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ULVAC, Inc. Annual Report 2005

Vacuum Technology and Innovative Ideas

ULVAC, Inc. Annual Report 2005

Year ended June 30, 2005

ULVAC

Profile

Since our founding in 1952, ULVAC, Inc. has operated under its corporate slogan of “vacuum technology and innovative ideas” as an equipment manufacturer that develops state-of-the-art technologies based on the application of vacuum technologies.

The ULVAC Group, which is currently comprised of 39 subsidiaries and 5 affiliates, provides ULVAC Solutions, comprehensive packages of equipment, materials, assessment analysis, and other services to support the business activities of its customers in electronics and a variety of other industrial fields.

With a view to pursue sustainable growth, ULVAC will continuously strive forward with the same pioneering spirit it has maintained since its establishment, and will deliver creative and leading-edge technologies.

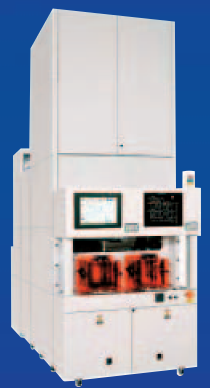
Technology

Year in Review

2004

Jul.

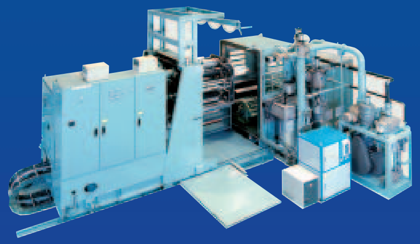
Started sales of 300mm natural oxidized film removal equipment with batch-type processing capabilities



Batch-type Etching Equipment

Sep.

Succeeded in high-speed vapor deposition of film capacitor producing vacuum evaporation roll coater



Vacuum Evaporation Roll Coater

Oct.

Received an order from iFire Technology Corp. for TDEL display production equipment

Nov.

Started sales of NLD equipment using MEMS / NEMS silicon deep etching technology

Etching Equipment

2005

Jan.

ULVAC ORIENT (CHENGDU) CO., LTD.

Turned ULVAC ORIENT (CHENGDU) CO., LTD. into a subsidiary

Bird’s-eye view of ULVAC Vacuum Furnace (Shenyang) Co., LTD.

Established two new companies and expanded our plants in China

Mar.

Biotechnology and nanotechnology venture company INITIUM, Inc. turned into a 100%-owned subsidiary

Apr.

Acquired Fujitsu VLSI Limited’s FPD production equipment division

OOO ULVAC established as a local company in Russia

Business

Contents

Forward-looking statements

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.

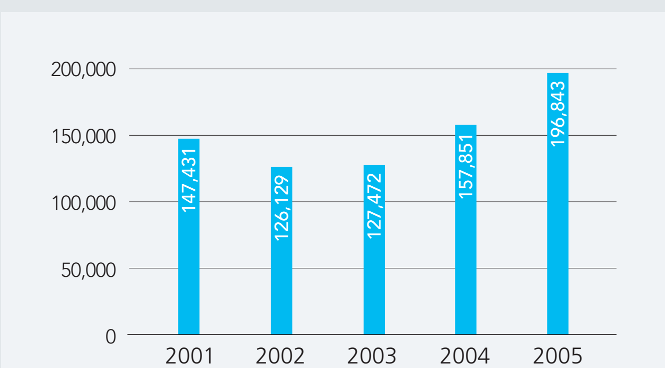
Financial Highlights

ULVAC, Inc. and its consolidated subsidiaries

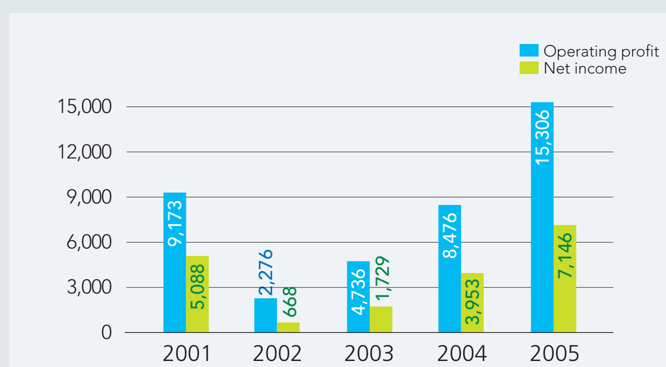
For the years ended June 30, 2004 and 2005	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars* 2005
For the year :			
Net sales	¥196,843	¥ 157,851	$ 1,773,361
Operating profit	15,306	8,476	137,892
Net income	7,146	3,953	64,378
At year-end :			
Total assets	¥ 224,278	¥ 200,645	$ 2,020,523
Total shareholders' equity	73,854	58,145	665,351
Per Share (in yen and U.S. dollars) :			
Net income	¥ 168.65	¥ 108.91	$ 1.52
Cash dividends	30.00	20.00	0.27

* The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥111 to US $1, the approximate exchange rate as of June 30, 2005.

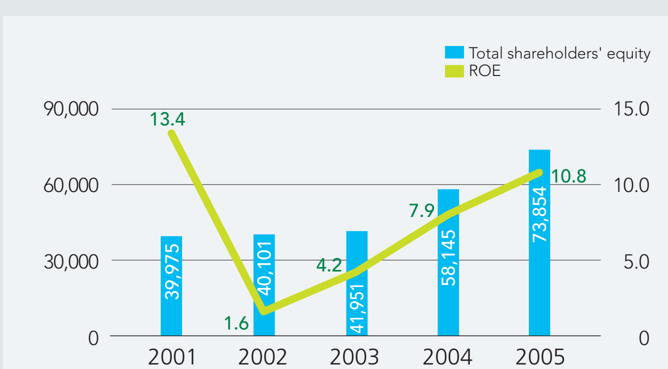
Net sales (Millions of yen)



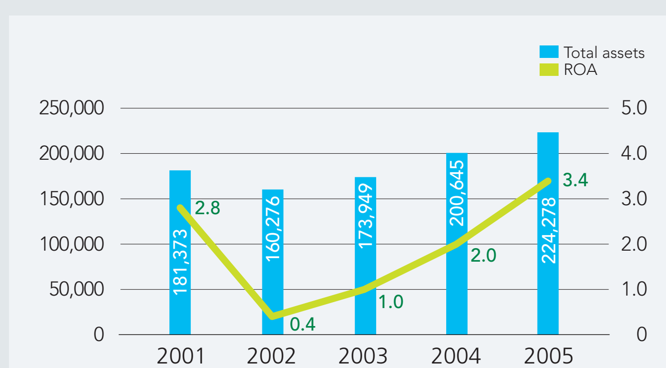
Operating profit / Net income (Millions of yen)



Total shareholders' equity / ROE (Millions of yen/%)



Total assets / ROA (Millions of yen)



To Our Shareholders

We seek to achieve continued growth by consistently capturing the top market share in emerging fields.

Dr. Kyuzo Nakamura, President & CEO

Interview with the President

Q In the fiscal year ended June 2005, ULVAC achieved record profits and a third consecutive year of growth in both sales and profit. How do you view these results?

A During fiscal year 2004 (year ended June 30, 2005), ULVAC reached ¥200 billion in revenues. Thus, we have been able to double our sales in the five years since we first topped ¥100 billion, back in fiscal year 1999 (ended in June 2000). And the driving force behind this very strong performance has been our FPD (flat panel display) production equipment.

With regard to our performance during the most recent fiscal year, I would also like to emphasize that we became the top firm in the global FPD industry. ULVAC correctly predicted the current saturated conditions in the market for semiconductor production equipment, and established its goal of becoming the top player in the next major growth market — FPD production equipment.

For an equipment manufacturer, it is very important to achieve the top share in a high-growth market, and we must be ready to take all sorts of management risks in order to pursue that strategy. We have been able to attain our performance goals by accurately assessing these risks, and also grateful of the full support of every one of our employees. In this sense, I believe that fiscal year 2004 was the year that validated our management strategy.

Q What were your biggest achievements in the fiscal year 2004?

A One of our achievements has been our successful company-wide efforts to increase our cost competitiveness. In the Japanese electronics industry, the appearance of competitors from Korea, Taiwan and China has resulted in downward pricing pressure on FPD televisions and semiconductors. These deflationary conditions are expected to continue for the next several years. Against such a background, it is critical for ULVAC to constantly reduce its costs in order to secure profits. In addition, we have put considerable effort into developing a system to reduce problems that might arise after delivery of our equipment.

Technological advances in semiconductor and liquid crystal display (LCD) production facilities are extremely rapid, as exemplified by the advances in LCD substrate size from the fifth-generation format to the eighth-generation format in the period of only one year. And because production facilities change with each new generation, it is very important for this new manufacturing equipment to operate perfectly from the start. When facilities and equipment do not function properly upon installation, ULVAC's costs associated with readjustment and redesign of the facilities will naturally increase. In order to avoid this problem and lower our costs, we introduced a trouble prevention system during fiscal year 2004.

Q Please describe your medium-to-long-term "post FPD" growth strategy.

A We have been preparing our "post FPD" growth strategy during the past several years and have laid the stepping stones for our future growth path, which includes four main pillars. The first pillar is manufacturing systems for electronic components called hybrid modules. ULVAC maintains a considerable advantage in manufacturing systems for compound semiconductors such as micro-electro-mechanical systems (MEMS) and LEDs, as well as other high-density packages.

Our second pillar of growth is manufacturing equipment for hybrid cars. In this field we have strengths in providing manufacturing systems for drive motors that use permanent magnets, power ICs that control power generation equipment, capacitors, and other components.

The third pillar of our strategy is China. There is little doubt regarding China's potential to become the center of the world's manufacturing industry. In fiscal year 2004, ULVAC established three new companies, one of those manufacture vacuum furnaces, bringing our total number of firms operating in China to eight. This is one more step to expand our market share.

Our fourth pillar is customer support. Because equipment purchases are profoundly influenced by companies' overall capital investments, this part of the business is highly vulnerable to fluctuations in the economy. On the other hand, the provision of consumables and materials, the cleaning and recycling of parts, and other related business continue despite fluctuations in the economy, and demand for these products and services continues to grow. Therefore, our entire Group will work to strengthen our customer support services to help stabilize our earnings.

Q What are the key features of ULVAC's global business strategy?

A One of the key features of our global strategy is the focusing of management resources in regions with high economic growth, such as Taiwan, Korea, China, Russia, and Eastern Europe. Korea boasts many of the world's top manufacturers in the area of displays and semiconductors, and in fiscal year 2004 we made aggressive investments in Korea to support these companies. In Taiwan we are constructing a plant for customer support and equipment manufacturing. And in China we have fortified our infrastructure to prepare for the coming growth in demand in that market. We currently maintain eight companies in China and will aggressively expand our business there in the future. In Russia we established a new company in April 2005, primarily to provide customer support services. We view Russia and Eastern Europe as the next key growth markets after China.

Another feature of our global strategy is our use of management policies that take into consideration the culture and customs of local markets. In our companies in Taiwan and Korea, for example, local employees have been appointed as company presidents right from the start-up phase. Our respect for local culture and customs is part of our overall approach to risk management, helping to prevent the kind of unnecessary friction that would arise from the imposition of a Japanese-style management structure.

Q Could you describe your basic M&A strategy and trends in fiscal year 2004?

