May 25, 2007

# Consolidated Business Results for the Fiscal Year Ended March 31, 2007
## (April 1, 2006 – March 31, 2007)

Company name: Ferrotec Corporation — Stock exchange listing: JASDAQ
Stock code: 6890 — URL: http:// www.ferrotec.co.jp
Representative: Akira Yamamura, Representative Director & President
Contact: Kenichi Yamazaki, Executive Director, Treasurer — Tel: +81-3-3281-8186
Schedule date of annual shareholders' meeting: June 26, 2007
Schedule date of filing of Annual Security Report: June 26, 2007
Starting date of dividend payment: June 27, 2007

(All amounts are rounded down to the nearest million yen)

### 1. Consolidated Financial Results (April 1, 2006 - March 31, 2007)

(1) Consolidated results of operations

(Percentages shown for net sales, operating income, ordinary income and net income represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| March 2007 | 32,517 | 35.8 | 2,288 | 89.0 | 2,081 | 100.0 | 1,703 | 140.3 |
| March 2006 | 23,946 | 13.5 | 1,210 | (31.3) | 1,040 | (28.5) | 708 | 11.8 |

| | Net income per share | Diluted net income per share | Return on equity | Ordinary income to total assets | Operating income to net sales |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| March 2007 | 86.38 | 76.82 | 9.6 | 5.6 | 7.0 |
| March 2006 | 35.59 | 31.72 | 4.4 | 3.2 | 5.0 |

Reference: Earnings/loss on investments in equity-method affiliates
March 2007: (14) million yen March 2006: (79) million yen

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| March 2007 | 38,656 | 18,270 | 46.7 | 956.23 |
| March 2006 | 35,039 | 17,084 | 48.8 | 857.81 |

Reference: Shareholders' equity
March 2007: 18,054 million yen March 2006: - million yen

(3) Consolidated cash flows

| | Net cash provided by (used in) | | | Cash and cash equivalents at end of period |
|---|---|---|---|---|
| | Operating activities | Investing activities | Financing activities | |
| | Million yen | Million yen | Million yen | Million yen |
| March 2007 | 2,049 | (2,665) | (487) | 3,225 |
| March 2006 | 4,133 | (3,541) | 162 | 4,108 |

### 2. Dividends

| | Dividend per share | | | Total dividends (Annual) | Dividend payout ratio (Consolidated) | Dividend on equity (Consolidated) |
|---|---|---|---|---|---|---|
| | Interim | Year-end | Annual | | | |
| | Yen | Yen | Yen | Million yen | % | % |
| March 2007 | - | 12.00 | 12.00 | 226 | 13.3 | 1.3 |
| March 2006 | - | 8.00 | 8.00 | 159 | 22.5 | 0.9 |
| March 2008 (forecast) | - | 10.00 | 10.00 | - | 14.0 | - |

Note: Composition of year-end dividend: Ordinary dividend 10.00 yen; Commemorative dividend 2.00 yen

### 3. Consolidated Forecast for the Fiscal Year Ending March 31, 2008 (April 1, 2007 - March 31, 2008)

(Percentages represent changes from the same period of previous fiscal year)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| First half | 16,980 | 14.6 | 1,230 | 26.4 | 1,130 | 42.4 | 690 | 4.0 | 36.55 |
| Full year | 33,500 | 3.0 | 2,350 | 2.7 | 2,150 | 3.3 | 1,350 | (20.7) | 71.50 |

*Cautionary statement with respect to forward-looking statements
Forecasts regarding future performance in these materials area based on information and assumptions at the time this report was prepared. Therefore, actual results may differ significantly from these forecasts.
Please refer to page 4 for further information concerning forecasts.

**4. Others**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): Yes
Excluded: 1 (Ferrotec Precision Corporation was merged into Ferrotec Corporation during the period)

(2) Changes in accounting principles, procedures and presentation methods for preparation of consolidated financial statements
1) Changes caused by revision of accounting standards: Yes
2) Other changes: None
Note: Please refer to “Change in major items in the preparation of consolidated financial statements” on page 20 for further information.

(3) Number of shares outstanding (common shares)
1) Number of shares outstanding at end of period (including treasury stock)
March 2007: 20,156,550 shares March 2006: 20,156,550 shares
2) Number of treasury stock at end of period
March 2007: 1,276,144 shares March 2006: 240,144 shares
Note: Please refer to “Per Share Data” for the number of shares on page 35 used in calculating net income per share.

**(Reference) Summary of Non-consolidated Financial Results**

**1. Non-consolidated Financial Results (April 1, 2006 - March 31, 2007)**

(1) Non-consolidated results of operations

(Percentages shown for net sales, operating income, ordinary income and net income represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| March 2007 | 15,123 | 34.0 | 269 | 25.4 | 662 | (1.6) | 729 | 52.0 |
| March 2006 | 11,288 | 26.4 | 215 | (39.0) | 673 | 4.4 | 479 | 108.2 |

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| March 2007 | 36.98 | 32.93 |
| March 2006 | 24.09 | 21.49 |

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| March 2007 | 24,266 | 15,459 | 63.7 | 818.79 |
| March 2006 | 25,108 | 15,993 | 63.7 | 803.05 |

Reference: Shareholders’ equity
March 2007: 15,459 million yen March 2006: - million yen

**2. Non-consolidated Forecast for the Fiscal Year Ending March 31, 2008 (April 1, 2007 - March 31, 2008)**

(Percentages represent changes from the same period of previous fiscal year)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| First half | 7,600 | 11.8 | 180 | 416.5 | 130 | 114.8 | 65 | (61.9) | 3.44 |
| Full year | 15,300 | 1.2 | 490 | 81.5 | 915 | 38.1 | 515 | (29.4) | 27.28 |

* Forecasts regarding future performance in these materials area based on information and assumptions at the time this report was prepared. Therefore, actual results may differ significantly from these forecasts.

## 1. Business Results

### (1) Analysis of Results of Operations

### 1) Consolidated Business Results (April 1, 2006 – March 31, 2007)

The global economy remained strong overall in the fiscal year under review. The US economy continued to expand despite concerns over personal spending and housing starts; the European economy remained stable; the Asian economy, driven by the Indian and Chinese economies, sustained strong growth; and the Japanese economy remained on a steady recovery path driven by strong export demand, and strong capital spending underpinned by improving corporate profits. In the electronics industry, the main source of demand for the Group’s products, the electronic components market remained firm, and memory and other semiconductor integrated circuit manufacturers continued to invest in enhanced production capacity to meet rising demand for FPD (flat panel display) televisions, greater demand for automotive electronic devices, continued strong demand for portable music players, the launch of new mobile phone models following implementation of the number portability system, and the launch of next-generation video game consoles.

In this environment, group sales expanded steadily in most businesses due to strong demand for vacuum feedthroughs, quartz products, and other components geared for semiconductor and FPD manufacturing equipment; strong demand for silicon products from semiconductor manufacturers; strong demand for thermoelectric modules used in temperature-adjustable car seats; and strong demand for silicon monocrystal lifting equipment, a new product of ours, for solar panel applications.

As a result, consolidated sales increased 35.8% year-over-year to 32,517 million yen. Operating income increased 89.0% to 2,288 million yen due to expanding sales, ordinary income increased 100.0% to 2,081 million yen, and net income increased 140.3% to 1,703 million yen.

Our businesses are categorized into “equipment-related business,” “electronic devices business,” and “CMS business” by similarity in use of products and order type.

**Equipment-related business**

Vacuum feedthroughs, quartz products, and silicon products are the mainstay products in the equipment-related business.

In the semiconductor production equipment segment, semiconductor production volumes expanded as semiconductor manufacturers in the US, Japan, Korea, and Taiwan continued to invest in production equipment mainly for DRAM and flash memory to meet rising semiconductor demand from a variety of applications including PCs, mobile equipment, digital consumer electronics, and automobiles.

In the FPD production equipment segment, Japanese and Korean LCD and plasma panel makers continued to expand capital investment and production to meet rising demand for FPD TVs supported by lower prices and mass production. In this market environment, sales of our mainstay products in this business –vacuum feedthroughs, quartz products, and silicon products— increased strongly.

Profits increased year-over-year as economies of scale from greater sales, as well as cost reductions, more than offset higher raw materials costs.

**Electronic devices business**

Thermoelectric modules and ferrofluids are the mainstay products in the electronic devices business.

Sales of thermoelectric modules were strong due to robust demand from temperature-adjustable car seat applications, the mainstay application, and semiconductors.

We also saw greater adoption of thermoelectric modules for CCD cameras, consumer electronics, and laser equipment. Sales of ferrofluids, primarily used in audio speakers, were strong due to greater adoption in 5.1-channel surround systems. Operating income improved, despite the cost of shipping new ferrofluid bearing (FFB) products for evaluation by customers and related development costs, thanks to greater sales.

**CMS business**

We manufacture items contracted to us by other companies in the contract manufacturing services (CMS) business, but cannot discuss product details as we manufacture too broad a range of products, and have a confidentiality obligation to customers.

However, some of the activities in this business that we can disclose are silicon monocrystal lifting equipment used in solar panel applications, silicon wafer processing, machine tool assembly, and equipment parts cleansing.

Silicon wafer processing sales expanded steadily following the complete transfer of silicon wafer processing equipment to our Chinese factory. Sales were also firm for silicon monocrystal lifting equipment used in solar panel applications, and for equipment parts cleansing and machine tool assembly. However, operating income declined compared with the previous fiscal year due to the presence of some unprofitable products.

Performance by business segment was as follows:

(Millions of yen)

| | Equipment-related business | | Electronic devices business | | CMS business | |
|---|---|---|---|---|---|---|
| | Amount | YoY change | Amount | YoY change | Amount | YoY change |
| Net sales | 15,972 | +37.0% | 5,287 | +55.1% | 11,458 | +29.1% |
| Operating income | 2,014 | +76.3% | 65 | - | 264 | -43.1% |

Note: Net sales figures include internal sales.

Performance by geographical area was as follows:

(Millions of yen)

| | Japan | | Asia | | USA & Europe | |
|---|---|---|---|---|---|---|
| | Amount | YoY change | Amount | YoY change | Amount | YoY change |
| Net sales | 21,354 | +39.1% | 18,740 | +34.3% | 8,961 | +50.8% |
| Operating income | 830 | +81.2% | 1,123 | +81.2% | 476 | +120.9% |

Note: Net sales figures include internal sales.

**(2) Consolidated Outlook (April 1, 2007 – March 31, 2008)**

In the electronics industry, the main source of demand for the Group's products, capital spending remains brisk in the semiconductor and flat panel display sectors, although we expect some LCD panel makers to request delivery adjustments for production equipment. In the solar panel market which we have recently entered, polysilicon remains in short supply, and we do not anticipate the supply-demand balance will improve before the end of 2007.

In this environment, we will work to raise customer satisfaction in the equipment-related business, particularly at the maintenance companies we established in Taiwan and Korea to expand sales of vacuum feedthroughs, by enhancing our service structure and shortening turnaround times. We aim to further expand quartz product orders by bolstering processing capacity to meet rising demand for OEM products from overseas customers. In the electronic devices business, we are marketing to further expand thermoelectric module orders, which continue to grow for the conventional temperature-adjustable car seat application, and have also been growing for newer applications such as CCD cameras. Ferrofluids are the Group’s core technology, and we have steadily been launching new products to expand uptake beyond traditional surround system speaker applications.

In the CMS business, we will review products contracted to us that tend to be unprofitable, and will focus on expanding the size of orders by concentrating management resources on silicon monocrystal lifting equipment for solar panel applications and related products. We will also work to improve overall profitability in the CMS business by boosting yields and capacity utilization at our Chinese factory.

