

# Annual Report 2007

January 1 to December 31, 2007



**OYO**  
oyo corporation

[www.oyo.co.jp](http://www.oyo.co.jp)

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## Business Philosophy

**We, at OYO Corporation, believe that our corporate duty is to play an important role in preserving a safe society and the security of life through the provision of our cultivated and creative technologies.**

### The Creation of Safety and Assurance

The needs of society in the 21st century are dramatically changing along with the trends of the era towards a broader diversification.

We are now living in an era that requires us to strive for “development of a sustainable society” constantly in harmony with the natural environment for no other reason than for the people living on this borderless “irreplaceable earth.”

Our technology and skills should acquire the engineering and consulting foresight necessary to form a society in symbiosis with the environment. To contribute to society as a company, we must also be able to create new values beneficial to society.

By providing society with our cultivated and creative technologies to date, OYO believes that this to be its societal duty in preserving a safe society and the security of life.

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# Financial Highlights

## OYO Corporation

Years ended December 31, 2006 and 2007

	<i>(Millions of Yen)</i>		<i>(Thousands of U.S. Dollars*)</i>
	2006	2007	2007
<b>Consolidated Financial Highlights</b>			
<b>For the Year:</b>			
Net sales	¥39,431	¥42,744	\$374,455
Operating income	1,706	2,013	17,639
Income before income taxes and minority interests	2,737	2,860	25,050
Net income	1,456	1,703	14,914
Net income per share (Yen, U.S. Dollar)	¥ 49.4	¥ 58.9	\$ 0.52
Cash dividends per share (Yen, U.S. Dollar)	15.0	12.5	0.11
Dividend payout ratio (%)	30.4	21.2	21.2
<b>At Year-End:</b>			
Total assets	¥68,193	¥68,094	\$596,534
Net assets	55,978	56,023	490,787

	<i>(Millions of Yen)</i>		<i>(Thousands of U.S. Dollars*)</i>
	2006	2007	2007
<b>Non-consolidated Financial Highlights</b>			
<b>For the Year:</b>			
Net sales	¥24,445	¥24,250	\$212,439
Operating income	751	515	4,508
Income before income taxes	1,376	780	6,838
Net income	721	451	3,952
<b>At Year-End:</b>			
Total assets	¥61,308	¥59,741	\$523,358
Net assets	53,493	52,331	458,439

\* The U.S. Dollar amounts in this annual report are translated from Japanese Yen, for convenience only, at the rate of ¥114.15 = U.S. \$1, the approximate rate of exchange on December 31, 2007.

## To Our Investors and Shareholders



Moriyuki Taya,  
Chairman & CEO

Kiyoshi Mamiya,  
President & COO

Naobumi Daibo,  
Deputy President & CFO

We are pleased to present our annual report on performance in the fiscal year ended in December 2007 (January 1 - December 31, 2007) for your kind perusal.

During the fiscal year under review, the total contract value in the entire construction industry in Japan failed to reach the year-earlier level, as construction investment by the government continued to be restrained and construction investment by the private sector was sluggish mainly due to the negative impact of the Revised Building Standards Law enforced in June 2007.

Under such a business environment, the OYO Group endeavored to expand orders received and enhance profitability centering on the disaster prevention and environment areas during the period, the first year of the new medium-term business plan. As a result, our consolidated performance surpassed the forecasts made at the beginning of the fiscal year, and we successfully achieved increases both in revenues and profits.

In 2007, we celebrated the Golden Jubilee of our foundation and made a fresh start towards our centennial anniversary. We humbly ask for your continued support and understanding of the OYO businesses from a long-term perspective.

March 2008

A handwritten signature in black ink that reads "Mr. Taya". The signature is written in a cursive, flowing style.

Moriyuki Taya, Chairman & CEO

# Overview of Business Year Performance

## Overview of Business Performance — 5th Consecutive Year of Increases in Operating Income and Ordinary Income

### Consolidated Performance of the Group

A highlight of the fiscal year under review is that our consolidated business performance surpassed the forecasts we made at the beginning of the year and we successfully achieved increases both in revenues and profits.

This business year, our consolidated net sales rose 8.4% year-on-year (hereafter, the same) to 42,740 million yen, surpassing our initial profit forecasts by 3.7%. Each of our domestic and overseas consolidated subsidiaries contributed to this result, with good performance achieved by KCS Co., Ltd. and OYO RMS Corporation, both of which had been consolidated in the previous fiscal year. In the geo-engineering services, a major contributor to sales was the business with Istanbul to forecast damages from earthquakes. In the measuring instruments business, sales of seismometers recorded a significant increase, contributing to overall performance of the business.

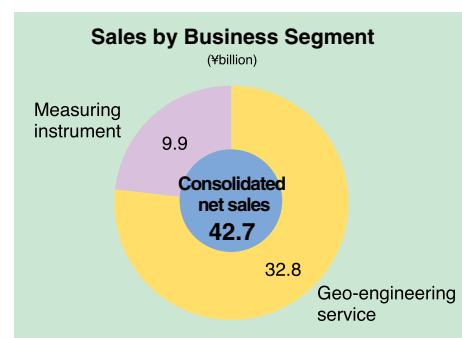
As for profit and loss, all domestic consolidated subsidiaries achieved turnarounds, due to the effect of measures to reinforce our group management strength, while overseas subsidiaries continued to perform strongly backed by the brisk energy and resource markets. Furthermore, our overseas affiliates under the equity method, engaged in the manufacture and sale of oil exploration equipment, realized drastic increases in performance supported by the buoyant energy market. As a result, double-digit year-on-year increases were achieved in operating income increasing by 18.0% to 2,010 million yen, operating income increasing by 22.0% to 3,120 million yen and net income increasing by 17.0% to 1,700 million yen.



### History of Consolidated Performance

The history of our consolidated performance shows that both operating income and ordinary income have achieved five consecutive years of profit increases since they turned to recovery after bottoming out in fiscal 2002. The basic foci of the previous medium-term business plan that ended in fiscal 2006 were “Reinforcing our revenue-generating ability” and “Creating an OYO for the new era,” and we worked on activating our human resources and liquidating unprofitable divisions. We evaluate that these efforts improved the revenue-generating ability of the OYO Group, enabling us to achieve five consecutive years of profit increase.

