity gains (losses) of affiliated companies	(7)	51	(60)
Foreign exchange gains (losses), net	1,568	406	13,348
Losses on disposal and sales of fixed assets	(157)	(278)	(1,337)
Losses on devaluation of Land	—	(817)	—
Impairment loss of fixed assets	(81)	—	(690)
Gains on sales of investment securities	339	10	2,886
Losses on sales of securities of affiliated companies	(372)	—	(3,167)
Gains on reversal of allowances of bad debts	157	125	1,337
Other, net	286	(70)	2,436
Income before income taxes and minority interests	8,415	5,774	71,635
Income taxes (Note 10)			
Current	1,589	1,085	13,526
Deferred	267	(1,228)	2,273
Total	1,856	(143)	15,799
Net income before minority interests	6,559	5,917	55,836
Minority interests	(439)	(681)	(3,738)
Net income	¥6,120	¥5,236	52,098

	Yen	U.S. dollars
Net income per share (Note 14):		
Basic	¥ 129.36	¥ 113.22
Diluted	—	110.81
Cash dividends, applicable to the year	15.00	10.00
		0.13

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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Common stock:			
Beginning balance	¥ 16,849	¥ 15,767	\$143,432
Conversion of convertible bond	—	1,082	—
Ending balance	<u>16,849</u>	<u>16,849</u>	<u>143,432</u>
Additional paid-in capital:			
Beginning balance	3,030	1,948	25,794
Conversion of convertible bond	—	1,082	—
Marginal gain of disposal of treasury stock	3	—	25
Ending balance	<u>3,033</u>	<u>3,030</u>	<u>25,819</u>
Retained earnings:			
Beginning balance	3,328	(1,499)	28,331
Bonus to directors and corporate statutory auditors	(39)	(78)	(332)
Cash dividends paid	(470)	(367)	(4,001)
Transfer from additional paid-in capital	0	—	0
Decrease in accumulated deficit for removal consolidated subsidiaries	23	—	196
Adjustment for inclusion of subsidiaries in consolidation	36	36	306
Net income	6,120	5,236	52,098
Ending balance	<u>8,998</u>	<u>3,328</u>	<u>76,598</u>
Net unrealized holding gains on securities:			
Beginning balance	327	263	2,784
Increase in unrealized holding gains on securities	369	64	3,141
Ending balance	<u>696</u>	<u>327</u>	<u>5,925</u>
Foreign currency translation adjustment:			
Beginning balance	(908)	(883)	(7,730)
Adjustments from translation of foreign currency financial statements	816	(25)	6,947
Ending balance	<u>(92)</u>	<u>(908)</u>	<u>(783)</u>
Treasury stock:			
Beginning balance	(54)	(27)	(460)
Increase	(2)	(27)	(16)
Ending balance	<u>(56)</u>	<u>(54)</u>	<u>(476)</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, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities :			
Income before income taxes and minority interests	¥ 8,415	¥5,774	\$ 71,635
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities :			
Depreciation and amortization	1,981	1,897	16,864
Amortization of goodwill	88	19	749
Increase (Decrease) in allowance for doubtful accounts	(114)	29	(970)
Interest and dividend income	(108)	(50)	(919)
Interest expenses	446	518	3,797
Foreign exchange gains, net	(382)	(240)	(3,252)
Equity losses (gains) of affiliated companies	8	(51)	68
Gain on sales of investment securities	(339)	—	(2,886)
Loss on sales of securities of affiliated companies	372	—	3,167
Loss on devaluation of land	—	817	—
Impairment loss of fixed assets	81	—	690
Increase in trade notes and accounts receivables	(1,259)	(3,678)	(10,718)
Increase in inventories	(1,367)	(3,691)	(11,637)
Increase in trade notes and account payable	631	1,376	5,372
Increase (Decrease) in discounted trade notes	(2,450)	390	(20,856)
Increase (Decrease) in other payables	273	(441)	2,323
Other, net	352	1,422	2,996
Sub total	6,628	4,091	56,423
Interest and dividends received	107	49	911
Interest paid	(441)	(513)	(3,754)
Income taxes paid	(1,385)	(903)	(11,791)
Net cash provided by operating activities	4,909	2,724	41,789
Cash flows from investing activities :			
Decrease in time deposits	—	191	—
Payments for purchases of property, plant and equipment	(2,766)	(3,247)	(23,546)
Proceeds from sales of property, plant and equipment	520	190	4,427
Payments for acquisition of intangible assets	(312)	(257)	(2,656)
Payments for acquisition of investment securities	(957)	(385)	(8,147)
Proceeds from sales of investment securities	623	188	5,303
Payments for acquisition of subsidiaries and affiliated companies	(1,991)	—	(16,949)
Collection of loan receivables	37	52	315
Other, net	(128)	(177)	(1,089)
Net cash used in investing activities	(4,974)	(3,445)	(42,342)
Cash flows from financing activities :			
Increase in short-term borrowings	2,078	843	17,690
Proceeds from long-term debt	1,900	4,265	16,174
Repayment of long-term debt	(1,947)	(4,759)	(16,574)
Proceeds from issuance of debenture bonds	2,000	1,500	17,026
Redemption of debenture bond	—	(855)	—
Proceeds from issuance of common stock to minority shareholders	571	15	4,861
Cash dividends paid	(470)	(367)	(4,001)
Repayment of financial leases obligations	(189)	—	(1,609)
Cash dividends paid to minority shareholders	(103)	(101)	(877)
Other, net	8	—	67
Net cash provided by financing activities	3,848	541	32,757
Effect of exchange rate changes on cash and cash equivalents	276	27	2,350
Net increase (decrease) in cash and cash equivalents	4,059	(153)	34,554
Cash and cash equivalents beginning balance	8,146	8,229	69,345
Increase in cash and cash equivalents due to changes in scope of consolidation	23	70	196
Cash and cash equivalents ending balance (Note 3)	¥12,228	¥8,146	\$104,095