## (2) Analysis of Financial Position

### 1) Balance Sheet Position

Assets at the end of the fiscal year under review increased 3,617 million yen over the end of the previous fiscal year to 38,656 million yen on a consolidated basis. The main factors were an increase in current assets due to rising notes and accounts receivable, and an increase in fixed assets due to construction of a new factory at the Chinese subsidiary and an increase in machinery and equipment.

Liabilities increased 2,495 million yen to 20,386 million yen on a consolidated basis. The main factors were an increase in current liabilities including notes and accounts payable, as well as an increase in long and short-term borrowings.

Net assets increased 1,121 million yen to 18,270 million yen on a consolidated basis. The main factor was an increase in retained earnings due to net income of 1,703 million yen.

### 2) Cash Flow Position

Consolidated cash and cash equivalents totaled 3,225 million yen at the end of the fiscal year under review, down 882 million yen from the end of the previous fiscal year.

Cash flows in the current consolidated fiscal year were as follows:

Cash flow from operating activities

Net cash provided by operating activities was 2,049 million yen (down 2,084 million yen year-over-year), although there was net income before income taxes of 2,189 million yen (up 870 million yen), there were an increase in notes and accounts receivable and income taxes payment.

Cash flow from investing activities

Net cash used in investing activities was 2,665 million yen (down 876 million yen year-over-year). This was mainly due to the new factory construction and other capital investments at the Chinese subsidiary.

Cash flow from financing activities

Cash flow used in financing activities was 487 million yen, mainly due to acquisition of treasury stock.

(Reference) Cash flow indices

| Fiscal year ended | March 2004 | March 2005 | March 2006 | March 2007 |
|---|---|---|---|---|
| Shareholders' equity ratio (%) | 43.4 | 49.2 | 48.8 | 46.7 |
| Equity ratio by market capitalization (%) | 51.7 | 51.7 | 46.0 | 46.4 |
| Interest-bearing debt to cash flow ratio | 11.1 | 5.0 | 2.8 | 5.1 |
| Interest coverage ratio | 3.8 | 7.0 | 12.3 | 5.0 |

Notes: 1. Indices are calculated as follows:
Shareholders' equity ratio = shareholders' equity / total assets
Equity ratio by market capitalization = market capitalization / total assets
Interest-bearing debt to cash flow ratio = interest bearing debt / operating cash flow
Interest coverage ratio = cash flows from operating activities / interest payment
2. Each index is calculated on a consolidated basis.
3. Market capitalization = term-end stock price x term-end number of outstanding shares after accounting for treasury stock.
4. Cash flows from operating activities are those stated on the consolidated statements of cash flows for each period. Interest bearing debt are the sum of all the liability accounts which bear interest on the relevant consolidated balance sheets. Interest payment is from the relevant consolidated statements of cash flows for each period.

## (3) Basic Profit-sharing Principles and Dividends for the Current and Next Fiscal Years

Based on our fundamental management policy, we believe it is important to return profits to shareholders on a stable basis, while also ensuring sufficient retained earnings to strengthen the company for future business expansion.

In this with this policy, we plan a yearend dividend of 12 yen per common share for the current fiscal year under review: 10 yen plus two yen to commemorate the fifteenth anniversary of our entry into the Chinese market.

For the new fiscal year, we plan an annual dividend of 10 yen per common share.

### (4) Business risk

Below we discuss risk factors to the Group's business performance, financials, and share price.

**Product supply-demand trends and capital spending in the electronics industry**

Group sales are affected by product supply-demand and capital spending trends in the electronics industry because many of our components are sold to flat panel display (liquid crystal display, plasma display, and organic electroluminescence display) and semiconductor manufacturing equipment makers.

**Concentration of manufacturing sites in China**

The majority of group products are manufactured at production subsidiaries in China mainly to reduce manufacturing costs.

Doing business in China involves many political, economic, and social risks: for example, environmental, labor, tax, law, currency administration, and trade laws and regulations may be revised, and the government may change its foreign exchange rate policy, such as strengthening the Chinese yuan. Such changes could significantly depress the Group's product supply capacity, impacting our business performance, and diminishing prospects for a recovery of invested capital.

**Foreign exchange rates**

The Group mainly exports products and imports raw materials valued in US dollars and other foreign currencies, and we have foreign-currency-denominated debt as well. Foreign exchange rate volatility may therefore impact the Group's business performance.

Yen appreciation versus the US dollar and other foreign currencies reduces the price competitiveness of group products exported from Japan to overseas markets, and therefore negatively impacts profitability.

Also, consolidated figures are impacted by foreign exchange rate volatility as we convert the foreign-currency-denominated financials of overseas consolidated subsidiaries and equity-method affiliates to a yen basis when we prepare consolidated financial statements.

**Share price and interest rate volatility**

The Group owns shares and other marketable securities, and price declines would impact the Group's financials and business performance.

Also, interest rate volatility has the potential to increase debt service payments, impacting the Group's business performance.

**Impairment accounting**

Impairment accounting requires that we write down fixed assets due to land price declines or a decline in profitability of businesses that use fixed assets, and therefore impacts group business performance.

**Technological innovation**

The Group manufactures and sells high-tech products including ferrofluid-applied products, thermoelectric modules, and quartz products. However, the emergence of innovative and disruptive new technologies and products could diminish our technological advantage, impacting our business performance.

## 2. The Ferrotec Group

The Ferrotec Group (the “Group”) consists of Ferrotec Corporation (the “Company”) and 24 subsidiaries and affiliates (“Members”: 16 consolidated subsidiaries, three equity-method subsidiaries, three equity-method affiliates, two non-consolidated subsidiaries).

The Group develops, manufactures and sells vacuum feedthroughs and quartz products used for semiconductor applications and flat panel display (FPD) manufacturing, thermoelectric modules for thermostatic control systems, and silicon products, ferrofluids, and ferrofluid-applied products.

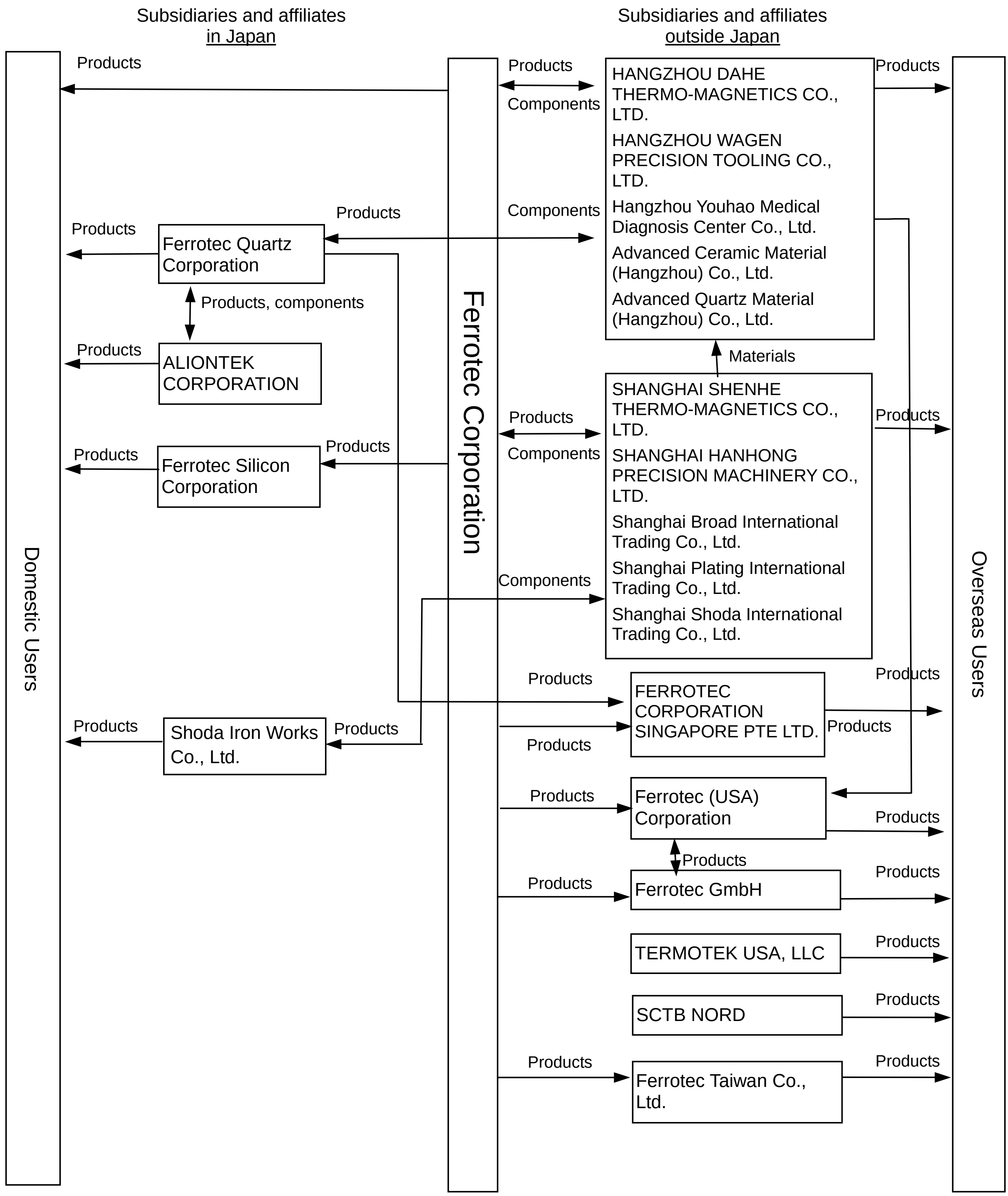
The following categories are the same as those for segment information by business.

The chart below shows the relationship between the Company and major Members for each business category.

| | Major products | Development | Manufacturing | Sales | Major Companies |
|---|---|---|---|---|---|
| Equipment- related business | Vacuum feedthroughs | o | | o | Ferrotec Corporation |
| | | | o | o | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| | | | o | o | Ferrotec Taiwan Co., Ltd. |
| | | o | o | o | Ferrotec (USA) Corporation |
| | Quartz products | | o | o | Ferrotec Quartz Corporation |
| | | | o | o | ALIONTEK CORPORATION |
| | | | | o | Ferrotec (USA) Corporation |
| | | | | o | FERROTEC CORPORATION SINGAPORE PTE LTD. |
| | Others | | o | o | Ferrotec Corporation |
| | | | o | o | Ferrotec Silicon Corporation |
| | | | o | o | Advanced Ceramic Material (Hangzhou) Co., Ltd. |
| | | | o | o | Advanced Quartz Material (Hangzhou) Co., Ltd. |
| | | | o | o | Ferrotec GmbH |
| | | | o | o | TERMOTEK USA, LLC |
| | | | o | o | Scan Crucible |
| Electronic device business | Ferrofluid-applied products (ferrofluid seals, etc.) | o | | o | Ferrotec Corporation |
| | | | o | | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| | | | | o | FERROTEC CORPORATION SINGAPORE PTE LTD. |
| | Thermoelectric modules | o | | o | Ferrotec Corporation |
| | | o | | o | Ferrotec (USA) Corporation |
| | | o | | o | SCTB NORD |
| | | | o | | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| | | | o | | SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. |
| | Ferrofluid | o | o | o | Ferrotec Corporation |
| | | o | o | o | Ferrotec (USA) Corporation |
| | | | | o | SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. |
| | | | | o | FERROTEC CORPORATION SINGAPORE PTE LTD. |
| | Others | | o | o | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| CMS business* | | | o | o | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| | | | o | o | HANGZHOU WAGEN PRECISION TOOLING CO., LTD |
| | | | o | o | SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. |
| | | | o | o | SHANGHAI HANHONG PRECISION MACHINERY CO., LTD. |
| | | | o | o | Shanghai Broad International Trading Co., Ltd. |
| | | | o | o | Shanghai Plating International Trading Co., Ltd. |
| | | | o | o | Shanghai Shoda International Trading Co., Ltd. |
| | | | o | o | Shoda Iron Works Co., Ltd. |
| Other businesses | | | o | o | Hangzhou Youhao Medical Diagnosis Center Co., Ltd. |

Note: Certain major product items are not shown above due to the wide spectrum of products, and in some cases, due to our confidentiality obligation to clients.

