

**RESULTS OF OPERATIONS FOR
THE YEAR ENDED MARCH 31, 2006 (CONSOLIDATED)**

May 15 2006

Company name: **EBARA CORPORATION**
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(Stock Code. 6361, Tokyo and Sapporo Stock Exchange in Japan)
(URL <http://www.ebara.co.jp>)

Representative: **Fumio Shimakawa, President**
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Date of Board of directors meeting: May 15, 2006

Application of US GAAP: Not applicable

Note: The amounts are rounded down to the nearest millions of yen.

1. Outline of the results for FY2006 (April 1-March 31, 2006)

(1) Consolidated Financial Highlights Millions of yen, except per share data

	Net sales		Operating income		Ordinary income	
		%		%		%
FY2006	514,957	7.6	10,902	43.8	7,731	56.6
FY2005	478,397	(5.8)	7,581	(27.4)	4,937	(36.3)

	Net income		Net income per share	Net income per share, diluted	Return on equity	Ordinary income on Total assets ratio	Ordinary income on sales ratio
		%	Yen	Yen	%	%	%
FY2006	3,349	-	9.11	8.89	2.6	1.3	1.5
FY2005	(19,648)	-	(64.43)	-	(18.2)	0.9	1.0

Notes (i) Profit & loss in equity method: FY2006 – million FY 2005 – million

(ii) Average number of shares outstanding (consolidated)

FY2006 367,845,960 FY2005 304,980,271

(iii) Changes in accounting policies: Yes

(iv) % represents percentage change from a comparable previous period

(2) Consolidated Financial Position Millions of yen, except per share data

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share of common stock
			%	Yen
FY2006	592,631	153,695	25.9	363.68
FY2005	558,264	102,951	18.4	307.76

Notes Number of shares outstanding (consolidated)

FY2006 422,614,100 FY2005 334,523,762

(3) Consolidated Cash Flow Millions of yen

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents
FY2006	(9,772)	(4,099)	21,760	47,510
FY2005	(10,120)	2,482	11,248	38,960

(4) Scope of consolidation

Number of consolidated Subsidiaries	54	Number of subsidiaries accounted for equity method	-	Number of affiliated companies accounted for equity method	-
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(5) Change in number of consolidated companies and companies applied equity method

Consolidation	Added	3	Excluded	1	Equity Method	Added	-	Excluded	-
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2. Forecast of results for the year ending March 31, 2007

	Net sales	Ordinary income	Net income
FY2007 1st half	190,000	(15,000)	(10,000)
FY2007	520,000	12,000	5,000

Planned net income per share: ¥11.83

Cautionary statements with regard to forward-looking statements

This release contains forward-looking statements which involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which are valid only as of the date thereof.

Ebara undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date thereof or to reflect the occurrence of unanticipated events.

1. Corporate Group Information

The Ebara Group (the Group) comprises the parent company (Ebara Corporation, the Company), 107 subsidiaries (54 of which are consolidated), and 17 affiliates. With the parent company as the focus of its activities, the Group is engaged in manufacturing, sales, construction, maintenance, provision of services, and related activities in the fields of Fluid Machinery & Systems, Environmental Engineering, Precision Machinery, and other areas.

The principal lines of business, the functions and the areas of responsibility of the parent company and principal consolidated subsidiaries, and their names are as shown below.

Segment	Principal Lines of Business	Functions and Areas of Responsibility	Ebara Corporation and principal consolidated subsidiaries
Fluid Machinery and Systems	Manufacturing, sales, and maintenance of pumps, blowers, fans, compressors, turbines, refrigeration and heating equipment, and other items. Engineering, construction, operation, and maintenance services for wind-powered and hydroelectric power plants.	Manufacture and sales	<ul style="list-style-type: none"> • Ebara Corporation • Ebara Densan Ltd. • Ebara Shinwa Ltd. • Ebara Hamada Blower Co., Ltd. • Elliott Ebara Turbomachinery Corporation • Ebara Refrigeration Equipment & Systems Co., Ltd • Ebara Kiden Co., Ltd. • Elliott Company • Ebara International Corporation • Ebara Pumps Europe S. p. A
		Engineering, construction, operation and maintenance	<ul style="list-style-type: none"> • Ebara Corporation • Ebara Hydro-Tech Co., Ltd.
		Sales and maintenance	<ul style="list-style-type: none"> • Ebara Techno-serve Co., Ltd. • Ebara-Byron Jackson., Ltd.
		Supply of materials, etc.	<ul style="list-style-type: none"> • Ebara Material Co., Ltd.
Environmental Engineering	Engineering, construction, operation, and maintenance of environmental improvement equipment, incinerator plants, nuclear power related equipment, waterworks and sewage system, and other types of plants and equipment. Manufacturing and sales of industrial chemicals. Energy supply.	Engineering and construction	<ul style="list-style-type: none"> • Ebara Corporation • Environmental Engineering Corporation • Ebara Qindao Co., Ltd.
		Operation and maintenance	<ul style="list-style-type: none"> • Ebara Engineering Service Co., Ltd.
		Manufacturing and sales of chemicals	<ul style="list-style-type: none"> • Ebara Engineering Service Co., Ltd.
		Energy supply	<ul style="list-style-type: none"> • Ebara Corporation • Eco Power Co., Ltd.
Precision Machinery	Manufacturing, sales, and maintenance of vacuum pumps and machinery and equipment for the semiconductor industry	Manufacturing and sales	<ul style="list-style-type: none"> • Ebara Corporation • Matsubo Company Ltd. • Ebara Technologies Inc.
		Manufacturing and maintenance	<ul style="list-style-type: none"> • Ebara Field Tech. Corporation
Others	All other lines of business not mentioned above	Information and telecommunications	<ul style="list-style-type: none"> • IT Engineering Limited
		Research and development	<ul style="list-style-type: none"> • Ebara Research Co., Ltd.
		Management of real estate, etc.	<ul style="list-style-type: none"> • Ebara Agency Co., Ltd.

Note: Results of the segment "Others" are not material and are reported in the Environmental Engineering segment.

2. Management Policies

1 Basic Policies

The corporate philosophy of the Ebara Group is “to contribute broadly to society by offering superior technologies and optimal services in the areas of water, the air, and the environment.” The Group is committed to responding to a wide range of social needs by minimizing the impact of its activities on the natural environment and engaging in corporate activities that contribute to the creation of a sustainable, recycling-oriented society. Moreover, the Group aims to be a corporate entity in harmony with the natural environment, giving full consideration to environmental management to minimize the burden its corporate activities place on the environment, both directly and indirectly.

In addition, the Group’s basic management policy is to endeavor to strengthen its management base and increase profitability through selectivity and concentration in the allocation of its resources and increase its corporate value and the value of its shares by managing its corporate resources efficiently.

2 Basic Policy for Allocation of Profit

The Ebara Group regards returning a portion of its income to its shareholders as one of its most important management tasks. In setting its dividends, the Group takes into account its consolidated performance and financial position for the current and future fiscal periods while aiming to pay stable cash dividends.

Following the implementation of the Company Law in Japan, the Company plans to continue its current system for paying dividends twice annually, with the base dates of March 31, and September 30.

3 Perspective and Policy on Reduction of the Stock Trading Lot

At present, Ebara’s shares are traded in minimum units of 1,000 shares, and the Company is not scheduled to reduce the size of this minimum unit. Ebara will give careful consideration to this issue, taking into account trends in investor behavior and its share price.

4 Target Management Performance Measures

Ebara and the other companies of the Ebara Group regard return on equity (ROE) and return on assets (ROA) as their most important management indicators. Management employs both indicators to measure the overall performance of Ebara and the Ebara Group as a whole and considers ROA the most important indicator for the Company’s individual business segments and other Group companies operating within these segments. Among other indicators, next in significance are cash flows, net sales, and ordinary income.

Ebara and other Group companies have chosen ROE as their key management indicator to make clear, both internally and externally, the shareholder-oriented stance of their management policies. In addition, ROA, cash flows, sales, and ordinary income have been selected as metrics to assess the performance of both business segments and Group companies operating under these segments because of their wide applicability and their usefulness in making comparisons and analyses over time.

To implement initiatives aimed at attaining targets set for these indicators, the above metrics are positioned as important indicators of management performance in medium- to long-term plans and the annual budgeting process. Moreover, they are used in the Group’s management by objectives (MBO) system to evaluate the performance of the management team and are linked to compensation.

To strengthen the Group’s financial position through the reduction of interest-bearing debt, the debt to equity ratio (defined as the ratio of interest-bearing debt to shareholders’ equity) has been selected as another indicator and it is

used in guiding the management of the Group.

The Group has set the following objectives to attain by the year ending March 2008:

ROE: 8% or more

Debt/equity ratio: 1.2 or less

5 Medium-to-Long Term Management Policies

The Ebara Group's current medium-term management plan covers the three years that began in April 2005. Ebara is promoting its activities in accord with this plan, which identifies the following priority issues, and is implementing specific activities to address these issues.

Priority Issue No. 1: Achieving Continuing Expansion in Earnings

The Group is focusing on the following tasks to attain continuing expansion in earnings:

- Evaluating and analyzing all Group businesses from the perspectives of future potential and profitability, while continuing to exercise selectivity and concentration in the allocation of its resources.
- Improving the accuracy of the Group's capabilities for evaluating the strategic value, latent risk, and recovery of resources invested in R&D, capital equipment, businesses, and other areas.
- Creating in-depth systems for monitoring the attainment of objectives and evaluating performance by (1) shifting to an internal company system, (2) introducing a new personnel management system, and (3) focusing on corporate management from a consolidated perspective.

Priority Issue No. 2: Accelerating the Expansion of New Businesses

To strengthen its earnings base for the medium-to-long term, the Group has positioned the following areas, which anticipate the needs of the future, as candidates for its leading, next-generation businesses and is working steadily to expand and nurture related activities:

- New energy related businesses
- Precision machinery business
- Engineering, procurement, construction, plus operation & service (EPC+OM)
- Service provider business
- PFI projects
- Biomass-related businesses
- Compound processing equipment
- Life-science related equipment
- Solutions businesses

Priority Issue No. 3: Expanding the Percentage of Overseas Business

In anticipation of the expected continued growth in overseas demand, the Group is placing high priority on the further development of overseas business activities. Accordingly, the Group is implementing related measures in all its business segments, including taking steps to strengthen production and marketing capabilities.

