ULVAC, Inc. Annual Report 2004

ULVAC

Vacuum Technology and Innovative Ideas

ULVAC, Inc. Annual Report 2004

Year ended June 30, 2004

www.ulvac.co.jp

ULVAC, Inc.

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ULVAC

The ULVAC Way

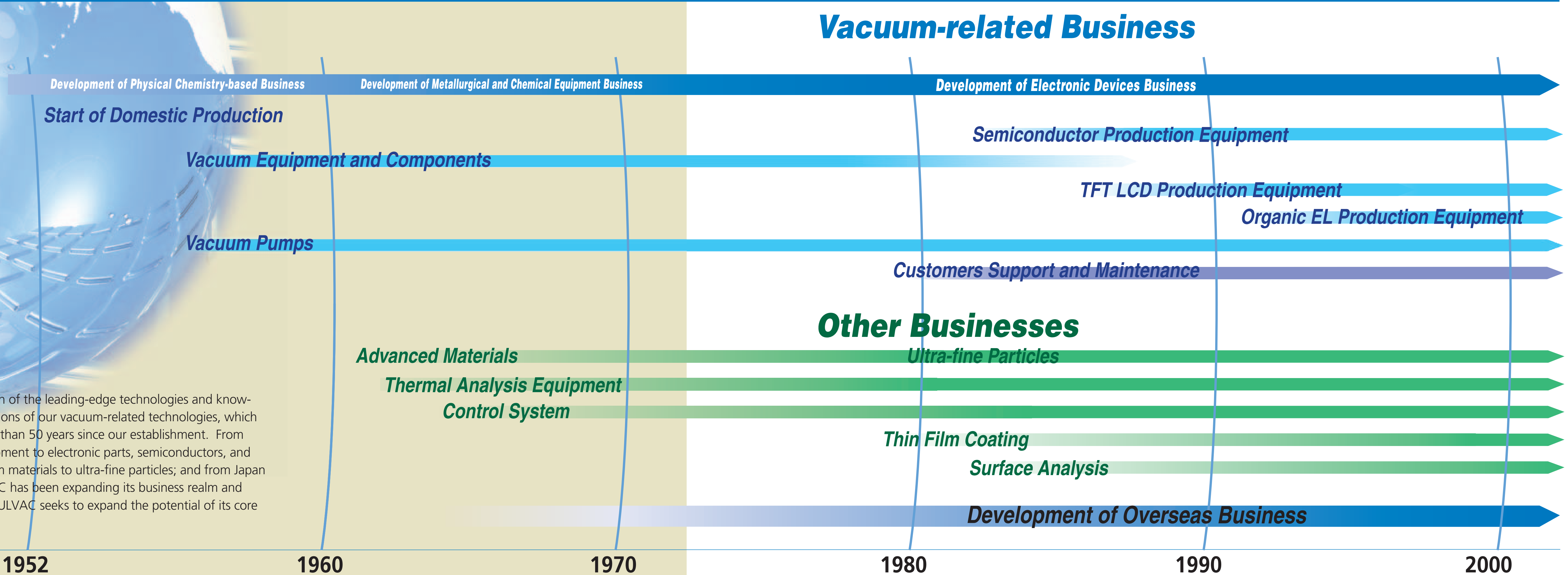
Since our founding in 1952, ULVAC has established its reputation as a leading company in various applications of vacuum technologies, including production equipment and components, through its unrelenting efforts to develop unique products. We have achieved a top global share in flat panel display (FPD) production equipment, and other devices and components that we supply to customers in the electronics, information technology, energy, environment, transportation, medical, food, chemical, biotech and other industries.

ULVAC listed its shares on the First Section of the Tokyo Stock Exchange in April 2004. Our listing has enabled us to diversify our fund procurement options and strengthen our financial position, and we are now in a favorable position to strengthen our manufacturing capabilities and to devote more resources to new product development.

While FPD and other industries using leading-edge technologies in Taiwan, Korea, China and other parts of Asia are seeing strong growth, this strong growth has also caused us to enter a period of "mega-competition." In light of this business environment, the ULVAC Group seeks to maintain its position as a leading global company through fortification of its ability to respond to customers' needs.

The driving forces behind our strategy are the pioneering spirit that enables us to develop original, innovative technologies and launch them into the market, the management policy of investing in new products, new markets, and new business areas that show growth potential, and the corporate philosophy that concentrates the strengths of our unified Group companies to provide total support services that fully meet the needs and expectations of our customers.

History of Business Development



ULVAC has evolved on the strength of the leading-edge technologies and know-how based on the various applications of our vacuum-related technologies, which we have accumulated in the more than 50 years since our establishment. From chemical and physics-related equipment to electronic parts, semiconductors, and TFT (thin-film transistor) LCDs; from materials to ultra-fine particles; and from Japan out to the rest of the world, ULVAC has been expanding its business realm and geographic coverage. Ultimately, ULVAC seeks to expand the potential of its core vacuum technologies.

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 relating to forward-looking statements in the future based on the latest information or to revise them and make public disclosure of the revisions.

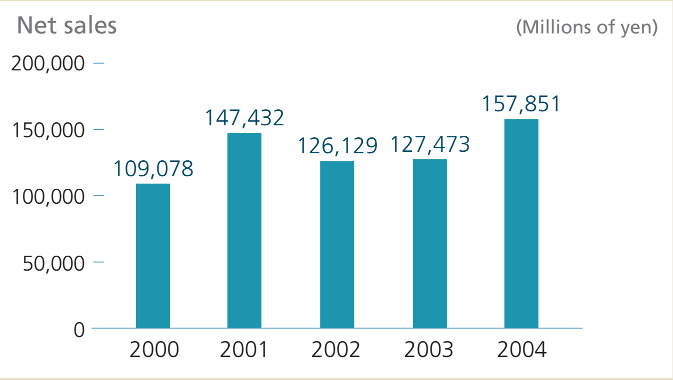
Contents

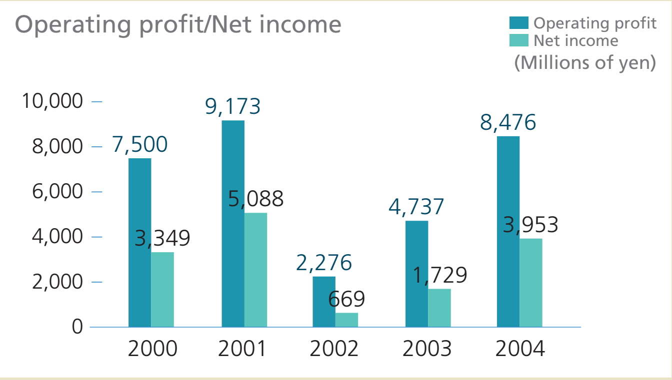
Financial Highlights

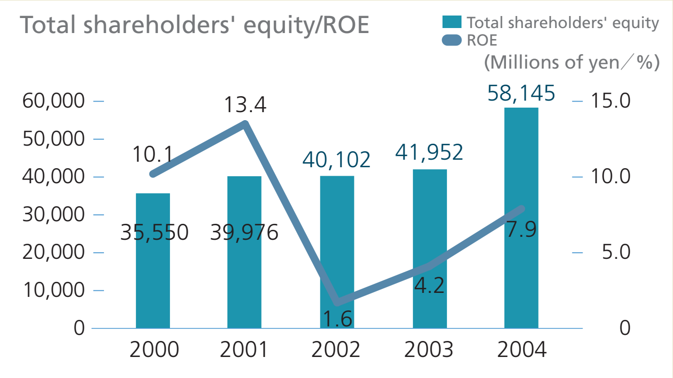
ULVAC, Inc. and its consolidated subsidiaries

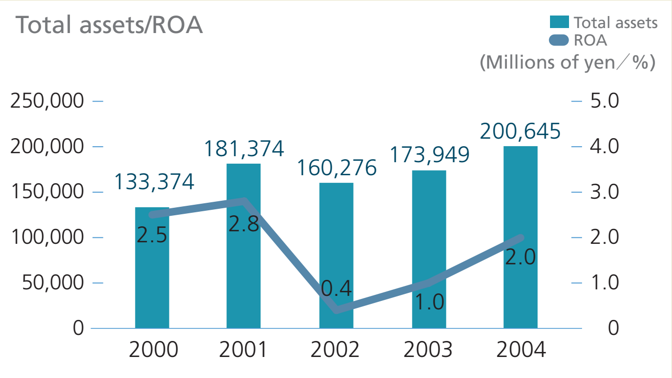
For the years ended June 30, 2003 and 2004	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars* 2004
For the year			
Net sales	**¥ 157,851**	¥ 127,473	**$ 1,461,583**
Operating profit	**8,476**	4,737	**78,491**
Net income	**3,953**	1,729	**36,611**
At year-end			
Total assets	**¥ 200,645**	¥ 173,949	**$ 1,857,824**
Total shareholders' equity	**58,145**	41,952	**538,379**
Per Share (in yen and U.S. dollars)			
Net income	**¥ 108.91**	¥ 48.10	**$ 1.01**
Cash dividends	**20.00**	7.00	**0.19**

• The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥108 to US $1, the approximate exchange rate as of June 30, 2004.









To Our Shareholders

Dr. Kyuzo Nakamura, President & CEO

ULVAC, Inc. listed its shares on the First Section of the Tokyo Stock Exchange on April 20, 2004. Since our establishment in 1952, ULVAC has endeavored to develop unique products, and to tirelessly create new manufacturing technologies.

As a newly listed company, ULVAC seeks to maximize our customer satisfaction by offering comprehensive solutions which meet the needs of our customers. At the same time, we strive to raise our corporate value by making contributions to the fields of industry and chemicals by finding new applications for our vacuum technologies.

We Believe that the Opportunity to Achieve Record High Earnings within the Next Several Years Has Arrived

Interview with the President

Q What kind of year was fiscal year under review for ULVAC?

A During fiscal year 2003 (year ended June 30, 2004), we were able to achieve record high net sales and to exceed our ordinary income targets. In this regard, I believe it was a very fruitful year for ULVAC. Furthermore, we believe that we got off to a good start in fiscal year 2003 in our quest to fulfill the opportunity to achieve record high earnings during the next several years.

Examining our sales by product area, manufacturing systems for liquid crystal displays (LCDs) and plasma display panels (PDPs) were among the strongest of our various product areas. During the fiscal year under review, the market for large screen televisions of over 40 inches in size expanded. However, ULVAC avoided making the easy mistake of investing unnecessarily large amounts of money on facilities and product development and instead made efficient investments successfully to maintain our market share while allowing us to recognize favorable earnings.

Q How did the First Section of the Tokyo Stock Exchange listing impact ULVAC?

A The industry to which we belong is growing rapidly. And while large amounts of money are needed to create a global network of offices and plants, and to maintain a competitive development function, it is difficult to depend solely upon debt to satisfy this need. Consequently, the over ¥12 billion in funds raised during our listing have fortified our financial position, and we are now in a position to make aggressive new investments in response to business opportunities as they arise.