## Ferrotec Group



## 3. Management Policies

### 1) Fundamental management policy

Ferrotec Corporation aims to be a global manufacturer by improving and expanding core technologies, not only in the electronics industry, but in manufacturing in general, to offer high-quality products at internationally competitive prices. At the same time, we plan to continue actively pursuing environmental protection in all corporate endeavors, and are eager to be a company whose shareholders can look forward to future growth.

From this standpoint, our fundamental management policy is to focus on development of new products and markets that take advantage of our strength in materials, such as ferrofluids, and manufacturing technologies, and thereby increase our share of the global market and enhance group profits.

### 2) Targeted profit indices

We aim for ROE of 10%, and EPS of 100 yen, although we are currently investing in capital equipment at Chinese subsidiaries, establishing new subsidiaries, and engaging in M&A activity to expand our business.

### 3) Medium- to long-term strategy and issues

While the electronics industry is expected to expand along with advances in information technology, electronics manufacturers are considered vulnerable to the rapid pace of technical innovation and fierce international competition. In order to grow steadily in this difficult business environment, we must not only continue to develop our own core (or proprietary) technology and reduce manufacturing costs, we must also aggressively expand domestic and overseas markets. Our medium- to long-term business strategy includes M&A activity as well as entering into strategic joint ventures and long-term manufacturing supply agreements. Specifically, we aim for the subsidiaries in China to function not only as production bases but also as marketing bases, and plan to expand product supply to European markets through our US subsidiaries.

### 4) Current key issues

An important characteristic of the electronics industry is that product demand is very volatile, and capital investment fluctuates cyclically and sharply. While our diverse product offering reduces the impact of business cycles, we aim to cut production costs further, rationalize our domestic production network, and shift more of our production to China, to better cope with downturns in electronic product markets. We also intend to boost sales and profits by strengthening our sales branches and product development in the European market. And as the market for electronic industrial products in China grows, we believe it is increasingly important to have a marketing strategy that addresses this market. We also intend to step up the transfer of production technologies and methods to our Chinese subsidiaries, support them in winning product certification from overseas customers, and provide them with more marketing support and information. We have invested in new businesses, such as our CMS (contract manufacturing service) business, and will work to improve profits and recover invested funds, by securing stable production volumes through increased productivity.

We are also moving forward with enhancements of our internal governance system, and are aiming to establish a system to guarantee the proper preparation of financial statements.

### 5) Internal administrative structure and management

Please see the corporate governance report “Basic policy and structure of internal control.”

## 5. Consolidated Financial Statements
### (1) Consolidated Balance Sheets

(Thousands of yen)

| Item / Period | | As of Mar. 31, 2006 Amount | % | As of Mar. 31, 2007 Amount | % | YoY change Amount |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| I Current assets | | | | | | |
| Cash and deposits | | 4,108,656 | | 3,225,758 | | (882,897) |
| Notes and accounts receivable | *6 | 5,067,014 | | 6,725,773 | | 1,658,758 |
| Securities | | 299,000 | | - | | (299,000) |
| Inventories | | 3,504,918 | | 3,821,929 | | 317,010 |
| Deferred tax assets – current | | 123,095 | | 127,583 | | 4,488 |
| Other current assets | | 1,503,809 | | 2,191,383 | | 687,574 |
| Allowance for doubtful receivables | | (140,587) | | (130,823) | | 9,764 |
| Total current assets | | 14,465,906 | 41.3 | 15,961,604 | 41.3 | 1,495,698 |
| II Fixed assets | | | | | | |
| (1) Tangible fixed assets | *1 | | | | | |
| Buildings and structures | *4 | 4,091,685 | | 5,497,427 | | 1,405,741 |
| Machinery and vehicles | | 4,602,930 | | 5,804,241 | | 1,201,310 |
| Tools, furniture and fixtures | | 1,175,330 | | 1,588,844 | | 413,514 |
| Land | *4 | 2,552,077 | | 2,590,358 | | 38,280 |
| Construction in progress | | 1,397,328 | | 795,603 | | (601,725) |
| Total tangible fixed assets | | 13,819,353 | 39.4 | 16,276,475 | 42.1 | 2,457,122 |
| (2) Intangible assets | | | | | | |
| Goodwill (under the new display format) | | - | | 2,532,651 | | 2,532,651 |
| Goodwill (under the previous display format) | | 2,154,992 | | - | | (2,154,992) |
| Consolidation adjustment (under the previous display format) | | 463,113 | | - | | (463,113) |
| Other intangible assets | *4 | 785,234 | | 941,473 | | 156,238 |
| Total intangible assets | | 3,403,339 | 9.7 | 3,474,124 | 9.0 | 70,785 |
| (3) Investments and other assets | | | | | | |
| Investment securities | *2 | 1,591,142 | | 1,437,159 | | (153,982) |
| Long-term loans receivable | | 828,728 | | 51,716 | | (777,012) |
| Deferred tax assets – non-current | | 64,017 | | 50,500 | | (13,516) |
| Other investments and other assets | *2 | 1,547,915 | | 1,457,980 | | (89,935) |
| Allowance for doubtful receivables | | (680,856) | | (53,015) | | 627,841 |
| Total investments and other assets | | 3,350,947 | 9.6 | 2,944,342 | 7.6 | (406,605) |
| Total fixed assets | | 20,573,640 | 58.7 | 22,694,942 | 58.7 | 2,121,302 |
| Total assets | | 35,039,546 | 100.0 | 38,656,547 | 100.0 | 3,617,001 |

(Thousands of yen)

| Item \ Period | | As of Mar. 31, 2006 Amount | % | As of Mar. 31, 2007 Amount | % | YoY change Amount |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| I Current liabilities | | | | | | |
| Notes and accounts payable | *6 | 3,086,786 | | 3,667,730 | | 580,943 |
| Short-term borrowings | *4 | 3,255,706 | | 3,771,765 | | 516,058 |
| Current portion of long-term borrowings | *4 | 2,549,855 | | 2,248,992 | | (300,863) |
| Current portion of convertible bonds with stock acquisition rights | | - | | 1,658,744 | | 1,658,744 |
| Accrued income taxes | | 469,648 | | 130,818 | | (338,829) |
| Deferred tax liabilities – current | | 10,112 | | 8,595 | | (1,516) |
| Reserve for bonuses payable | | 149,863 | | 382,725 | | 232,862 |
| Other current liabilities | | 1,999,446 | | 3,000,402 | | 1,000,955 |
| Total current liabilities | | 11,521,418 | 32.9 | 14,869,773 | 38.4 | 3,348,354 |
| II Long-term liabilities | | | | | | |
| Convertible bonds with stock acquisition rights | | 1,776,643 | | - | | (1,776,643) |
| Long-term borrowings | *4 | 3,913,381 | | 4,508,596 | | 595,215 |
| Deferred tax liabilities – non-current | | 334,876 | | 346,047 | | 11,170 |
| Liability for retirement benefits | | 22,635 | | 24,686 | | 2,050 |
| Liability for retirement benefits to officers | | 118,900 | | 126,300 | | 7,400 |
| Other long-term liabilities | | 202,342 | | 510,759 | | 308,417 |
| Total long-term liabilities | | 6,368,779 | 18.1 | 5,516,390 | 14.2 | (852,388) |
| Total liabilities | | 17,890,198 | 51.0 | 20,386,164 | 52.6 | 2,495,966 |
| **Minority interests** | | | | | | |
| Minority interests | | 64,770 | 0.2 | - | - | - |
| **Shareholders' equity** | | | | | | |
| I Common stock | | 6,910,461 | 19.7 | - | - | - |
| II Capital surplus | | 7,784,251 | 22.2 | - | - | - |
| III Retained earnings | | 1,300,643 | 3.7 | - | - | - |
| IV Net unrealized holding gain on securities | | 500,617 | 1.5 | - | - | - |
| V Cumulative translation adjustment | | 748,717 | 2.2 | - | - | - |
| VI Treasury stock | *3 | (160,112) | (0.5) | - | - | - |
| Total shareholders' equity | | 17,084,577 | 48.8 | - | - | - |
| Total liabilities, minority interests and shareholders' equity | | 35,039,546 | 100.0 | - | - | - |
| **Net assets** | | | | | | |
| I Shareholders' equity | | | | | | |
| Common stock | | - | - | 6,910,461 | 17.9 | - |
| Capital surplus | | - | - | 7,750,570 | 20.0 | - |
| Retained earnings | | - | - | 2,800,331 | 7.2 | - |
| Treasury stock | | - | - | (1,178,575) | (3.0) | - |
| Total shareholders' equity | | - | - | 16,282,787 | 42.1 | - |
| II Valuation and translation adjustments | | | | | | |
| Net unrealized holding gain on securities | | - | - | 448,159 | 1.2 | - |
| Cumulative translation adjustment | | - | - | 1,323,084 | 3.4 | - |
| Total valuation and translation adjustments | | - | - | 1,771,243 | 4.6 | - |
| III Minority interests | | - | - | 216,352 | 0.6 | - |
| Total net assets | | - | - | 18,270,383 | 47.3 | - |
| Total liabilities and net assets | | - | - | 38,656,547 | 100.0 | - |

