

Financial Section

Five-Year Summary

Daifuku Co., Ltd. and consolidated subsidiaries
Years ended March 31, 2007, 2006, 2005, 2004, and 2003

	2007	2007	2006	2005	2004	2003
	(Millions of yen and thousands of U.S. dollars)					
For the Year						
Net sales	¥232,704	\$1,970,563	¥198,811	¥166,232	¥138,661	¥144,108
Cost of sales	186,991	1,583,464	159,312	134,696	115,034	120,775
Selling, general and administrative expenses	26,876	227,588	22,982	20,746	18,269	18,672
Operating income	18,837	159,511	16,517	10,790	5,358	4,660
Income before income taxes and minority interests	18,356	155,436	16,741	8,580	3,146	2,050
Net income	11,382	96,385	10,253	5,231	1,635	1,164
Net income per share (Yen and U.S. dollars)	¥ 100.50	\$ 0.85	¥ 92.20	¥ 46.07	¥ 14.50	¥ 10.22
Cash dividends per share (Yen and U.S. dollars)	25.00	0.21	18.00	13.00	10.00	10.00
Capital investment	¥ 8,281	\$ 70,121	¥ 5,236	¥ 3,671	¥ 1,374	¥ 1,276
Depreciation	2,886	24,438	2,271	2,184	2,474	2,829
R&D expenditures	7,564	64,054	7,629	4,970	4,231	4,253
At Year-End						
Total assets	¥195,016	\$1,651,410	¥181,990	¥147,158	¥129,712	¥130,400
Working capital	60,351	511,058	52,249	42,575	40,440	47,157
Interest-bearing liabilities	33,764	285,919	33,856	29,136	32,050	38,600
Net assets	80,718	683,523	68,882	53,337	49,082	49,026
Net assets per share (Yen and U.S. dollars)	¥ 682.01	\$ 5.78	¥ 608.12	¥ 480.14	¥ 442.61	¥ 432.93
No. of employees	4,702		4,109	3,716	3,453	3,506
Ratios						
Operating income/net sales	8.1%		8.3%	6.5%	3.9%	3.2%
Income before income taxes and minority interests/net sales	7.9		8.4	5.2	2.3	1.4
Net income/net sales	4.9		5.2	3.1	1.2	0.8
Return on shareholders' equity (ROE)	15.6		16.8	10.2	3.3	2.3
Shareholders' equity/total assets	39.6		37.8	36.2	37.8	37.6

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥118.09 = U.S.\$1.00 on the Tokyo Foreign Exchange Market on March 31, 2007.

2. Effective the year ended March 31, 2007, the Daifuku Group has adopted the appropriate accounting standard guidelines for the presentation of net assets in the balance sheet. Please refer to Note 12 in the accompanying Notes to the Consolidated Financial Statements.

3. In the calculation of shareholders' equity ratio and ROE, net assets, less the amount equivalent to minority interests (average of beginning and end of fiscal period), are used.

4. Net assets used to calculate shareholders' equity per share exclude minority interests.

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Consolidated Financial Review

Overview

In the fiscal year ended March 31, 2007 (fiscal 2006), the business environment in Japan continued to be favorable, with ongoing modest expansion underpinned by strong corporate investment and exports. Overseas, while raw material costs soared and the U.S. economy slowed, this was balanced out by economic growth in Asian countries, including China and India, and Europe that propelled continued expansion in the global economy.

Orders Received and Net Sales

In fiscal 2006, Daifuku's mainstay Logistics Systems segment enjoyed particularly strong orders received and sales, including for large-scale automated warehouse systems from Japan-based IT, food, beverage and pharmaceutical manufacturers as well as physical distribution operators; cleanroom transport and storage systems for the electronics industry in Japan and elsewhere in Asia; and conveyor systems for automakers in Japan and overseas.

As a result, net orders received increased 6.8% compared with the previous fiscal year to 236,246 million

yen and net sales climbed 17.0% to 232,704 million yen. Of total consolidated net sales, domestic net sales (sales to customers in Japan) rose 11.2% to 129,082 million yen and overseas net sales soared 25.2% to 103,622 million yen, increasing the overseas sales ratio from 41.6% in the previous fiscal year to 44.5%. By region, net sales were 15,986 million yen in North America, 75,331 million yen in Asia and 12,306 million yen in other. Proportionally, each geographic segment as a percentage of total net sales accounted for 6.9%, 32.4% and 5.3%, respectively.

Income

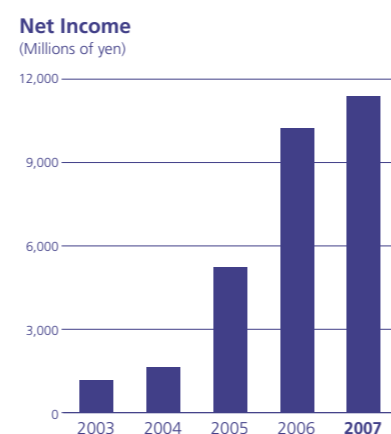
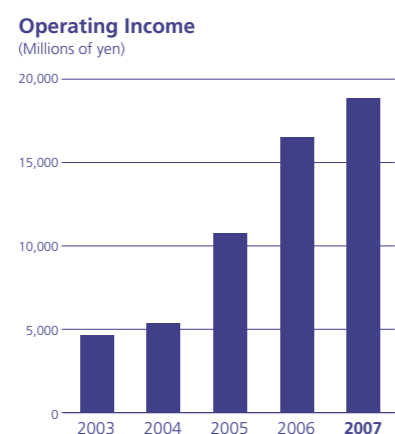
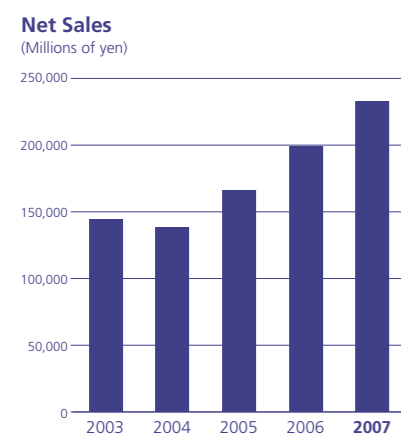
Operating income increased 14.0% year on year, to 18,837 million yen. In addition to the increase in operating levels associated with the surge in orders received, this improvement in earnings reflected the thorough implementation of cost-management measures, including enhanced project management for large-scale contracts; the reduction of variable costs through the expansion of optimal global production, higher material procurement ratios in overseas markets; overall cost reductions brought about by leveraging IT-driven new production control systems; and strong partnerships with overseas subsidiaries.

