

# Financial Section

## Five-Year Summary

Daifuku Co., Ltd. and consolidated subsidiaries  
Years ended March 31, 2006, 2005, 2004, 2003, and 2002

	2006	2006	2005	2004	2003	2002
	(Millions of yen and thousands of U.S. dollars)					
<b>For the Year</b>						
Net sales	¥198,811	\$1,692,441	¥166,232	¥138,661	¥144,108	¥134,628
Cost of sales	159,312	1,356,190	134,696	115,034	120,775	113,188
Selling, general and administrative expenses	22,982	195,640	20,746	18,269	18,672	19,236
Operating income	16,517	140,611	10,790	5,358	4,660	2,203
Income before income taxes and minority interests	16,741	142,509	8,580	3,146	2,050	987
Net income	10,253	87,278	5,231	1,635	1,164	285
Net income per share (Yen and U.S.dollars)	92.20	0.78	46.07	14.50	10.22	2.51
Cash dividends per share (Yen and U.S.dollars)	18.00	0.15	13.00	10.00	10.00	10.00
Capital investment	5,236	44,570	3,671	1,374	1,276	1,719
Depreciation	2,271	19,334	2,184	2,474	2,829	3,321
R&D expenditures	7,629	64,947	4,970	4,231	4,253	4,803
<b>At Year-End</b>						
Total assets	¥181,990	\$1,549,246	¥147,158	¥129,712	¥130,400	¥139,746
Working capital	52,249	444,784	42,575	40,440	47,157	39,176
Interest bearing liabilities	33,856	288,206	29,136	32,050	38,600	44,000
Shareholders' equity	68,882	586,381	53,337	49,082	49,026	50,221
Shareholders' equity per share (Yen and U.S.dollars)	608.12	5.18	480.14	442.61	432.93	441.83
No. of employees	4,109		3,716	3,453	3,506	3,496
<b>Ratios</b>						
Operating income/sales	8.3%		6.5%	3.9%	3.2%	1.6%
Income before income taxes and minority interests/sales	8.4		5.2	2.3	1.4	0.7
Net income/sales	5.2		3.1	1.2	0.8	0.2
Return on shareholders' equity (ROE)	16.8		10.2	3.3	2.3	0.6
Shareholders' equity/total assets	37.8		36.2	37.8	37.6	36.0

Note: The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥117.47 = U.S.\$1.00 on the Tokyo Foreign Exchange Market on March 31, 2006.

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# Consolidated Financial Review

## Scope of Consolidation

For fiscal 2005, ended March 31, 2006, the consolidated accounts comprised Daifuku Co., Ltd. and 37 consolidated subsidiaries. During the fiscal year under review, six Group

companies and four newly established companies were added to the scope of consolidation. This increased the number of consolidated subsidiaries by 10.

## Net Sales

During the fiscal year under review, corporate capital expenditures remained robust in Japan as well as overseas, spurred by domestic economic recovery and strong results in other Asian countries. Against this backdrop, our sales remained strong, primarily in the Logistics System business. Sales of cleanroom transport and storage systems used in the electronics industry and conveyor systems for the automobile industry were particularly favorable, in both domestic and overseas markets. As a result, consolidated net sales rose 19.6% from the previous fiscal year to

198,811 million yen. Of total consolidated net sales, overseas net sales (sales to overseas customers) climbed 29.1% to 82,766 million yen, accounting for 41.6% of total consolidated net sales, up from 38.6% in the previous fiscal year. By region, net sales were 19,717 million yen in North America, 54,850 million yen in Asia, and 8,199 million yen in other regions. Proportions for each geographic segment as a percentage of total consolidated net sales were 9.9%, 27.6% and 4.1%, respectively.

## Income

During the fiscal year under review, we significantly improved operating income by 53.1% from the previous fiscal year, to 16,517 million yen. This was brought about by a raft of cost reduction measures: the improved operational capacity associated with increased orders; through the implementation of cost controls by the introduction of a project manager system for large-scale system projects; strict optimal global production; reduction of variable expenses due to the higher degree of local procurement; and effective use of new production control systems leveraging IT. As a result, the operating income margin grew to 8.3% from 6.5% in the previous fiscal year.

In other income and expenses, income before income taxes and minority interests soared 95.1% year on year to 16,741 million yen, while net income climbed 96.0% to 10,253 million yen. These results were mainly attributable to a 622 million yen loss on disposal of property, plant and equipment, an 866 million yen gain from termination of the

defined benefit retirement benefit plans, and the absence of a 583 million yen special provision for retirement benefit costs and 429 million yen special accrued directors' retirement benefits recorded in the previous fiscal year. Accordingly, the ratio of income before income taxes and minority interests to net sales was 8.4%, compared with 5.2% in the previous fiscal year, and the ratio of net income to net sales improved from 3.1% to 5.2%.

Net income per share totaled 92.20 yen, up from 46.07 yen in the previous fiscal year. To this end, Daifuku decided to distribute a dividend for the year of 18 yen per share, an increase of 5 yen per share from the previous fiscal year, with the approval of the ordinary general meeting of shareholders held in June 2006. The Company did not make an interim dividend payment in the fiscal year under review, but plans to implement interim dividend payments from the fiscal year ending March 31, 2007.

## Financial Standing

As of March 31, 2006, current assets grew 30.4% from the previous fiscal year to 136,978 million yen. This was attributable to increases in cash and cash equivalents, notes and accounts receivable as well as inventories in line with sales growth during the fiscal year under review. Meanwhile, fixed assets rose 7.0% to 45,012 million yen due to an increase of capital expenditure from 3,671 million yen in the previous fiscal year to 5,236 million yen. As a result, total assets grew 23.7% year on year to 181,990 million yen.

Current liabilities expanded 35.7% from the previous fiscal year to 84,729 million yen, reflecting increases in trade payable and advances on sales contracts, as well as the refinancing of the current portion of long-term debt to short-term borrowings. Despite an increased issuance of

unsecured bonds and issuance of convertible bonds with stock acquisition rights, long-term liabilities decreased 10.7% to 27,458 million yen, owing to the aforementioned refinancing of the current portion of long-term debt to short-term borrowings and a decrease in accrued severance indemnities.

Total shareholders' equity rose 29.1% to 68,882 million yen due to an increase in retained earnings and additional paid-in capital in line with the retirement of treasury stock. As a result, the shareholders' equity ratio was 37.8% as of March 31, 2006, compared with 36.2% a year earlier. Shareholders' equity per share increased to 608.12 yen from 480.14 yen in the previous fiscal year. In addition, return on equity (ROE) improved to 16.8%, compared with 10.2%.