**(2) Consolidated Statements of Income**

(Thousands of yen)

| Item / Period | | | Apr. 1, 2005 - Mar. 31, 2006 | | Apr. 1, 2006 - Mar. 31, 2007 | | YoY change |
|---|---|---|---|---|---|---|---|
| | | | Amount | % | Amount | % | Amount |
| I | Net sales | | 23,946,131 | 100.0 | 32,517,168 | 100.0 | 8,571,036 |
| II | Cost of sales | *2 | 17,022,507 | 71.1 | 23,476,437 | 72.2 | 6,453,930 |
| | Gross profit | | 6,923,623 | 28.9 | 9,040,730 | 27.8 | 2,117,106 |
| III | Selling, general and administrative expenses | *1,2 | 5,712,831 | 24.0 | 6,751,894 | 20.8 | 1,039,062 |
| | Operating income | | 1,210,791 | 5.0 | 2,288,835 | 7.0 | 1,078,043 |
| IV | Non-operating income | | | | | | |
| | Interest income | | 81,361 | | 115,902 | | 34,541 |
| | Dividend income | | 6,061 | | 2,109 | | (3,952) |
| | Lease income | | 63,434 | | 60,921 | | (2,512) |
| | Foreign exchange gain | | 227,656 | | 49,757 | | (177,899) |
| | Other non-operating income | | 95,412 | | 165,091 | | 69,679 |
| | Total non-operating income | | 473,925 | 2.0 | 393,781 | 1.2 | (80,143) |
| V | Non-operating expenses | | | | | | |
| | Interest expense | | 338,426 | | 411,144 | | 72,717 |
| | Loss on valuation of inventories | | 76,512 | | - | | (76,512) |
| | Equity in loss of non-consolidated subsidiaries and affiliates | | 79,716 | | 14,065 | | (65,651) |
| | Other non-operating expenses | | 149,180 | | 175,729 | | 26,549 |
| | Total non-operating expenses | | 643,835 | 2.7 | 600,939 | 1.8 | (42,896) |
| | Ordinary income | | 1,040,881 | 4.3 | 2,081,677 | 6.4 | 1,040,796 |
| VI | Extraordinary income | | | | | | |
| | Gain on sale of fixed assets | *3 | 97,662 | | 56,480 | | (41,182) |
| | Gain on sales of investment securities | | 149,180 | | 426,606 | | 277,425 |
| | Reversal of allowance for doubtful receivables | | 79,130 | | - | | (79,130) |
| | Compensatory income from the early cancellation of outsourcing contracts | | 600,000 | | - | | (600,000) |
| | Other extraordinary income | | 3,041 | | 6,650 | | 3,608 |
| | Total extraordinary income | | 929,015 | 3.9 | 489,736 | 1.5 | (439,278) |
| VII | Extraordinary losses | | | | | | |
| | Loss on disposal of fixed assets | *4 | 3,930 | | 192,860 | | 188,929 |
| | Provision of allowance for doubtful receivables | | 541,357 | | - | | (541,357) |
| | Impairment losses | *5 | 44,010 | | 72,055 | | 28,045 |
| | Other extraordinary losses | | 61,697 | | 116,975 | | 55,277 |
| | Total extraordinary losses | | 650,996 | 2.7 | 381,891 | 1.2 | (269,104) |
| | Net income before income taxes and minority interests | | 1,318,900 | 5.5 | 2,189,523 | 6.7 | 870,623 |
| | Current income taxes | | 502,585 | 2.2 | 430,919 | 1.4 | (71,666) |
| | Deferred income taxes | | 112,743 | 0.4 | 42,273 | 0.1 | (70,470) |
| | Minority interests in income (loss) | | (5,193) | (0.0) | 13,049 | 0.0 | 18,242 |
| | Net income | | 708,764 | 3.0 | 1,703,281 | 5.2 | 994,516 |

### (3) Consolidated Statements of Retained Earnings

(Thousands of yen)

| Item / Period | Apr. 1, 2005 - Mar. 31, 2006 Amount | |
|---|---|---|
| **Capital surplus** | | |
| I Beginning balance of capital surplus | | 7,784,251 |
| II Ending balance of capital surplus | | 7,784,251 |
| **Retained earnings** | | |
| I Beginning balance of retained earnings | | 762,141 |
| II Increase in retained earnings | | |
| Net income | 708,764 | 708,764 |
| III Decrease in retained earnings | | |
| Cash dividends | 159,331 | |
| Directors' bonuses | 3,220 | - |
| Others | 7,710 | 170,262 |
| IV Ending balance of retained earnings | | 1,300,643 |

Note: Included in "Others" of "Decrease in retained earnings" are employee bonuses and social welfare provisions (in accordance with financial administration regulation No.37 of the Chinese subsidiary).

## Consolidated Statement of Changes in Shareholders' Equity

Apr. 1, 2006 – Mar. 31, 2007

(Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance as of Mar. 31, 2006 | 6,910,461 | 7,784,251 | 1,300,643 | (160,112) | 15,835,243 |
| Changes in the fiscal year | | | | | |
| Dividend of surplus | | | (159,331) | | (159,331) |
| Directors' bonuses | | | (3,115) | | (3,115) |
| Net income | | | 1,703,281 | | 1,703,281 |
| Acquisition of treasury stock | | | - | (1,170,043) | (1,170,043) |
| Disposal of treasury stock | | (33,680) | - | 151,580 | 117,899 |
| Others | | | (41,147) | | (41,147) |
| Changes (net) in items other than shareholders' equity | | | - | | - |
| Total changes in the fiscal year | - | (33,680) | 1,499,687 | (1,018,463) | 447,543 |
| Balance as of Mar. 31, 2007 | 6,910,461 | 7,750,570 | 2,800,331 | (1,178,575) | 16,282,787 |

(Thousands of yen)

| | Valuation and translation adjustments | | | Minority interests | Total net assets |
|---|---|---|---|---|---|
| | Net unrealized holding gain on securities | Cumulative translation adjustment | Valuation and translation adjustments | | |
| Balance as of Mar. 31, 2006 | 500,617 | 748,717 | 1,249,334 | 64,770 | 17,149,348 |
| Changes in the fiscal year | | | | | |
| Dividend of surplus | | | | | (159,331) |
| Directors' bonuses | | | | | (3,115) |
| Net income | | | | | 1,703,281 |
| Acquisition of treasury stock | | | | | (1,170,043) |
| Disposal of treasury stock | | | | | 117,899 |
| Others | | | | | (41,147) |
| Changes (net) in items other than shareholders' equity | (52,457) | 574,367 | 521,909 | 151,582 | 673,491 |
| Total changes in the fiscal year | (52,457) | 574,367 | 521,909 | 151,582 | 1,121,035 |
| Balance as of Mar. 31, 2007 | 448,159 | 1,323,084 | 1,771,243 | 216,352 | 18,270,383 |

Note: Included in "Others" of "Retained earnings", "Changes in the fiscal year" are employee bonuses and social welfare provisions (in accordance with financial administration regulation No.37 of the Chinese subsidiary).

### (4) Consolidated Statements of Cash Flows

(Thousands of yen)

| Item / Period | | Apr. 1, 2005 - Mar. 31, 2006 Amount | Apr. 1, 2006 - Mar. 31, 2007 Amount |
|---|---|---|---|
| **I** | **Cash flows from operating activities** | | |
| | Net income before income taxes and minority interests | 1,318,900 | 2,189,523 |
| | Depreciation and amortization | 1,670,405 | 1,807,381 |
| | Amortization of goodwill | - | 87,183 |
| | Amortization of consolidation adjustments | 81,382 | - |
| | Impairment losses | 44,010 | 72,055 |
| | Increase (decrease) in liability for retirement benefits | (7,479) | 2,050 |
| | Increase (decrease) in liability for retirement benefits to officers | 4,400 | 7,400 |
| | Increase (decrease) in reserve for bonuses payable | 10,811 | 232,426 |
| | Increase (decrease) in allowance for doubtful receivables | 499,113 | (640,766) |
| | Interest and dividend income | (87,422) | (118,011) |
| | Interest expense | 338,426 | 411,144 |
| | Foreign exchange loss (gain) | (247,307) | (118,370) |
| | Equity in income (loss) of non-consolidated subsidiaries and affiliates | 79,716 | 14,065 |
| | Loss (gain) on sales of tangible fixed assets | (97,662) | (15,762) |
| | Loss on disposal of tangible fixed assets | 3,930 | 152,142 |
| | Loss (gains) on sales of investment securities | (149,180) | (426,606) |
| | Loss on valuation of investment securities | - | 1,449 |
| | Decrease (increase) in notes and accounts receivable | 519,587 | (1,529,086) |
| | Decrease (increase) in inventories | (194,143) | (214,414) |
| | Decrease (increase) in other assets | 3,903 | 298,378 |
| | Increase (decrease) in notes and accounts payable | 899,224 | 436,639 |
| | Increase (decrease) in other liabilities | (50,162) | 508,971 |
| | Directors' bonuses paid | (7,320) | (7,080) |
| | Others | 1,488 | 38,053 |
| | Sub-total | 4,634,623 | 3,188,768 |
| | Interests and dividends received | 80,467 | 118,137 |
| | Interests paid | (337,390) | (411,863) |
| | Income taxes paid | (243,999) | (845,424) |
| | Net cash provided by operating activities | 4,133,700 | 2,049,616 |
| **II** | **Cash flows from investing activities** | | |
| | Payments for purchase of tangible fixed assets | (3,138,710) | (3,263,800) |
| | Proceeds from sales of tangible fixed assets | 266,511 | 87,740 |
| | Payments for purchase of investment securities | (20,600) | (139,522) |
| | Proceeds from sales of investment securities | 401,093 | 667,132 |
| | Payments for additional purchase of shares of consolidated subsidiary | - | (3,031) |
| | Payments for purchase of subsidiary stock on changes in consolidated accounts *3 | (498,564) | - |
| | Payments for purchase of shares of affiliates | (50,000) | (59,053) |
| | Payments for loans receivable | (35,150) | - |
| | Proceeds from collection of loans | 1,170 | 120,890 |
| | Proceeds from other investing activities | 84,613 | 318,000 |
| | Payments for other investing activities | (552,288) | (393,873) |
| | Net cash used in investing activities | (3,541,924) | (2,665,518) |

| Item / Period | | Apr. 1, 2005 - Mar. 31, 2006 | Apr. 1, 2006 - Mar. 31, 2007 |
|---|---|---|---|
| | | Amount | Amount |
| **III** | **Cash flows from financing activities** | | |
| | Net increase (decrease) in short-term borrowings | (146,622) | 400,464 |
| | Proceeds from long-term borrowings | 3,162,047 | 3,525,499 |
| | Repayments of long-term borrowings | (2,683,420) | (3,228,588) |
| | Proceeds from issuance of shares to minority shareholders | - | 147,033 |
| | Payments for acquisition of treasury stock | - | (1,170,043) |
| | Cash dividends paid | (159,612) | (158,932) |
| | Cash dividends paid to minority shareholders | (9,591) | (2,604) |
| | Net cash provided by (used in) financing activities | 162,799 | (487,172) |
| **IV** | **Effect of exchange rate changes on cash and cash equivalents** | 185,946 | 220,175 |
| **V** | **Increase (decrease) in cash and cash equivalents** | 940,521 | (882,897) |
| **VI** | **Cash and cash equivalents at the beginning of period** | 3,188,815 | 4,108,656 |
| **VII** | **Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation** | (20,680) | - |
| **VIII** | **Cash and cash equivalents at end of period** *1 | 4,108,656 | 3,225,758 |

## Basis for Presentation of Consolidated Financial Statements

### 1. Scope of consolidation

Consolidated subsidiaries: 16 entities as follows;

Ferrotec Quartz Corporation
Ferrotec Silicon Corporation
ALIONTEK CORPORATION
HANGZHOU DAHE THERMO-MAGNETICS CO., LTD.
HANGZHOU WAGEN PRECISION TOOLING CO., LTD.
Advanced Ceramic Material (Hangzhou) Co., Ltd.
Advanced Quartz Material (Hangzhou) Co., Ltd.
SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD.
SHANGHAI HANHONG PRECISION MACHINERY CO., LTD.
Ferrotec Taiwan Co., Ltd.
Ferrotec (USA) Corporation
Ferrotec GmbH
Ferrotec Investments, LLC
TERMOTEK USA, LLC
FERROTEC CORPORATION SINGAPORE PTE LTD
SCTB NORD

Of the above consolidated subsidiaries, Ferrotec Taiwan Co., Ltd. TERMOTEK USA, LLC, and Advanced Quartz Material (Hangzhou) Co., Ltd. were established in the fiscal year under review, and Advanced Ceramic Material (Hangzhou) Co., Ltd., treated as an equity method affiliate through previous fiscal year, was made a consolidated subsidiary beginning this fiscal year to reflect its increased importance. Ferrotec Precision Corporation was excluded from the consolidation due to merger into Ferrotec Corporation during the current fiscal year.

Non-consolidated subsidiaries: 6 entities as follows;

Ferrotec Engineering SRL
Shanghai Broad International Trading Co., Ltd.
Shanghai Plating International Trading Co., Ltd.
Three other companies

Reason for exclusion:

Each one of the above-listed six subsidiaries has negligible total assets, net sales, net income/loss (equity in earnings/loss) and retained earnings (equity in earnings), and as a result, they collectively have very little impact on consolidation.