As a result of such factors as an escalating cost of sales ratio brought about by the soaring raw material costs, the operating income margin edged down to 8.1% from 8.3% in the previous fiscal year.

In other income and expenses, income before income

taxes and minority interests rose 9.6% compared with the previous fiscal year to 18,356 million yen and net income climbed 11.0% to 11,382 million yen. The ratio of income before income taxes and minority interests to net sales as well as the ratio of net income to net sales both edged down, from 8.4% to 7.9%, and from 5.2% to 4.9%, respectively.

Net income per share totaled 100.50 yen, up from 92.20 yen in the previous fiscal year (representing an increase from 91.97 yen to 98.82 yen in terms of diluted net income per share). Reflecting this favorable upturn, 15 yen per share (including a special 4 yen dividend to mark the Company's 70th anniversary) was distributed as a year-end dividend. When added to the interim dividend payment, the dividend for the year totaled 25 yen per share, an increase of 7 yen from the 18 yen per share distributed at the end of the previous fiscal year.



Financial Standing

As of March 31, 2007, total assets stood at 195,016 million yen, an increase of 13,026 million yen compared with the 181,990 million yen recorded in the previous fiscal year.

Current assets increased 8,524 million yen to 145,502 million yen, owing to such factors as an increase in notes and accounts receivable stemming from large-scale project sales and an increase in inventories resulting from the higher level of orders received. Fixed assets increased 4,502 million yen to 49,514 million yen, attributable to such factors as domestic and overseas capital investment, primarily for construction carried out at Daifuku's Shiga Works and capital investment in production.

Total liabilities increased 2,111 million yen year on year to 114,298 million yen.

Current liabilities rose 422 million yen to 85,151 million yen, reflecting increases in notes and accounts payable that countered a decrease in the combined total of short-term borrowings and current portion of long-term debt as well as a decrease in advances on sales contracts. Total long-term

liabilities amounted to 29,147 million yen, an increase of 1,689 million yen. Total interest-bearing liabilities, such as short- and long-term debt and convertible bonds, totaled 33,764 million yen, a decrease of 92 million yen compared with the end of the previous fiscal year.

Total net assets at the end of the fiscal year under review (see Note 1) amounted to 80,718 million yen. Compared with net assets at the end of the previous fiscal year (traditionally presented as the sum of minority interests and shareholders' equity) of 68,882 million yen, the fiscal 2006 figure reflected an increase in total shareholders' equity in real terms. This increase was attributable to such factors as retained earnings, which increased 8,183 million yen, to 57,577 million yen. As a result, the shareholders' equity ratio (see Note 2) was 39.6% as of March 31, 2007, compared with 37.8% a year earlier. Net assets per share (see Note 3) increased to 682.01 yen from 608.12 yen in the previous fiscal year. In addition, return on shareholders' equity (ROE) fell to 15.6% from 16.8%.

Cash Flows

Net cash provided by operating activities amounted to 865 million yen, marking the end of a period of excessive inflow as seen in the 4,800 million yen recorded in the previous fiscal year. Although there was an increase in income associated with a higher level of income before income taxes and minority interests, the main factors for the decrease were a decrease in advances on sales contracts and an increase in inventories resulting from the higher volume of orders received.

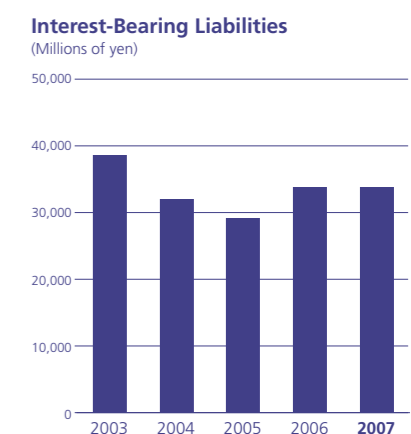
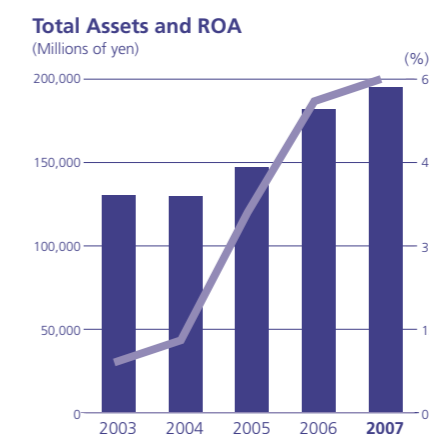
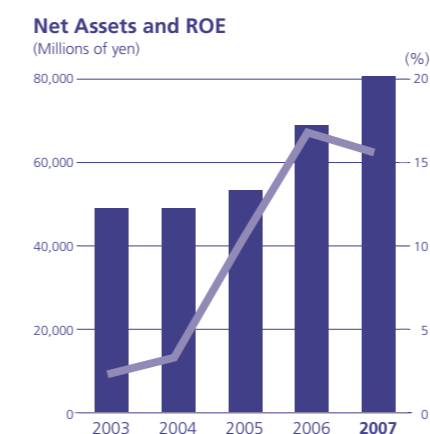
Net cash used in investing activities, which amounted to 10,257 million yen, far exceeded the outflow of 4,357 million yen recorded in the previous fiscal year. The principal components of this outflow were the above-mentioned

domestic and overseas capital investment, including payments for purchase of property, plant and equipment.