## Cash Flows

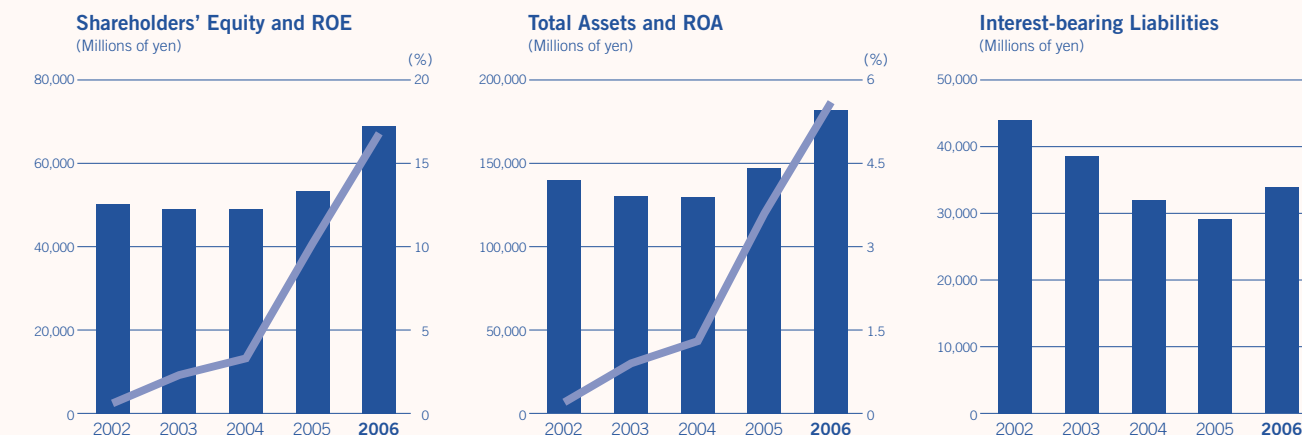
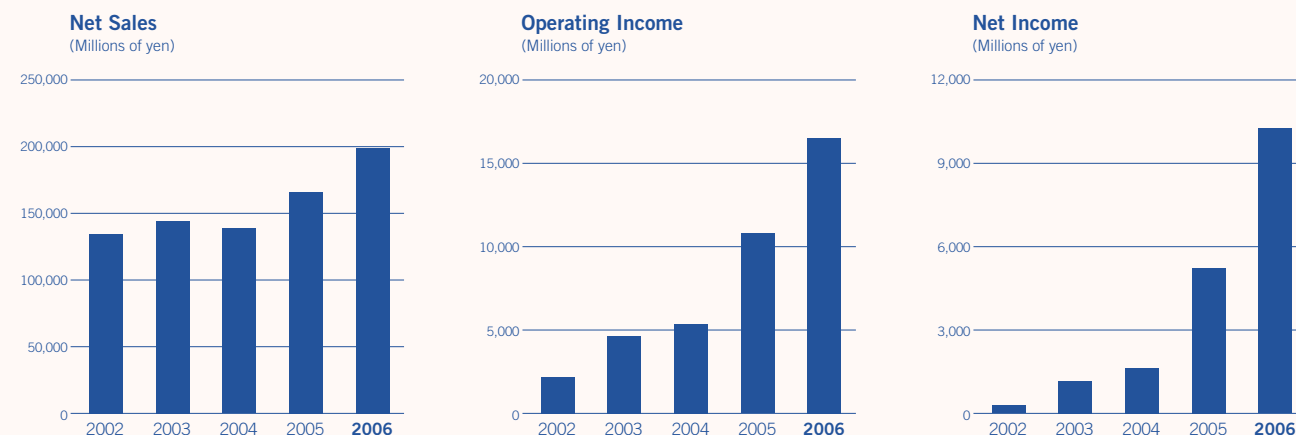
In the fiscal year ended March 31, 2006, net cash provided by operating activities was 4,800 million yen, compared with 11,245 million yen in the previous fiscal year. The main sources of cash were an increase in income before income taxes and minority interests due to a significant upturn in business performance, and an increase in advances on sales contracts in line with the improvement in contractual conditions. Principal cash outflows included an increase in inventories, along with order volume expansion. Accounting for these factors, net cash provided by operating activities was down from the previous fiscal year.

Net cash used in investing activities amounted to 4,357 million yen, down from 5,373 million yen in the previous fiscal year. This was mainly due to an increase in payments for purchase of property, plant and equipment, and purchase of investments in and advanced to non-consolidated

subsidiaries.

Net cash provided by financing activities was 8,021 million yen, reversing a 4,021 million yen outflow in the previous fiscal year. The principal components of this result were proceeds from sales of treasury stock and proceeds from issuance of third series convertible bonds with stock acquisition rights.

After factoring in the effect of exchange rate change, there was a net cash increase of 9,108 million yen in cash and cash equivalents in the fiscal year under review, an increase from 2,142 million yen a year earlier. Cash and cash equivalents at the end of the year (including cash and cash equivalents held by newly consolidated subsidiaries at the beginning of the year) totaled 29,851 million yen, compared with 20,441 million yen at the end of the previous fiscal year.



# Consolidated Balance Sheets

Daifuku Co., Ltd. and consolidated subsidiaries  
March 31, 2006 and 2005

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥ 29,851	¥ 20,441	\$ 254,119
Notes and accounts receivable (Note 15)			
Trade	52,634	44,666	448,066
Other	691	549	5,882
Inventories (Note 6)	45,887	33,639	390,626
Deferred income taxes (Note 14)	3,223	2,278	27,438
Other current assets (Note 15)	5,045	3,717	42,936
Less; allowance for doubtful accounts	(353)	(265)	(3,001)
Total current assets	136,978	105,025	1,166,066
<b>Investments and long-term receivables:</b>			
Investments in securities (Note 5)	6,412	4,765	54,586
Investments in and advances to non-consolidated subsidiaries and affiliates	2,130	1,708	18,134
Long-term loans	193	192	1,647
Long-term receivables and other	2,112	2,219	17,972
Less; allowance for doubtful accounts	(366)	(747)	(3,120)
Total investments and long-term receivables	10,481	8,137	89,219
<b>Property, plant and equipment:</b>			
Land (Note 7)	8,091	7,892	68,878
Buildings and structures (Note 7)	33,904	33,727	288,618
Machinery and equipment	21,193	21,926	180,414
Construction in progress	1,070	32	9,110
	64,258	63,577	547,020
Less; accumulated depreciation	37,096	39,040	315,794
Net property, plant and equipment	27,162	24,537	231,226
<b>Other assets:</b>			
Deferred income taxes (Note 14)	4,364	6,646	37,153
Goodwill	284	50	2,421
Other	2,721	2,763	23,161
Total other assets	7,369	9,459	62,735
	¥181,990	¥147,158	\$1,549,246

The accompanying notes are an integral part of these statements.