At the same time, our listing has had a very positive impact upon each and every one of our employees. As a more widely recognized publicly traded company, not only just our technical staff but all of our employees now take even greater pride in their work. We believe that this will have a profound impact upon fostering even stronger growth of ULVAC in the future.

Interview with the President

Q What was the most important management issue during fiscal year 2003?

A The most important management issue for us during the year was the reform of our manufacturing technologies. We have undertaken dramatic manufacturing reforms since 2001. In July 2003, we created a new organizational structure and assigned our executive vice president the responsibility of reforming our production division as we entered the second phase of our manufacturing reforms program. And in fiscal year 2003, the first year of the second phase, we focused upon reducing costs of, and raising the reliability of our manufacturing technologies.

The reason for our focus upon reforming our manufacturing technologies is the basic principle of the manufacturing industry; to produce quality products inexpensively. And while we continued to exert efforts to maintain our lead over our competitors in the highly important areas of product development and marketing, we believe that cost competitiveness is the ultimate factor which will enable a company to remain alive amidst fierce competition. Furthermore, because ULVAC's products are at the leading-edge of the industry, there is no ready-made formula for the manufacturing technologies we use. Therefore we need to invest in the resources needed to create our own unique technologies.

Q In your global operations, what geographic region are you most concerned with?

A ULVAC's main products of manufacturing systems see strong demand during the growth periods of our customers. Capacity constraints mean that when a manufacturing company is running at full capacity, it is not possible to increase sales without increasing investments in facilities. Consequently, whether our customers are in a growth phase or not is more important than whether or not their earnings are favorable. And while Japan has not stopped growing completely, it is closely approaching saturation. We therefore expect stronger business opportunities in Korea, Taiwan and China where economic growth remains relatively high.

Many believe that China will become the world's leading manufacturing nation in about five years time, and we endeavor to become the world's leading company by taking our share of the Chinese market. Furthermore, we are currently laying the foundations needed to achieve this objective by aggressively opening new offices and other facilities in China.

Q What is the CS Solution Package promoted by ULVAC?

A "Customers Support (CS) Solution Package" represents a combination of all the various customer support services that ULVAC Group companies provide to its customers. Because of the long lifecycle of the devices we sell, which typically last for 10 to 20 years, we have few opportunities to call upon clients to make a sale during the course of this period. However, by expanding our sales of replacement parts, we seek to increase the frequency with which we can call upon our clients. Because we have the master plans to and are able to assess the various parts of our systems, we believe we can provide the best and most inexpensive replacement parts. Similarly, by providing cleaning and overhauling services, supplying and analyzing parts, and through our provision of various services to the users of our systems, we believe that both our customers and ULVAC stand to benefit from these services. And because ULVAC has established all of these various functions in our subsidiaries, we benefit from the synergies these services provide and our ability to provide one-stop solutions to our customers is our strength.

Q Please explain your basic R&D strategy.

A Our basic R&D strategy is to avoid doing the same thing as other companies, and to do things which other companies do not do. That is the reason why we lay claim to having numerous products which are the "first of their kind in the world." And while it requires a great deal of courage to go with unproven technologies, the advantages gained when successful are large.

Another aspect of our strategy is to avoid being overly rational in the projects we choose to concentrate upon. For example, when we started developing organic EL and PDP manufacturing systems some 15 years ago, no one had any idea of whether or not either of these systems would be successful in the market. However, our share of the market in these products was determined when we started developing them.

Consequently, by being overly rational in the choice of projects to concentrate on, we believe that companies could miss out on important business opportunities. By allowing research and development to be undertaken freely, we believe that we can make the most of various business opportunities, flexibly develop new businesses, and reduce our various business risks.

Q What is the strength of ULVAC as the world's largest FPD production equipment manufacturer?

A Our strength lies in our strategy of developing products for various display applications. While our company boasts of an overwhelming share of the world's market in sputtering systems for LCDs, we also make manufacturing systems for organic EL and PDPs. Furthermore, we look forward to synergies that arise from putting our know-how gained in LCD manufacturing systems to use in other manufacturing systems. We have also won the trust of our customers for our support services in various display applications.

Another of our strengths is our ability to use our experience in the flat panel displays (FPDs) product area as a resource in developing other technologies. ULVAC is also developing its expertise in the three key technologies of fine chemicals, fine mechanics and electronics, and biotechnology. A typical example of a product using these technologies is ink jet printing system, which are made possible through our work in the area of macromolecule organic EL. Consequently, our accumulated technologies in FPDs enable us to expand the breadth of our business.

Q What promising new business fields are you considering in the future?

A There are numerous areas where ULVAC can potentially develop new businesses. One of these is manufacturing systems for hybrid modules. Hybrid modules are mounted in high density in charge-coupled device (CCD) cameras and other digital consumer electronics. We believe that ULVAC can become the top manufacturer in this product area because of our ability to deal with applications using glass, quartz, polyimide, organic matter and a wide variety of other materials used in etching systems.

Another promising area is hybrid cars. Hybrid car motors which use permanent rare earth magnets and nickel hydride batteries are made in melting and sintering furnaces that employ vacuum technologies. Also, because the power ICs needed to make these motors work range between 50 and 100 micron ultra-thin wafers, the equipment needed to manufacture these wafers use special technologies and know-how which few companies beside ULVAC has.

Q Please describe the outlook for your operating environment and your earnings during the fiscal year ending June 2005.

A While we believe that demand for FPDs will eventually approach a peak, ULVAC's FPD manufacturing systems will continue to be a driving force behind our growth until this peak in demand is reached. With regards to our consolidated earnings estimates in fiscal year 2004, our targets for net sales, and operating, ordinary, and net income are ¥192, ¥11.8, ¥11.0, and ¥5.9 billion respectively. And we expect continued strong earnings growth during the next fiscal year 2005.

However, we will not only be focused upon FPDs. Because the volatility in market trends of FPDs is a large risk factor, we need to find new products which will enable us to see continued growth even after the demand for FPDs peaks. We will endeavor to simultaneously achieve the two goals of developing new products to fill the void left after FPD demand peaks, and of attaining record high earnings.

K. Nakamura.

Dr. Kyuzo Nakamura, President & CEO

Business Strategy

In order for us to maintain our position as the leading company in production equipment employing vacuum technologies, and to be able to provide optimal solution services to our customers around the globe, ULVAC has identified five key areas as part of its management strategy:

1) Cost reductions
2) Order growth
3) Financial position fortification
4) New product development
5) Globalization

We believe the pursuit of these five areas will allow us to maintain our position as a provider of leading-edge technologies and will contribute to a high level of profitability.

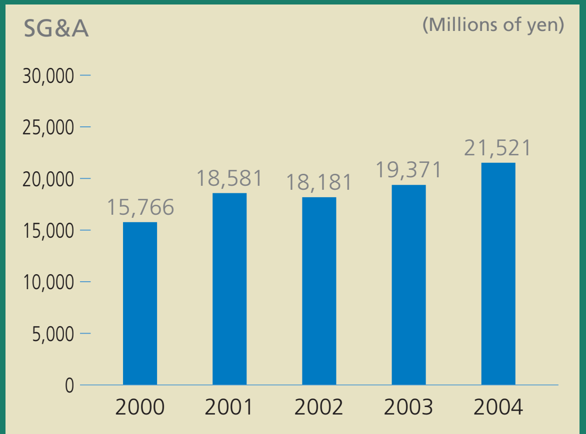
Strategy 1: Cost reductions

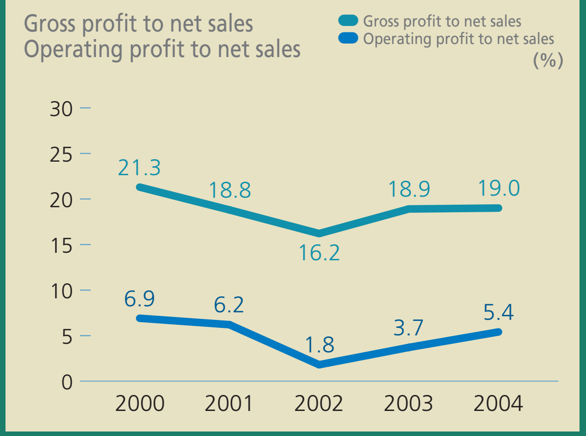
We continue to see downward pressures on the prices of our production equipment, our main product, due to the ongoing deflationary economic trend. We also anticipate competition with Korean and other Asian equipment manufacturers to continue for the foreseeable future; the battle to remain afloat in the global marketplace has clearly begun. Against the backdrop of these challenging market conditions, ULVAC views cost competitiveness not only as a key to maintaining our growth but also as a key to surviving on a global basis. ULVAC is promoting the reduction of costs through reviews of its product planning and manufacturing processes, as well as by raising its overseas parts sourcing and overseas manufacturing and by seeking standardization as much as possible.

ULVAC started the first phase of its manufacturing reform program in July 2001. As part of this program we sought to achieve standardization (creating modules and units), centralized purchases, overseas production, overseas sourcing, cost prediction management and other goals.

As a continuation of this successful program, ULVAC began to tackle new issues from July 2003 including raising the reliability of our engineering, reducing time-to-delivery and improving cash flow via faster production schedules, and reducing product costs by increasing the utilization of our processing center (parts manufacturing center). These are all key elements of our "engineering and manufacturing reforms" covering the development, planning, sourcing, purchasing, and production processes, and we will increase the speed with which we carry out these reforms. The main goal of the first phase of this program was to bring about "standardization" of the wide variety of small-lot products we manufactured to reduce costs. In the second phase we seek to reduce the costs of our "engineering" process by raising the quality levels of all our products, even our developmental equipment. ULVAC is working to dramatically raise its price competitiveness and profitability by promoting this multifaceted cost reduction strategy.

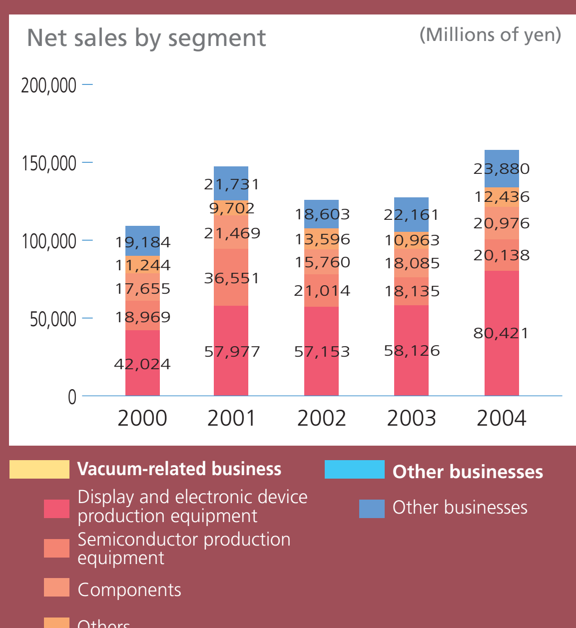
Parts manufacturing center



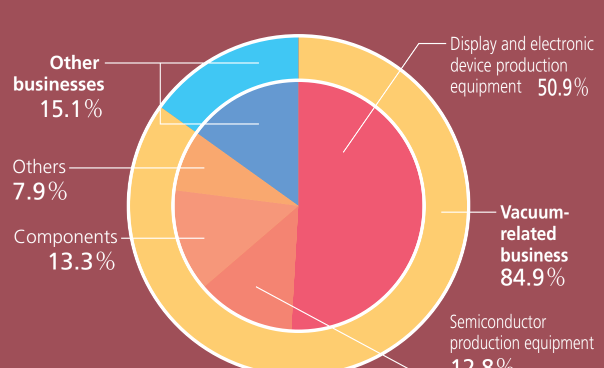


Strategy 2:
Order growth

Semicon Taiwan 2004



Net sales percentage by segment in 2004 (%)



The extreme speed of technological advances in the electronics and other leading-edge industries to which ULVAC supplies equipment are characteristic of these businesses. In order to beat our competitors in this highly competitive market, we need to quickly develop, produce and deliver unique products that cannot be imitated.