### 2. Application of equity method

Non-consolidated subsidiaries and affiliates for which the equity method is applied: 6 entities as follows:

Shanghai Broad International Trading Co., Ltd.
Shanghai Plating International Trading Co., Ltd.
Shanghai Shoda International Trading Co., Ltd.
Hangzhou Youhao Medical Diagnosis Center Co., Ltd.
SCAN CRUCIBLE AS
Shoda Iron Works Co., Ltd.

Of the companies above, SCAN CRUCIBLE AS and Shoda Iron Works Co., Ltd. were excluded from the application of the equity method since the Company acquired equity stake in these entities during the fiscal year.

Advanced Ceramic Material (Hangzhou) Co., Ltd., treated as an equity method affiliate through previous fiscal year, was made a consolidated subsidiary beginning this fiscal year to reflect its increased importance.

HANGZHOU LINGRI SCIENCE AND TECHNOLOGY CO., LTD. and Diacelltec Corporation, treated as equity method affiliates through previous fiscal year and were sold, and Bio Trend Corp. and Techno Tooling Systems Co., Ltd. were liquidated, and HANGZOU TENGHE TECHNOLOGY CO., LTD. was merged into HANGZHOU DAHE THERMO-MAGNETICS Co., Ltd. in the current fiscal year under review. As a result, these companies are not accounted for under the equity method.

Non-consolidated subsidiaries not accounted for under equity method: 2 entities as follows:
Ferrotec Engineering SRL
One other company
Reason for exclusion:
Each one of the above-listed two subsidiaries has very little impact on consolidated net income (loss) and retained earnings, and therefore the investments in them are not accounted for under equity method.

**3. Fiscal year of consolidated subsidiaries**

The fiscal year of consolidated subsidiary ALIONTEK CORPORATION ends April 30, but we calculated provisional results on December 31 for consolidation purposes; the fiscal year of other consolidated subsidiaries ends on December 31, and we have consolidated their results as of that day. We have made necessary adjustments at the consolidated level for important transactions that occurred between December 31 and consolidation closing date.

**4. Significant accounting standards**

(1) Valuation standards and method for major assets

1) Securities

Other securities:

Securities with market quotations:

Valued at market price, using the market value at the end of the period, differences in valuation to be included in net assets, and cost of sale being determined by the moving average method.

Securities without market quotations:

Valued at cost being determined by the moving average method.

As for marketable securities of “investment business limited associations” and similar such associations as defined in Article 2, Section 2 of the Securities Exchanges Law, we book the proportional value based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract.

2) Derivatives:

Valued by the mark-to-market method.

3) Inventories

At the Company and the subsidiaries located in Japan, China and Russia:

Valued at cost being determined by the moving average method.

At the subsidiaries located in the US, Singapore and Taiwan:

Valued at cost being determined by the first-in-first-out method.

(2) Depreciation / amortization method applicable to material fixed assets

1) Tangible fixed assets:

At the Company and the subsidiaries in Japan:

By the declining balance method, except for buildings excluding fixtures acquired on or after April 1, 1998, to which the straight-line method is applied.

At the subsidiaries outside Japan:

By the straight-line method.

Useful lives:

Buildings and structures: 20-47 years
Machinery and vehicles: 10 years

2) Intangible assets:

At the Company and the subsidiaries in Japan:

By the straight-line method.

Software for internal use is amortized over an expected useful life of five years by the straight-line method.

At the subsidiaries outside Japan:

By the straight-line method in accordance with local generally accepted accounting standards in each domicile. However, regarding goodwill at our US consolidated subsidiary, we follow the US Financial Accounting Standards Board’s Standard No.142 which discusses the treatment of goodwill and other intangible assets. As such, we have not amortized goodwill at the US subsidiary, but will make a judgment concerning amortization once a year, or whenever an event occurs that would necessitate this. We have not amortized in the fiscal year under review based on our judgment.

3) Long-term prepaid expenses:
At the Company and the subsidiaries in Japan:
By the straight-line method.
At the subsidiaries outside Japan:
By the straight-line method in accordance with local generally accepted accounting standards in each domicile.

(3) Recognition of major reserves
1) Allowance for doubtful receivables
To prepare for credit losses on accounts receivable, allowances equal to the estimated amount of uncollectible receivables are accounted for based on historical write-off ratio for general receivables, and based on case-by-case determination of collectibility for bad receivables and claims in bankruptcy.
2) Reserve for bonuses payable
To provide for employee bonuses, we booked reserves based on estimate of bonus obligations for the fiscal year under review.
3) Liability for retirement benefits
To provide for retirement benefits to employees, an amount is reserved as recognized at the Company and domestic subsidiaries in the amount deemed to have accrued at the end of the fiscal year under review based on the estimated retirement benefit obligations and pension assets at the end of the fiscal year. At the overseas subsidiaries, nothing is applicable here.
4) Liability for retirement benefits to officers
To provide for retirement benefits to officers, an amount required by the internal rule as of the balance sheets date is fully reserved at the Company and domestic subsidiaries. At the subsidiaries overseas, nothing is applicable here.

(4) Translation of material assets / liabilities in foreign currency into Japanese currency
The monetary liabilities denominated in foreign currency are translated into Japanese currency based on the spot exchange rate as of the balance sheets date of the fiscal year under review, with the conversion difference to be accounted for as profit or loss. The assets, liabilities, profit and loss of overseas subsidiaries are translated into Japanese currency based on the spot exchange rate as of the balance sheets date, with the conversion difference to be accounted for so as to be included in cumulative translation adjustment account and minority interests in the net assets.

(5) Significant lease transaction
At the Company and domestic subsidiaries, finance leases other than those wherein the ownership of the lease assets is deemed to be transferred to the lessees are accounted for by the method applicable to ordinary operating leases. At the overseas subsidiaries, an accounting method similar to one applicable to the ordinary sales transactions is adopted.

(6) Accounting for hedges
1) Accounting method
Interest rate swap transactions are booked by an exceptional treatment allowed for fully hedged transactions as they satisfy the conditions for the treatment. As for the foreign exchange contracts are booked by reflection in the underlying accounts as they satisfy the conditions for such treatment allowed for fully matched usage.
2) Hedging instruments and the risks hedged
a. Hedging instrument: Interest rate swap Risks hedged: Interests payable on borrowings
b. Hedging instrument: Foreign exchange Risks hedged: Monetary liabilities denominated in foreign currencies
3) Hedging policy
The Company uses interest rate swaps to minimize interest payment volatility on borrowings from interest rate fluctuation, and makes decisions on hedges on an individual contract basis. Also, foreign exchange contracts are made based on future material import plans.
4) Accessing effectiveness of hedges
Because exceptional treatment is allowed for interest rate swap transactions, and appropriated treatment is allowed for foreign exchange contracts, there is no assessment made on effectiveness of the relevant hedging transactions.

(7) Other significant principles for presentation of consolidated financial statements
Consumption taxes
Amounts of transactions subject to the tax are stated exclusive of consumption taxes.

**5. Evaluation of assets and liabilities of consolidated subsidiaries**

The market value method is adopted fully for the evaluation of assets and liabilities of the consolidated subsidiaries.

**6. Amortization of goodwill**

Consolidation adjustment is amortized equally over a period as follows;

For acquisition made on or before March 31, 1999: 5 years

For acquisition made on or after April 1, 1999

Predictable when the expected effect emerges: for such estimated years from the year of acquisition

Other than above: 20 years

**7. Cash and cash equivalents on the consolidated statement of cash flows**

The funds represented by “cash and cash equivalents” on the Consolidated Statement of Cash Flows is composed of 1) cash on hand, 2) bank deposits payable on demand, and 3) short-term investments readily redeemable within three months from the acquisition that has little risk on changes in valuation.

**Change in major items in the preparation of consolidated financial statements**

(Accounting standard concerning presentation of net assets on balance sheet)

Effective from the current fiscal year, we have adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Statement No. 5, December 9, 2005) and “Guidance on Accounting Standards for Presentation of Net Assets in Balance Sheet” (ASBJ Guidance No. 8, December 9, 2005).

Under the former accounting standard, amounts equivalent to “Total shareholders’ equity” totaled 18,054,031,000 yen.

Due to this revision, net assets in the consolidated balance sheet for the current fiscal year are presented based on the revised standard.

(Accounting standard for director’s bonuses)

Effective from the current fiscal year, we have adopted “Accounting Standard for Directors’ Bonuses” (ASBJ Statement No. 4, November 29, 2005). The effect of this change was to decrease operating income, ordinary income and net income before income taxes and minority interests by 194,719,000 yen each.

(Partial changes in accounting standards for treasury stock and reduction of legal reserves)

Effective from the current fiscal year, we have adopted “Accounting Standard for Treasury Stock and Reduction of Legal Reserves”(ASBJ Statement No.1: last revision by Accounting Standards Board of Japan on August 11, 2006), and “Guideline on Accounting Standards for Treasury Stock and Reduction of Legal Reserves” (ASBJ Guidance No. 2: last revision by Accounting Standards Board of Japan on August 11, 2006). The effect of these changes on profit/loss is insignificant.

(Accounting standard for stock options)

Effective from the current fiscal year, we have adopted “Accounting Standard for Stock Options” (ASBJ Statement No. 8, December 27, 2005) and “Guidance on Accounting Standard for Stock Options” (ASBJ Guidance No. 11, May 31, 2006). The effect of these changes on profit/loss is insignificant.

(Accounting standard for business combination)

Effective from the current fiscal year, we have adopted “Accounting Standard for Business Combination” (Business Accounting Council, October 31, 2003), “Accounting Standard for Business Divestiture” (ASBJ Statement No.7: Accounting Standards Board of Japan, December 27, 2005) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10: Accounting Standards Board of Japan, December 27, 2005). The effect of these changes on profit/loss is insignificant.

**Change in display format**

(Consolidated Balance Sheets)

Effective from the current fiscal year, “Goodwill” and ““Consolidation adjustment” are stated as “Goodwill” (renamed in Japanese) due to conform to the revision of the regulations of financial statement.

(Consolidated Statements of Cash Flows)

Effective from the current fiscal year, “Amortization of consolidation adjustment,” is stated as “Amortization of goodwill” (renamed in Japanese) due to conform to the revision of the regulations of financial statement.

