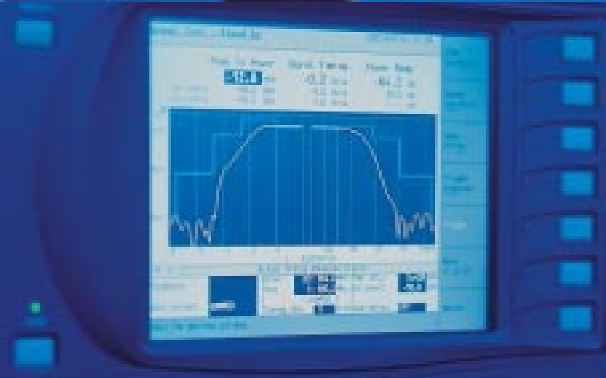
JRC Japan Radio Co., Ltd.

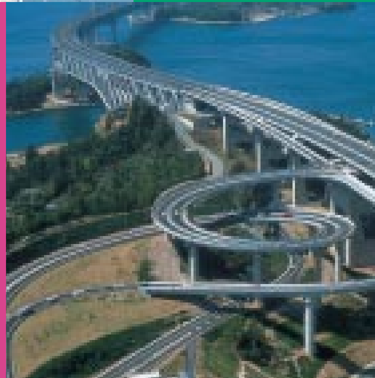
We seek to benefit society through advances in information and communications.

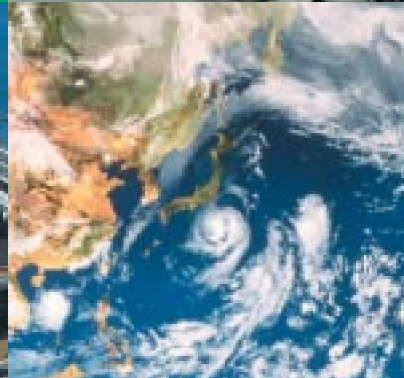
Marine Electronics Equipment

Communications Equipment



Solutions and Specialized Equipment





Annual Report 2006

For the year ended March 31, 2006

Founded in 1915, Japan Radio Co., Ltd. has grown to become one of the leading companies in the field of wireless technology in Japan. The JRC Group includes 12 subsidiaries and 3 affiliated companies, principally engaged in the manufacture and sale of radio communications equipment and its related systems. The Group considers its mission to be contributing to the realization of a prosperous society through healthy business activities, and as such offers beneficial products and services that serve the needs of customers, as it develops its business into a name trusted throughout the world.

Management Philosophy

Japan Radio Co., Ltd. shall apply its full creative and intelligent resources to develop technologies and products of superior value, in order to contribute to the realization of a society of ever higher quality.

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Caution with Regard to Forward-Looking Statements

Statements in this annual report with respect to Japan Radio's plans, strategies, beliefs and estimates that are not historical facts are forward-looking statements. They constitute management's assumptions based on information currently available and involve risks and uncertainties. There are a number of factors that could cause actual results to differ materially from such statements.

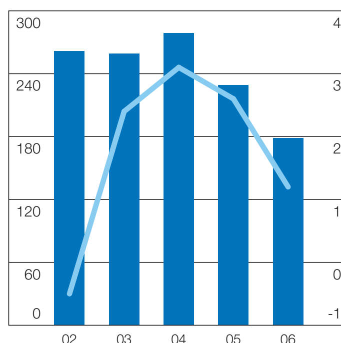
Consolidated Financial Highlights

	Millions of yen			Thousands of U.S. dollars
For the year ended 31st March,	2004	2005	2006	2006
Net sales	¥278,572	¥229,193	¥178,848	$1,522,504
Radio communications equipment	167,350	119,163	127,703	1,087,110
Semiconductor devices and microwave tubes	66,021	63,834	29,316	249,564
Medical electronics equipment	45,201	46,196	21,829	185,830
Operating income	8,668	5,965	2,157	18,363
Operating income ratio (%)	3.1	2.6	1.2	–
Income before income taxes and minority interests	6,515	4,761	(29,749)	(253,246)
Net income (loss)	2,161	542	(32,097)	(273,237)
As of 31st March,				
Total assets	232,235	233,878	124,128	1,056,675
Shareholders' equity	66,701	67,725	37,584	319,946
Shareholders' equity ratio (%)	28.7	29.0	30.3	–
Interest-bearing liabilities	50,838	46,940	28,417	241,909
Depreciation	7,820	7,855	4,162	35,434
Capital expenditures	7,142	6,202	3,228	27,481
Net income (loss) per share (Yen/U.S. dollars)	15.19	3.44	(233.04)	(1.98)
ROE (%)	3.2	0.8	(61.0)	–
D/E ratio (times)	0.76	0.69	0.60	–
Employees	8,739	8,612	3,766	–

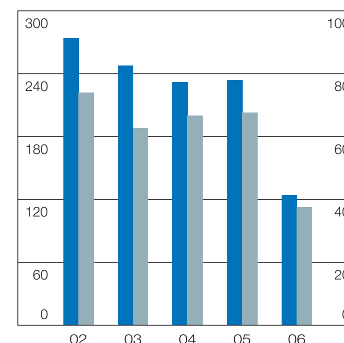
Notes 1. U.S. dollar amounts are translated, for convenience only, at ¥117.47 = US$1.00, the rate prevailing on March 31, 2006.

2. With respect to "Semiconductor devices and microwave tubes" segment, New Japan Radio Co., Ltd.'s group was excluded from the scope of consolidation as a result of the sale of issued shares with voting rights. With respect to "Medical electronics equipment" segment, ALOKA CO., LTD.'s group was excluded from the scope of consolidation as a result of the sale of issued share with voting right. For the reasons stated above, their sales, depreciation and capital expenditures until September 30, 2005 were reflected in each segment and their assets were not stated.

Net sales;
Operating income (loss) ratio
(¥ billions, %)



Total assets;
Shareholders' equity
(¥ billions)



Structural Reforms

In fiscal 2005, ended March 31, 2006, the JRC Group undertook a comprehensive reassessment of its business structure with a view to strengthening its operating foundation and achieving long-term growth. As part of the reassessment, we decided to concentrate our managerial resources on the Radio Communications Equipment business, historically our strongest specialty. Consequently, in December 2005 we sold the great majority of our shares in two subsidiaries: New Japan Radio Co., Ltd., which handled the Semiconductor Devices and Microwave Tubes segment, and Aloka Co., Ltd., which was responsible for the Medical Electronics Equipment segment. Both segments were core businesses of the JRC Group.

As a result, New Japan Radio and Aloka ceased to be consolidated subsidiaries, and their respective revenues and earnings were removed from the consolidated financial statements from the second half of fiscal 2005. In this annual report, therefore, the Group's review of operations for the first half of year will include the performances of three segments, while the second half review will cover only the core Radio Communications Equipment segment. The sale of the two aforementioned businesses led to a year-on-year earnings decline in the second half of the period.

Performance and Financial Position

Consolidated net sales for the year amounted to ¥178,848 million, down 22.0% from the previous year. Operating income fell 63.8%, to ¥2,157 million, and the Group reported a net loss of ¥32,097 million. As mentioned earlier, the decline in revenue stemmed from the fact that the Semiconductor Devices and Microwave Tubes segment (27.9% of net sales in fiscal 2004) and the Medical Electronics Equipment segment (20.2%) were spun off and not included in results of the second half of the fiscal year.

With respect to the core Radio Communications Equipment segment, however, we achieved year-on-year gains in both revenue and earnings. Earnings benefited from favorable performances in the marine electronics equipment category and increased sales of PHS terminals. We also worked hard to further reduce fixed costs.

Nevertheless, we failed to achieve our initial numerical targets. Major reasons included the declining profitability of large-scale projects, losses incurred in overseas projects, and the negative impact on profits of price competition in our linear power amplifier (LPA) business, centering on amplifiers for 3G mobile base stations.

Net Loss

As mentioned, the Group posted a net loss for the year. This due to five main factors.

First, we reported losses on the sales of shares in subsidiaries. Specifically, the sale generated ¥5,052 million in income, which was listed as “Other income.” However, there was also a ¥6,440 million loss on the sale of the subsidiaries, listed as “Other expenses.” Consequently, the transactions incurred a net expense.

Second, we were required to pay back money to the National Defense Agency. In December 2004, we were informed that defense equipment delivered to the Agency had been overpriced. We were subsequently subject to a special investigation, culminating in a request from the Agency in March 2006 to repay a total of ¥23,078 million, including interest. The payment, which was made on the same day, was reported as “Refund to Defense Agency” under “Other expenses.”

Third, we adopted a new inventory evaluation system. In order to improve our financial soundness, we devalued our inventory assets, based on the number of years elapsed. We also wrote off some inventories that had significantly deteriorated. As a result, we reported a ¥5,563 million loss on valuation and disposal of inventories, listed as part of “Other expenses.”

Fourth, in the year under review we incurred a ¥568 million expense associated with certain defective products that were already in the market. This amount was included in “Other expenses.”

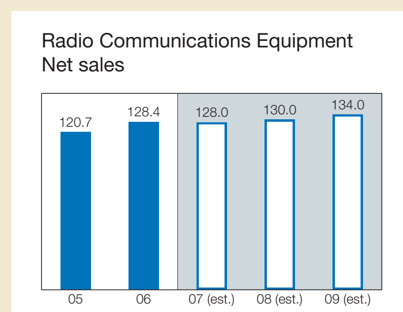
Fifth, we adopted impairment accounting for fixed assets in the year under review. This resulted in an impairment loss of ¥227 million on fixed assets of certain businesses, which was included in “Other expenses.”

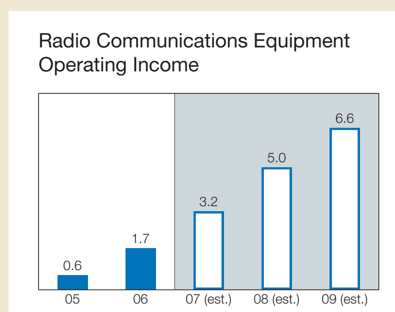
Future Vision and Areas of Focus

The JRC Group’s long-term management vision is to “deploy our specialized technologies, accumulated over many years, to carve solid positions in our respective areas, and target the top positions in our markets by nurturing distinctive, high-value-added products.” Wireless communications technologies represent our core area of expertise. Within this realm, wireless broadband technology has attracted rapidly growing attention in recent years as a key Internet communications infrastructure. We hope to use these core technologies to further benefit the development of communications systems, and to significantly expand our businesses in such areas as advanced maritime systems, Intelligent Transport Systems (ITS), and sophisticated disaster prevention systems.

Medium-Term Earnings Projections

While pursuing our long-term management vision, we also have a medium-term plan emphasizing profitability. Under this plan, we have the following targets for the year ending March 2009: Net sales of ¥134.0 billion (up 4.3% from fiscal 2005), operating income of ¥6.6 billion (3.8-fold jump), and net income of ¥6.0 billion (compared with net loss of ¥32.1 billion in fiscal 2005).





In order to pursue these targets and realize our long-term vision, we will undertake a comprehensive reassessment of our internal practices and build an operating foundation that emphasizes profitability. To this end, we will aim to solidify our base for developing the Radio Communications Equipment segment, our traditional core business.

At present, we are extensively reviewing the strategies and systems of the three categories that constitute the Radio Communications Equipment segment—marine electronics equipment, communications equipment, and solutions and specialized equipment. This is because we understand the need to seize business opportunities in those fields, and transform such opportunities into tangible results for the Group.

In the marine electronics equipment category, we are confident of achieving increases in revenue and earnings, owing to the favorable state of the marine industry and specialized demand emerging from changes to international regulations.

In the communications equipment category, characterized by advances in digitalization, we are strengthening our sales activities to meet the increasing adoption of digital technologies in radio communications systems used in the taxi and transportation sectors. We expect gains in revenue and earnings in this category, which will benefit from the introduction of an electronic toll collection (ETC) system for motorcycles, solid sales of amplifiers for 3G mobile phone base stations in China, and the proliferation of fixed wireless access (FWA) systems overseas.

In the solutions and specialized equipment category, we have focused on profitability, recognizing that declining public works budgets will inevitably cause revenue to fall. We have also endeavored to improve our profit structure by cutting fixed costs. Moreover, we are experiencing a full-scale recovery in profitable areas, owing to expansion of private-sector demand for security and other services, as well as specialized demand arising from the commencement of terrestrial digital television broadcasts.

Key Focuses for Achieving Medium-Term Targets

In our quest to solidify our presence in our core Radio Communications Equipment business, we will focus on creating a profit-oriented business structure and fortifying our basic systems. In our effort to create a profit-oriented business structure, we will emphasize the following initiatives.

First, we will strengthen our management and control capabilities. This means reinforcing our order-receipt control systems to ensure a more profit-centered focus, while enhancing quality control to prevent the occurrence of defective products. We will also strengthen our demand forecasting, production planning, and inventory control capabilities and reorganize our sales operations to boost efficiency. These actions are all designed to prevent losses caused by unforeseen events. In addition, we will further raise management transparency by increasing the number of outside directors, and we will increase the speed of decision-making by reinforcing the functions of the Managing Board. In April 2006, we introduced a headquarters system aimed at reinforcing the control function.

Second, we will hold down fixed costs. Specifically, we will strive to reduce ongoing outsourcing costs and lower expenses related to the shift of the head office. At the same time, however, will continue investing in important areas, such as R&D and capital equipment.