By steadily and effectively addressing these priority issues, the Group aims to increase the satisfaction of its stakeholders and maximize its value as a corporation and the value of its shares. As of the end of the first year of the three-year management plan, the Group had made progress toward attaining its management targets as follows:

ROE: 2.2% (versus a net loss for the previous fiscal year)

Debt/equity ratio: 1.25 (an improvement of 0.75 percentage point)

6 Issues to Be Addressed

In addition to the previous item, “5. Medium- to Long-Term Management Policies,” identifies three priority issues, namely “Achieving Continued Expansion in Earnings,” “Accelerating the Expansion of New Businesses,” and “Expanding the Percentage of Overseas Business,” the Group is aware of the need to respond quickly to changes in markets, especially the domestic market for public works projects, and is implementing initiatives in view of likely industrial realignments.

Especially within the Group’s core pump business, in April 2006, the Group took over the pump equipment businesses formerly operated by Ishikawajima-Harima Heavy Industries Co., Ltd., and Ishikawajima Hanyoki Services Co., Ltd. In addition, during the year under review the Group purchased 100% of the shares of Yoshikura Ltd., a manufacturer specializing in pumps for electric power generation plants and public works systems. The Group, as a top producer of pumps in Japan, is thus exercising a leading role in the realignment of the domestic pump industry and is aggressively working to strengthen its business operations in this area.

In addition to these activities, the Group pursues initiatives to increase the soundness of its financial position and address financial issues. These initiatives include reducing the balance of interest-bearing debt and increasing capital.

7 Matters Relating to the Parent Company

Not applicable.

8 Other Items Significant for the Company’s Management

Compliance Management

We regret to report that in seven prefectures, including the Kinki Region, the Group was ordered to suspend activities related to construction for 15 days, from May 10 through May 24 2005, by the Ministry of Land, Infrastructure and Transportation under the provisions of Article 22-2 of the Construction Industry Law.

In addition, the Group’s activities in the areas of steel sluice gate construction, tunnel ventilation fan equipment construction, and sludge processing facility construction are being surveyed and investigated because of concerns regarding violations of the Anti-Monopoly Law by the Fair Trade Commission and the Osaka District Public Prosecutors Office. The Group is cooperating fully with the investigation.

The management policy of the Group in all its activities is to place high priority on corporate compliance with laws, social norms, corporate ethics, and other rules and regulations. In accordance with this policy, the Group endeavors to ensure that all management and staff are fully aware of the importance of compliance issues. The Group regards the emergence of these compliance issues as a serious matter and is working substantially harder to strengthen its compliance management.

3. Management Performance and Financial Position

Management Performance

1 Overview of the Fiscal Year

(1) Overview of Performance

Looking first at the operating environment during the fiscal year under review, the world economy generally showed firm recovery despite certain causes for concern, such as trends in crude oil prices. In the United States, the economy remained in an expansionary phase supported by robust performance in the corporate sector. In Asia outside Japan, the economies of China, Singapore, Malaysia, and other countries expanded, boosted by high rates of growth in capital investment. In addition, the economies of Europe experienced gradual recovery overall.

In the Japanese economy, improvement in corporate performance supported high levels of capital investment and firm consumer spending, leading to recovery throughout the fiscal year under review. On the other hand, during the latter half of the fiscal year, the prolonged rise in prices of petrochemical and other resources, changes in monetary policy, and other factors gave rise to a noticeable increase in comments reflecting uneasiness regarding uncertainties and the lack of transparency of economic conditions going forward. In addition, rapid changes in the structure of projects in the public works market gave rise to the need for appropriate responses.

Amid this operating environment, the Group focused on addressing the priority issues identified in its medium-term plan: “Achieving Continuing Expansion in Earnings,” “Accelerating the Expansion of New Businesses,” and “Expanding the Percentage of Overseas Business.” Specific initiatives aimed at increasing profits included the implementation of policies to reduce costs and restrain the incurrence of additional costs; the reduction of lead times; and the optimal allocation of human resources. Moreover, as part of efforts to expand new business activities, the Group began promoting proposal-based solutions business from new perspectives. Examples include proposals for drawing on underutilized energy sources by combining a number of processes or employing biomass as a source of energy. Also, in the field of fuel cells for household use, the Group signed contracts with Ballard Power Systems of Canada for fuel cell manufacturing and development rights and, with the full-scale introduction of units for commercial sale scheduled for fiscal 2008, Group staff have initiated preparations to begin manufacturing. In addition, in overseas operations, work went forward with the expansion of capacity at the Zhejiang Province plant in China, which went into operation in June 2005 and manufactures mainly pumps for use in petrochemical plants. Also, work proceeded on a plant for producing large-scale, high-pressure pumps that was under construction in Shandong Province as well as other expansion projects, aimed at expanding the Group’s overseas manufacturing and procurement bases. Moreover, the Group proceeded with other initiatives, including the establishment of a subsidiary to promote the development of the submersible pump business. In parallel with these efforts, the Group moved forward actively with the overseas development of environmental plant related business, principally in Asia outside Japan and the Middle East.

As a consequence of these developments, the Ebara Group reported consolidated net sales of ¥514,957 million, 7.6% higher than for the previous fiscal year. Operating income amounted to ¥10,902 million, 43.8% higher than the previous fiscal year, and ordinary income was ¥7,731 million, 56.6% above the prior year. Among extraordinary items, extraordinary income amounted to ¥9,949 million and included principally gains from the sale of fixed assets of ¥4,768 million and gains from the sale of investment securities and others amounting to ¥5,074 million. Extraordinary losses were ¥3,996 million, and included losses on the disposal of fixed assets of ¥1,051 million and write-down of inventories of ¥1,080 million. As a result of these factors, consolidated net income for the fiscal year under review was ¥3,349 million, representing an improvement of ¥22,998 million compared with the net loss for

the previous fiscal year. Performance for the fiscal year was approximately in line with the objectives of the medium-term plan, which called for consolidated net sales of ¥485.0 billion, operating income of ¥11.0 billion, and net income of ¥3.0 billion.

(2) Business Segment Information

Results by business segment were as follows.

Fluid Machinery & Systems

In the Fluid Machinery & Systems (FMS) Group, performance in the domestic market was relatively strong, boosted by demand for plant and equipment investment by private corporations and equipment for office building and other construction projects, thus leading to favorable performance of the Group's products sold to these sectors. In addition, in the proposal-based solutions business, the FMS Group successfully directed its marketing efforts toward winning orders for comprehensive systems. However, because of the adverse impact of ongoing budget reductions on the public works projects business, the demand environment for plants in the FMS business continued to be tough.

Overseas, sales of pumps, compressors, and other equipment held strong thanks to growing demand in the oil and gas industries in Asia outside Japan and the Middle East as well as in the industrial plant sector. The FMS Group focused its energies on expanding production and sales capabilities, including commencement of operations of a new pump manufacturing plant in China.

As result of these developments, sales in the fiscal year under review amounted to ¥252,741 million million, 7.5% higher than in the previous year. Operating profit, however, declined 1.3%, to ¥7,186 million, owing to changes in the composition of the FMS Group product mix.

Environmental Engineering

In the Environmental Engineering (EE) Group, conditions in the domestic public works project business remained difficult. In view of these conditions, the EE Group aggressively worked to expand its activities through winning private finance initiative (PFI) projects and design, build, operate (DBO) projects in fields formerly dominated by government entities but are now being opened to the private sector, as well as facilities upgrade projects intended to help to promote the transition to a sustainable, recycling-oriented society. As a result, the EE Group won contracts for municipal incinerators being implemented under PFI schemes and for facilities using biomass to produce methane gas through fermentation processes.

In overseas markets, against a background of rising awareness of environmental issues around the world, the EE Group worked together with its overseas offices and subsidiaries and affiliate companies to secure new orders. Newly commissioned projects included a public sewerage facility in Malaysia and water supply and sewerage facilities in Kazakhstan. In addition, the EE Group worked to win contracts for waste treatment facilities in China, Southeast Asia, the oil producing countries of the Middle East, Europe, and elsewhere. In the new energy field, the EE Group endeavored to strengthen its alliances with leading companies in the fuel cell business, which is expected to see major growth in the years ahead. At consolidated subsidiary Ebara Ballard Corporation, the development of a 1kW fuel cell co-generation system for household use proceeded smoothly. Following the February 2005 commencement of sales of the limited-edition, city gas type fuel cell system, developed jointly with Tokyo Gas Co., Ltd., in March 2006, the EE Group introduced in a limited-edition kerosene type fuel cell system, developed jointly with Nippon Oil Corporation.

As a consequence of these and other developments, sales of the EE Group rose 4.9%, to ¥172,823 million. Following further reductions in fixed expenses and cuts in manufacturing costs, operating income posted an improvement of ¥4,256 million, yielding a net loss of ¥587 million.

Precision Machinery

During the first half of the fiscal year under review, market conditions were relatively flat for the Precision Machinery (PM) Group, as the impact of the previous fiscal year's lull in investment in the semiconductor industry, which began in the year's second half, persisted. However, in the latter half of the fiscal year under review, capital investment in Japan and the rest of Asia in the memory sector, focused on flash memories, picked up significantly and looks on the way toward to become robust once again.

Amid these conditions, orders and sales of chemical mechanical polishing (CMP) equipment for leading edge 300mm silicon wafers remained firm. For newly developed equipment groups introduced in the previous fiscal year, including wafer plating systems and edge polishing units, the PM Group actively solicited customer appraisals to establish firm market positions for these new products. In addition, to secure a strong position in the next-generation semiconductor market, which will require even further miniaturization of circuitry, the PM Group is proceeding with the development of new products.

As a result, sales of this Group rose 13.8%, to ¥89,392 million, but operating income declined 12.4%, to 4,631 million, reflecting the increase in market development costs and other factors.

(3) Geographical segment information

Results by geographical segment were as follows.

Japan

The domestic market faced a difficult operating environment due to continued restraints on public works investment. However, sales to the semiconductor manufacturing industry held strong, and sales in this geographical segment rose 5.4%, to ¥435,467 million, and operating income climbed 39.6%, to ¥12,518 million.

North America

Sales in North America rose 29.5%, to ¥53,364 million, because of strong performance of sales to the oil and gas industries in North America. There was a further deterioration of ¥292 million in the operating loss, however, to ¥1,290 million, owing to confusion regarding production among a certain subsidiary.

Other Geographical Areas

Sales in other geographical areas rose 9.4%, to ¥26,125 million, and operating income climbed 61.2%, to ¥793 million as a result of the inclusion of Yantai Ebara Air Conditioning Equipment Co., Ltd., in the scope of consolidation.

(4) Allocation of Profit

The Group is scheduled to pay a cash dividend of ¥7.50 per share for the fiscal year.