Net cash used in financing activities amounted to 2,329 million yen, compared with an 8,021 million yen inflow in the previous fiscal year. Contributing to this result were the payment of cash dividends as well as the absence of proceeds from issuance of bonds and convertible bonds as recorded in the previous fiscal year.

After factoring in the effect of exchange rate change on cash and cash equivalents and increases brought about by other factors, cash and cash equivalents at end of year decreased 9,881 million yen to 19,970 million yen.

- Notes: 1. Effective the year ended March 31, 2007, the Daifuku Group has adopted the appropriate accounting standard guidelines for the presentation of net assets in the balance sheet. Please refer to Note 12 in the accompanying Notes to the Consolidated Financial Statements.
2. In the calculation of shareholders' equity ratio and ROE, net assets, less the amount equivalent to minority interests (average of beginning and end of fiscal period), are used.
3. Net assets used to calculate shareholders' equity per share exclude minority interests.



Consolidated Balance Sheets

Daifuku Co., Ltd. and consolidated subsidiaries
March 31, 2007 and 2006

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 19,970	¥ 29,851	\$ 169,105
Notes and accounts receivable (Note 15)			
Trade	61,474	52,634	520,571
Other	1,760	691	14,901
Inventories (Note 6)	52,547	45,887	444,976
Deferred income taxes (Note 14)	3,678	3,223	31,153
Other current assets (Note 15)	6,259	5,045	52,993
Less: allowance for doubtful accounts	(186)	(353)	(1,574)
Total current assets	145,502	136,978	1,232,125
Investments and long-term receivables:			
Investments in securities (Note 5)	5,049	6,412	42,756
Investments in and advances to non-consolidated subsidiaries and affiliates	873	2,130	7,393
Long-term loans	181	193	1,530
Long-term receivables and other	3,551	2,112	30,069
Less: allowance for doubtful accounts	(345)	(366)	(2,921)
Total investments and long-term receivables	9,309	10,481	78,827
Property, plant and equipment:			
Land (Note 7)	10,087	8,091	85,418
Buildings and structures (Note 7)	36,358	33,904	307,881
Machinery and equipment	22,693	21,193	192,169
Construction in progress	785	1,070	6,648
	69,923	64,258	592,116
Less: accumulated depreciation	36,449	37,096	308,659
Net property, plant and equipment	33,474	27,162	283,457
Other assets:			
Deferred income taxes (Note 14)	3,662	4,364	31,013
Goodwill	1,155	284	9,783
Other	1,914	2,721	16,205
Total other assets	6,731	7,369	57,001
Total assets	¥195,016	¥181,990	\$1,651,410

The accompanying notes are an integral part of these statements.

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 7)	¥ 2,150	¥ 1,048	\$ 18,205
Current portion of long-term debt (Note 7)	7,303	12,654	61,841
Notes and accounts payable (Note 15):			
Trade	44,191	34,405	374,213
Other	3,772	4,763	31,944
Income taxes payable (Note 14)	3,545	3,469	30,021
Accrued expenses	2,533	2,421	21,446
Advances on sales contracts	13,352	18,157	113,069
Deferred income taxes (Note 14)	31	67	266
Other current liabilities (Note 8)	8,274	7,745	70,062
Total current liabilities	85,151	84,729	721,067
Long-term liabilities:			
Long-term debt (Note 7)	24,311	20,154	205,873
Accrued severance indemnities (Note 8)	2,175	3,937	18,419
Accrued directors' retirement benefits	—	623	—
Deferred income taxes (Note 14)	48	68	408
Long-term other accounts payable (Note 8)	2,371	2,516	20,075
Other long-term liabilities	242	160	2,045
Total long-term liabilities	29,147	27,458	246,820
Total liabilities	114,298	112,187	967,887
Minority interests in consolidated subsidiaries			
Contingent liabilities (Note 10)	—	921	—
Shareholders' equity (Note 12):			
Common stock:			
Authorized — 200,000,000 shares	—	—	—
Issued — 113,670,721 shares	—	8,023	—
Additional paid-in capital	—	9,023	—
Retained earnings	—	49,394	—
Net unrealized gain on securities	—	1,522	—
Foreign currency translation adjustments	—	1,093	—
	—	69,055	—
Less: treasury stock at cost			
March 31, 2006 — 400,683 shares	—	(173)	—
Total shareholders' equity	—	68,882	—
Total liabilities, minority interests in consolidated subsidiaries and shareholders' equity	—	¥181,990	—
Net assets:			
Shareholders' equity (Note 12)			
Common stock:			
Authorized — 250,000,000 shares			
Issued — 113,671,494 shares	8,024	—	67,948
Additional paid-in capital	9,029	—	76,456
Retained earnings	57,577	—	487,571
Less: treasury stock at cost			
March 31, 2007 — 437,038 shares	(240)	—	(2,036)
Total shareholders' equity	74,390	—	629,939
Net unrealized gain on securities	1,001	—	8,477
Loss on deferred hedges	(60)	—	(510)
Foreign currency translation adjustments	1,896	—	16,058
Total valuation and translation adjustments	2,837	—	24,025
Minority interests in consolidated subsidiaries	3,491	—	29,559
Total net assets	80,718	—	683,523
Total liabilities and assets	¥195,016	—	\$1,651,410