Third, we will promote common design platforms. This means creating common platforms for developing communications and information processing systems. The use of such platforms will facilitate cost-cutting and speed up the product development process. The result will be improved responsiveness to market needs.

Fourth, we will reduce manufacturing costs. Going forward, we will review the productivity of our head office and manufacturing facilities and centralize our production operations. In addition, we will strive to minimize control-related costs by creating common information systems for all Group companies and stepping up shared procurement of materials.

Fifth, we will restructure our Radio Communications Equipment business. We have already undertaken an extensive reorganization of our operations. We have introduced a headquarters and business unit system, and we will concentrate our resources on the communications equipment and private-sector solutions fields. To this end, we will bring together our technological assets, which are currently dispersed throughout the Group, and we will comprehensively strengthen our product development capabilities. By also integrating our sales departments, we will work to uncover new business opportunities.

Long-Term Business Policies

Our goal is to raise the earnings of the Radio Communications Equipment segment so that operating income for that business alone surpasses the consolidated figure achieved when the Semiconductor Devices and Microwave Tubes segment and Medical Electronics Equipment segments were included. We are also targeting an operating income ratio of 5% or higher.

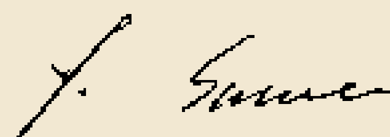
Between December 2004, when the Japan Defense Agency issue arose, and March 2006, when we made the repayment, we were prevented from participating in bidding for defense agency projects. Now, that prohibition has been lifted. To ensure against a repeat of the incident, we intend to create a transparent corporate culture and, by promoting sound business practices, swiftly restore the trust of the public.

Meanwhile, we will reinforce our operating foundation and pursue proactive business development. For the year ending March 2007, we will raise product development investments in core areas and work to drop the variable cost ratio, while striving to lower fixed costs. Moreover, by targeting growth of our core business, we will seek to ensure steady growth of the entire JRC Group.

In addition, we will reform our R&D system and combine our Groupwide technological power to raise added value and enhance our competitiveness on an international level.

We at the JRC Group stand united, committed to improving our corporate foundation and embracing sound business practices. In the process, we will build a robust earnings structure and financial position and earn the trust of society.

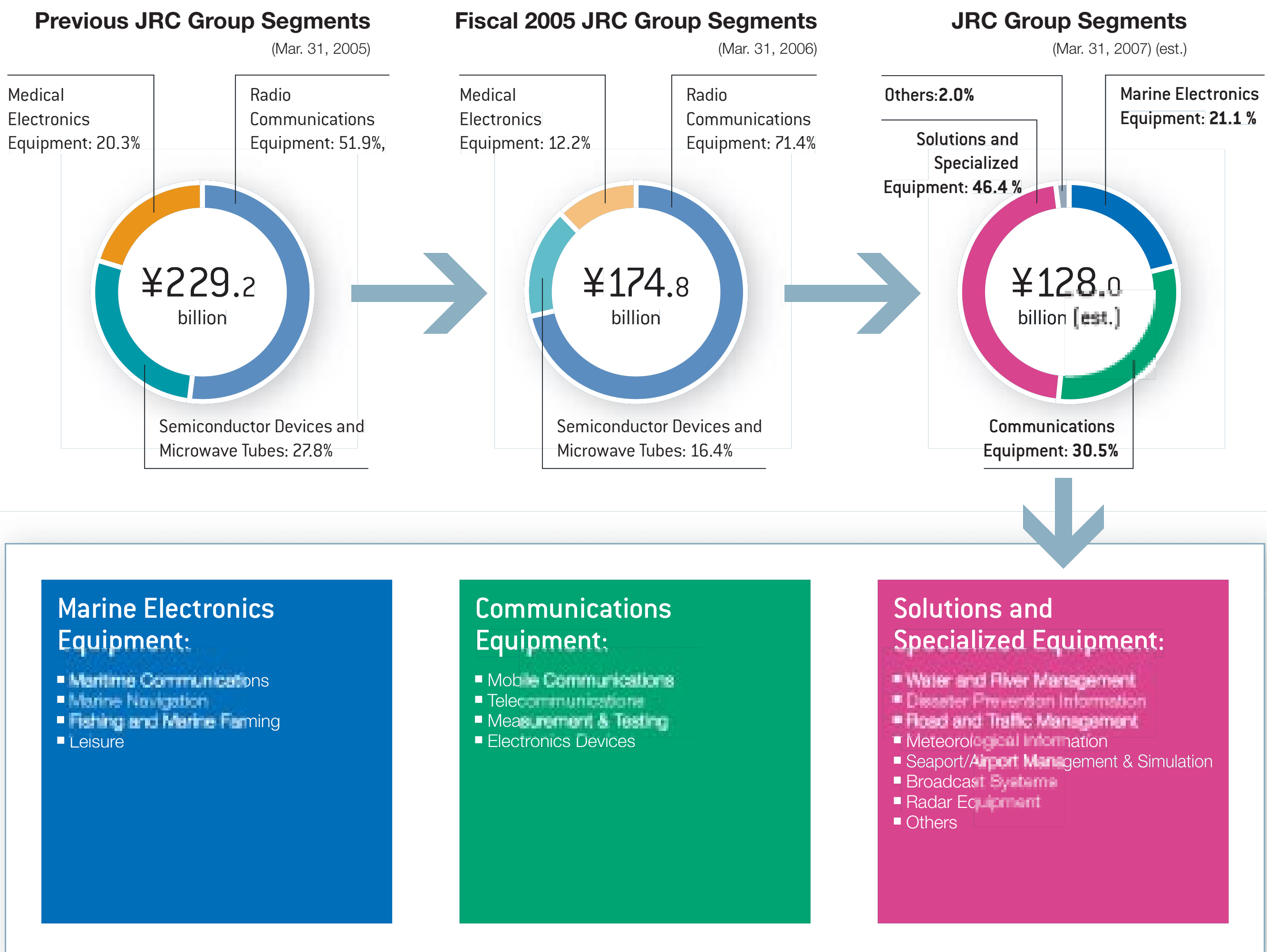
July 1, 2006



Yorihisa Suwa
President

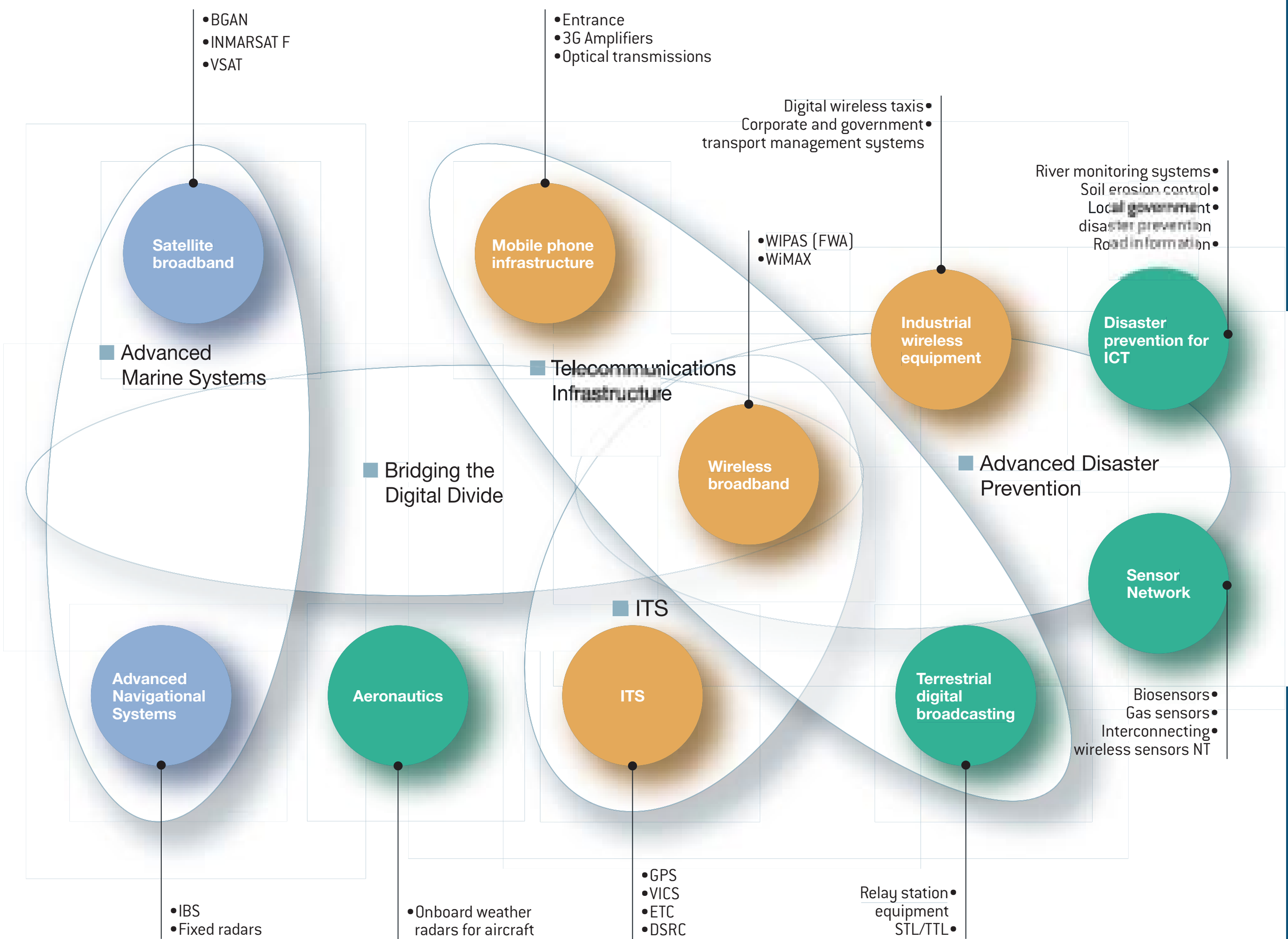
Concentrating on Core Businesses

The JRC Group has built up its core business in radio communications equipment. In the process of diversifying that business, the Group also established solid businesses in semiconductor devices and microwave tubes, as well as medical electronics equipment. At this stage of our history, however, we decided to undertake a comprehensive reassessment of our business structure and return to our most specialized field, in which we will hone our technological power and overall strengths in order to establish a firm presence in the market. Our aim is to capture the top global shares of our respective market niches. To this end, we will make deeper inroads in the three categories that constitute the Radio Communications Equipment segment— **marine electronics equipment**, **communications equipment**, and **solutions and specialized equipment**. By improving efficiency in these categories, we will create distinctive, high-value-added products.



Operational areas that we are focusing on

Going forward, the JRC Group will step efforts to realize the full potential of its Radio Communications Equipment business and create a world-leading company with top market shares in its various niches. We recognize that our operating environment presents us with lucrative opportunities to demonstrate the technological prowess we have developed over the years in multiple fields. These include communications infrastructure, symbolized by fixed and wireless broadband, as well as Intelligent Transport Systems (ITS), wireless and radar systems for marine vessels and aircraft, and sophisticated disaster prevention systems. We will seize the business opportunities emerging from these trends and concentrate our technological, human, and capital resources on these key businesses.



Marine Electronics Equipment

The Color LCD Radar (JMA-5200 series)
The JMA-5200 is not only effortless to operate with an easy-to-see screen, it is also has the signal processing functionality of a large-sized radar.

Environment and Performance

In the year under review, the marine transportation industry performed well, reflecting favorable conditions in the domestic and overseas manufacturing and distribution sectors. This was despite concerns stemming from high fuel prices. In this environment, the shipbuilding markets gained momentum, enabling the JRC Group to generate solid sales of equipment and systems to the commercial shipping industry. The market for replacing equipment in existing vessels was also vibrant. In response, we reinforced sales of marine electronics equipment and systems, such as voyage data recorders (VDRs) and marine satellite transmission systems (Inmarsat).

Non-consolidated sales in the marine electronics equipment category amounted to ¥25.4 billion, up 8.2% from the previous year. In the fiscal year ending March 2007, we are targeting a further 6.0% rise, to ¥27.0 billion. In the future, we will keep abreast of new regulations and launch new products accordingly, in an effort to maintain stable earnings even when the current worldwide shipbuilding boom fades. Under our medium-term management plan, we are targeting ¥30.0 billion in category sales for the year ending March 2009.

The JRC Group has built an esteemed reputation among professional customers in the maritime industry. This is a reflection of our technological and systems-related expertise. Going forward, we will strive to capture the top world market share as an integrated manufacturer of marine communications equipment. Here, we boast a broad array of sophisticated technologies, centering on various radar and other radio communications technologies.

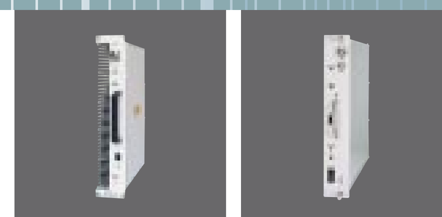
Business Strategies

Our plan is to step up sales activities overseas, especially in the fast-developing Chinese market and in the increasingly dynamic European region. To this end, we will meet demand in both the new vessel market and the replacement market for existing vessels. In addition, we will reinforce sales in the work boat market and endeavor to expand our share of the global market through OEM production and other initiatives.

To further broaden the scope of our operations in this category, we will actively promote business alliances with other entities. Given the fast pace of technological innovation, we will target joint development of next-generation devices and pursue shared-supply arrangements for our equipment.