A We maintain a policy of developing new technologies internally, but we realize the limitations of trying to develop everything in-house. Therefore, we will be using M&A to acquire highly promising technologies that lie outside our own areas of expertise. One example is the ink jet printing system used to manufacture LCD; to obtain this technology we acquired a 50% stake in a U.S. firm, Litrex Corporation, in August 2003. We plan to make Litrex Corporation into a 100%-owned subsidiary during fiscal year 2005.

Furthermore we have acquired the equipment division of Fujitsu VLSI LIMITED. The main business of this division is sales of liquid crystal drop filling (ODF) equipment used in the backend processing of liquid crystal display panel manufacturing processes.

In March 2005 we acquired a bio-tech related venture company called INITIUM, Inc. We had previously provided products to INITIUM, Inc. on an OEM basis, so our acquisition of this company represents a new step and an advance into the biotech field.

Q What type of company does ULVAC aim to become?

A We ultimately want to become the top manufacturer of products supporting our customers' infrastructure, especially in the fastest-growing advanced technologies. In short, we aim to become the top manufacturer in the world in the areas where we compete. For example, if hybrid cars become a real growth market, we will try to become the top equipment manufacturer in this market, and if China realizes its potential to be a major growth market, then we will strive to become the top manufacturer in that market. To put it another way, the image we wish to achieve is such that whenever one of our customers gets into a cutting-edge business sector they will naturally want ULVAC equipment to support their business.

In addition, we aim to become a company overflowing with the spirit of challenge. Equipment makers produce devices that are necessary in the early stages of growth in various industries and sectors. But when an industry reaches a mature phase the role of these equipment manufacturers comes to an end. Therefore, the only way for an equipment manufacturer to grow is to constantly take on new challenges in new business fields by endlessly developing new products. We sincerely believe that one of ULVAC's roles is to produce advanced technologies for the world.

Q Would you please describe your outlook for ULVAC's operating environment and earnings prospects from fiscal year 2005 onwards?

A We expect a strong operating environment to continue through the fiscal year to June 2006. In addition to the strong capital investment trends of Japanese corporations, investments by FPD manufacturers in Taiwan and other foreign markets are also strong. In fiscal year 2005 we expect to see net sales of ¥210 billion, operating profits of ¥13.1 billion, ordinary income of ¥12.6 billion and net income of ¥7.1 billion.

Over the medium-to-long-term FPD and semiconductor markets are both expected to enter a period of stable growth, and we expect our sales in these areas to grow by several percent each year. At the same time, we expect sales growth of about 20% per year in the four pillars of our post-FPD strategy. Our business in China has grown to ¥10 billion, and we use vacuum furnace equipment in the manufacture of parts that are used in increasingly popular hybrid cars. And in these business areas and others, ULVAC equipment is becoming the de facto standard.

In our current business fields, we will grow by strengthening our product lineup and steadily developing new products. And through our post-FPD strategy, we plan to achieve sales of ¥300 billion.

Q A year and a half has passed since ULVAC was listed on the First Section of Tokyo Stock Exchange. In light of this, do you have a message for your shareholders?

A When we listed on the First Section of TSE in April 2004, we raised ¥12.4 billion, of which ¥5 billion was used for FPD research and development. We raised an additional ¥9 billion from the capital markets in December 2004. Of this, we spent ¥2 billion to support our entry into the China market, ¥1.5 billion to acquire 50% of U.S. inkjet manufacturer Litrex Corporation, and we expect to spend the remaining ¥5.5 billion during the fiscal year to June 2006 on R&D for manufacturing systems for parts for digital home appliances and hybrid cars. In other words, we will have spent nearly all of the capital we raised to support our advances into new high-growth markets.

ULVAC also recognizes the importance of returning profits to shareholders. We place a high priority on our consolidated dividend payout ratio, and will return profits to shareholders within the context of fortifying our earnings and strengthening our financial position. In the future we will raise our corporate value through aggressive business development and will meet the expectations of our shareholders.

K. Nakamura.

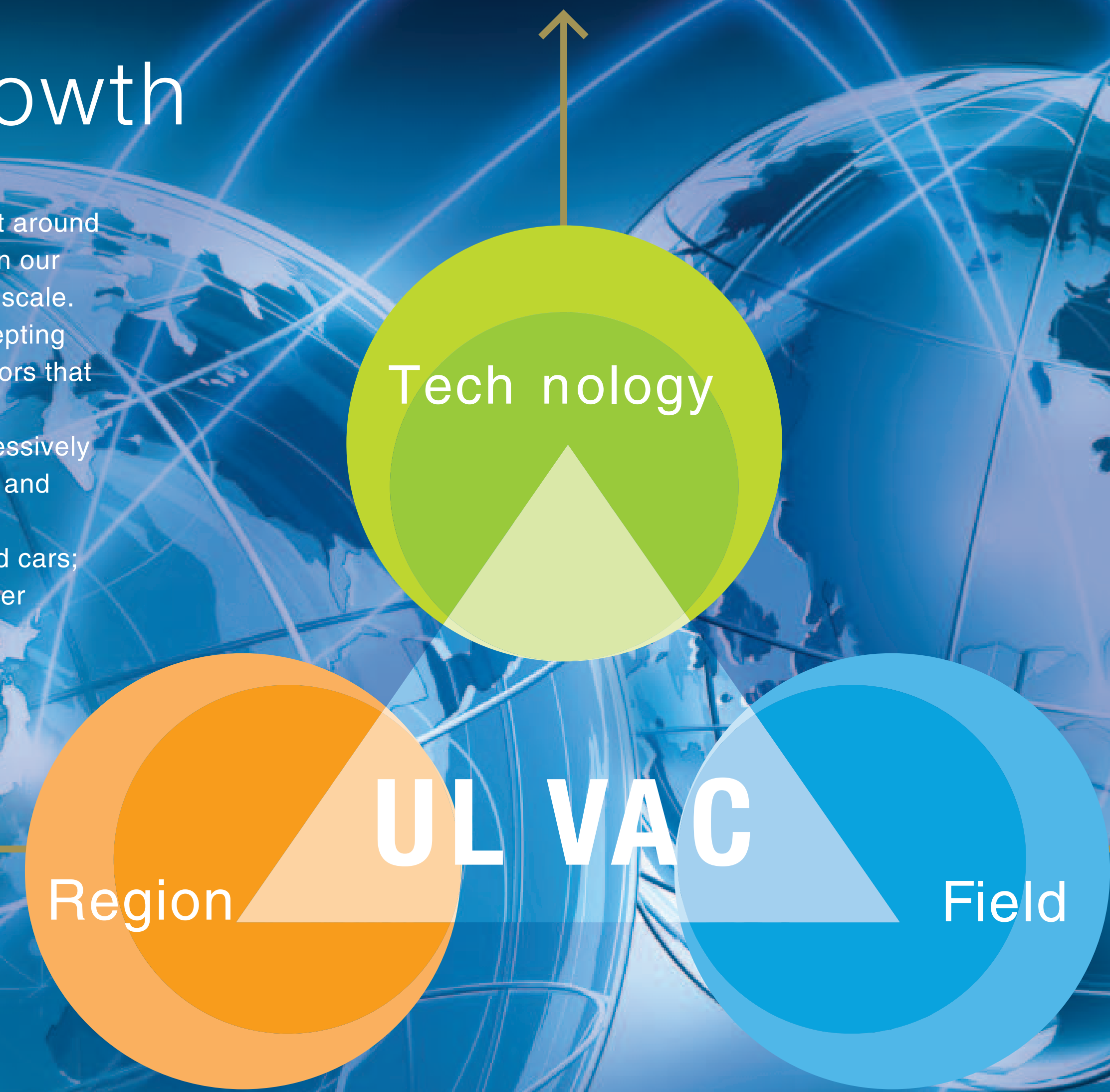
Dr. Kyuzo Nakamura, President & CEO

Three Directions for Growth

As an equipment manufacturer, our fundamental management strategy is built around five strategic goals: (1) to reduce costs; (2) to expand orders; (3) to strengthen our financial position; (4) to develop new products; and (5) to operate on a global scale.

Our growth strategy for ongoing development is based on aggressively accepting new challenges in technologies that will grow, regions that will grow, and sectors that will grow.

After flat panel display (FPD) production equipment, in which we have aggressively focused management resources, the four pillars of our business development and growth are outlined as follows: the growrh technologies are in (1) production equipment for digital home appliances and (2) production equipment for hybrid cars; the growth region is (3) the Chinese market, the growth field is (4) our customer support business and OEM production.



1 Production Equipment for Digital Home Appliances

We are promoting development and expanded sales of production equipment for LED and other compound semiconductors, MEMS, optical thin film devices, high-density packages, and other electronic component used in digital home appliances field.

2 Production Equipment for Hybrid Car Parts

Through the development and sales of production equipment for rare earth sintered magnets used in motors, secondary batteries, capacitors, power ICs, and other parts used in hybrid cars, we contribute to the preservation of the environment while achieving expanded sales.

3 China, the Driving Force of Global Manufacturing

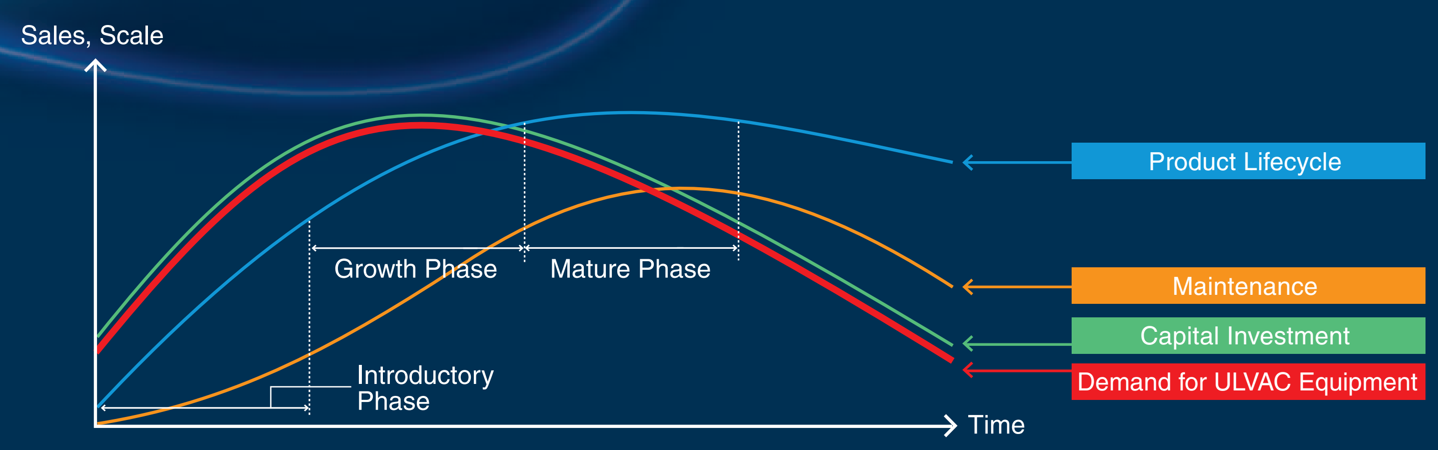
Due to the expectation of rapid growth in the Chinese market for both low- and high-technology industries, we have established a manufacturing and marketing base by establishing eight companies in China to expand our share of the equipment and components market.