(5) Other Decisions or Important Events during the Fiscal Year

Not applicable

2. Outlook for the Next Fiscal Year

(1) Overview

For the FMS Group, during fiscal 2007, ending March 31, 2007, although domestic public works spending is expected to remain stagnant, the markets for private capital investment related products and construction related equipment are expected to remain relatively firm. Demand in overseas markets is expected to remain favorable due to range of factors, including improvements in the financial position of oil producing countries, increased orders for construction related equipment and plant construction in Asian countries, progress toward upgrading of the social infrastructure, and stepped up planning and construction of plants in response to rising worldwide demand for petrochemical products and energy fuels. Amid this environment, the FMS Group in a field of the system engineering business will work to sell its products and services in the domestic public works market through an integrated system that combines marketing, technology, construction, and other services, while broadening its initiatives to develop closer ties with regional areas. At the same time, the FMS Group will promote the strengthening of its overseas systems. In addition, in the pump, compressor, turbine, refrigeration, and other equipment businesses, the FMS Group will expand its production and sales capabilities globally and move forward with the development of its overseas business activities in China and elsewhere.

The outlook for the EE Group, like that of the FMS Group, assumes that the size of the market for domestic public works will continue to shrink. Accordingly, the EE Group will strengthen its cost competitiveness and work to secure orders and profit from domestic public works projects through a program of proposal-based sales based on technologies that differentiate its products and services. In parallel with these activities, the EE Group will endeavor to strengthen and expand its business activities aimed at the private sector in areas that include water processing, the provision of utility services, the incineration and gasification of waste materials, and the use of biomass. In its overseas activities, the EE Group will work to improve and develop its operations related to infrastructure, including water and sewerage processing, waste processing, and other areas. Also, in the new energy field, in preparation for the full-scale commercial start-up of the fuel cell business in 2008, the EE Group will continue to strengthen its relationships with major energy companies. Through such activities as improving the reliability of its fuel cell equipment, increasing durability, and lowering costs, the EE Group will strive to secure its position as a leading company in the fuel cell business, focusing especially on participation in the Large-Scale Test Project of Japan's Ministry of Economy, Trade and Industry, which is entering its second year.

For the PM Group, capital investment by the semiconductor industry is forecast to continue to be quite active and further market expansion is anticipated. Major developments that will drive the growth of the semiconductor manufacturing marketing are expected to include the start-up of the market for the next-generation design rule (65 nm Technology Node) semiconductors, which will usher in even further miniaturization. Other developments driving growth will include rapid expansion in the market for flash memories and increasing demand for technologies that improve semiconductor production yields (including defect detection and defect elimination technologies). Amid this environment, the PM Group will endeavor to continue to improve profitability through the implementation of cost reduction measures, focusing especially on shortening lead times for CMP equipment. The PM Group will also work to build marketing capabilities attuned to identifying opportunities during periods of growth, and, by aggressively expanding into new product areas, including wafer plating systems and bevel polishing equipment, strive to continue to expand the scope of its operations.

Through the previously mentioned policies, the Group is working to attain net sales of ¥520.0 billion and

operating income of ¥15.0 billion in the fiscal year ending March 31, 2007.

(Billions of yen, % increase from the previous period)

	Consolidated	
Net sales	¥520	(1.0%)
Operating income	¥15	(37.6%)
Ordinary income	¥12	(55.2%)
Net income	¥5	(49.3%)

(2) Business Segment Information

The outlook for sales and operating by business segment is as follows.

(Billions of yen, percentage composition)

Group	Sales		Operating Income	
	¥	(%)	¥	(%)
Fluid Machinery & Systems	¥265	(51.0%)	¥8.0	(-%)
Environmental Engineering	¥165	(31.7%)	(¥1.0)	(-%)
Precision Machinery	¥90	(17.3%)	¥8.0	(-%)
Total	¥520	(100%)	¥15.0	(-%)

(3) Allocation of Profit

Regarding dividends, in view of the Company's policy of maintaining stable dividends, Ebara is planning to pay a cash dividend of ¥7.5 per share for fiscal 2007, unchanged from the previous fiscal year. The Company is not scheduling payment of a dividend for the interim period.

(4) Other Decisions or Important Events for outlook of the fiscal year

No decisions or important events are foreseen that may have an impact on performance.

Financial Position

On a consolidated basis, net cash used in operating activities in the fiscal year under review amounted to ¥9,772 million. Although the Company reported income before income taxes of ¥13,685 million, working capital requirements rose along with the increase in orders and sales, thus leading to a net outflow of cash for operating activities.

Net cash used in investing activities amounted to ¥4,099 million. Factors affecting net cash flow from investing activities included expenditures of ¥13,959 million for the purchase of fixed assets, principally for the renewal of existing facilities, and inflows from the sale of fixed assets, including land, and investment securities.

Net cash provided by financing activities amounted to a net inflow of ¥21,760 million, reflecting fund-raising activities, including the issuance of bonds.

As a consequence, consolidated cash and cash equivalents at the end of the period were ¥47,510 million, ¥8,550 million higher than at the end of the previous fiscal year.

Recent trends in cash flow indicators are as follows.

	March 31 2002	March 31 2003	March 31 2004	March 31 2005	March 31 2006
Shareholders' equity ratio:	21.8%	17.4%	19.5%	18.4%	25.9%
Shareholders' equity ratio at market value:	33.0%	17.8%	31.2%	28.5%	52.8%
Years to repay debt:	51.5 years	145.3 years	9.4 years	-	-
Interest coverage ratio:	1.3	0.6	8.4	-	-

Notes:

1. Shareholders' equity ratio: Shareholders' equity/Total assets
2. Shareholders' equity ratio as market value: Stock market capitalization/Total assets
3. Years to repay debt: Interest-bearing debt/Operating cash flow
4. Interest coverage ratio: Operating cash flow/Interest expenses

* All indicators in the table above were computed with consolidated financial data.

* Stock market capitalization was computed by multiplying the closing stock price at the end of the period by the number of shares outstanding at the end of the period (less treasury stock).

* Operating cash flow is "Net cash provided by operating activities" appearing in the Consolidated Statements of Cash Flows. Interest-bearing debt is defined as all liabilities appearing on the Consolidated Balance Sheets on which interest must be paid. Interest expenses are the amounts appearing in the item "Interest expenses paid" in the Consolidated Statements of Cash Flows.

Business Risks

The Ebara Group confronts a number of business risks that may have an influence on the judgment of investors. These are described below. In addition to being aware of the possibility of the emergence of these risks, the Group implements measures to prevent their occurrence and deal with them when they emerge.

This section includes forward-looking statements that are based on judgments made at the time of the preparation of this report on the Group's performance.

(1)Market Risk

Public works projects account for a high percentage of the sales of the FMS Group and the EE Group. Accordingly, there is a possibility that cutbacks in public works by the national government, regional governments, and related entities may increase fluctuations in the Group's business activities, performance, and financial position.

In addition, the business of the PM Group is strongly influenced by the silicon cycle. Accordingly, fluctuations in the market for semiconductors may increase fluctuations in the Group's business activities, performance, and financial position.

(2)Country Risk

An increasing proportion of the overseas business activities of the Group comprise construction undertaken under contract in regions where there is country risk as well as construction undertaken under long-term contracts that involves a high level of technical difficulty. As a result, both the incidence of costs related to proving technologies and the incurrence of other additional costs are rising. The Group provides for construction losses by

setting aside an amount based on its estimate of such costs; however, if actual additional costs exceed the reserves, this may have a detrimental impact on the Group's performance.

Foreign currency transactions, etc., related to overseas business activities are converted into yen when preparing the consolidated financial statements. The value of transactions may vary according to the foreign currency exchange rates prevailing at the time of conversion, but, if the yen appreciates, this may have an adverse impact on the business operations of the Group. Conversely, if the yen depreciates in value against foreign currencies, this may have positive impact on the Group's business activities.

(3)Interest Rate Risk

The Group is working to reduce its interest-bearing debt, but, as of March 31, 2006, a short-term interest bearing debt amounted to ¥94,694 million and the balance of long-term interest bearing debt was ¥97,489 million, which reached a total of ¥192,139 million. Interest-bearing debt includes fixed- and floating-rate liabilities. For that portion of interest-bearing debt borrowed at floating rates, the Group has arranged for interest rate swaps to fix the interest liability and loans with floating -ratestolessen the risk of interest rate fluctuations; however, if interest payments on the unhedged portion rise due to higher interest rates, this may have an impact on the Group's performance.

(4)Risks Related to the Impact of Natural Disasters and Impairment of the Social Infrastructure

If a Group place of business is struck by a major typhoon, earthquake, or other natural disaster that adversely affects its ability to conduct business activities, this may have a detrimental impact on Group performance. In addition, in the event of a major accident affecting the labor force or an accident involving equipment that leads to a stoppage, or impairment, of business activities, this may have an adverse impact on Group performance.

(5)Other Risks

① Order from the Fair Trade Commission to Cease Certain Operations

The Group and 13 other pump manufacturers received an order on March 31, 2004, from the Fair Trade Commission excluding them from activities described in "Construction Related to Sewage Pumps under Orders Placed by the Sewage Commission of the City of Tokyo."

Because the Group finds this order unacceptable and believes it inappropriate to comply, the Group intends to make clear in judicial proceedings that no violation of the Antimonopoly Law occurred. In the event that the decision of the proceedings is that violations occurred, this may have an adverse impact on the Group's performance.

② On-Site Inspections by the Fair Trade Commission

Certain facilities of the Group were subject to on-site inspection by the Fair Trade Commission because of doubts regarding violations (acts in restraint of trade) under the Antimonopoly Law in the bidding for the three projects listed below. If administrative measures are taken as a result of the inspections, this may have an adverse impact on the Group's performance.

1. Construction work on a sludge processing facility (August 2005)
2. Construction work on a steel sluice gate project (March 2006)
3. Construction work on tunnel ventilation equipment (March 2006)

Please note that Group facilities were also subject to investigation by the Osaka District Public

Prosecutors Office in connection with construction work related to sludge processing facilities in the Hannan City of Osaka Prefecture.

In April 2006, the Group decided to cease its participation in bidding activities related to new projects in the domestic government-related market for sludge processing facilities. The impact of ceasing to participate in these bidding activities has already been reflected in the outlook for the Group's performance.

