

Major locations worldwide (as of March 31, 2006)

**Within Japan**

Head office	Yokohama
Branch and sales offices	Sendai, Koriyama, Morioka, Hachioji, Matsumoto, Kanto (Saitama), Oita, Niigata, East Kanto (Kashiwa), Nagoya, Fukui, Shizuoka, Hamamatsu, Osaka, Kyoto, Okayama, Fukuoka
Factories	Fukui, Kaga

**Head office/Technology and Research Center**

**Sodick Inc. (Chicago/NJ/LA)**

**Sodick America Corporation (San Jose)**

**Sodick Europe Ltd. (U.K.)**

**Sodick Deutschland GmbH (Germany)**

**Sodick (Thailand) Co., Ltd.**

**Sodick Singapore Pte., Ltd.**

**Sodick (H.K.) Co., Ltd.**

**Sodick (Taiwan) Co., Ltd.**

**Suzhou Sodick Special Equipment Co., Ltd.**

**Sodick Plustech Co., Ltd.**

**Fukui Factory**

Shareholder memo

- Fiscal year : April 1 to March 31 of the following year
- Annual shareholders' meeting : June
- Fixed dates : Annual shareholders' meeting/March 31  
Dividend at end of period/March 31  
Other dates are announced in advance as necessary
- No. of shares per unit : 100
- Transfer agent : Mitsubishi UFJ Trust and Banking Corporation
- Transfer handling office : Securities Agency Dept., Mitsubishi UFJ Trust and Banking Corporation, 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
- Inquiries : Securities Agency Dept., Mitsubishi UFJ Trust and Banking Corporation 7-10-11 Higashisuna, Koto-ku, Tokyo 137-8081 0120-232-711 (free dial)
- Agents : Branches of Mitsubishi UFJ Trust and Banking Corporation  
Main office and branches of the Nomura Securities Co., Ltd.
- Public notice : Online Public notice at Sodick website

For share-related matters, please call Mitsubishi UFJ Trust and Banking Corporation at the following numbers (lines open 24 hours a day), or visit our website.

● Tel. (free dial) : 0120-244-479 (Head Office Securities Agency Dept.)  
0120-684-479 (Osaka Securities Agency Dept.)  
Website : <http://www.tr.mufg.jp/daikou/>

Visit Sodick's website at

Sodick's global website  
[www.sodick.jp](http://www.sodick.jp)



Sodick's website  
<http://www.sodick.co.jp/>



We are looking forward to hearing the opinions of our shareholders.

At Sodick, we welcome all our shareholders' opinions and questions. Please feel free to contact us at [ir@sodick.co.jp](mailto:ir@sodick.co.jp)

# Business Report 2005

April 1, 2005 to March 31, 2006



## ■ Corporate Highlights ■

We are pleased to report that Sodick won the 2005 “Nippon Brand Prize” for one of the ten most important new products launched during the year in Japan with its AE05, the first in its “Space Series” ultra-precise small hole drilling machines. The AE05 is the world’s first high-precision nano electrical discharge machine (EDM), and the Space Series aims to realize the world’s smallest, ultra-precise hole drilling through electrical discharge processing. The Series applies nano element technologies to discharge processing, and it gives Sodick an overwhelming advantage over the competition.