4 Customer Support Businesses and OEM Manufacturing

Along with building a strong trust relationship with our customers by providing them with customer-satisfying service, we also seek to promote businesses on supplying advanced materials, consumable parts and parts cleaning services to stabilize our production equipment business, which is undergoing radical changes.

Relationship between fundamental management and growth strategies

Product Trends and Capital Investment



Technology

1 Production Equipment for Digital Home Appliances

ULVAC's growth continues as a result of its focus on FPD production equipment, but we realize that companies' investment in LCD production equipment will slow down in the near future. The next two growth technologies where the Company is strengthening its efforts are in production equipment for digital home appliances and for hybrid car parts.

Production equipment for digital home appliances are used to produce electronic components called hybrid modules. ULVAC has significant technological advantages in such areas as micro-electro-mechanical systems (MEMS), high-density packages, compound semiconductors, and optical thin film devices.

MEMS refers to ultra-small devices that use semiconductor process technology to integrate both electronic and mechanical systems on a single substrate. This technology has given rise to high expectations because of its potential to bring about the miniaturization of precision system parts and modules. While high-precision packaging that enables the mounting of many electronic parts on a substrate of limited size can be applied to an ever expanding number of products including mobile phones and digital cameras, work remains to be done in areas such as reducing electric power consumption and making devices lighter and more compact.

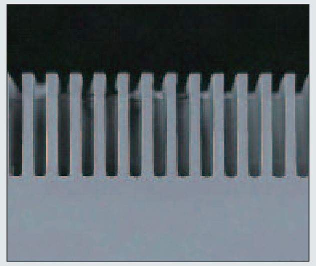
2 Production Equipment for Hybrid Car Parts

Another technology ULVAC is focusing on is production equipment for hybrid car parts. ULVAC is engaged in the development and sale of such devices as permanent magnets, secondary batteries, power ICs, and capacitors used in hybrid cars.

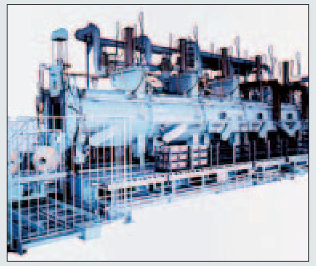
Permanent magnets, called neodymium sintering magnets, are used in the drive motors that are the heart of hybrid cars. ULVAC offers a lineup of production equipment used in the vacuum heat treatment furnaces and vacuum melting furnaces in which these magnets are made. These technologies contribute to making the motors lighter and more powerful. ULVAC technology is also featured in the vacuum heat treatment furnaces and vacuum melting furnaces used to manufacture the solid metal hydrides used as cathodes in nickel hydride secondary batteries. ULVAC's sputtering equipments and ion implantors are utilized in the manufacture of drive motors and power ICs that control the hybrid car generators.

Also, hybrid car drive motors have begun to use film capacitors that temporarily store electrical charge in the circuits. ULVAC provides vacuum evaporation roll coaters used in the manufacture of these capacitors.

ULVAC holds the top market share for each of these markets described above.


Cross Section of Silicon Deep Etching


Etching Equipment


Vacuum Heat Treatment Furnace


Ion Implantor

Region

3 China, the Driving Force of Global Manufacturing

ULVAC, which started to establish overseas joint ventures during the 1960s, has actively expanded its international operations. Currently operating 23 companies in eight countries throughout the world, ULVAC has become a global corporation. In particular, we have set up Asian facilities for production, sales and service — in Korea, Taiwan and China. During this period, the Chinese economy has grown and the country has moved from low-tech to high-tech production. We expect China to become the center of global manufacturing in the next few years.

Realizing this, we have moved to expand our market share in China as quickly as possible. In January 2005, we increased our capital stake in Chengdu Orient Aifake Co., Ltd. (a joint venture established with Chengdu Orient Yiqi Co., Ltd.) to make that company an ULVAC subsidiary. We have built a new plant to enable this company to make general industrial-use vacuum deposition systems in addition to the helium leak detectors and refrigerant filler devices it manufactures. When it became an ULVAC subsidiary, the company name was changed to ULVAC ORIENT (CHENGDU) CO., LTD.

Also in January 2005, ULVAC established two joint-venture companies with Chinese partners: ULVAC Vacuum Furnace (Shenyang) Co., LTD., which manufactures vacuum furnaces essential to making automobile, consumer electronics, electronics and other components, and ULVAC Tianma Electric (Jingjiang) Co., Ltd., which manufactures components for vacuum pumps.

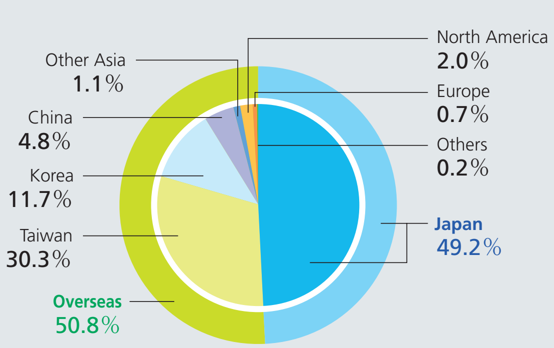
In August 2005, in response to sharp growth in demand for customer support services in China, we installed large-scale target bonding and machining facilities in a second plant built at the site of ULVAC (SUZHOU) CO., LTD. This enabled that company to begin providing CS (Customer Support) solutions.

These moves in the fiscal year ended June 2005 strengthened ULVAC's production and sales capabilities in China. Establishing three new local companies brought the total number of ULVAC-affiliated companies there to eight. Our aim is to expand our share in the Chinese market for components and manufacturing devices by building a solid base for business activity.

In expanding ULVAC operations in China, we are actively recruiting local staff and giving full consideration to the local culture and business customs in order to move ahead quickly, achieve smooth management transition, and minimize the risk in China.


ULVAC (SUZHOU) CO., LTD.

Net sales percentage by region (%)



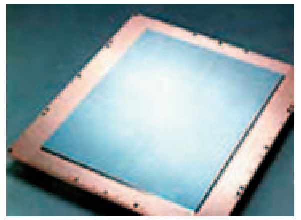
Field

4 Customer Support Businesses and OEM Manufacturing

ULVAC's leading products are in the production equipment field, and sales are greatly influenced by customers' capital investment decisions. Securing stable sales and earnings has been an extremely important management task for ULVAC for many years. Promoting OEM production and the Company's customer support business has been a key approach to addressing this issue.

ULVAC not only manufactures and sells a wide range of state-of-the-art devices; it also provides customers with ULVAC solutions packages that include parts-cleaning and maintenance services, as well as supplying materials and replacement parts. Our aim is to expand orders by positioning ourselves as a one-stop solutions provider. By providing carefully tailored services on an ongoing basis, the Company builds strong bonds with customers based on trust and strengthens the ULVAC brand as one synonymous with reliability.

In the area of OEM production, we concluded a licensing agreement with JDS Uniphase Corporation of the United States, a global leader in the field of components for optical communications, in February 2002. ULVAC has engaged in the development and sale of ULDiS, a sputtering device that uses JDS Uniphase optical film sputtering technology. Under the February 2004 agreement, we are granted an exclusive global license in the area of optical film sputtering technology. The agreement covers JDS Uniphase Corporation's patented MetaMode® sputtering, used in thin film metal oxide deposition. Utilizing this technology enables ULVAC to engage in optical thin film manufacture on consignment. This is a business in which growth is anticipated.


Sputtering target for LCD


Sputtering target for semiconductor

Main Customer Support Facilities

Overseas Customer Support Facilities, 27 Locations
Customer Support Facilities in Japan, 36 Locations

CS Solutions Factories

Japan: Chiba, Kagoshima, Hachinohe
Overseas: Singapore, Suzhou (China), Pyongtaek (Korea), Tainan, July 2006 Open (Taiwan), Kuala Lumpur, February 2006 Open (Malaysia)

*Customer Support

R&D Strategy

ULVAC's management policy is to develop unique products. Our aim is to use creative technologies to market new products that competitors cannot imitate, and further build a company that provides development solutions. ULVAC's spending on research and development in the fiscal year ended June 30, 2005 was ¥6.4 billion.

The Company's R&D structure includes four units specializing in research and development: the Institute for Semiconductor Technologies, Chiba Institute for Super Materials, Tsukuba Institute for Super Materials, and our Research and Development Division. This R&D structure also includes development personnel in each business division who work in close cooperation on the research and development of leading-edge technologies.

The Company also actively acquires patents both in Japan and overseas, not only in the field of ultra-high vacuum-related equipment, but also in thin film deposition equipment, organic thin film manufacturing methods, evaporator sources for organic materials and various other areas.

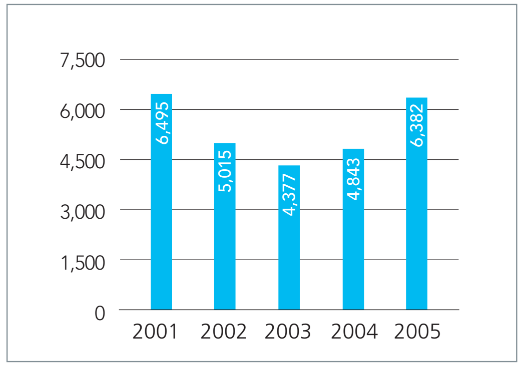
R&D breakthroughs in the fiscal year ended June 30, 2005 included, first of all, the development of batch-type processing devices for the removal of natural oxide film on substrates up to 300mm. In the area of enhancing the miniaturization and speed of semiconductor devices, the need has arisen for the conventional wet processing used in natural oxide removal to be replaced by dry processing. ULVAC's newly developed "RISE-300" is a batch-type natural oxide removal equipment for 300mm wafers that provides high productivity and low running costs. This new device has drawn a great deal of attention.

In September 2004, the Company succeeded in developing high-deposition rate continuous deposition devices for use on film capacitors. These devices provide over twice the deposition speed provided by the conventional devices to deposit aluminum, zinc and other metals to ultra thin plastic films such as polypropylene and polyester. Expectations are rising for the development of film capacitors to be used not only in ultra-small surface packaging, mobile phones and personal computers, but also in hybrid cars.

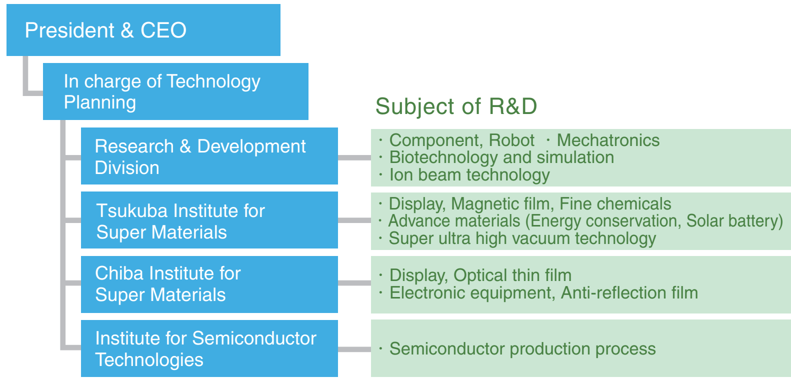
ULVAC has also developed and marketed its NLD-Si series of silicon deep etching devices for MEMS/NEMS applications using its NLD (magnetic neutral loop discharge) technology. A single unit of these next-generation dry etching devices can process both glass and silicon materials.