Consolidated balance sheets

	Notes	March 31, 2005		March 31, 2006		Changes
		Millions of yen	%	Millions of yen	%	Millions of yen
Assets						
I Current assets						
1 Cash and time deposits		38,959		47,509		8,550
2 Trade receivables		206,799		227,534		20,735
3 Securities		0		0		0
4 Inventories		84,285		84,121		(164)
5 Deferred tax assets		21,275		10,867		(10,407)
6 Others		11,100		16,631		5,530
7 Allowance for doubtful receivables		(1,164)		(1,751)		(587)
Total current assets		361,257	64.7	384,914	65.0	23,657
II Fixed assets						
(1) Tangible fixed assets	*1 *3					
1 Buildings		34,497		32,913		(1,584)
2 Machinery and equipment		32,361		34,398		2,036
3 Land		19,968		19,527		(441)
4 Construction in progress		2,403		3,511		1,107
5 Others		6,336		5,971		(364)
Total tangible assets		95,567	17.1	96,321	16.3	753
(2) Intangible assets						
1 Software		3,607		3,315		(291)
2 Consolidated goodwill		3,643		2,547		(1,096)
3 Others		8,745		9,091		346
Total intangible assets		15,995	2.9	14,954	2.5	(1,041)
(3) Investments and long-term receivables						
1 Investment securities	*2 *3 *7	42,597		53,926		11,328
2 Long-term loans receivable		3,281		3,432		150
3 Deferred tax assets		27,632		27,371		(261)
4 Others	*2 *3	15,250		15,458		207
5 Allowance for doubtful receivables		(747)		(830)		(83)
6 Reserve for revaluation of investments		(2,571)		(2,917)		(345)
Total investments and long-term receivables		85,443	15.3	96,440	16.3	10,996
Total fixed assets		197,007	35.3	207,716	35.0	10,709
Total assets		558,264	100.0	592,631	100.0	34,366

	Notes	March 31, 2005		March 31, 2006		Changes
		Millions of yen	%	Millions of yen	%	Millions of yen
Liabilities						
I Current liabilities						
1		149,545		160,699		11,153
2		77,107		71,650		(5,457)
3		5,000		3,000		(2,000)
4						
		16,000		-		(16,000)
5						
		-		19,999		19,999
6		4,903		2,677		(2,226)
7		138		123		(14)
8		7,123		6,946		(176)
9						
		136		139		3
10						
		5,042		2,129		(2,912)
11						
		725		479		(245)
12		42,597		34,888		(7,709)
	*7					
		308,320	55.2	302,733	51.1	(5,586)
II Long-term liabilities						
1		44,000		44,000		-
2		19,999		-		(19,999)
3		43,294		53,489		10,195
4		1,187		1,197		10
5						
		33,107		30,923		(2,183)
6		1,148		1,043		(104)
7		37		19		(17)
8						
		389		283		(105)
9		31		222		191
		143,195	25.7	131,181	22.1	(12,014)
		451,515	80.9	433,914	73.2	(17,601)
Minority interests in consolidated subsidiaries						
		3,797	0.7	5,021	0.8	1,224
Shareholders' equity						
I Common stock						
	*5	41,230	7.4	61,283	10.3	20,052
II Capital surplus						
		45,264	8.1	65,211	11.0	19,947
III Retained earnings						
		15,850	2.8	16,965	2.9	1,114
IV Net unrealized gain on investment securities						
		6,236	1.1	13,476	2.3	7,240
V Translation adjustments						
		(5,612)	(1.0)	(3,188)	(0.5)	2,424
VI Treasury stock, at cost						
	*6	(18)	(0.0)	(54)	(0.0)	(36)
		102,951	18.4	153,695	25.9	50,743
		558,264	100.0	592,631	100.0	34,366

Consolidated statements of income

	Notes	From April 1, 2004 to March 31, 2005		From April 1, 2005 to March 31, 2006		Changes		
		Millions of yen	%	Millions of yen	%	Millions of yen		
I Net sales			478,397	100.0		514,957	100.0	36,560
II Cost of sales			384,167	80.3		418,413	81.3	34,245
Gross profit			94,229	19.7		96,543	18.7	2,314
III Selling, general and Administrative expenses								
1 Sales commission		4,334			4,847			
2 Packing and transportation		4,674			4,894			
3 Sales promotion		959			1,366			
4 Allowance for doubtful receivables		249			333			
5 Personnel expenditure		35,951			34,925			
6 Bonus payment reserve expense		1,595			1,240			
7 Directors' bonus payment reserve expense		136			107			
8 Employee's retirement expenses		3,126			2,949			
9 Directors' retirement expenses		267			183			
10 Travelling expenses		3,977			4,069			
11 Public dues and taxes		1,527			1,628			
12 Depreciation and amortization		2,959			3,288			
13 Amortization of consolidated goodwill		722			1,110			
14 Research and development costs	*1	9,993			10,883			
15 Others		16,172	86,648	18.1	13,813	85,641	16.6	(1,006)
Operating income			7,581	1.6		10,902	2.1	3,320
IV Non-operating income								
1 Interest income		197			319			
2 Dividend income		369			748			
3 Insurance income		197			114			
4 Foreign exchange gain		165			799			
5 Others		813	1,742	0.4	793	2,776	0.5	1,033
V Non-operating expenses								
1 Interest expenses		2,962			3,523			
2 Allowance for doubtful receivables		-			674			
3 Others		1,424	4,386	0.9	1,749	5,947	1.2	1,560
Ordinary income			4,937	1.0		7,731	1.5	2,794
VI Extraordinary income								
1 Gain on sales of fixed assets	*2	2,682			4,768			
2 Gain on sales of investment securities		4,626			5,074			
3 Gain on reversal of reserve for losses on contingent liabilities		-	7,309	1.5	105	9,949	1.9	2,640

	Notes	From April 1, 2004 to March 31, 2005		From April 1, 2005 to March 31, 2006		Changes		
		Millions of yen	%	Millions of yen	%	Millions of yen		
VII Extraordinary expenses								
1 Loss on sales of fixed assets	*3	43		104				
2 Loss on disposal of fixed assets	*4	1,900		1,051				
3 Loss on liquidation of subsidiaries and affiliates		493		51				
4 Impairment losses	*5	-		459				
5 Loss on sales of investment securities		40		20				
6 Write-down of securities and other investments		338		135				
7 Allowance for doubtful receivables		834		-				
8 Loss on restructuring charges		215		-				
9 Write-down of inventories		13,588		1,080				
10 Amortization of transition obligation arising from new accounting standards on severance indemnities and pension plans		2,087		-				
11 Special retirement benefit paid	*6	2,183		-				
12 Reserve for losses on construction completion guarantees		4,400		-				
13 Reserve for revaluation of investments		2,571		345				
14 Reserve for losses on contingent liabilities		389		-				
15 Bonds issuance expenses		107		-				
16 Legal expenses	*7	672		-				
17 Product warranty expenses		-	29,867	6.2	747	3,996	0.8	(25,871)
Income (loss) before income taxes			(17,620)	(3.7)		13,685	2.7	31,305
Income taxes		5,557		3,622				
Deferred tax benefits		(3,313)	2,244	0.5	6,670	10,293	2.0	8,048
Minority interests in consolidated subsidiaries			216	0.0		(41)	0.0	258
Net income (loss)			(19,648)	(4.1)		3,349	0.7	22,998

Consolidated statements of shareholders' equity

	Notes	From April 1, 2004 to March 31, 2005		From April 1, 2005 to March 31, 2006		Changes
		Millions of yen		Millions of yen		Millions of yen
Capital surplus						
I Capital Surplus at beginning			37,885		45,264	7,378
II Increase in capital surplus Shares issued on conversion of convertible bonds		7,378	7,378	19,947	19,947	12,568
III Capital surplus at ending			45,264		65,211	19,947
Retained earnings						
I Retained earnings at beginning			37,863		15,850	(22,012)
II Increase in retained earnings						
1 Net income		-		3,349		
2 Increase in interest in newly consolidated subsidiaries			-	274	3,624	3,624
III Decrease in retained earnings						
1 Cash dividends		(2,239)		(2,508)		
2 Bonuses to directors and corporate auditors		(100)		-		
3 Net loss		(19,648)		-		
4 Loss on disposal of treasury stock		(23)	(22,012)	(0)	(2,509)	(19,503)
IV Retained earnings at ending			15,850		16,965	1,114

Consolidated statements of cash flows

		From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
		Millions of yen	Millions of yen
	Notes		
I	Cash flows from operating activities:		
1	Income (loss) before income taxes	(17,620)	13,685
2	Depreciation and amortization	13,193	12,449
3	Loss on impairment losses	-	459
4	Gain on sales of securities	(4,585)	(5,054)
5	Increase (decrease) in allowance	9,805	(4,649)
6	Gain on sales of fixed assets	(2,639)	(4,664)
7	Other noncash expenses	3,718	3,299
8	Bonuses to directors and corporate auditors	(100)	-
9	Interest and dividend income	(566)	(1,068)
10	Interest expenses	2,962	3,523
11	Decrease (increase) in trade receivables	(4,468)	(19,991)
12	Decrease (increase) in inventories	12,719	1,109
13	Decrease in trade payables	(14,657)	10,485
14	Others	(912)	(9,336)
	Sub-total	(3,151)	247
15	Interest and dividend received	496	823
16	Interest expenses paid	(2,899)	(3,704)
17	Income taxes paid	(4,566)	(7,138)
	Net cash provided by (used for) operating activities	(10,120)	(9,772)
II	Cash flows from investing activities:		
1	Sales of fixed assets	9,309	6,343
2	Purchase of fixed assets	(12,705)	(13,959)
3	Sales of investment securities	6,609	7,798
4	Purchase of investment securities	(4,507)	(2,793)
5	Sales (purchase) of other investments, net	1,113	320
6	Collection of loans receivable	2,813	1,755
7	Disbursement of loans receivable	(1,528)	(3,565)
8	Sale of consolidated subsidiaries	1,377	-
	Net cash used for investing activities	2,482	(4,099)
III	Cash flows from financing activities:		
1	Issuance of bonds	34,892	39,992
2	Redemption of bonds	(10,000)	(16,000)
3	Proceeds from short-term bank loans and commercial paper	33,701	37,011
4	Repayment of short-term bank loan and commercial paper	(50,298)	(49,832)
5	Proceeds from long-term bank loans	6,144	12,732
6	Repayment of long-term bank loans	(823)	(71)
7	Capital paid in from minority shareholders	-	648
8	Purchase and sales of treasury stock	(46)	(36)
9	Dividends paid	(2,239)	(2,508)
10	Dividends paid to minority shareholders in consolidated subsidiaries	(81)	(175)
	Net cash provided by (used for) financing activities	11,248	21,760
IV	Translation adjustments	81	376
V	Increase (decrease) in cash and cash equivalents	3,691	8,265
VI	Cash and cash equivalents At beginning of period:		
	Balance brought forward	35,268	38,960
VII	Net effect of deconsolidation and consolidation of subsidiaries	-	285
VIII	At end of period:		
	Balance brought forward	38,960	47,510