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 7)	¥ 1,048	¥ 814	\$ 8,918
Current portion of long-term debt (Note 7)	12,654	7,823	107,725
Notes and accounts payable (Note 15):			
Trade	34,405	30,482	292,887
Other	4,763	2,188	40,549
Income taxes payable (Note 14)	3,469	4,609	29,530
Accrued expenses	2,421	2,031	20,613
Advances on sales contracts	18,157	8,330	154,565
Deferred income taxes (Note 14)	67	37	570
Other current liabilities (Note 8)	7,745	6,135	65,925
Total current liabilities	84,729	62,449	721,282
<b>Long-term liabilities:</b>			
Long-term debt (Note 7)	20,154	20,500	171,564
Accrued severance indemnities (Note 8)	3,937	9,589	33,517
Accrued directors' retirement benefits	623	551	5,303
Deferred income taxes (Note 14)	68	—	577
Long-term other accounts payable (Note 8)	2,516	—	21,421
Other long-term liabilities	160	103	1,357
Total long-term liabilities	27,458	30,743	233,739
Total liabilities	112,187	93,192	955,021
Minority interests in consolidated subsidiaries	921	629	7,844
<b>Contingent liabilities (Note 10)</b>			
<b>Shareholders' equity (Note 12):</b>			
Common stock:			
Authorized — 200,000,000 shares			
Issued — 113,670,721 shares	8,023	8,023	68,298
Additional paid-in capital	9,023	5,012	76,811
Retained earnings	49,394	41,088	420,485
Net unrealized gain on securities	1,522	408	12,953
Foreign currency translation adjustments	1,093	(95)	9,304
	69,055	54,436	587,851
Less; treasury stock at cost			
March 31, 2006 — 400,683 shares	(173)	—	(1,470)
March 31, 2005 — 2,843,881 shares	—	(1,099)	—
Total shareholders' equity	68,882	53,337	586,381
	¥181,990	¥147,158	\$1,549,246

## Consolidated Statements of Income

Daifuku Co., Ltd. and consolidated subsidiaries  
For the years ended March 31, 2006 and 2005

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
<b>Net sales</b>	<b>¥198,811</b>	¥166,232	<b>\$1,692,441</b>
<b>Cost of sales</b> (Note 13)	<b>159,312</b>	134,696	<b>1,356,190</b>
Gross profit	<b>39,499</b>	31,536	<b>336,251</b>
<b>Selling, general and administrative expenses</b> (Note 13)	<b>22,982</b>	20,746	<b>195,640</b>
Operating income	<b>16,517</b>	10,790	<b>140,611</b>
<b>Other income (expenses);</b>			
Interest and dividend income	<b>249</b>	140	<b>2,116</b>
Interest expenses	<b>(584)</b>	(714)	<b>(4,975)</b>
Other, net (Note 16)	<b>559</b>	(1,636)	<b>4,757</b>
Income before income taxes and minority interests	<b>16,741</b>	8,580	<b>142,509</b>
<b>Income taxes</b> (Note 14)			
Current	<b>5,711</b>	5,441	<b>48,619</b>
Deferred	<b>479</b>	(2,301)	<b>4,073</b>
	<b>6,190</b>	3,140	<b>52,692</b>
Income before minority interests	<b>10,551</b>	5,440	<b>89,817</b>
<b>Minority interests in net income of consolidated subsidiaries</b>	<b>(298)</b>	(209)	<b>(2,539)</b>
Net income	<b>¥ 10,253</b>	¥ 5,231	<b>\$ 87,278</b>
	(Yen)		(U.S. dollars) (Note 4)
<b>Net income per share</b> (Note 18):	<b>¥92.20</b>	¥46.07	<b>\$0.78</b>
<b>Cash dividends per share:</b>	<b>18.00</b>	13.00	<b>0.15</b>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Shareholders' Equity

Daifuku Co., Ltd. and consolidated subsidiaries  
For the years ended March 31, 2006 and 2005

	Number of shares of common stock (Thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Treasury stock	Total
					(Millions of yen)			
<b>Balance at March 31, 2004</b>	113,671	¥8,023	¥5,011	¥36,928	¥ 484	¥ (307)	¥(1,057)	¥ 49,082
Net income	—	—	—	5,231	—	—	—	5,231
Increase of newly consolidated subsidiaries	—	—	—	59	—	—	—	59
Cash dividends	—	—	—	(1,108)	—	—	—	(1,108)
Bonuses to directors	—	—	—	(22)	—	—	—	(22)
Increase in treasury stock	—	—	—	—	—	—	(42)	(42)
Gain on sales of treasury stock	—	—	1	—	—	—	—	1
Net unrealized gain on securities	—	—	—	—	(76)	—	—	(76)
Foreign currency translation adjustments	—	—	—	—	—	212	—	212
<b>Balance at March 31, 2005</b>	113,671	¥8,023	¥5,012	¥41,088	¥ 408	¥ (95)	¥(1,099)	¥ 53,337
Net income	—	—	—	10,253	—	—	—	10,253
Cash dividends	—	—	—	(1,441)	—	—	—	(1,441)
Bonuses to directors	—	—	—	(127)	—	—	—	(127)
Decrease of newly consolidated subsidiaries	—	—	—	(379)	—	—	—	(379)
Increase in treasury stock	—	—	—	—	—	—	926	926
Gain on sales of treasury stock	—	—	4,011	—	—	—	—	4,011
Net unrealized gain on securities	—	—	—	—	1,114	—	—	1,114
Foreign currency translation adjustments	—	—	—	—	—	1,188	—	1,188
<b>Balance at March 31, 2006</b>	<b>113,671</b>	<b>¥8,023</b>	<b>¥9,023</b>	<b>¥49,394</b>	<b>¥1,522</b>	<b>¥ 1,093</b>	<b>¥ (173)</b>	<b>¥(68,882)</b>

	Number of shares of common stock (Thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Treasury stock	Total
					(Thousands of U.S. dollars) (Note 4)			
<b>Balance at March 31, 2005</b>	113,671	\$68,298	\$42,662	\$349,773	\$ 3,476	\$ (812)	\$(9,354)	\$454,043
Net income	—	—	—	87,278	—	—	—	87,278
Cash dividends	—	—	—	(12,265)	—	—	—	(12,265)
Bonuses to directors	—	—	—	(1,082)	—	—	—	(1,082)
Decrease of newly consolidated subsidiaries	—	—	—	(3,219)	—	—	—	(3,219)
Increase in treasury stock	—	—	—	—	—	—	7,884	7,884
Gain on sales of treasury stock	—	—	34,149	—	—	—	—	34,149
Net unrealized gain on securities	—	—	—	—	9,477	—	—	9,477
Foreign currency translation adjustments	—	—	—	—	—	10,116	—	10,116
<b>Balance at March 31, 2006</b>	<b>113,671</b>	<b>\$68,298</b>	<b>\$76,811</b>	<b>\$420,485</b>	<b>\$12,953</b>	<b>\$ 9,304</b>	<b>\$(1,470)</b>	<b>\$586,381</b>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

Daifuku Co., Ltd. and consolidated subsidiaries  
For the years ended March 31, 2006 and 2005