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 statements 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.

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, 2006, which was ¥117.47 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 its 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 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 the fair market value of 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) Accounting Standard for Impairment of Fixed Assets

The Company and its domestic subsidiaries adopted 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 “Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets” (the Financial Accounting Standard Implementation Guidance No.6 issued by Accounting Standard Board of Japan on October 31, 2003).

As a result, net income before income taxes decreased by ¥81 million.

In addition, accumulated impairment loss is deducted directly from the acquisition cost of related assets.

(j) Lease

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

(k) Accounting method of deferred assets

(1) New share issuance expense

New share issuance expense is charged to earnings as incurred

(2) Bond issuance expense

Bond issuance expense is charged to earnings as incurred

(l) 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 liability for severance and retirement benefits at March 31, 2006 and 2005 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

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, are estimated based on the amount calculated in accordance with interval rules and an approval at a meeting of shareholders is required for such payments.

(m) 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 cost.

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 and was charged to cost of sales. The costs of product warranties relating to the prior periods, amounting to ¥117 million, were changed to other expenses in the year ended March 31, 2005.

As a result, at March 31, 2005, operating income decreased by ¥169 million and net income before income taxes and minority interests decreased by ¥287 million, compared with that would have been reported under the previous accounting policy.

(n) Research and Development

Research and development expenses are expensed as incurred. Research and development expenses for the years ended March 31, 2006 and 2005 amounted to ¥1,860 million (\$15,834 thousand) and ¥1,624 million, respectively.

(o) 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 the year ended March 31, 2005.

(p) 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.

(q) Reclassifications

Certain reclassifications within the financial statements for the year ended March 31, 2005 have been made to conform to the presentation for the year ended March 31, 2006.