Significant accounting principles

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
<p>1 Scope of consolidation</p> <p>(1) Number of consolidated subsidiaries 52 Significant consolidated subsidiaries: Mentioned in Corporate Group Information The following subsidiaries were newly consolidated: Elliott Ebara Company Ltd.</p> <p>The following subsidiaries were excluded from consolidation owing to liquidation, merger or spin-off. Elliott Ebara Ltd. Airvac Inc.</p> <p>(2) Names of significant non-consolidated subsidiaries Yantai Ebara Air Conditioning Equipment Co., Ltd. Ebara-Densan Taiwan Manufacturing Co., Ltd.</p> <p>(3) The accounts of non-consolidated subsidiaries are not included in the consolidated financial statements owing to insignificance in volume of assets, sales, net income and retained earnings.</p> <p>2 Equity method</p> <p>(1) Number of subsidiaries applied equity method Not applicable</p> <p>(2) Number of affiliated companies applied equity method Not applicable</p> <p>(3) Name of subsidiaries and affiliated companies non-applied equity method (Non-consolidated subsidiary) Mentioned in Names of significant nonconsolidated subsidiaries (Affiliated company) Hyosung-Ebara Co., Ltd.</p> <p>(4) Non-consolidated subsidiaries and affiliated companies are not applied equity method owing to insignificance in volume of net income and retained earnings.</p> <p>3 Financial year end of consolidated subsidiaries The period end of the following consolidated subsidiaries is December 31: Overseas consolidated subsidiaries Ebara Ballard Corp. Elliott Ebara Turbomachinery Corp. Significant transactions between December 31 and the period end were adjusted in consolidation.</p>	<p>1 Scope of consolidation</p> <p>(1) Number of consolidated subsidiaries 54 Significant consolidated subsidiaries: Mentioned left The following subsidiaries were newly consolidated: Ebara Kiden Co., Ltd. Yantai Ebara Air Conditioning Equipment Co., Ltd. Elliott Ebara Middle East Maintenance W.L.L.</p> <p>The following subsidiaries were excluded from consolidation owing to liquidation. Ebara Technosystem Co., Ltd.</p> <p>(2) Names of significant non-consolidated subsidiaries Ebara-Densan Taiwan Manufacturing Co., Ltd. P.T. Ebara Indonesia</p> <p>(3) Mentioned left</p> <p>2 Equity method</p> <p>(1) Number of subsidiaries applied equity method Not applicable</p> <p>(2) Number of affiliated companies applied equity method Not applicable</p> <p>(3) Name of subsidiaries and affiliated companies non-applied equity method (Non-consolidated subsidiary) Mentioned left (Affiliated company) Mentioned left</p> <p>(4) Mentioned left</p> <p>3 Financial year end of consolidated subsidiaries The period end of the following consolidated subsidiaries is December 31: Overseas consolidated subsidiaries Ebara Ballard Corp. Elliott Ebara Turbomachinery Corp. Significant transactions between December 31 and the period end were adjusted in consolidation.</p>

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006				
<p>4 Significant accounting principles</p> <p>(1) Valuation standards and valuation methods of assets</p> <p>① Securities</p> <p>Held-to-maturity securities Amortized cost method</p> <p>Other securities with market value Securities having market value are stated at market value, and unrealized gain or loss, net of tax is credited or debited to shareholders' equity as shown in the balance sheets</p> <p>Securities not quoted Gross average cost</p> <p>② Inventories</p> <p>Finished products and raw materials are stated at the gross average cost, except for in the Precision Machinery segment, which employs the moving average method, and work in process is valued at accumulated job cost. Real estate for sale represents the accumulated cost for each parcel of land and each structure.</p> <p>(2) Property, plant and equipment and related depreciation</p> <p>① Tangible assets</p> <p>Property, plant and equipment are stated at cost. Depreciation is computed on the declining-balance method at rates based on the estimated useful lives of the assets of the Company and its domestic subsidiaries, except for buildings placed in service after April 1, 1998, depreciation for which is computed on the straight-line method. The straight-line method is used by the consolidated foreign subsidiaries. Maintenance, repairs and minor renewals are charged to income as incurred.</p> <p>With respect to the Company and its domestic consolidated subsidiaries, the estimated useful lives of the assets used for computing depreciation, which are the same as the useful lives provided for under the Japanese income tax regulations, are shown below:</p> <table data-bbox="223 1198 794 1265"> <tr> <td>Buildings</td> <td>3 to 50 years</td> </tr> <tr> <td>Machinery and equipment</td> <td>2 to 20 years</td> </tr> </table> <p>② Intangible assets and other investments</p> <p>Intangible assets are amortized on a straight-line basis. Software used in the Company is amortized on a straight-line basis for the estimated useful lives, 5 years.</p> <p>(3) Standards of significant allowance</p> <p>① Allowance for doubtful receivables</p> <p>An allowance for doubtful receivables is provided on an amount sufficient to cover possible losses on collection of receivables. The amount of the allowance is determined based on an estimated amount for probable doubtful accounts based on a review of the collectibility of individual receivables, and a ratio based on the historical ratio of write-offs of receivables.</p> <p>② Bonus payment reserve</p> <p>Bonus payment reserve is provided based on the future liabilities.</p> <p>③ Directors' bonus payment reserve</p> <p>Directors' bonus payment reserve is provided based on the future liabilities.</p>	Buildings	3 to 50 years	Machinery and equipment	2 to 20 years	<p>4 Significant accounting principles</p> <p>(1) Valuation standards and valuation methods of assets</p> <p>① Securities</p> <p>Held-to-maturity securities Mentioned left</p> <p>Other securities with market value Mentioned left</p> <p>Securities not quoted Mentioned left</p> <p>② Inventories Mentioned left</p> <p>(2) Property, plant and equipment and related depreciation</p> <p>① Tangible assets Mentioned left</p> <p>② Intangible assets and other investments Mentioned left</p> <p>(3) Standards of significant allowance</p> <p>① Allowance for doubtful receivables Mentioned left</p> <p>② Bonus payment reserve Mentioned left</p> <p>③ Directors' bonus payment reserve Mentioned left</p>
Buildings	3 to 50 years				
Machinery and equipment	2 to 20 years				

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
<p>④ Severance and pension plans The cost of the severance and pension plans, based on actuarial computations of current and future employee benefits, including the unfunded severance indemnities plan, is charged to income. A transition obligation arising from new accounting standards of 11,048 million is being amortized over five years, and actuarial gains and losses are recognized by declining-balance amortization within the average of the estimated remaining service lives with the following period.</p> <p>⑤ Directors' retirement allowance reserve Directors' retirement allowance reserve is accrued at the amounts of the future liabilities in relation to the length of service at the balance sheet date and included in accrued severance and pension costs.</p> <p>⑥ Reserve for revaluation of investments To prepare for possible declines in the value of stocks of subsidiaries and affiliated companies, the Company makes provisions based on estimates of the effects of major fluctuations in foreign exchange rates and changes in the financial positions of these subsidiaries and affiliated companies.</p> <p>⑦ Reserve for losses on contingent liabilities To prepare for possible losses related to liabilities of subsidiaries and affiliated companies that are guaranteed by the Company (contingent liabilities), the Company makes provisions based on estimate of possible losses, taking into account the financial positions of the related companies.</p> <p>⑧ Reserve for losses on construction completion guarantees To provide for possible expenses arising from guarantees against defects, the Company makes reasonable estimates of the ratio of such expenses and uses this ratio to derive provisions for such losses.</p> <p>⑨ Reserve for construction losses To prepare for possible losses on construction projects contracted to the Company, the Company makes estimates of such losses for those uncompleted projects deemed to have a strong possibility of incurring losses and for which such construction losses can be reasonably estimated.</p> <p>(4) Revenue recognition Sales are recorded when the units are accepted by the customers. However, sales of major units (100 million or more), installation of which requires more than 12 months, are recorded on a percentage-of-completion basis. Sales recorded on a percentage-of-completion basis is 102,422 million.</p> <p>(5) Leases All leases of the Company and its domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed 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.</p>	<p>④ Severance and pension plans The cost of the severance and pension plans, based on actuarial computations of current and future employee benefits, including the unfunded severance indemnities plan, is charged to income. Actuarial gains and losses are recognized by declining-balance amortization within the average of the estimated remaining service lives with the following period.</p> <p>⑤ Directors' retirement allowance reserve Mentioned left</p> <p>⑥ Reserve for revaluation of investments Mentioned left</p> <p>⑦ Reserve for losses on contingent liabilities Mentioned left</p> <p>⑧ Reserve for losses on construction completion guarantees Mentioned left</p> <p>⑨ Reserve for construction losses Mentioned left</p> <p>(4) Revenue recognition Sales are recorded when the units are accepted by the customers. However, sales of major units (100 million or more), installation of which requires more than 12 months, are recorded on a percentage-of-completion basis. Sales recorded on a percentage-of-completion basis is 106,505 million.</p> <p>(5) Leases Mentioned left</p>

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
<p>(6) Significant hedging accounting methods</p> <p>① Hedging transactions Gains or losses and evaluation differences related to hedging transactions accounted for at fair market value are deferred as assets or liabilities until recognized. Evaluation gains and losses on foreign exchange contracts are allocated to settlement periods throughout the period of the contract. Interest rate swaps are treated as special exceptions.</p> <p>② Hedging instruments and hedging objects Hedging instruments Foreign exchange forward contracts, foreign currency option contracts and interest rate swap agreements were used. Hedging objects Currency exchange rate risk and interest rate risk on existing assets and liabilities in foreign currencies are hedging objects.</p> <p>③ Hedging policy The Company and its consolidated subsidiaries use derivatives only for the purpose of hedging related to exports, imports, funding and others.</p> <p>④ Assessing the effectiveness of hedging Interest risk The effectiveness of hedging is assessed by comparing the accumulated cash flows between hedging instruments and hedging objects. However, with regard to the interest rate swaps that agree with hedge criteria, the assessments are omitted. Currency exchange rate risk As long as one hedging instrument and one hedging object correspond, the hedge is considered effective.</p> <p>(7) Consumptive tax Consumptive taxes are accounted for using the net-of-tax method.</p> <p>5. Valuation of assets and liabilities of consolidated subsidiaries The assets and liabilities of consolidated subsidiaries are stated as a whole at fair market value.</p> <p>6. Depreciation of consolidated adjustment account Depreciation of consolidated goodwill is calculated using the straight-line method based on the period less than 20 years. However, immaterial amounts are depreciated with a one-time charge in the period in which they occur.</p> <p>7. Appropriation of Retained Earnings Appropriations of retained earnings at each year-end are reflected in the financial statements for the following year upon shareholders' approval.</p> <p>8. Cash and Cash Equivalents Cash and cash equivalents include cash on hand, demand deposits, time deposits with maturities of three months or less and highly liquid investment.</p>	<p>(6) Significant hedging accounting methods</p> <p>① Hedging transactions Mentioned left</p> <p>② Hedging instruments and hedging objects Hedging instruments Mentioned left Hedging objects Mentioned left</p> <p>③ Hedging policy Mentioned left</p> <p>④ Assessing the effectiveness of hedging Mentioned left</p> <p>(7) Consumptive tax Mentioned left</p> <p>5. Valuation of assets and liabilities of consolidated subsidiaries Mentioned left</p> <p>6. Depreciation of consolidated adjustment account Mentioned left</p> <p>7. Appropriation of Retained Earnings Mentioned left</p> <p>8. Cash and Cash Equivalents Mentioned left</p>

