

Vacuum Technology and Innovative Ideas

ULVAC, Inc. Annual Report 2006 Year ended June 30, 2006



ULVAC

ULVAC, Inc. Annual Report 2006

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ULVAC, Inc.

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Financial Highlights

ULVAC, Inc. and its consolidated subsidiaries

For the years ended June 30, 2005 and 2006	Millions of yen 2006	2005	Thousands of U.S. dollars* 2006
For the year :			
Net sales	¥ 212,454	¥ 196,843	$ 1,847,426
Operating profit	14,796	15,306	128,661
Net income	8,102	7,146	70,452
At year-end :			
Total assets	¥ 269,401	¥ 224,278	$ 2,342,617
Total net assets**	87,627	77,600	761,974
Per Share (in yen and U.S. dollars) :			
Net income	¥ 188.87	¥ 168.65	$ 1.64
Cash dividends	37.00	30.00	0.32

* The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥115 to US$1, the approximate exchange rate as of June 30, 2006.

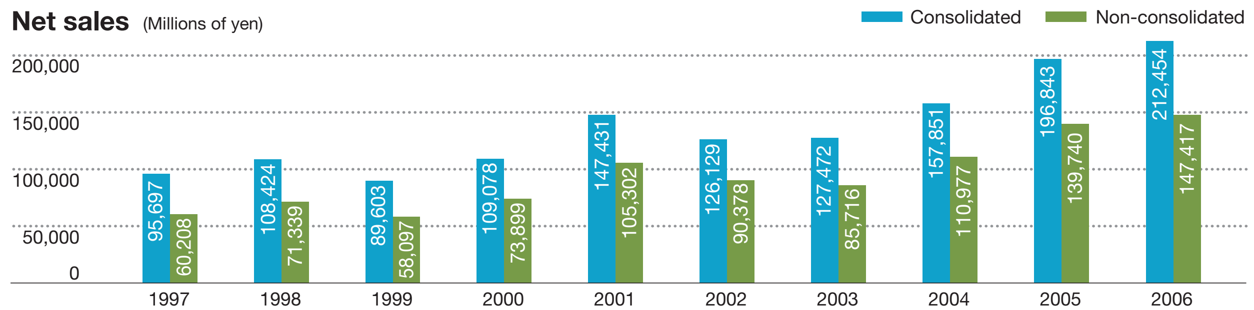
** The Company applied "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and "Guideline on Accounting Standard for Presentation of Net Assets in the Balance Sheet" from the year ended June 30, 2006. Figures of the net assets in the balance sheets for the year ended June 30, 2005 are partially reclassified, and do not partially conform with the annual report for the year ended June 30, 2005.

Contents

Forward-looking statement

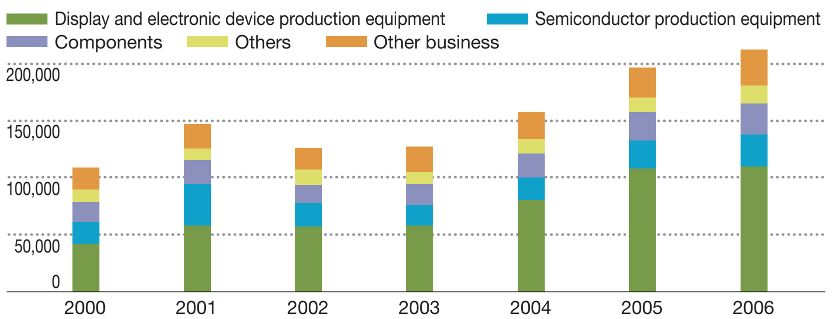
The future plans, projected figures, and other such statements contained herein represent outlooks based on information available to management at the time of preparation of this annual report. They, therefore, include some risk and uncertainty, and must be used with caution as grounds for investment decisions. For example, there are latent risks and uncertainties associated with factors such as the tone of the economy, business environment, trend of consumption, competition with other firms at ULVAC, Inc. and its subsidiaries, and changes in laws and regulations. We are under no legal obligation to update information related to forward-looking statements in the future based on the latest information or to revise them and make public disclosure of the revisions.

Net sales (Millions of yen)

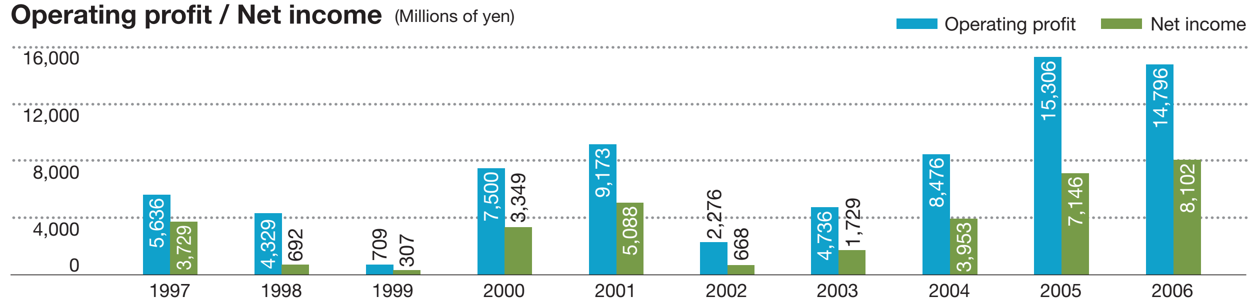


Net sales by segment
(Millions of yen)

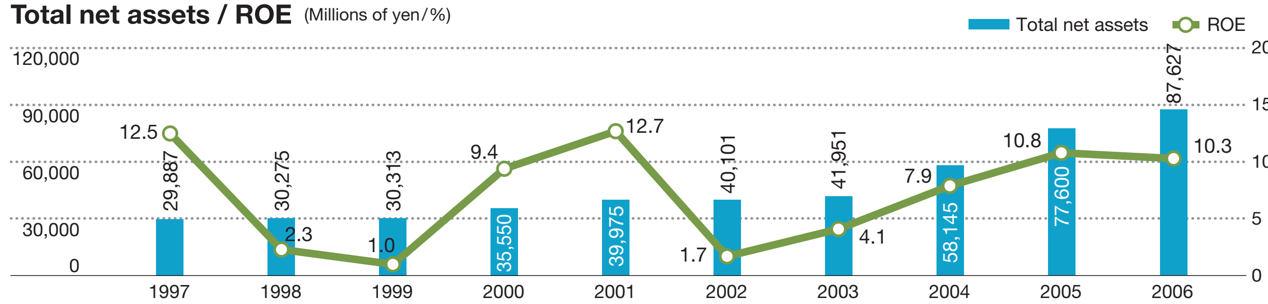
2000	2001	2002	2003	2004	2005	2006
19,184	21,731	18,603	22,161	23,880	26,393	31,299
11,244	9,702	13,596	10,963	12,436	12,731	15,645
17,655	21,469	15,760	18,085	20,976	25,019	27,585
18,969	36,551	21,014	18,135	20,138	24,705	27,898
42,024	57,977	57,153	58,126	80,421	107,995	110,027



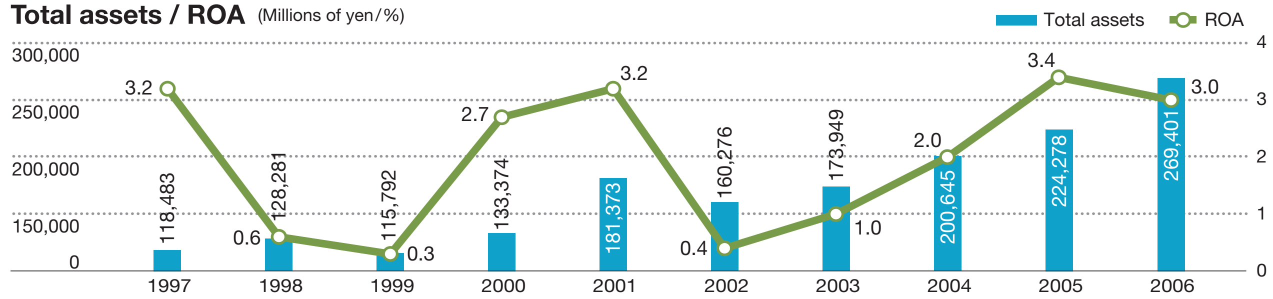
Operating profit / Net income (Millions of yen)



Total net assets / ROE (Millions of yen/%)



Total assets / ROA (Millions of yen/%)



Year in Review

2005.7

New plant of ULVAC Orient (CHENGDU) Co., Ltd. started operation.

The second plant of ULVAC (SUZHOU) Co., Ltd. started operation.

2005.9

Cryopumps manufacturing plant in South Korea started operation.

New plant of vacuum furnace for general industry use in China started operation.

2005.10

New plant for consolidation of production of ULVAC KIKO Inc. started construction.

New company engaged in sales and customer support businesses established in Thailand.

2005.11

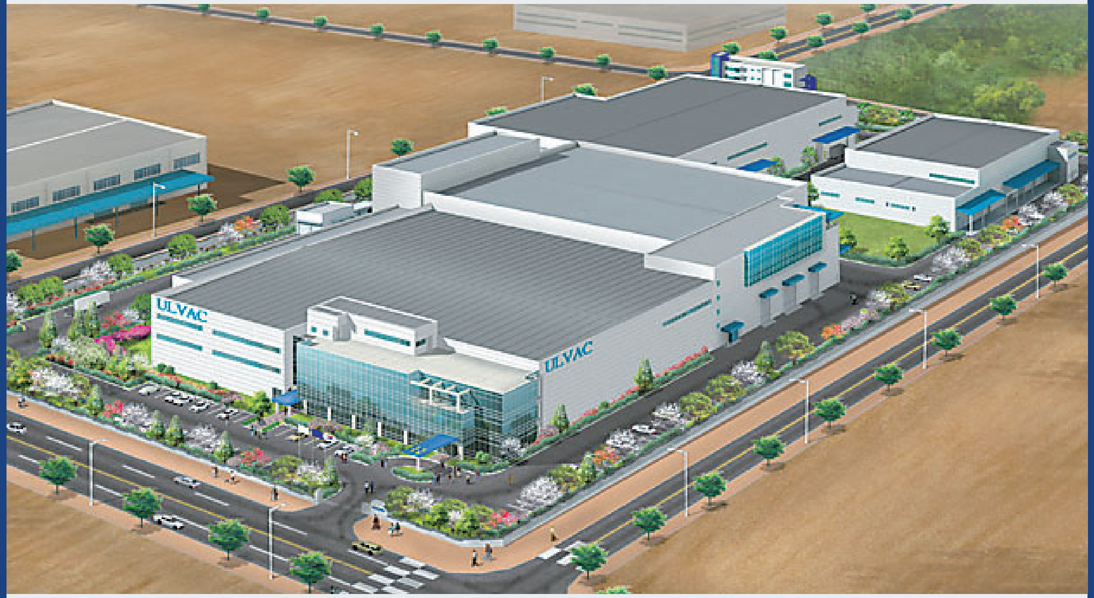
U.S. Litrex Corporation became a wholly owned subsidiary.

Two new models of ion implanter equipment were launched to the power device market.

2006.4

Grand Prix of "Advanced Display of the Year" in the Display Manufacturing Equipment Category was awarded.

Established Aichi Plant



Expanded in Hyeon-gok plant of ULVAC KOREA, Ltd.

Established Ultra Clean Precision Technologies Corp. in Taiwan

ULVAC will strive to become a valuable corporate group to all stakeholders through continuous growth to improve corporate values.

ULVAC has established its position as the world's leading equipment manufacturer in the semiconductor and FPD (flat panel display) industries and is vigorously promoting its strategies for continuous growth.

As an equipment manufacturer, the Company is making successive investments in technological fields and regions that have high growth potential, such as in the fields of energy-saving and environment-friendly products that include hybrid car parts and solar cells, and in production equipment for digital home appliances such as mobile phones and portable music players. We are also continually investing in China, a huge market that keeps developing.

In addition to providing production equipment, ULVAC promotes customer support businesses such as target material provision, analysis evaluation and facility maintenance, while focusing on expansion of OEM manufacturing as well.

As a total vacuum technology manufacturer with 45 subsidiaries and 6 affiliates, ULVAC will continue to provide innovative and advanced technologies to society and become a valuable corporate group for all stakeholders.

To Our Stakeholders

ULVAC is committed to continue providing solutions with "innovative technologies and ideas for the next generation" for the development of all industries and scientific fields.

Dr. Kyuzo Nakamura, Chairman

Hidenori Suwa, President and CEO

ULVAC's corporate philosophy is to contribute to the development of industries and science with a comprehensive use of vacuum technology and its peripherals.

By combining its proprietary technologies cultivated through R&D and production technology renovation activities over the years since the foundation 1952, ULVAC has been providing comprehensive services as "ULVAC Solutions" which contains manufacturing equipment, advanced materials, analytical devices and customer support to the industries for FPDs (flat panel displays) including liquid crystal displays, electronic parts, semiconductors and other business industries. The ULVAC Group is now the largest corporate group that is able to provide solutions to customers with vacuum skill as its core technology.