ULVAC boasts a top share of the global market for FPD production equipment, which is one of our main products. We also take pride in our comprehensive line-up of products which match our customers' needs in the areas of liquid crystal displays (TFT [thin-film transistor] LCDs), plasma display panels (PDPs), organic EL displays, and various display applications. We also have the top share of the global market for sputtering equipment, as well as strong offerings in CVD equipment, PDP evaporators, and various other types of equipment. Additionally, we have established our reputation as one of the world's leading makers of vacuum pumps and other components, as well as sputtering targets and other advanced materials.

Through accurate matching of our leading-edge products to our customers' needs, ULVAC has gained the trust of our customers, which in turn has allowed us to record three consecutive years of increases in sales and profits.

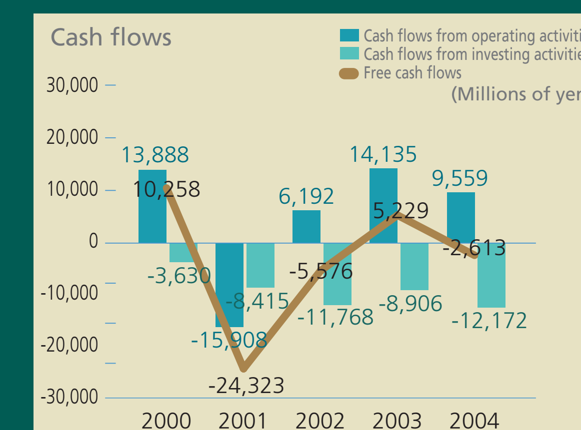
In order to expand our business by leveraging the synergistic power of our Group, we offer "ULVAC Solutions" : a comprehensive service that provides production equipment, materials, analysis equipment, components, and various services all in a single package. In addition, we offer a "CS (customer support) Solutions Package," which provides parts cleaning, surface treatment and other maintenance services, as well as materials, to help offset fluctuations in our sales of production equipment due to changes in clients' capital investment activities. This also helps to increase orders and create a more stable earnings flow.

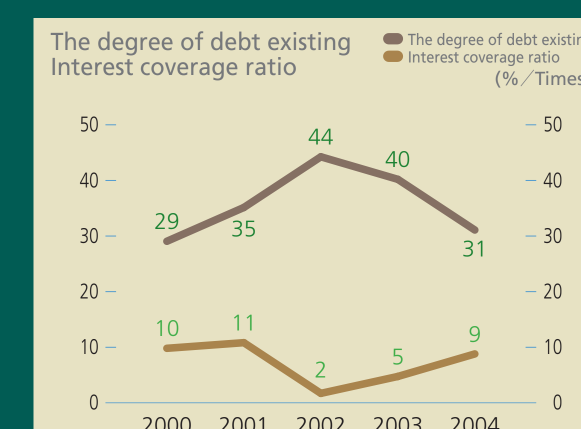
As a part of its strategy of reducing costs, ULVAC has succeeded in shortening delivery times for our production equipment. Furthermore, by limiting operating capital and boosting earnings, we have targeted increased growth in our business without increased debt, as well as improving our cash flow. Consequently, we have been able to restrain inventory growth despite the large increase in orders, and we recorded positive cash flow of ¥9,559 million from our operations, marking our third year of positive operational cash flow.

We were also able to strengthen our financial position by using funds from capital markets obtained via a third-party private placement in the over-allotment during our listing to reduce interest-bearing debt. This helped to reduce our dependency upon debt from 43.6% in FY June 2002 to 30.5% in the year under review. Furthermore, both our gross and operating profit margins improved from the previous year's levels.

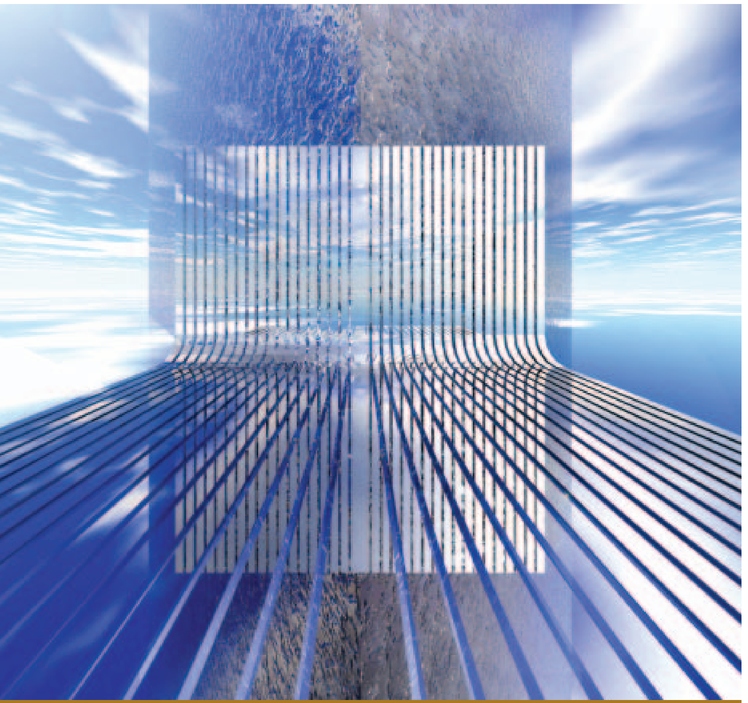
As a key point of the second phase of our manufacturing reform program, ULVAC endeavors to further strengthen its operating cash flow through reductions in working capital and improvements in its earnings. We will use the funds procured in our public offering in April 2004 to make strategic investments in new product development and in efforts to increase our global standing so as to raise the corporate value of our Group.

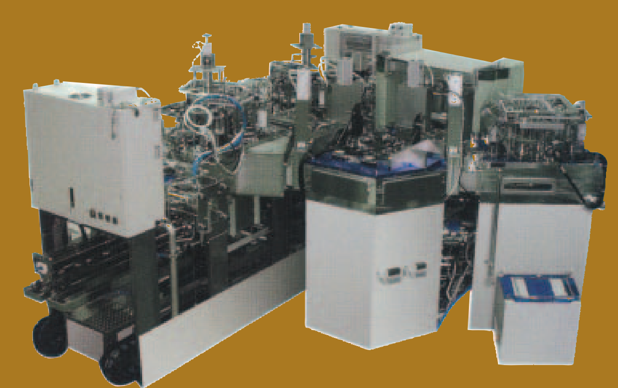
Strategy 3:
Financial position fortification





Strategy 4:
New product development





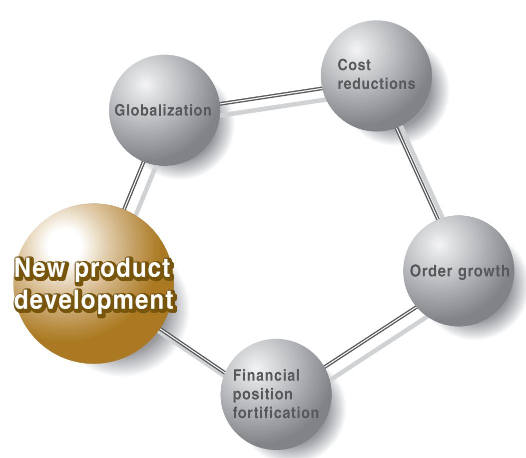
Organic EL production equipment

PVD system for semiconductor production

ULVAC has a history of development and application of unique, leading-edge technologies. As an equipment manufacturer, we are constantly focused on locating new product areas, technologies and geographic regions that will provide our company with growth opportunities. ULVAC production equipment and technologies are used in nearly all flat-panel televisions, digital cameras, cellular telephones, and other digital consumer electronic products, as well as hybrid automobiles, all of which are at the core of the current Japanese economic recovery.

During the current year, ULVAC introduced several revolutionary products to the market. Our solid green laser annealing equipment, the world's most powerful, which is used in Low-temperature Poly-Silicon TFT applications, and our dry vacuum pump, which boasts the world's highest exhaust speed, are examples of our innovative products. Furthermore, we have developed new manufacturing technologies to be used in the relatively young field of micro-electro-mechanical systems (MEMS)—an area that is receiving considerable attention in our industry—and have started to create a MEMS foundry service. MEMS is an ultra-small device that utilizes semiconductor process technology to integrate both electronic and mechanical systems on a single substrate. This technology has given rise to high expectations for its potential to bring about the miniaturization and combination of mechanical, optical, fluid, and other precision system parts and modules.

Looking at new product development from here on, particularly in the area of FPDs, in the near term, we will promote large-substrate displays (seventh-generation TFT LCDs and PDPs, which are currently the largest in the world), solid green laser annealing equipment, and organic EL production equipment. Over the longer term, we will promote the development of ink jet printing and other technologies that will be used in large-substrate applications. In terms of semiconductors, we will fortify our development of production equipment used in compound semiconductors and MEMS and other devices. We will also focus attention on developing production equipment for High-Density Packaging, thin optical film, and other electronic devices, and large dry pumps for TFT LCD production equipment.



Strategy 5:
Globalization

ULVAC has taken an aggressive stance toward globalization since the 1960s, when we first established a joint venture company overseas. These days, we are a truly global company with 15 facilities operating in seven countries. In recent years, we have opened manufacturing, sales, and service facilities in Korea, Taiwan, and China because we recognize the strong growth potential of these countries.

In May 2004, we began operations at ULVAC (SUZHOU) Co., Ltd. to manufacture and sell thin-film production equipment used by the electronics industry. In June 2004, we made Shanghai Taidevelop Tecq, Inc. a fully-owned subsidiary (changing its name to ULVAC-TTI (Shanghai) Technology Corporation) to be able to respond to the growing demand for control systems in China. We are also considering the establishment of other manufacturing facilities and business management companies in response to the strong growth in the Chinese market.