Consolidated Statements of Income

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2007 and 2006

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Net sales	¥232,704	¥198,811	\$1,970,563
Cost of sales (Note 13)	186,991	159,312	1,583,464
Gross profit	45,713	39,499	387,099
Selling, general and administrative expenses (Note 13)	26,876	22,982	227,588
Operating income	18,837	16,517	159,511
Other income (expenses):			
Interest and dividend income	317	249	2,684
Interest expenses	(472)	(584)	(3,996)
Other, net (Note 16)	(326)	559	(2,763)
Income before income taxes and minority interests	18,356	16,741	155,436
Income taxes (Note 14):			
Current	6,047	5,711	51,203
Deferred	611	479	5,174
	6,658	6,190	56,377
Income before minority interests	11,698	10,551	99,059
Minority interests in net income of consolidated subsidiaries	(316)	(298)	(2,674)
Net income	¥ 11,382	¥ 10,253	\$ 96,385
	(Yen)		(U.S. dollars) (Note 4)
Net income per share (Note 18):	¥ 100.50	¥ 92.20	\$ 0.85
Cash dividends per share:	25.00	18.00	0.21

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2007 and 2006

	SHAREHOLDERS' EQUITY					Total shareholders' equity
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
	(Thousands)			(Millions of yen)		
Balance at March 31, 2005	113,671	¥8,023	¥5,012	¥41,088	¥(1,099)	¥53,024
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	—	—	—	—	—	—
Gain on sales of treasury stock	—	—	4,011	—	926	4,937
Items other than changes in shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2006	113,671	8,023	9,023	49,394	(173)	66,267
Issuance of new stock	0	1	1	—	—	2
Net income	—	—	—	11,382	—	11,382
Cash dividends	—	—	—	(3,171)	—	(3,171)
Bonuses to directors	—	—	—	(5)	—	(5)
Decrease of newly consolidated subsidiaries	—	—	—	(23)	—	(23)
Increase in treasury stock	—	—	—	—	(69)	(69)
Gain on sales of treasury stock	—	—	5	—	2	7
Items other than changes in shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2007	113,671	¥8,024	¥9,029	¥57,577	¥ (240)	¥74,390

	VALUATION AND TRANSLATION ADJUSTMENTS					Total net assets
	Net unrealized gain on securities	Loss on deferred hedges	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	
	(Millions of yen)					
Balance at March 31, 2005	¥ 408	¥ —	¥ (95)	¥ 313	¥ 629	¥53,966
Net income	—	—	—	—	—	10,253
Cash dividends	—	—	—	—	—	(1,441)
Bonuses to directors	—	—	—	—	—	(127)
Decrease of newly consolidated subsidiaries	—	—	—	—	—	(379)
Increase in treasury stock	—	—	—	—	—	—
Gain on sales of treasury stock	—	—	—	—	—	4,937
Items other than changes in shareholders' equity	1,114	—	1,188	2,302	292	2,594
Balance at March 31, 2006	1,522	—	1,093	2,615	921	69,803
Issuance of new stock	—	—	—	—	—	2
Net income	—	—	—	—	—	11,382
Cash dividends	—	—	—	—	—	(3,171)
Bonuses to directors	—	—	—	—	—	(5)
Decrease of newly consolidated subsidiaries	—	—	—	—	—	(23)
Increase in treasury stock	—	—	—	—	—	(69)
Gain on sales of treasury stock	—	—	—	—	—	7
Items other than changes in shareholders' equity	(521)	(60)	803	222	2,570	2,792
Balance at March 31, 2007	¥1,001	¥(60)	¥1,896	¥2,837	¥3,491	¥80,718

The accompanying notes are an integral part of these statements.

*The consolidated statements of changes in net assets for the fiscal year ended March 31, 2006 are presented under the new standard.

Consolidated Statements of Changes in Net Assets (Continued)

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2007 and 2006

	SHAREHOLDERS' EQUITY					Total shareholders' equity
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	
	(Thousands)		(Thousands of U.S. dollars) (Note 4)			
Balance at March 31, 2006	113,671	\$67,940	\$76,408	\$418,277	\$(1,462)	\$561,163
Issuance of new stock	0	8	8	—	—	16
Net income	—	—	—	96,385	—	96,385
Cash dividends	—	—	—	(26,856)	—	(26,856)
Bonuses to directors	—	—	—	(42)	—	(42)
Decrease of newly consolidated subsidiaries	—	—	—	(193)	—	(193)
Increase in treasury stock	—	—	—	—	(590)	(590)
Gain on sales of treasury stock	—	—	40	—	16	56
Items other than changes in shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2007	113,671	\$67,948	\$76,456	\$487,571	\$(2,036)	\$629,939

	VALUATION AND TRANSLATION ADJUSTMENTS					Total net assets
	Net unrealized gain on securities	Loss on deferred hedges	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	
	(Thousands of U.S. dollars) (Note 4)					
Balance at March 31, 2006	\$12,885	\$ —	\$ 9,255	\$22,140	\$ 7,803	\$591,106
Issuance of new stock	—	—	—	—	—	16
Net income	—	—	—	—	—	96,385
Cash dividends	—	—	—	—	—	(26,856)
Bonuses to directors	—	—	—	—	—	(42)
Decrease of newly consolidated subsidiaries	—	—	—	—	—	(193)
Increase in treasury stock	—	—	—	—	—	(590)
Gain on sales of treasury stock	—	—	—	—	—	56
Items other than changes in shareholders' equity	(4,408)	(510)	6,803	1,885	21,756	23,641
Balance at March 31, 2007	\$ 8,477	\$(510)	\$16,058	\$24,025	\$29,559	\$683,523

The accompanying notes are an integral part of these statements.