ULVAC has energetically ventured into "technologies, business areas and regions with growth potential" with its vacuum technology at its core. As a result, ULVAC has achieved increases in sales and profits for four consecutive years, and it is still on the growth track.

I will carry out various initiatives for our further growth, succeeding the management principle under which Dr. Namakamura, a former President, has led the company over 10 years.

It is ULVAC's purpose to continue responding to both the changes in time and customers' needs and aiming to become the world's top manufacturer in all advanced technological fields. At the same time, the Group will do its best to manage the company with a strong awareness of being a manufacturer so as to make it excel both in name and substance in advanced technologies and product manufacture.

H. Suwa

Hidenori Suwa, President and CEO

Interview with the Chairman

ULVAC Vacuum Technology and Innovative Ideas

We will carry out vigorous capital investments and seek further growth as well as improvement of corporate values.

Dr. Kyuzo Nakamura, Chairman*

Q First of all, please describe the business environment and performance evaluation for the fiscal year ended June 2006.

A The business environment remained more favorable than we had foreseen. We initially expected that the year would mark an end to existing business fields such as FPD (flat panel display) and semiconductor manufacturing equipment because they are entering an adjustment phase to be replaced by post-FPD business fields. However, those existing business fields continued to grow during the year owing to the development of new applications with the upsizing of LCD televisions or development of flash memory in the semiconductor sector. In addition, businesses targeting the post-FPD era such as customer support services grew at the same time.

To respond to the increased market needs, ULVAC decided to invest in capital expenditure, and worked toward expanding businesses and increasing profitability. As a result, we have achieved record-high figures for three management indicators according to the amount of orders received, net sales and ordinary income for three consecutive years. We enjoyed a fruitful year.

Q What topics had especially strong impacts out of all the issues you addressed during the fiscal year ended June 2006?

A In terms of business, there were three features: the first was that we changed the concept of the mainstay Liquid Crystal Display sputtering systems. Our previous sputtering systems carried glass substrate horizontally, but we modified them to a compact and slim vertical type to respond flexibly to upsizing of substrates. This turned out to be successful and the new system began to contribute to sales from the second half of the year.

The second feature was the trend linked to the flash memory market. Specifically, ULVAC's equipment met the market needs and sales grew significantly.

The third feature was the growth in customer support business, which is one of the post-FPD business fields. Sales of both ULVAC TECHNO, Ltd., a group company providing customer support services, and ULVAC Materials, Inc., a group company supplying target materials, exceeded ¥20 billion, and operating profit to net sales grew to more than 10%. We believe it meaningful that two of the core companies of ULVAC Solutions achieved good results for the entire ULVAC Group.

*On September 28, 2006, Dr. Kyuzo Nakamura (former president and CEO) assumed chairmanship and Mr. Hidenori Suwa (former executive vice president) assumed presidency and CEO position.

Q Please describe the progress of the post-FPD strategy on which you have focused on as the mid- and long-term business strategy.

A We focus most on the customer support business now. The larger substrates become, the greater will demands for target materials be. At the same time, needs for parts cleaning services, etc. will increase. We judged that these target materials and services would be the most important areas for the ULVAC Group to grow in the next couple of years, and we are working to enhance cost and product competitiveness as a top-priority.

Regarding our efforts for the Chinese market, the number of our locally incorporated companies increased to 10 in total this year and we have almost completed the development of infrastructure toward business expansion in China.

As for energy and environment related issues, we expect greater capital investment in solar cell manufacturing lines against the backdrop of soaring oil prices. ULVAC places manufacturing equipment related to hybrid cars and solar cells as one of the engines for growth, and we are focusing on its development.

Q ULVAC is making numerous capital investments both in Japan and abroad now. Please explain the aims of large-scale investments and your future plans.

A We plan to invest ¥27 billion over the next two years. Consolidated net sales of the company reached ¥100 billion in the fiscal year ended June 2000 and grew to ¥200 billion in the fiscal year ended June 2005. This shows that our consolidated net sales doubled in almost five years and that we still are on the growth track. With this background, we will implement expeditious capital investment to take advantage of these favorable business conditions. Although investment is always accompanied by risk, we believe that it will be less risky to acquire the markets ahead of competitors in terms of speed and scale of development.

We have decided to establish a factory of ULVAC Materials in Tomisato, Chiba, in order to satisfy the increased demand for target materials. We will also relocate the Chiba Institute for Super Materials within the same premises. This is in line with our belief that production and research work together inseparably. We will also renew the Chigasaki Factory in Kanagawa. Specifically, we will reinforce a prototype manufacturing line for FPD manufacturing equipment and establish a new R&D building for post-FPD manufacturing equipment to use this facility as a beachhead supporting the growth of ULVAC.

Q Please describe the prospect for future earnings and management issues.

A As the business environment remains favorable, we believe we will be able to maintain an annual growth rate of more than 10% in the amount of orders received and net sales.

We have three business challenges to tackle. The first one is to improve operating profit to net sales. Although the figure almost leveled off in the fiscal year ended June 2006 owing to the influence of generation change of liquid crystal display, we will seek to achieve an operating profit to net sales ratio of more than 10% within the next few years.

The second one is human resources. ULVAC, as a fast growing company, will aim to ensure human resources by utilizing the contract employee system, and securing personnel.

The third one is the influence of business fluctuation. We will continue to reinforce businesses in high-margin services and material fields to stabilize management.

Q Finally, do you have any message for the shareholders?

A ULVAC is facing a chance to grow substantially now. Taking this opportunity, we will boost sales and raise profitability to increase the absolute amount of profit. We will also increase profit per share to reward our shareholders.

Regarding dividends, we will maintain the payout ratio of about 20% of consolidated net income based on the basic policy of performance-linked dividend payment. As one of our management priorities, we are committed to returning profits to shareholders, who make investments in ULVAC.

We are also working to thoroughly implement corporate governance. To achieve transparency and fairness in the company, we will strive faithfully to continue our efforts to disclose information to shareholders promptly and ask their opinions.

K. Nakamura.

Dr. Kyuzo Nakamura, Chairman

Investing aggressively into three growth segments, the growth technologies, the growth region and the growth business area.

Strategies and investments for continuous growth

Strategies and Investments for Continuous Growth

Importance of upfront investment for an equipment manufacturer

The most important thing ULVAC needs to do to grow continuously is to promote growth strategies that promptly respond to the future market changes and new needs of customers that arise accordingly. The timing with which equipment manufacturers such as ULVAC sell and deliver facilities coincides with that of customers for making new capital investment in response to market trends. Our customers make capital investment before manufacturing new products. As a result, demand for our systems will arise at the same time, thereby requiring the Company to make various upfront investments that meet customer needs. Getting a head start and having prescience are keys to growth for an equipment manufacturer and we cannot increase market share if we start later than our competitors.

However, when a certain industry or product is at the height of its prosperity and has reached maturity, customers have already introduced facilities and begun mass production. Therefore, the role of equipment manufacturers such as ULVAC should shift to customer support businesses including provision of target materials and services. The amount of target materials and services provided increases proportionally with increased production, and companies can expand businesses securely at this point. Products that are already available in the market will also need replacement of facilities if there are specification changes and upsizing of products, leading to continual demand.

For instance, sales of FPD production equipment, the main product of ULVAC, have increased steadily following the development of the FPD market represented by the rapid penetration of liquid crystal televisions. During the past year, the size of television screens has become even larger, as a result of which the size of glass substrates for LCDs (liquid crystal displays) has increased as well, creating a new demand for larger FPD production equipment. In response to this, there will be brisk demand for consumable materials that are necessary for production activities of customers.

ULVAC is responding to such demands of customers for new facilities and facility replacement as well as for target materials, services and support by assessing the market trend and making steady upfront investment.

Proactively invest in technologies, regions and business areas with growth potential

ULVAC has successfully acquired a top-class global market share as an FPD production equipment manufacturer and confirmed its position as a leading company in the industry. In the future, demand for FPD production equipment can be expected to increase to a certain degree in response to upsizing of FPDs. However, we forecast that such growth will slow down eventually.

Based on this recognition, the Company will promote a full-scale post-FPD strategy, which is to develop the next core of its revenue after FPD production equipment.

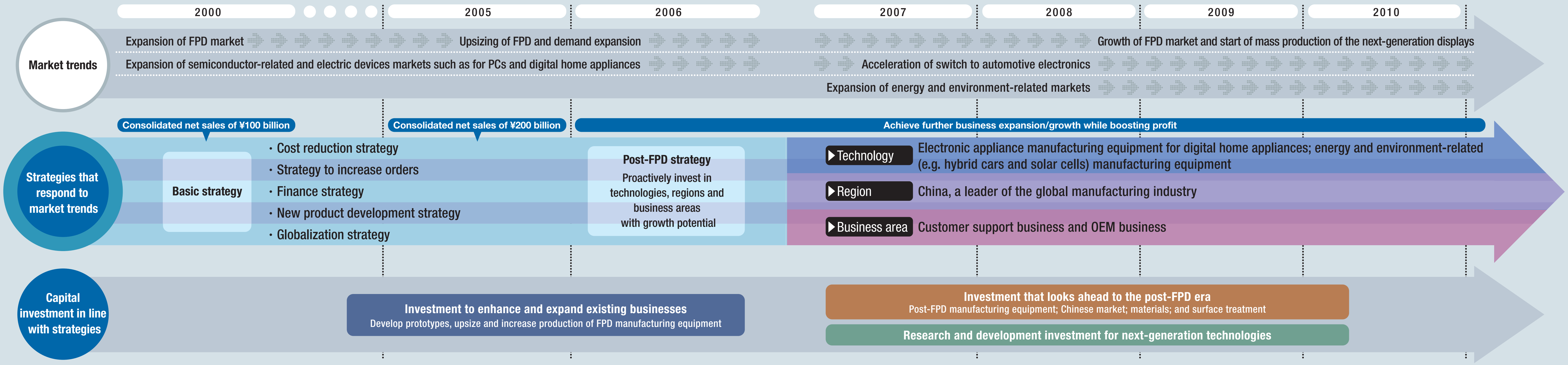
Specifically, we will concentrate our management resources on technologies, regions and business areas with growth potential to sustain high rates of growth.

As for technologies, ULVAC has been making efforts to develop and promote sales of equipment for manufacturing electronic components used for digital home appliances such as compound semiconductors like LEDs, MEMS (micro electro mechanical systems), optical thin-films and high-density packages. The Company has been promoting the development of production equipment for energy-saving and environmentally friendly products such as permanent magnets and capacitors used in hybrid car parts as well as solar cell manufacturing equipment.

In terms of region, ULVAC will position China, the driving force of global manufacturing, as the most important region for global business development and focus on establishing and expanding its production base there.

Regarding business areas, the Company is promoting customer support businesses, such as the supply of target materials, consumable parts and parts-cleaning services as well as working on OEM manufacturing of optical thin-films in order to stabilize and increase profits from rapid progress of production equipment business area. ULVAC Solutions, in which we provide production equipment, materials, analysis equipment, components and services in a package, serves as the core of our customer support business.

ULVAC's strategies and investments to achieve continuous growth



Capital investment strategy for the future

ULVAC has analyzed the expected market trend in 2007 and beyond as described below. The demand for FPD will remain strong in the future and the size of glass substrates will become even larger, while companies will start investing in the development of next-generation displays such as organic EL, FED and SED. We are confident that customer support businesses such as supplying target materials and services, which is necessary to operate FPD production equipment, will grow significantly.

Demand in semiconductor and electronic markets is expected to expand rapidly around 2007 because of the progress of using electronics in automobiles and the penetration of digital home appliances. In addition, we forecast that the market for energy-saving and environmentally friendly products will grow substantially against the backdrop of soaring oil prices and increased environmental consciousness on a global basis.

Based on the above forecast of market trends, ULVAC has devised a detailed business strategy and capital investment plan, which the Company is implementing one after the other.

We plan to invest a total of about ¥27 billion in two years through the end of fiscal year ending March 31, 2008.

As an investment to enhance and expand existing businesses including FPD production equipment, we newly constructed Aichi Plant to mainly produce one-drop filling equipment in Japan, while ULVAC Korea completed work for building additional clean rooms in the Hyeon-gok plant that will allow us to produce large seventh generation equipment and beyond. In Taiwan, ULVAC Taiwan Manufacturing Corporation is soon due to complete construction of a plant to produce large seventh generation equipment and beyond. When these three plants start operation, we will be able to respond to the growth in global demand for FPD and upsizing of glass substrates.

In terms of research and development investment for next-generation technologies, ULVAC will relocate the Chiba Institute for Super Materials to Tomisato, Chiba. Having 10,000m² floor space, the new institute will commence operation in August 2007, where we will develop FPD technologies and leading-edge thin-film processes.