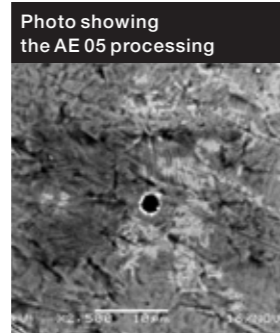
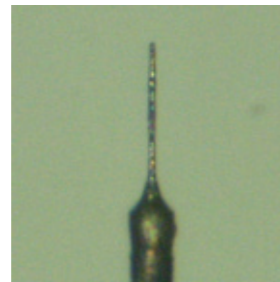
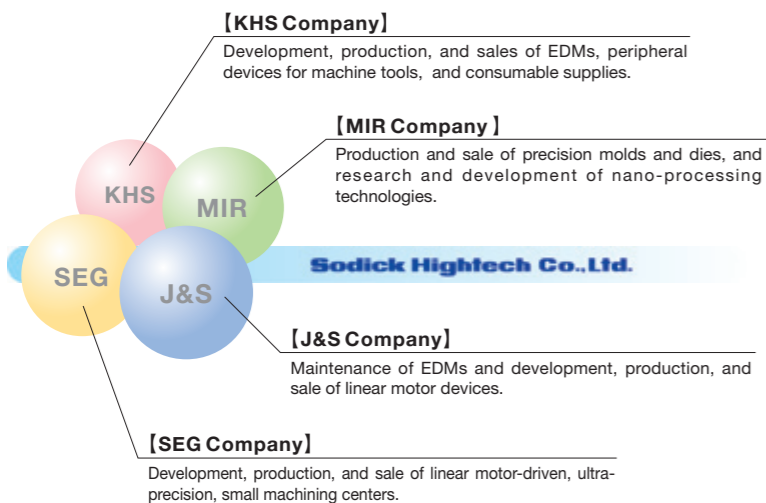


Photo showing the AE 05 processing  
Processes world's smallest hole : 2.9 microns



1.8 micron ultra-hard electrode

Sodick High Tech Co. Ltd., one of Sodick’s consolidated subsidiaries, was listed on the Osaka Securities Exchange’s Nippon New Market “Heracles” standard as of December 28, 2005. Sodick High Tech consolidates four businesses supporting Japan’s ultra-precise processing.



### Introducing new products (1)

Ultra-precise micro and high-precision nano-processing machine

## “Ultra Nano 100”



The world’s first and ultimate linear technology machine, achieving positioning and profile precisions of 0.5 nanometers and two to three nanometers respectively. This has enabled Sodick to establish absolute superiority over competition in the single nanometer to sub-nanometer scale area.

### Introducing new products (2)

Linear motor-driven

## Large die-sinking EDM AQ15L



A large die-sinking EDM that enables efficient production of large-scale molds, especially instrument panels and other large automotive components and large flat-panel displays, by exploiting high-speed, high-precision processing of linear motor drives.

In addition to the machines above, we have developed a large number of new models to aid customers’ manufacturing processes.

## MESSAGE

To all shareholders

I would like to extend warm greetings to all shareholders.

I would also like to thank you for your continued support.

On August 3 of this year, we will celebrate the 30th anniversary of Sodick’s foundation. We are very happy that we were able to achieve record sales and profits for this commemorative year, and I would like to thank all the shareholders sincerely for their guidance and encouragement.

During the past 30 years, under the motto of “helping to manufacture” and policy of “Creating, implementing, and overcoming difficulties” reflected in the Japanese characters that make up the name “Sodick,” we have succeeded in resolving many difficult issues along with our customers all over the world.

Over the next 30 years, not forgetting our original resolutions, we intend to press forward to gain the trust of all our stakeholders, especially the customers and shareholders, as a company that “helps to manufacture.”

I would like to ask all the shareholders for their continued exceptional support in the future.



Shigeo Shioda President

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## Contents

# Overview

Amidst rising prices for raw materials such as oil and metals, the Japanese economy continued its steady recovery and a large improvement was seen in corporate results and employment.

In the machine tools industry, machine tool orders in 2005 reached 1,363,203 million yen (the second highest figure since 1990), supported by strong demand in capital investment worldwide.

In this environment, our group strengthened the production capacity of its overseas manufacturing bases to respond to strong demand while at the same time developing new products that meet customer needs in ultra-precise, large-product processing and automation.