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
<b>Cash flows from operating activities:</b>			
Net income before income taxes and minority interests	¥16,741	¥ 8,580	\$142,509
Adjustments for:			
Depreciation	2,271	2,184	19,334
Gain on sales of investments in securities	(391)	—	(3,325)
Interest and dividend income	(249)	(140)	(2,116)
Interest expenses	584	714	4,975
Increase in trade receivables	(6,823)	(5,371)	(58,087)
Increase in inventories	(12,016)	(2,734)	(102,288)
Increase in trade payables	3,305	5,586	28,136
Increase in accrued directors' retirement benefits	72	551	616
Increase in advances on sales contracts	9,910	2,903	84,361
Gain from termination of the defined benefit retirement benefit plans	(866)	—	(7,371)
Other, net	(700)	2,793	(5,969)
Subtotal	11,838	15,066	100,775
Interest and dividend income received	252	147	2,146
Interest expenses paid	(590)	(788)	(5,024)
Income taxes paid	(6,904)	(3,266)	(58,774)
Other, net	204	86	1,739
Net cash provided by operating activities	4,800	11,245	40,862
<b>Cash flows from investing activities:</b>			
Payments for purchase of investments in securities	(416)	(341)	(3,539)
Proceeds from sales of investments in securities	1,098	—	9,345
Payments for purchase of property, plant and equipment	(3,696)	(3,028)	(31,462)
Proceeds from sales of property, plant and equipment	214	115	1,821
Collections of loans receivable	22	154	186
Acquisition of shares of newly consolidated subsidiaries	—	(1,625)	—
Payments for purchase of investments in and advances to non-consolidated subsidiaries	(1,779)	(314)	(15,144)
Other, net	200	(334)	1,705
Net cash used in investing activities	(4,357)	(5,373)	(37,088)
<b>Cash flows from financing activities:</b>			
Increase in short-term bank loans, net	196	214	1,666
Proceeds from long-term debt	3,000	4,295	25,538
Repayment of long-term debt	(7,517)	(10,436)	(63,989)
Payment of cash dividends	(1,440)	(1,107)	(12,261)
Payments for purchase of treasury stock	(113)	(42)	(966)
Proceeds from issuance of bonds	3,986	3,000	33,931
Proceeds from issuance of convertible bonds	4,969	—	42,299
Proceeds from issuance of share to minority interests	—	138	—
Proceeds from sales of treasury stock	5,046	—	42,957
Other, net	(106)	(83)	(891)
Net cash provided by (used in) financing activities	8,021	(4,021)	68,284
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>644</b>	<b>291</b>	<b>5,474</b>
<b>Net increase in cash and cash equivalents</b>	<b>9,108</b>	<b>2,142</b>	<b>77,532</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>20,441</b>	<b>17,781</b>	<b>174,014</b>
<b>Cash and cash equivalents held by newly consolidated subsidiaries at beginning of year</b>	<b>302</b>	<b>518</b>	<b>2,573</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥29,851</b>	<b>¥20,441</b>	<b>\$254,119</b>

The accompanying notes are an integral part of these statements.

## Notes to the Consolidated Financial Statements

Daifuku Co., Ltd. and consolidated subsidiaries  
For the years ended March 31, 2006 and 2005

### 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by DAIFUKU Co., Ltd. (the "Company") and its consolidated subsidiaries. The Company and its domestic subsidiaries have maintained its accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles prevailing in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required from the Securities and Exchange Law of Japan. The accounts of the consolidated overseas subsidiaries are based on its accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries have been incorporated.

In general, no adjustments to the accounts of the consolidated overseas subsidiaries have been reflected in the accompanying consolidated financial statements to present them in conformity with Japanese accounting principles and practices followed by the Company.

The presentation of the accompanying consolidated financial statements is made in conformity with the "Consolidated Financial Statements Regulation" (ordinance promulgated by the Ministry of Finance) and meets the requirements for disclosure of financial information of the Company on a consolidated basis. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

### 2. Summary of significant accounting policies

#### (1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries.

The remaining six subsidiaries at March 31, 2006 were not consolidated because the aggregate sales, total assets, total net income (loss) and total retained earnings available for the Company were not material to the consolidated results of operations, total assets, total net income and retained earnings, respectively.

All significant intercompany transactions and account balances and unrealized profit among the consolidated group have been eliminated. The difference between the cost of investment in a subsidiary and the equity in its net assets at the date of acquisition is amortized over 15 years.

#### (2) Translation of foreign currency financial statements (accounts of consolidated overseas subsidiaries)

The accounts of the overseas consolidated subsidiaries are translated into Japanese yen by the methods prescribed under the accounting standard for foreign currency translation issued by the Business Accounting Council of Japan. Under these methods, balance sheet accounts are translated at current rates. However, shareholders' equity is translated at the historical rate. Differences arising from the translations are stated under the section entitled "foreign currency translation adjustments" of shareholders' equity in the balance sheet.

Revenues and expenses are translated at the average rate for the respective period.

#### (3) Foreign currency translation

The Company and its domestic subsidiaries adopted the accounting standard for foreign currency translation. Under this standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

#### (4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with an original maturity date of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

#### (5) Inventories

Inventories are stated at the lower of cost or market. The cost for components relating to material handling systems and raw materials is determined by the moving-average method, while the specific identification method is used for other inventories.

#### (6) Financial instruments

##### (a) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge accounting, below).

##### (b) Securities

Under the Japanese accounting standard for financial instruments, securities are classified into four categories, that is, "trading securities," "held-to-maturity debt securities," "investments in subsidiaries and affiliates" and "other securities."

"Trading securities" mean the securities that are held for the purpose of generating profits on short-term differences in prices. "Held-to-maturity debt securities" mean the debt securities that the companies have intent to hold to maturity.

The Company and its subsidiaries have “investments in non-consolidated subsidiaries and affiliates” and “other securities.”

Investments in non-consolidated subsidiaries and affiliates are stated at cost because the effect of application of the consolidation and equity method would be immaterial.

“Other securities” for which market quotations are available are stated at fair value. Unrealized gain or loss on securities included as a component of shareholders’ equity, and cost of securities sold is determined based on the moving-average method.

“Other securities” for which market quotations are unavailable are stated at cost, cost being determined by the moving-average method.

#### (c) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward exchange contracts and interest swap agreements. The related hedged items are trade accounts receivable and payable, long-term bank loans.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company’s exposure to the risk of interest rate fluctuation. Thus, the Company’s purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

#### (7) Leases

In Japan, where the financing leases do not transfer ownership of the leased property to the lessee during the lease terms, the leased property is not capitalized and the relating rent expenses are charged to income in the period incurred.

Property of overseas subsidiaries under capital leases is capitalized.

#### (8) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of the Company and its domestic subsidiaries is computed principally on the declining-balance method, at rates based on the estimated useful lives of assets. Depreciation of buildings, which were acquired on and after April 1, 1998, is computed on the straight-line method, at rates based on the estimated useful lives of assets. Depreciation of the consolidated overseas subsidiaries is computed principally on the straight-line method.

The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery and equipment.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

#### (9) Impairment of fixed assets

The Company and its subsidiaries review its fixed assets for impairment whenever events or changes in circumstances indi-

cate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use.

#### Newly adopted accounting standards

On August 9, 2002, the Business Accounting Council of Japan issued a new accounting standard entitled “Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets.” Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No. 6 — “Application Guidance on Accounting Standards for Impairment of Fixed Assets.” These standards are effective from the fiscal years beginning April 1, 2005.