Striving to achieve permanent growth and improvement of corporate values

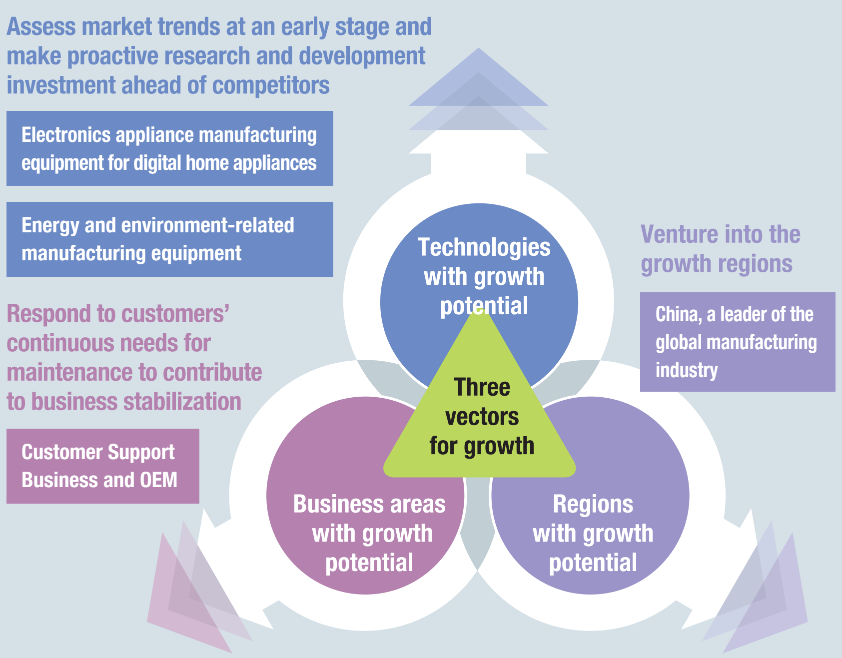
ULVAC has been making various investments toward the post-FPD era. As for investment in technologies with growth potential, we have started refurbishing the Chigasaki Factory to respond to increased orders for production equipment for digital home appliances and production equipment for energy-saving and environmentally friendly products. We will mainly develop prototypes for post-FPD production equipment in this plant, having a building area of 10,000m² with a total floor space of 38,300m². Total investment for this plant, including research and development facilities, is nearly ¥11.1 billion and the plant is scheduled to be completed in December 2007.

Concerning the growth region of China, ULVAC Orient (CHENGDU) Co., Ltd., a manufacturer of He leak detector, the second plant of ULVAC (SUZHOU) Co., LTD., a company producing electronic parts production equipment and ULVAC Vacuum Furnace (Shenyang) Co., Ltd., a company making vacuum furnaces, have already started operation. In addition, we established ULVAC (CHINA) HOLDING CO., LTD., in 2006 for investment and management of Chinese business operation, the new company building of which is now under construction for start-up operation in September, 2007.

As for the growth business areas of customer support and OEM manufacturing businesses, Ultra Clean Precision Technologies Corp., a CS Solution Plant for parts cleaning and surface treatment in Taiwan, has started operation. In Japan, Chiba Factory in Tomisato and Tohoku Factory of ULVAC Materials, Inc., which makes sputtering targets, will commence operations in January 2007. In addition, the Chemical Center of ULVAC TECHNO, Ltd., a company engaged in surface treatment, was completed and ULVAC TOHOKU, Inc., a manufacturer of general industry equipment, is halfway through the construction of additional facilities.

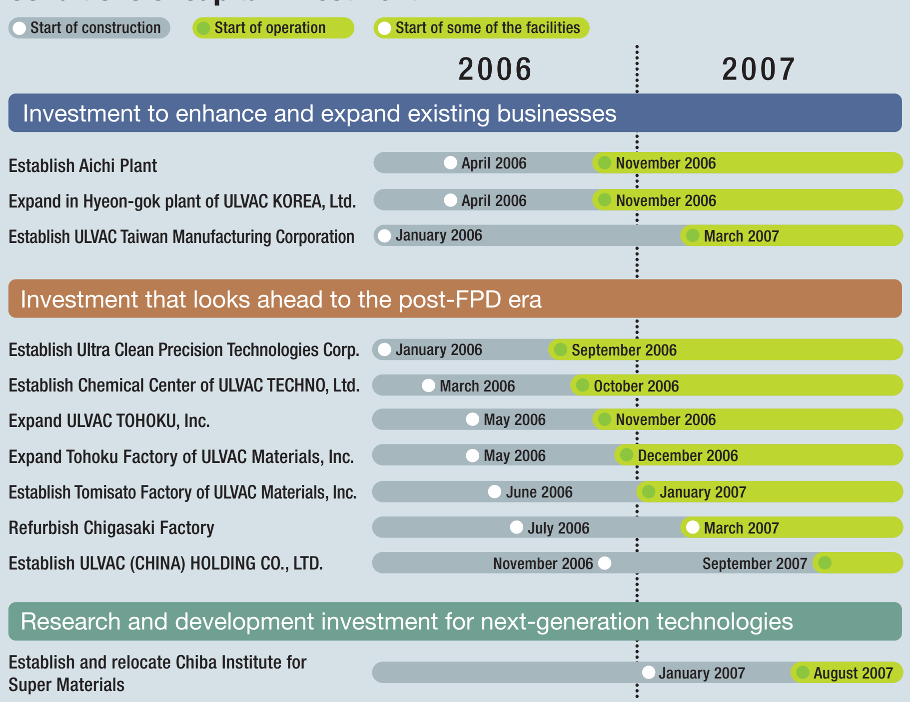
The ULVAC Group will always make vigorous investment in the next-generation growth business areas to achieve permanent growth and further improvement of corporate values and profitability.

ULVAC's growth strategies and capital investment strategies



Advantages of ULVAC: Consistency between strategy and investment

Conditions of capital investment




Refurbish Chigasaki Factory


Establish Tomisato Factory of ULVAC Materials, Inc. and relocate Chiba Institute for Super Materials


Establish ULVAC Taiwan Manufacturing Corporation

CSR

Based on the philosophy that companies are public entities, the ULVAC Group is developing CSR activities in a broad-range of fields such as environmental conservation, fostering of industries, employment security and contribution to local communities at home and abroad.

Above all, the conservation of the global environment is a common major issue for people around the world, and ULVAC is making group-wide efforts to address it in the following three ways: 1) promotion of environmental management in production processes; 2) contribution to energy-saving of client companies; and 3) provision of products that contribute to environmental conservation. In addition, the Company has been promoting the acquisition of international standard ISO14000 certification since 2001 and our 19 group companies have already obtained it.

As for environment management in production processes, we are working on the reduction of usage of electricity and water, as well as achieving zero waste emissions. In addition, we collect and effectively utilize rare metals such as molybdenum and indium that are created in the production process of FPD production equipment. In terms of contribution to energy-saving of client companies, we are promoting energy conservation of vacuum pumps, which consume the largest amount of electricity in clean rooms while manufacturing semiconductors and FPDs. The provision of products that contribute to environmental conservation means providing production equipment to make products that help to conserve the global environment. Typical examples are electronic device production equipment for hybrid car parts and solar cells production equipment for solar energy generation.

ULVAC is also focusing on social contribution in regions and countries around the world. We recruit local staff as management personnel of locally-incorporated companies and our management practices respect the culture and business customs in each country or region, while making efforts to create a company that is in harmony with local communities by ensuring enforcement of compliance.

The ULVAC Group will continue to give consideration to environment conservation and contribution to local communities in every aspect of its business activities, in order to help make the Earth hospitable and realize an affluent society.

The solar panels set on the roof of the Chigasaki Factory

Vertical, double-faced, large “Cat-CVD” system for solar cells that is highly cost effective, energy and resource saving.

As a new production system for solar cells, ULVAC has released a production system utilizing Cat-CVD method (Catalytic Chemical Vapor Deposition) onto the market. Cat-CVD is a method of making thin films by utilizing chemical vapor to decompose through contact with a high-temperature heating catalyst such as tungsten or tantalum. Unlike the conventional plasma CVD method (which uses a chemical reaction with plasma), the Cat-CVD method does not require a large amount of energy. Cat-CVD is attracting attention in the expanding solar cells market because it saves on resources and energy, yet is appropriate for increasing the size of substrates that are high quality and very cost effective.

Rapidly responding to market expansion by introducing large cleaning equipment, including a resource recovery service. (ULVAC Materials, Inc.)

For users of vacuum systems, dust and particles are serious hindrances to yield ratios. ULVAC Materials, Inc. provides cleaning services to remove adherent films without damaging base materials and to extend the life of vacuum apparatus for dust-free operation and re-use of high-valued vacuum parts. In response to the current trend of larger glass substrates with the upsizing of flat-screen televisions in recent years, ULVAC Materials, Inc. has been proactively promoting the upsizing of processing facilities, as well as environmental contribution services such as recovery and recycling of precious metals and other resources.

Corporate Governance

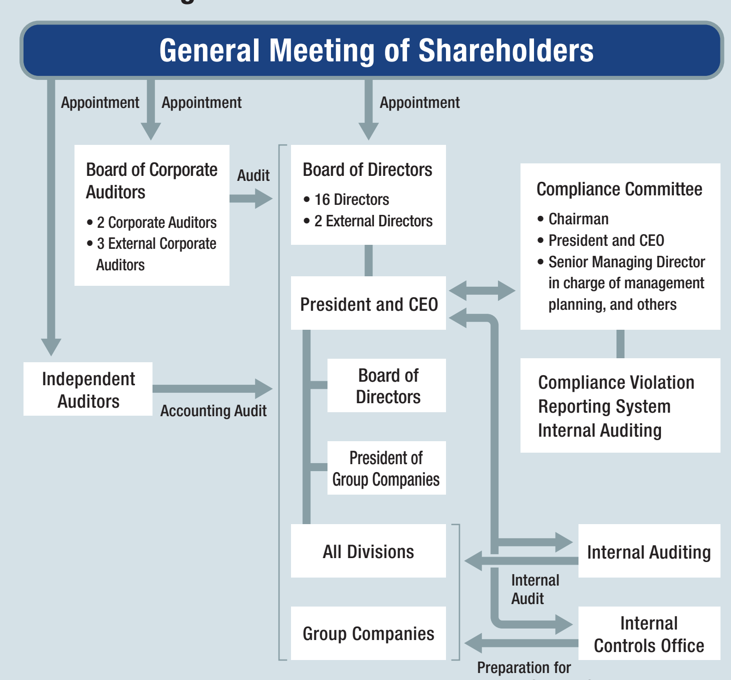
ULVAC assigns the highest priority to strengthening corporate governance. We view it as our most important management task in our efforts to fulfill our responsibilities to shareholders and to society. We are striving to improve corporate values further by ensuring observation of corporate ethics and compliance while practicing competitive management.

Two directors on our 18-member Board of Directors, which serves as our key management control system, are external directors. To provide an efficient and neutral auditing function, ULVAC has five auditors in the Board of Auditors, including three external auditors. We have no plan to introduce an operating officer system or shift to a company with committees because we believe that the integration of decision-making and execution functions will facilitate timely and accurate management decision-making.

In February 2004, ULVAC established a “Risk Management Policy” to ensure observation of corporate ethics and compliance, and promote a fair and highly transparent corporate management. In March 2005, we expanded the scope of these regulations to the entire ULVAC Group. Based on this policy, the Company has established an internal compliance advisory board and board members investigate violations of compliance obligations and responsibilities that occur within the ULVAC Group under an “Internal Reporting System.” We prevent this system from becoming a dead letter by having all concerned parties conduct investigations while undertaking strict confidentiality obligations and guaranteeing that informers will not be treated unfavorably. In addition, we have established a Corporate Code of Conduct as an instruction manual to convey the essence of corporate governance plainly to employees and provide training based on this.

In November 2005, we established a series of regulations to ensure information management including ULVAC Group’s Information Management Policy to exercise the control over the entire group and an Information Security Management Policy to oversee the Company. By complying with these regulations, we can now avoid the risk of losing the trust of our customers and business partners or social confidence.

ULVAC Management Structure



Board of Directors and Corporate Auditors

Dr. Kyuzo Nakamura
Chairman

Hidenori Suwa
President & CEO

Dr. Hiroyuki Yamakawa
Senior Managing Director
Research & Development Planning Dep.
Chief Technology Officer

Yuzo Sakurada
Senior Managing Director
Semiconductor Equipment Group

Yoshihiro Tsunemi
Senior Managing Director
Management Planning Dep., Chief of Investor Relations

Yoshio Sunaga
Senior Managing Director
Flat Panel Display Equipment Group

Takashi Fukuda
Managing Director
Chief Financial Officer

Junki Fujiyama
Director
Semiconductor Equipment Div.2

Takeo Kato
Director
Industrial Equipment Div.

Yoshifumi Sato
Director
Personnel Department

Mitsuru Motoyoshi
Director
Accounting Department

Dr. Narishi Gonohe
Director
Semiconductor Equipment Div.1

Masasuke Matsudai
Director
Flat Panel Display Equipment Div.1

Hideyuki Odagi
Director
Electronics Equipment Div.

Hiroyuki Hirano
Director
Procurement Center

Masatoshi Yamamoto
Director
Corporate Sales Div.

Kiyoshi Ujihara
Director
Nippon Life Insurance Company

Yoshinobu Nakano
Director
INABATA & CO., LTD.