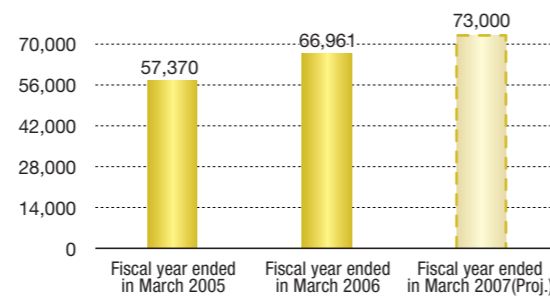
We also launched dynamic sales operations, establishing new offices in important markets where continued growth can be expected, including Ho Chi Min City Vietnam, where economic growth has been remarkably high; Memphis, Tennessee in the US, home to major medical equipment manufacturers; and Bangalore India, known as India's Silicon Valley.

Moreover, as part of the measures to raise our group's corporate value, our consolidated subsidiary Sodick High Tech Co., Ltd, was listed on Nippon New Market's Heracles standard of the Osaka Securities Exchange on December 28, 2005.

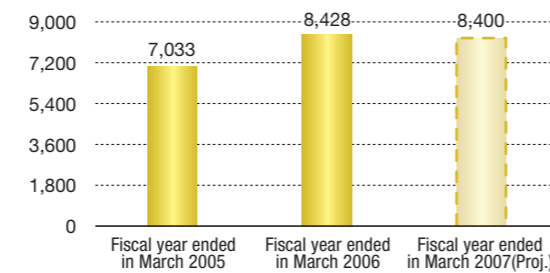
As a result, the group's consolidated sales rose 9,590 million yen, or 16.7 percent, to reach 66,961 million yen. On the profit and loss statement, consolidated operating profits rose 1,394 million yen, or 19.8 percent, to 8,428 million yen, while consolidated net profits rose 883 million yen, or 16.9 percent, to 6,119 million yen.

## Consolidated financial highlights

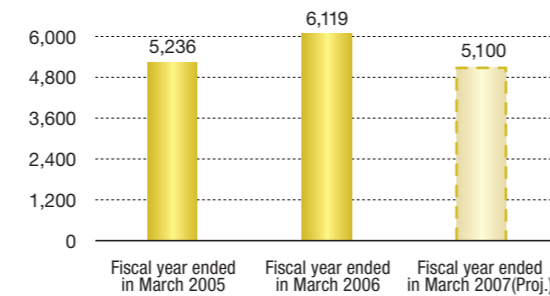
Net Sales (million yen)



Ordinary income (million yen)



Net income (million yen)



# Overview by segment

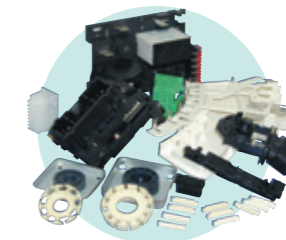
## Machine tools

The Sodick group released the AQ15L, a large die-sinking EDM, and the AP500L, a midsize precision wire-cutting EDM, for the automotive industry which continued to be buoyant. Meanwhile, sales increased for the strategic AQ360L and AQ560L machines amidst the continuous expansion of the Chinese market, and as a result, sales rose 7,718 million yen, or 19.4 percent, to 47,537 million yen.

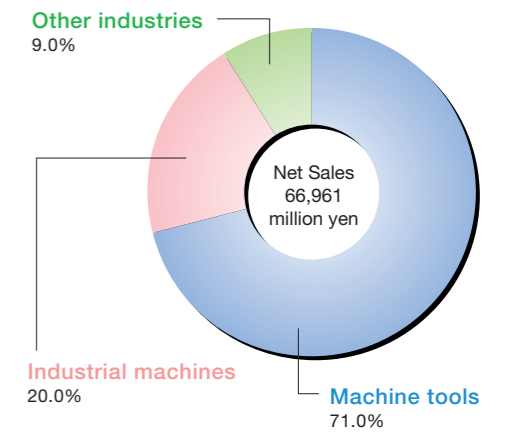


## Industrial machines

Sales in the electronic component, liquid crystal, and automotive related industries performed well. As new products, the group launched LS Series liquid silicon injection molding machines. As a result of expanded exports including those to South Korea and China, sales rose 1,971 million yen, or 17.2 percent, to 13,432 million yen.