Effective April 1, 2005, the Company and its domestic subsidiaries adopted this new standard. The adoption of this new standard did not have impact on the accompanying consolidated financial statements as of and for the year ended March 31, 2006.

#### (10) Goodwill

Goodwill of the Company and an overseas subsidiary recognized in acquisitions accounted for as purchases are being amortized on a straight-line basis for five years.

#### (11) Income taxes

Income taxes of the Company and its certain consolidated subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

#### (12) Accrued severance indemnities

Retirement benefit costs for employees of the Company and its domestic subsidiaries are accrued based on the estimates of the pension obligations and the plan assets at the end of the current fiscal year. At the time of the initial application of the new accounting standard for retirement benefits, the Company and its domestic subsidiaries had an “unrecognized portion of net obligation” for ¥7,213 million. The Company charged ¥4,297 million of it to income, which is equivalent to “retirement benefit trust” (see Note 8), and the remaining balance of ¥2,916 million has been amortized on a straight-line basis over five years since the fiscal year ended March 31, 2001.

#### (13) Accrued directors’ retirement benefits

Accrued directors’ retirement benefits are recorded to state the amount of liability that would be required by each company’s internal regulations if all directors and corporate auditors retired at each balance sheet date. Payments of such benefits are subject to an approval at a general shareholders’ meeting (see Note 3).

#### (14) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, proposals by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders’ meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each fiscal year represents the appropriations which were approved by the shareholders’ meeting and disposed of during that year but which related to the immediately preceding fiscal year.

The payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the period and constitutes a part of the appropriations referred to above.

#### (15) Net income and dividends per share

Net income per share is based upon the weighted average number of shares of common stock outstanding during each period.

The computation of basic net income per share is based upon the weighted average number of shares of common stock outstanding during each period. The computation of diluted net income per share is based upon the weighted average number of shares of common stock outstanding during each period after consideration of dilutive effect of common stock equivalents which include warrants and convertible bonds.

Cash dividends per share represent actual dividends declared as applicable to the respective years.

#### (16) Japanese consumption taxes

Consumption taxes withheld by the Company and its domestic subsidiaries on sales of products are not included in the amount of “net sales” in the accompanying consolidated statements of income. Equally, any consumption taxes borne by the Company on goods, services and expenses are not included in the accompanying consolidated statements of income, but recorded as an asset or liability in the consolidated balance sheet.

#### (17) Reclassifications

Certain prior-year amounts on the attached balance sheet have been reclassified to conform to the current year’s presentation.

### 3. Accounting change

#### Directors’ retirement benefits

Until March 31, 2004, the Company and its principal domestic consolidated subsidiary had expensed directors’ retirement benefits as incurred.

Effective April 1, 2004, the Company and its principal domestic consolidated subsidiary changed their method of accounting for the retirement benefits on an accrual basis in order to allocate the amount and reflect the periodic results of operations more appropriately and to strengthen the financial positions since the impact has increased considering the trend to increase the length of service and the number of directors

and corporate auditors.

In case of an accounting change, the consolidated financial statements are not restated, but the effect of the change at the beginning of the year is included in income of the year of change as other income or expense. The effect of this change was to increase selling, general and administrative expenses by ¥122 million and other expenses by ¥429 million, and to decrease income before income taxes and minority interests by ¥551 million for the year ended March 31, 2005 compared with the case on which the previous method was adopted, respectively.

### 4. United States dollar amounts

The Company prepares its consolidated financial statements in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥117.47 to U.S. \$1, being the effective rate of exchange at March 31, 2006. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at a rate of ¥117.47 to U.S. \$1 or at any other rate.

### 5. Investments in securities

Investments in securities as of March 31, 2006 and 2005 were as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in securities:			
Equity securities	¥6,412	¥4,765	\$54,586

A comparison of the carrying amount on the consolidated balance sheet and acquisition cost of “other securities” for which market quotations are available as of March 31, 2006 and 2005 were summarized as follows:

	March 31, 2006		
	(Millions of yen)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet exceeding their acquisition cost			
Investments in securities:			
Equity securities	¥2,629	¥5,231	¥2,602

	March 31, 2005		
	(Millions of yen)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet exceeding their acquisition cost			
Investments in securities:			
Equity securities	¥1,854	¥2,687	¥833

March 31, 2006 (Thousands of U.S. dollars)			
Acquisition cost	Carrying amount on the consolidated balance sheet	Difference	
Securities with carrying amount on the consolidated balance sheet exceeding their acquisition cost			
Investments in securities:			
Equity securities	\$22,383	\$44,536	\$22,153

March 31, 2006 (Millions of yen)			
Acquisition cost	Carrying amount on the consolidated balance sheet	Difference	
Securities with carrying amount on the consolidated balance sheet not exceeding their acquisition cost			
Investments in securities:			
Equity securities	¥29	¥27	¥(2)

March 31, 2006 (Thousands of U.S. dollars)			
Acquisition cost	Carrying amount on the consolidated balance sheet	Difference	
Securities with carrying amount on the consolidated balance sheet not exceeding their acquisition cost			
Investments in securities:			
Equity securities	¥1,163	¥1,032	¥(131)

March 31, 2006 (Thousands of U.S. dollars)			
Acquisition cost	Carrying amount on the consolidated balance sheet	Difference	
Securities with carrying amount on the consolidated balance sheet not exceeding their acquisition cost			
Investments in securities:			
Equity securities	\$247	\$233	\$(14)

"Other securities" sold during the years ended March 31, 2006 and 2005 were as follows:

March 31					
2006			2005		
(Millions of yen)					
Proceeds of sales	Gain on sales	Loss on sales	Proceeds of sales	Gain on sales	Loss on sales
¥1,096	¥391	¥6	¥0	¥—	¥11
March 31					
2006					
(Thousands of U.S. dollars)					
Proceeds of sales	Gain on sales	Loss on sales	Proceeds of sales	Gain on sales	Loss on sales
\$9,333	\$3,325	\$51			

Book values of "other securities" which were not marketable as of March 31, 2006 and 2005 were summarized as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in securities:			
Equity securities	¥1,153	¥1,046	\$9,817

## 6. Inventories

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

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 1,666	¥ 1,594	\$ 14,181
Work in process	38,899	27,457	331,143
Raw materials	4,158	4,001	35,399
Others	1,164	587	9,903
	¥45,887	¥33,639	\$390,626

## 7. Short-term borrowings and long-term debt

Short-term borrowings are principally bank loans. The principal ranges of annual interest rates applicable to the short-term borrowings outstanding as of March 31, 2006 were from 0.93% to 4.26%.

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

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks with annual interest ranging from 0.74% to 1.82%			
–secured and unsecured	¥20,808	¥25,323	\$177,134
0.56% yen unsecured bonds, due 2007	3,000	3,000	25,538
0.42% yen unsecured bonds, due 2008	2,000	—	17,026
0.47% yen unsecured bonds, due 2008	2,000	—	17,026
Zero coupon Yen unsecured convertible bonds, due 2011	5,000	—	42,564
Less:			
portion due within one year	12,654	7,823	107,724
	¥20,154	¥20,500	\$171,564

The 0.56% unsecured bonds in the principal amount of ¥3,000 million, due 2007, issued on October 1, 2004, were issued in Japan at their face value.