ULVAC intends to continue to move ahead with further development of vacuum technology, its core technology, and to combine it with advances made in such areas as fine chemicals, fine mechatronics, and biotechnology in order to expand the range of its technical applications. Through these activities, we will strengthen our position as a firm that provides advanced solutions in research and development.

R&D expenditures (Millions of yen)



Research and development structure



Environmental Concerns

The ULVAC Group holds protection of the global environment as one of its highest management priorities. To contribute to the creation of a good environment and an affluent society, the Company focuses on three areas: reducing the burden placed on the environment by its manufacturing processes, ensuring that the products it supplies to customers embodies the latest advances in energy-saving technologies, and providing society with products that contribute to environmental preservation.

To reduce the environmental burden imposed by the manufacturing processes utilized in factories, along with reducing the amounts of electric power and water we use, we are making every effort to achieve a zero-emission system. The Company has made significant progress since April 2004 in converting plastic waste to RPF (recycled plastic fuel).

To reduce the impact its products place on the environment, ULVAC's manufacturing devices are designed to contribute to our customers' efforts to reduce energy consumption. Vacuum devices utilize high levels of energy, particularly the vacuum pumps used in clean rooms in the manufacture of semiconductors and FPDs. In recent years, as vacuum pumps have become larger in scale, device users have increasingly called for lower energy consumption. In response to this need, ULVAC developed ECO-SHOCK, a vacuum pump attachment, in 2001. It has been proven that the effect of this product is to reduce energy consumption by 70% or more.

In the area of providing products that contribute to environmental protection, products made using ULVAC manufacturing equipment help preserve the environment. Examples include electronic components used in hybrid cars and devices, and battery panels used in solar electric power generators. ULVAC provides automakers with a wide range of manufacturing systems used in the making of hybrid cars. These include devices to manufacture permanent magnets, secondary batteries, condensers, and power ICs.

In response to the RoHS directive establishing limitations on the incorporation of harmful substances in electronic devices, as issued by the EU in February 2003, ULVAC made an all-out effort to totally eliminate the six designated substances. The Company has also issued its "Green Procurement Standards" as a guideline to ensure that the materials it uses impose the lowest possible burden on the environment. Our policy is to give the fullest consideration to the environment in all of our business activities. ULVAC intends to make a Group-wide effort on a global scale to promote environmental preservation activities.

TOPICS

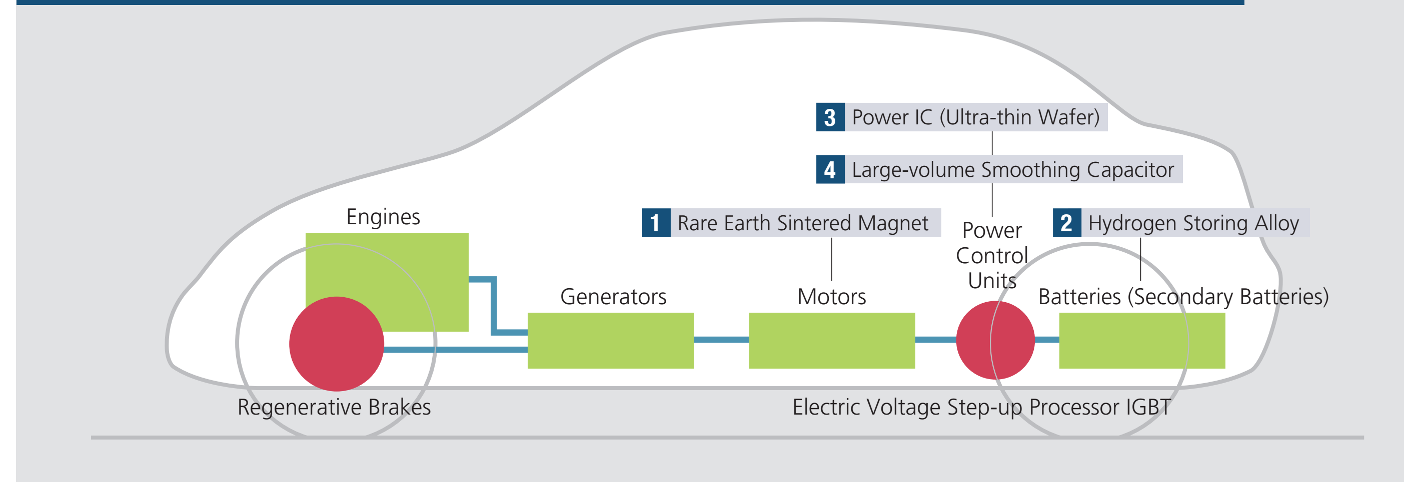
Sixteen Group companies in Japan and overseas received ISO 14001 certification.

ULVAC believes efforts to win ISO 14001 certification for its environmental management systems are an important tool to be used by the Group in its environmental preservation program. Every effort is made to obtain this certification. We are developing systems at every Group company to gain this certification.

Development of manufacturing devices for large-area solar panels

Solar battery panels are devices used to convert sunlight to electrical energy. ULVAC's catalytic CVD film technology enables the use of large-area panels of more than 1 meter square. The process gas used is highly efficient, and expectations are high regarding the use of this technology in the manufacture of next-generation ultra thin films.

ULVAC's New Technologies for Hybrid Car Parts' Production Equipment



1 Motors — Rare Earth Sintered Magnet

ULVAC Equipment
- Vacuum Melting Furnace
- Continuous Hydrogen Decrepitation Furnace
- Vacuum Sintering Furnace
- Aging Furnace

Due to their ability to produce strong magnetic fields even though they are small in size, neodymium sintered magnets are used as permanent magnets in the main drive motors of hybrid cars. We help to make possible small, light, yet high-power motors by utilizing our line-up of magnet production facilities, including our induction heating vacuum melting furnace.

2 Batteries (Secondary Batteries) — Hydrogen Storing Alloy

ULVAC Equipment
- Vacuum Melting Furnace
- Vacuum Heat Treatment Furnace

Both a disposable primary battery and a rechargeable secondary battery are used in hybrid cars. A nickel-hydride battery is used for the secondary battery because of the high voltage and power output demanded by hybrid cars. The negative electrode of this battery uses a hydrogen absorbing alloy, which is produced by ULVAC's vacuum melting furnace and vacuum heat treatment furnace.

3 Power Control Units — Power IC (Ultra-thin Wafer)

ULVAC Equipment
- Sputtering Equipment
- Ion Implantor
- Etching Equipment

The power ICs used in hybrid cars are based on an ultra-thin (0.05mm) wafer, upon which transistors, diodes, resistors and other semiconductors and electrical components are assembled. ULVAC's sputtering equipment is revolutionary as it enables the production of an ultra-thin wafer that is free from cracking and distortions in the deposition process and is able to withstand high operating temperatures.

4 Power Control Units — Large-volume Capacitor

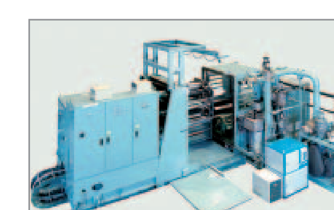
ULVAC Equipment
- Vacuum Evaporation Roll Coater

The capacitor is an electric component which has the ability to temporarily store an electrical charge, and film capacitors are being used in the motor circuitry of hybrid cars due to their demands for high voltage and power output. ULVAC provides winding vacuum deposition equipment used in the deposition process to produce capacitors.


Vacuum Melting Furnace


Vacuum Heat Treatment Furnace


Sputtering Equipment


Vacuum Evaporation Roll Coater

Board of Directors and Corporate Auditors

AS OF SEPTEMBER 29, 2005

Dr. Kyuzo Nakamura
President & CEO

Hidenori Suwa
Executive Vice President,
Representative Director

Hisaharu Obinata
Managing Director
President & CEO,
ULVAC Technologies, Inc.

Dr. Hiroyuki Yamakawa
Managing Director
Chief Technology Officer

Yuzo Sakurada
Managing Director
Semiconductor Equipment Group

Shizuo Nakamura
Managing Director
Components Division

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

Yoshio Sunaga
Managing Director
Flat Panel Display
Equipment Group

Shigeru Amano
Director
Advanced Equipment Div.

Takashi Fukuda
Director
Chief Financial Officer

Junki Fujiyama
Director
Semiconductor Equipment Div. 2

Takeo Kato
Director
Industrial Equipment Div.

Junichi Ishizaki
Director
Control Solutions Div.

Yoshifumi Sato
Director
Personnel Department

Mitsuru Motoyoshi
Director
Accounting Department

Mitsutoshi Kimura
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

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. Two directors on our 17-member Board of Directors are external directors. We have not adopted an operating officer system, because we believe that the integration of decision-making and execution function would facilitate timely and accurate management decision-making. To provide for an efficient and neutral auditing function, ULVAC has five auditors, including two external auditors.

In November 2003, ULVAC established a *Corporate Code of Conduct* that clarifies 18 key areas of corporate ethics. In line with this effort, the Company enforces strict compliance with all relevant laws and regulations. An internal compliance advisory board has been established, and board members conduct investigations of violations of compliance obligations and responsibilities that occur within the ULVAC Group under an "Internal Reporting System" that has also been newly established. In the area of risk management, in February 2004 we established "Risk Management Policy" that covers 11 categories of risk that must be managed. In March 2005, we expanded the scope of application of these regulations to the entire ULVAC Group.

In response to the enactment in April 2005 of Personal Information Protection Law, the Company stipulated its *Policy on Protecting Personal Information* as a fundamental policy governing the handling of personal information on a company-wide basis. The overriding aim is to have a system in place that firmly protects information pertaining to specific individuals that can be used to identify or distinguish them.

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	2000	2001	2002	2003	2004	**2005**	**2005**
For the year							
Net sales	¥ 109,078	¥ 147,431	¥ 126,129	¥ 127,472	¥ 157,851	**¥ 196,843**	**$ 1,773,361**
Gross profit	23,267	27,754	20,457	24,108	29,996	**40,689**	**366,568**
Operating profit	7,500	9,173	2,276	4,736	8,476	**15,306**	**137,892**
Net income	3,349	5,088	668	1,729	3,953	**7,146**	**64,378**
At year-end							
Total assets	¥ 133,374	¥ 181,373	¥ 160,276	¥ 173,949	¥ 200,645	**¥ 224,278**	**$ 2,020,523**
Total shareholders' equity	35,550	39,975	40,101	41,951	58,145	**73,854**	**665,351**
Per Share (in yen and U.S. dollars)							
Net income	¥ 103.28	¥ 156.90	¥ 20.62	¥ 48.10	¥ 108.91	**¥ 168.65**	**$ 1.52**
Cash dividends	7.00	10.00	7.00	7.00	20.00	**30.00**	**0.27**
Ratios (%)							
Shareholders' equity ratio	26.7	22.0	25.0	24.1	29.0	**32.9**	
ROE	10.1	13.4	1.6	4.2	7.9	**10.8**	
ROA	2.5	2.8	0.4	1.0	2.0	**3.4**	
Number of employees	3,322	3,614	3,658	3,648	3,712	**4,048**	

* The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥111 to US $1, the approximate exchange rate as of June 30, 2005.