Note 3 Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash on hand and in banks	¥ 12,228	¥ 8,174	\$ 104,095
Time deposits with the original maturity over three months	—	(28)	—
Cash and cash equivalents	¥ 12,228	¥ 8,146	\$ 104,095

Note 4 Statement of Cash Flows

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

For the year ended March 31, 2006, Excera Inc. was excluded from consolidated subsidiaries. The amounts of assets and liabilities at the selling of consolidated subsidiary's stock, proceeds from sale of subsidiaries' stock and the payment for sale of subsidiary's stock are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 416	\$ 3,541
Long-term assets	202	1,720
Current liabilities	(330)	(2,809)
Long-term liabilities	(177)	(1,507)
Minority interests	(35)	(298)
Gains on sale of subsidiary's stock	(34)	(289)
Proceeds from sales of subsidiary's stock	42	358
Cash and cash equivalents	(106)	(903)
Payment for sales of subsidiary's stock	¥ (64)	\$ (545)

(2) Noncash Investing and Financing Activities

(a) Conversion of Convertible bonds

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Increase in common stock	—	¥ 1,082	—
Increase in additional paid-in capital	—	1,082	—
Decrease in convertible bonds	—	¥ 2,164	—

(b) Finance lease obligations incurred

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finance lease obligations incurred	¥ 218	¥ 112	\$ 1,856
	¥ 218	¥ 112	\$ 1,856

Note 5 Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Finished Goods	¥ 4,793	¥ 4,077	\$ 40,802
Work in progress	5,712	5,394	48,625
Raw materials	6,121	5,068	52,107
	¥ 16,626	¥ 14,539	\$ 141,534

Note 6 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, 2006:

Available-for-sale securities

Securities with book values exceeding acquisition costs

2006	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Type						
Equity securities	¥ 1,051	¥ 2,220	¥ 1,169	\$ 8,947	\$ 18,898	\$ 9,951
Other	165	187	22	1,405	1,592	187
Total	¥ 1,216	¥ 2,407	¥ 1,191	\$ 10,352	\$ 20,490	\$ 10,138

Securities with book values not exceeding acquisition costs

2006	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Type						
Equity securities	¥ 34	¥ 30	¥ (4)	\$ 289	\$ 255	\$ (34)
Bonds	500	493	(7)	4,257	4,197	(60)
Others	269	263	(6)	2,290	2,239	(51)
Total	¥ 803	¥ 786	¥ (17)	\$ 6,836	\$ 6,691	\$ (145)

The following tables summarize book values of securities with no available fair values as of March 31, 2006:

2006	Book value	
	Millions of yen	Thousands of U.S. dollars
Type		
Non-consolidated subsidiaries and affiliates securities	¥ 363	\$ 3,090
Non-listed securities	68	579
Total	¥ 431	\$ 3,669

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

2006	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
Type								
Bonds	¥ —	¥ —	¥ —	¥ 493	\$ —	\$ —	\$ —	\$ 4,197
Investment trust	—	4	—	—	—	34	—	—
Total	¥ —	¥ 4	¥ —	¥ 493	\$ —	\$ 34	\$ —	\$ 4,197

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		
	Acquisition cost	Book value	Difference
Type			
Equity securities	¥ 561	¥ 1,130	¥ 569
Others	32	34	2
Total	¥ 593	¥ 1,164	¥ 571

Securities with book values not exceeding acquisition costs

2005	Millions of yen		
	Acquisition cost	Book value	Difference
Type			
Equity securities	¥ 91	¥ 78	¥ (13)
Others	139	132	(7)
Total	¥ 230	¥ 210	¥ (20)

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

2005	Book value
	Millions of yen
Type	
Non-consolidated subsidiaries and affiliates securities	¥ 133
Non-listed securities	50
Total	¥ 183

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

2005	Millions of yen			
	Within one year	Within five years	Within ten years	Over ten years
Type				
Investment trust	¥ —	¥ 3	¥ —	¥ —
Total	¥ —	¥ 3	¥ —	¥ —

Note 7 Impairment loss

During the fiscal year ended March 31, 2006, the Company and its domestic consolidated subsidiaries recognized impairment loss on following group of assets;

Location	Use	Classification	Amount (millions of JPY)
Suzhou, China	Manufacturing equipment of die and mold goods	Buildings and tools	39
Yokohama, Kanagawa, etc	Idle assets	Machines and tools	23
Kaga, Ishikawa	Idle assets	Lease assets	19

The Company and consolidated subsidiaries classified fixed assets into groups on the basis of operating segments in the management reporting, which are the units making investment decisions. However, lease assets and idle assets that are not directly used for its business operation are grouped on a property-by-property basis.