## Sales by business segment



## Other industries

The business for other industries breaks down into CAD/CAM software, manufacture and sale of precision molds, and production and sale of large-scale ceramics. All these areas performed well, but a transitional period in orders for ceramics resulted in a fall in sales for this business of 140 million yen to 6,038 million yen, down 2.3 percent.

# Outlook for fiscal 2006

No change in vigorous capital investment is predicted for the automotive and electronics industries centering on China and the rest of the Asian region. Considering in this situation, consolidated sales in fiscal 2006 ending in March 2007 are predicted to reach 7,300 million yen (up 9 percent), operating income 9,100 million yen (up 29.6 percent), ordinary income 8,400 million yen (down 0.3 percent), and net profits 5,100 million yen (down 16.7 percent due to a rising tax burden).

The average exchange rates assumed for the predictions above are 109 yen per dollar, 140 yen per euro, and 2.85 yen per Thai baht.





# Soaring Asian market

Mr. Takateru Matsuda,  
head of Sodick Operation Center

## The burgeoning Asian market

We are currently building a production and sales structure that focuses on market trends, dividing the global market into five areas; Japan, China, Asia, the US, and Europe.

We are focusing our efforts on the Chinese and Asian markets that provide our group's industrial base and are expecting the importance of these markets to increase (see Figure 1).

In these regions we already have local subsidiaries established in Taiwan, Hong Kong, Shanghai, Singapore, Bangkok, and Seoul, and have been implementing sales and user support for machine tools. In the fiscal year under review, we also opened offices in Ho Chi Min City Vietnam (A) and Bangalore in Southern India (B). Vietnam is host to numerous Japanese companies and close to Thailand and China, where we already have production bases, as well as to Japan, enabling us to get

products to market relatively quickly. In India, however, infrastructure concerns are expected to interrupt the smooth flow of business in the next few years. Nevertheless, we consider the potential Indian market very large for non-IT manufacturing, and predict slow growth over a span of five to six years. Sodick sells more than 1,000 EDMs each year in mainland China, Hong Kong, and Taiwan. Considering that we were selling around 300 units just five years ago, the expansion is astonishing (see Figure 2).



Figure 1: Sodick's market development in Asia

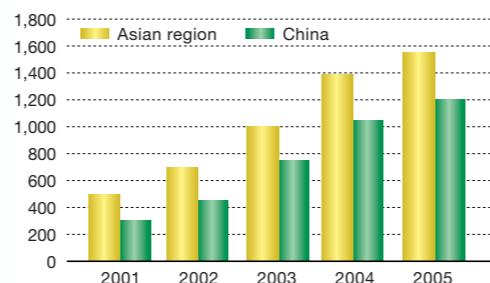


Figure 2: Sales of EDMs in Asian markets

## Operation Center

The role of the Operation Center is to grasp the market situation in each country, provide appropriate sales support information, and expand Sodick's global share through close relationships with local subsidiaries overseas.

For overseas sales, the focus is to build close relationships between Japan and the overseas subsidiaries. In the past, we have steadily produced results by exploiting the experience of those residing locally, as exemplified by the subsidiaries Singapore and China, and we are confident about the future.

When cultivating new local customers, the focal products are linear motor drives models, but product specifications are not the only key to increased sales. For example, having the customer choose our product depends on having the business sense to compromise on price while making appropriate proposals from among numerous model and option groups, being able to quickly procure repair parts, and providing general services including the prompt dispatch of service staff. For our company, because we also have production bases outside Japan, such as in Thailand and China, the localized sales, services, and technical guidance suited to the local situation

are our strengths and keys to success. Personnel recruitment is mostly local, but a problem characteristic of local subsidiaries is the relatively high rate of staff turnover when compared to Japan.