Our key strength lies in our ability to provide integrated systems centering on radio communications technologies. For example, we are aggressively developing next-generation technologies for the shipping sector in such areas as onboard information systems, advanced radar technologies, and sophisticated satellite communications technologies. To meet the needs of users scattered around the globe, we will upgrade our after-sales services system, centering on three key locations: Tokyo, Seattle, and Amsterdam.

Communications Equipment



Linear power amplifiers for cellular base station (W-CDMA and PDC SCPA units)

Environment and Performance

Despite languishing sales of 3G mobile phone amplifiers due to intense price competition, the Group reported increased sales of Personal Handyphone System (PHS) terminals to corporate customers. As a result, non-consolidated sales in the communications equipment category grew 6.2% year-on-year, to ¥38.3 billion. For the year ending March 2007, we forecast a further 1.7% rise, to ¥39.0 billion, and our medium-term target is to achieve ¥43.0 billion in category sales for the year ending March 2009, up 12.1% from the period under review.

We expect major changes ahead in the Japanese mobile phone market. These include the full-scale proliferation of 3G services and the introduction of number portability in October 2006, allowing users to retain the same phone number even when they switch carriers. Meanwhile, new companies will line up to enter the market, and 3G will also be rolled out in China.

In the near future, moreover, there are great expectations for WiMAX (Worldwide Interoperability for Microwave Access) as a next-generation wireless broadband system for public lines. In addition, the taxi and transportation sectors are accelerating the introduction of digital wireless communications. At the same time, ITS is becoming more advanced and widespread, while the car navigation market continues to grow and studies have begun with a view to mandating. These and other factors underscore the major changes taking place in our operating environment.

Business Strategies

Leveraging our exceptional expertise in wireless broadband technologies, we will seek to broaden the scope of our business and develop our activities on a global scale. Here, our initiatives will cover everything from expanding our presence in communications infrastructure and ITS to boosting sales of related measuring instruments and information terminals.

In the communications infrastructure field, we will develop our business in fixed wireless access (FWA), both in Japan and overseas. We will also strive to increase sales of linear power amplifiers (LPAs) for base stations to address the diffusion of 3G mobile phones. In the mobile communications field, we will target the top share of the corporate user market by pursuing collaborative arrangements with other companies and stepping up OEM sales, in response to the ongoing digitalization of commercial wireless equipment. In the ITS field, we will step up efforts aimed at integrating the wireless communications systems for automobiles, including Vehicle Information and Communication Systems (VICS), Dedicated Short Range Communications (DSRC), and wireless LANs. Meanwhile, Japan will introduce an ETC system for motorcycles in November 2006, and only JRC-made devices will be available.

Digital transceiver system for taxi

Radio frequency units for base station

The Group will endeavor to broaden its share of the domestic and overseas markets for Global Positioning System (GPS) receivers. Since entering this field 25 years ago when we starting developing GPS receivers for marine vessels, we succeeded in developing the industry's first maritime GPS receiver, and we have made good progress in developing GPS receivers for car navigation use. We have surpassed the 10 million mark in cumulative shipments of car navigation GPS receivers, seizing a large market share in the process. We forecast a further 2 million units to be shipped in the year to March 2007. In addition, various measuring instruments are also essential as peripheral devices for communications equipment. For this reason, we are selling mobile testers, concrete radars, and other products.

New Products and Technologies

AH-J3003S

PHS handset with high security (WX310J)

JRC developed the WX310J, the first PHS handset to incorporate fingerprint scanning technology for added security. This product is supplied to Willcom on an OEM basis.

Multi-path fading simulator (NJZ-1600D)

This multi-path fading simulator is an ideal solution for evaluating the propagation paths of 3.5-generation mobile phones, incorporating High-Speed Downlink Packet Access (HSDPA) and WiMAX protocols, as well as terrestrial digital television broadcasts, because it can perform Doppler shift simulations in fast-moving environments, such as bullet trains. The JRC Group is marketing this product to mobile phone carriers, handset manufacturers, and broadcasting stations.

Handy RC Radar (NJJ-95B)

Surveys PVC piping and reinforced steel within concrete structures.

Solutions and Specialized Equipment

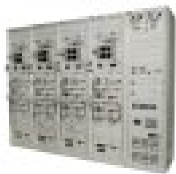
Disaster prevention radio communication system (satellite network system)

Airport surveillance radar

Environment and Performance

Non-consolidated sales in this category declined 5.5%, to ¥55.9 billion. This was below our initial forecasts and reflected the major impact of cuts in public works spending. For the year ending March 2007, we predict a further 3.9% decrease, to ¥53.7 billion, due to weak demand stemming from public works budget reductions. Under our medium-term plan, we project category sales of ¥55.2 billion in the year to March 2009.

In the recent years, the Japanese market has been characterized by decreases in public works spending and intense price competition. Nevertheless, we believe that solid opportunities exist in the area of disaster management, due to growing crisis awareness with respect to earthquakes, typhoons, and other natural phenomena. The Ministry of Land, Infrastructure and Transportation is expanding the capacity of its arterial microwave network and plans to reinstall lines at local offices to provide an integrated, enhanced-function disaster prevention system covering all prefectures and municipalities. In response, the JRC Group will take up the challenge in new fields, such as sensor networks and remote maintenance. We also have a positive long-term outlook, which will benefit from the resurgence in capital expenditures in the lead-up to the full-scale commencement of terrestrial digital broadcasting in 2011, as well as the start of 1-segment broadcasts for mobile phones.



Terrestrial digital broadcasting transmitter

Business Strategies

In the solutions and specialist equipment category, our basic strategy is to leverage our core radio communications technologies to provide safety and peace of mind using the knowledge we have accumulated in disaster prevention systems.

Amid declining public sector demand, we will strive to maintain sales in this category by expanding our list of target customers. At the same time, we will reinforce our solutions business aimed at the private sector, with the aim of generating ¥6.0 billion in sales from these services in the year ending March 2009. Specifically, we will expand services related to regional intranets and other access-related areas, and we will broaden and upgrade our disaster prevention systems. In addition, we will cultivate demand for remote maintenance services using radio communications, and we will push ahead with our sensor network business.

The key to success in this category lies in increasing our share of the private sector market. For this reason, we will seek to grow our business in electric power, gas, and other infrastructural areas, while broadening our solutions business for corporate customers. In addition, we will enter the security business, where needs have grown in recent years. To enhance our involvement in terrestrial digital services, we will develop our business in the broadcasting radio relay systems and interference wave cancellation devices.

Harbor monitoring system for the Philippines

Integrated Strength through Technology Sharing

The JRC Group boasts the No. 1 share of the world market in core GPS devices for car navigation systems. We also rank second on the global market for commercial wireless communications systems for automobiles, and second in the domestic VICS market. In addition, we are among the leaders in the world market for W-CDMA base station amplifiers. These factors illustrate the many niches of the radio communications equipment sector in which the Group is vying for the top global market share. In the marine electronics equipment field, moreover, we have the leading share of markets for commercial vessel radar and other devices, demonstrating our unwavering technological edge. In addition, we boast the top market share in areas that require extremely high levels of reliability and technological excellence. These include dam management systems, disaster prevention systems, highway information systems, and various radar systems for the National Defense Agency.

Our management vision is to “deploy our specialized technologies, accumulated over many years, to carve solid positions in our respective areas, and target the top positions in our markets by nurturing distinctive, high-value-added products.” As we pursue this vision, we will concentrate on developing technologies in the radio communications field, including common platforms, in order to expand our operations in an efficient manner.

In the year under review, we established the Technology Committee, a cross-lateral entity charged with the task of helping the Group demonstrate its powerful capabilities and integrated strengths. It will do this by bringing together the Group’s exceptional technological strengths in the aforementioned areas while promoting technical information exchange and sharing. In the process, we hope to raise our overall technological expertise. By promoting standardization and sharing, moreover, we hope to enhance product development efficiency and lower costs.

Over the next three years, the JRC Group has set an R&D budget of ¥25.0 billion, and will allocate funds and human resources in effective manner.

Global Operations

In recent years, we have seen remarkable progress in Chinese markets, notably the proliferation of mobile phone services and growth in the local shipbuilding industry. In April 2005, we established a China Business Development Department to handle strategic alliances in the Chinese market and develop sales activities closely tied to that region. We also have offices in Singapore, Jakarta, Manila, Taipei, and Hanoi. These are responsible for sales activities aimed at generating future business in the Asian region. In addition, we have branches in North America (Seattle and New York), the Netherlands, and Greece, as well as a subsidiary in Brazil. These operations provide sales and after-sales services for marine electronic equipment and radio communications equipment to customers in their respective nations and in surrounding markets.

Serving as a provider of comprehensive radio communications solutions to markets around the world, we will proactively develop the JRC brand on a global basis.

Corporate Governance and Compliance

Amid a rapidly changing business environment, our fundamental policies are to ensure accurate decision-making, expedite our responsiveness, and raise management transparency in order to enhance our corporate value.

The New Company Law was enacted in May 2006, requiring corporations not only to create basic internal control policies but also set up internal control systems and properly manage them, while providing full disclosure on the status of such systems. As a relevant party to this legislation, the JRC Group is working to reinforce its corporate governance and internal control systems, with a view to raising and continually promoting management transparency and fulfilling its social responsibilities.

In the year under the review, JRC added one new external director. Our Managing Board now consists of 12 members, including two external directors. The Board meets once a month to decide important management-related issues. In addition, we are upgrading the functions of the Managing Strategy Conference, which includes representatives of our business divisions, in order to expedite decision-making. The Company also has an Auditor Association, with four members, including two external ones. Corporate auditors also attend the Managing Board, Standing Directors Conference, and the Managing Strategy Conference to monitor the soundness of the Company's operations and otherwise ensure the independence of its internal control system. With this corporate governance framework in place, we are strengthening internal controls, increasing the reliability of financial reporting, and instilling more in-depth compliance awareness.

Environmental Policies

The JRC Group places high priority on protecting the environment in the context of fulfilling its corporate social responsibilities. We devise and implement environmental plans on an annual basis according to our fundamental environmental policies. We are currently focusing on the impact that our products and manufacturing processes have on the environment, and this has become one of our major research and development themes.

The entire Group is engaged in environmental initiatives to ensure that its businesses activities will not have a negative influence on society or the environment. Our head office and domestic production and sales operations have obtained certification under ISO14001, the international standard for environmental management systems. At present, we are pursuing the following objectives.

(1) Make environmentally friendly products: Ensure that such products constitute 90% or more of our lineup by the year ending March 2009 (except in special circumstances)
(2) Lower use of toxic substances: All products to be RoHS-compliant by 2008 or 2009 (except in special circumstances)
(3) Promote "green" procurement: Prioritize procurement of eco-products
(4) Take action to prevent global warming: Cut energy use as a percentage of production output value to below 1990 levels by 2010
(5) Increase recycling ratio: Ensure that 90% or more of waste is recycled by 2010
(6) Minimize final waste: Reduce volume of final waste as a percentage of production output value by at least 60% of the 1996 level by 2010
(7) Prevent air and water pollution: Observe all legal standards

There are a number of risks that could potentially affect the JRC Group's business performance, share prices, and financial position. Such risks are summarized below.

(1) Tendency toward second half of each fiscal year

Because a relatively high proportion of the Group's products are delivered to public entities, sales tend to be toward the second half of each fiscal year.

(2) Demand trends

The business performance of the JRC Group can potentially be affected by the budgets of public sector entities, which constitute a major source of business for the Group, as well as capital expenditures in the telecommunications industry. The Group's policy is to increase revenue from overseas, which will involve various risks, including geopolitical instability in certain regions and a possible slowdown in China's economic growth. Such changes in local environmental conditions can have an impact on the JRC Group as it develops its business globally.

(3) Exchange rate fluctuations

The Group's business includes foreign currency-denominated transactions conducted by overseas sales operations. Exchange rate fluctuations, therefore, have an effect on its business. The Group endeavors to minimize the effect of short-term fluctuations by engaging in exchange contracts and currency option transactions. However, such actions do not offer a full guarantee against currency risk, and earnings may be affected accordingly. In addition, exchange rate fluctuations can influence the purchasing patterns of customers overseas, which, in turn, may affect the performance of products sold in yen.

(4) Interest rate fluctuations

The JRC Group's business performance and financial position can potentially be affected by future interest rate movements and changes in its credit rating, which could influence its fund-raising costs.

(5) Availability of parts

Certain parts used by the JRC Group can become difficult to purchase due to changes in economic conditions. For example, sharp economic growth in certain regions (such as China) and a surge in the popularity of certain products (such as digital electronic appliances) may reveal limitations in the supply capacity of parts manufacturers and cause problems with delivery times. Such factors have the potential to affect the Group's shipment schedule, while sharp increases in parts' prices could have an adverse impact on earnings.

(6) Legal restrictions

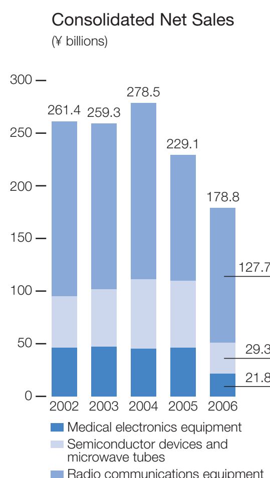
In the countries where the Group engages in business transactions, various laws apply, including restrictions on exports and imports, as well as laws related to the environment and recycling. The Group's stated policy focuses on compliance with such laws and regulations, and this policy is clarified in its internal rules. However, unexpected changes to laws have the potential to restrict the Group's activities and increase costs.