Hiroshi Kikujo
Corporate Auditor

Kazuya Kawashima
Corporate Auditor

Tsuneo Sato
Corporate Auditor

Masato Nagasawa
Corporate Auditor

Minoru Hara
Corporate Auditor

Financial Section

ULVAC, Inc. and its consolidated subsidiaries

6-year summary

	Millions of yen						Thousands of U.S. dollars*
For the years ended June 30	2001	2002	2003	2004	2005	**2006**	**2006**
For the year							
Net sales	¥ 147,431	¥ 126,129	¥ 127,472	¥ 157,851	¥ 196,843	**¥ 212,454**	**$ 1,847,426**
Gross profit	27,754	20,457	24,108	29,996	40,689	**41,577**	**361,539**
Operating profit	9,173	2,276	4,736	8,476	15,306	**14,796**	**128,661**
Net income	5,088	668	1,729	3,953	7,146	**8,102**	**70,452**
At year-end							
Total assets	¥ 181,373	¥ 160,276	¥ 173,949	¥ 200,645	¥ 224,278	**¥ 269,401**	**$ 2,342,617**
Total net assets**	39,975	40,101	41,951	58,145	77,600	**87,627**	**761,974**
Per Share (in yen and U.S. dollars)							
Net income	¥ 156.90	¥ 20.62	¥ 48.10	¥ 108.91	¥ 168.65	**¥ 188.87**	**$ 1.64**
Cash dividends	10.00	7.00	7.00	20.00	30.00	**37.00**	**0.32**
Ratios (%)							
Shareholders' equity ratio	22.0	25.0	24.1	29.0	32.9	**30.7**	
ROE	13.4	1.6	4.2	7.9	10.8	**10.3**	
ROA	2.8	0.4	1.0	2.0	3.4	**3.0**	
Number of employees	3,614	3,658	3,648	3,712	4,048	**5,150**	

*The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥115 to US$1, the approximate exchange rate as of June 30, 2006.

**The Company applied "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and "Guideline on Accounting Standard for Presentation of Net Assets in the Balance Sheet" from the year ended June 30, 2006. Figures of the net assets in the balance sheets for the year ended June 30, 2005 are partially reclassified, and do not partially conform with the annual report for the year ended June 30, 2005.

Contents

Business Results

Looking at the world economy in the term under review, the rate of personal consumption slowed in the U.S. because of soaring crude oil prices and rising interest rates as well as a weakening housing market, while corporate capital investment remained steady. In the Asian region, Korea, Taiwan and China continued to enjoy steady economic growth in overall with capital investment remaining active but their export industries were affected by exchange fluctuations. In Japan, consumer spending and capital investment recovered and exports mainly to Asia continued to increase, as a result corporate earnings remained steady and economic expansion kept on track.

In this setting, capital investment at ULVAC Group's main customers in flat panel display (FPD), electronic device and semiconductor-related industries were robust primarily in Korea, Taiwan and China in product areas related to digital home appliances such as wide-screen TVs (liquid crystal display TV, plasma display TV), mobile phones and portable music players. In the energy and environment-related industries, companies have begun capital investment in environmentally-sensitive products such as hybrid cars and solar cells.

To prevail in this operating environment, the ULVAC Group has been launching unique products to the market ahead of its competitors while aggressively pursuing sales expansion by promoting ULVAC Solutions. In addition, we have proactively expanded business by investing in the growth region of China, Korea and Taiwan. Moreover, amid sustained customer requests for price cuts, ULVAC has pushed ahead with the second phase of innovation of production aimed at paring manufacturing costs, and proceeded with fixed-cost reductions by consistently trimming operating expenses. In the first half of the term under review, we were unable to ensure sufficient profit of factors such as additional costs for launching six-generation and higher LCD production equipment for Taiwan and Korea, that requires considerable R&D expenses. In the second half of the term, however, we were able to retain profit by improvement of production efficiency and cost reduction.

Consequently, for the consolidated performance during the term under review, new orders increased by ¥29,732 million to ¥235,962 million (up 14.4% year-on-year) and sales rose by ¥15,611 million to ¥212,454 million (up 7.9% year-on-year) from the previous fiscal year. Net income was up ¥956 million to ¥8,102 million (up 13.4% year-on-year).

Vacuum-related Business

Results of vacuum-related business by market segment are as follows:

(1) Display and electronic device production equipment
In display and electronic device production equipment business, sales were strong in "SMD Series" multi-chamber PVD equipment, "SDP Series" TFT LCD in-line PVD equipment, and "ECH Series" in-line PDP evaporator equipment for deposition of MgO films, reflecting proactive capital investment in Asia, including Japan, Korea, Taiwan and China for fifth through eighth generation LCD and plasma display TV. Orders and outstanding orders increased significantly thanks to a strong capital investment related to wide-screen TVs (liquid crystal TV and plasma TV). The electronic device production equipment saw robust orders and sales for the "SRH Series" PVD equipment for high-density mounting boards and power ICs.

(2) Semiconductor production equipment
Semiconductor production equipment posted healthy orders and sales of the "CERAUS™ Series" PVD equipment for eight-inch wafers, the "ENTRON™-EX Series" PVD equipment for 300 mm wafers with improved productivity, and the "RISE™ Series" batch-type native oxide removal equipment. This segment benefited from strong capital investment, not only in digital home appliances such as flash memory used in portable music players, mobile phones, and digital cameras, but also in automotive applications such as power ICs for hybrid cars and home appliances, as well as LEDs and other compound semiconductor products.

(3) Components
The components business fared well thanks to robust orders of large dry pumps and turbo-molecular pumps, used mainly in FPD production equipment for liquid crystal displays. In addition, orders for vacuum pumps for applications in automotive components and electronic device industries, vacuum gauges and helium leak detectors remained strong. Orders of gas analyzers for process management in FPD and semiconductor industries were robust as well.

(4) Others
Orders of automotive-related products such as "EW Series" Vacuum Evaporation Roll Coater for hybrid car capacitors, "FH Series" Vacuum Heat Treatment Furnaces and "FMI Series" Vacuum Melting Furnaces among general industrial applications were strong.

As a result, the vacuum-related business saw new orders of ¥204,496 million, outstanding orders of ¥113,678 million, and sales of ¥181,155 million, reflecting proactive capital investment for semiconductor-related products such as liquid crystal displays and flash memories. In the meantime, operating profit reached ¥11,882 million.

Other Business

In the other businesses segment, the ULVAC Group as a whole worked proactively to increase sales by using ULVAC Solutions offerings to its best advantage, resulting in robust orders and sales in ULVAC's materials business such as PVD target materials for liquid crystal displays and parts cleaning for maintenance parts in countries such as Korea, Taiwan and Japan. In addition, we saw robust orders and sales of control systems for automotive-related industries primarily in China and Korea.

Consequently, new orders for other business reached ¥31,466 million, while outstanding orders recorded ¥5,553 million. This was because orders in materials business such as PVD target materials increased as a result of customers' increased capacity utilization in the liquid crystal display industry. In the meantime, sales were ¥31,299 million and operating profit reached ¥2,829 million thanks to the contribution from materials related business. All the aforementioned figures are net of consumption taxes.

Financial Conditions

Assets

Assets increased ¥45,123 million compared with the end of the previous fiscal year. This was mainly due to an increase of ¥14,826 million in notes and accounts receivable owing to higher sales, and an increase of ¥22,285 million in inventories owing to higher order receipts. Tangible and intangible fixed assets rose ¥8,032 million as a result of capital investment to enhance production capacity for business expansion. Investment and other assets increased ¥5,590 million due mainly to investment in non-consolidated subsidiaries in China, Taiwan and other countries.

Liabilities

Liabilities increased ¥35,096 million compared with the end of the previous fiscal year. This was mainly due to an increase of ¥13,080 million in notes and accounts payable and ¥13,843 million in advances received because of higher order receipts. Borrowings and issued debt such as bonds and commercial paper increased ¥5,756 million.

Net Assets

Net assets increased ¥13,773 million compared with the end of the previous fiscal year. This was due to an increase in retained earnings and inclusion of minority interests of ¥4,870 million as net asset of the ULVAC Group by adoption of "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Standard No. 5; issued on December 9, 2005)" and "Guideline on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8; issued on December 9, 2005) from the beginning of the term under review. Consequently, ULVAC's equity ratio decreased to 30.7% from 32.9% at the end of the previous fiscal year as a result of increased debt.

Cash Flows from Operating Activities

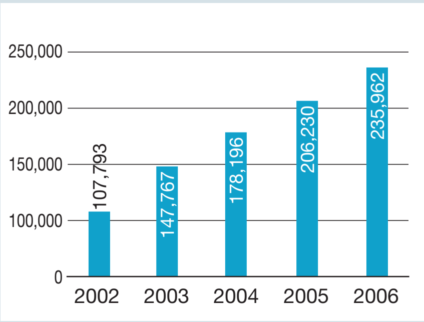
Net cash provided by operating activities totaled ¥8,626 million, which was ¥10,224 million less than a year earlier.

This was mainly because of an increase of ¥2,480 million in income before income taxes of ¥14,747 million in comparison with the previous fiscal year and depreciation expenses amounted to ¥7,485 million. In the meantime, notes and accounts receivable were up ¥13,666 million and inventories increased ¥20,678 million, while notes and accounts payable and advances received rose ¥11,941 million and ¥12,968 million, respectively.

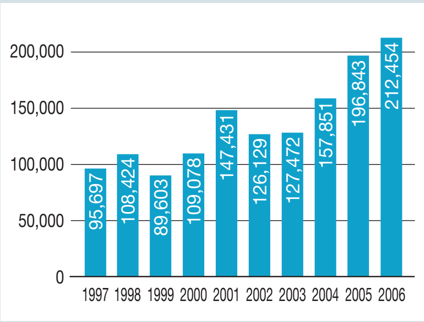
Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥21,334 million, which was ¥3,038 million higher than a year earlier. This was mainly attributable to the establishment and financial strengthening of locally incorporated subsidiaries in China and Taiwan, and investments in facility upgrades related to domestic business expansion.

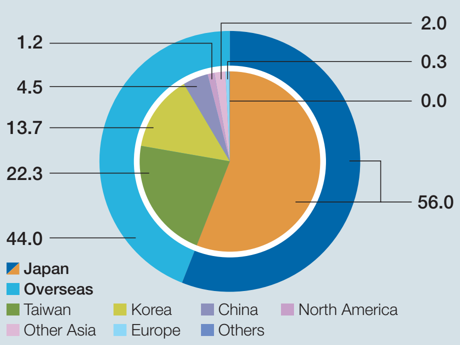
Orders received (Millions of yen)



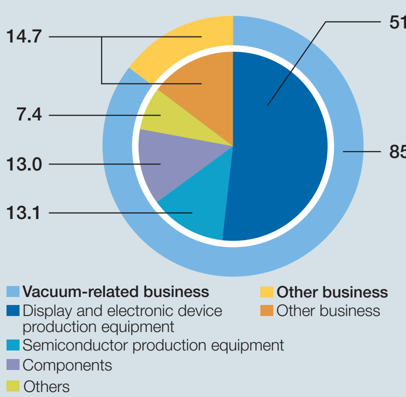
Net sales (Millions of yen)



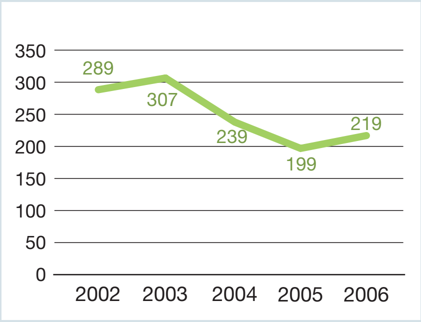
Net sales percentage by region in 2006 (%)



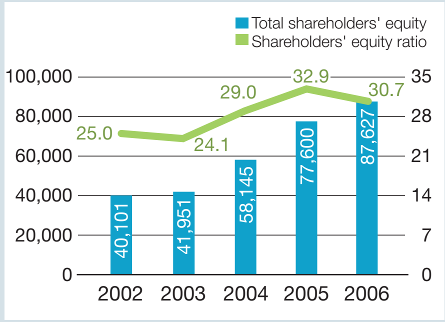
Net sales percentage by segment in 2006 (%)



Debt to equity ratio (%)



Total net assets
Shareholders' equity ratio (Millions of yen/%)



Management's Discussion and Analysis

Cash Flows from Financing Activities
Net cash provided by financing activities totaled ¥4,414 million. This was mainly a result of a net increase in the issuance of commercial paper of ¥10 billion as funding, a net decrease in short-term borrowings and long-term debt of ¥1,793 million and redemption of corporate bonds of ¥2.5 billion.

As a result, consolidated net cash and cash equivalent at the end of the fiscal year decreased ¥6,351 million from the previous fiscal year to ¥10,515 million.

(Outlook for the Next Fiscal Year)
Cash Flows from Operating Activities
ULVAC expects an increase in cash from operating activities because of an increase in income before income taxes and enhancement of collection of notes and accounts receivable.

Cash Flows from Investing Activities
Prospects are for an increase in cash used in investing activities because of sustained proactive capital and product development investments toward future growth and overseas business expansion.