On the other hand, our net sales had continued to decrease since fiscal 2002, adversely affected by the shrinking trend in public construction works. However, we achieved an increase in sales in fiscal 2007, putting a stop to the trend of decreasing revenues. Major contributors to this result are the sales from the business with Istanbul to forecast damages from earthquakes and the two domestic subsidiaries that had been consolidated in fiscal 2006. The new medium-term business plan in progress focuses on expanding sales through the development of the private market and other measures, and we believe that successfully turning to an increase in sales during the first year of the new business plan is an extraordinary event.



# Efforts on Medium-term Business Plan

## Promote Five Basic Strategies

### In Fiscal 2007, the OYO Group Started Implementing the Medium-term Business Plan Comprised of Five Basic Strategies

#### Enhancement of the Group Governance Organization

In order to reinforce the management of our Group, OYO clarified the management structure. As already announced, we started a new system in the fiscal year under review in which the Chairman of the Board serves as Group CEO (responsible for the management of the Group in general), the President as COO (responsible for the management and execution of operations of OYO Corporation), and the Deputy President as CFO (responsible for financial policies of the Group.)

Moreover, we established the Group Supervision Division as an organization to implement group management. Under this system, we worked to enhance communications and co-ordination within the Group, and supported construction of the internal control system and other measures. As a result, all of our domestic Group companies recorded operating income and helped boost consolidated performance for the year.

#### Strategies of the Medium-term Business Plan

##### <Basic Policy>

- Formation of a comprehensive, integrated group
- Specialize the respective group companies and clarify their specialization

##### <Basic Strategies>

- Enhancement of the Group governance organization
- Development and expansion of the private market
- Multi-lateral approach to expanding business
- Preparation of a system for utilizing the intellectual resources of the OYO Group
- Promote activation of research and development

## Development and Expansion of the Private Market

Our conventional private market services have been mostly devoted to the soil contamination purification business. For the future, we will work to expand business in the disaster prevention area. As the first step, we have started a comprehensive service for earthquake early warning in the earthquake disaster prevention-related business. Specifically, the service is able to accurately inform the expected seismic intensity and time to hit in a stable telecommunication environment, and enables the indicating of seismic intensities after adjusting them according to the ground situation of the subject areas. Moreover, OYO will provide other comprehensive services including support for use of the earthquake early warning by fully grasping the risks at the time of an earthquake disaster.

### *Increased Inquiries for Overseas Projects*

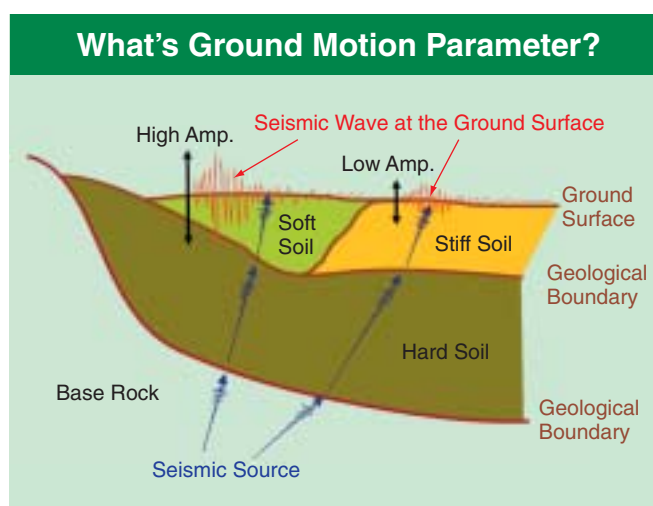
Orders for construction outside Japan received from 50 large Japanese construction companies significantly increased in fiscal 2006 to reach approximately 1,680 billion yen in value, or a year-on-year increase of 30%, and almost the same level of order amounts are expected for fiscal 2007. This reflects the companies' endeavors to strengthen their businesses in overseas markets in order to complement stagnant orders received in Japan. The move to strengthen overseas business is spreading to second-tier general contractors, and OYO has accepted many requests for consultation and, in recent years, received an increasing number of inquiries from such companies concerning ground conditions at local sites.

This is due to geology-related problems having come to the surface in overseas construction projects. Among them, OYO has actually been engaged in four locations in Southeast Asia, Africa, Middle East and Latin America for such projects as expressways and subsea tunnels.

Japan boasts world-class technology levels for geological surveys and consulting, as the country's geological features are extremely fragile and complex. In the overseas market, OYO conducts consulting services that include supervising of survey companies we hire locally, checking survey results and designing countermeasures in the event of sediment disasters occurring during construction. We will establish a new organization in Japan to take advantage of these business opportunities.

## Multi-lateral Approach to Expanding Business

In order to expand and develop the private market, the OYO Group is working to establish ties with real estate firms and security-related companies in the earthquake disaster protection area in which we excel, centering on the provision of such earthquake-related information as ground motion parameters. Through these tie-ups, we aim to expand the width of the market and customers we serve.



## Efforts on Medium-term Business Plan

The ground motion parameter is a ratio at which the earthquake becomes bigger in accordance with the solidness of the ground. If the earthquake early warning receiver is given the ground motion parameter of the location it is installed, it can indicate more appropriate seismic intensities that reflect the ground conditions.

### Preparation of System for Utilizing the Intellectual Resources of the OYO Group

The medium-term business plan declares construction of a database to utilize geological information and other intellectual resources within the OYO Group. In fiscal 2007, the first fiscal year of the business plan, a preparatory organization for constructing the database was established, and the creation of business plans and other activities were started.

We have also decided to launch a pilot business in pursuit of building a database that can be used in business operations and has already begun working on the geology information database. As the first step of the pilot business, we have started building the earthquake early warning service.

### Earthquake Early Warning System



## Promote Activation of Research and Development

OYO is endeavoring to activate its research and development centering on the measuring instruments business. In the security-related area, we are working on product development with microwave technology, such as underground radars, as the core. An example is the Micro Detector, a system that detects human movements through small sensors and sends signals via wireless transmission. The system is intended for use by such customers as the police, as it can detect approaches from behind.

In the seismometer business, we are in the process of developing Cronos, a seismometer for monitoring infinitesimal earthquakes, scheduled for completion in the fall of 2008. We plan to sell this equipment to customers for use in ocean bottom seismographic observations.

## New Products (Instruments business)

### Security

A new product based on our unique microwave technology



### MicroDetector™

Micro sensor detects the motion and wireless communication keeps you informed. It ensures the back of law enforcement personnel and protect the public.

### Earthquake monitoring

A new product toward a new market such as weak (remote) earthquake monitoring



### CRONOS

Next generation broadband seismometer allows you to monitor local, regional, and tele-seismic from sea bottom and a small posthole.