In July 2004, we decided to build a "clean room" in Korea for the production of large-substrate TFT LCD production equipment by our subsidiary ULVAC Korea Ltd. We will purchase real estate in the Hyeon-gok Industrial Park where the Pyong-taek factory is already operating to construct a clean room for the manufacture of seventh-generation TFT LCD production equipment. This will help us to establish our business foundation in the Korean market.

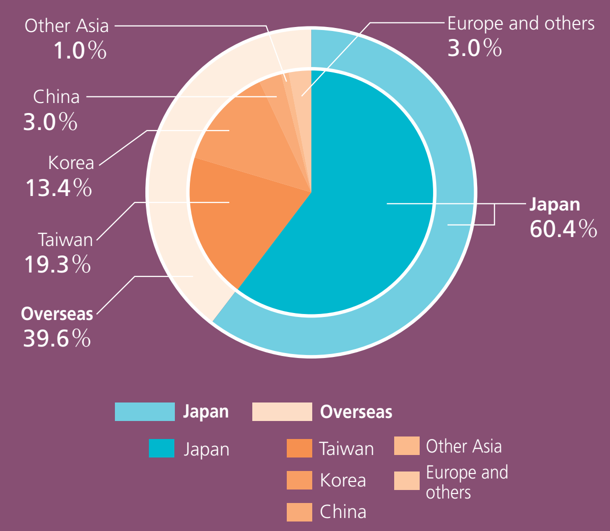
In order to raise our customer satisfaction level, we will fortify our facilities in Taiwan, China, Korea, Singapore and other regions. we will also raise the skill levels of our engineers and strengthen our customer support services so as to capture more of the growing demand in this region. In August 2003, ULVAC acquired 50% of the shares of Litrex Corporation of the United States, which is an industrial-use ink jet printing equipment manufacturer. In February 2004, we concluded a licensing agreement with JDS Uniphase Corporation of the United States for new optical film sputtering technologies, and have successfully realized various collaborative agreements with the global market in mind.

ULVAC KOREA, Ltd.

Litrex Corporation

ULVAC (SUZHOU) Co., LTD.

Net sales percentage by Region in 2004 (%)



Post-FPD Strategy

While ULVAC expects the market for FPD production equipment, which is one of our main products, to continue to grow in the future, we also expect the growth curve to flatten significantly and orders for our equipment to decline. In order to supplement this decline in orders and to continue to grow as a company, we need to identify new fields for business expansion. ULVAC has identified four areas that can provide growth over the medium term and that we believe will become the pillars of our business in the next generation. These areas are the core of our "post-FPD strategy."

1) MEMS, optical film and other hybrid module production equipment
2) Production equipment for parts of environment-friendly hybrid cars
3) China as a major player in the world economy
4) Customer support business to achieve stable management in our operations

With regard to hybrid modules, optical film sputtering equipment, MEMS (optical, biotech, actuator, sensors and other devices), compound semiconductor etching equipment, and High-Density Packaging sputtering equipment, ULVAC has the technological advantages needed to become the leading manufacturer in these fields. In the area of hybrid cars, the rare earth permanent magnets and nickel hydride batteries that are used in hybrid engines are manufactured in vacuum sintering furnaces, vacuum heat treatment furnaces and vacuum melting furnaces that feature ULVAC technologies. ULVAC also feature technologies for ultra-thin wafer production equipment for the power ICs used to operate the drive motors in hybrid cars.

We expect China to become a leader in the world economy in the near future. We also believe that there will be numerous business opportunities in various areas ranging from low-tech to high-tech fields involved with the automobile and consumer electronics-related components, general industrial equipment, electronics, FPD, and semiconductor industries.

ULVAC recognizes the importance of strengthening our customer support business as a stable source of earnings that will allow us to achieve continued growth moving forward.

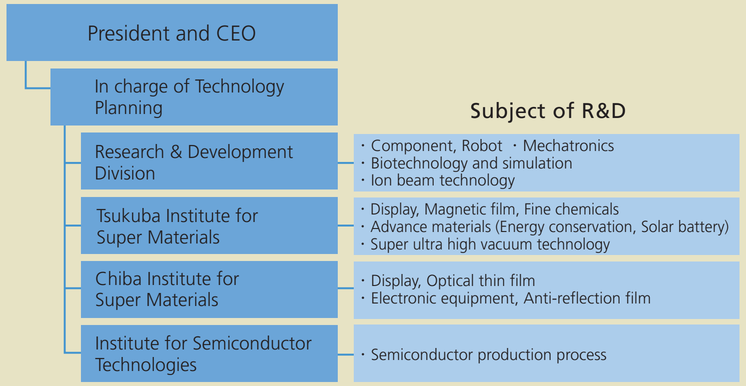
Research and Development

The ULVAC Group provides comprehensive solutions based on our core vacuum technology, and we view our research and development activities aimed at creating the next generation of these technologies as a fundamental part of our management strategy. We also perform R&D activities designed to bring about close collaboration between the developers of our production facilities and the research staff of our four research facilities, including our Institute for Semiconductor Technologies, Research and Development Division, Chiba Institute for Super Materials, and our Tsukuba Institute for Super Materials.

During the current fiscal year, we made aggressive investments in the development of leading-edge semiconductor manufacturing processes as well as organic EL, large-substrate TFT LCDs, PDPs and other products in the electronics field. We have also begun to develop unique new technologies in the areas of nanotechnology, including nano-metal ink manufacturing, energy, and the environment. Specific examples of our successful research and development activities include our solid green laser annealing equipment, which boasts the world's most powerful output level, production equipment used for MEMS, large-scale dry vacuum pumps, transfer platforms, insulating film etching equipment used in mini-lines, and low resistance materials used in high performance next-generation semiconductor applications.

ULVAC has successfully filed for numerous patents in Japan and in overseas markets. We hold several patents in technological areas such as ultra-high-vacuum-related equipment, discharge plasma processing equipment, thin film deposition equipment, organic thin film manufacturing methods, evaporator sources for organic materials, and various other areas.

Research and development structure



Board of Directors and Corporate Auditors

Dr. Kyuzo Nakamura
President and CEO

Hidenori Suwa
Executive Vice President,
Representative Director

Hisaharu Obinata
Managing Director

Dr. Hiroyuki Yamakawa
Managing Director

Yuzo Sakurada
Managing Director

Shizuo Nakamura
Managing Director

Yoshihiro Tsunemi
Managing Director

Yoshio Sunaga
Managing Director

Shigeto Kobayashi
Director

Shigeru Amano
Director

Toshihiro Kashiwagi
Director

Takashi Fukuda
Director

Masashi Makino
Director

Mitsutoshi Kimura
Director

Hiroshi Kikujo
Corporate Auditor

Kazuya Kawashima
Corporate Auditor

Tsuneo Sato
Corporate Auditor

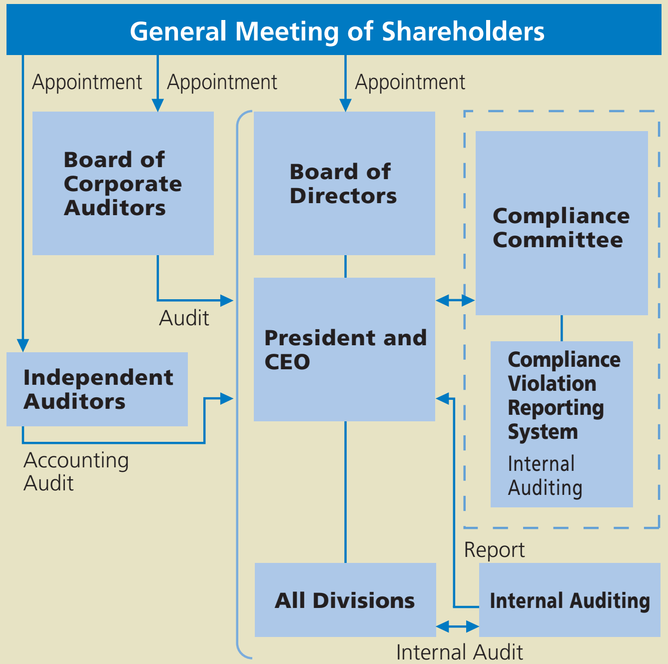
Masato Nagasawa
Corporate Auditor

Our Basic Policy on Corporate Governance

The ULVAC Group recognizes corporate responsibility to society and to shareholders as one of our most important management issues and as part of our corporate governance policy. Our Group maintains 18 articles that define our "Corporate Code of Ethics" designed to promote high levels of fairness and transparency.

We promote a quick decision-making process by maintaining a management structure with 14 board directors and an audit structure with four corporate auditors. At the current time, we have no plans to introduce an operating officer system or to shift our corporate structure to a company-with-committee system. However, from the standpoint of assuring an independent audit of our management, we maintain two external directors and two external corporate auditors.

With regard to our internal controls, we defined our Group risk management policy in February 2004 in which we specified and clarified our responses to various risks. In November 2003, at the same time as the release of our "Corporate Code of Ethics," our Group established a "Compliance Committee" to teach managers about compliance issues and carry out auditing.



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	1999	2000	2001	2002	2003	**2004**	**2004**
For the year							
Net sales	¥ 89,603	¥ 109,078	¥ 147,432	¥ 126,129	¥ 127,473	**¥ 157,851**	**$ 1,461,583**
Gross profit	15,064	23,267	27,754	20,457	24,109	**29,996**	**277,750**
Operating profit	709	7,500	9,173	2,276	4,737	**8,476**	**78,491**
Net income	307	3,349	5,088	669	1,729	**3,953**	**36,611**
At year-end							
Total assets	¥115,792	¥ 133,374	¥ 181,374	¥ 160,276	¥ 173,949	**¥ 200,645**	**$ 1,857,824**
Total shareholders' equity	30,313	35,550	39,976	40,102	41,952	**58,145**	**538,379**
Per Share (in yen and U.S. dollars)							
Net income	¥ 9.49	¥ 103.28	¥ 156.90	¥ 20.62	¥ 48.10	**¥ 108.91**	**$ 1.01**
Cash dividends	5.00	7.00	10.00	7.00	7.00	**20.00**	**0.19**
Ratios (%)							
Shareholders' equity ratio	26.1	26.7	22.0	25.0	24.1	**29.0**	
ROE	1.0	10.1	13.4	1.6	4.2	**7.9**	
ROA	0.3	2.5	2.8	0.4	1.0	**2.0**	
Number of employees		3,322	3,614	3,658	3,648	**3,712**	

• The U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥108 to US $1, the approximate exchange rate as of June 30, 2004.

Contents

Management's Discussion and Analysis

Business Environment

During the term under review, the global economy suffered from various uncertainties including instability in Iraq, but it also benefited from an improvement in the employment situation in the United States, which continues to expand steadily. Furthermore, capital investments have trended strongly in Korea, Taiwan, China and other parts of Asia, leading to economic recovery in those areas.

At the same time, the manufacturing industry in Japan has also benefited from increases in capital investments and exports, and the Japanese economy continued to expand during the term.