Cash Flows from Financing Activities
The outlook is for an increase in fund-raising ULVAC proposes to pay dividends per share of ¥37.00 out of net income for the period.

Outlook for the Next Fiscal Year

Capital investment relating to digital home appliances, for the most part, remains strong although some customers who manufacture LCDs have announced postponements of their investment plans in FPD, electronic device and semiconductor industries, where our principal customers are situated. Specifically, capital investment plans for increasing the glass substrate sizes for wide-screen TVs (TV and plasma TV) in Japan, Korea and Taiwan, as well as plans for investment in flash memory for portable music players and mobile phones in Japan, U.S. and Korea are expected.

In this market environment, ULVAC Group's entire actions are aimed at the basic principle to increase customer satisfaction, surrounded by efforts to develop original products, increase orders receipt, and gain market share, while further promoting cost reduction strategy by pressing ahead with innovation of production.

In particular, prospects are for an increase primarily in orders of LCD for Taiwan and Korea as well as continuous production bottlenecks with the increasing number of orders. Therefore we will promote further innovation of production by implementing both offensive and defensive measures appropriately for rising production efficiency and improvement of the quality of finished goods to enhance our earning power.

In addition to existing devices such as FPD and semiconductor production equipment, ULVAC will develop competitive products in post-FPD fields such as compound semiconductors, MEMS, power ICs, high density mounting boards and optical thin film production equipment, etc.

The ULVAC Group places its strategic emphasis on the above activities, with vacuum applications as its core technology, as an industrial group providing comprehensive solutions in equipment, materials, and services. ULVAC will work on further business expansion, and in fiscal 2007 it expects to reach, on a consolidated basis, net sales of ¥251 billion, operating profit of ¥20.0 billion and net income of ¥10.1 billion. These estimates include one newly consolidated subsidiary.

Basic policy on profit distribution

We place the dividend payout ratio to our shareholders as major indicator, making profit distribution one of our paramount management policies. It is our policy to keep a dividend payout ratio of about 20% of the consolidated net income, adopting the idea of a dividend that interacts with our performance while considering the reinforcement of consolidated performance and financial conditions comprehensively. Regarding internal reserves, we are stepping up our efforts to improve our corporate value by appropriating capital to develop next-generation technologies and to enhance our future business.

Risk Management

Our Group identifies the following factors as potential risks that could influence our earnings and financial position.

(1) Fluctuations in the display and semiconductor markets
The ULVAC Group develops vacuum devices used in the manufacture of FPDs and semiconductors; our unique technologies have allowed us to capture market share and expand our sales. Given the fact that sales of these products account for over 60% of our consolidated net sales, any large reduction in capital investments by the FPD and/or semiconductor manufacturers in response to demand and supply conditions could negatively affect our business results and financial position.

(2) Influence of research and development
Based on sustained proactive investment in research and development activities, the ULVAC Group has consistently been coming to market with new products using leading-edge technologies. However, failure to achieve the results hoped for from the commercialization of new technologies, or shifts in the timing of market introduction, could negatively affect our business results and financial position.

(3) Influence of pricing competition
As ULVAC Group's principal customer, the FPD industry has been making steady capital investment in step with the expansion in digital home appliances. However, there is constant pressure from consumer side to lower prices. In years to come, market entry by existing competitors and intensifying competition from sales of rival makers coming to the fore in Korea and China, as well as higher production costs in consequence of surging prices for materials and goods purchased, could negatively affect our business results and financial position.

(4) Influence of increased overseas sales
The ULVAC Group has an overseas sales ratio in excess of 40%, with Korea, Taiwan and China and other economies in the Asia region accounting for the majority. In order to avoid currency risks, transactions of the ULVAC Group are as a rule denominated in yen. However, in the context of sales to Asian region at times of yen appreciation ULVAC is placed disadvantage in its strength in price competition relative to overseas makers. Moreover, since ULVAC does have foreign-denominated exports, price fluctuations due to sudden shifts in foreign exchange rates engender currency risks. The aforementioned factors could negatively affect our business results and financial position.

(5) Influence of global business development
In order to secure market share in China as a prospective future growth market, the ULVAC Group has proactively been making market inroads and is pursuing business initiatives through 10 locally incorporated subsidiaries. Although arrangements have been put into place at locally incorporated subsidiaries for gauging business conditions and taking corrective action when needed, risks such as unforeseeable changes in legal and tax systems, shifts to a floating exchange rate system, political instability, or shortage of adequate labor in labor markets could negatively affect our business results and financial position.

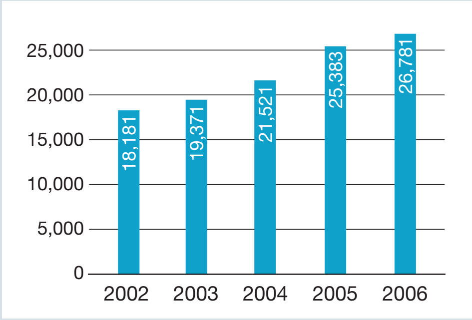
(6) Influence of quality-assurance efforts
The ULVAC Group has installed quality assurance systems including ISO9001 certification and has been providing services with a high level of customer satisfaction. However, in order to provide products of leading-edge technologies, there are numerous developmental elements involved in these circumstances that poses the risk of having to collect and repair products free of charge in the event of any unforeseeable defect, which could negatively affect our business results and financial position.

(7) Influence of intellectual property rights
The ULVAC Group owns numerous patents related to various types of vacuum equipment, and proactively aims at acquiring intellectual property rights. Moreover, ULVAC also engages in examining patents concerning such products. However, unforeseeable litigation brought by a third party for breach of patent rights poses risks that could negatively affect our business results and financial position.

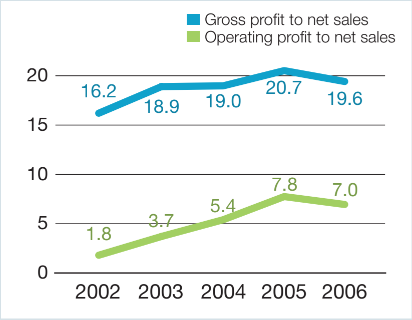
(8) Adoption of impairment accounting
The adoption of fixed-asset impairment accounting could negatively affect our business results and financial position.

(9) Other risks
As applies to companies in the same and other industries, ULVAC Group's business results and financial position could be negatively affected by conditions in global and local markets, or instances of force majeure such as natural disasters, acts of war or terrorism, or epidemics.

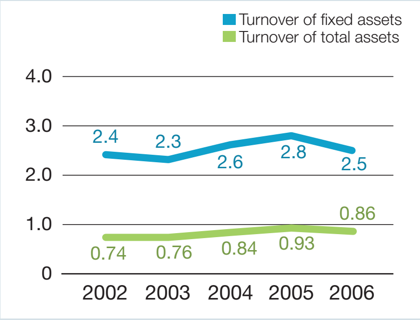
SG&A (Millions of yen)



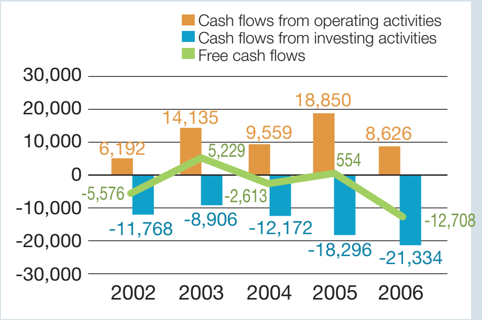
Gross profit to net sales
Operating profit to net sales (%)



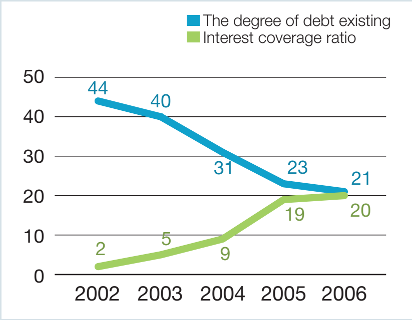
Turnover of total assets (Times)
Turnover of fixed assets (Times)



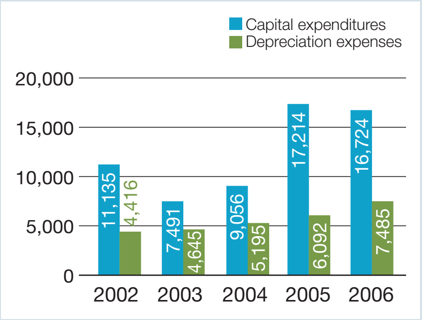
Cash flows (Millions of yen)



The degree of debt existing
Interest coverage ratio (%/Times)



Capital expenditures
Depreciation expenses (Millions of yen)



Consolidated Balance Sheets

ULVAC, Inc. AND ITS CONSOLIDATED SUBSIDIARIES AS OF JUNE 30, 2005 AND 2006

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Current assets:			
Cash on hand and in banks	¥ 17,537	**¥ 10,986**	**$ 95,530**
Notes and accounts receivable, trade	68,603	**83,430**	**725,478**
Inventories	52,455	**74,741**	**649,922**
Deferred income taxes	4,467	**4,164**	**36,209**
Other current assets	4,359	**5,644**	**49,078**
Allowance for doubtful accounts	(185)	**(227)**	**(1,974)**
Total current assets	147,236	**178,738**	**1,554,243**
Property, plant and equipment:			
At cost -			
Land	7,506	**9,115**	**79,261**
Buildings and leasehold improvements	40,777	**43,960**	**382,261**
Machinery and equipment	39,531	**42,208**	**367,026**
Furniture and fixtures	9,947	**10,933**	**95,070**
Construction in progress	2,417	**4,969**	**43,209**
Accumulated depreciation	(46,307)	**(50,378)**	**(438,070)**
Total property, plant and equipment, net	53,871	**60,807**	**528,757**
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	9,832	**13,380**	**116,348**
Goodwill	1,384	**2,197**	**19,104**
Other intangible aseets, net	3,057	**3,339**	**29,035**
Leasehold and guarantee deposits	1,266	**1,336**	**11,617**
Deferred income taxes	3,522	**3,678**	**31,983**
Other assets	4,302	**6,017**	**52,321**
Allowance for doubtful accounts	(192)	**(91)**	**(791)**
Total investments and other assets	23,171	**29,856**	**259,617**
Total assets	¥224,278	**¥269,401**	**$2,342,617**

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

LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade	¥55,330	**¥ 68,410**	**$ 594,870**
Short-term borrowings	21,123	**14,366**	**124,922**
Current portion of long-term debt	13,404	**10,542**	**91,670**
Commercial paper	—	**10,000**	**86,957**
Accrued taxes on income	4,737	**5,002**	**43,496**
Advances received	6,941	**20,785**	**180,738**
Accrued bonuses to employees	1,283	**1,484**	**12,904**
Accrued bonuses to directors and corporate auditors	—	**294**	**2,557**
Accrued warranty costs	2,309	**2,769**	**24,078**
Other current liabilities	13,362	**12,812**	**111,408**
Total current liabilities	118,489	**146,464**	**1,273,600**
Long-term liabilities -			
Long-term debt	17,975	**23,349**	**203,035**
Accrued pension and severance costs	9,930	**11,373**	**98,896**
Other long-term liabilities	284	**588**	**5,112**
Total long-term liabilities	28,189	**35,310**	**307,043**
Total liabilities	146,678	**181,774**	**1,580,643**
Net assets:			
Common stock:			
Authorized: 2005 and 2006 - 80,000 thousand shares			
Issued: 2005 and 2006 - 42,906 thousand shares	13,468	**13,468**	**117,113**
Capital surplus	14,695	**14,695**	**127,783**
Retained earnings	44,991	**51,929**	**451,557**
Treasury stock, at cost	(3)	**(6)**	**(52)**
Unrealized gain on securities, net of taxes	630	**1,537**	**13,365**
Foreign currency translation adjustments	73	**1,134**	**9,860**
Minority interests	3,746	**4,870**	**42,348**
Total net assets	77,600	**87,627**	**761,974**
Contingent liabilities			
Total liabilities and net assets	¥224,278	**¥269,401**	**$2,342,617**

Consolidated Statements of Income

ULVAC, Inc. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Net sales	¥196,843	**¥212,454**	**$1,847,426**
Cost of sales	156,154	**170,877**	**1,485,887**
Gross profit	40,689	**41,577**	**361,539**
Selling, general and administrative expenses	25,383	**26,781**	**232,878**
Operating profit	15,306	**14,796**	**128,661**
Other income:			
Interest and dividend income	265	**244**	**2,122**
Commission and rental income	378	**375**	**3,261**
Foreign exchange gain, net	—	**152**	**1,322**
Equity in earnings of unconsolidated subsidiaries and affiliates	102	**311**	**2,704**
Gain on sale of investment securities	—	**517**	**4,496**
Insurance income	163	**41**	**357**
Reversal of allowance for doubtful accounts	44	**117**	**1,017**
Income on prefectural government's grants	147	**91**	**791**
Other	554	**700**	**6,087**
Total other income	1,653	**2,548**	**22,157**
Other expenses:			
Interest	818	**717**	**6,235**
Loss on disposal or devaluation of inventories	2,772	**574**	**4,991**
Costs and expenses for rental activities	159	**197**	**1,713**
Loss on disposal of property, plant and equipment	272	**243**	**2,113**
Devaluation loss on investment securities	—	**588**	**5,113**
Devaluation loss on investment in an affiliate company	74	**—**	**—**
Other	596	**278**	**2,418**
Total other expenses	4,691	**2,597**	**22,583**
Income before income taxes and minority interests in net income of consolidated subsidiaries	12,268	**14,747**	**128,235**
Income taxes:			
Current	6,257	**5,930**	**51,565**
Deferred	(1,877)	**164**	**1,426**
	4,380	**6,094**	**52,991**
Minority interests in net income of consolidated subsidiaries	742	**551**	**4,792**
Net income	¥ 7,146	**¥ 8,102**	**$ 70,452**
	Yen		U.S. dollars
Per share:			
Net income	¥ 168.65	**¥ 188.87**	**$ 1.64**
Cash dividends	¥ 30.00	**¥ 37.00**	**$ 0.32**