Contents

Management's Discussion and Analysis

Business Results

The world economy in the term under review displayed narrow growth, as soaring crude oil prices and rising interest rates in the U.S. retarded growth in personal consumption, and capital investment shifted to a slow pace.

In the Asian region, Korea, Taiwan and China experienced rising capital investment amid overall solid economic conditions, while in Japan an ongoing economic recovery trend continued thanks to strengthening capital investment and swelling exports across the manufacturing sector, attended by moderate growth in personal investment.

In this setting, while capital investment dipped at ULVAC Group's main customers in flat panel display (FPD) and semiconductor-related industries, capital investment was robust in Korea, Taiwan, Japan, and China in product areas related to digital home appliances such as flat-screen TV (liquid crystal display TV, plasma display TV), digital cameras, DVD, and mobile phones.

To prevail in this operating environment, ULVAC Group has been launching unique products to the market timely while aggressively pursuing sales expansion by promoting ULVAC Solutions.

Furthermore, in December 2004, ULVAC implemented a capital increase to secure funding for next-generation technology development and for further business growth. The proceeds have been allocated to R&D efforts surrounding production equipment for flat panel display and digital home appliances, as well as the establishment and financial strengthening of locally incorporated subsidiaries in China. In the same context, ULVAC assumed equipment operations of Fujitsu VLSI Limited, and also advanced into biotechnology operations.

Moreover, amid sustained demands from customers for price cuts, ULVAC pushed ahead with the second phase of an innovation of production aimed at paring manufacturing costs, and preceded with fixed-cost reductions by consistently trimming operating expenses.

Consequently, at the consolidated level during the term under review, we saw orders rise by ¥28,033 million to ¥206,230 million (up 15.7% year-on-year) and sales rose by ¥38,993 million to ¥196,843 million (up 24.7% year-on-year) from the previous fiscal year. Operating profit totaled ¥15,306 million, while net income came to ¥7,146 million.

ULVAC's financial position benefited from enhanced profitability and improved asset efficiency, reflected in an increase in the shareholders' equity ratio by 3.9 percentage points to 32.9% from previously 29.0%.

With a view to maintaining a healthy financial base, ULVAC took a ¥2,592 million charge for inventory valuation losses related to a generation change in board size as well as obsolescence of display production equipment and semiconductor production equipment due to rapid technological innovation.

Vacuum-related Business

In display and electronic device production equipment, sales were strong in "SMD Series" multi chamber sputtering equipment, "SDP Series" TFT LCD in-line sputtering equipment, and "ECH Series" PDP evaporator equipment, reflecting proactive capital investment in Korea, Taiwan, and China for fifth through seventh generation LCD display and plasma display TV. Electronic device production equipment saw robust orders and sales surrounding sputtering equipment for optical thin film and high-density mounting boards.

Semiconductor production equipment posted healthy sales of "CERAUS Series" and "ENTRON™ Series" PVD sputtering equipment as well as "NE Series" and "RISE Series" etching equipment, benefiting from strong capital investment, not only in digital home appliances but also in automotive applications such as power ICs, as well as LEDs and other compound semiconductors products.

The components business fared well thanks to robust orders and sales of large dry pumps and measuring instruments, used mainly in TFT LCD production equipment applications, as well as vacuum pumps for applications in automotive components and consumer electronics industries.

In other production equipment, evaporator equipment for automotive capacitors and heat treatment furnaces saw healthy sales among general industrial applications.

As a result, our vacuum-related business saw new orders of ¥180,924 million, orders outstanding of ¥86,817 million, and sales of ¥170,450 million, while operating profit reached ¥13,647 million.

Other Business

In other business division, the ULVAC Group as a whole worked proactively on sales expansion by using ULVAC Solutions offerings to best advantage, resulting in robust orders and sales in ULVAC's materials business such as sputtering target materials for TFT LCDs and semiconductors, and parts cleaning for maintenance parts.

Consequently, this division's new and outstanding orders reached ¥25,306 million and ¥5,354 million, respectively, achieving sales of ¥26,393 million and operating profit of ¥1,527 million.

All amounts in the foregoing are net of consumption taxes.

Financial Conditions

Assets

Consolidated assets increased ¥23,634 million compared with the end of the previous fiscal year. This was mainly due to an increase of ¥2,216 million in notes and accounts receivable owing to higher sales, and an increase of ¥5,243 million in inventories owing to higher order receipts. Fixed assets and investments rose ¥9,565 million and ¥3,692 million, respectively, attributable to investments by subsidiaries, first and foremost in China, in order to expand operations and strengthen group companies' earning power.

Liabilities

Consolidated liabilities increased ¥7,446 million compared with the end of the previous fiscal year. This was mainly due to an increase of ¥5,176 million in notes and accounts payable, ¥3,121 million higher advances received, and ¥2,137 million higher accrued taxes on income. Borrowings and issued debt declined ¥8,707 million.

Shareholders' Equity

Consolidated shareholders' equity increased ¥15,710 million compared with the end of the previous fiscal year. In December 2004, ULVAC increased its common stock by ¥4,518 million and capital surplus by ¥4,514 million through a public share offering and privately placed secondary offering associated with an over-allotment. Retained earnings increased ¥6,111 million. Consequently, ULVAC's consolidated shareholders' equity ratio rose to 32.9% from 29.0% at the end of the previous fiscal year.

Cash Flows from Operating Activities

Consolidated cash provided by operating activities totaled ¥18,850 million, which was ¥9,292 million higher than a year earlier.

This was mainly due to ¥5,404 million higher income before income taxes, and a ¥2,718 million increases in advances received, compared with a year earlier.

Cash Flows from Investing Activities

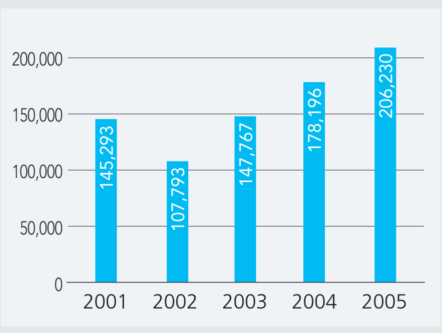
Consolidated cash used in investing activities totaled ¥18,296 million, which was ¥6,124 million higher than a year earlier. This was mainly attributable to the establishment and financial strengthening of locally incorporated subsidiaries in China, and investments in facility upgrades related to domestic business expansion.

Cash Flows from Financing Activities

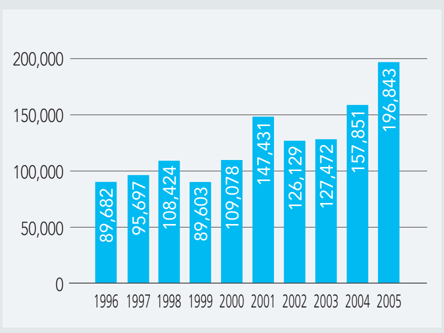
In December 2004 ULVAC raised ¥9,032 million through a public share offering and a privately placed secondary offering associated with over-allotment. Out of these funds, the company allocated ¥2,000 million to R&D and ¥978 million to business expansion into China. The remainder of ¥6,054 million has been allocated to R&D efforts in future fiscal years, as well as investment in business initiatives in China, etc.

As a result, consolidated net cash and cash equivalents at the end of the fiscal year increased ¥231 million yen from the previous fiscal year to ¥16,866 million yen.

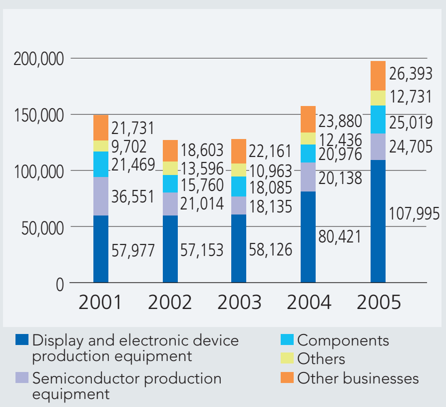
Orders received (Millions of yen)



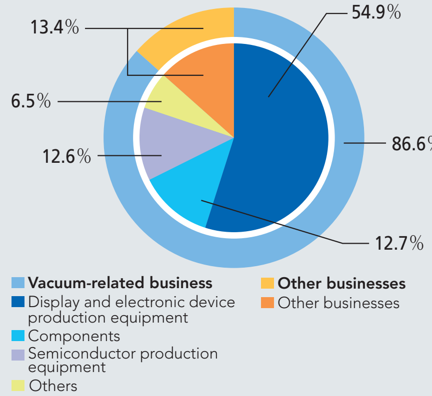
Net sales (Millions of yen)



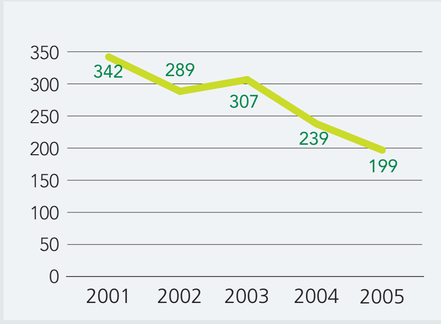
Net sales by segment (Millions of yen)



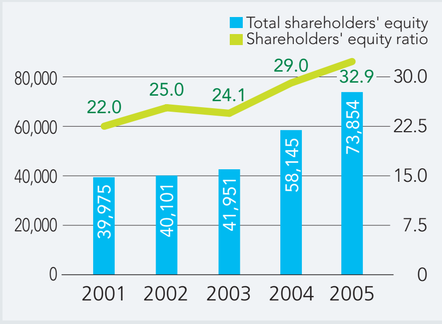
Net sales percentage by segment in 2005 (%)



Debt to equity ratio (%)



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



(Outlook for the Next Fiscal Year)

Cash Flows from Operating Activities
ULVAC expects a decline in cash provided by operating activities given that while income before tax adjustment will likely remain at the level of a year earlier, most sales are scheduled in the second half of the fiscal year leading to a rise in account receivables.

Cash Flows from Investing Activities
Prospects are for an increase in cash used in investing activities due to sustained proactive investment in product development toward future growth and investment in overseas business initiatives.

Cash Flows from Financing Activities
The outlook is for a rise in interest-bearing debt.
ULVAC proposes to pay dividends per share of ¥30.00 out of net income for the period.

Outlook for the Next Fiscal Year

Vigilance is required, for we expect a slower growth in capital investment by ULVAC Group's principal customers in FPD and electronic device and semiconductor industries, albeit their willingness to invest will remain constant. In this market environment, ULVAC Group's entire actions are aimed at increasing customer satisfaction, surrounded by efforts to develop unique products, increase order receipts, and gain market share, while further implementing cost reduction strategies.

In particular, for the first half of the fiscal year, prospects are for earnings overall to experience downward pressure from a rising sales weighting of sixth-generation and higher LCD production equipment that is likely to command additional costs. In view of this outlook, the company aims to increase earning power by taking a tactical approach in promoting innovation of production and delivering comprehensively developed products that strongly appeal to users.

Moreover, in addition to existing equipment, the company will upgrade its program of FDP-related equipment such as newly acquired ODF (one drop filling) equipment, and develop competitive products such as production equipment for compound semiconductors, MEMS, and optical film, etc.

To advance ULVAC Group's globalization, investments in business expansion are being made with the focus on Taiwan and China, while production is being started at newly consolidated local subsidiaries in China. At the same time, the Group is working in Korea on an early beginning for manufacturing of LCD production equipment.