*The consolidated statements of changes in net assets for the fiscal year ended March 31, 2006 are presented under the new standard.

Consolidated Statements of Cash Flows

Daifuku Co., Ltd. and consolidated subsidiaries
For the years ended March 31, 2007 and 2006

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Cash flows from operating activities:			
Income before income taxes and minority interests	¥18,356	¥16,741	\$155,436
Adjustments for:			
Depreciation	2,886	2,271	24,438
Gain on sales of investments in securities	(137)	(391)	(1,158)
Gain on change in equity of subsidiary	(100)	—	(849)
Interest and dividend income	(317)	(249)	(2,684)
Interest expenses	472	584	3,996
Increase in trade receivables	(7,664)	(6,823)	(64,904)
Increase in inventories	(5,964)	(12,016)	(50,507)
Increase in trade payables	8,685	3,305	73,544
Increase in accrued directors' retirement benefits	—	72	—
(Decrease) increase in advances on sales contracts	(5,931)	9,910	(50,222)
Gain from termination of the defined benefit retirement benefit plans	—	(866)	—
Other, net	(3,154)	(700)	(26,698)
Subtotal	7,132	11,838	60,392
Interest and dividend income received	310	252	2,628
Interest expenses paid	(544)	(590)	(4,605)
Income taxes paid	(6,048)	(6,904)	(51,218)
Other, net	15	204	127
Net cash provided by operating activities	865	4,800	7,324
Cash flows from investing activities:			
Payments for purchase of investments in securities	(116)	(416)	(985)
Proceeds from sales of investments in securities	676	1,098	5,725
Payments for purchase of property, plant and equipment	(9,721)	(3,696)	(82,323)
Proceeds from sales of property, plant and equipment	111	214	941
Collection of loans receivable	21	22	180
Payments for purchase of investments in and advances to non-consolidated subsidiaries	(511)	(1,779)	(4,327)
Other, net	(717)	200	(6,071)
Net cash used in investing activities	(10,257)	(4,357)	(86,859)
Cash flows from financing activities:			
Increase in short-term bank loans, net	869	196	7,358
Proceeds from long-term debt	11,194	3,000	94,788
Repayment of long-term debt	(12,394)	(7,517)	(104,955)
Payment of cash dividends	(3,164)	(1,440)	(26,791)
Payments for purchase of treasury stock	(70)	(113)	(590)
Proceeds from issuance of bonds	—	3,986	—
Proceeds from issuance of convertible bonds	—	4,969	—
Proceeds from issuance of common stock to minority interests	1,339	—	11,341
Proceeds from sales of treasury stock	7	5,046	56
Other, net	(110)	(106)	(928)
Net cash (used in) provided by financing activities	(2,329)	8,021	(19,721)
Effect of exchange rate change on cash and cash equivalents	425	644	3,591
Net (decrease) increase in cash and cash equivalents	(11,296)	9,108	(95,665)
Cash and cash equivalents at beginning of year	29,851	20,441	252,784
Cash and cash equivalents held by newly consolidated subsidiaries at beginning of year	1,415	302	11,986
Cash and cash equivalents at end of year	¥19,970	¥29,851	\$169,105

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, 2007 and 2006

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 their accounts and records in accordance with the provisions set forth in the Japanese Corporate Law and in conformity with generally accepted accounting principles prevailing in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan. The accounts of the consolidated overseas subsidiaries are based on their 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 2 subsidiaries and 6 subsidiaries at March 31, 2007 and 2006, respectively, 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.

The Company had 2 consolidated subsidiaries and 2 affiliates as of March 31, 2007 and 2006 and 6 consolidated subsidiaries and 3 affiliates as of March 31, 2006, respectively, that were not accounted for using the equity method but accounted for using the cost method since the net income and the balance of retained earnings of those companies were not significant as at March 31, 2002.

All significant intercompany transactions and account balances and unrealized profit among the consolidated group companies have been eliminated.

The fiscal years for the financial statements of the consolidated subsidiaries are in agreement with those of the Company, except for 22 foreign consolidated subsidiaries as of March 31, 2007 and 20 foreign consolidated subsidiaries as of March 31, 2006 with their fiscal years ended on December 31 as of March 31, 2007 and 2006, respectively. For the consolidation of these foreign subsidiaries, the Company makes appropriate adjustments for any material transactions subsequent to December 31.

(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 rates for the respective periods.

(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 periods 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," "investment in subsidiaries and affiliates" and "other securities."

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

The Company and its subsidiaries have "investment 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 is 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 fluctuation in foreign exchange and interest rates. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria and not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

(7) Leases

In Japan, where 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.

The 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 have been 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 their fixed assets for impairment whenever events or changes in circumstances indicate 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 recognized by the Company and consolidated subsidiaries in acquisitions accounted for as purchases is being amortized on a straight-line basis from 5 years to 15 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.

(13) Accrued directors' retirement benefits

Accrued directors' retirement benefits are recorded to state the liability at the amount 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.

In June 2006, the Company and a domestic subsidiary terminated their retirement benefits plan for directors and corporate auditors.

As a result of this change, the full amount of 762 million (\$6,449 thousand) for accrued retirement benefits for directors and statutory auditors was included in long-term other accounts payable as of March 31, 2007.