Change in accounting policies

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
-----	<p>(Accounting Standards for Impairment of Fixed Assets)</p> <p>Beginning with the year ended March 31, 2006, the Group has applied the standards for accounting for the impairment of fixed assets contained in Opinion Concerning the Establishment of Accounting Standards for Impairment of Fixed Assets (issued by the Corporate Accounting Deliberation Council on August 9, 2002) and Guidelines for the Application of Accounting Standards for Impairment of Fixed Assets (issued on October 31, 2003, as the Guideline for Application of Corporate Accounting Standards No. 6).</p> <p>As a result of this accounting change, the income before income taxes was ¥459 million smaller than this income under the previous method of accounting.</p> <p>Regarding accumulated impairment losses, each asset was directly written off in accordance with revised regulations governing consolidated financial statements.</p>

Changes in classification

From April 1, 2004 To March 31, 2005	From April 1, 2005 to March 31, 2006
<p>(Balance sheets)</p> <p>As a consequence of revisions in the Securities and Exchange Law, investments in investment funds with limited liability are now recognized as securities. Accompanying this revision, investments in such funds, which were formerly included in others of investments and long-term receivables, are now included in investment securities. Investments in such funds amounted to ¥223 million at the end of the period of the prior fiscal year and totaled ¥195 million at the end of the period under review.</p>	-----

Additional information

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
<p>(Directors' bonus payment reserve)</p> <p>Directors' bonus payment was previously dealt as decrease of retained earnings. It has been dealt as accrual cost from the current first half under review based on Accounting Standards Board guideline 13.</p> <p>(Pro forma standard taxation)</p> <p>Under the Law Revising a Portion of the Regional Taxation Law (Law No. 9, 2003), which was promulgated on March 31, 2003, for fiscal years beginning April 1, 2004, or later, pro forma standard taxation (taxation based on business size) was introduced. Accompanying this introduction, beginning with the fiscal year under review, the Company has applied the "Practical Guidelines for the Presentation of Financial Statements Based on the Pro Forma Standard Portion in the Corporate Enterprise Tax" (Report No. 12 on Accounting Practices of the Corporate Accounting Standards Committee). Accordingly, the pro forma standard portion of the corporate enterprise tax and the portion based on capital, amounting to ¥529 million, have been included in selling, general and administrative expenses.</p> <p>(Reserve for losses on construction completion guarantees)</p> <p>Beginning with the consolidated statements for the fiscal year under review, to prepare for possible expenses arising from construction guarantees, the Company now multiplies a fixed ratio based on historical experience by the value of construction completed to estimate the amount of such losses and makes provision to the reserve for losses on construction completion guarantees in the estimated amount.</p> <p>Please note that as a result of the application of this accounting standard, gross profit on sales, operating income, and ordinary income are each ¥642 million lower than they would have been under the previous standard. In addition, the loss before income taxes is ¥5,042 million larger than before the application of this standard.</p> <p>(Reserve for construction losses)</p> <p>In cases where the estimated cost of construction is likely to be higher than the contracted amount and the Company can make reasonable estimates of losses related to cost overruns, the Company has begun to make provisions in the amount of the estimated losses to the Reserve for Construction Losses.</p> <p>Please note that as a result of the adoption of this accounting method, gross profit on sales, operating income, and ordinary income are each ¥725 million less than under the previous method of accounting. In addition, the loss before income taxes is ¥725 million larger than before the application of this standard.</p>	<p>-----</p>

Notes to consolidated financial statements

(Balance sheets)

March 31, 2005		March 31, 2006		
*1	Accumulated depreciation of tangible assets	160,549million	*1 Accumulated depreciation of tangible assets	165,115million
*2	Investments in non-consolidated subsidiaries and affiliated companies in investments securities and others are as follows:		*2 Investments in non-consolidated subsidiaries and affiliated companies in investments securities and others are as follows:	
	Investment securities	8,084 million	Investment securities	8,462 million
	Others	5,262 million	Others	5,228 million
*3	Collateral assets		*3 Collateral assets	
	(Collateral assets for bank loans)		(Collateral assets for bank loans)	
	Buildings	1,662 million	Buildings	1,570 million
	Machinery and equipment	12,737 million	Machinery and equipment	11,472 million
	Other tangible assets	824 million	Other tangible assets	824 million
	Investment securities	2,586 million	Investment securities	5,284 million
	Total	17,810 million	Total	19,151 million
	Amount of bank loans		Amount of bank loans	
	Short-term loan	1,435 million	Short-term loan	1,504 million
	Long-term loan	5,909 million	Long-term loan	10,605 million
	The above collateral assets include a portion of industrial factory foundation as follows:		The above collateral assets include a portion of industrial factory foundation as follows:	
	Buildings	1,013 million	Buildings	957 million
	Machinery and equipment	179 million	Machinery and equipment	175 million
	Other tangible assets	501 million	Other tangible assets	501 million
	Total	1,693 million	Total	1,634 million
	Amount of bank loans		Amount of bank loans	
	Short-term loan	834 million	Short-term loan	834 million
	Long-term loan	479 million	Long-term loan	245 million
	(Collateral assets for purposes other than bank loans)		(Collateral assets for purposes other than bank loans)	
	Investment securities	546 million	Investment securities	546 million
	Other investment	130 million	Other investment	130 million
4	Commitments and contingent liabilities		4 Commitments and contingent liabilities	
	(1) Loans guaranteed to employees:	1,423 million	(1) Loans guaranteed to employees:	1,193 million
	(2) Loans guaranteed to unconsolidated subsidiaries and affiliates:		(2) Loans guaranteed to unconsolidated subsidiaries and affiliates:	
	Aomori Renewable Energy Recycling Co., Ltd.	1,500 million	Aomori Renewable Energy Recycling Co., Ltd.	1,179 million
	E-Square Co., Ltd.	3,264 million	E-Square Co., Ltd.	2,966 million
	EUP Co., Ltd.	1,160 million	Hasaki Wind Farm Co., Ltd.	1,270 million
	Hasaki Wind Farm Co., Ltd.	1,270 million	Other 16 companies	3,295 million
	Other 16 companies	3,237 million		
	(3) Loan guaranteed to business partners:		(3) Loan guaranteed to business partners:	
	Oiwa Corporation	4,968 million	Oiwa Corporation	4,086 million
	Tomen Power Samukawa Co., Ltd.	181 million	Tomen Power Samukawa Co., Ltd.	181 million
			(4) Off-balance notes receivables with repurchase obligation	5,964 million
*5	Number of issued and outstanding shares		*5 Number of issued and outstanding shares	
	Common stock	334,562 thousand shares	Common stock	422,724 thousand shares
*6	Number of treasury stocks the Company have		*6 Number of treasury stocks the Company have	
	Common stock	38 thousand shares	Common stock	110 thousand shares
*7	Loan for consumption related to marketable securities		*7 -----	
	The Company lent marketable securities amounting to ¥19,207 million to securities companies for futures trading and reserved securities deposits, amounting to ¥15,000 million.			
	These deposits received are included in other current liabilities.			

March 31, 2005	March 31, 2006								
8 -----	<p>8 Overdrafts and commitment lines</p> <p>The Group signs contracts for overdrafts and commitment lines to provide alternative sources of liquidity. The unused portions under these contracts at the end of the consolidated accounting year were as follows:</p> <table data-bbox="863 387 1473 497"> <tr> <td>Current account overdrafts</td> <td>12,700 million</td> </tr> <tr> <td>Commitment lines</td> <td>37,800 million</td> </tr> <tr> <td><u>Balance of borrowings</u></td> <td><u>- million</u></td> </tr> <tr> <td>Total</td> <td>50,500 million</td> </tr> </table>	Current account overdrafts	12,700 million	Commitment lines	37,800 million	<u>Balance of borrowings</u>	<u>- million</u>	Total	50,500 million
Current account overdrafts	12,700 million								
Commitment lines	37,800 million								
<u>Balance of borrowings</u>	<u>- million</u>								
Total	50,500 million								

(Statements of income)

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006												
*1 Research and development costs 9,993 million	*1 Research and development costs 10,883 million												
*2 Gain on sales of fixed assets comprises the following:	*2 Gain on sales of fixed assets comprises the following:												
Machinery and equipment 20 million	Buildings 530 million												
Land 2,661 million	Machinery and equipment 47 million												
Others 1 million	Land 4,169 million												
Total 2,682 million	Others 20 million												
	Total 4,768 million												
*3 Loss on sales of fixed assets comprises the following:	*3 Loss on sales of fixed assets comprises the following:												
Buildings 1 million	Buildings 13 million												
Machinery and equipment 29 million	Machinery and equipment 76 million												
Land 10 million	Land 6 million												
Others 2 million	Others 7 million												
Total 43 million	Total 104 million												
*4 Loss on disposal of fixed assets comprises the following:	*4 Loss on disposal of fixed assets comprises the following:												
Buildings 50 million	Buildings 161 million												
Machinery and equipment 1,287 million	Machinery and equipment 292 million												
Other tangible fixed assets 553 million	Other tangible fixed assets 586 million												
Software 0 million	Software 8 million												
Other intangible assets 8 million	Other intangible assets 3 million												
Total 1,900 million	Total 1,051 million												
	*5 Impairment losses												
	(1) Summary of asset groups for which impairment losses were recognized												
	<table border="1"> <thead> <tr> <th>Use</th> <th>Type</th> <th>Location</th> </tr> </thead> <tbody> <tr> <td>Land for business office use</td> <td>Land</td> <td>Chiba, Chiba Prefecture</td> </tr> <tr> <td>Wind power generation equipment</td> <td>Equipment</td> <td>Noheji-machi, Aomori Prefecture</td> </tr> <tr> <td>Group housing, other</td> <td>Land</td> <td>Fujisawa, Kanagawa Prefecture</td> </tr> </tbody> </table>	Use	Type	Location	Land for business office use	Land	Chiba, Chiba Prefecture	Wind power generation equipment	Equipment	Noheji-machi, Aomori Prefecture	Group housing, other	Land	Fujisawa, Kanagawa Prefecture
Use	Type	Location											
Land for business office use	Land	Chiba, Chiba Prefecture											
Wind power generation equipment	Equipment	Noheji-machi, Aomori Prefecture											
Group housing, other	Land	Fujisawa, Kanagawa Prefecture											
	(2) Outline of asset grouping												
	The Group groups its assets according to its business segments, but idle assets are grouped individually.												
	(3) Background of recognition of impairment losses												
	The market value of land for business office use and Group housing, etc., has declined. Accordingly, the book value has been reduced to the amount deemed recoverable.												
	Because wind power generation equipment continues to generate operating losses, the book value was written down to the recoverable value.												
	(4) Computation of recoverable value												
	The recoverable value of land for business office use and Group housing, etc., has been computed based on estimates of the net sale value, the assessed value for computing fixed asset taxes, and other factors.												
	The recoverable value of wind power generation equipment is based on the value of this equipment in use by discounting future cash flows at the rate of 2.9% per annum.												
	(5) Amount of impairment losses												
	Land ¥366 million												
	Equipment ¥92 million												
	Buildings and structures ¥0 million												
	Total ¥459 million												