ULVAC 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 2006 it expects to reach on consolidated basis net sales of ¥210 billion, operating income of ¥13.1 billion, and net income of ¥7.1 billion. These estimates include six newly consolidated subsidiaries in China.

Profit Distribution

In accordance with the consolidated financial results forecast above and our basic dividend policy mentioned earlier, in fiscal 2006 ULVAC proposes to pay ¥30.00 in dividends per share of common stock.

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
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, ULVAC Group has consistently been coming to market with new products using leading-edge technology. 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 the 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
ULVAC Group has an overseas sales ratio in excess of 50%, with China, Korea, and Taiwan and other economies in the Asian region accounting for the majority. In order to avoid currency risks, transactions of ULVAC Group are as a rule denominated in yen. However, in the context with sales to the Asian region, at times of yen appreciation ULVAC is placed at a disadvantage in its strength in price competition relative to overseas makers. Moreover, since foreign-denominated exports do exist, 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, ULVAC Group has been proactive in making market inroads and is pursuing business initiatives through eight locally incorporated subsidiaries. Although arrangements have been put into place at locally incorporated subsidiaries for gauging business conditions and taking corrective action where needed, risks of unforeseeable change in legal and tax systems, shift 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.

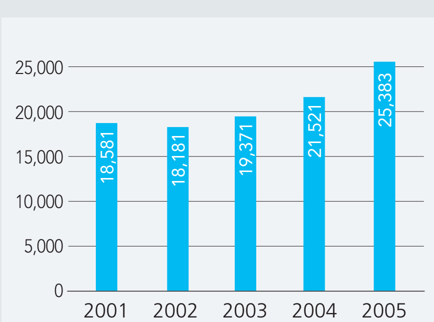
(6) Influence of quality-assurance efforts
ULVAC Group has installed quality assurance systems including ISO 9001 certification and has been providing customer satisfying service. However, in order to provide products of leading-edge technology, numerous developmental elements are involved. This circumstance poses the risk of having to collect and repair products free of charge in the event of an unforeseeable defect, which could negatively affect our business results and financial position.

(7) Influence of intellectual property rights
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.

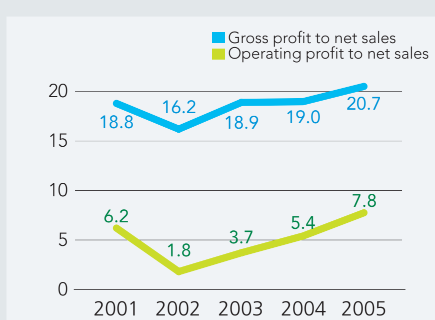
(8) Adoption of impairment accounting
The adoption of fixed-asset impairment accounting could negatively affect our business results and financial position.

(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 disaster, acts of war or terrorism, or epidemics, etc.

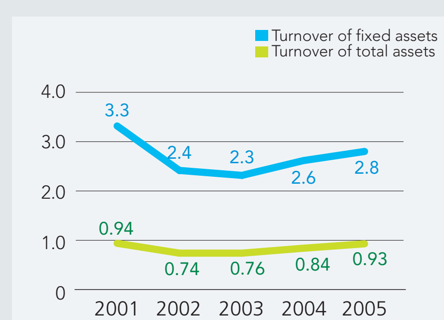
SG&A (Millions of yen)



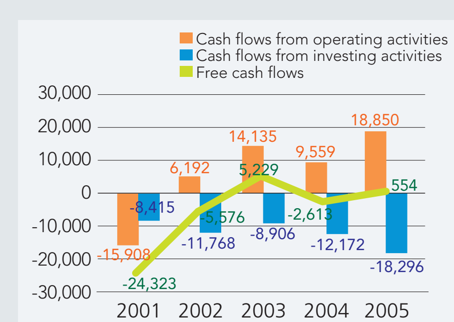
Gross profit to net sales
Operating profit to net sales (%)



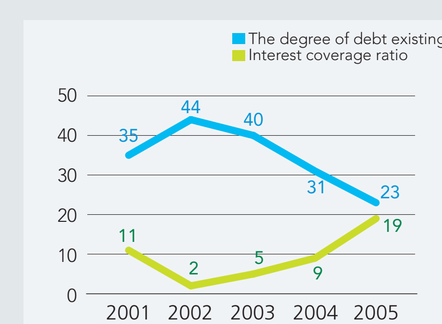
Turnover of total assets (Times)
Turnover of fixed assets (Times)



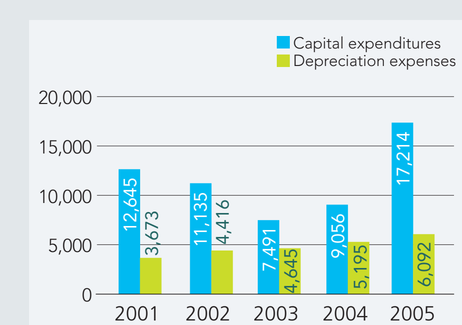
Cash flows (Millions of yen)



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, 2004 AND 2005

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Current assets:			
Cash on hand and in banks	¥17,886	**¥17,537**	**$157,991**
Notes and accounts receivable, trade	66,387	**68,603**	**618,045**
Inventories	47,213	**52,455**	**472,568**
Deferred income taxes	2,956	**4,467**	**40,243**
Other current assets	2,653	**4,359**	**39,270**
Allowance for doubtful accounts	(236)	**(185)**	**(1,667)**
Total current assets	136,859	**147,236**	**1,326,450**
Property, plant and equipment:			
At cost -			
Land	7,369	**7,506**	**67,622**
Buildings and leasehold improvements	37,144	**40,777**	**367,360**
Machinery and equipment	33,332	**39,531**	**356,135**
Furniture and fixtures	9,456	**9,947**	**89,613**
Construction in progress	2,218	**2,417**	**21,775**
Accumulated depreciation	(43,171)	**(46,307)**	**(417,181)**
Total property, plant and equipment, net	46,348	**53,871**	**485,324**
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliates	6,483	**9,832**	**88,577**
Intangibles, net	2,399	**4,441**	**40,009**
Leasehold and guarantee deposits	1,252	**1,266**	**11,405**
Deferred income taxes	2,876	**3,522**	**31,730**
Deferred charges	1	**-**	**-**
Other assets	4,504	**4,302**	**38,757**
Allowance for doubtful accounts	(77)	**(192)**	**(1,729)**
Total investments and other assets	17,438	**23,171**	**208,749**
Total assets	¥200,645	**¥224,278**	**$2,020,523**

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

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

		Millions of yen		Thousands of U.S. dollars
		2004	2005	2005
Liabilities:				
Current liabilities -				
Notes and accounts payable, trade		¥50,153	**¥55,330**	**$498,468**
Short-term borrowings		23,528	**21,123**	**190,297**
Current portion of long-term debt		11,819	**13,404**	**120,757**
Accrued taxes on income		2,600	**4,737**	**42,676**
Accruals		3,399	**3,592**	**32,360**
Other current liabilities		12,813	**20,303**	**182,910**
Total current liabilities		104,312	**118,48**	**1,067,468**
Long-term liabilities -				
Long-term debt		25,861	**17,975**	**161,937**
Accrued pension and severance costs		8,770	**9,930**	**89,459**
Other long-term liabilities		290	**284**	**2,560**
Total long-term liabilities		34,921	**28,189**	**253,956**
Total liabilities		139,233	**146,678**	**1,321,424**
Minority interests		3,267	**3,746**	**33,748**
Shareholders' equity:				
Common stock:				
Authorized:	2004 - 80,000 thousand shares			
	2005 - 80,000 thousand shares			
Issued:	2004 - 32,428 thousand shares	8,950	**-**	**-**
	2005 - 42,906 thousand shares	-	**13,468**	**121,333**
Capital surplus		10,181	**14,695**	**132,387**
Retained earnings		38,880	**44,991**	**405,324**
Unrealized gain on securities, net of taxes		666	**630**	**5,676**
Foreign currency translation adjustments		(531)	**73**	**658**
		58,146	**73,857**	**665,378**
Treasury stock, at cost		(1)	**(3)**	**(27)**
Total shareholders' equity		58,145	**73,854**	**665,351**
Contingent liabilities				
Total liabilities, minority interests and shareholders' equity		¥200,645	**¥224,278**	**$2,020,523**

Consolidated Statements of Income

ULVAC, Inc. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2005

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Net sales	¥157,851	**¥196,843**	**$1,773,361**
Cost of sales	127,854	**156,154**	**1,406,793**
Gross profit	29,996	**40,689**	**366,568**
Selling, general and administrative expenses	21,520	**25,383**	**228,676**
Operating profit	8,476	**15,306**	**137,892**
Other income:			
Interest and dividend income	167	**265**	**2,387**
Commission and rental income	346	**378**	**3,406**
Foreign exchange gain, net	57	**-**	**-**
Equity in earnings of unconsolidated subsidiaries and affiliates	289	**102**	**919**
Gain on sale of investment securities	19	**-**	**-**
Insurance income	61	**163**	**1,469**
Reversal of allowance for doubtful accounts	143	**44**	**396**
Income on prefectural government's grants	162	**147**	**1,324**
Other	507	**554**	**4,991**
Total other income	1,751	**1,653**	**14,892**
Other expenses:			
Interest	978	**818**	**7,369**
Loss on disposal or devaluation of inventories	1,207	**2,772**	**24,973**
Costs and expenses for rental activities	157	**159**	**1,433**
Loss on disposal of property, plant and equipment	509	**272**	**2,450**
Devaluation loss on investment in an affiliate company	113	**74**	**667**
Other	399	**596**	**5,369**
Total other expenses	3,363	**4,691**	**42,261**
Income before income taxes and minority interests in net income of consolidated subsidiaries	6,864	**12,268**	**110,523**
Income taxes:			
Current	3,597	**6,257**	**56,369**
Deferred	(909)	**(1,877)**	**(16,910)**
	2,688	**4,380**	**39,459**
Minority interests in net income of consolidated subsidiaries	223	**742**	**6,686**
Net income	¥3,953	**¥7,146**	**$64,378**
	Yen		U.S. dollars
Per share:			
Net income	¥108.91	**¥168.65**	**$1.52**
Cash dividends	¥20.00	**¥30.00**	**$0.27**

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

Consolidated Statements of Shareholders' Equity

ULVAC, Inc. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED JUNE 30, 2004 AND 2005

	Thousands	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on securities, net of tax	Foreign currency translation adjustments	Treasury stock, at cost	Total shareholders' equity
Balance, June 30, 2003	32,428	¥3,850	¥2,860	¥35,421	(¥14)	(¥165)	(¥0)	¥41,952
Public offering	5,000	4,250	6,101	-	-	-	-	10,351
Allotment to the third party	1,000	850	1,220	-	-	-	-	2,070
Cash dividends-¥7.00 per share	-	-	-	(227)	-	-	-	(227)
Bonuses to directors and statutory auditors	-	-	-	(267)	-	-	-	(267)
Purchase of treasury stock	-	-	-	-	-	-	(1)	(1)
Net income	-	-	-	3,953	-	-	-	3,953
Unrealized gain on securities, net of tax	-	-	-	-	680	-	-	680
Foreign currency translation adjustments	-	-	-	-	-	(366)	-	(366)
Balance, June 30, 2004	38,428	¥8,950	¥10,181	¥38,880	¥666	(¥531)	(¥1)	¥58,145
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 statutory auditors	-	-	-	(266)	-	-	-	(266)
Purchase of treasury stock	-	-	-	-	-	-	(2)	(2)
Net income	-	-	-	7,146	-	-	-	7,146
Unrealized gain on securities, net of tax	-	-	-	-	(36)	-	-	(36)
Foreign currency translation adjustments	-	-	-	-	-	604	-	604
Balance, June 30, 2005	42,906	¥13,468	¥14,695	¥44,991	¥630	¥73	(¥3)	¥73,854