## Future trends

Fiscal 2005 saw good results in the South Korean market. Sales were strong in our specialized field of precision machinery mainly to IT related companies handling liquid crystal and semiconductors, and this trend is expected to continue. The Chinese market focuses on IT equipment such as PCs and electrical household appliances. Since the local production of molds for automobile industry has been on the rise in China, we can anticipate good results in this field, as well. As for other targets, we plan to increase sales in India, Vietnam, and especially Thailand, where many automobile manufactures have their production bases.

### A New office in Ho Chi Min, Vietnam

In September 2005 we opened an office in Ho Chi Min, Vietnam, where Japanese companies are advancing into the market.

### B New office in Bangalore, India

In March 2006 we opened an office in Bangalore, a southern industrial city known as India's Silicon Valley. We also plan to open a machine maintenance and sales office in the northern city of New Delhi in July.

### ■ New head office completed for Sodick(Taiwan)Co., Ltd.



### ■ New office in Tsingtao, China

In October 2005 we opened an equipment maintenance service base in Tsingtao, and in February 2006 we opened an office in Wenzhou.

## Takateru Matsuda

### Profile

1986: Joined Sodick Attached to the sales head office, Osaka branch  
 1998: Became president of Sodick Singapore Pte., Ltd.  
 2003: Transferred to Electromechanical (Shanghai) Co., Ltd  
 2005: Became president of Operation Center



## Consolidated balance sheet

Account	Year end March 31, 2005 (previous fiscal year)	March 31, 2006 (current fiscal year)	Account	Year end March 31, 2005 (fiscal 2004)	March 31, 2006 (fiscal 2005)
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets</b>	46,534	57,081	<b>Current liabilities</b>	34,071	39,965
Cash and deposits	8,174	12,228	Trade notes and accounts payable	12,333	14,077
Trade notes and accounts receivables	20,870	25,586	Short-term borrowings	13,933	16,368
Installments receivable	351	289	Long-term debt due for repayment within one year	1,665	1,946
Inventories	14,538	16,626	Bonds due for redemption within one year	—	440
Short-term loans receivable	558	253	Other accounts payable	2,391	2,946
Deferred tax assets	—	1,288	Income taxes payable, etc.	781	954
Others	3,225	1,693	Others	2,966	3,231
Allowance for doubtful accounts	△ 1,184	△ 884	<b>Fixed liabilities</b>	8,585	9,823
<b>Fixed assets</b>	21,615	25,128	Bonds	1,940	3,500
Tangible fixed assets	18,052	18,721	Long-term debt	4,471	3,933
Intangible fixed assets	942	1,188	Others	2,173	2,389
Investments and other assets	2,620	5,219	<b>Total liabilities</b>	42,656	49,789
Investment securities	1,557	3,624	<b>Minority interests</b>		
Long-term loans	32	87	<b>Minority interests</b>	2,920	2,993
Others	1,300	1,871	<b>Shareholders' equity</b>		
Allowance for doubtful accounts	△ 270	△ 364	<b>Common stock</b>	16,848	16,848
<b>Total assets</b>	68,149	82,210	<b>Capital surplus</b>	3,029	3,032
			<b>Earned surplus</b>	3,328	8,997
			<b>Net unrealized gains on securities</b>	326	696
			<b>Foreign currency translation adjustments</b>	△ 907	△ 91
			<b>Treasury stock</b>	△ 53	△ 55
			<b>Total capital</b>	22,572	29,428
			<b>Total liabilities, minority interests, and shareholders' equity</b>	68,149	82,210