The 0.42% unsecured bonds in the principal amount of ¥2,000 million, due 2008, issued on May 31, 2005, were sold in Japan at their face value.

The 0.47% unsecured bonds in the principal amount of ¥2,000 million, due 2008, issued on May 31, 2005, were issued in Japan at their face value.

The zero coupon unsecured convertible bonds in the principal amount of ¥5,000 million, due 2011, issued on February 7, 2006, were issued in Japan at their face value.

Convertible bonds with stock acquisition rights, unless previously redeemed, are convertible into shares of common stock of the Company at the following current conversion prices:

Convertible bonds	Conversion price per share	Conversion period
Zero coupon Yen unsecured bonds, due 2011	¥2,586 (\$22.01)	March 1, 2006 – March 30, 2011

Where there are claims that bond holders intend to exercise the stock option right, it is deemed that the considerations for the exercise of the convertible bonds are paid instead of the redemptions of the convertible bonds and it is deemed that the claims are made upon the exercise of the stock option rights.

Assets pledged as collateral for long-term debt with banks as of March 31, 2006 were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Land	¥200	\$1,703
Buildings, less accumulated depreciation	149	1,268
Others	51	431
	¥400	\$3,402

The aggregate annual maturity of long-term debt other than the portion due within one year outstanding as of March 31, 2006 was as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2008	¥ 7,186	\$ 61,173
2009	7,948	67,657
2010	20	170
2011 and thereafter	5,000	42,564
	¥20,154	\$171,564

## 8. Retirement benefit plans

Employees who terminate their services with the Company or its domestic subsidiaries are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

Through March 31, 2005, the amount of severance indemnities to be paid by the Company and its domestic subsidiaries was reduced by the benefits payable under a noncontributory pension plan which entitles an employee with more than certain minimum years of service to receive either a lump-sum payment or an annuity.

On March 31, 2005, the Company and its domestic consolidated subsidiaries terminated conventional defined benefit retirement plans. On April 1, 2005, the Company and its domestic consolidated subsidiaries transferred noncontributory pension plans to hybrid type of pension plans (cash balance plans) and a part of lump-sum severance indemnities to defined contribution pension plans upon the enactment of the Defined Contribution Pension Law.

As a result, gain from termination of the defined benefit retirement benefit plans of ¥866 million (\$7,371 thousand) was recognized for the year ending March 31, 2006.

The accrued severance indemnities as of March 31, 2006 and 2005 were analyzed as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligations	¥(18,665)	¥(23,601)	\$(158,892)
Plan assets	20,294	14,246	172,758
Funded status	1,629	(9,355)	13,866
Unrecognized actuarial differences	(4,431)	1,105	(37,716)
Unrecognized prior service cost	(1,135)	(1,339)	(9,667)
Accrued severance indemnities recognized on balance sheet	¥ (3,937)	¥ (9,589)	\$ (33,517)

The effect of the transfer of lump-sum severance indemnities to a defined contribution pension plans by the Company and a part of its domestic consolidated subsidiaries' is summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Decrease in liability for retirement benefits	¥5,448	\$46,385
Unrecognized actuarial differences	(172)	(1,467)
Decrease in accrued severance indemnities	¥5,276	\$44,918

The amount of the transfer to the defined contribution benefit plan was ¥4,311 million (\$36,701 thousand) and this transfer is planned to be executed over a period of five years. The balance of ¥3,389 million (\$28,852 thousand) which was not transferred as of March 31, 2006 was recorded as other current liabilities (other accounts payable) and long-term other accounts payable.

Net pension expense relating to the retirement benefits for the years ended March 31, 2006 and 2005 were as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 910	¥1,246	\$ 7,747
Interest cost	385	610	3,274
Expected return on plan assets	(187)	(167)	(1,589)
Amortization of transition amount	—	583	—
Amortization of actuarial differences	591	625	5,031
Amortization of prior service cost	(203)	—	(1,726)
Net pension expense	¥1,496	¥2,897	\$12,737
Gain on end of part of the defined-benefit plan	(866)	—	(7,371)
Other	299	—	2,545
	¥ 929	¥2,897	\$ 7,911

Other is pension contribution under defined contribution plan.

Assumptions used in calculation of the above information were as follows:

	March 31	
	2006	2005
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing the projected benefits to periods of services	<b>Straight-line basis</b>	Straight-line basis
Amortization of transition amount	<b>5 years</b>	5 years
Amortization of unrecognized actuarial differences	<b>5 years</b>	5 years
Amortization of unrecognized prior service cost	<b>5 years</b>	5 years

The Company contributed certain marketable equity securities to an employee retirement benefit trust, which is included in plan assets.

Some of the overseas subsidiaries sponsor respective defined contribution plans.

## 9. Lease commitments

Rent expenses relating to the financing lease transactions for the years ended March 31, 2006 and 2005 were summarized as follows.

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Rental expenses	<b>¥300</b>	¥340	<b>\$2,555</b>

The future minimum lease payments required under the terms of these financing leases as of March 31, 2006 and 2005 were as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	<b>¥ 288</b>	¥ 286	<b>\$ 2,449</b>
Due after one year	<b>1,177</b>	1,296	<b>10,018</b>
	<b>¥1,465</b>	¥1,582	<b>\$12,467</b>

Interests implicit in these leases are included in the above minimum lease payments because the total lease payments were not material to the total assets of the Company.

Acquisition costs, accumulated depreciation and net book values as of March 31, 2006 and 2005 were as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs	<b>¥2,480</b>	¥2,630	<b>\$21,112</b>
Accumulated depreciation	<b>1,015</b>	1,048	<b>8,645</b>
Net book values	<b>¥1,465</b>	¥1,582	<b>\$12,467</b>

Depreciation expense for the year ended March 31, 2006 was ¥300 million (\$2,555 thousand), which is calculated by the straight-line method over the terms of the lease based on acquisition cost.

The future minimum lease payments required under the terms of these operating leases as of March 31, 2006 and 2005 were as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	<b>¥329</b>	¥329	<b>\$2,800</b>
Due after one year	<b>—</b>	329	<b>—</b>
	<b>¥329</b>	¥658	<b>\$2,800</b>

## 10. Contingent liabilities

The Company was contingently liable under guarantees for bank borrowings of non-consolidated subsidiaries, affiliates and the Company employees totaling ¥357 million (\$3,041 thousand) as of March 31, 2006.

## 11. Derivatives and hedging activities

Derivative financial instruments are utilized by the Company and its subsidiaries principally to reduce interest rate and foreign exchange rate risks. The Company and its subsidiaries have established certain internal controls which include policies and procedures for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company and its subsidiaries do not hold or issue derivative financial instruments for trading purposes.

The Company and its subsidiaries are exposed to certain market risks arising from its forward exchange contracts and interest swap agreements. The Company and its subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency and interest; however, the Company and its subsidiaries do not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high bond ratings.