Because the above assets groups are idle or planed to be disposed and have uncertain prospects for future utilization, their carrying amount have been devaluated to their recoverable amount. As a result, the Company recognized loss on impairments. Recoverable amount of each group of assets is the amount of net selling price. The Company mainly used appraisal value prepared by real-estate appraiser.

Note 8 Leases

(a) Lessee

The following pro forma amounts present the acquisition costs, accumulated depreciation, cumulative impairment losses and net book value of the property leased to the Company and consolidated subsidiaries as of March 31, 2006 and 2005, 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	Cumulative impairment losses	Net book value	Acquisition cost	Accumulated depreciation	Cumulative impairment losses	Net book value
2006								
Buildings and structures	¥ 134	¥ 41	¥ —	¥ 93	\$ 1,141	\$ 349	\$ —	\$ 792
Machinery and equipment	778	504	18	256	6,623	4,291	153	2,179
Tools and fixtures	93	50	2	41	792	426	17	349
Other (Intangible fixed assets) .	24	12	—	12	204	102	—	102
	¥ 1,029	¥ 607	¥ 20	¥ 402	\$ 8,760	\$ 5,168	\$ 170	\$ 3,422
2005								
Machinery and equipment	¥ 1,069	¥ 615	¥ —	¥ 454				
Tools and fixtures	58	29	—	29				
	¥ 1,127	¥ 644	¥ —	¥ 483				

Lease payments of the Company and consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥209 million (\$1,779 thousand) and ¥177 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005, amounted to ¥209 million (¥1,779 thousand) and ¥177 million, respectively.

Future minimum payments (including the interest portion thereon) subsequent to March 31, 2006 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 ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 209	\$ 1,779
2008 and thereafter	212	1,805
	¥ 421	\$ 3,584
Amount of impairment loss of leased assets	¥ 13	\$ 111

(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 as operating lease at March 31, 2006 and 2005.

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
2006						
Machinery and equipment	¥ 843	¥ 553	¥ 290	\$ 7,176	\$ 4,707	\$ 2,469
	¥ 843	¥ 553	¥ 290	\$ 7,176	\$ 4,707	\$ 2,469
2005						
Machinery and equipment	¥ 1,007	¥ 586	¥ 421			
	¥ 1,007	¥ 586	¥ 421			

Lease income of the Company and consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥217million (\$1,847 thousand) and ¥252 million for the years ended March 31, 2006 and 2005, 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, 2006 and 2005, amounted to ¥131 million (\$1,115 thousand) and ¥161 million, respectively.

Future minimum income (including the interest portion thereon) subsequent to March 31, 2006 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 ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 182	\$ 1,549
2008 and thereafter	407	3,465
	¥ 589	\$ 5,014

Note 9 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 payables 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, 2006 and 2005 of derivative transactions for which hedge accounting has not been applied:

Currency related

	Type	Millions of yen				Thousands of U.S. dollars			
		Year ending March 31, 2006				Year ending March 31, 2006			
		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 Exchange contract on seller's side								
	Euro	¥ 838	¥ —	¥ 849	¥ (11)	\$ 7,134	\$ —	\$ 7,227	\$ (94)
	U.S. dollars	—	—	—	—	—	—	—	—
	Foreign currency option contracts								
	Sell :								
	U.S. \$ Call	¥ 711				\$ 6,053			
		(3)	¥ —	¥ 5	¥ (2)	(26)	\$ —	\$ 43	\$ (17)
Buy :									
U.S. \$ Put	355		1	(2)	3,022		9	(17)	
	(3)	—			(26)	—			
Total	¥ —	¥ —	¥ —	¥ (16)	\$ —	\$ —	\$ —	\$ (136)	

Currency related

	Type	Millions of yen				Thousands of U.S. dollars			
		Year ending March 31, 2005				Year ending 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 :								
	U.S. \$ Call	¥ 1,019	¥ —	¥ 19	¥ (12)	\$ 8,675	\$ —	\$ 162	\$ (102)
		(7)				(60)			
Buy :									
U.S. \$ Put	509		2	(2)	4,333		17	(17)	
	(4)	—			(34)	—			
Total	¥ —	¥ —	¥ —	¥ (14)	\$ —	\$ —	\$ —	\$ (119)	