		Thousands of U.S. dollars						
Balance, June 30, 2004	38,428	$80,631	$91,721	$350,270	$6,000	($4,783)	($10)	$523,829
Public offering	4,000	36,360	36,333	-	-	-	-	72,693
Allotment to the third party	478	4,342	4,333	-	-	-	-	8,675
Cash dividends-$0.27 per share	-	-	-	(6,928)	-	-	-	(6,928)
Bonuses to directors and statutory auditors	-	-	-	(2,396)	-	-	-	(2,396)
Purchase of treasury stock	-	-	-	-	-	-	(17)	(17)
Net income	-	-	-	64,378	-	-	-	64,378
Unrealized gain on securities, net of tax	-	-	-	-	(324)	-	-	(324)
Foreign currency translation adjustments	-	-	-	-	-	5,441	-	5,441
Balance, June 30, 2005	42,906	$121,333	$132,387	$405,324	$5,676	$658	($27)	$665,351

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, 2004 AND 2005

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥6,864	¥12,268	$110,523
Adjustments for:			
Depreciation and amortization	5,195	6,092	54,883
Increase (decrease) in allowance for doubtful accounts	(37)	59	531
Increase in accrued pension and severance costs	928	1,148	10,342
Increase (decrease) in accrued warranty costs	635	(12)	(108)
Loss on disposal of property, plant and equipment	549	370	3,333
Loss on devaluation of investment in an affiliate company	113	74	667
Gain on sale of investment securities	(19)	-	-
Interest and dividend income	(166)	(264)	(2,378)
Interest expense	978	818	7,369
Income on prefectural government's grants	(162)	(147)	(1,324)
Equity in earnings of unconsolidated subsidiaries and affiliates	(289)	(102)	(919)
Decrease (increase) in accounts receivable	(14,648)	(1,900)	(17,117)
Decrease (increase) in inventories	(3,457)	(4,440)	(40,000)
Increase (decrease) in accounts payable, trade	14,767	4,737	42,676
Increase (decrease) in advances received	(120)	2,718	24,486
Increase (decrease) in consumption taxes payable	110	396	3,568
Other	1,494	1,949	17,558
Sub total	12,735	23,764	214,090
Income taxes paid	(2,370)	(4,402)	(39,658)
Interest and dividend income, received	200	309	2,784
Interest paid	(1,006)	(821)	(7,396)
Net cash provided by operating activities	9,559	18,850	169,820
Cash flows from investing activities:			
Increase in time deposits	(761)	(80)	(721)
Decrease in time deposits	64	684	6,162
Proceeds from sales of investment securities	100	4	36
Payments for acquisition of investment securities	(560)	(3,420)	(30,811)
Payment for acquisition of a subsidiary	(62)	(77)	(694)
Net decrease from purchase of a consolidated subsidiary	(1,873)	-	-
Payments for loan receivables	(52)	(82)	(739)
Proceeds from collection of loan receivables	77	130	1,171
Payments for acquisition of property, plant and equipment	(9,275)	(16,469)	(148,369)
Proceeds from sales of property, plant and equipment	994	909	8,189
Proceeds from prefectural government's grants	151	147	1,324
Payment for long-term prepaid expenses	(144)	(29)	(261)
Other	(831)	(13)	(115)
Net cash used in investing activities	(12,172)	(18,296)	(164,828)
Cash flows from financing activities:			
Net changes in short-term borrowings	(9,429)	(2,422)	(21,820)
Borrowing of long-term debt	12,077	5,520	49,730
Repayment of long-term debt	(10,623)	(11,321)	(101,990)
Proceeds from issuance of bonds	200	-	-
Payments for redemption of bonds	-	(500)	(4,505)
Proceeds from issuance of new shares	12,421	9,032	81,369
Dividends paid by the parent company	(227)	(769)	(6,928)
Dividends paid by consolidated subsidiaries to minority shareholders	(61)	(84)	(757)
Payments for purchase of treasury stocks	(1)	(5)	(45)
Net cash (used in) provided by financing activities	4,357	(549)	(4,946)
Effect of exchange rate changes on cash and cash equivalents	(233)	226	2,035
Net change in cash and cash equivalents	1,511	231	2,081
Cash and cash equivalents:			
At beginning of year	15,124	16,635	149,865
At end of year	¥16,635	¥16,866	$151,946

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, 2004 AND 2005

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. The 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.

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 "Shareholders' equity."

(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 "Shareholders' equity," 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 -
"Intangible, 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 ¥233million ($2,099 thousand).

(12) 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.

(13) 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.

(14) 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.

(15) Accounting for impairment of fixed assets (New accounting pronouncement) -

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.

(16) Appropriation of retained earnings -

Appropriations of retained earnings are not reflected in the consolidated financial statements for the period to which they relate, but are recorded in the consolidated financial statements in the subsequent accounting period after shareholder approval has been obtained.

(17) 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.

(18) Reclassification -

Certain accounts in the consolidated financial statements for the year ended June 30, 2004 have been reclassified to conform to the 2005 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 ¥111= U.S.$1, the approximate rate of exchange on June 30, 2005, 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, 2004 and 2005, are reconciled to "Cash on hand and in banks" per the consolidated financial statements as follows -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash on hand and in banks	¥17,886	¥17,537	$157,991
Time deposits with maturity over three months	(1,251)	(671)	(6,045)
Cash and cash equivalents	¥16,635	¥16,866	$151,946

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		
	2004		
	Cost	Fair value	Unrealized gains/(losses)
Other securities			
Equity securities with unrealized gains	¥812	¥2,040	¥1,228
Equity securities with unrealized losses	160	104	(56)
	¥972	¥2,144	¥1,172

	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

	Thousands of U.S. dollars		
	2005		
	Cost	Fair value	Unrealized gains/(losses)
Other securities			
Equity securities with unrealized gains	$8,054	$18,865	$10,811
Equity securities with unrealized losses	3,090	1,991	(1,099)
	$11,144	$20,856	$9,712

At June 30, 2005, the aggregate annual maturities of debt securities classified as 'held-to-maturity debt securities' and 'other securities' are as follows -

	Millions of yen	Thousands of U.S. dollars
Due within 1 year	¥2	$18
Due after 1 year through 5 years	-	-
Due after 5 years	-	-
	¥2	$18

Realized gains and losses on the sale of 'other securities' during the year ended June 30, 2004 and 2005 were as follows -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Sales proceeds	¥85	¥4	$36
Gains on sale of securities	19	1	9
Losses on sale of securities	5	-	-

The carrying amounts of major securities, the fair values of which are not readily determinable, at June 30, 2004 and 2005, were as follows -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Held-to-maturity debt securities	¥2	¥2	$18
Other securities			
Unquoted stock securities	673	523	4,712
Subsidiaries and affiliates	-	5,776	52,036

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

"Short-term borrowings" at June 30, 2004 and 2005 comprised loans from banks amounting to ¥23,528 million and ¥21,123 (US$ 190,297 thousand), with weighted average interest rates of 1.1% and 1.2% per annum at June 30, 2004 and 2005, respectively.

"Long-term debt" at June 30, 2004 and 2005 comprised the following -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Loans, principally from banks due from April 25, 2006 to June 30, 2011, with weighted average interest rates of 1.5% and 1.4% per annum at June 30, 2004 and 2005:			
Secured	¥10,054	¥7,963	$71,739
Unsecured	24,426	20,716	186,630
No.2 mortgage bonds, 1.9%, due 2005	900	900	8,108
No.3 mortgage bonds, 1.8%, due 2005	900	900	8,108
No.4 mortgage bonds, 1.65%, due 2005	500	500	4,505
No.5 mortgage bonds, 1.7%, due 2004	500	-	-
No.6 mortgage bonds, 1.6%, due 2005	200	200	1,802
No.1 Unsecured bonds issued by a consolidated subsidiary, 0.55%, due 2011	200	200	1,802
	37,680	31,379	282,694
Less:			
Portion due within one year	11,819	13,404	120,757
	¥25,861	¥17,975	$161,937

At June 30, 2004 and 2005, 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
	2004	2005	2005
Factory foundation:			
Land	¥504	¥504	$4,541
Buildings and leasehold	7,504	6,931	62,441
Other	1,201	794	7,153
	9,209	8,229	74,135
Land	4,224	3,221	29,018
Buildings and leasehold	1,930	1,828	16,468
Investment securities	867	54	486
	¥16,230	¥13,332	$120,107

The aggregate amounts of annual maturities of "Long-term debt" at June 30, 2005, were as follows -

	Millions of yen	Thousands of U.S. dollars
Year ending June 30:		
2006	¥13,404	$120,757
2007	8,034	72,378
2008	4,976	44,829
2009	2,110	19,009
2010 and thereafter	2,855	25,721
	¥31,379	$282,694

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, 2004 and 2005 amounted to ¥4,843 million and ¥6,382 million (US$57,495 thousand), respectively.

8. Pension and severance plans:

"Accrued pension and severance costs" stated in the consolidated balance sheets as at June 30, 2004 and 2005 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, 2004 and 2005 is shown as follows -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Projected benefit obligation	(¥17,943)	(¥19,188)	($172,865)
Fair value of plan assets	5,571	6,093	54,892
Unfunded benefit obligation	(12,372)	(13,095)	(117,973)
Unrecognized transition amount upon initial application of the new accounting standard	2,052	1,661	14,964
Unrecognized actuarial loss	2,483	2,451	22,081
Net amount	(7,837)	(8,983)	(80,928)
Prepaid pension cost	27	2	18
Accrued retirement benefits	(¥7,864)	(¥8,985)	($80,946)

Components of the net periodic pension and severance costs for the years ended June 30, 2004 and 2005, are analyzed below -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Service cost	¥1,265	¥1,704	$15,351
Interest cost	256	268	2,414
Expected return on plan assets	(117)	(122)	(1,099)
Amortization of net transition amount existing at July 1, 2000 upon initial application of the new accounting standard	343	343	3,090
Amortization of unrecognized actuarial differences	279	288	2,595
Net pension and severance costs	¥2,026	¥2,481	$22,351

The assumptions used in calculation of the above information for the years ended June 30, 2004 and 2005 are as follows -

	2004	2005
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, 2004 and 2005 amounted to ¥906 million and ¥945 million (US$8,514 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 41.7% and 40.3% for the years ended June 30, 2004 and 2005, respectively.