## 12. Shareholders' equity

Capital reserve, which is recorded pursuant to the Japanese Commercial Code and included in additional paid-in capital in the accompanying consolidated balance sheet, primarily consists of proceeds on issuance of shares of common stock of the Company that were not recorded as "common stock" (Under the Japanese Commercial Code, the Company is allowed to account for an amount not exceeding one-half of the issue price of new shares as capital reserve.) Capital reserve may be transferred to other additional paid-in capital to the extent that the sum of capital reserve and earned reserve (collectively, "legal reserves") does not fall below 25% of stated capital. However, capital reserve may not be transferred to retained earnings.

The Japanese Commercial Code requires all the companies to appropriate as an earned reserve an amount equivalent to at least 10% of cash payments for appropriation of retained earnings until the legal reserves equals 25% of stated capital. Earned reserve may be transferred to unappropriated retained earnings to the extent that the legal reserves do not fall below 25% of stated capital. Earned reserve is included in retained earnings on the consolidated balance sheet.

Legal reserves may be transferred to stated capital through suitable directors' actions or offset against deficit through suitable shareholders' actions.

## 13. Research and development

Research and development expenditures charged to income were ¥7,629 million (\$64,947 thousand) and ¥4,970 million for the years ended March 31, 2006 and 2005, respectively.

## 14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income, which in the aggregate indicate a normal effective statutory income tax rate of approximately 41% for the years ended March 31, 2006 and 2005. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

For the year ended March 31, 2005, a corporation size-based enterprise tax was introduced and which superseded the current enterprise tax. The enterprise tax is the sum of three tax components: a) an income based component, b) a value added component and c) a capital based component. As a result, the statutory tax rate for the year ended March 31, 2005 was reduced. The newly enacted tax rates were used in calculating the future expected tax effects of temporary differences realizing after April 1, 2004.

According to this tax reform act, the value added component and the capital based component of ¥164 million was included in general and administrative expenses for the year ended March 31, 2005.

The significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were summarized as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
<b>Deferred tax assets:</b>			
Accrued bonus	<b>¥ 1,377</b>	¥ 1,112	<b>\$11,721</b>
Enterprise tax	<b>240</b>	334	<b>2,042</b>
Allowance for doubtful accounts	<b>189</b>	175	<b>1,607</b>
Accrued severance indemnities	<b>4,686</b>	6,381	<b>39,894</b>
Operating loss carryforwards for tax purposes	<b>659</b>	976	<b>5,612</b>
Current and long-term other accounts payable	<b>1,374</b>	—	<b>11,695</b>
Others	<b>2,216</b>	2,281	<b>18,866</b>
Subtotal	<b>10,741</b>	11,259	<b>91,437</b>
Less valuation allowance	<b>(737)</b>	(640)	<b>(6,275)</b>
Total deferred tax assets	<b>¥10,004</b>	¥10,619	<b>\$85,162</b>
<b>Deferred tax liabilities:</b>			
Deferred gain on sales of assets	<b>¥ (127)</b>	¥ (135)	<b>\$ (1,077)</b>
Gain on securities contributed to employee retirement benefit trust	<b>(1,229)</b>	(1,229)	<b>(10,457)</b>
Net unrealized gain on securities	<b>(1,066)</b>	(288)	<b>(9,078)</b>
Others	<b>(130)</b>	(80)	<b>(1,106)</b>
Total deferred tax liabilities	<b>(2,552)</b>	(1,732)	<b>(21,718)</b>
Net deferred tax assets	<b>¥ 7,452</b>	¥ 8,887	<b>\$63,444</b>

Reconciliation of the differences between the statutory rate and the effective income tax rate as of March 31, 2006 and 2005 were as follows:

	March 31	
	2006	2005
Statutory tax rate	<b>41.0%</b>	41.0%
Lower tax rates of overseas subsidiaries	<b>(2.9)</b>	(4.5)
Utilization of net operating loss carryforwards in the consolidated subsidiaries	<b>(0.8)</b>	(0.4)
Expenses not deductible for income tax purpose	<b>1.1</b>	0.8
Increase of valuation allowance	<b>0.8</b>	—
Others	<b>(2.2)</b>	(0.3)
Effective tax rate	<b>37.0%</b>	36.6%

## 15. Related party transaction

Notes and accounts due from and to non-consolidated subsidiaries and affiliates as of March 31, 2006 and 2005 were summarized as follows:

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Notes and accounts receivable	¥196	¥143	\$1,665
Other current assets (Short-term loans)	—	22	—
Notes and accounts payable	31	233	260

Transactions with a director for the year ended as of March 31, 2006 were summarized as follows:

	March 31	
	2006	2006
	(Millions of yen)	(Thousands of U.S. dollars)
Sales of a subsidiary's stocks to a director	¥12	\$102

## 17. Segment information

Segment Information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is presented below:

### (1) Segment information by products

For the year ended March 31, 2006

	(Millions of Yen)				
	Logistics Systems	Electronics	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	¥174,406	¥13,286	¥11,119	¥ —	¥198,811
Inter-segment sales	97	9,154	2,833	(12,089)	—
Total	174,503	22,440	13,957	(12,089)	198,811
Operating expenses	154,780	21,409	12,794	(6,689)	182,294
Operating income	¥ 19,723	¥ 1,031	¥ 1,163	¥ (5,400)	¥ 16,517
Identifiable assets	¥118,013	¥14,340	¥ 6,556	¥ 43,081	¥181,990
Depreciation	1,124	166	55	926	2,271
Capital expenditure	3,873	548	56	759	5,236

For the year ended March 31, 2005

	(Millions of Yen)				
	Logistics Systems	Electronics	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	¥142,622	¥13,647	¥ 9,963	¥ —	¥166,232
Inter-segment sales	121	4,197	2,367	(6,685)	—
Total	142,743	17,844	12,330	(6,685)	166,232
Operating expenses	128,369	16,548	12,382	(1,857)	155,442
Operating income (loss)	¥ 14,374	¥ 1,296	¥ (52)	¥ (4,828)	¥ 10,790
Identifiable assets	¥ 88,402	¥12,387	¥ 5,996	¥40,373	¥147,158
Depreciation	1,063	123	54	944	2,184
Capital expenditure	3,140	219	60	252	3,671

## 16. Other income and other expenses

“Other, net” consisted of the following for the years ended March 31, 2006 and 2005, respectively.