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

Note 10 Income Taxes

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

The Company and consolidated domestic subsidiaries used the aggregate statutory income tax rates of 40.6% at March 31, 2006, 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, 2006 and 2005:

	2006	2005
Statutory tax rate	40.6%	40.7%
Tax rate differences between Japan and foreign subsidiaries countries	(5.6)	(6.3)
Non-deductible expenses	0.6	0.5
Per capita inhabitant tax	0.6	0.8
Loss carried forward	(1.8)	(7.8)
Valuation allowance	(15.1)	(34.9)
Other	2.8	4.5
Effective tax rate	22.1%	(2.5)%

Significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets;			
Allowance for doubtful accounts	¥ 237	¥ 318	\$ 2,018
Loss from valuation of inventories	388	357	3,303
Accrued bonuses	200	152	1,703
Loss from valuation of securities	94	490	800
Loss carried forward	789	1,775	6,716
Liability for severance and retirement benefits	282	—	2,401
Directors' retirement allowance	197	—	1,677
Other	1,162	925	9,891
Total deferred tax assets	3,349	4,017	28,509
Valuation allowance	(1,750)	(2,300)	(14,897)
Net deferred tax assets	¥ 1,599	¥ 1,717	\$ 13,612

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax liabilities			
Net unrealized holding gains on securities	¥483	¥ 227	\$ 4,112
Foreign exchange gains	115	103	979
Subsidiaries' retained earnings	162	—	1,379
Other	0	26	—
Total deferred tax liabilities	¥ 760	¥ 356	\$ 6,470

Note 11 Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2006 and 2005 represent secured loans from the financial institutions.

The interest rates on short-term borrowings from banks and an insurance company were 0.6% to 5.6%, with the weighted average rate of 1.0% as of March 31, 2006 and 0.8% to 5.2% with the weighted average rate of 1.7% as of March 31, 2005, respectively.

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
1.0% to 6.1% mortgage loans from banks and financial institutions, due in installments through 2014	¥ 5,881	¥ 6,137	\$ 50,063
0.54% debenture bonds due in 2007	220	220	1,873
1.30% debenture bonds due in 2009	500	500	4,256
0.26% debenture bonds due in 2009	1,000	1,000	8,513
0.78% debenture bonds due in 2006	220	220	1,873
0.28% debenture bonds due in 2009	1,000	—	8,513
1.14% debenture bonds due in 2009	1,000	—	8,513
	9,821	8,077	83,604
Less-Current portion included in current liabilities	(2,387)	(1,666)	(20,320)
	¥ 7,434	¥ 6,411	\$ 63,284

The following assets as of March 31, 2006 and 2005 were pledged as collateral for certain loans and bank guarantee for debenture bonds of ¥1,500 million.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and cash equivalents	¥ 32	¥ 37	\$ 272
Trade notes and accounts receivable	145	335	1,234
Other current assets	122	190	1,039
Property, plant and equipment with a net book value	8,915	9,263	75,892
Investments securities	471	423	\$ 4,010

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, the 0.26% debenture bonds of ¥1,000 million on December 29, 2004 the 0.28% debenture bonds of 1,000 million on March 9, 2006, and the 1.14% debenture bonds of ¥1,000 million on March 27, 2006.

