



2006

Business Report

A Message from the President

Since its founding in 1950, Fujimi Incorporated has continued to chart a course as a manufacturer of synthetic precision abrasives. Drawing on its accumulated expertise and extensive research and development (R&D) capabilities, the Company has expanded from abrasives for optical lenses to a variety of products that deliver the ultraprecise planarization sought by leading-edge high-tech industries.

Fujimi's lineup covers the complete spectrum from polishing abrasives for silicon wafers and other semiconductor substrates, to chemical mechanical planarization (CMP) products required for multilayered circuits on semiconductor chips, to abrasives for computer hard disks. The Company is cultivating new fields, commercializing such products as wire-saw slicing abrasives for solar cells, abrasives for quartz devices used in mobile telecommunications devices and, more recently, cermet (ceramic-metallic composite) thermal spray materials with dramatically improved impact resistance.

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In fiscal 2006, ended March 31, 2006, economic conditions in Japan remained firm, supported by a sharp improvement in corporate profits, which stimulated capital investment and personal consumption. With the construction of high-speed networks and rapid growth in Internet use, among others, sales of personal computers (PCs), mobile phones, portable music players, flat-screen televisions and other digital home electronics products are expanding, supporting steady growth in the semiconductor market, our principal customer market. In this environment, sales of mainstay products—silicon wafer lapping abrasives and polishing compounds; CMP polishing compounds, which are used to facilitate multilayered wiring processes and are becoming increasingly important given higher levels of integration; and abrasives for aluminum and glass disk substrates—expanded steadily. Thermal spray materials also performed well, reflecting solid marks accorded our cermet spray materials, which offer outstanding resistance to impact, heat and friction. As a consequence,

consolidated net sales rose 18.5%, to a record ¥32.1 billion.

During the period under review, we launched a new medium-term business plan designed to guide our efforts through fiscal 2010. The plan sets aggressive quantitative targets, namely, consolidated net sales of ¥50.0 billion and consolidated operating income of ¥8.5 billion. The plan's qualitative target—summarized as “Providing excellence in planar technology, always on your side.”—is to offer unique surface abrasion and polishing solutions by adopting the customer's perspective. These targets have broken down into specific objectives for individual businesses. Each business will clarify its vision and strategies, and progress will be monitored and evaluated using appropriate performance indicators. We will also promote assertive investments in facilities and research and R&D to achieve Companywide targets.

To date, Fujimi has supported the development of an advanced industrialized society through the provision of precision abrasives. In this era of rapid change, we anticipate that the product and service quality expectations of our customers will become increasingly more rigorous. In line with our “Action, growth and dynamic progress” slogan, introduced in fiscal 2005, we will continue to capitalize on the technological know-how and experience we have accumulated over the past half-century to provide innovative abrasion and polishing solutions that contribute to the evolution of tomorrow's digital society.

In these and all our efforts, we ask for your continued support and understanding.

A handwritten signature in black ink, appearing to read 'A. Koshiyama', with a long, sweeping horizontal stroke at the end.

Akira Koshiyama
President

Fujimi's Management Directions

Basic Management Policies

Fujimi has positioned abrasives at the core of its business and aims to be a leading developer of powder technologies that support the evolution of advanced manufacturing processes. Our corporate mission, which guides our management strategies, is to respond with new technologies to the expectations of advanced industrialized societies, and create a flexible and assertive corporate culture. In line with this mission, we have made unceasing efforts to ensure a stable supply of the highest-quality products.

As a company whose strengths lie in R&D, we are building an organization that will facilitate the creation of even higher-quality products and maximize customer satisfaction. We believe that concerted efforts toward these goals will raise our corporate value.

We plan to remain at the vanguard of the global abrasives industry. To do so, we will enhance core technologies, in line with our corporate slogan: "Polishing our technologies and bringing people together." Our advanced technological capabilities assist manufacturers to improve product quality and customer satisfaction, thereby linking us with manufacturers, final consumers and suppliers in a broad effort to enhance lifestyles worldwide.

Medium-Term Business Plan

Based on the philosophy of the Balanced Score Card, a new management tool introduced in fiscal 2005, during the period under review we formulated a new business plan. This plan, which will guide

our efforts through fiscal 2010, outlines a new vision for the Company, encapsulated in quantitative and qualitative targets.

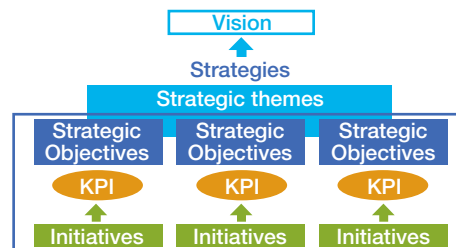
Quantitative Targets

Consolidated net sales of ¥50.0 billion, Consolidated operating income of ¥8.5 billion

Qualitative Target

"Providing excellence in planar technology, always on your side."

In other words, over the next four years this plan calls for us to increase consolidated net sales to ¥50.0 billion, from ¥32.1 billion in fiscal 2006, and consolidated operating income to ¥8.5 billion, from ¥4.7 billion in fiscal 2006. To these ends, we will focus on training to develop employee skills and promote the forward-looking allocation of management resources to this effort. This vision encompasses all businesses and is given concrete form in specific strategic objectives and initiatives for each business. Progress will be monitored on a quarterly basis using key performance indicators, an approach that facilitates the implementation of strategies Companywide by ensuring a clear delineation of responsibility.



Abrasives for Silicon Wafers

Net sales: ¥17.2 billion
Operating income: ¥3.3 billion
Capitalize on technologies to contribute to the advancement of the silicon wafer industry

Polishing Compounds for CMP

Net sales: ¥18.0 billion
Global market share: 20%
Aim to become the premier provider of solutions to the semiconductor manufacturing industry that ensure the ultimate in smooth substrate surfaces

Polishing Compounds for Hard Disks

Net sales: ¥4.8 billion
Operating income: ¥1.1 billion
Secure the world's top technological and sales capabilities in this market and provide products that satisfy customers

Thermal Spray Materials

Net sales: ¥1.7 billion, profitability in terms of cumulative cash flow
Maximize outstanding R&D capabilities to develop new, globally competitive businesses

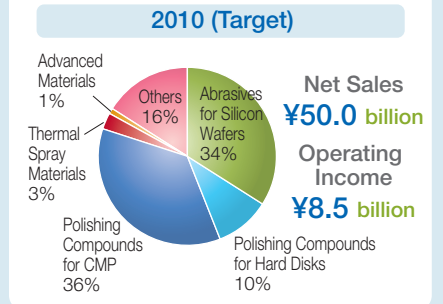
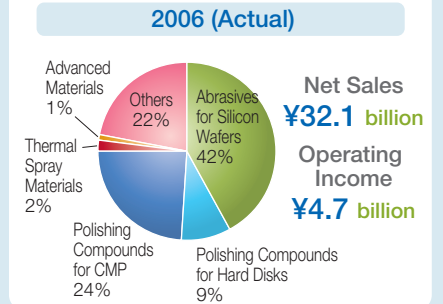
Advanced Materials

Net sales: ¥480 million
Operating income: ¥200 million
Become the world's leading name in diamond pellets for optical lenses

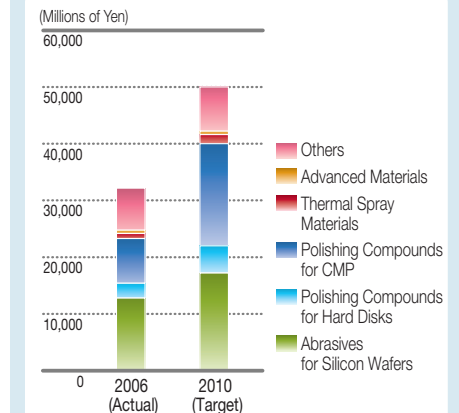
Other Businesses

Net sales: ¥7.9 billion
Operating income: ¥950 million

Composition of Net Sales



Net Sales by Business



Fujimi's Business and Product Categories



Wire-saw slicing of single-crystal ingots into wafers less than one millimeter thick is an essential part of the semiconductor manufacturing process. The ability to do so cleanly and with an absolute minimum of waste greatly influences both profitability and product quality. Here, Fujimi's abrasive powders for wire-saw slicing play an essential role. Despite a global shortage of polycrystalline silicon, the principal raw material for solar cells, the global solar cell market is expected to grow by 15–18% in 2006. Fujimi's wire-saw abrasives are also used to slice polycrystalline silicon for use in solar cells for solar panels and solar-powered calculators.