	March 31		March 31
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Foreign exchange gain (loss), net	¥ (13)	¥ 31	\$ (115)
Gain on sales of property, plant and equipment	27	4	228
Gain on sales of investments in securities	391	—	3,325
Gain from termination of the defined benefit retirement benefit plans	866	—	7,371
Loss on disposal of property, plant and equipment	(622)	(531)	(5,295)
Loss on sales of property, plant and equipment	(10)	(21)	(76)
Loss on valuation of investments in securities	(64)	—	(545)
Directors' retirement benefits	—	(30)	—
Special provision for retirement benefit costs	—	(583)	—
Special accrued directors' retirement benefits	—	(429)	—
Other, net	(16)	(77)	(136)
Total	¥559	¥(1,636)	\$4,757

For the year ended March 31, 2006

	(Thousands of U.S. dollars)				
	Logistics Systems	Electronics	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	\$1,484,684	\$113,101	\$ 94,656	\$ —	\$1,692,441
Inter-segment sales	827	77,928	24,157	(102,912)	—
Total	1,485,511	191,029	118,813	(102,912)	1,692,441
Operating expenses	1,317,608	182,250	108,915	(56,943)	1,551,830
Operating income	\$ 167,903	\$ 8,779	\$ 9,898	\$ (45,969)	\$ 140,611
Identifiable assets	\$1,004,625	\$122,075	\$ 55,808	\$ 366,738	\$1,549,246
Depreciation	9,570	1,410	467	7,887	19,334
Capital expenditure	32,973	4,662	476	6,459	44,570

These segments include the following main products:

Logistics Systems:	Conveyor systems, monorail systems, automatic guided vehicles, automated storage and retrieval systems, racks, box pallets
Electronics:	Modules for personal computers
Other:	Car-washing machines, rear-mounted vehicle lifts for wheelchairs

### (2) Segment information by geographic areas

For the year ended March 31, 2006

	(Millions of Yen)					
	Japan	North America	Asia	Other	Adjustments and eliminations	Consolidated total
Sales:						
Sales to outside customers	¥153,198	¥20,965	¥21,259	¥3,389	¥ —	¥198,811
Inter-segment sales	14,238	1,205	4,615	312	(20,370)	—
Total	167,436	22,170	25,874	3,701	(20,370)	198,811
Operating expenses	148,840	21,259	23,391	3,774	(14,970)	182,294
Operating income (loss)	¥ 18,596	¥ 911	¥ 2,483	¥ (73)	¥ (5,400)	¥ 16,517
Identifiable assets	¥118,609	¥11,980	¥16,304	¥3,564	¥ 31,533	¥181,990

Effective April 1, 2005, the new geographic segment “Asia,” which had previously been a part of the “Other” segment, has been disclosed separately in the geographical segment information reflecting its increasing materiality.

Sales, operating expenses, operating income, for the year ended March 31, 2005, and assets at March 31, 2005 in the “Asia” segment were ¥14,531 million, ¥13,045 million, ¥1,486 million, and ¥10,108 million (\$123,697 thousand, \$111,050 thousand, \$12,647 thousand, and \$86,046 thousand), respectively.

For the year ended March 31, 2005

	(Millions of Yen)				
	Japan	North America	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	¥141,478	¥12,190	¥12,564	¥ —	¥166,232
Inter-segment sales	9,967	718	5,098	(15,783)	—
Total	151,445	12,908	17,662	(15,783)	166,232
Operating expenses	137,529	12,769	16,099	(10,955)	155,442
Operating income	¥ 13,916	¥ 139	¥ 1,563	¥ (4,828)	¥ 10,790
Identifiable assets	¥ 99,592	¥ 9,209	¥11,399	¥ 26,958	¥147,158

For the year ended March 31, 2006

	(Thousands of U.S. dollars)					
	Japan	North America	Asia	Other	Adjustments and eliminations	Consolidated total
Sales:						
Sales to outside customers	\$1,304,147	\$178,475	\$180,970	\$28,849	\$ —	\$1,692,441
Inter-segment sales	121,207	10,257	39,286	2,653	(173,403)	—
Total	1,425,354	188,732	220,256	31,502	(173,403)	1,692,441
Operating expenses	1,267,044	180,977	199,116	32,127	(127,434)	1,551,830
Operating income (loss)	\$ 158,310	\$ 7,755	\$ 21,140	\$ (625)	\$ (45,969)	\$ 140,611
Identifiable assets	\$1,009,695	\$101,986	\$138,797	\$30,337	\$ 268,431	\$1,549,246

## Report of Independent Auditors

### (3) Overseas sales

For the year ended March 31, 2006

	(Millions of Yen)			
	North America	Asia	Other	Total
Overseas sales	¥19,717	¥54,850	¥8,199	¥ 82,766
Consolidated sales	—	—	—	198,811
Ratio of overseas sales to consolidated sales	9.9%	27.6%	4.1%	41.6%

For the year ended March 31, 2005

	(Millions of Yen)			
	North America	Asia	Other	Total
Overseas sales	¥12,189	¥44,682	¥ 7,230	¥ 64,101
Consolidated sales	—	—	—	166,232
Ratio of overseas sales to consolidated sales	7.3%	26.9%	4.4%	38.6%

For the year ended March 31, 2006

	(Thousands of U.S. dollars)			
	North America	Asia	Other	Total
Overseas sales	\$167,848	\$466,930	\$69,795	\$ 704,573
Consolidated sales	—	—	—	1,692,441
Ratio of overseas sales to consolidated sales	9.9%	27.6%	4.1%	41.6%

Overseas net sales for the years ended March 31, 2006 and 2005 included exports by the Company and offshore sales by its consolidated subsidiaries, excluding sales to Japan.

### 18. Earnings per share

The amounts of basic and diluted net income per share for the years ended March 31, 2006 and 2005 were as follows:

	March 31		March 31 2006 (U.S. dollars)
	2006 (Yen)	2005	
Net income per share			
—Basic	¥92.20	¥46.07	\$0.78
—Diluted	91.97	—	\$0.78

For the year ended March 31, 2005, the figure of diluted net income per share was not disclosed, since there was no potential share of common stock that had dilutive effect.

The amounts and numbers used for the basic and diluted net income per share computation for the years ended March 31, 2006 and 2005 were as follows:

	March 31		March 31 2006 (Thousands of U.S. dollars)
	2006 (Millions of yen)	2005	
Net income	¥10,253	¥5,231	\$87,278
Bonuses to directors and corporate auditors	—	(123)	—
Adjusted net income	¥10,253	¥5,108	\$87,278

	March 31	
	2006	2005
Weighted average number of shares of common stock	111,202	110,861
Effect of dilutive securities:		
Convertible bonds	275	—
Weighted average number of shares of common stock for diluted net income per share	111,477	—

### 19. Subsequent event

On June 29, 2006, the shareholders of the Company approved the payment of a cash dividend to shareholders of record on March 31, 2006 of ¥18 (\$0.15) per share, or a total of ¥2,039 million (\$17,356 thousand).

To the Board of Directors and Shareholders of  
DAIFUKU Co., Ltd.

We have audited the accompanying consolidated balance sheets of DAIFUKU Co., Ltd. and its 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, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 the consolidated financial position of DAIFUKU Co., Ltd. and its consolidated 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 applied on a consistent basis, except for the change described in the following paragraph.

As described in Note 3, effective April 1, 2004, DAIFUKU Co., Ltd. and its principal domestic consolidated subsidiary changed their accounting policy for retirement benefits of their directors and corporate auditors.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 4 to the accompanying consolidated financial statements.

*Chuo-Asyama Pricewaterhouse Coopers*

June 29, 2006