Consolidated Five-Year Summary

	Millions of yen					Thousands of U.S. dollars
For the year ended 31st March,	2002	2003	2004	2005	2006	2006
Net sales	¥261,498	¥259,381	¥278,572	¥229,193	¥178,848	$1,522,504
Radio communications equipment	166,433	157,929	167,350	119,163	127,703	1,087,110
Semiconductor devices and microwave tubes	48,866	54,247	66,021	63,834	29,316	249,564
Medical electronics equipment	46,199	47,205	45,201	46,196	21,829	185,830
Operating income (loss)	(1,202)	6,351	8,668	5,965	2,157	18,363
Operating income (loss) ratio (%)	(0.5)	2.4	3.1	2.6	1.2	–
Income (loss) before income taxes and minority interests	(13,043)	2,293	6,515	4,761	(29,749)	(253,246)
Net income (loss)	(16,430)	(10,534)	2,161	542	(32,097)	(273,237)
As of 31st March,						
Total assets	274,311	247,849	232,235	233,878	124,128	1,056,675
Shareholders' equity	74,041	62,687	66,701	67,725	37,584	319,946
Shareholders' equity ratio (%)	27.0	25.3	28.7	29.0	30.3	–
Interest-bearing liabilities	77,957	64,053	50,838	46,940	28,417	241,909
Depreciation	8,200	8,359	7,820	7,855	4,162	35,434
Capital expenditures	7,416	8,385	7,142	6,202	3,228	27,481
Net income (loss) per share (Yen/U.S. dollars)	(119.08)	(76.85)	15.19	3.44	(233.04)	(1.98)
ROE (%)	–	–	3.2	0.8	(61.0)	–
D/E ratio (times)	1.05	1.02	0.76	0.69	0.60	–
Employees	8,785	8,625	8,739	8,612	3,766	–

Notes 1. U.S. dollar amounts are translated, for convenience only, at ¥117.47 = US$1.00, the rate prevailing on March 31, 2006.

2. With respect to "Semiconductor devices and microwave tubes" segment, New Japan Radio Co., Ltd.'s group was excluded from the scope of consolidation as a result of the sale of issued shares with voting rights. With respect to "Medical electronics equipment" segment, ALOKA CO., LTD.'s group was excluded from the scope of consolidation as a result of the sale of issued share with voting right. For the reasons stated above, their sales, depreciation and capital expenditures until September 30, 2005 were reflected in each segment and their assets were not stated.



Revenue and Earnings

In fiscal 2005, ended March 31, 2006, consolidated net sales amounted to ¥178,848 million, down 22.0% from fiscal 2004. The decline stemmed primarily from the removal of the Semiconductor Devices and Microwave Tubes segment and the Medical Electronics Equipment segment from the Group's financial statements in the second half of the year. By contrast, sales of the core Radio Communications Equipment segment grew 7.2%, to ¥127,703 million.

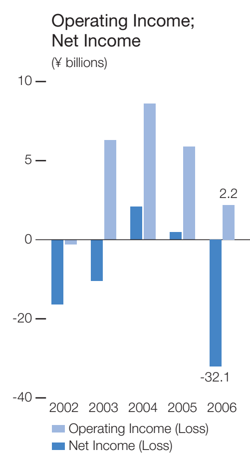
Operating income declined 63.8%, to ¥2,157 million, for the same reason affecting net sales. The Group's bottom line also deteriorated significantly, with a net loss of ¥32,097 million.

Of the consolidated net sales figure, Japan Radio Co., Ltd. (JRC), accounted for 49.1%. For the year, JRC reported net sales of ¥120,144 million (up 6.7%), operating income of ¥946 million (a 21-fold jump), and a net loss of ¥4,946 million (from ¥1,428 million in fiscal 2004). The increased net loss also stemmed from accounting treatment associated with the Group's restructuring.

Consolidated Sales by Segment

Because the Group divested its shares in two subsidiaries, each representing a former mainstay business segment, in the second half of the fiscal period, its sales breakdown for the year under review is unusual compared with the previous year. As mentioned earlier, consolidated net sales declined 22.0%, to ¥178,848 million. A consolidated sales breakdown by segment is given below.

Sales of the core Radio Communications Equipment segment grew 7.2%, to ¥127,703 million, equivalent to 71.4% of consolidated net sales. Revenue benefited from a favorable performance by the marine electronics equipment category, which saw solid sales of equipment for both new and existing vessels. The communications equipment category posted a substantial jump in domestic sales, owing to an increase in subscribers to a new flat-fee system introduced by PHS carriers for voice services, which boosted demand for PHS terminals.

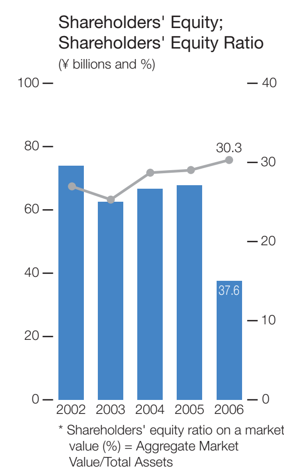


To date, the Semiconductor Devices and Microwave Tubes segment has been handled by New Japan Radio Co., Ltd. (NJRC), the shares of which were sold in December 2005. Consequently, NJRC's revenue and earnings were not included in the Group's consolidated statements in the second half of the year. As result, sales of the Semiconductor Devices and Microwave Tubes segment declined 54.1%, to ¥29,316 million.

The Medical Electronics Equipment segment has been spearheaded by Aloka Co., Ltd. During the year, JRC sold the majority of its shares in Aloka, whose revenue and earnings were not included in the Group's consolidated statements in the second half of the year. Accordingly, segment sales fell 52.7%, to ¥21,829 million.

The combined sales of the Semiconductor Devices and Microwave Tubes segment and the Medical Electronics Equipment segment was ¥51,146 million, or 28.6% of consolidated net sales for the year. From fiscal 2006, those two segments will not appear in the Group's business reports.

Meanwhile, JRC posted sales of ¥120,144, or 94.1% of consolidated sales in the core Radio Communications Equipment segment. Of this total, the marine electronics equipment category accounted for ¥25.5 billion (20.4%), the communications equipment category ¥38.3 billion (32.2%), and solutions and specialized equipment category ¥55.9 billion (47.3%).



* Shareholders' equity ratio on a market value (%) = Aggregate Market Value/Total Assets

Dividend Policy

During the five-year period from fiscal 2000 to fiscal 2004, the Group did not declare a dividend. For fiscal 2005, we regret that we are again unable to declare a dividend. Going forward, we will concentrate on the Radio Communications Equipment business to generate sufficient earnings that will enable us to resume dividend payments.

Financial Position

At March 31, 2006, consolidated total assets stood at ¥124.1 billion, down 46.9% from a year earlier. On a non-consolidated basis, total assets edged down 0.7%, to ¥116.3 billion.

Shareholders' equity fell 44.5%, to ¥37.6 billion, due mainly to a significant decline in the capital surplus stemming from the sale of shares in the two subsidiaries. The shareholders' equity ratio increased 1.3 point, to 30.3%. On a non-consolidated basis, the ratio slipped 1.0 point, to 31.4%.

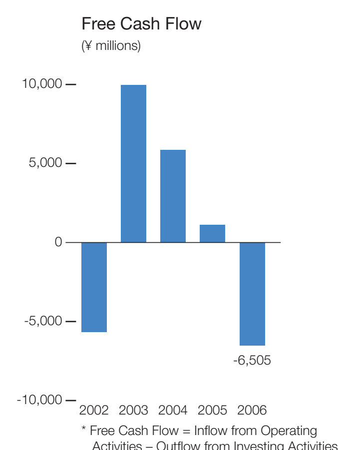
Cash Flows

On a consolidated basis, cash and cash equivalents at year-end stood at ¥9,913 million, down ¥7,514 million from a year earlier.

Net cash used in operating activities amounted to ¥21,218 million. This was due primarily to payment of a ¥23,071 million refund to the National Defense Agency.

Net cash provided by investing activities totaled ¥14,713 million, owing mainly to ¥17,948 million in proceeds from sales of shares in affiliated companies.

Net cash used in financing activities was ¥1,060 million. This resulted from a ¥1.0 billion net change in commercial paper.



* Free Cash Flow = Inflow from Operating Activities – Outflow from Investing Activities

Outlook for Fiscal 2006

The outlook for the year ahead is uncertain, due to a number of concerns. These include exchange rate trends, economic conditions in the United States and China, and rising prices of crude oil and raw materials. Harnessing its comprehensive strengths, the JRC Group will push forward with its business policy of "selection and concentration." We will also target ongoing reductions in operating expenses and purchasing costs. At the same time, we will strive to raise Group-wide production efficiency and further solidify our corporate foundation.

For fiscal 2006, ending March 31, 2007, we forecast a 0.1% decrease in non-consolidated net sales, to ¥120.0 billion. We also project a 185.4% jump in operating income, to ¥2.7 billion, and net income of ¥2.0 billion.

On a consolidated basis, we forecast a 28.4% drop in net sales, to ¥128.0 billion, due to the removal of the Semiconductor Devices and Microwave Tubes segment and the Medical Electronics Equipment segment. We also predict net income of ¥2.4 billion, compared with a net loss in fiscal 2005.

Consolidated Balance Sheets

March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 9,913	¥ 17,428	$ 84,388
Short-term investments (Note 3)	100	1,095	851
Receivables:			
Trade notes	3,927	8,499	33,430
Trade accounts	47,527	71,708	404,587
Unconsolidated subsidiaries and affiliated companies	239	295	2,033
Other	579	452	4,922
Allowance for doubtful accounts	(601)	(831)	(5,114)
Inventories (Note 4)	30,559	69,643	260,147
Deferred tax assets (Note 9)	358	2,897	3,052
Prepaid expenses and other	983	1,977	8,363
Total current assets	93,584	173,163	796,659
PROPERTY, PLANT AND EQUIPMENT (Notes 5, 6 and 16):			
Land	1,935	6,272	16,475
Buildings and structures	25,839	56,640	219,960
Machinery and equipment	10,474	69,833	89,164
Furniture and fixtures	18,734	45,804	159,481
Construction in progress	7	295	60
Total	56,989	178,844	485,140
Accumulated depreciation	(45,248)	(140,498)	(385,195)
Net property, plant and equipment	11,741	38,346	99,945
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	14,887	9,647	126,728
Investments in and advances to unconsolidated subsidiaries and affiliated companies	773	1,357	6,577
Deferred tax assets (Note 9)	1,479	6,141	12,591
Other assets (Note 5)	2,185	6,392	18,609
Allowance for doubtful accounts	(521)	(1,168)	(4,434)
Total investments and other assets	18,803	22,369	160,071
TOTAL	¥ 124,128	¥ 233,878	$1,056,675

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥ 1,270	¥ 13,614	$ 10,811
Current portion of long-term debt (Note 6)	14,732	3,744	125,411
Commercial paper (Note 6)	7,000	8,000	59,590
Payables:			
Trade notes	1,419	2,374	12,082
Trade accounts	28,624	39,476	243,670
Unconsolidated subsidiaries and affiliated companies	3,097	4,920	26,366
Other	683	4,090	5,805
Income taxes payable (Note 9)	381	1,669	3,240
Accrued expenses	2,599	5,242	22,128
Advances received	1,264	1,747	10,763
Other	3,767	7,820	32,070
Total current liabilities	64,836	92,696	551,936
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	5,415	21,583	46,096
Liability for retirement benefits (Note 7)	12,192	22,600	103,787
Deferred tax liabilities (Note 9)	3,704	1,444	31,534
Other	45	871	383
Total long-term liabilities	21,356	46,498	181,800
MINORITY INTERESTS	352	26,959	2,993
CONTINGENT LIABILITIES (Note 16)			
SHAREHOLDERS' EQUITY (Note 8):			
Common stock—authorized, 216,000,000 shares; issued, 137,976,690 shares in 2006 and 2005	14,704	14,704	125,175
Capital surplus	17,087	17,087	145,458
Retained earnings	331	34,373	2,815
Net unrealized gain on available-for-sale securities	5,501	2,020	46,832
Foreign currency translation adjustments	4	(425)	31
Treasury stock—at cost, 125,588 shares in 2006 and 104,421 shares in 2005	(43)	(34)	(365)
Total shareholders' equity	37,584	67,725	319,946
TOTAL	¥124,128	¥233,878	$1,056,675

Consolidated Statements of Operations

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES	¥178,848	¥229,193	$1,522,504
COST OF SALES	142,914	175,459	1,216,604
Gross profit	35,934	53,734	305,900
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	33,777	47,769	287,537
Operating income	2,157	5,965	18,363
OTHER INCOME (EXPENSES):			
Interest and dividend income	413	122	3,518
Interest expense	(449)	(641)	(3,825)
Other—net (Note 12)	(31,870)	(685)	(271,302)
Other expenses—net	(31,906)	(1,204)	(271,609)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	(29,749)	4,761	(253,246)
INCOME TAXES (Note 9):			
Current	1,093	2,651	9,306
Deferred	1,270	(209)	10,810
Total income taxes	2,363	2,442	20,116
MINORITY INTERESTS IN NET INCOME (LOSS)	15	(1,777)	125
NET INCOME (LOSS)	¥ (32,097)	¥ 542	$ (273,237)

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Notes 2.q and 17):			
Basic net income (loss)	¥(233.04)	¥3.44	$(1.98)
Diluted net income		3.43	