Orders for these abrasives are also on the rise for the lapping of quartz devices used as frequency control and selection components, supported by brisk conditions in new markets, notably the BRIC

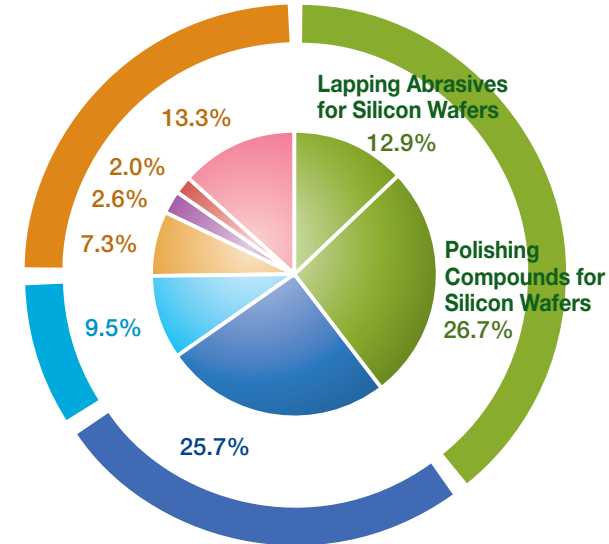
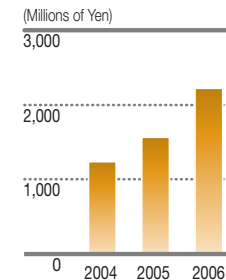
economies (Brazil, Russia, India and China), and in the European and North American markets for mobile phones. Our lapping abrasives for quartz devices are also essential in the manufacture of frequency control and selection components for mobile phones, digital cameras and information terminals.

The global market for thermal spray materials is estimated at about ¥50.0 billion annually. These materials facilitate the formation of high-performance impact-, heat- and abrasion-resistant coatings. Various applications include construction machinery parts, boilers, rollers and large screws for ships. Applications are expected to expand for thermal spraying as an environment-friendly alternative to chrome plating.

The Others category includes lapping abrasives and polishing compounds for optical lenses and glass, abrasive cloth and paper, fine grinding machines and catalyst carriers.

Lapping Abrasives for Wire-Saw Slicing and Quartz Devices, Thermal Spray Materials and Others

Sales of Lapping Abrasives for Wire-Saw Slicing (Millions of Yen)



Sales by Application (Millions of Yen)

40,000



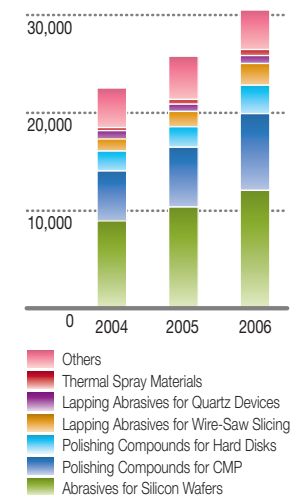
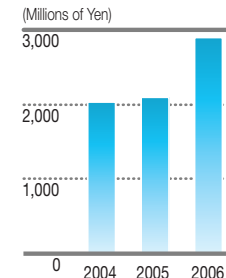
Hard disks are the magnetic disks in hard disk drives (HDDs), the memory storage devices built into nearly all current PCs. High-capacity hard disks that are able to read and store programs and data quickly are becoming more common, as technological innovation leads to even higher-performance PCs. The standard size of a hard disk is 3.5 inches, but manufacturers are increasingly using 2.5-inch disks for notebook PCs and 1.8- or 1.0-inch disks for smaller digital devices. In 2005, 380 million HDDs were shipped worldwide, up 25% from the previous year. Going forward, demand for 2.5-inch hard disks is expected to expand, owing to rising

demand for notebook PCs, with perpendicular magnetic recording increasingly becoming the first choice of HDD manufacturers.

Production of 120–160 gigabyte disks, which are made from aluminum or glass, is projected for 2006. Also expected to debut in the near future are DVD players with 1 terabyte-capacity HDDs. Accordingly, polishing compounds produced and supplied by Fujimi are used widely in the manufacture of hard disks, the surfaces of which must be even smoother than those of silicon wafers.

Polishing Compounds for Hard Disks

Sales of Polishing Compounds for Hard Disks (Millions of Yen)



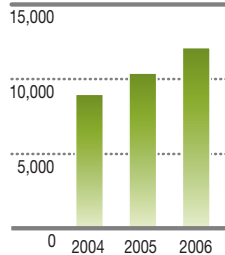
Note: The graph does not include sales of machinery.



Abrasives for Silicon Wafers

Sales of Abrasives for Silicon Wafers

(Millions of Yen)



Semiconductors are the building blocks of an IT-based society, integral to PCs as well as mobile phones, audio-visual (AV) equipment and millions of other electronics products. Semiconductors, which are mostly made of silicon, have a conductivity greater than insulators but less than conductors. A silicon wafer is a slice of an ultrapure silicon ingot that is between 0.3 and 0.8 millimeters thick and up to 300 millimeters in diameter. The manufacture of semiconductors requires wafer production technology that can guarantee a level of precision to the nearest millionth of a millimeter. Accordingly, this is referred to as the primary step in the semiconductor manufacturing process. The secondary

steps involve processing the wafer. Electrical circuits are etched onto the wafer surface—which has been polished to submicron smoothness—at the nanolevel to produce advanced integrated circuits (ICs) known as large-scale integration (LSI) or ultralarge-scale integration (ULSI) devices. The silicon wafers are then diced into squares a few millimeters across to create semiconductor chips. Silicon wafer manufacturers rely on Fujimi's abrasives and polishing technologies to ensure an ultrasmooth wafer surface, thereby preventing scratches, waviness, haze and other fatal faults. In 2005, silicon wafer manufacturers worldwide operated at near-full capacity as the

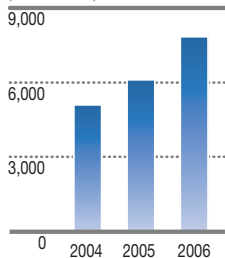
market for wafers of all sizes soared. With major manufacturers stepping up production of wafers with 300-millimeter diameters, the global semiconductor market is estimated to grow approximately 10% in 2006.