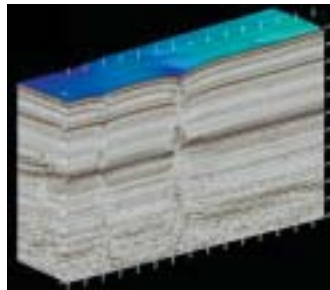
# Geological Study Equipment in Overseas Markets

## Strong Demand for Geometrics Products

Economic conditions continue to generate strong demand for Geometrics products. Expansions in the mining sector fueled by skyrocketing base and precious metals have customers buying Geometrics magnetometers and electromagnetic instrument in unprecedented numbers. The search for unexploded ordnance (UXO) also contributes to this demand. Requirements for Geometrics instruments have become truly global with major orders this year from China, Canada, South Africa and Australia. Increasing oil prices continue to drive the seismic division, creating large orders for marine and land systems. Geometrics is well-positioned to weather minor downturns in the economy, with market segments in the engineering, shallow petroleum, research and coal markets. Geometrics also invests heavily in new instrumentation, hoping to remain vital in this technologically intense business.



**Above:** Geode seismographs are used to map the subsurface on the island of Svalbard, the most northern community in the world.



**Opposite:** Seismic image of a gas chimney in the north sea. 3-D Geode streamers are being used to locate this precious resource. Photo: University of Tromsø



**Above:** Going where no man has surveyed before, the far icebreaker is towing a GeoEel seismograph, to help resolve controversies associated with sovereignty claims in the Arctic Ocean.

**Opposite:** A GeoEel is prepared for deployment in icy waters.

## The GRANITE and the SLATE :

### A multi-channel recorder and a multi-purpose field computer

Kinematics, Inc. introduced the Rock family of products - the fifth generation of Kinematics digital multi-channel, high dynamic range data acquisition systems and a new generation of very-low power ruggedized field processors. The "Rock family" is designed to meet the needs of various environmental monitoring, data acquisition, operational models, and missions, while offering exceptional data fidelity and signal purity at very-low power consumption. The Rock products will also include a number of add-on options, tools and applications. Physical interfaces will support various communication standards such as Ethernet, RS-232, USB 2.0, and Bluetooth.

The GRANITE 24-bits (~130dB at each channel at 100sps) multi-channel recorder is the first product of the new Rock family. This advanced IP-network-aware, low-cost, 12-channel DAS incorporates the very latest innovation in digital technology and signal processing. It is also available in 24 and 36 channel options. Compatible with other Rock and Quanterra instruments, the Granite's software toolbox allows users to develop highly flexible system solutions.



The GRANITE is the 24-bit multi-channel recorder

As a second member of new Rock product line, SLATE represents a paradigm shift in very-low power field computing. The SLATE is a Linux based, rugged, multi-purpose processor designed for wide variety of field deployments in extreme operating conditions. The SLATE design deliberately avoids the use of internal batteries, due to the challenge in operating such field computers in harsh field environments. Mounted in a rugged aluminum extruded case, the SLATE is designed to withstand 1m drop and/or 1m temporary water immersion (IP67) without failure in its operation. The flexible storage space is offered with an internal compact flash slot, as well as with one SD Card - field removable.



The SLATE is Linux based, a rugged, multi-purpose field computer

## CSR Activities

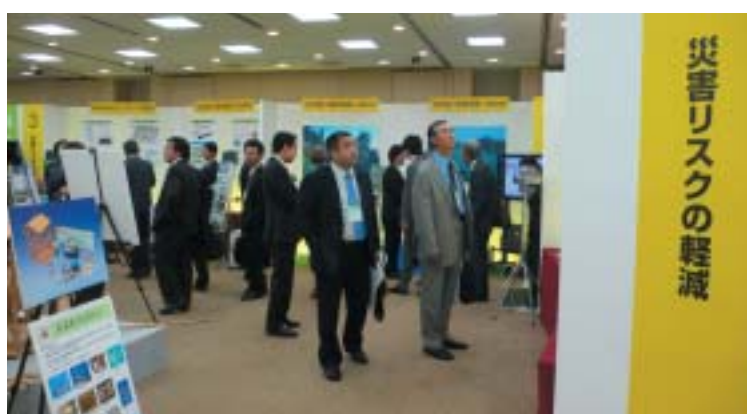
In recent years, companies are seeing significant changes in the environment surrounding their management on a daily basis. In particular, the importance of corporate social responsibilities (CSR) of companies as entities that contribute to the public good has been growing even further.

Since inception, OYO has implemented its management philosophy of “Contribute to society through the development of our business, by securing harmony with the natural environment and preserving safety and the security of life with our technologies.” We are determined to further promote our CSR activities through business operations in and outside Japan.

### Publishing a Book to Commemorate OYO's 50th Anniversary

The biggest topic for OYO in 2007 was that the year marked the 50th anniversary since inception. We conducted activities to commemorate this occasion, starting with the provision of an additional commemorative dividend to our shareholders and followed by such events as commemorative publications, holding of commemorative ceremonies and exhibitions, and opening of a commemorative exhibition hall.

A particular note is put on the commemorative publishing of a book titled “The Leaning Tower of Pisa Still Won't Fall,” published as part of our CSR activities and with an aim of having OYO Corporation and the geological survey industry widely acknowledged by society. The book has a theme that should interest the general public and the content is easy to understand.



50th Anniversary Exhibition



50th Anniversary Publication in Japanese: The Leaning Tower of Pisa Still Won't Fall

### **“BURURU” Teaching Materials Receive Good Design Award**

OYO Seismic Instrumentation Corporation, a Group company, produces and markets a series of experimental teaching materials for vibration testing called BURURU, which have been awarded with the Good Design Award. BURURU is an experimental material to enlighten the public, with which people ranging from children to the elderly or from citizens to politicians can physically learn earthquake disaster prevention activities. A variety of teaching materials in the BURURU series have been developed that allow enjoyable learning in accordance with the time, place and occasion, and are being widely used in Japan to support enlightenment and education activities.



BURURU demonstration

### **Sponsoring Lectures at a University**

In October 2007, OYO started sponsoring lectures titled “Lectures on Preservation of Geotechnical Structures” at a university in Japan. The operating expenses of the OYO-sponsored lectures, including personnel costs and research costs, are borne by a fund that was contributed by OYO. With the opening of the sponsored lectures, OYO aims to demonstrate and spread our technologies.

The lectures pursue the studying of technologies regarding asset management of structures as well as promoting research in the national land management field, in order to find and foster human resources in the areas.