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, 2006, the aggregate annual maturity of long-term debt subsequent to March 31, 2006, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 2,387	\$ 20,320
2008	1,252	10,658
2009	4,167	35,473
2010	1,636	13,927
2011	90	766
2012 and thereafter	289	2,460
	¥ 9,821	\$ 83,604

Note 12 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
	2006	2005	2006
Projected benefit obligation	¥ (1,771)	¥ (1,687)	\$ (15,076)
Less fair value of plan assets	985	828	8,385
Funded status	(786)	(859)	(6,691)
Unrecognized actuarial loss	39	198	332
Unrecognized prior service cost	47	52	400
Liability for severance and retirement benefit, net	¥ (700)	¥ (609)	\$ (5,959)

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs-benefits earned during the year	¥ 140	¥ 140	\$ 1,192
Interest cost on projected benefit obligation	33	33	281
Expected return on plan assets	(25)	(25)	(213)
Unrecognized actuarial loss	39	58	332
Unrecognized transition obligation	—	44	—
Amortization of prior service cost	6	—	51
Severance and retirement benefit expenses	¥ 193	¥ 250	\$ 1,643

The discount rates used by the Company were 2.0% for the years ended March 31, 2006 and 2005. The rates of expected return on plan assets were 3.0% for the years ended March 31, 2006 and 2005, 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 income 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 13 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, 2006, the general shareholders' meeting approved cash dividends of ¥470 million (\$4,001 thousand), or ¥10 (\$0.09) per share, payable to shareholders of record as of March 31, 2006. In conformity with the Code, this declaration of cash dividends is not reflected in the consolidated financial statements as of March 31, 2006.

Note 14 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 15 Contingent Liabilities

As of March 31, 2006, the Company and certain subsidiaries were contingently liable for discounted notes receivable with banks of ¥173 million (\$1,473 thousand).

The Company provides the debt guarantee for the loan from financial institutes for the following subsidiary company.

Company	Amount	Contents
EMG Co., Ltd.	¥172 million	Bank Loan

Note 16 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, 2006 and 2005, the Company had the following transactions with Mep:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Purchase of raw materials	¥ —	¥ 484	\$ —
Supply of raw materials	—	107	—
Receipt of rent	—	4	—
Acquisition of securities	¥ 42	¥ 33	\$ 358

Due from and due to Mep as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other receivables	¥ —	0	\$ —

Note 17 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
2006						
Sales to third parties	¥ 47,518	¥ 13,420	¥ 6,023	¥ 66,961	¥ —	¥ 66,961
Intersegment sales and transfers	19	13	15	47	(47)	—
Total sales	47,537	13,433	6,038	67,008	(47)	66,961
Cost of sales and selling, general and administrative expenses	40,365	12,896	5,504	58,765	1,176	59,941
Operating income	7,172	537	534	8,243	(1,223)	7,020
Identifiable assets	54,459	12,691	6,418	73,568	8,642	82,210
Depreciation	1,293	284	328	1,905	76	1,981
Impairment losses	12	19	47	78	3	81
Capital expenditure	¥ 2,338	¥ 408	¥ 247	¥ 2,993	¥ 30	¥ 3,023

	Thousands of U.S. dollars					
	Machine tools	Industrial machinery	Others	Total	Eliminations and corporate	Consolidated
2006						
Sales to third parties	\$ 404,512	\$ 114,242	\$ 51,272	\$ 570,026	\$ —	\$ 570,026
Intersegment sales and transfers	162	110	128	400	(400)	—
Total sales	404,674	114,352	51,400	570,426	(400)	570,026
Cost of sales and selling, general and administrative expenses	343,620	109,781	46,854	500,255	10,011	510,266
Operating income	61,054	4,571	4,546	70,171	(10,411)	59,760
Identifiable assets	463,599	108,036	54,636	626,271	73,567	699,838
Depreciation	11,007	2,418	2,792	16,217	647	16,864
Impairment losses	102	162	400	664	26	690
Capital expenditure	\$ 19,903	\$ 3,473	\$ 2,103	\$ 25,479	\$ 255	\$ 25,734

	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

(b) Geographical Segment Information

Geographical segment information for the years ended March 31, 2006 and 2005 was as follows:

2006	Millions of yen						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	¥ 43,897	¥ 4,219	¥ 4,909	¥ 13,936	¥ 66,961	¥ —	¥ 66,961
Interarea sales and transfers	14,646	218	16	20,680	35,560	(35,560)	—
Total sales	58,543	4,437	4,925	34,616	102,521	(35,560)	66,961
Cost of sales and selling, general and administrative expenses	51,509	4,209	4,976	33,121	93,815	(33,874)	59,941
Operating income	7,034	228	(51)	1,495	8,706	(1,686)	7,020
Identifiable assets	¥ 62,211	¥ 2,923	¥ 4,931	¥ 22,630	¥ 92,695	¥ (10,485)	¥ 82,210