Polishing Compounds for CMP

Sales of Polishing Compounds for CMP

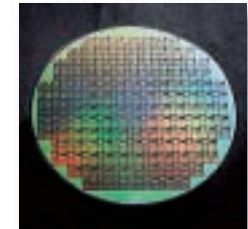
(Millions of Yen)



IC chips only a few millimeters in size contain over one million semiconductor devices. To minimize the size of such high-performance, high-integration LSIs, manufacturers use multilayered wiring with intervals of less than one micrometer (μm) to overlay several circuits. Imperfections on the wafer surface around wiring layers make it impossible to create highly intricate wiring structures. CMP is a polishing process that removes surface imperfections to achieve extremely flat surfaces. With device manufacturers' shifting to 300-millimeter wafers, the trend toward increasingly intricate circuitry is accelerating, prompting an increase in the use of copper wiring materials. In the area

of logic semiconductors, devices with seven or eight layers and 90-nanometer design rules are currently standard. Mass production of devices with 65-nanometer design rules has already commenced. With manufacturers expected to begin mass-producing devices with 45-nanometer design rules around 2009, the trend toward increasingly intricate, multilayer devices is expected to accelerate. This trend is expected to bolster the market for CMP slurries. In 2005, the global market for these slurries was worth approximately US\$610 million. By 2010, we estimate the market to grow to approximately US\$810 million. As the need for more highly integrated

semiconductors with multilayered wiring expands, manufacturers worldwide are increasingly turning to Fujimi for outstanding CMP slurries for use on a wide range of materials, including copper, tungsten, interlayer dielectric (ILD) and polysilicon.





As a leading name in the field of synthetic precision abrasives, Fujimi strives constantly to enhance its technological capabilities with the aim of developing lapping abrasives, polishing compounds and processes that deliver superior finishes for silicon wafers, hard disks and a wide range of other products.

In the area of polishing compounds, in particular, we are responding to increasingly diverse, stringent requirements by installing processing and inspection systems comparable to those used by manufacturers, thereby accelerating the launch of new products. Recognizing the need to ensure our products are

environment-friendly, we are also striving to reduce environmental impact from the development stage.

Abrasives for Silicon Wafers

Demand is driving a trend toward finer abrasives used for lapping and silicon wafer slicing. We are responding by focusing on improving quality and developing technologies to facilitate mass production of such products.

In the area of polishing compounds for semiconductor devices, we are responding to the shift to large-diameter silicon wafers and shrinking design rules by working to

conducting research aimed at facilitating the development of materials that produce flatter finishes, minimize scratches during processing and contamination from trace metals, and improve haze-prevention properties and cleaning performance.

Polishing Compounds for CMP

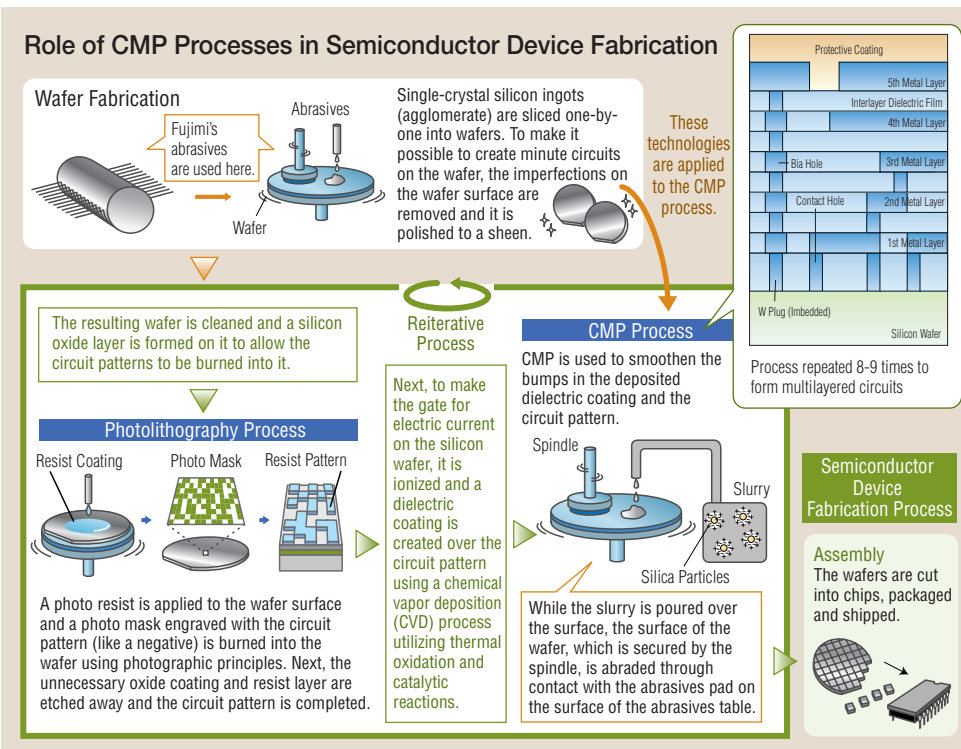
The shift toward 300-millimeter wafers and the resulting increase in the use of copper wiring materials are transforming CMP processes. Responding promptly to these changes, and to technological advancements, we are focusing on the development of polishing compounds for use in CMP processes for copper, barrier metal and polysilicon materials. As part of this effort, we have introduced inspection systems compatible with increasingly intricate circuitry and measuring instruments capable of detecting even the smallest surface defects. In addition, we are promoting forward-looking collaborative development with customers and taking steps to improve the efficiency of development efforts.

Thermal Spray Materials

The market for thermal spray materials is growing rapidly as applications for thermal spraying expand. Attention is focusing on high-value-added thermal spray materials used to form superior-quality coatings on, among others, high-purity ceramics used in electronics and semiconductor manufacturing equipment and rollers used in the steel industry. Thermal spray materials are also attracting attention as an environment-friendly alternative to chrome plating. We are conducting R&D aimed at developing tungsten carbide (WC) cermet that delivers significantly improved impact resistance—a key issue with thermal spray materials—with the aim of cultivating applications in construction equipment. We are also emphasizing the development of spray technologies for materials with ultrafine particles, thereby contributing to a significant reduction in the costs of post-spray finishing processes.

Others

We continue to promote the development of abrasive powders made from silicon carbide (SiC), alumina and other raw materials that offer a variety of unique features, as well as pellets used in polishing optical lenses. We are also conducting R&D in the area of processing and inspection technologies for SiC substrates as a participant in a program aimed at lowering energy consumption, one of several such programs sponsored by the Ministry of Economy, Trade and Industry that promote R&D designed to create innovative technologies and new industries.



Polishing Compounds for Hard Disks

In this area, our emphasis is on developing polishing compounds that satisfy the requirements of next-generation high-capacity hard disks, as well as polishing compounds for hard disks for HDDs employing perpendicular magnetic recording. By cooperating with other manufacturers of polishing and cleaning materials, we are also promoting greater development efficiency and endeavoring to increase our market share.

Global Production and Sales Network



FUJIMI EUROPE LIMITED FUJIMI EUROPE GMBH

- Sales offices
- Production facilities
- Support center
- Export countries



FUJIMI-MICRO TECHNOLOGY SDN. BHD.

Products manufactured
Polishing compounds for hard disks



FMT Kulim Plant
(Kedah, Malaysia)

FUJIMI CORPORATION

Products manufactured
Lapping abrasives for silicon wafers
Lapping abrasives for glass
Polishing compounds for CMP



Fujimi Corporation
(Oregon, U.S.A.)

FUJIMI INCORPORATED

Central Plant (headquarters)
Inazawa Plant
Kakamigahara Plant
Kakamihigashimachi Plant
No. 2 Kakamihigashimachi Plant
Tokyo Sales Office
Taiwan Office (support center)

Products manufactured
Lapping abrasives for silicon wafers
Lapping abrasives for quartz devices
Lapping abrasives for wire-saw slicing
Precision grinding wheels and pellets for lenses
Polishing compounds for silicon wafers
Polishing compounds for plastic lenses
Polishing compounds for hard disks
Polishing compounds for CMP
Polishing compounds for optical devices
Thermal spray materials
Other abrasives and related products



Fujimi's headquarters
(Aichi Prefecture, Japan)



Central Plant
(Aichi Prefecture, Japan)



Inazawa Plant
(Aichi Prefecture, Japan)



Kakamigahara Plant
(Gifu Prefecture, Japan)



Kakamihigashimachi Plant
(Gifu Prefecture, Japan)



No. 2 Kakamihigashimachi Plant
(Gifu Prefecture, Japan)

Interoptec Co., Ltd.