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

Consolidated Statements of Changes in Net Assets

ULVAC, Inc. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

	Thousands	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gain on securities, net of tax	Foreign currency translation adjustments	Minority interests	Total net assets
Balance, June 30, 2004	38,428	¥8,950	¥10,181	¥38,880	(¥1)	¥ 666	(¥531)	¥3,267	¥61,412
Public offering	4,000	4,036	4,033	—	—	—	—	—	8,069
Allotment to the third party	478	482	481	—	—	—	—	—	963
Cash dividends-¥20.00 per share	—	—	—	(769)	—	—	—	—	(769)
Bonuses to directors and corporate auditors	—	—	—	(266)	—	—	—	—	(266)
Net income	—	—	—	7,146	—	—	—	—	7,146
Purchase of treasury stock	—	—	—	—	(2)	—	—	—	(2)
Net change in items other than shareholders' equity	—	—	—	—	—	(36)	604	479	1,047
Balance, June 30, 2005	42,906	¥13,468	¥14,695	¥44,991	(¥3)	¥ 630	¥73	¥3,746	¥77,600
Cash dividends-¥30.00 per share	—	—	—	(1,287)	—	—	—	—	(1,287)
Bonuses to directors and corporate auditors	—	—	—	(285)	—	—	—	—	(285)
Net income	—	—	—	8,102	—	—	—	—	8,102
Purchase of treasury stock	—	—	—	—	(3)	—	—	—	(3)
Net change in items other than shareholders' equity	—	—	—	—	—	907	1,061	1,124	3,092
Change in scope of consolidation	—	—	—	414	—	—	—	—	414
Other decrease in shareholders' equity	—	—	—	(6)	—	—	—	—	(6)
Balance, June 30, 2006	42,906	¥13,468	¥14,695	¥51,929	(¥6)	¥1,537	¥1,134	¥4,870	¥87,627
		Thousands of U.S. dollars							
Balance, June 30, 2005	42,906	$117,113	$127,783	$391,226	($26)	$5,478	$ 635	$32,574	$674,783
Cash dividends-$0.26 per share	—	—	—	(11,191)	—	—	—	—	(11,191)
Bonuses to directors and corporate auditors	—	—	—	(2,478)	—	—	—	—	(2,478)
Net income	—	—	—	70,452	—	—	—	—	70,452
Purchase of treasury stock	—	—	—	—	(26)	—	—	—	(26)
Net change in items other than shareholders' equity	—	—	—	—	—	7,887	9,225	9,774	26,886
Change in scope of consolidation	—	—	—	3,600	—	—	—	—	3,600
Other decrease in shareholder's equity	—	—	—	(52)	—	—	—	—	(52)
Balance, June 30, 2006	42,906	$117,113	$127,783	$451,557	($52)	$13,365	$9,860	$42,348	$761,974

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

Consolidated Statements of Cash Flows

ULVAC, Inc. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

	Millions of yen		Thousands of U.S. dollars
	2005	**2006**	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥12,268	**¥14,747**	**$128,235**
Adjustments for:			
Depreciation and amortization	6,092	**7,485**	**65,087**
Increase (decrease) in allowance for doubtful accounts	59	**(65)**	**(565)**
Increase in accrued pension and severance costs	1,148	**1,426**	**12,400**
Increase (decrease) in accrued warranty costs	(12)	**454**	**3,948**
Loss on disposal of property, plant and equipment	370	**307**	**2,670**
Loss on devaluation of investment securities	—	**588**	**5,113**
Loss on devaluation of investment in an affiliate company	74	**—**	**—**
Gain on sale of investment securities	—	**(517)**	**(4,496)**
Interest and dividend income	(264)	**(245)**	**(2,130)**
Interest expense	818	**717**	**6,235**
Income on prefectural government's grants	(147)	**(91)**	**(791)**
Equity in earnings of unconsolidated subsidiaries and affiliates	(102)	**(311)**	**(2,704)**
Increase in accounts receivable	(1,900)	**(13,666)**	**(118,835)**
Increase in inventories	(4,440)	**(20,678)**	**(179,809)**
Increase in accounts payable, trade	4,737	**11,941**	**103,835**
Increase in advances received	2,718	**12,968**	**112,765**
Increase (decrease) in consumption taxes payable	396	**(393)**	**(3,418)**
Other	1,949	**27**	**234**
Sub total	23,764	**14,694**	**127,774**
Income taxes paid	(4,402)	**(5,745)**	**(49,957)**
Interest and dividend income, received	309	**369**	**3,209**
Interest paid	(821)	**(692)**	**(6,017)**
Net cash provided by operating activities	18,850	**8,626**	**75,009**
Cash flows from investing activities:			
Increase in time deposits	(80)	**(39)**	**(339)**
Decrease in time deposits	684	**241**	**2,096**
Proceeds from sales of investment securities	4	**824**	**7,165**
Payments for acquisition of investment securities	(3,420)	**(6,821)**	**(59,313)**
Payment for acquisition of subsidiaries	(77)	**(1,152)**	**(10,017)**
Payments for loan receivables	(82)	**(275)**	**(2,391)**
Proceeds from collection of loan receivables	130	**160**	**1,391**
Payments for acquisition of property, plant and equipment	(16,469)	**(16,717)**	**(145,365)**
Proceeds from sales of property, plant and equipment	909	**2,891**	**25,139**
Proceeds from prefectural government's grants	147	**91**	**791**
Payment for long-term prepaid expenses	(29)	**(445)**	**(3,870)**
Other	(13)	**(92)**	**(800)**
Net cash used in investing activities	(18,296)	**(21,334)**	**(185,513)**
Cash flows from financing activities:			
Net changes in short-term borrowings	(2,422)	**(6,805)**	**(59,174)**
Net increase in commercial paper	—	**10,000**	**86,957**
Borrowing of long-term debt	5,520	**18,359**	**159,643**
Repayment of long-term debt	(11,321)	**(13,347)**	**(116,061)**
Payments for redemption of bonds	(500)	**(2,500)**	**(21,739)**
Proceeds from issuance of new shares	9,032	**—**	**—**
Dividends paid by the parent company	(769)	**(1,287)**	**(11,191)**
Dividends paid by consolidated subsidiaries to minority shareholders	(84)	**(170)**	**(1,478)**
Payments for purchase of treasury stocks	(5)	**(43)**	**(374)**
Proceeds from investment by minority shareholders	—	**207**	**1,800**
Net cash provided by (used in) financing activities	(549)	**4,414**	**38,383**
Effect of exchange rate changes on cash and cash equivalents	226	**235**	**2,043**
Net change in cash and cash equivalents	231	**(8,059)**	**(70,078)**
Cash and cash equivalents:			
At beginning of year	16,635	**16,866**	**146,661**
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	—	**1,708**	**14,852**
At end of year	¥16,866	**¥10,515**	**$91,435**

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

Notes to Consolidated Financial Statements

ULVAC, Inc. AND ITS CONSOLIDATED SUBSIDIARIES FOR THE YEARS ENDED JUNE 30, 2005 AND 2006

1. Basis of preparation of consolidated financial statements:

The accompanying consolidated financial statements of ULVAC, Inc. and its consolidated subsidiaries (herein after collectively referred as the "Company") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. Certain items presented in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

2. Significant accounting policies:

(1) Principles of consolidation -

The consolidated financial statements include the accounts of ULVAC, Inc. and all significant subsidiaries where the Company has the ability to exercise influence over the operating and financial policies. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. Certain consolidated subsidiaries are consolidated on the basis of their fiscal years ended March 31, and material differences in intercompany transactions and accounts arising from the use of the different fiscal year-ends are appropriately adjusted on consolidation. The difference between the cost and the underlying net equity of investments in consolidated subsidiaries measured at fair value at the time of acquisition is recognized as goodwill.

Investments of 50% or less in companies over which the Company does not have control but has the ability to exercise significant influence, and investments in unconsolidated subsidiaries are generally accounted for by the equity method. Where the accounts of subsidiaries and affiliates are not significant in relation to the consolidation, investments therein are carried at cost. The excess of cost over the underlying net equity of investments in unconsolidated subsidiaries and affiliates accounted for on an equity basis is deferred and amortized over a five-year period. Consolidated net income includes the Company's equity in current earnings after elimination of unrealized intercompany profits.

On occasion, a subsidiary of an affiliated company accounted for by the equity method may issue its shares to third parties at amounts per share in excess of or less than the Company's average per share carrying value. In such a case, the resulting gain or loss arising from the change in interest is recorded in income in the year in which the change in interest transaction occurs.

(2) Translation of foreign currency transactions and accounts -

Foreign currency transactions are translated using the foreign exchange rates prevailing at the transaction dates. Receivables and payables denominated in foreign currencies are translated at the year-end using current exchange rates.

All assets, liabilities, income and expenses accounts of foreign subsidiaries and affiliates are translated using the current exchange rates at the respective balance sheet dates. Foreign currency financial statement translation differences are recorded in the consolidated balance sheet as a separate component of "Net assets."

(3) Cash and cash equivalents -

For the purpose of reporting cash flows, "Cash and cash equivalents" includes all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash, and are so near maturity that they present only an insignificant risk of changes in value because of changes in interest rates.

(4) Valuation of securities -

Securities held by the Company have been classified into various categories depending on the purposes for which they are held and are being accounted for as follows:

'Held-to-maturity debt securities' are carried at amortized cost. Any premium or discount arising on acquisition is amortized and recognized as an adjustment to interest.

Investment securities expected to be held in the long-term are classified as 'Other securities.' 'Other securities' whose fair values are readily determinable are carried at fair value with unrealized gains and losses being recorded in "Net assets," net of applicable income taxes. 'Other securities' without fair values are carried at moving average cost.

(5) Allowance for doubtful accounts -

An allowance for doubtful accounts is provided for estimated uncollectible doubtful accounts at an amount specifically assessed plus an amount computed based on historical loss experience.

(6) Inventories -

"Inventories" are generally stated at cost, cost being determined by the individual identification method.

(7) Property, plant and equipment -

"Property, plant and equipment", including significant renewals and additions, is capitalized at cost. Maintenance and repairs and minor renewals and improvements are charged to income. Depreciation of "Property, plant and equipment" is principally computed on the declining-balance method at rates based on the estimated useful lives of the respective assets. For property, plant and equipment held for research and development purposes and for rental business purposes, depreciation is computed using the straight-line method. For buildings acquired on or after April 1, 1998 depreciation is computed using the straight-line method in conformity with the 1998 amendments to the Corporation Tax Law in Japan.

(8) Intangible assets -

"Goodwill" is amortized on a systematic basis over its useful life or, where the useful life is not estimatable, amortized over a five-year period, or where the amount of goodwill is not significant to the consolidated financial statements, is charged to income in the year of acquisition. "Other intangible assets, net", which primarily comprises the costs of software for internal use, is amortized using the straight-line method over the estimated useful life of the software (five years).

(9) Warranties -

The Company currently provides for the estimated costs that may be incurred under its warranty and other post-sales support programs.

(10) Research and development costs -

Research and development costs are basically charged to income as incurred.

(11) Income taxes -

The provision for income taxes is based on the pretax income included in the consolidated statements of income and is computed using the asset and liability approach. Under this approach, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting basis and tax basis of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that the tax benefits will not be realized.

(Effect of change in income tax legislation)

From the year ended June 30, 2005, the enterprise tax components attributable to added value and capital, which was newly introduced under the new Act for Partial Revision of Local tax Law passed on March 31, 2003, were reported in selling, general and administrative expenses. As a result, selling, general and administrative expenses for the year ended June 30, 2005 increased by ¥233 million and operating profit and income before income taxes and minority interests decreased by the same amount.

(12) Accrued bonuses -

Accrued bonuses to employees are provided for the estimated amounts which the Company is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

On November 29, 2005, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for bonuses to directors and corporate auditors. In the financial statements for fiscal years prior to July 1, 2005 "bonuses to directors and corporate auditors", which are determined through appropriation of retained earnings by resolution of general shareholders' meeting subsequent to fiscal year-end, are reflected in retained earnings of the current year. Under the new accounting standards, "bonuses to directors and corporate auditors" are expensed as incurred. Effective from the year ended June 30, 2006, the Company adopted the new accounting standards. As a result, selling, general and administrative expenses for the year ended June 30, 2006 increased by ¥294 million (US$2,557 thousand) and operating profit and income before income taxes and minority interests decreased by the same amount.