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2004	137,896	¥14,704	¥17,087	¥33,900	¥ 1,522	¥(488)	¥(24)
Net income				542			
Bonuses to directors				(69)			
Net increase in unrealized gain on available-for-sale securities					498		
Net increase in foreign currency translation adjustments						63	
Purchase of treasury stock	(24)						(10)
BALANCE, MARCH 31, 2005	137,872	14,704	17,087	34,373	2,020	(425)	(34)
Net loss				(32,097)			
Bonuses to directors				(67)			
Decrease in retained earnings resulting from exclusion of consolidated subsidiaries				(1,878)			
Net increase in unrealized gain on available-for-sale securities					3,481		
Net increase in foreign currency translation adjustments						429	
Purchase of treasury stock	(21)						(9)
BALANCE, MARCH 31, 2006	137,851	¥14,704	¥17,087	¥331	¥5,501	¥4	¥(43)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$125,175	$145,458	$292,613	$17,194	$(3,621)	$(288)
Net loss			(273,237)			
Bonuses to directors			(570)			
Decrease in retained earnings resulting from exclusion of consolidated subsidiaries				(15,991)		
Net increase in unrealized gain on available-for-sale securities				29,638		
Net increase in foreign currency translation adjustments					3,652	
Purchase of treasury stock						(77)
BALANCE, MARCH 31, 2006	$125,175	$145,458	$2,815	$46,832	$31	$(365)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ (29,749)	¥ 4,761	$ (253,246)
Adjustments for:			
Income taxes—paid	(1,759)	(2,248)	(14,978)
Depreciation and amortization	4,608	8,498	39,226
Impairment loss	228		1,940
Gain on sales of investment securities	(6)	(50)	(47)
Loss on valuation of investment securities	100	22	850
Gain on sales of investments in a consolidated subsidiary	(5,052)		(43,010)
Loss on sales of investments in a consolidated subsidiary	6,440		54,820
Equity in losses (earnings) of affiliated companies	365	(261)	3,109
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	(1,711)	152	(14,564)
Decrease (increase) in inventories	7,140	(7,822)	60,788
Decrease (increase) in interest and dividend receivable	(7)	11	(62)
Increase (decrease) in notes and accounts payable	(556)	5,247	(4,736)
Decrease in interest payable	(6)	(11)	(50)
Increase (decrease) in liability for retirement benefits	(380)	1,106	(3,232)
Other—net	(873)	(1,625)	(7,436)
Total adjustments	8,531	3,019	72,618
Net cash provided by (used in) operating activities	(21,218)	7,780	(180,628)
INVESTING ACTIVITIES:			
Proceeds from sales of short-term investments	1,120	1,484	9,535
Purchase of short-term investments	(810)	(1,567)	(6,896)
Proceeds from sales of property, plant and equipment	88	425	746
Purchase of property, plant and equipment	(2,868)	(5,802)	(24,416)
Proceeds from sales of investment securities	55	343	471
Purchase of investment securities	(147)	(238)	(1,249)
Sales of investments in a consolidated subsidiary, net of cash (Note 13)	17,948		152,791
Proceeds from sales of investments in an affiliated company		(549)	
Other—net	(673)	(748)	(5,729)
Net cash provided by (used in) investing activities	14,713	(6,652)	125,253
FINANCING ACTIVITIES:			
Net change in short-term bank loans	278	(4,062)	2,365
Net change in commercial paper	(1,000)	8,000	(8,513)
Proceeds from long-term debt	4,793	3,212	40,804
Repayments of long-term debt	(4,973)	(11,098)	(42,338)
Proceeds from minority interest shareholders	36	14	303
Cash dividends	(184)	(384)	(1,568)
Other—net	(10)	(9)	(78)
Net cash used in financing activities	(1,060)	(4,327)	(9,025)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	50	20	430
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,515)	(3,179)	(63,970)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,428	20,607	148,358
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 9,913	¥ 17,428	$ 84,388

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 consolidated financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Japan Radio Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to $1, the approximate rate of exchange at March 31, 2006. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 8 (31 in 2005) significant subsidiaries (together, the "Group").

New Japan Radio Co., Ltd. was excluded from the scope of consolidation as of October 1, 2005 as a result of the sale of 50% of the total number of issued shares with voting rights. This company also has 8 subsidiaries as of October 1, 2005.

ALOKA CO., LTD. was excluded from the scope of consolidation as of October 1, 2005 as a result of the sale of 41% of the total number of issued shares with voting rights. This company also has 13 subsidiaries as of October 1, 2005.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 3 (3 in 2005) affiliated companies (companies over which the Group has the ability to exercise significant influence) are accounted for by the equity method.

Investments in the remaining 3 unconsolidated subsidiaries and 1 affiliated company (3 unconsolidated subsidiaries and 1 affiliated company in 2005) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

c. Inventories—Finished products, semi-finished products and work in process are stated at cost determined principally by the specific identification method.

Raw materials and supplies are stated at cost determined by the average method.

Merchandise are stated at cost determined by the moving-average method.

Inventories of certain foreign consolidated subsidiaries are stated at the lower of cost determined by the moving-average method or market.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities, which are not classified as either trading securities nor held-to-maturity debt securities, and they are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998 for the Company and its domestic consolidated subsidiaries. The range of useful lives is from 10 to 50 years for buildings and structures and from 7 to 10 years for machinery and equipment.

f. Long-lived Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the

carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to increase loss before income taxes and minority interests for the year ended March 31, 2006 by ¥228 million ($1,940 thousand).

g. Stock and Bond Issue Costs—Stock and bond issue costs are charged to income as incurred.

h. Bond with Warrants—The proceeds of bonds with warrants are allocated between a bond portion and a warrant portion. The amount ascribed to warrants are stated as other current liabilities.

i. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the each companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

j. Retirement and Pension Plans—The Company and certain domestic consolidated subsidiaries have contributory and non-contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other foreign consolidated subsidiaries have non-contributory funded pension plans and unfunded retirement benefit plans.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The Company and certain subsidiaries have provided an allowance for directors' and corporate auditors' retirement benefits calculated in accordance with each company's policies and have included this amount in the liability for retirement benefits.

k. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

l. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

n. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward currency contracts and options.

o. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

p. Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign currency forward contracts, interest rate swaps and currency options are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for import purchases and export sales are measured at fair value and the unrealized gains/losses are recognized in income. Trade payables and trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

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

q. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised. Diluted net income per share of common stock assumes full exercise of outstanding warrants of certain subsidiaries, if certain requirements are fulfilled, at the beginning of the year with an applicable adjustment for minority interests.

Diluted net income per share at March 31, 2006 is not disclosed because it is anti-dilutive.

r. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of operations. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Short-term investments:			
Time deposits	¥ 100	¥1,044	$ 851
Debt securities		18	
Other		33	
Total	¥ 100	¥1,095	$ 851
Investment securities:			
Equity securities	¥14,207	¥8,969	$120,941
Debt securities	212	218	1,805
Other	468	460	3,982
Total	¥14,887	¥9,647	$126,728

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥4,687	¥9,188	¥6	¥13,869
Debt securities	210	2		212
Other	317	16	4	329
March 31, 2005				
Securities classified as available-for-sale:				
Equity securities	¥5,030	¥3,823	¥232	¥8,621
Debt securities	226	10		236
Other	363		66	297

	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$39,896	$78,212	$48	$118,060
Debt securities	1,787	18		1,805
Other	2,696	134	38	2,792

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥338	¥348	$2,881
Other	139	196	1,190
Total	¥477	¥544	$4,071

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥55 million ($471 thousand) and ¥353 million, respectively. Gross realized gains on these sales for the year ended March 31, 2006, computed on the moving average cost basis, were ¥6 million ($47 thousand). Gross realized gains and losses on these sales for the year ended March 31, 2005, computed on the moving average cost basis, were ¥51 million and ¥2 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due after one year through five years	¥14	$119

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Finished products, semi-finished products and merchandise	¥ 7,710	¥23,343	$ 65,631
Work in process	18,150	34,576	154,510
Raw materials and supplies	4,699	11,724	40,006
Total	¥30,559	¥69,643	$260,147

5. LONG-LIVED ASSETS

In the fiscal year under review, the Group reported the following impairment loss for certain fixed assets:

Location: Mitaka City, Tokyo
Asset use: Assets for Special Equipment Division
Type: Machinery and equipment, furniture and fixture, etc.

In principle, the Group pools the assets of its business divisions into the smallest possible units for cash flow generation.

In the year under review, the Special Equipment Division, uncertain whether or not it could turn a profit at an early stage, reduced the book value of its asset pool to the amount deemed recoverable, resulting in an impairment loss of ¥228 million ($1,940 thousand). This amount is broken down into ¥66 million ($563 thousand) for machinery and equipment, ¥129 million ($1,094 thousand) for furniture and fixtures, and ¥33 million ($283 thousand) for others. Within this asset pool, the amount deemed recoverable is determined according to estimated utility value. Because such assets are not certain to generate positive cash flow in the future, they were devalued to zero.

6. SHORT-TERM BANK LOANS, COMMERCIAL PAPER AND LONG-TERM DEBT

Short-term bank loans at March 31, 2006 and 2005 consisted of notes to banks, loans on deeds and bank overdrafts.

The weighted average annual interest rates for short-term bank loans for the years ended March 31, 2006 and 2005 were 1.4% and 0.9%, respectively.

The weighted average annual interest rates for commercial paper for the years ended March 31, 2006 and 2005 were 0.1% and 0.2%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Unsecured 1.4% domestic bonds due 2005 issued with warrants		¥ 277	
Unsecured 0.7% domestic bonds due 2006	¥ 7,000	7,000	$ 59,590
Unsecured 0.7% domestic bonds due 2006	1,500	1,500	12,769
Unsecured 1.0% domestic bonds due 2008	100	100	851
Loans from banks, due serially to 2012 with interest rates ranging from 0.9% to 2.9% (in 2006) and from 0.5% to 3.3% (in 2005):			
Collateralized	888	1,884	7,559
Unsecured	10,659	14,566	90,738
Total	20,147	25,327	171,507
Less current portion	(14,732)	(3,744)	(125,411)
Long-term debt, less current portion	¥ 5,415	¥ 21,583	$ 46,096

Annual maturities of long-term debt outstanding at March 31, 2006 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥14,732	$125,411
2008	263	2,236
2009	2,334	19,871
2010	1,330	11,322
2011	1,200	10,215
2012 and thereafter	288	2,452
Total	¥20,147	$171,507

The carrying amounts of assets pledged as collateral for long-term debt totaling ¥888 million ($7,559 thousand) at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥334	$2,839

7. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 43,561	¥ 68,636	$ 370,828
Fair value of plan assets	(26,628)	(32,467)	(226,681)
Unrecognized transitional obligation	(2,956)	(3,285)	(25,168)
Unrecognized actuarial loss	(6,178)	(16,332)	(52,593)
Unrecognized prior service cost	4,010	4,349	34,140
Prepaid pension expense		768	
Net liability	¥ 11,809	¥ 21,669	$ 100,526

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	¥2,328	¥2,977	$19,822
Interest cost	1,172	1,435	9,979
Expected return on plan assets	(775)	(837)	(6,597)
Amortization of prior service cost	(338)	(358)	(2,881)
Recognized actuarial loss	1,270	1,523	10,816
Amortization of transitional obligation	329	417	2,796
Net periodic benefit costs	3,986	5,157	33,935
Additional retirement benefits paid to employees	48	15	408
Total	¥4,034	¥5,172	$34,343

Assumptions used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	2.0%-2.5%	2.0%-5.3%
Expected rate of return on plan assets	2.5%-4.5%	1.0%-5.0%
Amortization period of prior service cost	15 years	15 years
Recognition period of actuarial gain/loss	10-15 years	10-15 years
Amortization period of transitional obligation	15 years	15 years

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code (the "Code").

The Company and certain subsidiaries recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The liability for retirement benefits for directors and corporate auditors for the years ended March 31, 2006 and 2005 was ¥383 million ($3,261 thousand) and ¥931 million, respectively.

8. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors)

shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and loss carryforwards which result in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Net current deferred tax assets:			
Current deferred tax assets:			
Accrued bonuses	¥ 932	¥ 2,230	$ 7,937
Enterprise taxes payable	35	216	301
Inventories	638	851	5,430
Allowance for doubtful accounts	1	82	9
Unrealized gains	45	214	381
Accrued social security on accrued bonuses	108	257	921
Warranty for finished products		205	
Other	41	276	345
Valuation allowance	(1,442)	(1,325)	(12,272)
Total	358	3,006	3,052
Current deferred tax liabilities — other		109	
Total		109	
Net current deferred tax assets	¥ 358	¥ 2,897	$ 3,052
Net non-current deferred tax assets:			
Non-current deferred tax assets:			
Allowance for doubtful accounts		¥ 28	
Liability for retirement benefits	¥ 719	4,081	$ 6,124
Tax loss carryforwards	74	88	626
Investment securities		5	
Unrealized gains	629	1,836	5,357
Other	193	490	1,642
Valuation allowance	(74)	(32)	(626)
Total	1,541	6,496	13,123
Non-current deferred tax liabilities:			
Special reserve for tax purposes		43	
Net unrealized gains on available-for-sale securities	62	207	532
Other		105	
Total	62	355	532
Net non-current deferred tax assets	¥ 1,479	¥ 6,141	$ 12,591
Net non-current deferred tax liabilities:			
Non-current deferred tax assets:			
Allowance for doubtful accounts	¥ 300	¥ 319	$ 2,550
Liability for retirement benefits	4,063	4,313	34,586
Tax loss carryforwards	6,606	6,601	56,237
Software	2,577	2,344	21,936
Investment securities	850	915	7,238
Inventories	1,080	275	9,196
Property, plant and equipment	525	267	4,472
Other	277	422	2,352
Valuation allowance	(16,278)	(14,880)	(138,567)
Total		576	
Non-current deferred tax liabilities:			
Deferred gain on sales of properties		258	
Special reserve for tax purposes		9	
Liability for retirement benefits		319	
Net unrealized gains on available-for-sale securities	3,704	1,349	31,534
Other		85	
Total	3,704	2,020	31,534
Net non-current deferred tax liabilities	¥ 3,704	¥ 1,444	$ 31,534

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of operations for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes	(0.4)	3.5
Change in valuation allowance	(12.2)	14.8
Adjustment of gain on sales of investments in subsidiaries	(36.7)	
Minimum inhabitants tax		2.8
Equity in earnings of affiliated companies		(2.2)
Tax credit for experimentation and research expenses		(8.0)
Other—net	0.7	(0.3)
Actual effective tax rate	(7.9)%	51.3%

At March 31, 2006, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥16,411 million ($139,706 thousand) which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 8,714	$ 74,178
2010	2,344	19,954
2011	256	2,184
2013 and thereafter	5,097	43,390
Total	¥16,411	$139,706

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥13,108 million ($111,589 thousand) and ¥18,766 million for the years ended March 31, 2006 and 2005, respectively.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Details of selling, general and administrative expenses for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Provision for doubtful accounts	¥ 561	¥ 296	$ 4,773
Salary	12,592	17,539	107,193
Provision for retirement benefits	1,508	1,951	12,838
Research and development costs	5,973	7,731	50,845
Other	13,143	20,252	111,888
Total	¥ 33,777	¥47,769	$ 287,537

12. OTHER INCOME (EXPENSES)-NET

Other income (expenses)-net for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Gain on sales of investment securities	¥ 6	¥ 50	$ 47
Loss on valuation of investment securities	(100)	(22)	(850)
Gain on sales of investments in a consolidated subsidiary	5,052		43,010
Loss on sales of investments in a consolidated subsidiary	(6,440)		(54,820)
Equity in earnings (losses) of affiliated companies	(365)	261	(3,109)
Loss on valuation and disposal of inventories	(6,209)	(1,933)	(52,855)
Foreign exchange gain	414	744	3,523
Reversal of allowance for doubtful accounts	29	81	249
Impairment loss	(228)		(1,940)
Refund to Defense Agency	(23,078)		(196,455)
Gain on sales of fixed property, plant and equipment		303	
Other loss—net	(951)	(169)	(8,102)
Total	¥(31,870)	¥ (685)	$ (271,302)

Notes: 1. Loss on valuation and disposal of inventories

In the fiscal year under review, the Company established new standards for devaluation of assets based on years elapsed and other factors, and applied these standards to its holdings of inventories. The new standards were deemed necessary for properly valuing the effectiveness of assets in line with the Company's business restructuring, and resulted from the Company's review of appropriate methods for valuing inventories.

The Special Equipment Division, uncertain whether or not it could turn a profit at an early stage, reported an impairment loss on its fixed assets in the year under review. After careful consideration of future business conditions, that Division also posted a loss on valuation of inventories in recognition of a substantial decline in the effective value of such assets.

2. Refund to Defense Agency

On December 14, 2004, the Company received an over-billing claim from the Japan Defense Agency for the delivery of defense-related equipment. The Company was subsequently subject to a special investigation on orders and contracts fulfilled prior to that date. On March 24, 2006, the Company received notification from the Agency of the overpaid amount, which was refunded in full on the same day.

13. SUPPLEMENTAL CASH FLOW INFORMATION

New Japan Radio Co., Ltd.'s group and ALOKA CO., LTD.'s group were excluded from the scope of consolidation as a result of the sale of 50% and 41% of the total number of issued shares with voting rights.

The cash flow effects of sales of ownership interest for the year ended March 31, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
New Japan Radio Co., Ltd.'s Group		
Current assets	¥ 36,233	$ 308,443
Long-term assets	22,424	190,891
Current liabilities	(25,814)	(219,753)
Long-term liabilities	(10,078)	(85,789)
Minority liabilities	(10,668)	(90,815)
Gain on sales of investments in a consolidated subsidiary	5,052	43,010
Consideration received	17,149	145,987
Cash and cash equivalents	(3,606)	(30,696)
Incidental cost of sales of investments in a consolidated subsidiary	235	1,996
Net of cash	¥ 13,778	$ 117,287
ALOKA CO., LTD.'s Group		
Current assets	¥ 38,535	$ 328,045
Long-term assets	11,618	98,899
Current liabilities	(12,460)	(106,067)
Long-term liabilities	(3,174)	(27,018)
Minority liabilities	(16,125)	(137,268)
Decrease in retained earnings resulting from exclusion of consolidated subsidiaries	(1,878)	(15,991)
Cost of withholding taxes on consent dividend	(255)	(2,167)
Loss on sales of investments in a consolidated subsidiary	(6,440)	(54,820)
Consideration received	9,821	83,613
Cash and cash equivalents	(5,910)	(50,314)
Incidental cost of sales of investments in a consolidated subsidiary	259	2,205
Net of cash	¥ 4,170	$ 35,504

14. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expense for the years ended March 31, 2006 and 2005 was ¥347 million ($2,955 thousand) and ¥729 million, respectively, including ¥335 million ($2,857 thousand) and ¥713 million of lease payments under finance leases.

For the year ended March 31, 2006, the Group recorded an impairment loss of ¥6 million ($48 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in long-term liabilities-other.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligation under finance leases, depreciation expense, interest expense and impairment loss of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen							
	2006				2005			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥932	¥761	¥140	¥1,833	¥815	¥1,859	¥568	¥3,242
Accumulated depreciation	426	317	50	793	286	1,017	328	1,631
Accumulated impairment loss		6		6				
Net leased property	¥506	¥438	¥ 90	¥1,034	¥529	¥ 842	¥240	¥1,611

	Thousands of U.S. Dollars			
	2006			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	$7,937	$6,480	$1,188	$15,605
Accumulated depreciation	3,632	2,697	422	6,751
Accumulated impairment loss		48		48
Net leased property	$4,305	$3,735	$766	$8,806

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 355	¥ 578	$3,018
Due after one year	735	¥1,120	6,261
Total	¥1,090	¥1,698	$9,279

Depreciation expense, interest expense and impairment loss under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥ 317	¥ 667	$2,697
Interest expense	20	30	172
Impairment loss	6		48

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 11	¥ 12	$ 89
Due after one year	5	17	45
Total	¥ 16	¥ 29	$ 134

15. DERIVATIVES

The Group enters into derivative financial instruments, including foreign currency forward contracts and currency options, to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap agreements as a means of managing its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading or speculative purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies of the Company and such subsidiaries which regulate the authorization and credit limit amount.

The fair value of the Group's derivative financial instruments at March 31, 2005 are as follows:

	Millions of Yen		
	2005		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:			
Buying—Japanese yen	¥2,535	¥2,434	¥(101)
Selling—U.S. dollars	2,528	2,560	(32)
Total	¥5,063	¥4,994	¥(133)

Derivative financial instruments which qualify for hedge accounting for the years ended March 31, 2006 and 2005 are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

16. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Export drafts discounted		¥319	
Guarantees and items of a similar nature	¥170	641	$1,449

The carrying amounts of assets pledged as collateral for guarantees of ¥162 million at March 31, 2005, were as follows:

	Millions of Yen
	2005
Cash and cash equivalents	¥30
Property, plant and equipment—net of accumulated depreciation	34
Total	¥64

17. NET INCOME PER SHARE

Diluted net income per share for the year ended March 31, 2006 is not disclosed because it is anti-dilutive.

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2005	Net Income	Weighted-average Shares	EPS
Basic EPS—Net income available to common shareholders	¥ 475	137,886	¥ 3.44
Effect of dilutive securities—Minority interests	(2)		
Diluted EPS—Net income for computation	¥ 473	137,886	¥ 3.43

18. SEGMENT INFORMATION

The Company operates in the following industries:

Industry radio communications equipment consists of radio communications equipment, radio-applied equipment, electronics equipment, installation work and other operations.

Industry semiconductor devices and microwave tubes consists of microwave tubes and peripheral equipment, microwave devices, and semiconductor products.

Industry medical electronics equipment consists of electronic medical systems, radiation protection and analytical instruments, and clinical laboratory systems.

Information about operations in industry segments, geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2006 and 2005 is as follows:

(1) Industry Segments

Sales and operating income

	Millions of Yen				
	2006				
	Radio Communications Equipment	Semiconductor Devices and Microwave Tubes	Medical Electronics Equipment	Eliminations or Corporate	Consolidated
Sales to customers	¥127,703	¥29,316	¥21,829		¥178,848
Intersegment sales	780	363		¥(1,143)	
Total sales	128,483	29,679	21,829	(1,143)	178,848
Operating expenses	126,878	28,842	22,198	(1,227)	176,691
Operating income (loss)	¥ 1,605	¥ 837	¥ (369)	¥ 84	¥ 2,157

Total assets, depreciation and capital expenditures

	Millions of Yen				
	2006				
	Radio Communications Equipment	Semiconductor Devices and Microwave Tubes	Medical Electronics Equipment	Eliminations or Corporate	Consolidated
Total assets	¥124,128				¥124,128
Depreciation	1,746	¥1,988	¥428		4,162
Inpairment loss	278				278
Capital expenditures	1,366	1,587	275		3,228

Notes: 1. The effect of the adoption of the accounting for impairment of fixed assets in Note 2.f was to decrease the assets of the "Radio communications equipment" segment for the year ended March 31, 2006 by ¥228 million ($1,940 thousand).

2. With respect to "Semiconductor devices and microwave tubes" segment, New Japan Radio Co., Ltd.'s group was excluded from the scope of consolidation as a result of the sale of issued shares with voting rights.

With respect to "Medical electronics equipment" segment, ALOKA CO., LTD.'s group was excluded from the scope of consolidation as a result of the sale of issued share with voting right.

For the reasons stated above, their sales, operating expenses, depreciation and capital expenditures until September 30, 2005 were reflected in each segment and their assets were not stated.

Sales and operating income

	Thousands of U.S. Dollars				
	2006				
	Radio Communications Equipment	Semiconductor Devices and Microwave Tubes	Medical Electronics Equipment	Eliminations or Corporate	Consolidated
Sales to customers	$1,087,110	$249,564	$185,830		$1,522,504
Intersegment sales	6,636	3,091		$ (9,727)	
Total sales	1,093,746	252,655	185,830	(9,727)	1,522,504
Operating expenses	1,080,088	245,527	188,969	(10,443)	1,504,141
Operating income (loss)	$ 13,658	$ 7,128	$ (3,139)	$ 716	$ 18,363

Total assets, depreciation, impairment loss and capital expenditures

	Thousands of U.S. Dollars				
	2006				
	Radio Communications Equipment	Semiconductor Devices and Microwave Tubes	Medical Electronics Equipment	Eliminations or Corporate	Consolidated
Total assets	$1,056,675				$1,056,675
Depreciation	14,866	$16,925	$3,643		35,434
Inpairment loss	1,940				1,940
Capital expenditures	11,626	13,508	2,347		27,481

Sales and operating income

	Millions of Yen				
	2005				
	Radio Communications Equipment	Semiconductor Devices and Microwave Tubes	Medical Electronics Equipment	Eliminations or Corporate	Consolidated
Sales to customers	¥119,163	¥63,834	¥46,196		¥229,193
Intersegment sales	1,488	1,220		¥(2,708)	
Total sales	120,651	65,054	46,196	(2,708)	229,193
Operating expenses	120,036	61,451	44,526	(2,785)	223,228
Operating income	¥ 615	¥ 3,603	¥ 1,670	¥ 77	¥ 5,965

Total assets, depreciation and capital expenditures

	Millions of Yen				
	2005				
	Radio Communications Equipment	Semiconductor Devices and Microwave Tubes	Medical Electronics Equipment	Eliminations or Corporate	Consolidated
Total assets	¥123,456	¥57,025	¥54,360	¥(963)	¥233,878
Depreciation	2,319	4,467	1,069		7,855
Capital expenditures	1,606	4,068	528		6,202

(2) Geographical Segments

The Company and consolidated subsidiaries operate predominantly in Japan. Geographical segment is minor in relation to the total consolidated sales. Accordingly, the presentation of geographical segment information is not required under the related regulations.