2006	Thousands of U.S. dollars						
	Japan	America	Europe	Asia	Total	Eliminations and corporate	Consolidated
Sales to third parties	\$ 373,687	\$ 35,916	\$ 41,789	\$ 118,634	\$ 570,026	\$ —	\$ 570,026
Interarea sales and transfers	124,679	1,855	137	176,045	302,716	(302,716)	—
Total sales	498,366	37,771	41,926	294,679	872,742	(302,716)	570,026
Cost of sales and selling, general and administrative expenses	438,487	35,830	42,360	281,952	798,629	(288,363)	510,266
Operating income	59,879	1,941	(434)	12,727	74,113	(14,353)	59,760
Identifiable assets	\$ 529,591	\$ 24,883	\$ 41,977	\$ 192,644	\$ 789,095	\$ (89,257)	\$ 699,838

2005	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

(c) Overseas Sales Information

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 2006 and 2005, were summarized as follows:

2006	Millions of yen				Thousands of U.S. dollars			
	America	Europe	Asia	Total	America	Europe	Asia	Total
Overseas sales	¥ 4,814	¥ 5,369	¥ 24,489	¥ 34,672	\$ 40,981	\$ 45,705	\$ 208,470	\$ 295,156
Consolidated net sales	—	—	—	66,961	—	—	—	570,026
Overseas sales to consolidated net sales	7.2 %	8.0 %	36.6 %	51.8 %	7.2 %	8.0 %	36.6 %	51.8 %

2005	Millions of yen			
	America	Europe	Asia	Total
Overseas sales	¥ 3,697	¥ 4,013	¥ 19,037	¥ 26,747
Consolidated net sales	—	—	—	57,371
Overseas sales to consolidated net sales	6.4 %	7.0 %	33.2 %	46.6 %

Note 18 Subsequent Events

1. The Company has determined issuance of new shares and secondary offering of shares, which were approved by the board of directors on May 24, 2006. The issuance consist of offering of newly issued shares, secondary offering of the shares(over-allotments) and issuance of new shares by allocation to a third party.

(1)New share issuance

(a)Number of new shares issued	6,000,000 shares of common stock of the company
(b)Issue price per share	¥1,230.43 per share
(c)Stated capital per share	¥621 per share
(d)Offering method	Public offering
(e)Underwriting fee	Underwriter shall not receive underwriting fee. Underwriter will receive the difference between the offering price and issue price as net proceeds.
(f)Application period	Three days beginning from June 7, 2006
(g)Payment date	June 14, 2006
(h)Use of proceeds	Capital investment (expansion of headquarters office etc.) Research and development cost Repayment of borrowings

(2)Secondary offering of shares (offering through over-allotments)

(a)Number of shares to be offered	850,000 shares of common stock of the company
(b)Selling shareholder and Number of shares to be offered	SMBC Friend Securities Co., Ltd. 850,000 shares
(c)Offering price per share	¥1,300 per share
(d)Secondary offering method	The offering of shares through over allotment conducted by SMBC Friend Securities Co., Ltd., in respect of up to 850,000 shares of common stock of the company borrowed by SMBC from shareholders of the company.
(e)Application period	Three days beginning from June 7, 2006
(f)Delivery date	June 15, 2006

(3)Allotment of shares in the Private Placement of New shares

(a)Number of shares to be offered	850,000 shares of common stock of the company
(b)Issue price per share	¥1,240.43 per share
(c)Stated capital per share	¥621 per share
(d)Allottee and number of shares	SMBC Friend Securities Co., Ltd. 850,000 shares of common stock of the company
(e)Application period	July 14, 2006
(f)Payment date	July 14, 2006
(g)Use of proceeds	Capital investment (expansion of headquarters office etc.) Research and development cost Repayment of debt

(4)Change in number of outstanding shares	
(a)Total outstanding shares at present	47,108,810 shares as of May 24, 2006
(b)Increase due to public offering	6,000,000 shares
(c)Total outstanding shares after offering	53,108,810 shares
(d)Increase due to private placement(Note)	850,000 shares
(e)Total outstanding shares after private placement (Note)	53,958,810 shares

Note: The increase due to private placement and total outstanding shares after private placement assume that SMBC Friend Securities Co., Ltd. subscribes for and is issued all shares to be issued above in "(3) Allotment of shares in the Private Placement of New shares".