Logistics Center
(Gifu Prefecture, Japan)



R&D Center
(Gifu Prefecture, Japan)

Consolidated Sales by Region

(Millions of Yen)

Years ended March 31, 2005 and 2006	2005	2006
Asia, Oceania	7,292	8,533
North America	3,512	4,307
Europe	2,415	2,674
Japan	13,888	16,612
Total	27,109	32,127



Lapping

FO

Fujimi Optical Emery

In producing semiconductor devices, the surface of the semiconductor wafer, most typically silicon, or a compound semiconductor, must be precisely lapped. The precision lapping abrasive FO, which capitalizes on the best of Fujimi's technology, is the optimal choice for such surface processing. FO is an alumina-based precision lapping powder, made using carefully selected materials, and a product of Fujimi's

proprietary manufacturing processes that create a powder with unique particle shape and hardness. Produced under the strictest quality control, FO provides constant, stable lapping capability, with no scratching on the surface of the material being lapped.



GC

Green Silicon Carbide

Green silicon carbide (GC) is an extremely high-purity silicon carbide lapping abrasive, just beneath diamond in terms of hardness and with excellent chemical stability at room temperature. Owing to these qualities, GC has superior lapping and polishing capabilities; is not affected by chemicals; and can spontaneously generate sharp grinding edges through fragmentation. GC is well suited for use as a lapping

powder in a wide range of applications, including the precision lapping and dicing of crystal and ferrite and the slicing of silicon ingots. In addition, GC possesses the electrical properties of a semiconductor, conducts heat well and is able to withstand high temperatures, making it useful as heat sink—a cooling device used to dissipate heat away from electronic components.



Polishing

GLANZOX

Silicon Polish

With the increasing integration of semiconductor devices and the larger size of wafers, it has become essential to produce silicon surfaces that are extremely flat, nanotopographically mirror-like and free from damage, haze and heavy metal contamination. Fujimi's GLANZOX series was developed to meet such requirements. GLANZOX polish consists of colloidal silica dispersed in a special solution and ensures an

almost perfectly polished surface. In response to demand for reductions in the metal impurities that affect device characteristics, we provide higher grades of polish containing ultrapure colloidal silica.



PLANERLITE

CMP

The increasingly high density of ultralarge-scale integration (ULSI) devices is prompting manufacturers to use multilayered wiring. PLANERLITE polishing compounds are intended for use in CMP, an essential process in the fabrication of ULSI devices. The PLANERLITE-4000 series is designed for use on silicon dioxide (SiO₂) films employed in interlayer dielectric (ILD) and shallow trench isolation (STI) processes, and is based on ultrapure colloidal silica and fumed silica. The PLANERLITE-6000 series is for use with polysilicon and includes a rinsing agent, which keeps the post-polishing

surface hydrophilic, and a variety of polishing compounds that combine special additives with an ultrapure colloidal silica base. The PLANERLITE-7000 series is designed specifically for use with copper (Cu) circuitry in the damascene process. Based on ultrapure colloidal silica, it delivers an optimal copper removal rate with excellent selectivity to substrate barrier metals. The PLANERLITE-8000 series is specifically for the barrier metals and comprises two varieties, one that polishes the ILD and one that does not.



Other Products

SURPREX

Thermal Spray Materials

In response to a growing need in the thermal spray industry, Fujimi developed SURPREX cermet (ceramic-metallic composite) powders, utilizing highly sophisticated powder technology. Fujimi also offers a variety of ceramic powders and metals, as well as powders for plasma transfer arc (PTA) processes. Recently, ceramic thermal spray materials for

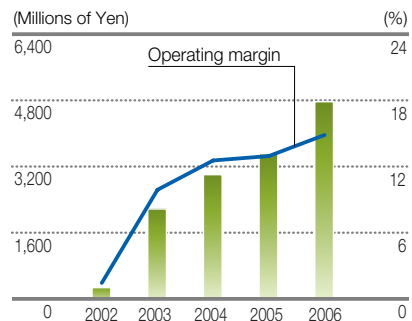
various parts of semiconductor manufacturing equipment have generated considerable interest. In light of this, we are working to rapidly develop and produce extremely pure ceramic powders that meet customer requirements.



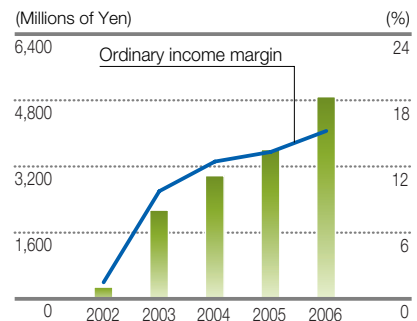
Selected Financial Data (Consolidated)

Profitability

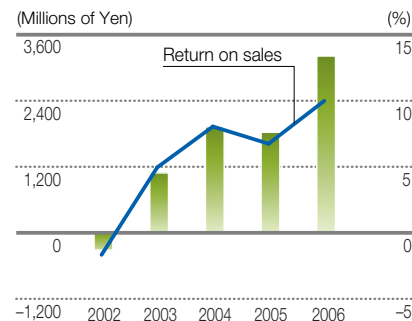
Operating Income and Operating Margin



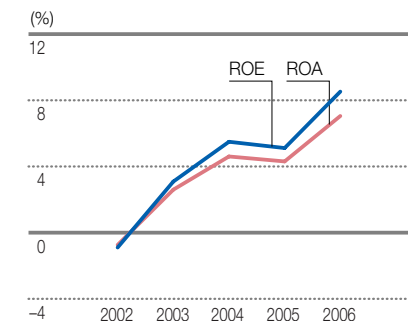
Ordinary Income and Ordinary Income Margin



Net Income and Return on Sales



Return on Equity (ROE) and Return on Assets (ROA)

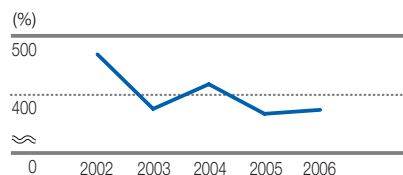


Fiscal years ended March 31

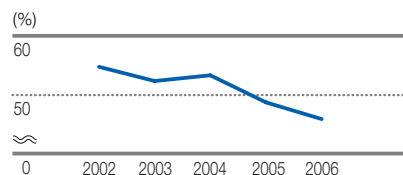
	2002	2003	2004	2005	2006
Net sales (millions of yen)	18,945	21,992	23,938	27,109	32,127
Operating income (millions of yen)	274	2,177	3,007	3,514	4,772
Operating margin (%)	1.45	9.90	12.56	12.96	14.85
Ordinary income (millions of yen)	284	2,147	2,981	3,614	4,892
Ordinary income margin (%)	1.50	9.77	12.46	13.33	15.23
Net income (millions of yen)	(315)	1,086	1,922	1,823	3,207
Return on sales (%)	-1.67	4.94	8.03	6.73	9.98
ROE (%)	-0.89	3.10	5.51	5.13	8.52
ROA (%)	-0.73	2.61	4.62	4.32	7.07