(3) Sales to Foreign Customers

	Millions of Yen				
	2006				
	Asia	Europe	North America	Other	Total
Sales to foreign customers	¥20,670	¥14,830	¥8,573	¥7,903	¥ 51,976
Consolidated sales					178,848
The ratio of sales to foreign customers	11.6%	8.3%	4.8%	4.4%	29.1%

	Thousands of U.S. Dollars				
	2006				
	Asia	Europe	North America	Other	Total
Sales to foreign customers	$175,959	$126,249	$72,981	$67,277	$ 442,466
Consolidated sales					1,522,504
The ratio of sales to foreign customers	11.6%	8.3%	4.8%	4.4%	29.1%

	Millions of Yen				
	2005				
	Asia	Europe	North America	Other	Total
Sales to foreign customers	¥33,328	¥20,953	¥11,373	¥10,927	¥ 76,581
Consolidated sales					229,193
The ratio of sales to foreign customers	14.5%	9.1%	5.0%	4.8%	33.4%

Notes: Asia area consists of China, Korea, Taiwan, Philippines and Thailand.
Europe area consists of the United Kingdom, Germany and France. North America area consists of the United States of America.
Other area consists of Middle East and Latin America

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Japan Radio Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Japan Radio Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Radio Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 29, 2006

Member of
Deloitte Touche Tohmatsu

Non-Consolidated Balance Sheets

March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥ 7,354	¥ 8,457	$ 62,601
Short-term investments (Note 3)		3	
Receivables:			
Trade notes	3,828	3,427	32,590
Trade accounts	46,435	41,505	395,290
Subsidiaries and affiliated companies (Note 14)	346	795	2,943
Other	521	275	4,428
Allowance for doubtful accounts	(598)	(293)	(5,088)
Inventories (Note 4)	28,692	34,836	244,253
Prepaid expenses and other (Note 14)	879	794	7,484
Total current assets	87,457	89,799	744,501
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	1,850	1,850	15,750
Buildings and structures	24,312	24,085	206,965
Machinery and equipment	9,490	9,846	80,783
Furniture and fixtures	17,222	28,191	146,611
Construction in progress	4	36	35
Total	52,878	64,008	450,144
Accumulated depreciation	(42,064)	(52,039)	(358,084)
Net property, plant and equipment	10,814	11,969	92,060
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	14,394	8,289	122,533
Investments in subsidiaries and affiliated companies (Note 3)	2,357	5,704	20,064
Other assets (Note 5)	1,836	1,985	15,633
Allowance for doubtful accounts	(521)	(535)	(4,434)
Total investments and other assets	18,066	15,443	153,796
TOTAL	¥116,337	¥117,211	$ 990,357

See notes to non-consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Current portion of long-term debt (Note 6)	¥ 14,570	¥ 1,070	$ 124,032
Commercial paper (Note 6)	7,000	8,000	59,590
Payables:			
Trade notes	1,178	1,265	10,028
Trade accounts	27,057	26,754	230,334
Subsidiaries and affiliated companies (Note 14)	4,319	5,515	36,771
Other	354	426	3,014
Income taxes payable (Note 8)	127	225	1,079
Accrued expenses (Note 14)	4,149	4,106	35,319
Other (Note 14)	2,674	2,446	22,761
Total current liabilities	61,428	49,807	522,928
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	4,500	17,170	38,308
Liability for retirement benefits	10,132	11,068	86,253
Deferred tax liabilities (Note 8)	3,704	1,239	31,534
Other	10		79
Total long-term liabilities	18,346	29,477	156,174
CONTINGENT LIABILITIES (Note 13)			
SHAREHOLDERS' EQUITY (Note 7):			
Common stock—authorized, 216,000,000 shares; issued, 137,976,690 shares in 2006 and 2005	14,704	14,704	125,175
Capital surplus—additional paid-in capital	17,087	17,087	145,458
Retained earnings:			
Legal reserve	2,278	2,278	19,396
Unappropriated retained earnings (deficit)	(2,860)	2,086	(24,354)
Net unrealized gain on available-for-sale securities	5,397	1,806	45,945
Treasury stock—at cost, 125,588 shares in 2006 and 104,421 shares in 2005	(43)	(34)	(365)
Total shareholders' equity	36,563	37,927	311,255
TOTAL	¥116,337	¥117,211	$ 990,357

Non-consolidated Statements of Operations

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES	¥120,144	¥112,576	$1,022,767
COST OF SALES (Note 14)	100,938	94,323	859,264
Gross profit	19,206	18,253	163,503
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	18,261	18,208	155,450
Operating income	945	45	8,053
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 14)	694	598	5,905
Interest expense	(295)	(375)	(2,519)
Other—net (Note 11)	(6,236)	(1,643)	(53,084)
Other expenses—net	(5,837)	(1,420)	(49,698)
LOSS BEFORE INCOME TAXES	(4,892)	(1,375)	(41,645)
INCOME TAXES (Note 8):			
Current	54	53	460
Deferred			
Total income taxes	54	53	460
NET LOSS	¥ (4,946)	¥ (1,428)	$ (42,105)

	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK—			
Basic net loss (Note 2.p)	¥ (35.88)	¥ (10.36)	$ (0.31)

See notes to non-consolidated financial statements.

Non-consolidated Statements of Shareholders' Equity

Years Ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
			Capital Surplus	Retained Earnings			
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Legal Reserve	Unappropriated	Net Unrealized Gain on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2004	137,896	¥14,704	¥17,087	¥2,278	¥ 3,514	¥1,339	¥(24)
Net loss					(1,428)		
Net increase in unrealized gain on available-for-sale securities						467	
Purchase of treasury stock	(24)						(10)
BALANCE, MARCH 31, 2005	137,872	14,704	17,087	2,278	2,086	1,806	(34)
Net loss					(4,946)		
Net increase in unrealized gain on available-for-sale securities						3,591	
Purchase of treasury stock	(21)						(9)
BALANCE, MARCH 31, 2006	137,851	¥14,704	¥17,087	¥2,278	¥(2,860)	¥5,397	¥(43)

	Thousands of U.S. Dollars (Note 1)					
		Capital Surplus	Retained Earnings			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Unappropriated	Net Unrealized Gain on Available-for-sale Securities	Treasur Stock
BALANCE, MARCH 31, 2005	$125,175	$145,458	$19,396	$ 17,751	$15,372	$(288)
Net loss				(42,105)		
Net increase in unrealized gain on available-for-sale securities					30,573	
Purchase of treasury stock						(77)
BALANCE, MARCH 31, 2006	$125,175	$145,458	$19,396	$(24,354)	$45,945	$(365)

See notes to non-consolidated financial statements.

Years Ended March 31, 2006 and 2005

1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Japan Radio Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, non-consolidated statements of cash flows and certain disclosures are not presented herein in accordance with accounting principles generally accepted in Japan.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 non-consolidated financial statements to conform to the classifications used in 2006.

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to $1, the approximate rate of exchange at March 31, 2006. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Non-consolidation—The non-consolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries and affiliated companies are stated at cost.

b. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

c. Inventories—Finished products, semi-finished products and work in process are stated at cost determined principally by the specific identification method.

Raw materials and supplies are stated at cost determined by the average method.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities, which are not classified as either trading securities nor held-to-maturity debt securities, and they are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Investments in Subsidiaries and Affiliated Companies—Investments in subsidiaries and affiliated companies are generally stated at cost, except that appropriate write-downs are recorded for investments in companies which have incurred substantial losses deemed to be of a permanent nature.

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 10 to 50 years for buildings and structures, from 7 to 10 years for machinery and equipment and from 2 to 15 years for furniture and fixtures.

g. Long-lived Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to increase loss before income taxes for the year ended March 31, 2006 by ¥228 million ($1,940 thousand).

h. Stock and Bond Issue Costs—Stock and bond issue costs are charged to income as incurred.

i. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

j. Retirement and Pension Plans—The Company has a non-contributory funded defined benefit pension plan and an unfunded retirement benefit plan for employees.

The Company accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The Company has provided an allowance for directors' and corporate auditors' retirement benefits calculated in accordance with the Company's policies and has included this amount in the liability for retirement benefits.

k. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's non-consolidated financial statements.

l. Income Taxes—The provision for income taxes is computed based on the pretax income included in the non-consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

n. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the non-consolidated statements of operations to the extent that they are not hedged by forward currency contracts and options.

o. Derivatives and Hedging Activities—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign currency forward contracts, interest rate swaps and currency options are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the non-consolidated statements of operations and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for import purchases and export sales are measured at a fair value and the unrealized gains/losses are recognized in income. Trade payables and trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

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

p. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because of the Company's net loss position.

q. New Accounting Pronouncements

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,
(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Short-term investments—Debt securities		¥ 3	
Investment securities:			
Equity securities	**¥13,996**	¥7,922	**$119,141**
Debt securities	**212**	210	**1,805**
Other	**186**	157	**1,587**
Total	**¥14,394**	¥8,289	**$122,533**

The carrying amounts and aggregate fair values of investment securities in subsidiaries and affiliated companies whose market values are available at March 31, 2006 and 2005 are as follows:

	Millions of Yen					
	2006			2005		
	Carrying Amount	Market Value	Unrealized Gain	Carrying Amount	Market Value	Unrealized Gain
Subsidiaries				¥3,347	¥28,948	¥25,601
Affiliated companies	**¥1,015**	**¥2,511**	**¥1,496**	1,015	1,838	823
Total	**¥1,015**	**¥2,511**	**¥1,496**	¥4,362	¥30,786	¥26,424

	Thousands of U.S. Dollars		
	2006		
	Carrying Amount	Market Value	Unrealized Gain
Subsidiaries			
Affiliated companies	**$8,643**	**$21,377**	**$12,734**
Total	**$8,643**	**$21,377**	**$12,734**

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Finished products and semi-finished products	¥ 7,567	¥ 8,953	$ 64,417
Work in process	16,736	20,420	142,469
Raw materials and supplies	4,389	5,463	37,367
Total	¥28,692	¥34,836	$244,253

5. LONG-LIVED ASSETS

In the fiscal year under review, the Company reported the following impairment loss for certain fixed assets:

Location: Mitaka City, Tokyo
Asset use: Assets for Special Equipment Division
Type: Machinery and equipment, furniture and fixture, etc.

In principle, the Company pools the assets of its business divisions into the smallest possible units for cash flow generation.

In the year under review, the Special Equipment Division, uncertain whether or not it could turn a profit at an early stage, reduced the book value of its asset pool to the amount deemed recoverable, resulting in an impairment loss of ¥228 million ($1,940 thousand). This amount is broken down into ¥66 million ($563 thousand) for machinery and equipment, ¥129 million ($1,094 thousand) for furniture and fixtures, and ¥33 million ($283 thousand) for others. Within this asset pool, the amount deemed recoverable is determined according to estimated utility value. Because such assets are not certain to generate positive cash flow in the future, they were devalued to zero.

6. SHORT-TERM BANK LOANS, COMMERCIAL PAPER AND LONG-TERM DEBT

The weighted average annual interest rates for commercial paper for the years ended March 31, 2006 and 2005 were 0.1% and 0.2%. Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Unsecured 0.7% domestic bonds due 2006	¥ 7,000	¥ 7,000	$ 59,590
Unsecured 0.7% domestic bonds due 2006	1,500	1,500	12,769
Loans from banks, due serially to 2008 with interest rates ranging from 0.9% to 2.1% (in 2006) and from 1.3% to 2.1% (in 2005)	10,570	9,740	89,981
Total	19,070	18,240	162,340
Less current portion	(14,570)	(1,070)	(124,032)
Long-term debt, less current portion	¥ 4,500	¥17,170	$ 38,308

Annual maturities of long-term debt outstanding at March 31, 2006 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥14,570	$ 124,032
2009	2,210	18,813
2010	1,210	10,301
2011	1,080	9,193
Total	¥19,070	$162,339

7. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the “Corporate Law”) became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders’ equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders’ equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders’ equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders’ equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

8. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and loss carryforwards which result in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current deferred tax assets:			
Accrued bonuses	¥ 688	¥ 698	$ 5,859
Inventories	638	459	5,430
Accrued social security on accrued bonuses	76	75	649
Enterprise taxes payable	23	63	194
Other	17	24	140
Valuation allowance	(1,442)	(1,319)	(12,272)
Total	–	–	–
Non-current deferred tax assets:			
Liability for retirement benefits	¥ 4,063	¥ 4,313	$ 34,586
Tax loss carryforwards	6,606	6,601	56,237
Software	2,577	2,332	21,935
Inventories	1,080	276	9,196
Investment securities	850	811	7,238
Property, plant and equipment	525	261	4,472
Allowance for doubtful accounts	300	210	2,550
Other	277	288	2,353
Valuation allowance	(16,278)	(14,824)	(138,567)
Total	–	268	–
Non-current deferred tax liabilities:			
Deferred gain on sales of properties	–	258	–
Special reserve for tax purposes	–	10	–
Net unrealized gain on available-for-sale securities	3,704	1,239	31,534
Total	3,704	1,507	31,534
Net non-current deferred tax liabilities	¥ 3,704	¥ 1,239	$ 31,534

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying non-consolidated statements of operations for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	40.7%	40.7%
Expenses not deductible for income tax purposes		(4.6)
Dividend income not to be taxed	35.4	16.1
Minimum inhabitants tax		(3.9)
Change in valuation allowance	(72.3)	(54.0)
Other-net	(4.9)	1.8
Actual effective tax rate	(1.1)%	(3.9)%

At March 31, 2006, the Company has tax loss carryforwards aggregating approximately ¥16,231 million ($138,175 thousand) which are available to be offset against taxable income of the Company in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 8,648	$ 73,624
2010	2,290	19,492
2011	256	2,184
2013	5,037	42,875
Total	¥16,231	$138,175

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥7,375 million ($62,784 thousand) and ¥7,727 million for the years ended March 31, 2006 and 2005, respectively.