2. On June 19, 2006, at the meeting of board of directors, the directors resolved to establish a new subsidiary company and open a new factory to manufacture electrical discharge machines as follows;

Outline of the new company

(1) Name of the company	Sodick Amoy Co., Ltd.
(2) Location	No.1 Plot, Wes Xinyang Industrial Area, Haicang District, Xiamen, Fujian Proviencie, China
(3) Description of business	Manufacturing and sales of NC electrical discharge machines
(4) Estimate date of establishment	July 2006
(5) Shareholders	The Company (100%)
(6) Capital amount	430 thousand US Dollars

Outline of the new factory

(1) Location	No.1 Plot, Wes Xinyang Industrial Area, Haicang District, Xiamen, Fujian Proviencie, China
(2) Ground-floor area	58,000m ²
(3) Architectural area	46,500m ²
(4) Estimate date of beginning of construction	September 2006
(5) Estimate date of beginning of operation	July 2007
(6) Estimate amount of investment	30,000 thousand of US dollars

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, 2006 and 2005, 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, 2006 and 2005, 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 7 to the consolidated financial statements, from the fiscal year ended March 31, 2006, Sodick Co., Ltd and domestic subsidiaries have adopted the new accounting standards for impairments of fixed assets.
- (2) As discussed in Note 18 to the consolidated financial statements, Sodick Co., Ltd resolved to issue new shares in public offering and resolved to make allotment of shares in private placement of new shares, which were approved at the meeting of board of directors on May 24, 2006.
- (3) As discussed in Note 18 to the consolidated financial statements, Sodick Co., Ltd resolved to establish a new subsidiary company and factory, which was approved at the meeting of board of directors on June 19, 2006.
- (4) As discussed in Note 2 (m) 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 AZSAB Co.

Tokyo, Japan
June 29, 2006

Corporate Information



Corporate Profile

(as of March 31, 2006)

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	204 (3,090 consolidated)
Connection subsidiary	36
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

(as of June 29, 2006)

President	Shigeo Shioda
Senior Managing Director	Takashi Yamamoto Kazuo Katoh
Managing Director	Koji Taki Katsuhide Fujiwara
Director	Sadao Sano Takeshi Ichikawa Yuji Kaneko Tomohide Kawamoto
Standing Statutory Auditors	Saeji Kusunoki Sakuo Ueno
Statutory Auditors	Sadao Simoyama Akiyoshi Koyama Masao Aihara

Company Location

Sodick Co., Ltd.

3-12-1 Nakamachidai, Tsuzuki-ku,
Yokohama, Kanagawa 224-8522, Japan
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
Yokohama, Kanagawa 222-0033, Japan
Tel : +81-45-475-3977 Fax: +81-45-475-3944

Sodick Hightech Co., Ltd.

1-5-1 Shinyokohama, kouhoku-ku
Yokohama, Kanagawa 222-0033, Japan
Tel : +81-45-473-6861 Fax: +81-45-473-6886

Sodick CPC Co., Ltd.

2-3-9 Shinyokohama, kouhoku-ku
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 Crecent #01-03/04 Excalibur Centre, Singapore 408571
Tel: +65-6746-9089 / Fax: +65-6746-9048

Sodick (Taiwan) Co., Ltd.

No.26, Keji 1st Road, Hwa-Ya Tech Park Gueishan, Taoyuan 333,
Taiwan
Tel: +886-3328-9885 / Fax: +886-3328-0885

Sodick Engineering Service(Thailand) Co., Ltd.

344/1 344/4 Soi Soonvijai 4, Rama 9 Road, Bangkokpi,
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