Stability

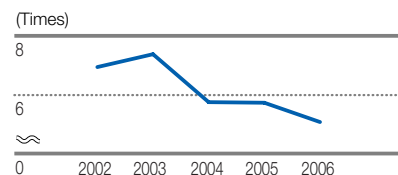
Current Ratio



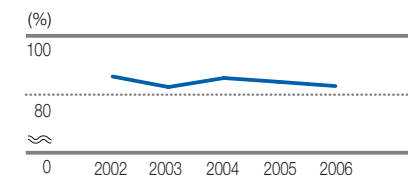
Fixed Asset Ratio



Current (Quick) Ratio



Equity Ratio

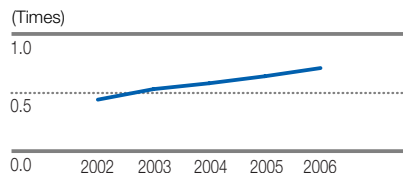


Fiscal years ended March 31

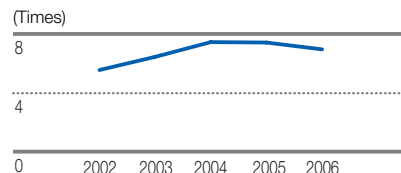
	2002	2003	2004	2005	2006
Current ratio (%)	468.50	375.38	417.55	366.94	373.68
Fixed asset ratio (%)	54.83	52.40	53.38	48.75	45.89
Current (quick) ratio (times)	6.96	7.40	5.76	5.74	5.08
Equity ratio (%)	86.07	82.47	85.55	82.97	82.84

Productivity and Efficiency

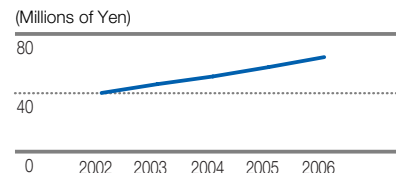
Asset Turnover



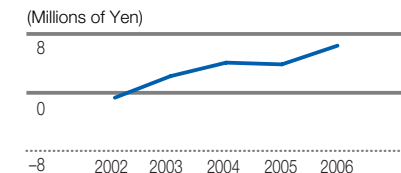
Inventory Turnover



Net Sales per Employee



Net Income per Employee

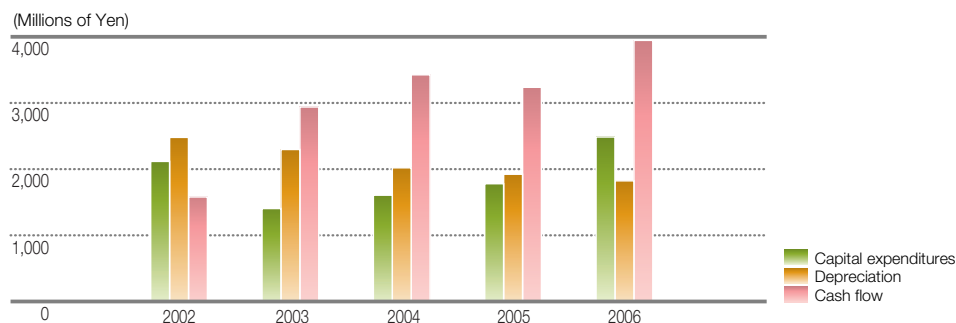


Fiscal years ended March 31

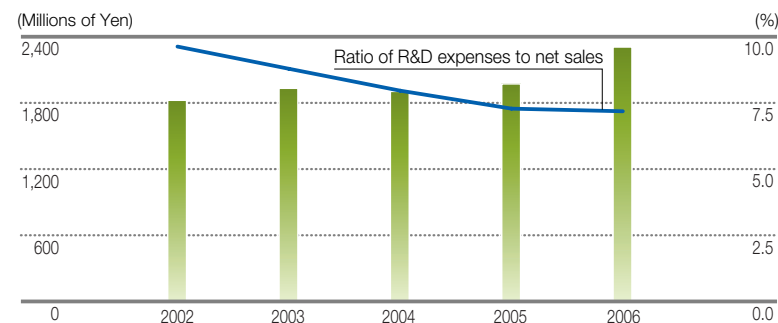
	2002	2003	2004	2005	2006
Asset turnover (times)	0.44	0.53	0.58	0.64	0.71
Inventory turnover (times)	5.58	6.48	7.49	7.46	6.97
Net sales per employee (millions of yen)	40.14	46.15	51.42	57.80	64.64
Net income per employee (millions of yen)	(0.67)	2.28	4.13	3.89	6.45
Number of employees	486	467	464	474	520

Capital Expenditures and Research & Development

Capital Expenditures, Depreciation and Cash Flow



R&D Expenses and Ratio of R&D Expenses to Net Sales



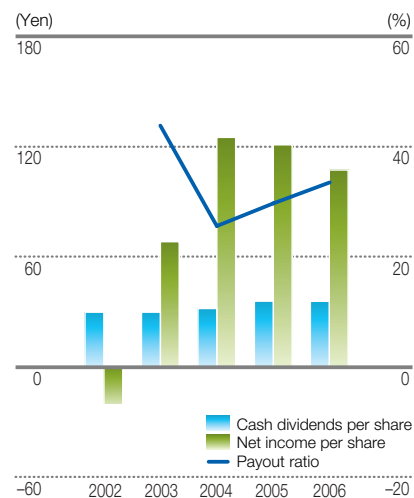
Fiscal years ended March 31

	2002	2003	2004	2005	2006
Capital expenditures (millions of yen)	2,119	1,407	1,609	1,782	2,486
Depreciation (millions of yen)	2,482	2,297	2,020	1,925	1,824
Cash flow (millions of yen)	1,582	2,940	3,426	3,237	3,945
R&D expenses (millions of yen)	1,828	1,937	1,909	1,977	2,312
Ratio of R&D expenses to net sales (%)	9.65	8.81	7.98	7.30	7.20

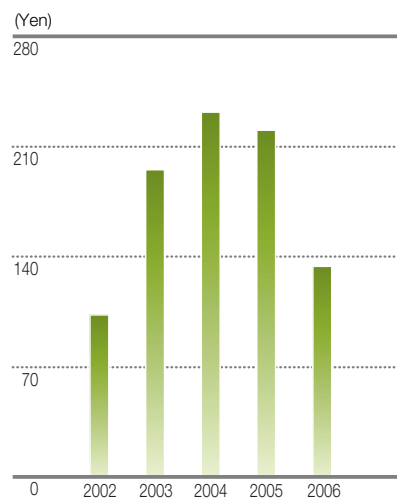
Note: Cash flow = (Net income + Depreciation) - (Dividends - Directors' bonuses)

Per Share Data and Others

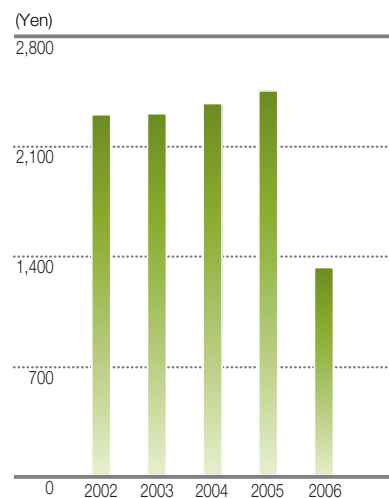
Cash Dividends per Share, Net Income per Share and Payout Ratio



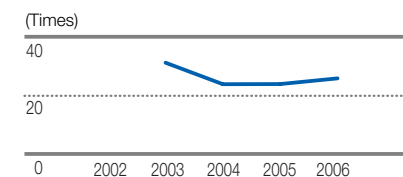
Cash Flow per Share



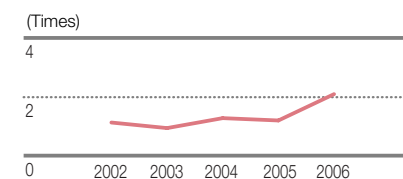
Shareholders' Equity per Share



Price-to-Earnings Ratio (PER)



Price-to-Book Value Ratio (PBR)



Note: On March 31, 2005, Fujimi implemented a 2-for-1 stock split.