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
<p>*6 Special retirement benefit paid Special retirement benefit paid is an additional benefit due to early retirement system and transfer of permanent domicile.</p> <p>*7 Legal expenses Legal expenses are losses on infraction of the export control laws of the United States of America by Ebara International Corp.</p>	<p>*6 -----</p> <p>*7 -----</p>

(Statements of cash flows)

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006																																		
<p>1. A reconciliation of cash and cash Equivalents to the amounts shown in the balance sheets is as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash and time deposits</td> <td style="text-align: right;">38,959 million</td> </tr> <tr> <td>Securities</td> <td style="text-align: right;">0 million</td> </tr> <tr> <td><u>Total</u></td> <td style="text-align: right;"><u>38,960 million</u></td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">38,960 million</td> </tr> </table> <p>2. Important other noncash expenses Increase in capital surplus by shares issued on conversion of convertible bonds 14,821 million</p> <p>3. A schedule of assets and liabilities of an excluded Group from consolidation Airvac Inc. was sold and excluded from consolidation. The schedule of principal assets, liabilities, sales of investment securities and income of sales is as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Current assets</td> <td style="text-align: right;">744 million</td> </tr> <tr> <td>Fixed assets</td> <td style="text-align: right;">869 million</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">(288) million</td> </tr> <tr> <td>Fixed liabilities</td> <td style="text-align: right;">(0) million</td> </tr> <tr> <td>Translation adjustment</td> <td style="text-align: right;">53 million</td> </tr> <tr> <td>Gain on sale of investment securities</td> <td style="text-align: right;"><u>164 million</u></td> </tr> <tr> <td>Sales of investment securities in Airvac Inc.</td> <td style="text-align: right;">1,544 million</td> </tr> <tr> <td>Cash and cash equivalents of Airvac Inc.</td> <td style="text-align: right;"><u>(166) million</u></td> </tr> <tr> <td>Net: Income of sales</td> <td style="text-align: right;">1,377 million</td> </tr> </table>	Cash and time deposits	38,959 million	Securities	0 million	<u>Total</u>	<u>38,960 million</u>	Cash and cash equivalents	38,960 million	Current assets	744 million	Fixed assets	869 million	Current liabilities	(288) million	Fixed liabilities	(0) million	Translation adjustment	53 million	Gain on sale of investment securities	<u>164 million</u>	Sales of investment securities in Airvac Inc.	1,544 million	Cash and cash equivalents of Airvac Inc.	<u>(166) million</u>	Net: Income of sales	1,377 million	<p>1. A reconciliation of cash and cash Equivalents to the amounts shown in the balance sheets is as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Cash and time deposits</td> <td style="text-align: right;">47,509 million</td> </tr> <tr> <td>Securities</td> <td style="text-align: right;">0 million</td> </tr> <tr> <td><u>Total</u></td> <td style="text-align: right;"><u>47,510 million</u></td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">47,510 million</td> </tr> </table> <p>2. Important other noncash expenses Increase in capital surplus by shares issued on conversion of convertible bonds 40,000 million</p>	Cash and time deposits	47,509 million	Securities	0 million	<u>Total</u>	<u>47,510 million</u>	Cash and cash equivalents	47,510 million
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(Marketable and investment securities)

From April 1, 2004 to March 31, 2005				From April 1, 2005 to March 31, 2006					
1. Marketable held-to-maturity bonds				1. Marketable held-to-maturity bonds					
Japanese government				Japanese government					
	Book value (Millions of yen)	Fair value (Millions of yen)	Unrealized gains (losses), net (Millions of yen)		Book value (Millions of yen)	Fair value (Millions of yen)	Unrealized gains (losses), net (Millions of yen)		
Fair value over book value	9	9	0	Fair value over book value	-	-	-		
Book value over fair value	-	-	-	Book value over fair value	-	-	-		
Total	9	9	0	Total	-	-	-		
2. Other marketable securities				2. Other marketable securities					
Equity securities				Equity securities					
	Historical cost (Millions of yen)	Book value (Millions of yen)	Unrealized gains (losses), net (Millions of yen)		Historical cost (Millions of yen)	Book value (Millions of yen)	Unrealized gains (losses), net (Millions of yen)		
Fair value over historical cost	13,460	24,535	11,075	Fair value over historical cost	11,283	34,051	22,767		
Historical cost over fair value	1,576	827	(749)	Historical cost over fair value	2,234	1,921	(313)		
Total	15,037	25,363	10,325	Total	13,518	35,973	22,455		
Note: Securities were judged as impaired when their market values had declined 50% or more from their values at the end of respective fiscal years, or had declined from 30% to 50% from their book values for three fiscal years.				Note: Securities were judged as impaired when their market values had declined 50% or more from their values at the end of respective fiscal years, or had declined from 30% to 50% from their book values for three fiscal years.					
3. Sale of other securities				3. Sale of other securities					
Amount of sold other securities		6,772 million		Amount of sold other securities		7,798 million			
Gain on sale of other securities		4,626 million		Gain on sale of other securities		5,074 million			
Loss on sale of other securities		40 million		Loss on sale of other securities		20 million			
4. Non marketable securities				4. Non marketable securities					
Held-to-maturity bonds				Held-to-maturity bonds					
Other government bonds		5 million		Other government bonds		6 million			
Other securities				Other securities					
Unlisted securities		8,940 million		Unlisted securities		9,304 million			
Investments in and advances to subsidiaries and affiliates		8,084 million		Investments in and advances to subsidiaries and affiliates		8,462 million			
Investments in limited investment partnerships		195 million		Investments in limited investment partnerships		180 million			
5. The maturity schedule of held-to-maturity securities with due dates is as follows:				5. The maturity schedule of held-to-maturity securities with due dates is as follows:					
	Within 1 year	Over 1 year and less than 5 years	Over 5 years and less than 10 years	Over 10 years		Within 1 year	Over 1 year and less than 5 years	Over 5 years and less than 10 years	Over 10 years
Japanese government bonds	9	-	-	-	Japanese government bonds	-	-	-	-
Other government bonds	0	2	2	-	Other government bonds	0	3	2	-

(Severance and Pension Plans)

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006																																																																												
<p>1. Outline of Severance and Pension Plans</p> <p>The company, its domestic consolidated subsidiaries and some foreign consolidated subsidiaries have termination allowance plans and retirement pension plans as severance and defined benefit pension plans.</p> <p>2. Benefit obligation</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Benefit obligation</td> <td style="text-align: right;">92,731 million</td> </tr> <tr> <td>Fair value of plan assets</td> <td style="text-align: right;">(45,513) million</td> </tr> <tr> <td>Unrecognized actuarial loss</td> <td style="text-align: right;">(13,102) million</td> </tr> <tr> <td>Unrecognized prior service cost</td> <td style="text-align: right;">(1,008) million</td> </tr> <tr> <td>Unrecognized net obligation at transition</td> <td style="text-align: right;"><u>- million</u></td> </tr> <tr> <td>Net amount recognized</td> <td style="text-align: right;">33,107 million</td> </tr> </table> <p>3. 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Recognized prior service cost	188 million																																																																												
Recognized actuarial loss	<u>903 million</u>																																																																												
Net periodic benefit cost	6,202 million																																																																												
Discount rate (Japan)	2.0%																																																																												
Discount rate (Subsidiaries outside Japan)	6.3%																																																																												
Expected return on plan assets (Japan)	2.7%																																																																												
Expected return on plan assets (Subsidiaries outside Japan)	8.0%																																																																												
Recognition period of actuarial loss	10 years																																																																												
Amortization period of prior service cost	13 years																																																																												

(Income taxes)

From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
1. Significant components of the deferred tax assets and liabilities	1. Significant components of the deferred tax assets and liabilities
Deferred tax assets:	Deferred tax assets:
Excess provision of accrued bonuses to employees	Excess provision of accrued bonuses to employees
2,858 million	2,823 million
Loss recognized on a percentage-of-completion basis	Loss recognized on a percentage-of-completion basis
1,301 million	1,050 million
Accrued enterprise tax	Accrued enterprise tax
261 million	231 million
Intercompany profit on ending Inventories	Intercompany profit on ending Inventories
521 million	400 million
Excess provision of accrued severance indemnities	Excess provision of accrued severance indemnities
9,652 million	10,089 million
Directors' retirement expense	Directors' retirement expense
550 million	415 million
Intercompany profit on fixed assets	Intercompany profit on fixed assets
2,441 million	2,590 million
Tax loss carried forward	Tax loss carried forward
17,190 million	21,696 million
Write-down of other investments	Write-down of other investments
331 million	1,564 million
Loss from write-down of real estate for sale	Loss from write-down of real estate for sale
1,009 million	1,065 million
Loss on indemnity for completed projects	Loss on write-down of inventories
7,158 million	957 million
Loss on write-down of inventories	Reserve for losses on construction completion guarantees
2,353 million	1,041 million
Reserve for losses on construction completion guarantees	Reserve for losses on contingent liabilities
2,268 million	706 million
Reserve for losses on contingent liabilities	Others based on tax codes outside Japan
518 million	8,033 million
Others based on tax codes outside Japan	Other
6,757 million	4,409 million
Other	Subtotal
4,939 million	57,078 million
Subtotal	Valuation allowance
60,113 million	(9,493) million
Valuation allowance	Total deferred tax assets
(6,571) million	47,584 million
Total deferred tax assets	Deferred tax liabilities:
53,541 million	Reserve for deferral of capital gains on sales of property
Deferred tax liabilities:	(1,387) million
Reserve for deferral of capital gains on sales of property	Net unrealized gain on investment securities
(1,438) million	(9,205) million
Other	Other
(4,521) million	(74) million
Total deferred tax liabilities	Total deferred tax liabilities
(5,959) million	(10,666) million
Net deferred tax assets	Net deferred tax assets
47,581 million	36,917 million
2. Summary of the major differences between the Japanese statutory tax rate and the Company's effective tax rate	2. Summary of the major differences between the Japanese statutory tax rate and the Company's effective tax rate
-----	Statutory tax rate, giving tax effect on enterprise tax payable
	40.5%
	Entertainment expenses and other expenses not deductible
	5.2%
	Per capita equalization inhabitants' taxes
	1.5%
	Dividends received not taxable
	-23.2%
	Intercompany dividends received
	29.3%
	Valuation allowance
	24.6%
	Amortization of goodwill
	3.2%
	Other
	-5.9%
	Effective tax rate as shown in statements of income
	75.2%