Asian school children benefitting from OYO support

### **Support to GeoHazards International**

Since the founding of GeoHazards International in 1991, funding provided by OYO has enabled GeoHazards International to develop and apply effective methods of natural hazard risk reduction in relation to natural disasters around the world.

URL: <http://www.geohaz.org/>

## Business Risk

The following are the primary risks that can have a material impact on investor decisions within items related to business conditions, accounting conditions, etc. entered in the securities report.

The OYO Group's policy is to do its utmost to prevent the occurrence of these risks as much as possible, based on the recognition that these risks may materialize and if they do, we intend to take appropriate measures.

Furthermore, forward-looking statements that appear in this text are based on judgments of the OYO Group as of the end of this consolidated fiscal year.

- (1) Risk of High Dependence on Orders from the Government**

The geo-engineering services business in Japan comprises around 80% of OYO Group sales and is mainly driven by the public works market with the primary customers consisting of the national and local governments. There is the possibility that decreases in orders resulting from deterioration in the financial conditions of the national and local governments and shrinking in public works volume will impact the business performance of the OYO Group.
- (2) Exchange Fluctuation Risk**

The measuring instruments business comprises about 20% of OYO Group sales and is primarily based in the North America region. Since transactions are denominated in U.S. dollars, there is the possibility that currency fluctuations will impact settlement figures.
- (3) Risk of Production Activities Being Hindered by Disasters**

The geo-engineering services business and measuring instruments business of the OYO Group may suffer a decrease in production capacity and business performance in the event that a natural calamity, fire or other unforeseen disaster occurs and damages or destroys production facilities and data.
- (4) Risk of Claims Seeking Compensation for Damages from Violating Intellectual Property, Etc.**

The geo-engineering services business and measuring instruments business are businesses using specialized technologies that may face lawsuits seeking compensation for the violation of intellectual property rights, etc.
- (5) IT system security management risk**

The respective companies of the OYO Group process their work and manage information using IT systems and there is the possibility of work implementation being significantly impacted by viruses and malicious illegal tampering by third parties.
- (6) Risks concerning Legal Regulations**

The OYO Group is bound to observe diverse domestic and overseas laws and regulations including the Commercial Code, Company Law, Financial Instruments and Exchange Law, Tax Code, labor laws, Anti-Monopoly Law and Construction Business Law, quality standards, environmental standards, accounting standards and such in the implementation of business. There is the possibility that changes in societal conditions, etc. will result in amendments to these or the establishment of new legal regulations in the future. The realization of these may impact the financial conditions and performance of the OYO Group.
- (7) Risk of Price Fluctuations for Owned Assets**

The OYO Group owns negotiable securities in a number of firms with the objective of maintaining transaction relations over a prolonged period. There is the possibility of OYO Group performance and financial conditions being impacted if there is a major fall in the market price of the owned negotiable securities or the financial conditions of said companies deteriorate.

The OYO Group applied the Accounting Standards on Fixed Asset Impairment and recorded an impairment loss. However, there is the possibility of an impact on OYO Group performance and financial conditions if land prices were to suffer an even larger drop, etc.
- (8) Deferred Tax Assets**

Deferred tax assets are recorded after judging their potential for recovery after rationally estimating the future taxable income. When there are large changes to the future taxable income estimate or changes to the system, there is the possibility that the deferred tax assets will decrease and that the financial condition and performance of the OYO Group will be impacted.

## Corporate Governance

### Strengthening of the Compliance Management

The OYO Group recognizes it has a corporate social responsibility to fully implement compliance, and works to reinforce the internal audit system within the Group in order to further spread adherence to applicable laws, regulations and rules. We are focusing on internal education to assure that each of our officers and employees foster a deep sense of ethics and take responsible actions based on good sense for society, in accordance with the Compliance Manual that has been established.

The enforcement of the Financial Instruments and Exchange Law introduced rules on internal control (Japanese SOX Law) in April 2008, and any listed company is now obliged to file reports on internal control reports and audits on the reports. The OYO Group will respond to this requirement by building an internal control scheme that is highly effective in practice.

### (1) Basic Thinking

The objective of corporate management of OYO is to sufficiently recognize and implement management transparency and fairness, and continually heighten corporate value through securing profit and re-growth within the severe business environment. OYO has prepared a management organization and audit system to achieve these objectives and has positioned enhancing corporate governance that allows necessary measures to be implemented promptly as one of the most important themes of management.

### (2) Content of Corporate Institutions and Status of Internal Governance System

- (A) The status of the Management Organization and other corporate governance systems related to corporate management decision-making, implementation and supervision**

### Board of Directors

The board of directors is comprised of ten directors (as of March 27, 2008) and there are ordinary board of directors meetings that are held more than once for every three months along with extraordinary meetings that are held when necessary. The board makes decisions on important matters concerning OYO's management policies and other important issues and also supervises the implementation of duties by directors. Further, the terms of directors are one year.

### Committee of Executive Officers

OYO has introduced the executive officer system from the perspective of enhancing corporate governance and the committee of executive officers is comprised of six directors (of which four are also executive directors) and fourteen executive officers (as of March 27, 2008). As for the implementation of work, the committee of executive officers meets at least once a month separate from the board of directors as a rule. The committee of executive officers follows the policies decided by the board of directors, discusses overall management issues and reviews the implementation of material work.

### Auditors and Independent Auditor

OYO employs a corporate auditor system and has four auditors of which two are outside auditors (as of March 27, 2008). The board of auditors meets once a month and auditors as a rule attend all board of directors meetings. The established system is such that the auditors monitor the management for the adequacy and appropriateness of the execution of duties by directors.

Misuzu Audit Corporation, which had been our auditor, resigned the position as of July 31, 2007, as it was dissolved on the same day and finished its audit work. Our Board of Auditors resolved at its meeting held on August 1, 2007 to select Ernst & Young ShinNihon as our temporary auditor to ensure auditing activities proceeded without break, pursuant to the provisions of Article 346, Subparagraphs 4 and 6 of the Company Law.

Ernst & Young ShinNihon, which served as our temporary auditor, was appointed our auditor at the 51st General Meeting of Shareholders on March 26, 2008 and took office as of the same day.

### (B) Preparation of a Risk Management System

OYO carries out risk management in each division through extracting and analyzing risks and studying and periodically reviewing countermeasures, and the management status is discussed at the ordinary management committee meetings. OYO Corporate Behavior Guidelines have also been established as behavior guidelines to be observed by all employees and directors of the OYO Group. A Compliance Manual has also been prepared that indicates specific behavior guidelines that comply with these Behavior Guidelines. OYO is working so that the Compliance Management is totally observed internally.