Accrued bonuses to directors and corporate auditors are provided for the estimated amounts which the Company is obligated to pay to directors and corporate auditors subject to the resolution of general shareholders' meeting subsequent to the fiscal year-end.

(13) Accrued pension and severance costs -

ULVAC, Inc. and its domestic consolidated subsidiaries have non-contributory defined benefit funded pension plans and severance indemnity plans covering all employees who meet the eligibility requirements of the Company's retirement regulations.

The Company recognized and computed retirement benefits, including pension costs and the related liabilities, using an actuarial appraisal approach known as the projected unit credit method. Under a defined benefit plan, the net pension cost for a period includes i) the service cost, ii) the interest cost, iii) the expected return on plan assets, iv) amortization of unrecognized prior service costs, v) amortization of unrecognized actuarial differences and vi) amortization of the transition asset or liability at the date of initial application of the new standard. Any difference between the net pension cost and the amount actually funded for the period is reported as unfunded accrued pension costs or prepaid pension costs in the balance sheet. The Company recognized ¥3,425 million as a transition liability at July 1, 2000, the time of initial application of the accounting standard for Employers' Accounting for Pensions, which is being amortized on a straight-line method over a ten-year period. In respect of the policy for the amortization of actuarial differences, the Company amortizes them over a period within the estimated remaining service period of the employees, which is generally ten years.

With respect to directors and corporate auditors' resignations, lump-sum severance indemnities are normally paid subject to shareholders' approval. Severance indemnities for directors and corporate auditors are not covered by the funded pension plan. The balances of "Accrued pension and severance costs" stated in the consolidated balance sheets represent accrued severance indemnities for employees and the estimated amount of severance indemnities for directors and corporate auditors of the Company.

(14) Accounting for leases -

Finance leases, other than those where the ownership of the leased asset transfers to the lessee, are accounted for as operating leases in conformity with the prevailing accounting principles and practices generally accepted in Japan.

(15) Derivative transactions -

Derivative financial instruments, which include foreign currency forward exchange contracts, interest rate swaps contracts and interest rate options contracts, are used as part of the Company's risk management strategy for foreign currency and interest rate risk exposure on its financial assets and liabilities.

Foreign exchange forward contracts:

The Company enters into foreign currency forward exchange contracts to limit its exposure, caused by changes in foreign currency exchange rates, on accounts receivable and payable and cash flows generated from anticipated transactions denominated in foreign currencies. For foreign currency forward exchange contracts which are designated and are effective as hedges of such currency exchange rate risk on existing assets and liabilities are marked to market and included as an offset to foreign exchange gains/losses recorded on the existing assets and liabilities. Such contracts for anticipated transactions, are marked to market and the respective unrealized gains/losses are deferred in the balance sheet, to be released to income when the exchange gains/losses on the hedged items or transactions are recognized.

Interest rate swaps and interest rate options:

The Company enters into interest rate swaps and interest rate options in order to limit the Company's exposure in respect of the underlying debt instruments, resulting from adverse fluctuations in interest rates. The carrying values of interest rate swaps and interest rate options are marked to market.

(16) Accounting for impairment of fixed assets -

Effective from the year ended June 30, 2005, the Company adopted the new accounting standard for impairment of fixed assets which was issued by the Business Accounting Council in Japan on August 9, 2002. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and an impairment loss should be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use. As a result of the adoption of the new accounting standard, no impairment losses on fixed assets have been recognized in the accounts of the Company for the year ended June 30, 2005.

(17) Accounting standards for presentation of net assets -

The Company applied "Accounting Standards for presentation of net assets" (Financial Accounting Standards for presentation of net assets in balance sheet Guideline No. 5 issued on December 9, 2005 by the Accounting Standards Board of Japan), and "Application Guideline for Accounting Standards for presentation of net assets" (Financial Accounting Standards Implementation Guideline No. 8 issued on December 9, 2005) for the year ended June 30, 2006.

The shareholders' equity based on the previous presentation of shareholders' equity in the balance sheet is ¥82,757 million (US$719,626 thousand).

The Company disclosed net assets in the balance sheet using the new presentation as of June 30, 2006.

Furthermore, the Company presented its net assets in the balance sheet using the new presentation as of June 30, 2005.

(18) Net income and cash dividends per share -

The computation of net income per share is based on the weighted average number of shares outstanding during each period. Cash dividends per share shown for each year in the consolidated statements of income represent dividends declared as applicable to the respective period. As there were no convertible bonds and bonds with warrants, diluted net income per share is not disclosed.

(19) Reclassification -

Certain accounts in the consolidated financial statements for the year ended June 30, 2005 have been reclassified to conform to the 2006 presentation.

3. U.S. dollar amounts:

The U.S. dollar amounts are presented in the financial statements solely for the convenience of readers outside Japan. The rate of ¥115= U.S.$1, the approximate rate of exchange on June 30, 2006, has been used for translation. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars.

4. Cash and cash equivalents:

"Cash and cash equivalents" at June 30, 2005 and 2006, are reconciled to "Cash on hand and in banks" per the consolidated financial statements as follows -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash on hand and in banks	¥17,537	¥10,986	$95,530
Time deposits with maturity over three months	(671)	(471)	(4,095)
Cash and cash equivalents	¥16,866	¥10,515	$91,435

5. Marketable securities and investment securities:

Marketable securities and investment securities include equity and debt securities of which the aggregate cost, gross unrealized gains and losses and fair value pertaining to 'other securities' are as follows -

	Millions of yen 2005		
	Cost	Fair value	Unrealized gains/(losses)
Other securities			
Equity securities with unrealized gains	¥ 894	¥2,094	¥1,200
Equity securities with unrealized losses	343	221	(122)
	¥1,237	¥2,315	¥1,078

	Millions of yen 2006		
	Cost	Fair value	Unrealized gains/(losses)
Other securities			
Equity securities with unrealized gains	¥1,383	¥3,388	¥2,006
Equity securities with unrealized losses	119	114	(6)
	¥1,502	¥3,502	¥2,000

	Thousands of U.S. dollars 2006		
	Cost	Fair value	Unrealized gains/(losses)
Other securities			
Equity securities with unrealized gains	$12,026	$29,461	$17,443
Equity securities with unrealized losses	1,035	991	(52)
	$13,061	$30,452	$17,391

Realized gains and losses on the sale of 'other securities' during the year ended June 30, 2005 and 2006 were as follows -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Sales proceeds	¥4	¥824	$7,165
Gains on sale of securities	1	517	4,496
Losses on sale of securities	—	—	—

The carrying amounts of major securities, the fair values of which are not readily determinable, at June 30, 2005 and 2006, were as follows -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Held-to-maturity debt securities	¥ 2	¥ —	$ —
Other securities			
Unquoted stock securities	523	523	4,548
Subsidiaries and affiliates	5,776	9,363	81,417

6. Short-term borrowings and long-term debt:

"Short-term borrowings" at June 30, 2005 and 2006 comprised loans from banks amounting to ¥21,123 million and ¥14,366 (US$ 124,922 thousand), with weighted average interest rates of 1.2% per annum at June 30, 2005 and 2006.

"Long-term debt" at June 30, 2005 and 2006 comprised the following -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Loans, principally from banks due from July 31, 2007 to June 30, 2011, with weighted average interest rates of 1.4% per annum at June 30, 2005 and 2006:			
Secured	¥ 7,963	¥ 6,648	$ 57,809
Unsecured	20,716	27,043	235,156
No.2 mortgage bonds, 1.9%, due 2005	900	—	—
No.3 mortgage bonds, 1.8%, due 2005	900	—	—
No.4 mortgage bonds, 1.65%, due 2005	500	—	—
No.6 mortgage bonds, 1.6%, due 2005	200	—	—
No.1 Unsecured bonds issued by a consolidated subsidiary, 0.55%, due 2011	200	200	1,739
	31,379	33,891	294,704
Less:			
Portion due within one year	13,404	10,542	91,670
	¥17,975	¥23,349	$203,034

At June 30, 2005 and 2006, the following assets were pledged as collateral for long-term secured loans and were mortgaged for bonds -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Factory foundation:			
Land	¥ 504	¥ 504	$ 4,383
Buildings and leasehold	6,931	6,430	55,913
Other	794	349	3,034
	8,229	7,283	63,330
Land	3,221	172	1,496
Buildings and leasehold	1,828	76	661
Investment securities	54	—	—
	¥13,332	¥7,531	$65,487

The aggregate amounts of annual maturities of "Long-term debt" at June 30, 2006, were as follows -

	Millions of yen	Thousands of U.S. dollars
Year ending June 30:		
2007	¥10,542	$ 91,670
2008	8,440	73,391
2009	6,284	54,643
2010	5,945	51,696
2011 and thereafter	2,680	23,304
	¥33,891	$294,704

7. Research and development costs:

Research and development costs recorded as part of manufacturing costs and "Selling, general and administrative expenses" for the years ended June 30, 2005 and 2006 amounted to ¥6,382 million and ¥7,067 million (US$61,452 thousand), respectively.

8. Pension and severance plans:

"Accrued pension and severance costs" stated in the consolidated balance sheets as at June 30, 2005 and 2006 represents accrued severance indemnities for employees and those for directors and corporate auditors of the Company.

The funded status of accrued retirement benefits for employees as of June 30, 2005 and 2006 is shown as follows -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	(¥19,188)	(¥19,711)	($171,400)
Fair value of plan assets	6,093	6,636	57,704
Unfunded benefit obligation	(13,095)	(13,075)	(113,696)
Unrecognized transition amount upon initial application of the new accounting standard	1,661	1,327	11,539
Unrecognized actuarial loss	2,451	1,479	12,861
Net amount	(8,983)	(10,269)	(89,296)
Prepaid pension cost	2	—	—
Accrued retirement benefits	(¥8,985)	(¥10,269)	($ 89,296)

Components of the net periodic pension and severance costs for the years ended June 30, 2005 and 2006, are analyzed below -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥1,704	¥1,584	$13,774
Interest cost	268	287	2,496
Expected return on plan assets	(122)	(133)	(1,157)
Amortization of net transition amount existing at July 1, 2000 upon initial application of the new accounting standard	343	334	2,904
Amortization of unrecognized actuarial differences	288	313	2,722
Net pension and severance costs	¥2,481	¥2,385	$20,739

The assumptions used in calculation of the above information for the years ended June 30, 2005 and 2006 are as follows -

	2005	2006
Discount rate	2.0−2.5%	2.0−2.5%
Expected rate of return on plan assets	1.0−3.0%	1.0−3.0%
Amortization of unrecognized actuarial gain/loss	10 years	10 years
Amortization of transition amount	10 years	10 years

The method of attributing projected benefits to employee service periods is the straight-line method.

Accrued severance indemnities for directors and corporate auditors included in "Accrued pension and severance costs" stated in the consolidated balance sheets at June 30, 2005 and 2006 amounted to ¥945 million and ¥1,104 million (US$9,600 thousand), respectively.

9. Income taxes:

The Company is subject to a number of different income taxes which, in the aggregate, indicate a normal statutory tax rate of approximately 40.3% for the years ended June 30, 2005 and 2006.

At June 30, 2005 and 2006, the significant components of deferred tax assets and liabilities were as follows -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Accrued business taxes	¥ 284	¥ 432	$ 3,757
Devaluation loss on inventories	2,351	1,717	14,930
Accrued bonuses	489	698	6,070
Accrued warranty costs	901	1,089	9,470
Accrued pension and severance costs	3,622	4,241	36,878
Tax loss carry forwards	567	496	4,313
Devaluation loss on investment securities	1,366	1,530	13,304
Other	821	674	5,861
Gross deferred tax assets	10,401	10,877	94,583
Less: valuation allowance	(1,632)	(2,242)	(19,496)
Total deferred tax assets	8,769	8,635	75,087
Deferred tax liabilities:			
Allowance for doubtful accounts	(24)	(28)	(243)
Special reserve for income tax deferred	(326)	(319)	(2,774)
Unrealized gain on securities	(432)	(446)	(3,879)
Gross deferred tax liabilities	(782)	(793)	(6,896)
Net deferred tax assets	¥ 7,987	¥ 7,842	$68,191

For the years ended June 30, 2005 and 2006, a reconciliation between the normal statutory income tax rate and the effective income tax rate is as follows -

	2005	2006
Normal statutory income tax rate	40.3%	40.3%
Increase (reduction) in taxes resulting from:		
Permanent differences	1.0	1.0
Non-taxable portion of dividend income	(2.1)	(2.7)
Foreign income tax credits	(1.9)	(2.2)
Equity in earnings of unconsolidated subsidiaries and affiliates	(0.3)	(0.9)
Tax credit for experimental and research expenses	(6.3)	(2.7)
Amortization of goodwill	0.8	0.9
Difference in income tax rate applied for foreign subsidiaries	(2.2)	(0.8)
Dividends received from subsidiaries eliminated at consolidation	5.5	6.4
Valuation allowance	(4.5)	—
Additional assessment of income taxes for the prior years	4.5	—
Other	0.9	2.0
Effective income tax rate	35.7%	41.3%

10. Contingent liabilities:

Contingent liabilities for guarantees given for lease obligations and loans of unconsolidated subsidiaries amounted to ¥1,628 million and ¥1,098 million (US$9,548 thousand) at June 30, 2005 and 2006. The Company was also contingently liable for outstanding notes discounted in the ordinary course of business in the amount of ¥114 million at June 30, 2005. The Company has entered into loan commitment agreements amounting to ¥10,000 million (US$86,957 thousand) with financial institutions at June 30, 2006. The loans payable outstanding was zero at June 30, 2006.