Fiscal years ended March 31

		2002	2003	2004	2005	2006
Cash dividends per share	(yen)	30.00	30.00	32.00	36.00	36.00
Payout ratio	(%)	—	43.80	25.60	29.70	33.50
Net income per share	(yen)	(20.43)	68.39	125.21	121.16	107.42
Cash flow per share	(yen)	103.09	195.39	232.02	220.53	133.93
Shareholders' equity per share	(yen)	2,300.78	2,307.60	2,371.68	2,452.69	1,329.68
PER	(times)	—	31.14	23.80	23.85	25.79
PBR	(times)	1.11	0.92	1.26	1.18	2.08

Note: Although Fujimi implemented a 2-for-1 stock split on March 31, 2005, PER and PBR for fiscal 2005 have been calculated using the value of each share before the stock split.

Consolidated Balance Sheets

(Thousands of Yen)

As of March 31	2002	2003	2004	2005	2006
Assets					
Current assets					
Cash on hand and in banks	7,312,120	13,291,207	10,869,864	12,594,996	12,058,287
Trade notes and accounts receivable	5,981,332	6,173,865	7,345,453	7,839,892	10,054,484
Marketable securities	1,664,477	274,090	615,918	374,692	1,537,544
Inventories	3,403,424	3,384,296	3,006,039	4,262,330	4,952,777
Deferred tax assets	94,546	638,908	342,050	626,691	615,632
Short-term loans receivable	2,008,081	1,812	1,382	1,360	1,551
Other current assets	1,223,387	213,592	108,355	199,683	149,388
Reserve for doubtful accounts	(17,739)	(33,000)	(16,000)	(25,000)	(28,000)
Total current assets	21,669,629	23,944,773	22,273,064	25,874,649	29,341,666
Fixed assets					
Tangible fixed assets					
Buildings	6,971,424	6,384,430	6,284,413	6,487,377	6,444,279
Machinery and/or transportation equipment	4,161,512	3,253,646	2,879,433	2,755,572	2,938,351
Land	4,001,483	3,985,934	3,949,434	3,528,938	3,430,563
Other tangible fixed assets	1,777,696	1,990,346	1,826,288	1,496,176	2,009,799
Total tangible fixed assets	16,912,116	15,614,358	14,939,570	14,268,064	14,822,993
Intangible fixed assets	571,959	484,399	417,592	366,185	295,350
Investments and other					
Investment securities	614,153	698,338	804,014	828,241	905,245
Long-term loans receivable	4,221	2,408	372,724	3,153	1,402
Deferred tax assets	544,861	407,960	264,055	149,679	43,561
Other investments and assets	758,240	1,055,261	1,949,191	1,987,469	1,938,602
Reserve for doubtful accounts	(42,585)	(39,525)	(29,500)	(29,200)	(8,600)
Total investments and other	1,878,890	2,124,443	3,360,485	2,939,344	2,880,212
Total fixed assets	19,362,967	18,223,201	18,717,648	17,573,595	17,998,555
Total assets	41,032,596	42,167,974	40,990,712	43,448,244	47,340,222

(Thousands of Yen)

As of March 31	2002	2003	2004	2005	2006
Liabilities					
Current liabilities					
Trade notes payable and accounts payable	2,281,878	2,629,935	3,110,052	3,641,550	4,276,363
Short-term borrowings	1,359,287	697,450	449,946	604,418	354,210
Corporate tax payable and others	—	1,155,000	137,393	1,052,121	859,949
Reserve for accrued bonus	238,298	413,850	417,547	470,585	523,822
Other current liabilities	745,848	1,482,508	1,219,256	1,282,882	1,837,676
Total current liabilities	4,625,312	6,378,745	5,334,196	7,051,557	7,852,022
Long-term liabilities					
Deferred tax liabilities	90,732	42,931	6,887	18,458	—
Reserve for employees' retirement benefits	446,751	410,525	431,328	71,758	78,698
Reserve for directors' retirement allowances	522,526	530,076	117,478	—	—
Long-term accounts payable	—	—	—	221,008	108,315
Total long-term liabilities	1,060,010	983,533	555,693	311,225	187,013
Total liabilities	5,685,323	7,362,278	5,889,889	7,362,783	8,039,036
Minority interest	32,416	29,997	32,708	36,364	84,071
Shareholders' equity					
Common stock	4,753,438	—	—	—	—
Legal reserve for capital surplus	5,038,501	—	—	—	—
Retained earnings for consolidated subsidiaries	24,751,277	—	—	—	—
Gain or loss on revaluation of other securities	1,387	—	—	—	—
Foreign currency translation adjustment	771,613	—	—	—	—
Treasury stock	(1,361)	—	—	—	—
Total shareholders' equity	35,314,856	—	—	—	—
Common stock	—	4,753,438	4,753,438	4,753,438	4,753,438
Retained earnings for capital surplus	—	5,038,501	5,038,501	5,040,075	5,045,677
Retained earnings	—	25,394,114	26,800,275	28,112,489	30,457,143
Gain or loss on revaluation of other securities	—	(21,269)	80,381	93,782	230,067
Foreign currency translation adjustment	—	378,761	(75,280)	(199,217)	361,373
Treasury stock	—	(767,847)	(1,529,202)	(1,751,472)	(1,630,584)
Total shareholders' equity	—	34,775,698	35,068,114	36,049,096	39,217,115
Total liabilities and shareholders' equity	41,032,596	42,167,974	40,990,712	43,448,244	47,340,222

Consolidated Statements of Income

(Thousands of Yen)

Fiscal years ended March 31	2002	2003	2004	2005	2006
Ordinary income and expenses					
Operating income and expenses					
Net sales	18,945,292	21,992,159	23,938,874	27,109,070	32,127,825
Cost of sales	14,281,035	14,997,971	16,191,570	18,206,495	21,415,670
Gross profit	4,664,256	6,994,187	7,747,304	8,902,575	10,712,155
Selling, general and administrative (SG&A) expenses	4,389,354	4,816,414	4,739,852	5,388,328	5,939,582
Operating income	274,902	2,177,773	3,007,451	3,514,246	4,772,573
Nonoperating income and expenses					
Interest income	39,429	49,971	32,743	31,874	39,054
Dividend income	1,641	1,579	1,543	2,407	20,156
Other nonoperating income	67,666	36,596	56,467	99,355	101,340
Nonoperating income	108,737	88,149	90,754	133,637	160,551
Interest expenses	56,427	47,006	17,841	30,436	27,806
Other nonoperating expenses	42,715	71,319	98,453	3,204	12,481
Nonoperating expenses	99,143	118,326	116,295	33,640	40,288
Ordinary income	284,496	2,147,595	2,981,910	3,614,243	4,892,836
Extraordinary items					
Proceeds from sales of fixed assets	—	—	30,469	—	—
Subsidies for new businesses	—	—	—	—	49,238
Damage compensation	—	—	—	32,031	—
Allowance for doubtful receivables	9,663	—	—	—	—
Proceeds from sales of investment securities	—	—	133,248	—	—
Other extraordinary income	—	8,285	5,682	12,196	2,655
Extraordinary income	9,663	8,285	169,399	44,227	51,893
Loss on disposal of fixed assets	33,189	56,115	46,307	27,681	103,937
Loss on revaluation of investment securities	567,687	95,171	—	—	—
Impairment loss	—	—	—	412,373	—
Other extraordinary losses	40,861	119,552	12,086	70,584	—
Extraordinary losses	641,739	270,838	58,393	510,638	103,937
Net income (loss) before tax and others	(347,578)	1,885,042	3,092,917	3,147,832	4,840,793
Corporate, local income and enterprise taxes	70,926	1,239,137	780,428	1,490,333	1,577,693
Income tax and other adjustments	(108,255)	444,232	383,359	(170,478)	16,227
Minority interest in earnings of consolidated subsidiaries	5,428	4,132	6,482	4,715	39,485
Net income	(315,678)	1,086,004	1,922,647	1,823,262	3,207,386