### (C) Internal Audits and Status of Auditing by Auditors

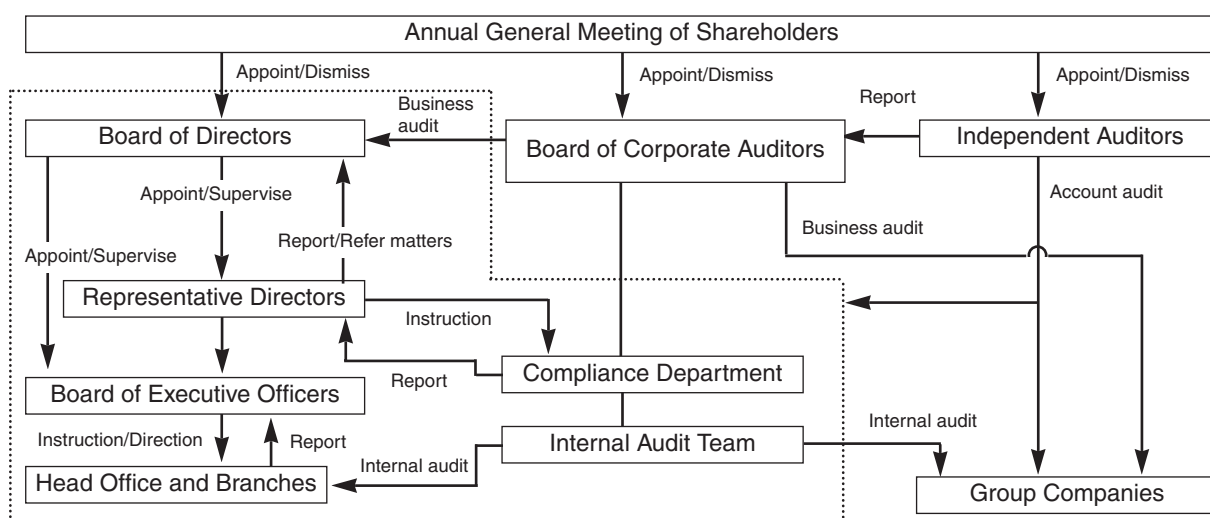
Organizational measures include audits conducted in accordance with an Internal Audit Program to verify and assess that activities concerning work processing and accounting processing are conducted legally and rationally, and to improve the situation. This audit is conducted by the Internal Audit Team (about 5 members) comprised of the Compliance Department and head office management departments.

Further, OYO regularly exchanges information and opinions on audit plans and audit results with auditors, and mutually cooperates so that an auditor witnesses portions of audits by accountants.

### (D) Preparation of the Corporate Governance System

OYO passed the Basic Corporate Governance Policy at the board of directors meeting on May 12, 2006 and is working to reinforce the risk management organization, ensure total observance of compliance-based management and reinforce the management organization of the OYO Group.

## OYO structure for implementing duties, monitoring operations and corporate governance.



## FINANCIAL REVIEW

### Net Sales

The OYO Group posted net sales of 42,744 million yen this consolidated fiscal year, a year-on-year increase of 8.4% or 3,313 million yen. By segment, the geo-engineering services business posted sales of 32,827 million yen, a 1,929 million yen increase, despite completion of the asbestos-related business, the major driver of our year-earlier performance. The increase was achieved partly from the Istanbul business to forecast damages from earthquakes. The measuring instruments business posted sales of 9,917 million yen, a 1,384 million yen increase, due to strong sales of physical exploration devices in the energy and resource markets, and the favorable seismometers business impacted by new products.

As for geographical figures, the year-on-year percentage increase of sales in Japan totaled 33,999 million yen, (5.2%), North America 6,594 million yen, (8.1%), and in other regions, 2,151 million yen, (111.5%).

### Gross Profit on Sales

Gross profit on sales totaled 13,400 million yen, a 5.4% year-on-year increase of 681 million yen. By segment, it increased 264 million yen to 9,819 million yen in the geo-engineering services business. This was a result of continued cost cutting effects such as moving manufacturing into the firm, performance improvements of some domestic subsidiaries and such. The gross profit on sales increased 417 million yen to 3,581 million yen in the measuring instruments business due to strong sales of seismometers, physical exploration devices for energy and resource markets and other products.

### Selling, General and Administrative Expenses and Operating Income

Selling, general and administrative expenses increased 374 million yen to 11,387 million yen mainly due to adding settlement portion of personnel costs at OYO Corporation for the current fiscal year. However, the ratio of selling, general and administrative expenses was decreased to 26.7%, as compared with 28.0% of last fiscal year. As a result, operating income totaled 2,013 million yen and increased 307 million yen that accounted for 4.7% of as compared with 4.3% a year ago. The increase was due to improved profitability of our domestic subsidiaries, and the measuring instruments business continuing to show strong performance.

As for operating income of the segment classified by type of business, the geo-engineering services business posted operating income of 1,158 million yen, a year-on-year increase

of 2.8%, while the Measurement Equipment Business profited 818 million yen, a year-on-year increase of 53.8%.

By geographical region, the year-on-year percentage increase of the operating income in Japan totaled 1,256 million yen, (2.1%), North America 618 million yen, (31.9%), and other regions totaling 136 million yen, (1,424.3%).

Our business in Japan, centering on the geo-engineering services business, achieved increases in revenues and profits due to our effective managerial support to domestic subsidiaries. Our North American business, centering on the measuring instruments business, also achieved increases in revenues and profits thanks to the continued briskness of the energy and resource markets.

In other regions, significant increases in revenues and profits were achieved from the Istanbul business for the first-phase service for forecasting damages from major earthquakes appropriated in accordance with its progress standards.