11. Derivative transactions:

The Company uses derivative financial transactions, which comprise foreign forward exchange contracts, interest rate swaps and interest rate options, to reduce its exposure to market risk from fluctuations in foreign currency exchange and interest rates.

The Company does not anticipate incurring significant losses from derivative arrangements due to the nonperformance of counter parties.

The Company enters into derivative transaction contracts only after the transactions are approved by the management of the Company. These derivative transactions are carried out by the Finance Department of the Company.

Forward exchange contracts and interest rate swaps, other than those for which the exchange gains or losses are included in the measurement of the related foreign currency receivables or payables at the year-end, entered into by the Company as at June 30, 2005 and 2006 are as follows -

		Millions of yen		
		2005		
		Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:				
- Sell	U.S. dollars	¥681	¥710	(¥29)
	Euro	56	55	1
	Taiwan dollars	66	68	(2)
- Buy	U.S. dollars	165	170	5
	Euro	37	36	(1)
	Sterling pound	21	21	0
				(¥26)

		Millions of yen		
		2006		
		Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:				
- Sell	U.S. dollars	¥1,530	¥1,577	(¥47)
- Buy	U.S. dollars	500	501	1
	Euro	87	89	2
				(¥44)
		Notional amount	Carrying amount	Gain/loss
Interest rate swaps:				
Receive floating, pay fixed		¥ 450	¥ 4	¥ 4

		Thousands of U.S. dollars		
		2006		
		Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:				
- Sell	U.S. dollars	$13,304	$13,713	($409)
- Buy	U.S. dollars	4,348	4,357	9
	Euro	757	774	17
				($383)
		Notional amount	Carrying amount	Gain/loss
Interest rate swaps:				
Receive floating, pay fixed		$ 3,913	$ 35	$ 35

12. Retained earnings:

The following appropriations of retained earnings of the Company at June 30, 2006, which have not been reflected in the accompanying consolidated financial statements, were approved at the ordinary general meeting of shareholders held on September 29, 2006.

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends - ¥37.00 ($0.32) per share	¥1,587	$13,800
Bonuses to directors and statutory auditors		
	¥1,587	$13,800

13. Leases:

Finance lease charges for the Company for the years ended June 30, 2005 and 2006 were ¥1,026 million and ¥1,308 million ($11,374 thousand), respectively.

Lease assets and the related expenses for the Company's finance leases, other than those where ownership of the lease assets is transferred to the lessee, are being accounted for as operating leases, if capitalized, and as at June 30, 2005 and 2006 comprised the following (in equivalent amounts) -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Machinery and equipment	¥2,386	¥2,104	$18,296
Other	2,877	3,562	30,973
Accumulated depreciation	(2,656)	(2,710)	(23,565)
	¥2,607	¥2,956	$25,704

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Depreciation	¥1,026	¥1,308	$11,374

Depreciation costs are calculated using the straight-line method over the lease periods of the lease assets, with no residual value of the assets at the end of the lease periods.

The future finance lease payments of the Company as at June 30, 2005 and 2006 are as follows -

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current obligation	¥ 866	¥ 913	$ 7,939
Long-term obligation	1,741	2,043	17,765
Future lease payments	¥2,607	¥2,956	$25,704

Future minimum lease payments on rental transactions under lease agreements other than finance lease as of June 30, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	
Due within one year	¥116	$1,008
Due over one year	520	4,522
Total	¥636	$5,530

14. Business segment information:

(1) Industry segments -

The Company business is classified into the following segments based on the similarities of the types and nature of business:

Vacuum-related business:

Sputtering system, Plasma CVD system, Ion Implantor, Dry etcher, Vacuum evaporator, Vacuum Induction Furnace, Vacuum pump, Vacuum Valve, Vacuum gauge, Surface Profiler and related vacuum system.

Other business:

DRP material, titanium and zirconium goods, tantalum goods, niobium, molybdenum, and tungsten, superconductivity goods, surface treatment, Thermophysical Property Measurement, Thermal Analysis, Infrared Heating, Electric and variable speed drivers and controllers, digital control system etc.

Sales and operating profit:

	Millions of yen				
	Year ended June 30, 2005				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥170,450	¥26,393	¥196,843	¥ —	¥196,843
Intersegment	254	5,077	5,331	(5,331)	—
Total	170,704	31,470	202,174	(5,331)	196,843
Operating expenses	157,057	29,943	187,000	(5,463)	181,537
Operating profit	¥ 13,647	¥ 1,527	¥ 15,174	¥ 132	¥ 15,306

	Millions of yen				
	Year ended June 30, 2006				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥181,155	¥31,299	¥212,454	¥ —	¥212,454
Intersegment	857	6,043	6,900	(6,900)	—
Total	182,012	37,342	219,354	(6,900)	212,454
Operating expenses	170,130	34,513	204,643	(6,985)	197,658
Operating profit	¥ 11,882	¥ 2,829	¥ 14,711	¥ 85	¥ 14,796

	Thousands of U.S. dollars				
	Year ended June 30, 2006				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	$1,575,261	$272,165	$1,847,426	$ —	$1,847,426
Intersegment	7,452	52,548	60,000	(60,000)	—
Total	1,582,713	324,713	1,907,426	(60,000)	1,847,426
Operating expenses	1,479,391	300,113	1,779,504	(60,739)	1,718,765
Operating profit	$ 103,322	$ 24,600	$ 127,922	$ 739	$ 128,661

Identifiable assets, depreciation and amortization and capital expenditure:

	Millions of yen				
	Year ended June 30, 2005				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥193,414	¥28,025	¥221,439	¥2,839	¥224,278
Depreciation and amortization	5,346	592	5,938	(—)	5,938
Capital expenditure	¥ 15,829	¥ 1,385	¥ 17,214	(¥ —)	¥ 17,214

	Millions of yen				
	Year ended June 30, 2006				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥232,842	¥32,534	¥265,376	¥4,025	¥269,401
Depreciation and amortization	6,519	778	7,297	(—)	7,297
Capital expenditure	¥ 14,689	¥ 2,035	¥ 16,724	(¥ —)	¥ 16,724

	Thousands of U.S. dollars				
	Year ended June 30, 2006				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	$2,024,713	$282,904	$2,307,617	$35,000	$2,342,617
Depreciation and amortization	56,687	6,765	63,452	(—)	63,452
Capital expenditure	$ 127,730	$ 17,696	$ 145,426	($ —)	$ 145,426

(2) Geographical segments -

As "Sales" and "Identifiable assets" attributed to countries other than Japan are less than 10% of consolidated net sales and assets, information relating to geographic area information was omitted at June 30, 2005. Geographical distances are considered in classification of country area.

Major countries or areas included in each segment except for Japan are as follows.

Asia: China, South Korea, Taiwan, Singapore.

North America: America, Canada.

Sales and operating profit:

	Millions of yen					
	Year ended June 30, 2006					
	Japan	Asia	North America	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥191,449	¥16,452	¥4,553	¥212,454	¥ —	¥212,454
Intersegment	12,011	7,202	670	19,883	(19,883)	—
Total	203,460	23,654	5,223	232,337	(19,883)	212,454
Operating expenses	190,790	20,967	5,825	217,582	(19,924)	197,658
Operating profit (loss)	¥ 12,670	¥ 2,687	(¥ 602)	¥ 14,755	¥ 41	¥ 14,796

	Thousands of U.S. dollars					
	Year ended June 30, 2006					
	Japan	Asia	North America	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	$1,664,774	$143,061	$39,591	$1,847,426	$ —	$1,847,426
Intersegment	104,443	62,627	5,826	172,896	(172,896)	—
Total	1,769,217	205,688	45,417	2,020,322	(172,896)	1,847,426
Operating expenses	1,659,043	182,322	50,652	1,892,017	(173,252)	1,718,765
Operating profit (loss)	$ 110,174	$ 23,366	($ 5,235)	$ 128,305	$ 356	$ 128,661

Indentifiable assets:

	Millions of yen					
	Year ended June 30, 2006					
	Japan	Asia	North America	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥221,836	¥38,183	¥5,357	¥265,376	¥4,025	¥269,401

	Thousands of U.S. dollars					
	Year ended June 30, 2006					
	Japan	Asia	North America	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	$1,929,009	$332,026	$46,582	$2,307,617	$35,000	$2,342,617

(3) Overseas sales -

	Millions of yen				
	Year ended June 30, 2005				
	Asia	North America	Europe	Other	Total
Overseas sales	¥94,388	¥3,946	¥1,386	¥360	¥100,080
Consolidated sales					196,843
Percentage of consolidated sales	47.9%	2.0%	0.7%	0.2%	50.8%

	Millions of yen				
	Year ended June 30, 2006				
	Asia	North America	Europe	Other	Total
Overseas sales	¥88,724	¥4,201	¥535	¥67	¥ 93,527
Consolidated sales					212,454
Percentage of consolidated sales	41.8%	2.0%	0.2%	0.0%	44.0%

	Thousands of U.S. dollars				
	Year ended June 30, 2006				
	Asia	North America	Europe	Other	Total
Overseas sales	$771,513	$36,530	$4,652	$583	$ 813,278
Consolidated sales					1,847,426
Percentage of consolidated sales	41.8%	2.0%	0.2%	0.0%	44.0%

Report of Independent Auditors

Misuzu Audit Corporation

A network firm of PRICEWATERHOUSECOOPERS

Misuzu Audit Corporation
Yokohama Asahi Kaikan
15 Nihon-ohdori, Naka-ku
Yokohama 231-0021, Japan

To the Board of Directors of ULVAC, Inc.

We have audited the accompanying consolidated balance sheets of ULVAC, Inc. and its subsidiaries as of June 30, 2005 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ULVAC, Inc. and its subsidiaries as of June 30, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2. (12), effective for the year ended June 30, 2006, ULVAC Inc. and its subsidiaries adopted "Accounting Standards for Bonuses to Directors and Corporate Auditors."

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3. to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
Yokohama, Japan
September 28, 2006

Corporate Data

ULVAC Vacuum Technology and Innovative Ideas

AS OF JUNE 30, 2006

Trade name	ULVAC, Inc.
Trademark	ULVAC
Head office address	2500 Hagisono, Chigasaki, Kanagawa Prefecture 253-8543, Japan
Date of establishment	August 23, 1952
Capital	¥13,467,797,500
Number of employees	1,431 (5,150 consolidated)

Consolidated Subsidiaries

- ULVAC TECHNO, Ltd.
- ULVAC Kyushu Co., Ltd.
- ULVAC TOHOKU, Inc.
- ULVAC Seiki Co., Ltd.
- ULVAC CORPORATE CENTER
- ULVAC Materials, Inc.
- Reliance Electric Ltd.
- ULVAC-RIKO, Inc.
- ULVAC KIKO, Inc.
- ULVAC-PHI, Inc.
- ULVAC CRYOGENICS, INC.
- ULVAC Technologies, Inc.
- ULVAC TAIWAN, INC.
- ULVAC KOREA, Ltd.
- ULVAC SINGAPOLE PTE LTD
- Litrex Corporation
- ULVAC NINGBO Co., Ltd.
- ULVAC (SUZHOU) Co., Ltd.
- ULVAC Orient (CHENGDU) Co., Ltd.
- ULVAC-TTI Technology (Shanghai) Corporation
- ULVAC Tianma Electric (Jin Jiang) Co., Ltd.
- ULVAC Vacuum Furnace (Shenyang) Co., Ltd.
- ULVAC EQUIPMENT SALES, Inc.

Global Network As of September 30, 2006

Shareholders Information

Stocks

Total number of issuable shares	80,000,000
Number of shareholders	10,569
Regular general meeting of shareholders	September
Total number of issued shares	42,905,938
Settlement date	June 30 (to determine the shareholders receiving dividends)

Major shareholders	Number of shares (thousands)	(%)
Japan Trustee Services Bank, Ltd. (Trust account)	4,322	10.08
Nippon Life Insurance Company	3,202	7.47
The Master Trust Bank of Japan, Ltd. (Trust account)	2,147	5.01
Sumitomo Mitsui Banking Corporation	1,864	4.35
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,820	4.24
Mizuho Bank, Ltd.	1,604	3.74
Association of Employee Shareholders of ULVAC	1,357	3.17
INABATA & CO., LTD.	920	2.14
Matsushita Electric Industrial Co., Ltd.	782	1.82
The Chuo Mitsui Trust and Banking Company, Ltd.	652	1.52