(14) Appropriation of retained earnings

Until the fiscal year ended March 31, 2007, the plan for appropriation of retained earnings (primarily for cash dividend payments) proposed by the Board of Directors was required to be approved at the general stockholders' meeting, which is held within three months after the end of each fiscal year. On May 1, 2006, the Japanese Corporate Law went into effect and replaced the Commercial Code. Under the new Corporate Law, the Company is able to appropriate retained earnings by resolution of the Board of Directors, provided that certain criteria are met. Upon meeting these criteria, the Company amended its Articles of Incorporation upon the approval of a resolution at the annual general stockholders' meeting in June 2006, the first general stockholders' meeting held under the new Corporate Law.

(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 the 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 assets or liabilities 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

(1) Presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No. 5)," and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No. 8)," both issued by the Accounting Standard Board of Japan on December 9, 2005.

As of March 31, 2007 the amount corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥77,286 million.

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated April 25, 2006.

Furthermore, the Company presented its net assets in the balance sheet using the new presentation as of March 31, 2006.

(2) Directors' bonus

Effective from the year ended March 31, 2007, the Company applied "Accounting standard for directors' bonus" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005 by the Accounting Standards Board of Japan).

As a result of the application of this standard, operating profit and income before income taxes and minority interests for the year ended March 31, 2007 decreased by ¥242 million, respectively.

In addition, the effect of the application of this standard on segment information is discussed in the relevant sections of this report.

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 ¥118.09 to U.S. \$1, being the effective rate of exchange at March 31, 2007.

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 ¥118.09 to U.S. \$1 or at any other rate.

5. Investments in securities

Investments in securities as of March 31, 2007 and 2006 were as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in securities:			
Equity securities	¥5,049	¥6,412	\$42,756

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, 2007 and 2006 is summarized as follows:

	March 31, 2007		
	(Millions of yen)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amounts exceeding their acquisition cost			
Investments in securities:			
Equity securities	¥1,546	¥3,244	¥1,698

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

	March 31, 2007		
	(Thousands of U.S. dollars)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amounts exceeding their acquisition cost			
Investments in securities:			
Equity securities	\$13,091	\$27,470	\$14,379

	March 31, 2007		
	(Millions of yen)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amounts not exceeding their acquisition cost			
Investments in securities:			
Equity securities	¥669	¥644	¥(25)

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

	March 31, 2007		
	(Thousands of U.S. dollars)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amounts not exceeding their acquisition cost			
Investments in securities:			
Equity securities	\$5,664	\$5,455	\$(208)

"Other securities" sold during the years ended March 31, 2007 and 2006 were as follows:

	March 31		
	2007	2006	
	(Millions of yen)		
Proceeds of sales	¥676	¥137	—
Gain on sales	—	—	¥1,096
Loss on sales	—	—	¥391
Loss on sales	—	—	¥6

	March 31		
	2007		
	(Thousands of U.S. dollars)		
Proceeds of sales	\$5,725	\$1,158	—
Gain on sales	—	—	—
Loss on sales	—	—	—

Book values of "other securities" which are not marketable as of March 31, 2007 and 2006 are summarized as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in securities:			
Equity securities	¥1,161	¥1,153	\$9,831

6. Inventories

Inventories as of March 31, 2007 and 2006 consisted of the following:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 1,663	¥ 1,666	\$ 14,086
Work in process	43,985	38,899	372,468
Raw materials	5,358	4,158	45,376
Others	1,541	1,164	13,046
	¥52,547	¥45,887	\$444,976

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, 2007 were from 0.60% to 4.72 %.

Long-term debt outstanding as of March 31, 2007 and 2006, consisted of the following:

	March 31		March 31
	2007	2006	2007
	(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	¥19,616	¥20,808	\$166,114
0.56% yen unsecured bonds, due 2007	3,000	3,000	25,404
0.42% yen unsecured bonds, due 2008	2,000	2,000	16,936
0.47% yen unsecured bonds, due 2008	2,000	2,000	16,936
Zero coupon yen unsecured convertible bonds, due 2011	4,998	5,000	42,324
Less:			
portion due within one year	7,303	12,654	61,841
	¥24,311	¥20,154	\$205,873

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 yen unsecured convertible bonds in the principal amount of ¥4,998 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 (\$21.90)	March 1, 2006 – March 30, 2011

Where there are claims that bond holders intend to exercise their stock option rights, 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, 2007 were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Land	¥200	\$1,694
Buildings, less accumulated depreciation	136	1,148
Others	51	435
	¥387	\$3,277

The aggregate annual maturity of long-term debt other than the portion due within one year outstanding as of March 31, 2007 was as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2008	¥ 8,027	\$ 67,980
2009	11,286	95,569
2010	—	—
2011 and thereafter	4,998	42,324
	¥24,311	\$205,873

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 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, a 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.

A breakdown of accrued severance indemnities as of March 31, 2007 and 2006 is as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligations	¥(19,017)	¥(18,665)	\$(161,040)
Plan assets	20,095	20,294	170,166
Funded status	1,078	1,629	9,126
Unrecognized actuarial differences	(2,333)	(4,431)	(19,754)
Unrecognized prior service cost	(852)	(1,135)	(7,212)
Prepaid pension cost	68	—	579
Accrued severance indemnities recognized on balance sheet	¥ (2,175)	¥ (3,937)	\$ (18,419)

The effect of the transfer of lump-sum severance indemnities to defined contribution pension plans by the Company and some 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, 2007 and 2006 was as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 925	¥ 910	\$ 7,830
Interest cost	351	385	2,973
Expected return on plan assets	(578)	(187)	(4,894)
Amortization of actuarial differences	(456)	591	(3,864)
Amortization of prior service cost	(284)	(203)	(2,404)
Net pension expense	¥ (42)	¥1,496	\$ (359)
Gain on end of part of the defined-benefit plan	¥ —	¥ (866)	\$ —
Other	319	299	2,708
	¥ 277	¥ 929	\$ 2,349

Other is pension contribution under defined contribution plan. Assumptions used in calculation of the above information were as follows:

	March 31	
	2007	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	5.0%	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization of unrecognized actuarial differences	5 years	5 years
Amortization of unrecognized prior service cost	5 years	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 their own respective defined contribution plans.