## Consolidated Profit and loss statement

Account	Year end March 31, 2005 (fiscal 2004)	March 31, 2006 (fiscal 2005)
<b>Net Sales</b>	57,370	66,961
Cost of sales	37,658	45,596
<b>Profit on sales</b>	19,748	21,405
Selling, general and administrative expenses	12,934	14,385
<b>Operating income</b>	6,814	7,020
Non-operating income	1,024	2,092
Non-operating expenses	805	684
<b>Ordinary income</b>	7,033	8,428
Extraordinary income	143	661
Extraordinary loss	1,403	675
<b>Income before income taxes and minority interests</b>	5,774	8,414
<b>Income, inhabitant and enterprise taxes</b>	1,085	1,588
<b>Adjustment of income taxes, etc.</b>	△ 1,228	267
<b>Minority interests (loss)</b>	△ 680	△ 439
<b>Net income</b>	5,236	6,119

## Consolidated statement of surplus

Account	Year end March 31, 2005 (fiscal 2004)	March 31, 2006 (fiscal 2005)
<b>Capital surplus</b>		
<b>Capital surplus at beginning of term</b>	1,947	3,029
<b>Increase in capital surplus</b>	1,082	2
<b>Capital surplus at end of term</b>	3,029	3,032
<b>Earned surplus</b>		
<b>Earned surplus at beginning of term</b>	△ 1,498	3,328
<b>Increase in earned surplus</b>	5,273	6,178
<b>Decrease in earned surplus</b>	446	508
<b>Earned surplus at end of term</b>	3,328	8,997

## Consolidated statement of cash flow

Account	Year end March 31, 2005 (fiscal 2004)	March 31, 2006 (fiscal 2005)
Cash flow from operating activities	2,724	4,909
Cash flow from investing activities	△ 3,445	△ 4,973
Cash flow from financing activities	540	3,848
Effect of exchange rate on cash and cash equivalents	26	275
<b>Net increase or decrease in cash and cash equivalents</b>	△ 153	4,059
Cash and cash equivalents at beginning of term	8,229	8,146
Increase in cash and cash equivalents due to addition of consolidated subsidiaries at beginning of term	70	41
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	—	△ 18
<b>Cash and cash equivalents at end of term</b>	8,146	12,228

## Share data

(as of March 31, 2006)

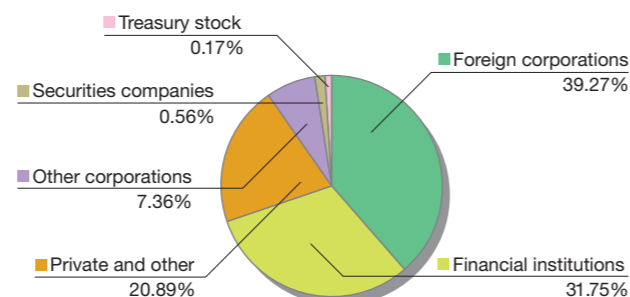
Total no. of authorized shares	150 million
Total no. of shares issued	47,108,810
No. of shareholders	6,618

### Major shareholders

Names of shareholders	No. of shares (thousand)	Capital contribution (%)
Japan Trustee Services Bank, Ltd. (trust bank)	4,245	9.01
The Master Trust Bank of Japan, Ltd. (trust bank)	3,586	7.61
Goldman Sachs International	2,291	4.86
The Bank of New York Europe Limited Luxembourg 131800	2,221	4.71
Mep Co., Ltd.	2,024	4.29
The Nomura Trust and Banking Co., Ltd. (investment bank)	1,843	3.91
BBH Lux Fidelity Funds Japan, Smaller Companies	1,524	3.23
The Chase Manhattan Bank, NA, London	1,367	2.90
Morgan Stanley and Company International, Ltd.	1,023	2.17
CMBLSA Re Mutual Fund	1,002	2.12

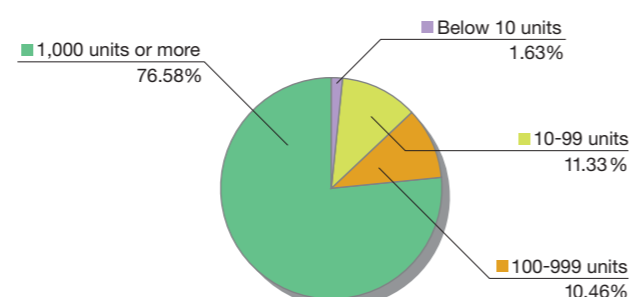
## Share distribution by holder

(as of March 31, 2006)