# Notes to Consolidated Financial Statements

## Notes to Consolidated Balance Sheets

(Thousands of yen)

| As of March 31, 2006 | As of March 31, 2007 |
|---|---|
| *1. Accumulated depreciation of tangible fixed assets:<br>6,556,901 | *1. Accumulated depreciation of tangible fixed assets:<br>7,461,278 |
| *2. Notes regarding non-consolidated subsidiaries and affiliates<br>The following are items related to non-consolidated subsidiaries and affiliates included in each category.<br>Investment securities (stock) 47,377<br>Other investments and other assets (equity investments) 75,391 | *2. Notes regarding non-consolidated subsidiaries and affiliates<br>The following are items related to non-consolidated subsidiaries and affiliates included in each category.<br>Investment securities (stock) 79,020<br>Other investments and other assets (equity investments) 87,677 |
| *3. Treasury stock<br>240,144 shares | *3. Treasury stock<br>1,276,144 shares |
| *4. Pledged assets<br>Buildings and structures 2,179,516<br>Land 2,197,954<br>Other intangible assets 192,983<br>Total 4,570,454<br><br>Liabilities secured with the above listed collateral<br>Short-term borrowings 1,861,513<br>Current portion of long-term borrowings 187,661<br>Long-term borrowings 142,289<br>Total 2,191,463 | *4. Pledged assets<br>Buildings and structures 2,757,576<br>Land 138,100<br>Other intangible assets 440,502<br>Total 3,336,179<br><br>Liabilities secured with the above listed collateral<br>Short-term borrowings 1,614,400<br>Current portion of long-term borrowings 248,771<br>Long-term borrowings 777,257<br>Total 2,640,429 |
| 5. Discounted notes receivable:<br>78,251 | 5. Discounted notes receivable:<br>84,766 |
| *6.<br>――――― | *6. Notes redeemable at the end of the fiscal year<br>Notes redeemable at the end of the fiscal year were settled on the exchange date. Following notes redeemable at the end of the fiscal year were included in the balance of redeemable notes at the end of the current fiscal year under review because the end of the fiscal year under review was a bank holiday.<br>Notes receivable 68,142<br>Notes payable 153,479 |

**Notes to Consolidated Statements of Income**

(Thousands of yen)

<table>
<tr><th>April 1, 2005 - March 31, 2006</th><th>April 1, 2006 - March 31, 2007</th></tr>
<tr><td>
*1. Significant components of selling, general and administrative expenses:
<table>
<tr><td>Salaries and wages</td><td>1,905,106</td></tr>
<tr><td>Provision for reserve for bonus payable</td><td>76,232</td></tr>
<tr><td>Provision for liability for retirement benefits to officers</td><td>10,400</td></tr>
<tr><td>Provision for allowance for doubtful receivables</td><td>35,973</td></tr>
</table>
</td><td>
*1. Significant components of selling, general and administrative expenses:
<table>
<tr><td>Salaries and wages</td><td>1,928,268</td></tr>
<tr><td>Provision for reserve for bonus payable</td><td>78,583</td></tr>
<tr><td>Provision for liability for retirement benefits to officers</td><td>12,000</td></tr>
<tr><td>Provision for allowance for doubtful receivables</td><td>49,453</td></tr>
</table>
</td></tr>
<tr><td>*2. Research and development expenditure included in general and administrative expenses and production cost<br>182,221</td><td>*2. Research and development expenditure included in general and administrative expenses and production cost<br>252,558</td></tr>
<tr><td>*3. Includes 34,460,000 yen in gains on sales of buildings, 53,664,000 yen in gains on sale of machinery, and 8,429,000 yen in gains on sales of tools, furniture and fixtures, etc.</td><td>*3. Includes 30,379,000 yen in gains on sales of buildings, 26,227,000 yen in gains on sale of machinery, etc.</td></tr>
<tr><td>*4. Mainly the write off of tools, furniture and fixtures.</td><td>*4. Includes 24,070,000 yen in loss on disposal of buildings, 156,014,000 yen in loss on disposal of machinery, etc.</td></tr>
<tr><td>
*5. Impairment losses
<table>
<tr><th>Location</th><th>Purpose</th><th>Type</th></tr>
<tr><td>Ferrotec Silicon Fukui Factory (Katsuyama City, Fukui)</td><td>Production facilities of semiconductor silicon wafer</td><td>Machinery goodwill, etc.</td></tr>
</table>
As a general rule, we group impairment losses at the company level. However, we group at the factory level when it is possible to grasp operating gains/losses at this level.<br>
As factory losses have continued to deteriorate in the above asset groups, we have recorded asset impairments of 44,010,000 yen as extraordinary losses. The breakdown of the impairment losses is machinery 9,456,000 yen, goodwill 33,750,000 yen, and others 803,000 yen.<br>
Although we have used utility value as the recoverable value for these assets, we have written off their entire book value because of our forecast for negative future cash flow.
</td><td>
*5. Impairment losses
<table>
<tr><th>Location</th><th>Purpose</th><th>Type</th></tr>
<tr><td>Ferrotec Corporation (Kamaishi City, Iwate Pref.)</td><td>Idle assets</td><td>Land, buildings</td></tr>
</table>
As a general rule, we group impairment losses at the company level. However, we group at the factory level when it is possible to grasp operating gains/losses at this level.<br>
The aforementioned asset groups are idle land and buildings, with no plans for future use and the sale of which would be difficult. We have impaired the book value of these assets to their memorandum value, and booked the asset impairment difference of 72,055,000 yen (land 19,607,000 yen and buildings 52,447,000 yen) as extraordinary losses.
</td></tr>
</table>

## Notes to Consolidated Statement of Changes in Shareholders' Equity

Current fiscal year (April 1, 2006 – March 31, 2007)

1. Type and number of outstanding shares and treasury stocks

| | Number of shares as of Mar. 31, 2006 (Thousand shares) | Increase during the current fiscal year (Thousand shares) | Decrease during the current fiscal year (Thousand shares) | Number of shares as of Mar. 31, 2007 (Thousand shares) |
|---|---|---|---|---|
| Outstanding shares | | | | |
| Common shares | 20,156 | - | - | 20,156 |
| Total | 20,156 | - | - | 20,156 |
| Treasury stock | | | | |
| Common shares | 240 | 1,200 | 164 | 1,276 |
| Total | 240 | 1,200 | 164 | 1,276 |

Outline of changes:

Increase in the number of shares (itemized) (Thousand shares)

Increase due to the acquisition of treasury stock based on the Board of Directors resolution: 1,200

Decrease in the number of shares (itemized) (Thousand shares)

Decrease due to the exercise of the stock acquisition rights on convertible bonds: 164

2. Dividends

(1) Dividend payment

| Resolution | Type of share | Total amount of dividend (Thousand yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual shareholders' meeting on June 23, 2006 | Common shares | 159,331 | 8 | March 31, 2006 | June 24, 2006 |

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

| Resolution | Type of share | Total amount of dividend (Thousand yen) | Source of funds | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual shareholders' meeting on June 26, 2007 | Common shares | 226,564 | Retained earnings | 12 | March 31, 2007 | June 27, 2007 |

Note: Composition of year-end dividend: Ordinary dividend 10 yen; Commemorative dividend 2 yen

**Notes to Consolidated Statements of Cash Flows**

(Thousands of yen)

| April 1, 2005 - March 31, 2006 | April 1, 2006 - March 31, 2007 |
|---|---|
| *1.The balance of cash and cash equivalents at the end of year<br>Reconciled with the “cash and deposits” stated in the consolidated balance sheets.<br><br>*2 Major components of assets and liabilities of subsidiaries’ SCTB NORD acquired through share purchase and consequently newly included in consolidation.<br>Reconciliation of major balance sheets items, acquisition payment and amount paid for / received from the acquisition upon consolidation of the relevant subsidiary is shown as follows: | *1.The balance of cash and cash equivalents at the end of year<br>Reconciled with the “cash and deposits” stated in the consolidated balance sheets. |

| | |
|---|---|
| Current assets | 201,181 |
| Fixed assets | 24,757 |
| Consolidation adjustment | 363,396 |
| Current liabilities | (11,275) |
| Minority interests | (10,733) |
| Acquisition payment for shares | 567,325 |
| Cash and cash equivalents | 68,760 |
| Net amount paid for received from acquisition | 498,564 |

## Lease Transactions

(Thousands of yen)

| April 1, 2005 - March 31, 2006 | | April 1, 2006 - March 31, 2007 | |
|---|---|---|---|
| Finance leases other than those wherein the ownership is deemed to be transferred to lessees | | Finance leases other than those wherein the ownership is deemed to be transferred to lessees | |
| 1. Acquisition amount, accumulated depreciation and the balance of leased assets at end of period | | 1. Acquisition amount, accumulated depreciation and the balance of leased assets at end of period | |
| Machinery and vehicles: | | Machinery and vehicles: | |
| Acquisition amount | 256,495 | Acquisition amount | 250,622 |
| Accumulated depreciation | 122,058 | Accumulated depreciation | 138,389 |
| Year-end balance | 134,436 | Year-end balance | 112,233 |
| Tools, furniture and fixtures: | | Tools, furniture and fixtures: | |
| Acquisition amount | 53,441 | Acquisition amount | 53,441 |
| Accumulated depreciation | 24,801 | Accumulated depreciation | 35,404 |
| Year-end balance | 28,639 | Year-end balance | 18,037 |
| Others: | | Others: | |
| Acquisition amount | 95,768 | Acquisition amount | 82,579 |
| Accumulated depreciation | 56,685 | Accumulated depreciation | 61,996 |
| Year-end balance | 39,082 | Year-end balance | 20,583 |
| Total: | | Total: | |
| Acquisition amount | 405,705 | Acquisition amount | 386,643 |
| Accumulated depreciation | 203,546 | Accumulated depreciation | 235,789 |
| Year-end balance | 202,158 | Year-end balance | 150,853 |
| 2. Outstanding lease commitments as of balance sheets date | | 2. Outstanding lease commitments as of balance sheets date | |
| Due within one year | 71,921 | Due within one year | 63,320 |
| Due after one year | 134,481 | Due after one year | 90,566 |
| Total | 206,402 | Total | 153,887 |
| 3. Lease payments, depreciation and interest equivalents | | 3. Lease payments, depreciation and interest equivalents | |
| Lease payments | 74,358 | Lease payments | 79,315 |
| Depreciation equivalents | 70,304 | Depreciation equivalents | 75,044 |
| Interest equivalents | 4,142 | Interest equivalents | 3,359 |
| 4. Calculation of accumulated depreciation equivalents<br>Depreciation is based on the straight-line method, assuming the lease period to be the useful life and no residual value. | | 4. Calculation of accumulated depreciation equivalents<br>Same as on the left. | |
| 5. Calculation of interest equivalents<br>Interest represents the difference between the total lease payments and the acquisition cost equivalents, and is allocated for each period using the simple-interest method. | | 5. Calculation of interest equivalents<br>Same as on the left. | |

## 6. Segment Information

### (1) Segment information by business category

(Thousands of yen)

| April 1, 2005 – March 31, 2006 | | | | | | |
|---|---|---|---|---|---|---|
| Division | Equipment-related business | Electronic devices business | CMS business | Total | Eliminations or corporate | Consolidated |
| I Net sales and operating income (loss) | | | | | | |
| Net sales | | | | | | |
| (1) Net sales to third parties | 11,657,881 | 3,409,352 | 8,878,897 | 23,946,131 | - | 23,946,131 |
| (2) Internal sales and transfers | - | 676 | - | 676 | [676] | - |
| Total | 11,657,881 | 3,410,028 | 8,878,897 | 23,946,807 | [676] | 23,946,131 |
| Operating expenses | 10,515,537 | 3,739,274 | 8,413,586 | 22,668,398 | 66,940 | 22,735,339 |
| Operating income (loss) | 1,142,343 | (329,245) | 465,310 | 1,278,408 | [67,617] | 1,210,791 |
| II Assets, depreciation and capital expenditure | | | | | | |
| Assets | 15,122,620 | 4,070,169 | 11,272,561 | 30,465,350 | 4,574,196 | 35,039,546 |
| Depreciation | 631,651 | 305,291 | 668,449 | 1,605,392 | 65,013 | 1,670,405 |
| Capital expenditure | 784,152 | 481,552 | 1,098,981 | 2,364,686 | 763,859 | 3,128,545 |
| April 1, 2006 – March 31, 2007 | | | | | | |
| Division | Equipment-related business | Electronic devices business | CMS business | Total | Eliminations or corporate | Consolidated |
| I Net sales and operating income (loss) | | | | | | |
| Net sales | | | | | | |
| (1) Net sales to third parties | 15,770,975 | 5,287,587 | 11,458,604 | 32,517,168 | - | 32,517,168 |
| (2) Internal sales and transfers | 201,743 | 352 | - | 202,095 | [202,095] | - |
| Total | 15,972,718 | 5,287,940 | 11,458,604 | 32,719,263 | [202,095] | 32,517,168 |
| Operating expenses | 13,958,571 | 5,222,401 | 11,193,784 | 30,374,758 | [146,425] | 30,228,332 |
| Operating income | 2,014,146 | 65,538 | 264,820 | 2,344,505 | [55,669] | 2,288,835 |
| II Assets, depreciation and capital expenditure | | | | | | |
| Assets | 18,835,608 | 3,921,364 | 11,556,418 | 34,313,391 | 4,343,156 | 38,656,547 |
| Depreciation | 762,962 | 156,773 | 833,175 | 1,752,911 | 54,470 | 1,807,381 |
| Capital expenditure | 1,995,924 | 109,214 | 2,806,855 | 4,911,994 | 14,767 | 4,926,762 |

Notes:

1. The business segmentation listed above is based on similarity in use of products and form of transactions.
2. Major products in businesses

(1) Equipment-related business: Vacuum feedthroughs, quartz products, etc. for manufacturing devices of semiconductors and FPDs

(2) Electronic devices business: Thermoelectric modules used for thermostats, ferrofluid-applied products (ferrofluid seals, etc.)