9. Lease commitments

Rent expenses relating to financing lease transactions for the years ended March 31, 2007 and 2006 were summarized as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Rental expenses	¥336	¥300	\$2,844

The future minimum lease payments required under the terms of these financing leases as of March 31, 2007 and 2006 were as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥ 300	¥ 288	\$ 2,542
Due after one year	1,610	1,177	13,633
	¥1,910	¥1,465	\$16,175

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, 2007 and 2006 were as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs	¥3,008	¥2,480	\$25,470
Accumulated depreciation	1,098	1,015	9,295
Net book values	¥1,910	¥1,465	\$16,175

Depreciation expense for the year ended March 31, 2007 was ¥336 million (\$2,844 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, 2007 and 2006 were as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥ —	¥329	\$ —
Due after one year	—	—	—
	¥ —	¥329	\$ —

10. Contingent liabilities

The Company was contingently liable under guarantees for bank borrowings of non-consolidated subsidiaries, affiliates and Company employees totaling ¥156 million (\$1,321 thousand) as of March 31, 2007.

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 their 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 non-performance 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 Corporation Law 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 Corporation Law, 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 Corporation Law requires all the companies to appropriate as an earned reserve an amount equivalent to 10% of cash dividends from 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 a deficit through suitable shareholders' actions.

13. Research and development

Research and development expenditures charged to income were ¥7,564 million (\$64,054 thousand) and ¥7,629 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006. Foreign consolidated subsidiaries are subject to the income taxes of the countries in which they operate.

The significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 are summarized as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Accrued bonus	¥ 1,678	¥ 1,377	\$ 14,207
Enterprise tax	226	240	1,917
Allowance for doubtful accounts	161	189	1,364
Accrued severance indemnities	3,999	4,686	33,867
Operating loss carryforwards for tax purposes	488	659	4,133
Current and long-term other accounts payable	1,006	1,374	8,518
Others	2,615	2,216	22,145
Subtotal	10,173	10,741	86,151
Less valuation allowance	(612)	(737)	(5,185)
Total deferred tax assets	¥ 9,561	¥10,004	\$ 80,966
Deferred tax liabilities:			
Deferred gain on sales of assets	¥ (290)	¥ (127)	\$ (2,453)
Gain on securities contributed to employee retirement benefit trust	(1,228)	(1,229)	(10,403)
Net unrealized gain on securities	(686)	(1,066)	(5,811)
Others	(96)	(130)	(807)
Total deferred tax liabilities	(2,300)	(2,552)	(19,474)
Net deferred tax assets	¥ 7,261	¥ 7,452	\$ 61,492

A reconciliation of the differences between the statutory rate and the effective income tax rate as of March 31, 2007 and 2006 is as follows:

	March 31	
	2007	2006
Statutory tax rate	41.0%	41.0%
Lower tax rates of overseas subsidiaries	(5.8)	(2.9)
Utilization of net operating loss carryforwards by the consolidated subsidiaries	(1.1)	(0.8)
Expenses not deductible for income tax purposes	1.6	1.1
Increase of valuation allowance	1.1	0.8
Others	(0.5)	(2.2)
Effective tax rate	36.3%	37.0%

15. Related party transactions

Notes and accounts due from and to non-consolidated subsidiaries and affiliates as of March 31, 2007 and 2006 were summarized as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Notes and accounts receivable	¥234	¥196	\$1,984
Notes and accounts payable	256	31	2,165

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

	March 31	
	2006	2007
	(Millions of yen)	(Thousands of U.S. dollars)
Sales of a subsidiary's stocks to a director	¥12	\$102

There were no transactions with directors for the year ended as of March 31, 2007

17. Segment information

Segment Information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is presented below:

(1) Segment information by product category For the year ended March 31, 2007

	(Millions of yen)				Consolidated total
	Logistics Systems	Electronics	Other	Adjustments and eliminations	
Sales:					
Sales to outside customers	¥209,155	¥11,548	¥12,001	¥ —	¥232,704
Inter-segment sales	135	12,165	3,353	(15,653)	—
Total	209,290	23,713	15,354	(15,653)	232,704
Operating expenses	185,352	22,745	14,677	(8,907)	213,867
Operating income	¥ 23,938	¥ 968	¥ 677	¥ (6,746)	¥ 18,837
Identifiable assets	¥135,101	¥15,379	¥11,719	¥ 32,817	¥195,016
Depreciation	1,776	191	59	860	2,886
Capital expenditure	5,700	356	485	1,740	8,281

For the year ended March 31, 2006

	(Millions of yen)				Consolidated total
	Logistics Systems	Electronics	Other	Adjustments and eliminations	
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

16. Other income and other expenses

"Other, net" consisted of the following for the years ended March 31, 2007 and 2006, respectively.