## Share distribution by share volume held

(as of March 31, 2006)



## Corporate profile

(as of March 31, 2006)

Corporate name	Sodick Co., Ltd.
Head office	3-12-1 Nakamichidai, Tsuzuki-ku, Yokohama 224-8522 Tel: 045-942-3111
Established	August 3, 1976
Capital	16,848,739,258 yen
Representative	Shigeo Shioda
No. of employees	204 (3,090 consolidated)
Consolidated subsidiaries	36
Main products	NCDie-sinkingEDM/NCWire-cuttingEDM / NCHole-drillingEDM/Numerical Control Power Supply Equipment / Machining Center / Nano Processing Machine / CAD/CAM System for Mold Design / Precision Injection Molding Machines / IndustrialCeramics/PrecisionLinearPress Center / Linear Motor for Industrial Machinery / PIKA Finish Machine EBM / Other electronic processing equipment / Specialist tools for EDMs / EDM consumables and peripherals / Die and molding products / Others

## List of directors

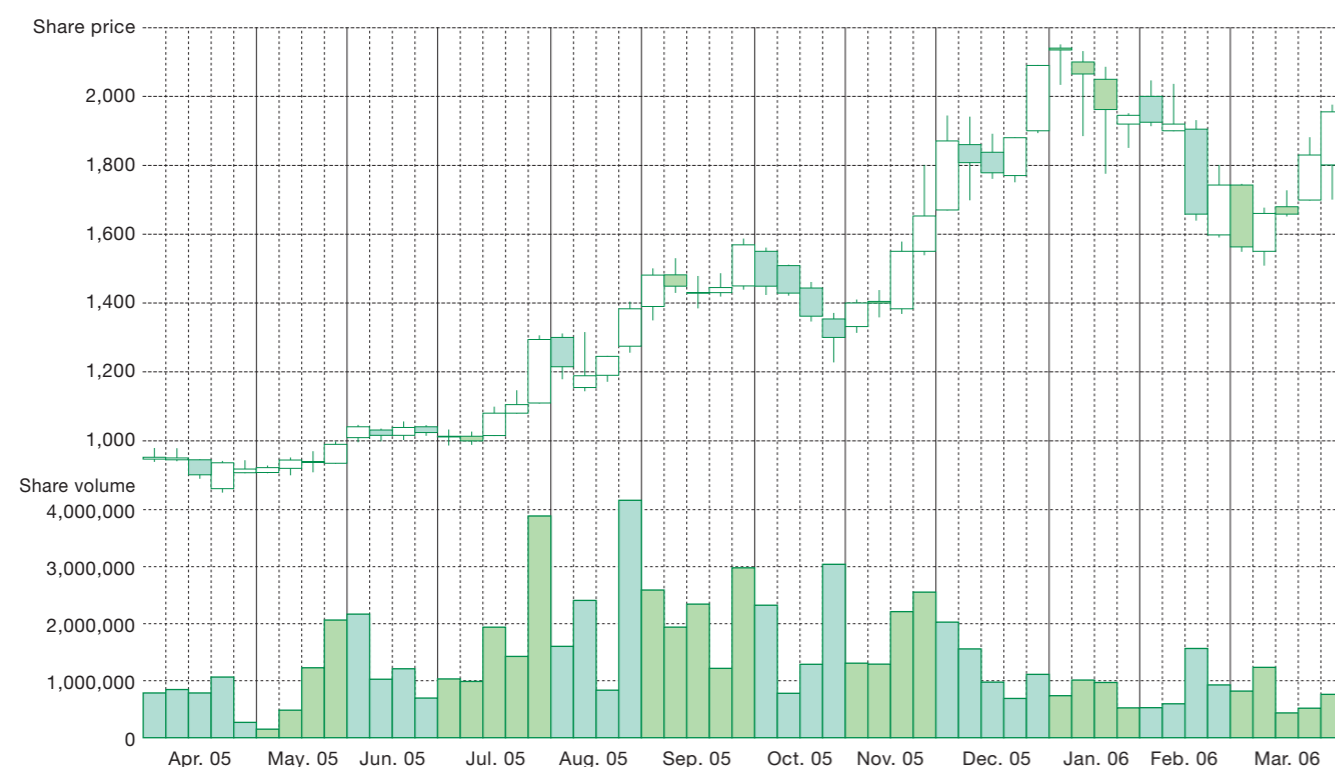
(as of June 29, 2006)