### Other Revenue (Expenses)

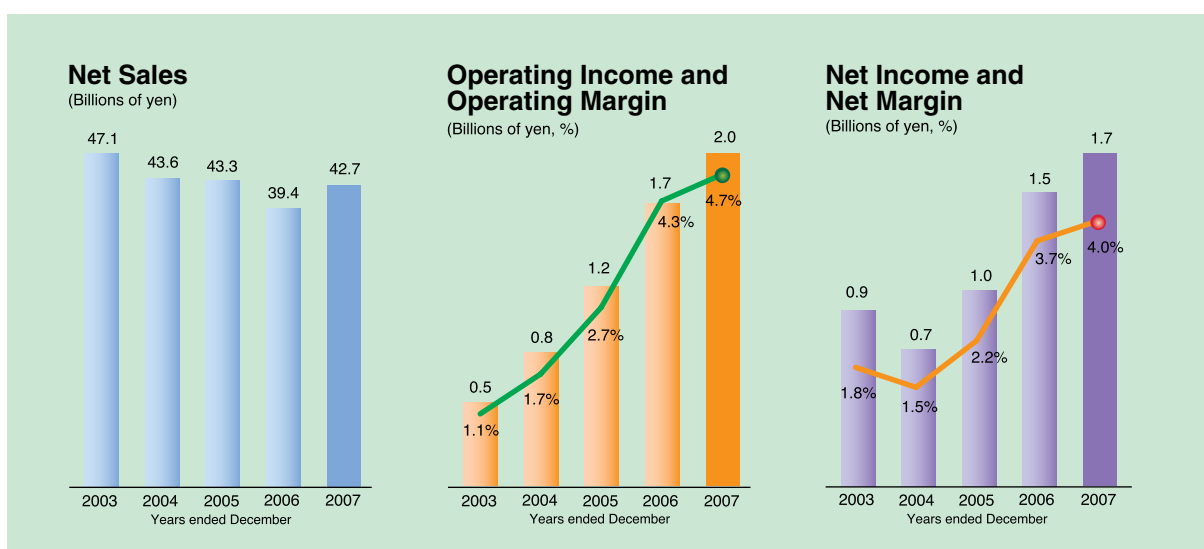
The OYO Group posted a total net profit of 847 million yen in Other Revenue for this consolidated fiscal year.

Factors for the increase in Other Revenue include an increase in investment profit of 82 million yen year-on-year related to equity method for generally strong performances by OYO Geospace Corporation and other affiliates under the equity method, causing an increase of 66 million yen in interest received, and appropriation of 137 million yen as gains from changes in equity in the present consolidated fiscal year.

On the other hand, factors decreasing Other Revenue included appropriation of 201 million yen as loss on write-down of investments in securities and 254 million yen for the settlement of the prior-year personnel expenses by OYO Corporation. In addition, the lack of proceeds from sale of domestic subsidiaries' shares, which had amounted to 279 million yen in the previous consolidated fiscal year, negatively impacted in the present consolidated fiscal year. As a result, net profit in Other Revenue decreased 184 million yen year-on-year for the present consolidated fiscal year. With the increased operating income, however, net income before income taxes increased 123 million yen year-on-year to 2,860 million yen.

### Corporation Taxes (including corporation tax adjustment amount), Minority Shareholder Income and Net Income

The tax expenses for this consolidated fiscal year totaled 1,049 million yen, a year-on-year decrease of 155 million yen, while the minority shareholder income increased 31 million



yen to 108 million. As a result, the net income increased 247 million yen year-on-year to 1,703 million yen.

### Analysis of Financial Conditions

#### Asset, Liability and Net Asset Conditions

The total assets at the end of the consolidated fiscal year decreased 99 million yen from the end of the previous year to 68,094 million yen.

Current assets increased 463 million from the previous year to 38,796 million yen. The increase was mainly from the proceeds receivable in the geo-engineering services business, included in the accounts and notes receivable, partly due to appropriation of sales of the first-phase service for forecasting damages from major earthquakes. Besides, there were increased orders received by the measuring instruments business during the current consolidated fiscal year, including large disaster prevention-related services for Japanese customers, causing other inventories to increase by 389 million yen from the end of the previous year to 2,932 million yen.

Fixed assets decreased 562 million yen year-on-year to 29,298 million yen, mainly due to the decrease in investments in securities, which were owned for cross shareholdings and other purposes, by 531 million from last year to 10,748 million yen through drops in market price, etc.

The total liabilities at the end of the consolidated fiscal year decreased 144 million yen to 12,071 million yen compared to last year. This is primarily due to a decrease of survey fees receivable (belonging to accounts and notes payable) by 89 million yen to 2,260 million yen, caused by such factors as the decrease in outsourcing expenses for expensive charges for construction related to soil contamination purification services that had been appropriated at the end of the previous consolidated fiscal year.

The net asset total as of the end of the consolidated fiscal year increased 45 million yen to 56,023 million yen compared to the end of last year. This is primarily due to the increase in minority shareholder equity by 87 million yen year-on-year to 1,177 million yen through 1) the registering of a net income of 1,703 million yen to reflect strong consolidated performances, 2) an increase in treasury stock by 816 million yen from last fiscal year to 4,023 million yen by continuously purchasing them, and 3) an increase in retained earnings thanks to increased profitability, as consolidated subsidiaries in Japan achieved operating income.

As a result, the shareholders' equity ratio was 80.5% and the net assets per share were 1,924.31 yen.

### Cash Flows

The cash and cash equivalents for this consolidated fiscal year decreased 206 million yen, a year-on-year increase of 91.3% from the end of the previous year for a balance at the end of this year of 16,720 million yen, a year-on-year decrease of 1.2%. This is because of such factors to decrease funds as paid income taxes of 975 million yen, a year-on-year decrease of 41.1%, and expenses of 940 million yen, a year-on-year increase of 6.3%, from acquiring treasury stocks, despite the increase in net income before taxes to 2,860 million yen, a year-on-year increase of 4.5%.

The cash flow conditions and factors for this consolidated fiscal year follow.

#### (Cash flow from operating activities)

Cash flow from operating activities this fiscal year saw an inflow of 1,022 million yen, or a year-on-year increase of 89.9%.

This is primarily due to cash increasing factors as net income before income taxes of 2,860 million yen, a year-on-year increase of 4.5%, and depreciation of 785 million yen, a year-on-year decrease of 0.7%, against such cash decreasing factors as a 422 million increase in inventories, a year-on-year increase of 50.9%, and paid taxes of 975 million yen, a year-on-year decrease of 41.1%.