Against this backdrop, our customers, who belong primarily to the display and semiconductor-related industries, are benefiting from an expansion in the market demand for flat-panel televisions (TFT LCDs and PDPs), digital cameras, DVD players, cellular telephones, and other digital consumer electronics. Furthermore, they are benefiting from aggressive capital investments in these product areas, primarily in Korea and Taiwan.

Technological advances in new devices and the increasing size of glass substrates are both progressing rapidly in the display and semiconductor-related industries. Equipment manufacturers in Korea and other parts of Asia have launched strategies designed to capture market share in the area of front-end processing. Domestically, deflationary pressures are contributing to declines in product prices, and the competition to remain afloat in the global market is intensifying.

Business Activities and Earnings During the Term

In order to cope with this difficult operating environment, we have endeavored to launch unique products in a timely manner and to aggressively secure product orders by promoting "ULVAC solutions."

Concretely speaking, we have conducted marketing activities for large-screen TFT LCDs that are used in televisions, a field that is expected to grow by five times over the next five years, and also for TFT LCD displays, in response to the expanding investments in sixth- to seventh-generation technologies.

At the same time, in response to customers' demands for price reductions, we have carried out the second phase of our production reforms designed to reduce costs, and we continued to cut various expenses in order to help restrain our fixed costs.

Consequently, at the consolidated level during the term under review, we saw orders rise by ¥30,429 million to ¥178,196 million (up 20.6% year-over-year) and sales rose by ¥30,378 million to ¥157,851 million (up 23.8% year-over-year) from the previous fiscal year.

During the year, consolidated operating profits reached ¥8,476 million (up 78.9% year-over-year), while net income reached ¥3,953 million (up 128.6% year-over-year).

Earnings by Business Segment

Vacuum-related Business

Display and electronic device production equipment, semiconductor production equipment, components, other vacuum equipment

With regard to display and electronic device production equipment, sales of SMD Series TFT LCD sheet sputtering equipment, SDP Series TFT LCD in-line sputtering equipment, and ECH Series PDP evaporator equipment remained strong. We attribute this strong sales performance to the aggressive capital investments made in Korea, Taiwan and Japan for fifth- and sixth-generation TFT LCDs and PDPs.

Looking at our semiconductor production equipment, sales of CERAUS Series and ENTRON Series PVD equipment, and NE Series and NLD Series etching equipment also trended strongly. This strength can be attributed to strong capital investment, not only in digital consumer electronics, but also in power ICs, LEDs and other compound semiconductor products used in, e.g., automobile applications.

In our components business, we saw robust orders and aggregate sales of large dry pumps and cryo pumps, which are used mainly in TFT LCD production equipment applications, as well as vacuum pumps that are used in the automobile and consumer electronics industry.

As a result of the strength in these various product areas, our vacuum-related business saw new orders of ¥154,163 million, orders outstanding of ¥75,608 million, and sales of ¥133,971 million, while operating profits reached ¥7,738 million.

Other Businesses

Advanced materials, surface analysis, equipment control and others

In our other businesses division, our Group made efforts to expand our customer base by aggressively marketing our "ULVAC Solutions." As a result, we were able to successfully expand both orders and sales in areas such as TFT LCDs, semiconductor-related sputtering target materials, and our materials business for the cleaning of maintenance parts, and also for nanotechnology-related surface analysis equipment.

Consequently, this division's new and outstanding orders reached ¥24,034 million and ¥6,440 million, respectively, achieving sales of ¥23,880 million and operating profits of ¥495 million.

Financial Conditions

Assets

Accompanying the dramatic increase in sales, cash on hand and in banks rose by ¥2,202 million from the end of the previous term to ¥17,886 million, and accounts receivable, trade increased by ¥14,509 million to ¥66,387 million.

In addition, the increase in outstanding orders contributed to a ¥3,625 million increase in inventories to ¥47,213 million. As a result of these changes, total current assets grew by ¥20,484 million from the end of the previous term to ¥136,859 million.

In the area of fixed assets, buildings and leasehold improvements increased by ¥4,266 million due to construction related to our Chigasaki main plant. Additionally, increases in the capitalization of our affiliated companies to bolster their earnings-generating capabilities contributed to a ¥2,525 million rise in our shareholdings of these affiliates compared to the end of the last term.

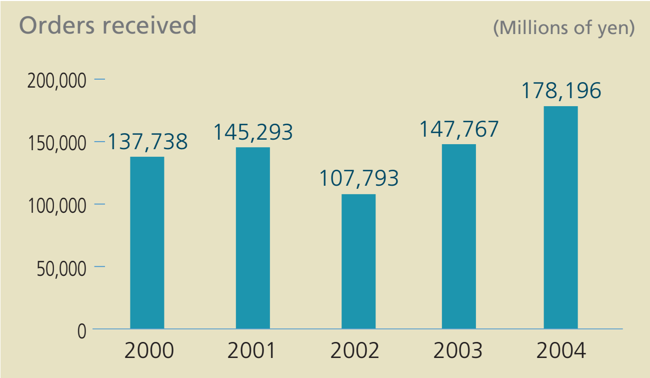
All of these changes boosted total assets by ¥26,696 million from the end of the last fiscal year to ¥200,645 million.

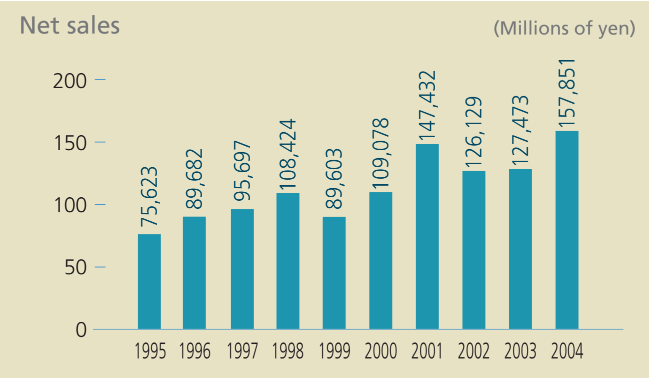
Liabilities

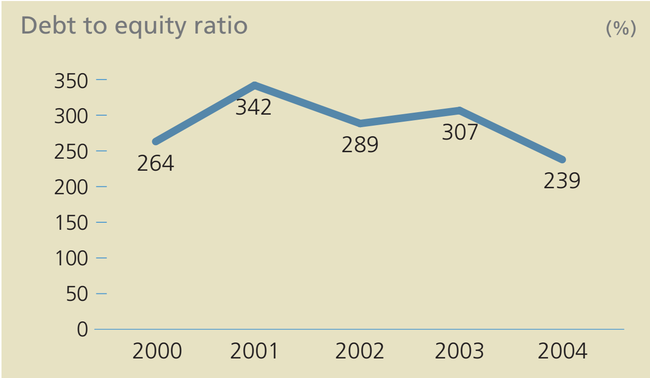
The sudden increase in orders caused our notes and accounts payables to rise by ¥14,617 million from the end of the previous term to ¥50,153 million. While we were able to reduce short-term borrowings and current portion of long-term debt by ¥7,344 million from the end of the last term to ¥35,347 million, total liabilities rose by ¥10,430 million from the previous term-end to ¥139,233 million.

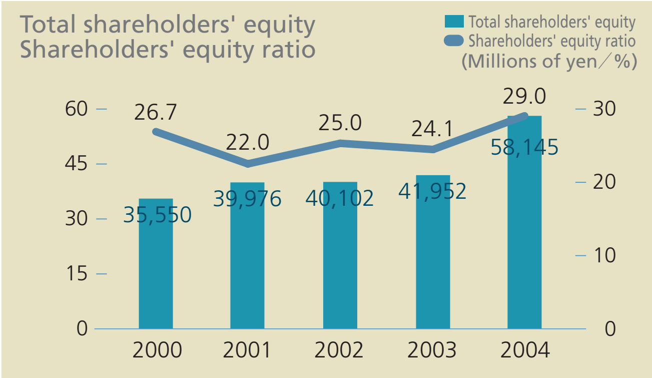
Shareholders' Equity

Due to the public offering and the third-party placement of shares in the over-allotment during our listing, capital rose by ¥5.1 billion and capital surplus by ¥7,321 million, along with









Management's Discussion and Analysis

a ¥3,459 million increase in retained earnings from the end of the previous term.

Consequently, total shareholders' equity rose by ¥16,193 million year-over-year to ¥58,145 million. Shareholders' equity ratio increased by 4.9% points to 29.0%, and the large increase in net income helped to boost our return on equity ratio by 3.7% points over the previous year to 7.9%.

Cash Flows

Cash Flows from Operating Activities

While income before income taxes increased from the end of the previous year, the increase in receivables accompanying the rise in sales caused net cash provided by operating activities to decline by ¥4,577 million to ¥9,559 million.

Cash Flows from Investing Activities

The acquisition of tangible fixed assets and investment securities contributed to an increase in cash outflow, and net cash used in investing activities declined by ¥3,264 million to ¥12,172 million cash outflow.

Cash Flows from Financing Activities

Due to the public offering and the third-party placement of shares in the over-allotment during our listing, we were able to raise ¥12,421 million in new funds. Of these funds, we had planned to use ¥5 billion for research and development activities during the term under review and in the coming term. During the term under review we spent ¥2,912 million on research and development and will allot the remainder of the funds to R&D in the coming year.

As for the balance of new funds raised that will not be devoted to R&D, ¥7,421 million were used to repay debt.

Risk Management

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

Fluctuations in the display and semiconductor markets

Our Group develops vacuum devices used in the manufacture of displays and semiconductors; our unique technologies have allowed us to capture market share and expand our sales. In fact, sales of these products account for over 60% of our consolidated net sales. Therefore, any large reduction in capital investments by the display and/or semiconductor manufacturers—for example, in an effort to adjust their production to match changing market conditions—could negatively impact our earnings and financial standing. We maintain a similar outlook for the risk factors listed below.

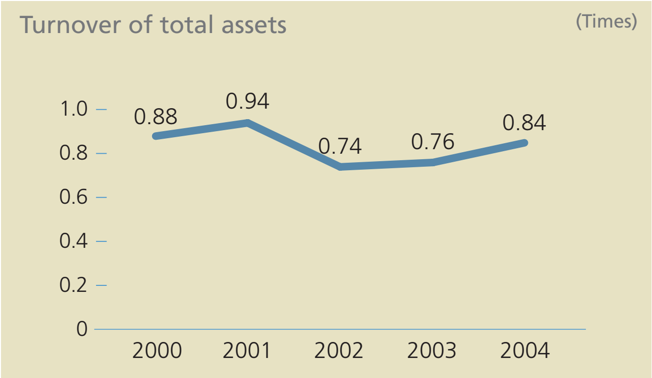
Influence of research and development

Our Group has been able to continuously introduce innovative new products using leading-edge technologies because of our unrelenting, aggressive investments in research and development. However, there is always the possibility that we might not be as successful in commercializing some of these new technologies as we expected, or that we might experience delays in bringing products to market. In short, various risks related to R&D always exist.