President	Shigeo Shioda
Senior managing director (industrial production division)	Takashi Yamamoto
Senior managing director (corporate planning)	Kazuo Kato
Managing director (general sales)	Koji Taki
Director (management division)	Katsuhide Fujiwara
Director (R&D division)	Sadao Sano
Director (sales and technology division)	Takeshi Ichikawa
Director (advanced research division)	Yuji Kaneko
Director (finance department)	Tomohide Kawamoto
Standing statutory auditor	Saeji Kusunoki
Standing statutory auditor	Sakuo Ueno
Statutory auditor	Sadao Shimoyama
Statutory auditor	Akiyoshi Koyama
Statutory auditor	Masao Aihara

Note: Among the statutory auditors, Sadao Shimoyama, Akiyoshi Koyama, and Masao Aihara serve as external auditors specified under article 2, clause 16 of corporation law.

## Share price and volume trends

(April 1, 2005 to March 31, 2006)



## Important facts concerning Sodick's situation after the end of the accounting period

In a board of directors' meeting held on May 24, 2006, decisions were made regarding the issue of subscribed shares and Sodick's share offer. The issue and offer prices were determined as follows on June 6, 2006, and payments were completed on June 14, 2006. Accompanying Sodick's offer, an upper limit of 850,000 subscribed shares are planned for issue through third-party allotment, with SMBC Friend Securities Co., Ltd. as the third-party allocation destination for the subscribed shares. Share allotment is planned for July 14, 2006.

### 1.Subscribed share issue through public offering(general offering)

- Issue price ¥1,300 per share
- Total issue price ¥7,800,000,000
- Payment sum ¥1,240.43 per share
- Total payment sum ¥7,442,580,000
- Price of capitalization ¥621 per share
- Stock payment date June 14, 2006 (Wednesday)

Note: Guarantors undertake transactions at the issue price, and take subscriptions at the issue price.

### 2.Sodick stock offering (offer due to over-allotment)

- No. of shares offered 850,000
- Offer price per share ¥1,300
- Total offer price ¥1,105,000,000

- Application period June 7, 2006 (Wed.) to June 9, 2006 (Fri.)
- Delivery date June 15, 2006 (Wed.)

### 3.Issue of subscribed shares by third-party allocation

- Payment sum ¥1,240.43 per share
- Total payment sum (upper limit) ¥1,054,365,500
- Price of capitalization ¥621 per share
- Application date July 14, 2006 (Fri.)
- Payment date July 14, 2006 (Fri.)

### 4.Trends in total number of shares issued through this subscribed-share issue and third-party allocation.

- Total number of shares issued at the end of the previous consolidated
- Increase in shares from fund-raising public offering 6,000,000
- Total number of shares issued after fund-raising public offering 53,108,810
- Increase in shares from fund-raising third-party allocation\* 850,000
- Total number of shares issued after fund-raising third-party allocation\* 53,958,810

\* "Issue of subscribed shares through third-party allocation" regarding the entire stock of newly issued shares refers to the figure when shares are issued in response to application from SMBC Friend securities.

### 5.Purpose of funds

Allocated for investment in plant and equipment, research and development costs, and loan repayments.