Consolidated Statements of Cash Flows

(Thousands of Yen)

Fiscal years ended March 31	2002	2003	2004	2005	2006
Cash flows from operating activities					
Net income (loss) before tax and others	(347,578)	1,885,042	3,092,917	3,147,832	4,840,793
Depreciation and amortization	2,482,071	2,297,490	2,020,681	1,925,555	1,824,820
Loss on revaluation of investment securities	567,687	95,171	—	—	—
(Increase) decrease in receivables	2,977,535	(279,716)	(1,268,261)	(850,782)	(2,061,602)
Increase (decrease) in payables	(1,714,127)	414,799	571,555	697,975	489,756
(Increase) decrease in inventories	330,939	(105,328)	252,579	(1,101,526)	(248,666)
Others	(36,020)	1,692,073	(301,517)	376,709	163,372
Provision for bonuses to directors	(80,000)	—	(50,000)	(40,000)	(40,000)
Subtotal	4,180,507	5,999,533	4,317,954	4,155,763	4,968,474
Interest and dividends received	41,071	30,162	34,287	34,281	59,211
Damage compensation	—	—	—	32,031	—
Interest paid	(56,427)	(47,006)	(17,841)	(30,436)	(27,806)
Corporate taxes and others	(2,143,882)	(111,136)	(1,843,872)	(607,063)	(1,748,785)
Net cash and cash equivalents provided by operating activities	2,332,667	5,871,553	2,490,527	3,584,577	3,251,093
Cash flows from investing activities					
Payments for purchase of marketable securities	(549,456)	(99,950)	—	—	(1,000,000)
Proceeds from sales of marketable securities	254,447	581,263	—	66,531	—
Purchase of tangible fixed assets	(2,749,679)	(706,028)	(1,872,416)	(1,738,071)	(1,923,461)
Purchase of shares in subsidiaries and affiliates	—	—	(937)	—	(345,000)
Others	(860,923)	(693,360)	(1,135,147)	(179,808)	456,522
Net cash and cash equivalents used in investing activities	(3,905,612)	(918,075)	(3,008,501)	(1,851,348)	(2,811,939)
Cash flows from financing activities					
Increase (decrease) in short-term borrowings	256,758	(572,600)	(185,728)	172,800	(309,204)
Proceeds from sales of (payments for purchase of) treasury stock	(542,247)	(766,486)	(761,354)	(220,696)	126,488
Payment of dividends	(504,020)	(443,167)	(466,486)	(471,048)	(822,732)
Net cash and cash equivalents used in financing activities	(1,227,477)	(1,782,253)	(1,413,568)	(518,944)	(1,005,447)
Adjustment for conversion of cash and cash equivalents	40,008	(82,152)	(139,890)	(20,833)	192,435
Increase (decrease) in cash and cash equivalents	(2,760,413)	3,089,071	(2,071,432)	1,193,450	(373,857)
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	90,085	—	—	356,451	—
Cash and cash equivalents at beginning of year	13,072,477	10,402,149	13,491,220	11,419,787	12,969,689
Cash and cash equivalents at end of year	10,402,149	13,491,220	11,419,787	12,969,689	12,595,832

■ Nonconsolidated Balance Sheets

As of March 31	(Thousands of Yen)	
	2005	2006
Assets		
Current assets		
Cash on hand and in banks	11,678,407	10,620,568
Trade notes receivable	2,266,692	2,898,138
Accounts receivable	5,528,322	6,946,119
Marketable securities	200,027	1,500,000
Inventories	2,940,764	3,258,536
Deferred tax assets	390,448	392,383
Short-term loans receivable	148,494	159,019
Other current assets	110,562	122,129
Reserve for doubtful accounts	(25,000)	(28,000)
Total current assets	23,238,722	25,868,895
Fixed assets		
Tangible fixed assets		
Buildings	4,418,462	4,293,622
Machinery and equipment	2,332,647	2,494,664
Land	3,239,027	3,337,027
Other tangible fixed assets	1,577,125	2,131,887
Total tangible fixed assets	11,567,261	12,257,202
Intangible fixed assets	366,185	295,350
Investments and other		
Investment securities	828,241	560,245
Investments in subsidiaries and affiliates	2,949,083	3,294,083
Deferred tax assets	149,679	31,638
Other	2,469,533	2,302,631
Total investments and other	6,396,538	6,188,598
Total fixed assets	18,329,985	18,741,150
Total assets	41,568,707	44,610,045

As of March 31	(Thousands of Yen)	
	2005	2006
Liabilities		
Current liabilities		
Trade notes payable	875,471	1,017,299
Accounts payable	2,518,484	3,188,610
Corporate tax payable and others	1,024,170	747,545
Reserve for accrued bonus	470,585	523,822
Other current liabilities	990,667	1,508,671
Total current liabilities	5,879,379	6,985,948
Long-term liabilities		
Provision for allowance for employees' retirement benefits	71,758	78,698
Long-term accounts payable	221,008	108,315
Total long-term liabilities	292,767	187,013
Total liabilities	6,172,147	7,172,962
Shareholders' equity		
Common stock	4,753,438	4,753,438
Retained earnings for capital surplus	5,040,075	5,045,677
Retained earnings	27,260,735	29,038,485
Legal reserve for retained earnings	362,596	362,596
Voluntary reserve	22,990,000	24,000,000
Unappropriated retained earnings	3,908,139	4,675,889
Gain or loss on revaluation of other securities	93,782	230,067
Treasury stock	(1,751,472)	(1,630,584)
Total shareholders' equity	35,396,560	37,437,083
Total liabilities and shareholders' equity	41,568,707	44,610,045

■ Nonconsolidated Statements of Income and Retained Earnings

(Thousands of Yen)

Fiscal years ended March 31	2002	2003	2004	2005	2006
Ordinary income and expenses					
Operating income and expenses					
Net sales	15,207,127	18,684,215	20,754,080	23,422,079	27,064,320
Cost of sales	10,982,635	12,762,201	14,162,775	15,835,683	18,428,181
Gross profit	4,224,491	5,922,014	6,591,305	7,586,395	8,636,138
Selling, general and administrative (SG&A) expenses	3,514,841	3,774,780	3,832,668	4,328,096	4,835,323
Operating income	709,650	2,147,233	2,758,636	3,258,298	3,800,814
Nonoperating income and expenses					
Interest income	20,826	34,289	33,075	54,256	50,114
Dividend income	14,889	41,978	13,929	66,434	89,544
Other nonoperating income	50,764	57,819	78,625	108,403	157,953
Nonoperating income	86,480	134,087	125,629	229,094	297,612
Interest expenses	4,588	1,300	—	—	—
Loss on sales of marketable securities	32,369	—	—	—	—
Other nonoperating expenses	13,451	27,854	81,535	3,117	11,864
Nonoperating expenses	50,409	29,155	81,535	3,117	11,864
Ordinary income	745,721	2,252,165	2,802,730	3,484,275	4,086,562
Extraordinary items					
Proceeds from sales of fixed assets	—	—	30,469	—	—
Subsidies for new businesses	—	—	—	—	49,238
Damage compensation	—	—	—	32,031	—
Allowance for doubtful receivables	12,400	—	—	—	—
Proceeds from sales of investment securities	—	—	133,248	—	—
Other extraordinary income	—	8,285	5,682	12,196	2,655
Extraordinary income	12,400	8,285	169,399	44,227	51,893
Loss on disposal of fixed assets	33,189	56,115	46,196	27,681	103,937
Loss on revaluation of investment securities	567,687	95,171	—	—	—
Impairment loss	—	—	—	412,373	—
Other extraordinary losses	11,082	119,552	12,086	70,584	—
Extraordinary losses	611,959	270,838	58,282	510,638	103,937
Net income before tax	146,162	1,989,612	2,913,848	3,017,865	4,034,519
Corporate, local income and enterprise taxes	63,478	1,197,442	736,966	1,310,721	1,370,926
Income tax and other adjustments	(32,972)	(413,747)	389,561	(65,302)	23,110
Net income	115,656	1,205,918	1,787,320	1,772,446	2,640,482
Retained earnings brought forward	1,276,666	395,734	1,100,182	2,370,432	2,564,510
Treasury stock purchased and retired	535,372	—	—	—	—
Interim dividends paid	230,979	225,744	240,760	234,739	529,102
Unappropriated retained earnings	625,971	1,375,907	2,646,741	3,908,139	4,675,889