(3) CMS business: Items produced by commission from other manufacturers. Detail is not disclosed here because of broad range of products and fiduciary obligation of confidentiality.

3. Of operating expenses in the previous fiscal year, unallotable operating expenses in “eliminations or corporate” categories was 67,617,000 yen, or depreciation of all company assets.
   Of operating expenses in the current fiscal year, unallotable operating expenses in “eliminations or corporate” categories was 55,669,000 yen, or depreciation of all company assets.
4. The amount of assets included in “eliminations or corporate” for the previous fiscal year is 4,631,166,000 yen, primarily consisting of investment securities, equities in investees and the main building and land at the Company and factory site at subsidiaries in China.
   The amount of assets included in “eliminations or corporate” for the current fiscal year is 4,337,884,000 yen, primarily consisting of investment securities, equities in investees, and the main building and land at the Company, as well as the rented and unused portions of factories of Chinese subsidiaries.

### (2) Geographical segment information

(Thousands of yen)

| April 1, 2005 – March 31, 2006 | | | | | | |
|---|---|---|---|---|---|---|
| Division | Japan | Asia | USA & Europe | Total | Eliminations or corporate | Consolidated |
| I Net sales and operating income | | | | | | |
| Net sales | | | | | | |
| (1) Net sales to third parties | 13,317,410 | 4,709,834 | 5,918,885 | 23,946,131 | - | 23,946,131 |
| (2) Internal sales and transfers | 2,030,161 | 9,245,670 | 25,694 | 11,301,526 | [11,301,526] | - |
| Total | 15,347,572 | 13,955,505 | 5,944,579 | 35,247,657 | [11,301,526] | 23,946,131 |
| Operating expenses | 14,889,104 | 13,335,567 | 5,729,099 | 33,953,771 | [11,218,432] | 22,735,339 |
| Operating income | 458,468 | 619,937 | 215,480 | 1,293,885 | [83,093] | 1,210,791 |
| II Assets | 22,946,661 | 16,254,737 | 6,907,833 | 46,109,231 | [11,069,685] | 35,039,546 |
| April 1, 2006 – March 31, 2007 | | | | | | |
| Division | Japan | Asia | USA & Europe | Total | Eliminations or corporate | Consolidated |
| I Net sales and operating income | | | | | | |
| Net sales | | | | | | |
| (1) Net sales to third parties | 17,796,425 | 5,807,625 | 8,913,117 | 32,517,168 | - | 32,517,168 |
| (2) Internal sales and transfers | 3,558,442 | 12,932,883 | 48,597 | 16,539,923 | [16,539,923] | - |
| Total | 21,354,867 | 18,740,508 | 8,961,715 | 49,057,091 | [16,539,923] | 32,517,168 |
| Operating expenses | 20,524,220 | 17,616,994 | 8,485,644 | 46,626,860 | [16,398,527] | 30,228,332 |
| Operating income | 830,646 | 1,123,513 | 476,071 | 2,430,231 | [141,395] | 2,288,835 |
| II Assets | 23,140,005 | 19,336,907 | 8,065,471 | 50,542,384 | [11,885,836] | 38,656,547 |

Notes:
1. Country or area for categorization is based on geographical distance.
2. Areas other than Japan and countries falling to them are as follows:
   Asia: China and Singapore
   USA & Europe: USA and Germany
3. Of operating expenses in the previous fiscal year, unallotable operating expenses in “eliminations or corporate” categories was 67,617,000 yen, or depreciation of all company assets.
   Of operating expenses in the current fiscal year, unallotable operating expenses in “eliminations or corporate” categories was 55,669,000 yen, or depreciation of all company assets.
4. The amount of assets included in “eliminations or corporate” for the previous fiscal year is 4,631,166,000 yen, primarily consisting of investment securities, equities in investees, and the main building and land at the Company, as well as the rented and unused portions of factories of Chinese subsidiaries.
   The amount of assets included in “eliminations or corporate” for the current fiscal year is 4,337,884,000 yen, primarily consisting of investment securities, equities in investees, and the main building and land at the Company, as well as the rented and unused portions of factories of Chinese subsidiaries.

### (3) Overseas sales

The following table indicates overseas sales for last two fiscal years.

(Thousands of yen)

| Division | | Asia | USA & Europe | Total |
|---|---|---|---|---|
| April 1, 2005 - March 31, 2006 | I Overseas sales | 4,186,563 | 5,989,010 | 10,176,134 |
| | II Consolidated sales | - | - | 23,946,131 |
| | III Share of overseas sales among the consolidated sales | 17.5% | 25.0% | 42.5% |
| Division | | Asia | USA & Europe | Total |
| April 1, 2006 - March 31, 2007 | I Overseas sales | 6,859,021 | 8,987,669 | 15,846,691 |
| | II Consolidated sales | - | - | 32,517,168 |
| | III Share of overseas sales among the consolidated sales | 21.1% | 27.6% | 48.7% |

Notes:
1. Country or area for categorization is based on geographical distance.
2. Areas other than Japan and countries falling to them are as follows:
   USA & Europe: USA, Germany, and UK
   Asia: China, Thailand, and Singapore
3. “Overseas sales” consists of net sales from outside Japan at the Company and consolidated subsidiaries.

## 7. Production, Orders and Sales

(1) Production

Production amounts by business category in the current fiscal year under review are as follows:

(Thousands of yen)

| Business category | Production amount | |
|---|---|---|
| | | Year-on-year ratio |
| Equipment-related business | 14,415,646 | 141.1% |
| Electric devices business | 5,206,231 | 145.0% |
| CMS business | 11,491,405 | 133.3% |
| Total | 31,112,920 | 138.7% |

Notes: 1. Amounts are stated at sales price.
2. The above amounts are exclusive of consumption taxes.

(2) Orders

Orders received by business category for the current fiscal year under review are as follows:

(Thousands of yen)

| Business category | Orders received | | Orders outstanding | |
|---|---|---|---|---|
| | | Year-on-year ratio | | Year-on-year ratio |
| Equipment-related business | 16,102,750 | 131.5% | 2,285,304 | 117.0% |
| Electric devices business (made-to-order items) | 700,273 | 94.3% | 17,978 | 93.8% |
| CMS business | 12,616,053 | 139.6% | 1,400,049 | 577.1% |

Notes: 1. Thermoelectric modules of the electronic devices business are produced in prospect of demands.
2. The above amounts are exclusive of consumption taxes.

(3) Sales

Sales amounts by business category for the current fiscal year under review are as follows:

(Thousands of yen)

| Business category | Sales amount | |
|---|---|---|
| | | Year-on-year ratio |
| Equipment-related business | 15,770,975 | 135.3% |
| Electric devices business | 5,287,587 | 155.1% |
| CMS business | 11,458,604 | 129.1% |
| Total | 32,517,168 | 135.8% |

Note: The above amounts are exclusive of consumption taxes.

## 8. Securities

(1) Securities with market quotations classified as "other securities"

(Thousands of yen)

| | | As of March 31, 2006 | | | As of March 31, 2007 | | |
|---|---|---|---|---|---|---|---|
| | | Acquisition cost | Carrying value | Unrealized gain/loss | Acquisition cost | Carrying value | Unrealized gain/loss |
| Securities with carrying value in excess of acquisition cost | (1) Shares | 458,658 | 1,309,305 | 850,646 | 198,381 | 965,535 | 767,154 |
| | (2) Bonds | - | - | - | - | - | - |
| | (3) Others | 20,600 | 20,974 | 374 | - | - | - |
| | Subtotal | 479,258 | 1,330,279 | 851,020 | 198,381 | 965,535 | 767,154 |
| Securities with carrying value lower than acquisition | (1) Shares | 25,300 | 19,140 | (6,160) | 112,453 | 110,985 | (1,468) |
| | (2) Bonds | - | - | - | - | - | - |
| | (3) Others | - | - | - | 70,600 | 67,169 | (3,431) |
| | Subtotal | 25,300 | 19,140 | (6,160) | 183,053 | 178,154 | (4,899) |
| Total | | 721,191 | 504,558 | 1,349,419 | 381,435 | 1,143,689 | 762,254 |

(2) Other marketable securities sold in the previous or current fiscal year under review

(Thousands of yen)

| April 1, 2005 – March 31, 2006 | | | April 1, 2006 – March 31, 2007 | | |
|---|---|---|---|---|---|
| Total amount sold | Gains on sales | Losses on sales | Total amount sold | Gains on sales | Losses on sales |
| 401,093 | 149,180 | - | 592,281 | 426,606 | - |

(3) Securities without market quotations

(Thousands of yen)

| | As of March 31, 2006 | As of March 31, 2007 |
|---|---|---|
| | Carrying value | Carrying value |
| (1) Bonds held to maturity | | |
| Unlisted bonds | 299,000 | - |
| (2) Other securities | | |
| Unlisted equities other than over-the-counter issues | 54,777 | 102,905 |
| Equity in investment business associations | 139,566 | 111,543 |

(4) Redemption distribution of securities with maturity classified as "other securities" and bonds held to maturity

(Thousands of yen)

| | As of March 31, 2006 | | | | As of March 31, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Within one year | One to five years | Five to ten years | Over ten years | Within one year | One to five years | Five to ten years | Over ten years |
| 1. Bonds | | | | | | | | |
| (1) Government and municipal bonds | - | - | - | - | - | - | - | - |
| (2) Corporate bonds | 299,000 | - | - | - | - | - | - | - |
| (3) Other bonds | - | - | - | - | - | - | - | - |
| 2. Others | 14,686 | 126,802 | - | - | 12,657 | 109,195 | - | - |
| Total | 313,686 | 126,802 | - | - | 12,657 | 109,195 | - | - |