(Segment information)

【Business segment information】

From April 1, 2004 to March 31, 2005

(Millions of yen)

	Fluid Machinery & Systems	Environmental Engineering	Precision Machinery	Total	Elimination and corporate	Consolidated
I Sales and operating income						
Sales						
(1) Sales to third parties	235,138	164,717	78,541	478,397	-	478,397
(2) Intersegment sales and transfer	1,449	7,771	307	9,529	(9,529)	-
Total	236,588	172,488	78,848	487,926	(9,529)	478,397
Operating costs and expenses	229,304	177,333	73,563	480,201	(9,385)	470,815
Operating income (loss)	7,284	(4,844)	5,284	7,725	(143)	7,581
II Assets, depreciation and amortization and capital expenditure						
Assets	220,004	152,314	107,747	480,066	78,197	558,264
Depreciation and amortization	5,067	4,281	3,863	13,212	(19)	13,193
Capital expenditure	3,818	2,527	6,421	12,767	(61)	12,705

Notes 1 The companies operate in three business segments as follows:

Business segment	Products
Fluid Machinery & Systems	Pumps, Browsers, Turbo-compressors, Gas and steam turbines, Chillers, Machinery plant and Pumping system engineering
Environmental Engineering	Environmental restoration equipment, Incinerators, Cooling and water supply systems for nuclear power plants, Industrial water/wastewater treatment plants, Environmental system engineering, Chemicals and others
Precision Machinery	Dry vacuum pumps, CMP systems and other equipment for semiconductor industries

- The amount of the corporate assets included in 'Elimination and corporate' is ¥82,159 million. The material assets are cash and cash equivalent, some of the investment securities and deferred tax assets of the Company.
- Depreciation and amortization include intangible assets, other depreciable assets and the depreciation of them.
- As a result of adoption of Reserve for losses on construction completion guarantees, operating income in Fluid Machinery & System was ¥218 million lower and operating loss in Environmental Engineering was ¥423 million higher than under the previous method of accounting.
- As a result of adoption of Reserve for construction losses, operating income in Fluid Machinery & System was ¥80 million lower and operating loss in Environmental Engineering was ¥644 million higher than under the previous method of accounting.

From April 1, 2005 to March 31, 2006

(Millions of yen)

	Fluid Machinery & Systems	Environmental Engineering	Precision Machinery	Total	Elimination and corporate	Consolidated
I Sales and operating income						
Sales						
(1) Sales to third parties	252,741	172,823	89,392	514,957	-	514,957
(2) Intersegment sales and transfer	2,865	5,654	331	8,851	(8,851)	-
Total	255,606	178,478	89,723	523,809	(8,851)	514,957
Operating costs and expenses	248,419	179,065	85,092	512,578	(8,523)	504,054
Operating income (loss)	7,186	(587)	4,631	11,230	(328)	10,902
II Assets, depreciation and amortization and capital expenditure						
Assets	249,860	144,832	121,677	516,371	76,259	592,631
Depreciation and amortization	5,415	3,633	3,426	12,475	(25)	12,449
Capital expenditure	6,063	3,445	5,470	14,978	(140)	14,838

Notes 1 The companies operate in three business segments as follows:

Business segment	Products
Fluid Machinery & Systems	Pumps, Browsers, Turbo-compressors, Gas and steam turbines, Chillers, Machinery plant and Pumping system engineering
Environmental Engineering	Environmental restoration equipment, Incinerators, Cooling and water supply systems for nuclear power plants, Industrial water/wastewater treatment plants, Environmental system engineering, Chemicals and others
Precision Machinery	Dry vacuum pumps, CMP systems and other equipment for semiconductor industries

- 2 The amount of the corporate assets included in 'Elimination and corporate' is ¥86,487 million. The material assets are cash and cash equivalent, some of the investment securities and deferred tax assets of the Company.
- 3 Depreciation and amortization include intangible assets, other depreciable assets and the depreciation of them.

【Geographical segment information】

From April 1, 2004 to March 31, 2005

	Japan	Other	Total	Elimination and corporate	Consolidated
I Sales					
(1) Sales to third parties	413,314	65,082	478,397	-	478,397
(2) Intersegment sales and transfer	14,165	5,752	19,917	(19,917)	-
Total	427,480	70,834	498,315	(19,917)	478,397
Operating costs and expenses	418,513	71,339	489,853	(19,037)	470,815
Operating income(loss)	8,966	(505)	8,461	(879)	7,581
II Assets	467,376	69,234	536,610	21,654	558,264

- (Millions of yen)
- Notes 1 The amount of the corporate assets included in 'Elimination and corporate' is ¥82,159 million. The material assets are cash and cash equivalent, some of the investment securities and deferred tax assets of the Company.
- 2 Countries and areas other than Japan are shown in Other.
 - 3 Countries and areas included in Other are as follows:
USA, Italy, Germany, Philippines, Taiwan, Singapore, Brazil and Korea
 - 4 As a result of adoption of Reserve for losses on construction completion guarantees, operating income in Japan was ¥642 million higher than under the previous method of accounting.
 - 5 As a result of adoption of Reserve for construction losses, operating income in Japan was ¥725 million lower than under the previous method of accounting.

From April 1, 2005 to March 31, 2006

(Millions of yen)

	Japan	North America	Other	Total	Elimination and corporate	Consolidated
I Sales						
(1) Sales to third parties	435,467	53,364	26,125	514,957	-	514,957
(2) Intersegment sales and transfer	12,949	4,440	6,752	24,143	(24,143)	-
Total	448,416	57,805	32,878	539,100	(24,143)	514,957
Operating costs and expenses	435,898	59,095	32,084	527,078	(23,023)	504,054
Operating income(loss)	12,518	(1,290)	793	12,021	(1,119)	10,902
II Assets	492,274	54,773	31,008	578,056	14,575	592,631

Notes 1 The amount of the corporate assets included in 'Elimination and corporate' is ¥86,487 million. The material assets are cash and cash equivalent, some of the investment securities and deferred tax assets of the Company.

2 Countries and areas included in Other are as follows:

Italy, Germany, China, Philippines, Taiwan, Singapore, Brazil, Korea and Malaysia

3 North America is classified from Other this fiscal year. The figures of North America for the previous first half year and the previous fiscal year are as follows:

	From April 1, 2004 to March 31, 2005
I Sales	
(1) Sales to third parties	41,201
(2) Intersegment sales and transfer	3,314
Total	44,516
Operating costs and expenses	45,513
Operating loss	(997)
II Assets	43,994

【Overseas sales】

From April 1, 2004 to March 31, 2005

(Millions of yen)

	Asia	North America	Other areas	Total
I Overseas sales	48,495	28,921	39,452	116,869
II Consolidated net sales				478,397
III Percentage of overseas sales to net sales (%)	10.1	6.0	8.2	24.4

Notes 1 Significant countries and areas included in the above classification are as follows:

(1) Asia Taiwan, Korea, China

(2) North America USA

(3) Other areas UK, France, Iran, Germany

2 Overseas sales is net sales of the Company and its subsidiaries other than in Japan.

From April 1, 2005 to March 31, 2006

(Millions of yen)

	Asia	North America	Other areas	Total
I Overseas sales	57,739	34,752	45,122	137,614
II Consolidated net sales				514,957
III Percentage of overseas sales to net sales (%)	11.2	6.7	8.8	26.7

Notes 1 Significant countries and areas included in the above classification are as follows:

(1) Asia Taiwan, China, Korea

(2) North America USA

(3) Other areas Qatar, Italy, Iran, Germany

2 Overseas sales is net sales of the Company and its subsidiaries other than in Japan.

Per share data of common stock

From April 1, 2004 to March 31, 2005		From April 1, 2005 to March 31, 2006	
Shareholders' equity per share of common stock	307.76	Shareholders' equity per share of common stock	363.68
Net income per share	64.43	Net income per share	9.11
Diluted net income per share	-	Diluted net income per share	8.89
Basic information for computation of net income (loss) per share		Basic information for computation of net income (loss) per share	
(1) Net income (loss) on consolidated statements of income	(19,648) million	(1) Net income (loss) on consolidated statements of income	3,349 million
(2) Net income (loss) available to common shareholders	(19,648) million	(2) Net income (loss) available to common shareholders	3,349 million
(3) Average shares of common stocks	304,980,271	(3) Average shares of common stocks	367,845,960
(4) Amount excluded from computation of diluted net income per share:	-----	(4) Amount excluded from computation of diluted net income per share:	
		Interest payable after tax deduction	77 million
		Consignment fee for paying interest after tax deduction	2 million
		Adjustment of net income	80 million
		(5) Increase of common stocks for computation of diluted net income per share:	
		Increase of common stocks	18,170,997
		(Bonds with rights to purchase new shares)	(18,170,997)
(5) Potential shares excluded from computation of diluted income per share which don't have a dilutive effect	-----	(6) Potential shares excluded from computation of diluted income per share which don't have a dilutive effect	-----

Order received and sales

(1) Output

(Millions of yen)

Business segment	From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
Fluid Machinery & Systems	202,321	227,712
Environmental Engineering	84,569	90,239
Precision Machinery	62,298	65,046
Total	349,189	382,999

Note The above figures are amount of output in manufacturing companies and construction companies. The above figures don't include consumptive taxes and are eliminated intersegment sales and transfer.

(2) Order received

(Millions of yen)

Business segment	From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
Fluid Machinery & Systems	237,750	280,365
Environmental Engineering	172,060	162,062
Precision Machinery	86,373	87,988
Total	496,184	530,416

Note The above figures don't include consumptive taxes and are eliminated intersegment sales and transfer.

(3) Sales

(Millions of yen)

Business segment	From April 1, 2004 to March 31, 2005	From April 1, 2005 to March 31, 2006
Fluid Machinery & Systems	235,138	252,741
Environmental Engineering	164,717	172,823
Precision Machinery	78,541	89,392
Total	478,397	514,957

Note The above figures don't include consumptive taxes and are eliminated intersegment sales and transfer.

(4) Backlog of order received

(Millions of yen)

Business segment	March 31, 2005	March 31, 2006
Fluid Machinery & Systems	112,341	145,197
Environmental Engineering	147,686	145,237
Precision Machinery	31,886	31,045
Total	291,914	321,480

Note The above figures don't include consumptive taxes and are eliminated intersegment sales and transfer.