At June 30, 2004 and 2005, the significant components of deferred tax assets and liabilities were as follows -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Accrued business taxes	¥259	¥284	$2,559
Devaluation loss on inventories	1,282	2,351	21,180
Accrued bonuses	433	489	4,405
Accrued warranty costs	918	901	8,117
Accrued pension and severance costs	3,011	3,622	32,631
Tax loss carry forwards	1,043	567	5,108
Devaluation loss on investment securities	1,327	1,366	12,306
Other	499	821	7,396
Gross deferred tax assets	8,772	10,401	93,702
Less: valuation allowance	(2,161)	(1,632)	(14,703)
Total deferred tax assets	6,611	8,769	78,999
Deferred tax liabilities:			
Allowance for doubtful accounts	(21)	(24)	(216)
Special reserve for income tax deferred	(301)	(326)	(2,937)
Unrealized gain on securities	(460)	(432)	(3,892)
Gross deferred tax liabilities	(782)	(782)	(7,045)
Net deferred tax assets	¥5,829	¥7,987	$71,954

For the years ended June 30, 2004 and 2005, a reconciliation between the normal statutory income tax rate and the effective income tax rate is as follows -

	2004	2005
Normal statutory income tax rate	41.7%	40.3%
Increase (reduction) in taxes resulting from:		
Permanent differences	1.5	1.0
Non-taxable portion of dividend income	(2.3)	(2.1)
Foreign income tax credits	(4.4)	(1.9)
Equity in earnings of unconsolidated subsidiaries and affiliates	(1.8)	(0.3)
Tax credit for experimental and research expenses	(4.3)	(6.3)
Amortization of goodwill	1.6	0.8
Difference in income tax rate Applied for foreign subsidiaries	(1.8)	(2.2)
Dividends received from subsidiaries eliminated at consolidation	9.3	5.5
Valuation allowance	-	(4.5)
Additional assessment of income taxes for the prior years	-	4.5
Other	(0.3)	0.9
Effective income tax rate	39.2%	35.7%

10. Contingent liabilities:

Contingent liabilities for guarantees given for lease obligations and loans of unconsolidated subsidiaries amounted to ¥1,628 million (US$14,667 thousand) at June 30, 2005. The Company was also contingently liable for outstanding notes discounted in the ordinary course of business in the amount of ¥114 million (US$1,027 thousand) at June 30, 2005.

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, 2004 and 2005 are as follows -

		Millions of yen		
		2004		
		Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:				
- Sell	U.S. dollars	¥717	¥722	(¥5)
- Buy	U.S dollars	135	131	(4)
	Euro	169	173	4
	Sterling pound	87	87	0
				(¥5)

		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)
		Notional amount	Carrying amount	Gain/loss
Interest rate swaps:				
Receive floating, pay fixed		¥450	(¥13)	(¥13)

		Thousands of U.S. dollars		
		2005		
		Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:				
- Sell	U.S. dollars	$6,135	$6,396	($261)
	Euro	505	495	10
	Taiwan dollars	595	613	(18)
- Buy	U.S dollars	1,486	1,532	46
	Euro	333	324	(9)
	Sterling pound	189	189	0
				($232)
		Notional amount	Carrying amount	Gain/loss
Interest rate swaps:				
Receive floating, pay fixed		$4,054	($117)	($117)

12. Retained earnings:

The following appropriations of retained earnings of the Company at June 30, 2005, which have not been reflected in the accompanying consolidated financial statements, were approved at the ordinary general meeting of shareholders held on September 29, 2005.

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends - ¥30.00 ($0.27) per share	¥1,287	$11,595
Bonuses to directors and statutory auditors	102	919
	¥1,389	$12,514

13. Leases:

Finance lease charges for the Company for the years ended June 30, 2004 and 2005 were ¥919 million and ¥1,026 million ($9,243 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, 2004 and 2005 comprised the following (in equivalent amounts) -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Machinery and equipment	¥2,012	¥2,386	$21,495
Other	2,858	2,877	25,919
Accumulated depreciation	(2,486)	(2,656)	(23,928)
	¥2,384	¥2,607	$23,486

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Depreciation	¥919	¥1,026	$9,243

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, 2004 and 2005 are as follows -

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Current obligation	¥821	¥866	$7,802
Long-term obligation	1,563	1,741	15,685
Future lease payments	¥2,384	¥2,607	$23,487

Future minimum lease payments on rental transactions under lease agreements other than finance lease as of June 30, 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	
Due within one year	¥96	$864
Due over one year	497	4,477
Total	¥593	$5,341

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, 2004				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥133,971	¥23,880	¥157,851	¥-	¥157,851
Intersegment	103	3,732	3,835	(3,835)	-
Total	134,074	27,612	161,686	(3,835)	157,851
Operating expenses	126,336	27,117	153,453	(4,078)	149,375
Operating profit	¥7,738	¥495	¥8,233	¥243	¥8,476

	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

	Thousands of U.S. dollars				
	Year ended June 30, 2005				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	$1,535,586	$237,775	$1,773,361	$-	$1,773,361
Intersegment	2,288	45,739	48,027	(48,027)	-
Total	1,537,874	283,514	1,821,388	(48,027)	1,773,361
Operating expenses	1,414,928	269,757	1,684,685	(49,216)	1,635,469
Operating profit	$122,946	$13,757	$136,703	$1,189	$137,892

Identifiable assets, depreciation and amortization and capital expenditure:

	Millions of yen				
	Year ended June 30, 2004				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥169,862	¥28,015	¥197,877	¥2,768	¥200,645
Depreciation and amortization	4,518	539	5,057	(-)	5,057
Capital expenditure	¥8,246	¥810	¥9,056	(¥-)	¥9,056

	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

	Thousands of U.S. dollars				
	Year ended June 30, 2005				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	$1,742,468	$252,477	$1,994,945	$25,577	$2,020,522
Depreciation and amortization	48,162	5,333	53,495	(-)	53,495
Capital expenditure	$142,604	$12,477	$155,081	($-)	$155,081

(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 has been omitted.

(3) Overseas sales -

	Millions of yen				
	Year ended June 30, 2004				
	Asia	North America	Europe	Other	Total
Overseas sales	¥57,778	¥3,911	¥760	¥54	¥62,503
Consolidated sales					157,851
Percentage of consolidated sales	36.6%	2.5%	0.5%	0.0%	39.6%

	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%

	Thousands of U.S. dollars				
	Year ended June 30, 2005				
	Asia	North America	Europe	Other	Total
Overseas sales	$850,342	$35,550	$12,487	$3,243	$901,622
Consolidated sales					1,773,360
Percentage of consolidated sales	47.9%	2.0%	0.7%	0.2%	50.8%

Report of Independent Auditors

To the Board of Directors of ULVAC, Inc.

We have audited the accompanying consolidated balance sheets of ULVAC, Inc. and its consolidated subsidiaries as of June 30, 2004 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated subsidiaries as of June 30, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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.

ChuoAoyamaPricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Yokohama, Japan
September 29, 2005

Corporate Data

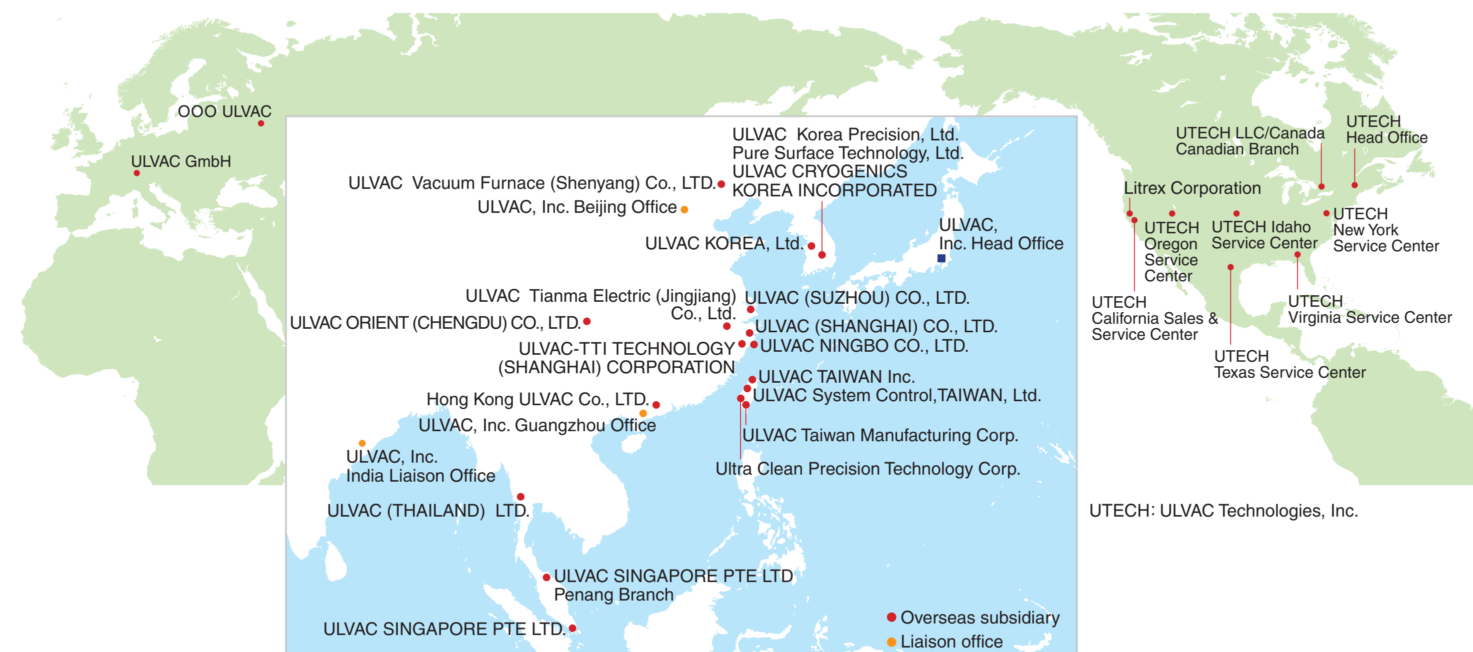
AS OF JUNE 30, 2005

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	1,337 (4,048 consolidated)

Consolidated Subsidiaries as of September 30, 2005

ULVAC TECHNO, Ltd.
ULVAC KYUSHU CORPORATION
ULVAC TOHOKU, Inc.
ULVAC Seiki Co., Ltd.
ULVAC CORPORATION
ULVAC KIKO, Inc.
ULVAC-RIKO, Inc.
ULVAC EQUIPMENT SALES, Inc.
ULVAC Materials, Inc.
ULVAC Technologies, Inc.
ULVAC TAIWAN, Inc.
ULVAC KOREA, Ltd.
ULVAC NINGBO Co., Ltd.
Reliance Electric Ltd.
ULVAC-PHI, Inc.
ULVAC CRYOGENICS, INCORPORATED
Litrex Corporation

Global Network



Shareholders Information

Stocks

Total number of authorized shares	80,000,000
Number of shareholders	17,992
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)	(%)
Nippon Life Insurance Company	3,202	7.46
Japan Trustee Services Bank, Ltd. (Trust account)	2,195	6.79
Association of Employee Shareholders of ULVAC	1,648	3.84
Mizuho Bank, Ltd.	1,604	3.74
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation retirement benefits trust account re-entrusted by Mitsui Asset Trust and Banking Company, Ltd.)	1,604	3.74
UFJ Bank Limited	1,604	3.74
The Master Trust Bank of Japan, Ltd. (Trust account)	1,432	3.34
INABATA & CO., LTD.	870	2.03
Goldman Sachs International	814	1.90
Matsushita Electric Industrial Co., Ltd.	782	1.82