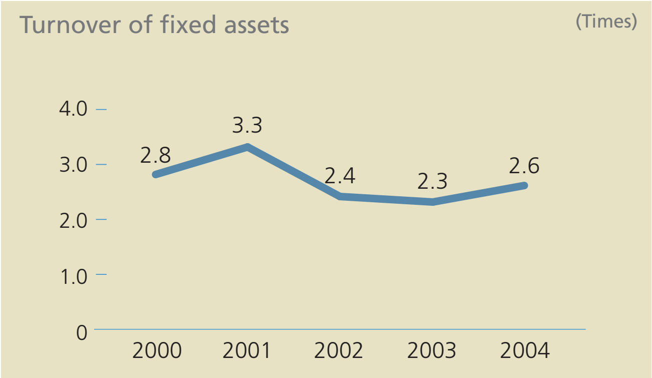
Influence of pricing competition

Our Group is benefiting from the strong capital investments made by our customers in the display industry following the rapid increase of demand for digital consumer electronics. However, there is constant pressure from the consumer side to lower prices. We expect even more severe sales competition as new manufacturers enter our markets, and we foresee further increases in materials prices and other purchased goods, which will put additional pressure on our business.

Turnover of total assets



Turnover of fixed assets



Influence of increased overseas sales

Overseas sales now comprise 39.6% of total Group sales, with the majority going to customers in China, Korea, Taiwan and other Asian countries. As a rule, we maintain a policy of conducting our international transactions in yen to avoid foreign exchange risks. However, when the yen is strong this policy puts us at a pricing disadvantage vis-à-vis our overseas competitors. At the same time, because we do maintain some foreign currency-denominated exports, we also face some risks associated with rapid swings in the exchange rates.

Influence of quality-assurance efforts

Our Group has acquired ISO9001 certification, and we always strive to keep a sound quality assurance system in order to ensure that we can provide our customers with a high level of service. However, because our products use many different leading-edge technologies, some of which are still in the developmental phase, there are sometimes unforeseen product failures and we are required to collect and repair these products free of charge.

Influence of intellectual property rights

Our Group maintains numerous patents for various types of vacuum equipment, and seeks to aggressively acquire new patents. While we naturally perform patent surveys on this equipment, we also face the risk of possible legal action by third parties claiming patent infringement.

Other risks

Like companies in most industries, our Group faces risks stemming from weakness in the global and regional economies, as well as natural disasters, war, terrorism, and infectious diseases.

Issues confronting our Group

We expect capital investments by the FPD, electronic parts, and semiconductor industries, to which most of our customers belong, to remain robust. In particular, we expect capital investments by these industries in Korea, Taiwan, China and Japan to continue to trend strongly.

Against this backdrop, our Group strives to raise the level of our customer satisfaction, develop unique products, expand orders, and reduce costs. Specifically, we are well into the second phase of our manufacturing reform program in which we seek to raise our profitability by manufacturing a range of high quality products, from standardized to developmental-type equipment, on tight, highly efficient production schedules. Additionally, we will strengthen our line-up of equipment for large substrate displays and other display-related equipment, and develop highly competitive production equipment for compound semiconductors, MEMS and optical film.

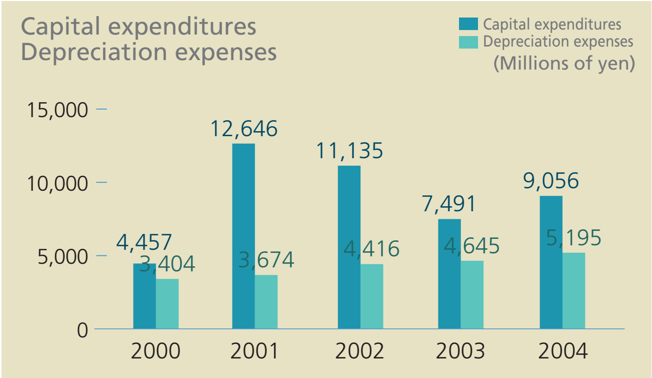
We are also working to create a sound foundation to expand our business in China and Russia as part of our global strategy. We also plan to construct a "clean room" in Korea for TFT LCD production equipment.

And while our FPD production equipment, which is one of our main products, continues to grow, we anticipate that demand for this product will decline in the future. We have therefore set our sights on identifying products that will provide new growth in the "post FPD" era.

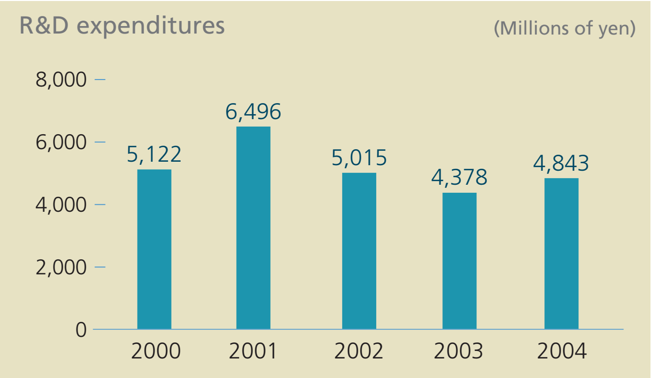
Specific areas of growth we have identified include the following:

1) MEMS, optical film and other hybrid module production equipment
2) Production equipment for parts of environment-friendly hybrid cars
3) China as a major player in the world economy
4) Customer support business to achieve stable management in our operations

Capital expenditures
Depreciation expenses



R&D expenditures



Consolidated Balance Sheets

ULVAC, INC. AND ITS CONSOLIDATED SUBSIDIARIES
AS OF JUNE 30, 2003 AND 2004

ASSETS

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Current assets:			
Cash on hand and in banks	¥15,684	¥17,886	$165,611
Accounts receivable, trade	51,878	66,387	614,694
Inventories	43,588	47,213	437,157
Deferred income taxes	2,777	2,956	27,370
Other current assets	2,782	2,653	24,565
Allowance for doubtful accounts	(334)	(236)	(2,185)
Total current assets	116,375	136,859	1,267,212
Investments:			
Unconsolidated subsidiaries and affiliated companies	5,008	5,647	52,287
Other	1,767	2,817	26,083
Total investments	6,775	8,464	78,370
Property, plant and equipment:			
At cost -			
Land	7,427	7,369	68,231
Buildings and leasehold improvements	32,878	37,144	343,926
Machinery and equipment	31,305	33,332	308,630
Furniture and fixtures	8,900	9,456	87,556
Construction in progress	4,490	2,218	20,537
	85,000	89,519	828,880
Accumulated depreciation	(40,751)	(43,171)	(399,731)
Total tangible fixed assets	44,249	46,348	429,149
Other assets:			
Intangibles, net	854	2,399	22,213
Leasehold and guarantee deposits	1,244	1,252	11,593
Deferred income taxes	2,606	2,876	26,630
Deferred charges	2	1	9
Other	1,863	2,523	23,361
Allowance for doubtful accounts	(19)	(77)	(713)
	6,550	8,974	83,093
Total assets	¥173,949	¥200,645	$1,857,824

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Liabilities:			
Current liabilities -			
Notes and accounts payable	¥35,536	¥50,153	$464,380
Short-term borrowings	33,114	23,528	217,852
Current portion of long-term debt	9,577	11,819	109,435
Accrued taxes on income	1,382	2,600	24,074
Accruals	2,605	3,399	31,472
Other current liabilities	12,043	12,813	118,639
Total current liabilities	94,257	104,312	965,852
Long-term liabilities -			
Long-term debt	26,450	25,861	239,454
Accrued pension and severance costs	7,847	8,770	81,204
Other long-term liabilities	249	290	2,685
Total long-term liabilities	34,546	34,921	323,343
Total liabilities	128,803	139,233	1,289,195
Minority interests in consolidated subsidiaries	3,194	3,267	30,250
Shareholders' equity:			
Common stock: 2003 - no par value			
2004 - no par value			
Authorized: 2003 - 80,000 thousand shares			
2004 - 80,000 thousand shares			
Issued: 2003 - 32,428 thousand shares	3,850	-	-
2004 - 38,428 thousand shares	-	8,950	82,870
Capital surplus	2,860	10,181	94,269
Retained earnings	35,421	38,880	360,000
Unrealized gain (loss) on securities, net of taxes	(14)	666	6,166
Foreign currency translation adjustments	(165)	(531)	(4,917)
	41,952	58,146	538,388
Treasury stock, at cost	(0)	(1)	(9)
Total shareholders' equity	41,952	58,145	538,379
Total liabilities and shareholders' equity	¥173,949	¥200,645	$1,857,824

Consolidated Statements of Income

ULVAC, INC. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED JUNE 30, 2003 AND 2004

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Net sales	¥127,473	¥157,851	$1,461,583
Cost of sales	103,364	127,854	1,183,833
Gross profit	24,109	29,996	277,750
Selling, general and administrative expenses	19,372	21,520	199,259
Operating profit	4,737	8,476	78,491
Other income:			
Interest and dividend income	135	167	1,546
Commission and rental income	339	346	3,204
Foreign exchange gain, net	5	57	528
Equity in earnings of unconsolidated subsidiaries and affiliates	94	289	2,676
Gain on sale of investment securities	188	19	176
Insurance income	44	-	-
Reversal of allowance for doubtful accounts	154	143	1,324
Income on prefectural government's grants	140	162	1,500
Other	460	568	5,259
Total other income	1,559	1,751	16,213
Other expenses:			
Interest	931	978	9,056
Loss on disposal or devaluation of inventories	784	1,207	11,176
Costs and expenses for rental activities	170	157	1,454
Loss on disposal of property, plant and equipment	60	509	4,713
Devaluation loss on investment securities	687	-	-
Devaluation loss on investment in an affiliate company	-	113	1,046
Other	385	399	3,694
Total other expenses	3,017	3,363	31,139
Income before income taxes and minority interests in net income (loss) of consolidated subsidiaries	3,278	6,864	63,565
Income taxes:			
Current	1,869	3,597	33,306
Deferred	(726)	(909)	(8,417)
	1,143	2,688	24,889
Minority interests in net income (loss) of consolidated subsidiaries	406	223	2,065
Net income	¥1,729	¥3,953	$36,611

	Yen		U.S. dollars
Per share:			
Net income	¥48.10	¥108.91	$1.01
Cash dividends	¥7.00	¥20.00	$0.19

Consolidated Statements of Shareholders' Equity

ULVAC, INC. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED JUNE 30, 2003 AND 2004

	Thousands	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain or (loss) on securities, net of tax	Foreign currency translation adjustments	Treasury stock, at cost	Total of shareholders' equity
Balance, June 30, 2002	32,428	¥3,850	¥2,860	¥33,739	(¥141)	(¥206)	(¥0)	¥40,102
Cash dividends—¥7.00 per share	-	-	-	(227)	-	-	-	(227)
Bonuses to directors and statutory auditors	-	-	-	(69)	-	-	-	(69)
Exclusion of an affiliate company from consolidation	-	-	-	249	-	-	-	249
Purchase of treasury stock	-	-	-	-	-	-	0	0
Net income	-	-	-	1,729	-	-	-	1,729
Unrealized gain on securities, net of tax	-	-	-	-	127	-	-	127
Foreign currency translation adjustments	-	-	-	-	-	41	-	41
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