## 9. Derivatives

Transactions

| April 1, 2005 – March 31, 2006 | April 1, 2006 – March 31, 2007 |
|---|---|
| 1. Transactions and the purposes<br>The Company uses interest rate swaps to avoid fluctuation risks of interest payable on borrowings | 1. Transactions and the purposes<br>The Company uses interest rate swaps and foreign exchange contracts to avoid fluctuation risks of interest payable on borrowings and foreign exchanges on monetary liabilities denominated in the foreign currencies, respectively. |
| (1) Hedge accounting<br>Special treatment for matched hedge is applied to interest rate swaps transactions. | (1) Accounting method<br>Interest rate swap transactions are booked by an exceptional treatment allowed for fully hedged transactions as they satisfy the conditions for the treatment. As for the foreign exchange contracts are booked by reflection in the underlying accounts as they satisfy the conditions for such treatment allowed for fully matched usage. |
| (2) Hedging instruments and risks hedged<br>Instrument: Interest rate swap<br>Risks hedged: Interest payable on borrowings | (2) Hedging instruments and risks hedged<br>a. Hedging instrument: Interest rate swap<br>Risks hedged: Interests payable on borrowings<br>b. Hedging instrument: Foreign exchange<br>Risks hedged: Monetary liabilities denominated in foreign currencies |
| (3) Hedging policy<br>The Company uses interest rate swaps to minimize interest payment volatility on borrowings from interest rate fluctuation, and makes decisions on hedges on an individual contract basis. | (3) Hedging policy<br>The Company uses interest rate swaps to minimize interest payment volatility on borrowings from interest rate fluctuation, and makes decisions on hedges on an individual contract basis. Also, foreign exchange contracts are made based on future material import plans. |
| (4) Assessing effectiveness of hedges<br>Because exceptional treatment is allowed for interest rate swap transactions, there is no assessment made on effectiveness of the relevant hedging transactions. | (4) Accessing effectiveness of hedges<br>Because exceptional treatment is allowed for interest rate swap transactions, and appropriated treatment is allowed for foreign exchange contracts, there is no assessment made on effectiveness of the relevant hedging transactions. |
| 2. Policy for derivatives<br>The Company uses derivatives to avoid risks of fluctuating interest rates and foreign exchanges in future, not for speculation. | 2. Policy for derivatives<br>The Company uses derivatives to avoid risks of fluctuating interest rates and foreign exchanges in future, not for speculation. |
| 3. Risks involved in derivatives<br>Though our interest rate swap contains risks of fluctuation of the market interest rates, credit risks on counter parties are recognized to be slight because they all are Japanese banks of high credit and defaults are expected unlikely. | 3. Risks involved in derivatives<br>Though our interest rate swap transactions and foreign exchange contracts contain risks of fluctuation of the market interest rates and foreign exchanges, credit risks on counter parties are recognized to be slight because they all are Japanese banks of high credit and defaults are expected unlikely. |
| 4. Risk control on derivatives<br>Treasury group executes derivative transactions and manages outstanding transactions in accordance with internal rules. | 4. Risk control on derivatives<br>Same as on the left. |

Evaluation of Transactions

| April 1, 2005 – March 31, 2006 | April 1, 2006 – March 31, 2007 |
|---|---|
| It is omitted here because all derivatives transactions outstanding as of the end of the fiscal year under review are applicable to the hedge accounting. | Same as on the left. |

## 10. Retirement Benefits

(1) Retirement benefit plans

The Company and domestic subsidiaries have an eligible pension program, a Smaller Enterprise Retirement Allowance Mutual Aid Program, and a retirement lump sum grant plan.

(2) Retirement benefit obligation

| | (Thousands of yen) |
|---|---|
| Retirement benefit obligation | (368,629) |
| Pension assets at fair value | 460,356 |
| Liabilities for retirement benefits | 24,686 |
| Prepaid pension expenses | 116,413 |
| (Included in “Other investments and other assets”) | |

(3) Retirement benefit expense

| | (Thousands of yen) |
|---|---|
| Service cost | 63,666 |
| Retirement benefit expenses | 63,666 |

(4) Assumptions used in accounting for the projected benefit obligation, etc.

Not applicable since the Group calculates the projected benefit obligation by the simple method.

## 11. Deferred Income Taxes

(1) Breakdown of deferred tax assets and liabilities by origin

(Thousands of yen)

| | Current fiscal year (as of March 31, 2007) |
|---|---|
| Deferred tax assets | |
| Reserve for bonuses payable excessive of deductible limit | 93,455 |
| Loss on valuation of investment securities denied and undeductible | 35,529 |
| Liability for retirement benefits to officers excessive of deductible limit | 47,066 |
| Allowance for doubtful receivables excessive of deductible limit | 35,846 |
| Loss on valuation of golf club membership denied and undeductible | 28,801 |
| Accumulated deficits | 287,540 |
| Loss on valuation of inventories | 79,191 |
| Others | 144,286 |
| Deferred tax assets, subtotal | 751,718 |
| Valuation allowance | (388,922) |
| Deferred tax assets, total | 362,795 |
| Deferred tax liabilities | |
| Book value adjustments based on market valuations | (178,126) |
| Unrealized holding loss on securities | (303,785) |
| Prepaid pension expenses | (44,646) |
| Others | (12,796) |
| Deferred tax liabilities, total | (539,355) |
| Deferred tax assets (liabilities), net | (176,559) |
| Net deferred tax assets and liabilities are included in the following consolidated balance sheet accounts | |
| Current assets-Deferred tax assets –current | 127,583 |
| Fixed assets-Deferred tax assets –non-current | 50,500 |
| Current liabilities-Deferred tax liabilities –current | 8,595 |
| Long-term liabilities-Deferred tax liabilities –non-current | 346,047 |

(2) Effective statutory tax rate and tax rate after deferred tax treatments

| | Current fiscal year (as of March 31, 2007) |
|---|---|
| Effective statutory tax rate | 40.4% |
| (Reconciliation) | |
| Permanent differences arising from undeductible expenses such as entertainment expense | 2.2% |
| Amortization of goodwill | 1.6% |
| Installment of inhabitant taxes | 1.4% |
| Valuation allowance | (8.5)% |
| Elimination of dividends received from overseas subsidiaries | 6.5% |
| Tax difference with consolidated subsidiaries | (15.6)% |
| Taxation-wise accumulated deficits | (5.1)% |
| Foreign tax deduction | (0.6)% |
| Others | (0.7)% |
| Tax rate after deferred tax treatments | 21.6% |

## 12. Business Combinations

Current fiscal year (April 1, 2006 – March 31, 2007)

1. Name, activities, legal format, post-combination name and business summary including purpose of combination

(1) Name and activities of combined company or business

Merged with subsidiary Ferrotec Precision Corporation

(2) Legal format of business combination

Transactions under common control based on business combination accounting

(3) Name following business combination

Ferrotec Corporation

(4) Business summary, including purpose of combination

1) Purpose of merger

We absorbed Ferrotec Precision Corporation, a wholly-owned subsidiary that manufacturers products for the Company, in order to consolidate information, human resources, and know-how within the Company, and improve the efficient use of management resources.

2) Merger date

November 1, 2006

3) Business merger format

Ferrotec Corporation, which shall be the surviving company, shall absorb Ferrotec Precision Corporation, which was dissolved.

Ferrotec Corporation own 100% of the stock of Ferrotec Precision Corporation, and therefore no new stock were issued, capital raised, or cash payment based on the merger.

2. Summary of accounting method

Accounting methods used for this merger as a transaction under common control are based on Accounting Standard for Business Combination" (Business Accounting Council, October 31, 2003) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10: Accounting Standards Board of Japan, December 27, 2005)

3. Significant components of assets and liabilities assumed following the merger of the subsidiary

(As of October 31, 2006)

| Item | Amount (Thousands of yen) | Item | Amount (Thousands of yen) |
|---|---|---|---|
| Current assets | 355,448 | Current liabilities | 198,258 |
| Fixed assts | 433,546 | Total liabilities | 198,258 |
| Total assets | 788,995 | Net assets | 590,736 |

### 13. Transactions with Related Parties

Current fiscal year (April 1, 2006 – March 31, 2007)

(1) Parent company and major corporate shareholders

| Classification | | Major corporate shareholders (Note 2) |
|---|---|---|
| Name | | Mitsui & Co., Ltd. |
| Address | | Chiyoda Ward, Tokyo |
| Common stock / equity (Millions of yen) | | 323,212 |
| Business / position | | General trading house |
| Voting rights | | 6.36% held by the Company |
| Relationship | Position | - |
| | Business | - |
| Transaction | | Acquisition of treasury stock |
| Transaction amount (Thousands of yen) | | 1,170,000 |
| Account title | | Treasury stock |
| Ending balance | | - |

Notes: 1. The price per share of acquired treasury stock was the closing common share price of 975 yen on January 23, 2007. (Acquisition date: January 24, 2007; Acquired shares: 1,200 thousand shares)

2. Mitsui & Co., Ltd. was no longer a major corporate shareholder after this transaction.

(2) Director, auditors and major individual shareholders

| Classification | | Corporate officers | |
|---|---|---|---|
| Name | | Akira Yamamura | He Xian Han |
| Address | | - | - |
| Common stock / equity (Millions of yen) | | - | - |
| Business / position | | Ferrotec President and Representative Director | Ferrotec Managing Director |
| Voting rights | | 4.26% held by the Company | 0.04% held by the Company |
| Relationship | Position | - | - |
| | Business | - | - |
| Transaction | | Acquisition of capital stake in the subsidiary | Acquisition of capital stake in the subsidiary |
| Transaction amount (Thousands of yen) | | 1,515 | 1,515 |
| Account title | | Investment in affiliates | Investment in affiliates |
| Ending balance | | - | - |

Note: The acquisition price for a capital stake in the subsidiary was calculated by applying the capital stake by the book value of the subsidiary at the time the acquisition decision was made.

(3) Subsidiaries and affiliates

| Classification | | Affiliate | |
|---|---|---|---|
| Name | | Diacelltec Corporation | |
| Address | | Chiyoda Ward, Tokyo | |
| Common stock / equity (Millions of yen) | | 320,000 | |
| Business / position | | Manufacturing | |
| Voting rights | | - | |
| Relationship | Position | - | |
| | Business | Fund lending | |
| Transaction | | Debt forgiveness | Loss on debt forgiveness |
| Transaction amount (Thousands of yen) | | 691,600 | 54,600 |
| Account title | | Long-term loans receivable | |
| Ending balance | | - | |

Note: Our share (through our stockholdings) of debt forgiveness in Diacelltec Corporation resulted from the withdrawal of business. Diacelltec Corporation is no longer an affiliate as we made a gratis transfer of our stake in the company (Affiliate stock: 58,800,000 yen; Liability for loss on investment in affiliates 58,800,000 yen) in this fiscal year.

(4) Fellow-subsidiaries, etc,

Not applicable.

### 14. Per Share Data

Current fiscal year (April 1, 2006 – March 31, 2007)

| | |
|---|---|
| Net assets per share | 956.23 yen |
| Net income per share (basic) | 86.38 yen |
| Note: The following is a reconciliation of net income per share (basic) | |
| Net income | 1,703,281,000 yen |
| Amount not available to common shareholders | - |
| Net income available to common shares | 1,703,281,000 yen |
| Weighted average number of shares outstanding | 19,719,596 shares |
| Diluted Net income per share | 76.82 yen |
| Adjusted net income | 1,520,000 yen |
| (of which interest payments, after tax and other adjustments) | 1,520,000 yen |
| (of which clerical fees, after tax and other adjustments) | 0 |
| Increase in common shares | 2,472,052 shares |
| Summary of potential stock not included in the calculation of diluted net income per share since there was no dilutive effect. | Stock options resolved at the annual shareholders' meeting held on June 21, 2002<br>173,200 common shares (Stock acquisition rights 1,732 units)<br>Stock options resolved at the annual shareholders' meeting held on June 24, 2003<br>366,000 common shares (Stock acquisition rights 3,660 units)<br>Stock options resolved at the annual shareholders' meeting held on June 25, 2004<br>431,000 common shares (Stock acquisition rights 4,310 units) |

**This financial report is solely a translation of the summary of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*