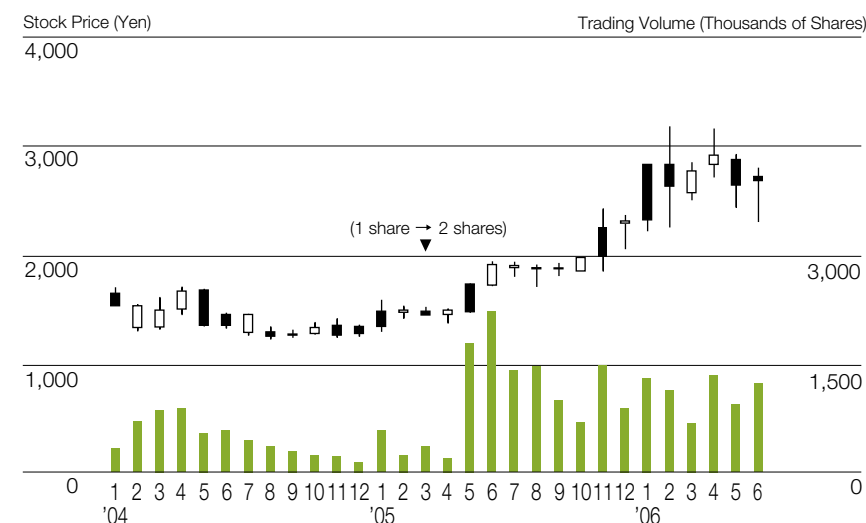
Common Stock Issues

Type of issue	Shares outstanding after issue	
February 1, 1992	Allotment of new shares to third parties	245,877
November 20, 1992	2-for-1 stock split	491,754
September 27, 1993	Exercise of warrants	509,754
May 20, 1994	2-for-1 stock split	1,019,508
August 4, 1994	Exchange of 10 stocks with par value ¥50 for 1 stock with par value ¥500	10,195,080
April 18, 1995	Public offering of common stock	10,995,080
May 20, 1996	1.1-for-1 stock split	12,094,588
October 1, 1996	Public offering of common stock	12,894,588
May 20, 1997	1.1-for-1 stock split	14,184,046
May 20, 1998	1.1-for-1 stock split	15,602,450
November 22, 2001	Treasury stock purchased and retired	15,349,750
May 20, 2005	2-for-1 stock split	30,699,500

Leading Shareholders (as of March 31, 2006)

Name of shareholder	Number of shares owned	Percentage of total
Isamu Koshiyama	3,302,310	10.8
Sumitaka Noda	2,520,000	8.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,703,100	5.5
Koma Co., Ltd.	1,638,360	5.3
State Street Bank and Trust Company 505019	1,262,600	4.1
Fujimi Incorporated	1,243,497	4.1
Akira Koshiyama	1,141,400	3.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	971,490	3.2
Japan Trustee Services Bank, Ltd. (Trust Account)	949,800	3.1
Nippon Life Insurance Co.	779,880	2.5

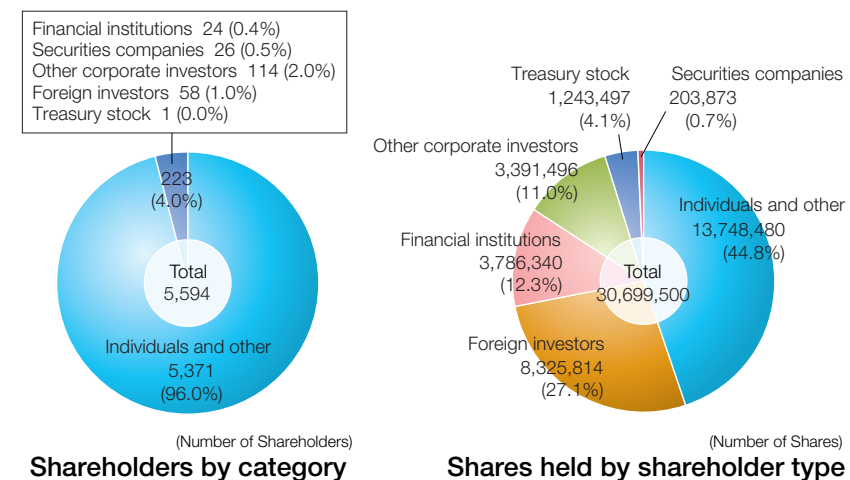
Stock Price and Trading Volume



Notes: 1. Share values have been retroactively adjusted for stock splits in previous years.
2. On March 31, 2005, we implemented a 2-for-1 stock split.

Composition of Shareholders by Category

(as of March 31, 2006)



Corporate Information

Name	FUJIMI INCORPORATED
Date of foundation	March 20, 1953
Paid-in capital	¥4,753,438,500
Securities traded	JASDAQ, code #5384
Number of employees (as of March 31, 2006)	382 (consolidated 520)

Board of Directors (As of March 31, 2006)

President	Akira Koshiyama
Managing Director	Tadashi Nagatoshi
Director	Masaaki Kubo
Director	Hitoshi Kodama
Director	Hiroyuki Nakagawa
Director	Nobuo Matsushima
Director	Keishi Seki
Standing Corporate Auditor	Toshiyuki Fujimoto
Standing Corporate Auditor	Sumitaka Noda
Corporate Auditor	Tashun Aizawa
Corporate Auditor	Norio Yamashita

Plants and Offices

Headquarters

1-1, Chiryō-2, Nishibiwajima-cho, Kiyosu,
Aichi, 452-8502 Japan
Phone: 81-52-503-8181 Fax: 81-52-503-6166

Inazawa Plant

1-1, Ichisukekoudo, Nishijima-cho, Inazawa,
Aichi, 492-8329 Japan

Kakamigahara Plant

1-8, Jyogo-cho-7, Kakamigahara,
Gifu, 504-0927 Japan

Kakamihigashimachi Plant

62-1, Kakamihigashimachi-5, Kakamigahara,
Gifu, 509-0103 Japan

No. 2 Kakamihigashimachi Plant

82-28, Kakamihigashimachi-5, Kakamigahara,
Gifu, 509-0103 Japan

R&D Center

179-39, Sue-cho-4, Kakamigahara,
Gifu, 509-0108 Japan

Logistics Center

603, Sue-cho-2, Kakamigahara,
Gifu, 509-0108 Japan

Tokyo Office

1-5, Nihonbashi Muromachi-4, Chuo-ku,
Tokyo, 103-0022 Japan

Taiwan Office

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City, Hsinchu Hsien 302 Taiwan, ROC

Affiliated Companies

FUJIMI CORPORATION

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Oregon 97062, U.S.A.
Phone: 1-503-682-7822 Fax: 1-503-612-9721

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