#### (Cash flow from investment activities)

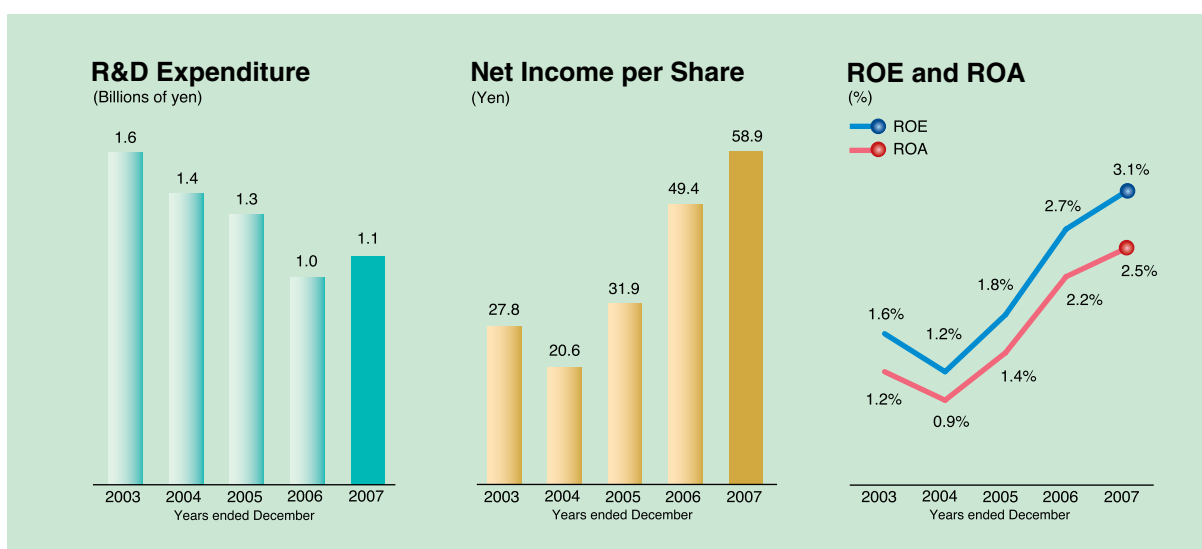
Cash flow from investment activities saw an inflow of 175 million yen, as compared with the outflow of 2,210 million yen last fiscal year.

This is primarily due to the decrease factors of investment securities acquisition expenses of 425 million yen, a year-on-year decrease of 81.2%, and fixed asset acquisition expenses of 513 million yen, a year-on-year decrease of 4.6%, against income of 598 million yen from withdrawal of time deposits (as compared to the previous year when there was an outflow of 1,142 million yen in time deposits as a result of balance between deposits and withdrawal).

#### (Cash flow from financing activities)

This year's cash flow from financing activities posted an outflow of 1,311 million yen, a year-on-year increase of 60.4%.

The primary reason for this is the 940 million yen in expenses for acquiring treasury stock, or a year-on-year increase of 6.3%, and payment of dividends at 456 million yen, a year-on-year increase of 48.2%.



## CONSOLIDATED FINANCIAL STATEMENTS

### OYO Corporation and Consolidated Subsidiaries

### Consolidated Balance Sheets

December 31, 2006 and 2007

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 3)</i>
	2006	2007	2007
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash in hand and at bank (Note 4 (1))	¥15,816	¥15,001	\$131,414
Marketable securities (Notes 2 (21) and 5)	2,536	3,799	33,277
Accounts and notes receivable:			
Trade	8,500	8,616	75,473
Subsidiaries and affiliates	12	1	11
	8,512	8,617	75,484
Less: allowance for doubtful accounts	(60)	(50)	(437)
	8,452	8,567	75,047
Costs incurred on uncompleted geo-engineering services	6,686	6,775	59,356
Inventories (Note 6)	2,543	2,932	25,688
Deferred tax assets (Note 10)	353	610	5,343
Mortgage securities	1,000	—	—
Other current assets	947	1,112	9,745
Total current assets	38,333	38,796	339,870
<b>Investments and Advances:</b>			
Investments in securities (Note 5)	8,971	7,681	67,289
Investments in unconsolidated subsidiaries and affiliates (Note 8)	2,308	3,067	26,864
Long-term loans and other investments (Note 9)	3,293	3,241	28,389
Investments in real estate	493	472	4,136
Less: allowance for doubtful accounts	(92)	(68)	(591)
Total investments and advances	14,973	14,393	126,087
<b>Property, Plant and Equipment:</b>			
Buildings and structures (Note 9)	12,728	12,760	111,781
Machinery and equipment	6,988	7,271	63,697
	19,716	20,031	175,478
Less: accumulated depreciation	(12,866)	(13,412)	(117,497)
	6,850	6,619	57,981
Land (Notes 7 and 9)	6,699	6,697	58,669
Construction in progress	—	10	87
Property, plant and equipment, net	13,549	13,326	116,737
<b>Intangibles and Deferred Charges</b>			
Deferred tax assets (Note 10)	758	827	7,249
Other	580	752	6,591
Total intangibles and deferred charges	1,338	1,579	13,840
Total assets	¥68,193	¥68,094	\$596,534

See notes to consolidated financial statements.

	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
	2006	2007	2007
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities:</b>			
Short-term bank loans (Note 9)	¥ 175	¥ 175	\$ 1,533
Current portion of long-term debt (Note 9)	10	10	92
Accounts and notes payable:			
Trade	2,347	2,259	19,788
Subsidiaries and affiliates	2	1	6
	<u>2,349</u>	<u>2,260</u>	<u>19,794</u>
Income taxes payable (Note 10)	621	330	2,889
Advances received on uncompleted geo-engineering services	1,263	1,169	10,241
Reserve for accrued bonuses	292	319	2,792
Reserve for losses on geo-engineering contracts (Note 2 (17))	57	4	35
Other current liabilities	2,613	3,052	26,739
Total current liabilities	<u>7,380</u>	<u>7,319</u>	<u>64,115</u>
<b>Long-term Liabilities:</b>			
Long-term debt (Note 9)	19	8	72
Reserve for retirement benefits (Note 11)	3,534	3,254	28,509
Deferred tax liabilities (Note 10)	360	606	5,305
Deferred tax liabilities for revaluation of land (Notes 7 and 10)	707	707	6,193
Other long-term liabilities	215	177	1,553
Total long-term liabilities	<u>4,835</u>	<u>4,752</u>	<u>41,632</u>
<b>Net Assets:</b>			
Shareholders' equity:			
Common stock:			
Authorized: 120,000,000 shares at December 31, 2006 and 2007			
Issued: 32,082,573 shares at December 31, 2006 and 2007	16,175	16,175	141,696
Additional paid-in capital	16,523	16,523	144,750
Retained earnings (Note 2 (19))	28,044	29,282	256,525
Treasury stock	(3,207)	(4,023)	(35,245)
Total shareholders' equity	<u>57,535</u>	<u>57,957</u>	<u>507,726</u>
Valuation, translation adjustments and others:			
Net unrealized holding gains on available-for-sale securities	792	456	3,997
Revaluation losses on land (Note 7)	(2,658)	(2,658)	(23,286)
Foreign currency translation adjustments	(781)	(909)	(7,957)
Total valuation, translation adjustments and others	<u>(2,647)</u>	<u>(3,111)</u>	<u>(27,246)</u>
Minority interests in consolidated subsidiaries	1,090	1,177	10,307
Total net assets	<u>55,978</u>	<u>56,023</u>	<u>490,787</u>
Total liabilities and net assets	<u>¥68,193</u>	<u>¥68,094</u>	<u>\$596,534</u>

See notes to consolidated financial statements.