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Foreign exchange gain (loss), net	¥ (188)	¥ (13)	\$ (1,591)
Gain on sales of property, plant and equipment	92	27	780
Gain on sales of investments in securities	137	391	1,158
Gain on change in equity of subsidiary	100	—	849
Gain from termination of the defined benefit retirement benefit plans	—	866	—
Loss on disposal of property, plant and equipment	(452)	(622)	(3,825)
Loss on sales of property, plant and equipment	(40)	(10)	(343)
Loss on valuation of investments in securities	—	(64)	—
Other, net	25	(16)	209
Total	¥ (326)	¥ 559	\$ (2,763)

For the year ended March 31, 2007

(Thousands of U.S. dollars)

	Logistics Systems	Electronics	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	\$1,771,154	\$ 97,786	\$101,623	\$ —	\$1,970,563
Inter-segment sales	1,142	103,016	28,395	(132,553)	—
Total	1,772,296	200,802	130,018	(132,553)	1,970,563
Operating expenses	1,569,584	192,605	124,288	(75,425)	1,811,052
Operating income	\$ 202,712	\$ 8,197	\$ 5,730	\$ (57,128)	\$ 159,511
Identifiable assets	\$1,144,053	\$130,230	\$ 99,232	\$ 277,895	\$1,651,410
Depreciation	15,042	1,621	500	7,275	24,438
Capital expenditure	48,266	3,018	4,109	14,728	70,121

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, wheelchair lifts for care vehicles

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards for directors' and corporate auditors' bonuses. As compared with the previous method, operating costs and expenses increased by ¥51 million (\$431 thousand) in the Logistic Systems segment, ¥17 million (\$144 thousand) in the Other segment and ¥174 million (\$1,476 thousand) in adjustments and eliminations, and operating income for each segment decreased by the same amount.

(2) Segment information by geographic areas

For the year ended March 31, 2007

(Millions of yen)

	Japan	North America	Asia	Other	Adjustments and eliminations	Consolidated total
Sales:						
Sales to outside customers	¥174,565	¥17,845	¥33,991	¥6,303	¥ —	¥232,704
Inter-segment sales	15,969	493	7,160	255	(23,877)	—
Total	190,534	18,338	41,151	6,558	(23,877)	232,704
Operating expenses	169,628	17,826	37,079	6,465	(17,131)	213,867
Operating income (loss)	¥ 20,906	¥ 512	¥ 4,072	¥ 93	¥ (6,746)	¥ 18,837
Identifiable assets	¥132,084	¥11,659	¥28,641	¥1,911	¥ 20,721	¥195,016

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards for directors' and corporate auditors' bonuses. As compared with the previous method, operating costs and expenses increased by ¥67 million (\$575 thousand) in Japan segment and ¥174 million (\$1,476 thousand) in adjustments and eliminations, and operating income for each segment decreased by the same amount.

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

For the year ended March 31, 2007

(Thousands of U.S. dollars)

	Japan	North America	Asia	Other	Adjustments and eliminations	Consolidated total
Sales:						
Sales to outside customers	\$1,478,239	\$151,116	\$287,835	\$53,373	\$ —	\$1,970,563
Inter-segment sales	135,224	4,173	60,640	2,158	(202,195)	—
Total	1,613,463	155,289	348,475	55,531	(202,195)	1,970,563
Operating expenses	1,436,432	150,950	313,992	54,745	(145,067)	1,811,052
Operating income (loss)	\$ 177,031	\$ 4,339	\$ 34,483	\$ 786	\$ (57,128)	\$ 159,511
Identifiable assets	\$1,118,507	\$ 98,732	\$242,536	\$16,172	\$ 175,463	\$1,651,410

(3) Overseas sales

For the year ended March 31, 2007

(Millions of yen)

	North America	Asia	Other	Total
Overseas sales	¥ 15,986	¥ 75,331	¥ 12,306	¥ 103,622
Consolidated sales	—	—	—	232,704
Ratio of overseas sales to consolidated sales	6.9%	32.4%	5.3%	44.5%

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, 2007

(Thousands of U.S. dollars)

	North America	Asia	Other	Total
Overseas sales	\$135,370	\$637,908	\$104,207	\$ 877,485
Consolidated sales	—	—	—	1,970,563
Ratio of overseas sales to consolidated sales	6.9%	32.4%	5.3%	44.5%

Overseas net sales for the years ended March 31, 2007 and 2006 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 years ended March 31, 2007 and 2006 were as follows:

	March 31		March 31
	2007	2006	2007
	(Yen)		(U.S. dollars)
Net income per share			
—Basic	¥100.50	¥92.20	\$0.85
—Diluted	98.82	91.97	0.84

The amounts and numbers used for the basic and diluted net income per share computation for years ended March 31, 2007 and 2006 were as follows:

	March 31		March 31
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥11,382	¥10,253	\$96,385
Bonuses to directors and corporate auditors	—	—	—
Adjusted net income	¥11,382	¥10,253	\$96,385

	March 31	
	2007	2006
	(Thousands of shares)	
Weighted average number of shares of common stock	113,254	111,202
Effect of dilutive securities; Convertible bonds	1,933	275
Weighted average number of shares of common stock for diluted net income per share	115,187	111,477

19. Subsequent event

On May 17, 2007 the Board of Directors approved the payment of a cash dividend to shareholders of record on March 31, 2007 of ¥15 (\$0.13) per share, or a total of ¥1,699 million (\$14,383 thousand).

Report of Independent Auditors

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 2007, and the related consolidated statements of income, changes in net assets, 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, in all material respects, the consolidated financial position of DAIFUKU Co., Ltd. and its subsidiaries as of March 31, 2006 and 2007, 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.

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, which are 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.



Misuzu Audit Corporation
Tokyo, Japan
June 28, 2007