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Details of selling, general and administrative expenses for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Provision for doubtful accounts	¥ 400	¥ 100	$ 3,401
Salary	6,710	6,882	57,120
Provision for retirement benefits	929	961	7,913
Depreciation expense	239	202	2,032
Rent expense	1,009	1,094	8,586
Research and development cost	3,824	3,544	32,555
Other	5,150	5,425	43,843
Total	¥18,261	¥18,208	$155,450

11. OTHER INCOME (EXPENSES)-NET

Other income (expenses)-net for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Gain on sales of investment securities	¥ 6		$ 47
Loss on valuation of investment securities	(96)	¥ (22)	(817)
Gain on sales of investments in subsidiaries and affiliated companies	24,070		204,905
Loss on valuation and disposal of inventories	(6,196)	(1,888)	(52,747)
Foreign exchange gain	182	111	1,552
Gain on sales of property, plant and equipment		296	
Loss on sales and disposal of property, plant and equipment	(130)	(126)	(1,110)
Impairment loss	(228)		(1,940)
Refund to Defense Agency	(23,078)		(196,455)
Other loss—net	(766)	(14)	(6,519)
Total	¥ (6,236)	¥(1,643)	$ (53,084)

Notes: 1. Loss on valuation and disposal of inventories

In the fiscal year under review, the Company established new standards for devaluation of assets based on years elapsed and other factors, and applied these standards to its holdings of inventories. The new standards were deemed necessary for properly valuing the effectiveness of assets in line with the Company's business restructuring, and resulted from the Company's review of appropriate methods for valuing inventories.

The Special Equipment Division, uncertain whether or not it could turn a profit at an early stage, reported an impairment loss on its fixed assets in the year under review. After careful consideration of future business conditions, that Division also posted a loss on valuation of inventories in recognition of a substantial decline in the effective value of such assets.

2. Refund to Defense Agency

On December 14, 2004, the Company received an over-billing claim from the Japan Defense Agency for the delivery of defense-related equipment. The Company was subsequently subject to a special investigation on orders and contracts fulfilled prior to that date. On March 24, 2006, the Company received notification from the Agency of the overpaid amount, which was refunded in full on the same day.

12. LEASES

The Company leases certain machinery, computer equipment, office space and other assets.

Total rental expense for the years ended March 31, 2006 and 2005 was ¥306 million ($2,608 thousand) and ¥284 million, respectively, including ¥296 million ($2,523 thousand) and ¥267 million of lease payments under finance leases.

For the year ended March 31, 2006, the Company recorded an impairment loss of ¥6 million ($48 thousand) on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property, which is included in long-term liabilities-other.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligation under finance lease, depreciation expense, interest expense and impairment loss of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005, was as follows:

	Millions of Yen							
	2006				2005			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥875	¥672	¥89	¥1,636	¥782	¥614	¥33	¥1,429
Accumulated depreciation	412	259	22	693	273	237	9	519
Accumulated impairment loss		6		6				
Net leased property	¥463	¥407	¥67	¥937	¥509	¥377	¥24	¥ 910

	Thousands of U.S. Dollars			
	2006			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	$7,445	$5,722	$763	$13,930
Accumulated depreciation	3,506	2,205	188	5,899
Accumulated impairment loss		48		48
Net leased property	$3,939	$3,469	$575	$7,983

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥319	¥267	$2,718
Due after one year	670	690	5,704
Total	¥989	¥957	$8,422

Depreciation expense, interest expense and impairment loss under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥281	¥252	$2,389
Interest expense	17	16	148
Impairment loss	6		48

Depreciation expense and interest expense, which are not reflected in the accompanying non-consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2006	2006
Due within one year	¥10	$ 85
Due after one year	5	42
Total	¥15	$127

13. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 and 2005 for guarantees of bank loans amounted to ¥625 million ($5,323 thousand) and ¥641 million, respectively.

14. RELATED PARTY TRANSACTIONS

Transactions of the Company with subsidiaries and affiliated companies for the years ended March 31, 2006 and 2005 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Purchases	¥17,870	¥17,718	$152,131
Dividend income	355	511	3,020

Balances due to or from these subsidiaries and affiliated companies at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Notes and accounts receivables	¥ 241	¥ 612	$ 2,051
Other receivables	105	183	892
Prepaid expenses and other current assets	648	106	5,519
Notes and accounts payables	4,306	5,460	36,661
Other payables	13	55	110
Accrued expenses and other current liabilities	233	249	1,983

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Japan Radio Co., Ltd.:

We have audited the accompanying non-consolidated balance sheets of Japan Radio Co., Ltd. (the "Company") as of March 31, 2006 and 2005, and the related non-consolidated statements of operations and shareholders' equity for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Japan Radio Co., Ltd. as of March 31, 2006 and 2005, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.g to the non-consolidated financial statements, the Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

Member of
Deloitte Touche Tohmatsu

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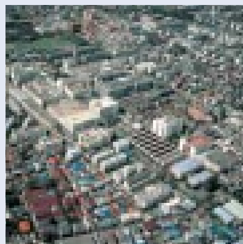

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Fax: +852-2707-9226

JRC do Brasil Empreendimentos Electronicos Ltda.
Av. Almirante Barroso, 63-S/309 CEP 20031-003, Rio de Janeiro, RJ, Brasil
Phone: +55-21-2220-8121
Fax: +55-21-2240-6324

(* denotes a consolidated subsidiary)

JRC Tokki Co., Ltd. *

Business:
Repairs and overhaul of defense electronics for ships and aircraft, system support engineering for installations on ships, and manufacture of peripheral equipment

Head office and factory:
3-2-1, Shinyoshida-higashi, Kohoku-ku, Yokohama, Kanagawa 223-0058, Japan

Phone: +81-45-547-8572

URL: http://www.jrctokki.co.jp

Employees: 344

JRC Engineering Co., Ltd. *

Business:
Software development and engineering for information and data processing systems using general-purpose computers, minicomputers and microcomputers

Head office and factory:
c/o Japan Radio Co., Ltd.
1-1, Shimorenjaku 5-chome, Mitaka, Tokyo 181-0013, Japan

Phone: +81-422-45-9661

URL: http://www.jrce.co.jp

Employees: 164

Japan Radio Glass Co., Ltd. *

Business:
Manufacture and sale of glassware for outdoor lamps, mercury-vapor lamps, electron tubes, physicochemical apparatus, tableware and other glass tubes

Head office and factory:
1-8, Fukuoka 2-chome, Fujimino, Saitama 356-0011, Japan

Phone: +81-49-264-4411

URL: http://www.jrg.co.jp

Employees: 91

Musashino Electronics Co., Ltd. *

Business:
Manufacture of radio communications and medical electronics equipment, and electronics parts

Head office and factory:
1-33, Shimorenjaku 8-chome, Mitaka, Tokyo 181-0013, Japan

Phone: +81-422-47-6341

URL: http://www.musashino-e.com

Employees: 151

General Business Service Co., Ltd. *

Business:
Distribution management of electronic equipment

Head office and factory:
Japan Radio Co., Ltd. Mitaka Factory
1-1, Shimorenjaku 5-chome, Mitaka, Tokyo 181-0013, Japan

Phone : +81-422-40-0471

Employees: 73

Nagano Japan Radio Co., Ltd.

Business:
Manufacture and sale of VHF radio equipment, radars, data transmission equipment, controllers, public address sets, power supply equipment, capacitors, etc.

Head office and factory:
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Phone: +81-26-285-1111

URL: http://www.njrc.jp

Employees: 800(non-consolidated) / 2,161(consolidated)

Ueda Japan Radio Co., Ltd.

Business:
Manufacture of VHF radio equipment, radio receivers, measuring instruments, and electromedical equipment, etc.

Head office and factory:
10-19, Fumiiri 2-chome, Ueda, Nagano 386-8608, Japan

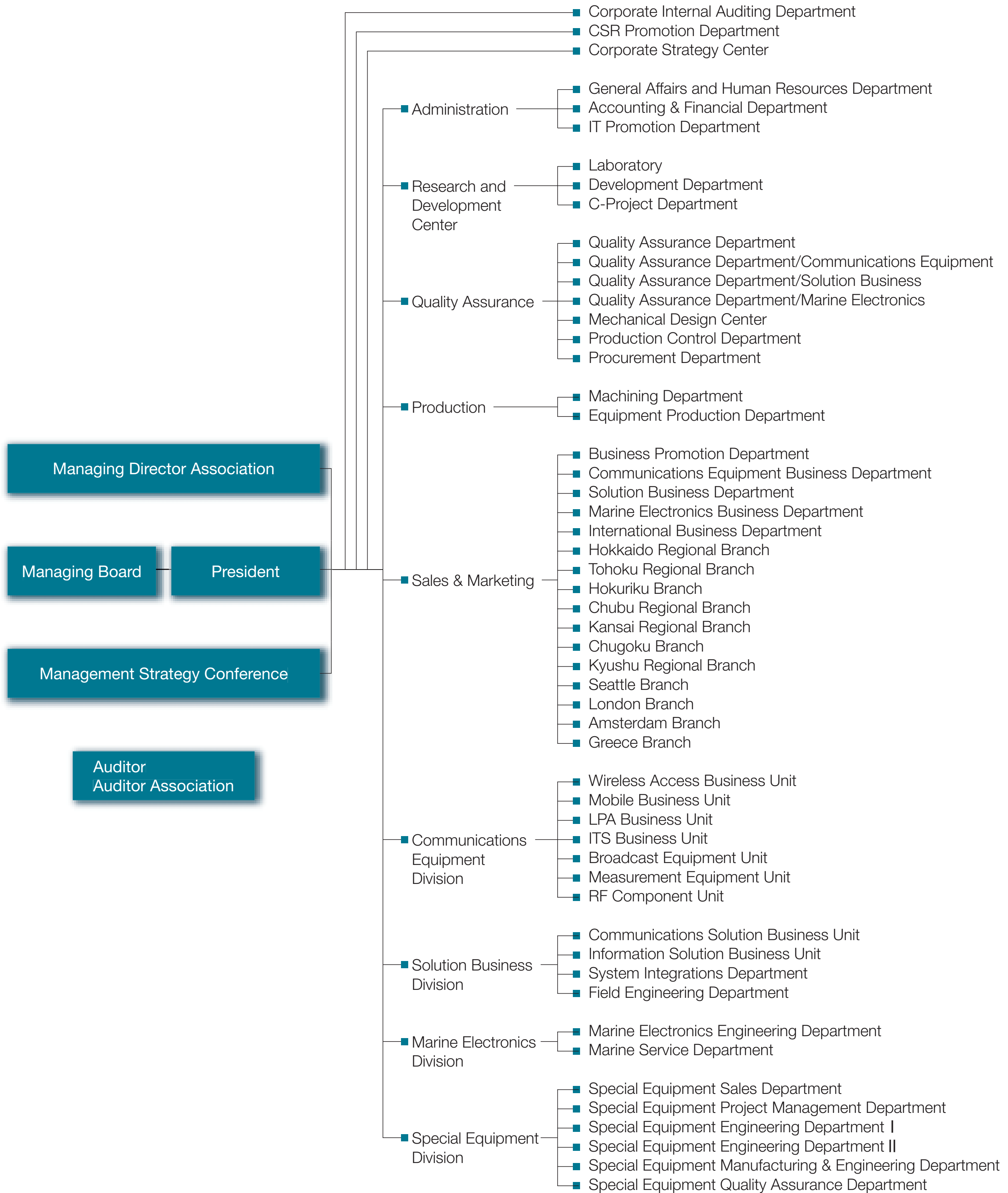
Phone : +81-268-26-2112

URL: http://www.ujrc.co.jp

Employees: 585

JRC Organization

(as of 1st April, 2006)



Investor Information

(as of 31st March, 2006)

Corporate Data

Japan Radio Co., Ltd.

Established:
December, 1915

Paid-in Capital:
¥14,704 millions ($125,175 thousands)

Number of Shares Issued:
137,976,690 shares

Number of Shareholders:
15,244

Stock Listing:
Tokyo Stock Exchange,
First Section (Code: 6751)

Employees:
2,925

General Meeting of Shareholders:
Convened annually in late June

Board of Directors and Corporate Auditors

(as of 29th June, 2006)

Chairman
Shinji Takeuchi

Representative Director, President
Yorihisa Suwa

Representative Director, Managing Director
Koichi Okajima

Managing Director
Mikio Naito

Directors
Hajime Takagiwa
Hironori Sakamoto
Tatsuro Masamura
Yoshimasa Gunji
Kiyohiko Tatebayashi
Takayoshi Tsuchida
Manabu Arai
Noboru Matsuda

Standing Corporate Auditors
Hideki Takeishi
Yoshio Nakatsuchi
Morihiro Sato

Corporate Auditor
Kenji Tasaki

Major Shareholders

Name	Number of shares held (thousands)	Shares (%)
Nisshinbo Industries, Inc.	26,662	19.32
Mizuho Corporate Bank, Ltd.	5,853	4.24
Japan Securities Finance Co., Ltd.	4,802	3.48
Japan Trustee Services Bank, Ltd. (Trust Account)	4,461	3.23
Mizuho Bank, Ltd.	3,672	2.66
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,184	2.30
JRC employee ownership	2,384	1.72
State Street Bank and trust Company (505019)	2,342	1.69
HSBC Fund Service J2	2,134	1.54
Mitsubishi Electric Co.	1,850	1.34

Shareholder Type

	Financial institutions	Securities companies	Other corporations	Foreign corporations and individuals	Individuals and others	Total
Number of Shareholders	54	56	376	89	14,669	15,244
Number of Shares Held	30,160	4,399	32,493	13,579	56,720	137,351
Percentage of Total Shares Issued	21.96	3.20	23.66	9.89	41.29	100.0

Notes: Trading unit of common stock : 1,000 shares
Odd-Lot Stock : 625,690 share

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