	Thousands of U.S. dollars						
Balance, June 30, 2003	$35,648	$26,482	$327,972	($130)	($1,528)	($2)	$388,442
Public offering	39,352	56,491	-	-	-	-	95,843
Allotment to the third party	7,870	11,296	-	-	-	-	19,166
Cash dividends—$0.06 per share	-	-	(2,102)	-	-	-	(2,102)
Bonuses to directors and statutory auditors	-	-	(2,472)	-	-	-	(2,472)
Purchase of treasury stock	-	-	-	-	-	(9)	(9)
Net income	-	-	36,602	-	-	-	36,602
Unrealized gain on securities, net of tax	-	-	-	6,296	-	-	6,296
Foreign currency translation adjustments	-	-	-	-	(3,389)	-	(3,389)
Balance, June 30, 2004	$82,870	$94,269	$360,000	$6,166	($4,917)	($11)	$538,377

Consolidated Statements of Cash Flows

ULVAC, INC. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED JUNE 30, 2003 AND 2004

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Cash flows from operating activities:			
Income before income taxes and minority interests in net income of consolidated subsidiaries	¥3,279	¥6,864	$63,556
Adjustments for:			
Depreciation and amortization	4,645	5,195	48,102
Increase (decrease) in allowance for doubtful accounts	(52)	(37)	(343)
Increase in accrued pension and severance costs	569	928	8,593
Increase (decrease) in accrued warranty cash	319	635	5,880
Loss on disposal of property, plant and equipment	121	549	5,083
Loss on devaluation of investment securities	687	-	-
Loss on devaluation of investment in an affiliate company	-	113	1,046
Proceeds from sales of investment securities	(188)	(19)	(176)
Interest and dividend income	(135)	(166)	(1,537)
Interest expense	931	978	9,056
Income on prefectual government's grants	(141)	(162)	(1,500)
Equity in earnings of unconsolidated subsidiaries and affiliates	(94)	(289)	(2,676)
Decrease in accounts receivable	5,639	(14,648)	(135,630)
Decrease (increase) in inventories	(9,122)	(3,457)	(32,009)
Increase (decrease) in accounts payable, trade	10,713	14,767	136,731
Increase (decrease) in advances received	(1,794)	(120)	(1,111)
Increase (decrease) in consumption taxes payable	(444)	110	1,019
Other	1,360	1,494	13,831
Sub total	16,293	12,735	117,915
Income taxes paid	(1,428)	(2,370)	(21,944)
Interest and dividend income, received	171	200	1,852
Interest paid	(900)	(1,006)	(9,315)
Net cash provided by operating activities	14,136	9,559	88,508
Cash flows from investing activities:			
Increase in time deposits	(338)	(761)	(7,046)
Decrease in time deposits	231	64	593
Proceeds from redemption of marketable securities	20	-	-
Proceeds from sales of investment securities	123	100	926
Payments for acquisition of investment securities	(492)	(560)	(5,185)
Payment for acquisition of a subsidiary	(1,668)	(62)	(574)
Net decrease from purchase of a consolidated subsidiary	-	(1,873)	(17,343)
Payments for loan receivables	(39)	(52)	(481)
Proceeds from collection of loan receivables	352	77	713
Payments for acquisition of property, plant and equipment	(7,753)	(9,275)	(85,880)
Proceeds from sales of property, plant and equipment	1,605	994	9,204
Proceeds from prefectual government's grants	141	151	1,398
Payment for long-term prepaid expenses	(1,050)	(144)	(1,333)
Other	(39)	(831)	(7,695)
Net cash used in investing activities	(8,908)	(12,172)	(112,703)
Cash flows from financing activities:			
Net changes in short-term borrowings	119	(9,429)	(87,305)
Borrowing of long-term debt	9,590	12,077	111,824
Repayment of long-term debt	(10,391)	(10,623)	(98,361)
Proceeds from issuance of bonds	-	200	1,852
Proceeds from issuance of new shares	-	12,421	115,009
Proceeds from stock issue to minority shareholders	88	-	-
Dividends paid by the parent company	(227)	(227)	(2,102)
Dividends paid by consolidated subsidiaries to minority shareholders	(60)	(61)	(565)
Payments for purchase of treasury stocks	(0)	(1)	(9)
Net cash (used in) provided by financing activities	(881)	4,357	40,343
Effect of exchange rate changes on cash and cash equivalents	(67)	(233)	(2,157)
Net change in cash and cash equivalents	4,280	1,511	13,991
Cash and cash equivalents:			
At beginning of year	10,390	15,124	140,037
Increase in cash and cash equivalents due to merger of a consolidated subsidiary	454	-	-
At end of year	¥15,124	¥16,635	$154,028

Notes to Consolidated Financial Statements

ULVAC, INC. AND ITS CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED JUNE 30, 2003 AND 2004

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.

(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 and interest rate swap agreements, 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 options:
The Company enters into 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 options are marked to market.

(15) 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.

(16) Net income and cash dividends per share -
The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

Effective from the year ended June 30, 2003, the Company adopted the Statement of Financial Accounting Standard No. 2 "Earnings per Share" issued by the Accounting Standards Board of Japan. The net income per share for the year ended June 30, 2002 has been restated to conform to the new accounting standard. Net income per share for the year ended June 30, 2002 previously reported was ¥20.62.

(17) Reclassification -
Certain accounts in the consolidated financial statements for the year ended June 30, 2003 have been reclassified to conform to the 2004 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 ¥108= U.S.$1, the approximate rate of exchange on June 30, 2004, 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, 2003 and 2004, are reconciled to "Cash on hand and in banks" per the consolidated financial statements as follows -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Cash on hand and in banks	¥15,684	¥17,886	$165,611
Time deposits with maturity over three months	(560)	(1,251)	(11,583)
Cash and cash equivalents	¥15,124	¥16,635	$154,028

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		
	2003		
	Cost	Fair value	Unrealized gains/ (losses)
Other securities			
Equity securities with unrealized gains	¥260	¥322	¥62
Equity securities with unrealized losses	594	533	(61)
	¥854	¥855	¥1

	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

	Thousands of U.S. dollars		
	2004		
	Cost	Fair value	Unrealized gains/ (losses)
Other securities			
Equity securities with unrealized gains	$7,516	$18,889	$11,370
Equity securities with unrealized losses	1,481	963	(519)
	$8,997	$19,852	$10,851

Cost shown above includes the cost of individual securities which were written down to fair value as the fair value fell significantly below cost and the fall was judged to be a permanent impairment of value. The aggregate amounts of such impairment losses recognized in the years ended June 30, 2003 and 2004 were ¥595 million and nil, respectively.

At June 30, 2004, 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	¥-	$-
Due after 1 year through 5 years	2	19
Due after 5 years	-	-
	¥2	$19

Realized gains and losses on the sale of 'other securities' during the year ended June 30, 2003 and 2004 were as follows -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Sales proceeds	¥0	¥85	$787
Gains on sale of securities	-	19	176
Losses on sale of securities	0	5	46

The carrying amounts of major securities, the fair values of which are not readily determinable, at June 30, 2003 and 2004, were as follows -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Held-to-maturity debt securities	¥2	¥2	$19
Other securities			
Unquoted stock securities	891	673	6,231

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

"Short-term borrowings" at June 30, 2003 and 2004 comprised loans from banks amounting to ¥33,114 million and ¥23,528 (US$ 217,852 thousand), with weighted average interest rates of 1.1% and 1.1% per annum at June 30, 2003 and 2004, respectively.

"Long-term debt" at June 30, 2003 and 2004 comprised the following -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Loans, principally from banks due from July 2, 2002 to April 28, 2011, with weighted average interest rates of 1.5% and 1.5% per annum at June 30, 2003 and 2004:			
Secured	¥11,459	¥10,054	$93,093
Unsecured	21,568	24,427	226,176
No.2 mortgage bonds, 1.9%, due 2005	900	900	8,333
No.3 mortgage bonds, 1.8%, due 2005	900	900	8,333
No.4 mortgage bonds, 1.65%, due 2005	500	500	4,630
No.5 mortgage bonds, 1.7%, due 2004	500	500	4,630
No.6 mortgage bonds, 1.6%, due 2005	200	200	1,852
No.1 Unsecured bonds issued by a consolidated subsidiary, 0.55%, due 2011	-	200	1,852
	36,027	37,681	348,899
Less:			
Portion due within one year	9,577	11,319	104,806
	¥26,450	¥26,362	$244,093

At June 30, 2003 and 2004, 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
	2003	2004	2004
Factory foundation:			
Land	¥267	¥504	$4,667
Buildings and leasehold	129	7,504	69,481
Other	61	1,201	11,120
	457	9,209	85,268
Land	4,332	4,224	39,111
Buildings and leasehold	2,075	1,930	17,870
Investment securities	358	867	8,028
	¥7,222	¥16,230	$150,277

The aggregate amounts of annual maturities of "Long-term debt" at June 30, 2004, were as follows -

	Millions of yen	Thousands of U.S. dollars
Year ending June 30:		
2005	¥11,319	$104,806
2006	10,940	101,296
2007	6,481	60,009
2008	4,041	37,417
2009 and thereafter	1,196	11,074
	¥33,977	$314,602

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, 2003 and 2004 amounted to ¥4,378 million and ¥4,843 million (US$44,843 thousand), respectively.

8. Pension and severance plans:

"Accrued pension and severance costs" stated in the consolidated balance sheets as at June 30, 2003 and 2004 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, 2003 and 2004 is shown as follows -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Projected benefit obligation	(¥17,144)	(¥17,943)	($166,139)
Fair value of plan assets	5,278	5,571	51,583
Unfunded benefit obligation	(11,866)	(12,372)	(114,556)
Unrecognized transition amount upon initial application of the new accounting standard	2,396	2,052	19,000
Unrecognized actuarial loss	2,673	2,483	22,991
Net amount	(6,797)	(7,837)	(72,565)
Prepaid pension cost	55	27	250
Accrued retirement benefits	(¥6,852)	(7,864)	($72,815)

Components of the net periodic pension and severance costs for the years ended June 30, 2003 and 2004, are analyzed below -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service cost	¥1,088	¥1,265	$11,713
Interest cost	267	256	2,370
Expected return on plan assets	(115)	(117)	(1,083)
Amortization of net transition amount existing at July 1, 2000 upon initial application of the new accounting standard	343	343	3,176
Amortization of unrecognized actuarial differences	89	279	2,583
Net pension and severance costs	¥1,672	¥2,026	$18,759

The assumptions used in calculation of the above information for the years ended June 30, 2003 and 2004 are as follows -

	2003	2004
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, 2003 and 2004 amounted to ¥995 million and ¥906 million (US$8,389 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 percent for the years ended June 30, 2003 and 2004.

At June 30, 2003 and 2004, the significant components of deferred tax assets and liabilities were as follows -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets:			
Accrued business taxes	¥116	¥259	$2,398
Devaluation loss on inventories	1,417	1,282	11,870
Accrued bonuses	326	433	4,009
Accrued warranty costs	682	918	8,500
Accrued pension and severance costs	2,375	3,011	27,880
Tax loss carry forwards	1,236	1,043	9,657
Devaluation loss on investment securities	498	1,327	12,287
Other	679	499	4,620
Gross deferred tax assets	7,329	8,772	81,221
Less: valuation allowance	(1,623)	(2,161)	(20,009)
Total deferred tax assets	5,706	6,611	61,212
Deferred tax liabilities:			
Allowance for doubtful accounts	(24)	(21)	(194)
Special reserve for income tax deferred	(296)	(761)	(7,046)
Other	(2)	-	-
Gross deferred tax liabilities	(322)	(782)	(7,240)
Net deferred tax assets	¥5,384	¥5,829	$53,972

For the years ended June 30, 2003 and 2004, a reconciliation between the normal statutory income tax rate and the effective income tax rate is as follows -

	2003	2004
Normal statutory income tax rate	41.7%	41.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	3.3	1.5
Non-taxable portion of dividend income	(4.4)	(2.3)
Foreign income tax credits	(6.2)	(4.4)
Equity in earnings of unconsolidated subsidiaries and affiliates	-	(1.8)
Tax credit for experimental and research expenses	-	(4.3)
Amortization of goodwill	-	1.6
Difference in income tax rate Applied for foreign subsidiaries	(10.7)	(1.8)
Dividends received from subsidiaries eliminated at consolidation	13.2	9.3
Other	(2.1)	(0.3)
Effective income tax rate	34.8%	39.2%

On March 31, 2003, the Japanese National Diet approved changes to the calculation of the statutory local enterprise tax. As a result, the effective income tax ratio used in the computation of deferred tax assets/liabilities at June 30, 2003 is reduced to 40.5% from 41.7% from the previous years. This reduced effective income tax ration applies only to those temporary differences expected to be deducted/added to taxable income in the fiscal years starting from July 1, 2004. As a result, net deferred tax assets at June 30, 2003 decreased by ¥62 million (US$574 thousand) and income tax for the year ended June 30, 2003 increased by ¥62 million (US$574 thousand), respectively as compared with those that would have been computed based on the previous income tax rate.

10. Contingent liabilities:

Contingent liabilities for guarantees given for loans borrowed by unconsolidated subsidiaries amounted to ¥744 million (US$6,889 thousand) at June 30, 2004. The Company was also contingently liable for outstanding notes discounted in the ordinary course of business in the amount of ¥945million (US$8,750 thousand) at June 30, 2004.

11. Derivative transactions:

The Company uses derivative financial transactions, which comprise foreign forward exchange contracts 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 options, 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, 2003 and 2004 are as follows -

	Millions of yen		
	2003		
	Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:			
- Sell			
U.S. dollars	¥95	¥98	(¥3)
- Buy			
U.S dollars	234	236	2
Euro	551	578	27
Sterling pound	171	173	2
			¥28
	Notional amount	Carrying amount	Gain/loss
Interest rate options:			
Cap - call	¥200	¥-	(¥1)

	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)
	Notional amount	Carrying amount	Gain/loss
Interest rate options:			
Cap - call	¥-	¥-	¥-

	Thousands of U.S. dollars		
	2004		
	Contract amount	Fair value	Gains/(losses)
Foreign exchange forward contracts:			
- Sell			
U.S. dollars	$6,639	$6,685	($47)
- Buy			
U.S dollars	1,250	1,213	(38)
Euro	1,565	1,602	38
Sterling pound	806	806	0
			($47)
	Notional amount	Carrying amount	Gain/loss
Interest rate options:			
Cap - call	$-	$-	$-

12. Retained earnings:

The following appropriations of retained earnings of the Company at June 30, 2004, which have not been reflected in the accompanying consolidated financial statements, were approved at the ordinary general meeting of shareholders held on September 29, 2004.

	Millions of yen	Thousands of U.S. dollars
Appropriation:		
Cash dividends - ¥20.00 ($0.19) per share	¥769	$7,120
Bonuses to directors and statutory auditors	86	796
	¥855	$7,916

13. Leases:

Finance lease charges for the Company for the years ended June 30, 2003 and 2004 were ¥854 million and ¥919 million ($8,509 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, 2003 and 2004 comprised the following (in equivalent amounts) -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Machinery and equipment	¥1,969	¥2,012	$18,630
Other	2,515	2,858	26,463
Accumulated depreciation	(2,106)	(2,486)	(23,019)
	¥2,378	¥2,384	$22,074

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Depreciation	¥854	¥919	$8,509

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, 2003 and 2004 are as follows -

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Current obligation	¥757	¥821	$7,602
Long-term obligation	1,621	1,563	14,472
Future lease payments	¥2,378	¥2,384	$22,074

Future minimum lease payments on rental transactions under lease agreements other than finance lease as of June 30, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	
Due within one year	¥9	$83
Due over one year	42	389
Total	¥51	$472

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, 2003				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	¥105,311	¥22,162	¥127,473	¥-	¥127,473
Intersegment	124	3,019	3,143	(3,143)	-
Total	105,435	25,181	130,616	(3,143)	127,473
Operating expenses	101,998	24,003	126,001	(3,265)	122,736
Operating profit (loss)	¥3,437	¥1,178	¥4,615	¥122	¥4,737

	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 (loss)	¥7,738	¥495	¥8,233	¥243	¥8,476

	Thousands of U.S. dollars				
	Year ended June 30, 2004				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Sales: Customers	$1,240,472	$221,111	$1,461,583	$-	$1,461,583
Intersegment	954	34,546	35,500	(35,500)	-
Total	1,241,426	255,657	1,497,083	(35,500)	1,461,583
Operating expenses	1,169,778	251,083	1,420,861	(37,759)	1,383,102
Operating profit (loss)	$71,648	$4,574	$76,222	$2,259	$78,481

Identifiable assets, depreciation and amortization and capital expenditure:

	Millions of yen				
	Year ended June 30, 2003				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥145,700	¥26,553	¥172,253	¥1,696	¥173,949
Depreciation and amortization	3,925	566	4,491	(-)	4,491
Capital expenditure	¥6,907	¥584	¥7,491	(-)	¥7,491

	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

	Thousands of U.S. dollars				
	Year ended June 30, 2004				
	Vacuum-related business	Other business	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	$1,572,796	$259,398	$1,832,194	$25,630	$1,857,824
Depreciation and amortization	41,833	4,991	46,824	(-)	46,824
Capital expenditure	$76,352	$7,500	$83,852	(-)	$83,852

(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) Sales by consolidated subsidiaries outside Japan -

	Millions of yen				
	Year ended June 30, 2003				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	¥46,342	¥2,958	¥379	¥508	¥50,187
Consolidated sales					127,473
Percentage of consolidated sales	36.4%	2.3%	0.3%	0.4%	39.4%

	Millions of yen				
	Year ended June 30, 2004				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	¥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%

	Thousands of U.S. dollars				
	Year ended June 30, 2004				
	Asia	North America	Europe	Other	Total
Sales outside of Japan	$534,981	$36,213	$7,037	$500	$578,731
Consolidated sales					1,461,583
Percentage of consolidated sales	36.6%	2.5%	0.5%	0.0%	39.6%

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, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all stated in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis of our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of ULVAC, Inc. and its consolidated subsidiaries at June 30, 2003 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Yokohama, Japan
September 29, 2004

Corporate Data

as of June 30, 2004

Trade name : ULVAC, Inc.
Trademark : ULVAC
Head office address : 2500 Hagisono, Chigasaki, Kanagawa Prefecture 253-8543, Japan

Date of establishment: August 23, 1952
Capital : ¥8,950,000,000*
Number of employees: 1,188 (3,712 consolidated)
•On December 8, 2004, capital increased to ¥12,986,000,000 due to public offering.

Consolidated Subsidiaries as of September 29, 2004

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.
VACUUM METALLURGICAL Co., Ltd.
ULVAC Technologies, Inc.
ULVAC TAIWAN Inc.
ULVAC KOREA, Ltd.
ULVAC NINGBO Co., Ltd.
Reliance Electric Ltd.
ULVAC-PHI, Inc.
ULVAC CRYOGENICS, INCORPORATED
ULVAC Materials Technology Co., Ltd.
Litrex Corporation

Global Network

Shareholders Information

Stocks

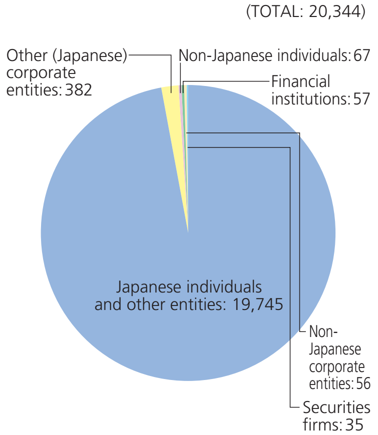
Total number of authorized shares : 80,000,000
Number of shareholders : 20,344
Regular general meeting of shareholders: September

Total number of issued shares: 38,428,438*
•On December 8, 2004, number of issued shares increased to 42,428,438 due to public offering.
Settlement date : June 30 (to determine the shareholders receiving dividends)

Major shareholders

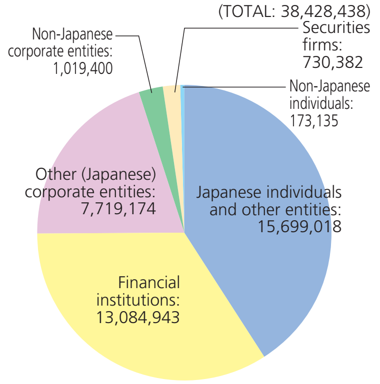
Name	Number of shares (thousands)	(%)
Nippon Life Insurance Company	3,202	8.33
Association of Employee Shareholders of ULVAC	2,194	5.71
Mizuho Bank, Ltd.	1,604	4.17
Japan Trustee Services Bank, Ltd.	1,604	4.17
UFJ Bank Limited	1,604	4.17
Matsushita Electric Industrial Co., Ltd.	1,582	4.12
INABATA & CO., LTD.	870	2.26
Seiko Building Management Co., Ltd.	735	1.91
The Master Trust Bank of Japan, Ltd.	727	1.89
Mizuho Capital Co., Ltd.	698	1.82

Breakdown of stocks by type of holder



*Treasury stock: 1
Stocks held by Japan Securities Depository Center, Inc.: 1

Breakdown of stocks by volume holder



*Treasury stock: 586
Stocks held by Japan Securities Depository Center, Inc.: 1,800