**OYO Corporation and Consolidated Subsidiaries**  
**Consolidated Statements of Income**

For the years ended December 31, 2006 and 2007

	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
	2006	2007	2007
<b>Net Sales:</b>			
Geo-engineering services	¥30,898	¥32,827	\$287,580
Measuring instruments	8,533	9,917	86,875
	<u>39,431</u>	<u>42,744</u>	<u>374,455</u>
<b>Cost of Sales:</b>			
Geo-engineering services	21,343	23,008	201,557
Measuring instruments	5,369	6,336	55,504
	<u>26,712</u>	<u>29,344</u>	<u>257,061</u>
Gross profit	12,719	13,400	117,394
<b>Selling, General and Administrative Expenses</b> (Notes 13 and 14)	<u>11,013</u>	<u>11,387</u>	<u>99,755</u>
Operating income	1,706	2,013	17,639
<b>Other Income (Expenses):</b>			
Interest and dividend income	305	371	3,249
Interest expense	(12)	(9)	(82)
Loss on sale/disposal of properties, net	(32)	(12)	(106)
Devaluation of investments in securities	(14)	(201)	(1,758)
Gain on sale of investments in securities	6	94	825
Gain on sale of investments in and advances to subsidiaries and an affiliate	279	—	—
Insurance premium income	55	89	781
Property rental income	40	40	354
Property rental costs	(31)	(29)	(255)
Foreign exchange gain	1	41	357
Equity in earnings of affiliates	469	551	4,821
Gain on change in equity resulting from a stock offering by an affiliate	—	137	1,199
Reversal of allowance for doubtful accounts	7	10	91
Impairment loss on fixed assets	(12)	—	—
Devaluation of an equity option	—	(33)	(287)
Prior-year personnel expenses (Note 19)	—	(254)	(2,228)
Other, net	(30)	52	450
	<u>1,031</u>	<u>847</u>	<u>7,411</u>
<b>Income Before Income Taxes and Minority Interests</b>	2,737	2,860	25,050
<b>Income Taxes</b> (Note 10):			
Current	1,100	909	7,967
Deferred	104	140	1,224
	<u>1,204</u>	<u>1,049</u>	<u>9,191</u>
<b>Minority Interests in Earnings of Consolidated Subsidiaries</b>	77	108	945
<b>Net Income</b>	<u>¥ 1,456</u>	<u>¥ 1,703</u>	<u>\$ 14,914</u>

	(Yen)	(U.S. dollars) (Note 3)
<b>Per Share Data</b> (Note 2 (20)):		
Net income -Basic	¥49.41	\$0.52
-Diluted	¥49.01	\$0.51
Cash dividends	¥15.0	\$0.11
<b>Weighted Average Number of Shares</b> (thousands)	29,461	—

See notes to consolidated financial statements.

**OYO Corporation and Consolidated Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**

For the years ended December 31, 2006 and 2007

	(Millions of yen)					
	Shareholders' equity					
	Number of shares of common stock in issue	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' equity
<b>Balance as of December 31, 2005</b>	32,082,573	¥16,175	¥15,906	¥26,990	¥(2,675)	¥56,396
Cash dividends	—	—	—	(294)	—	(294)
Bonuses to directors and corporate auditors	—	—	—	(23)	—	(23)
Net income for the year	—	—	—	1,456	—	1,456
Purchases of treasury stock	—	—	—	—	(883)	(883)
Disposal of treasury stock	—	—	—	(52)	351	299
Reversal of revaluation of land	—	—	—	(33)	—	(33)
Other	—	—	617	—	—	617
Net changes in items other than shareholders' equity	—	—	—	—	—	—
<b>Balance as of December 31, 2006</b>	<b>32,082,573</b>	<b>¥16,175</b>	<b>¥16,523</b>	<b>¥28,044</b>	<b>¥(3,207)</b>	<b>¥57,535</b>
Cash dividends	—	—	—	(435)	—	(435)
Net income for the year	—	—	—	1,703	—	1,703
Purchases of treasury stock	—	—	—	—	(940)	(940)
Disposal of treasury stock	—	—	—	(30)	124	94
Net changes in items other than shareholders' equity	—	—	—	—	—	—
<b>Balance as of December 31, 2007</b>	<b>32,082,573</b>	<b>¥16,175</b>	<b>¥16,523</b>	<b>¥29,282</b>	<b>¥(4,023)</b>	<b>¥57,957</b>

	(Thousands of U.S. dollars) (Note 3)					
	Shareholders' equity					
	Number of shares of common stock in issue	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total Shareholders' equity
<b>Balance as of December 31, 2006</b>	32,082,573	\$141,696	\$144,750	\$245,673	\$(28,095)	\$504,024
Cash dividends	—	—	—	(3,813)	—	(3,813)
Net income for the year	—	—	—	14,914	—	14,914
Purchases of treasury stock	—	—	—	—	(8,231)	(8,231)
Disposal of treasury stock	—	—	—	(249)	1,081	832
Net changes in items other than shareholders' equity	—	—	—	—	—	—
<b>Balance as of December 31, 2007</b>	<b>32,082,573</b>	<b>\$141,696</b>	<b>\$144,750</b>	<b>\$256,525</b>	<b>\$(35,245)</b>	<b>\$507,726</b>

(Note) During the year ended December 31, 2006, a former director of OYO Corporation, U.S.A. exercised an option granted over shares in OYO Geospace Corporation. U.S. tax relief of ¥617 million arose as a result of the exercise. Consistent with the accounting treatment adopted by OYO Corporation, U.S.A. under U.S. GAAP, this amount has been credited to additional paid-in capital.

See notes to consolidated financial statements.

(Millions of yen)

	Valuation, translation adjustments and others					Total net assets
	Net unrealized holding gains on available-for-sale securities	Revaluation losses on land	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Minority interests in consolidated subsidiaries	
<b>Balance as of December 31, 2005</b>	<u>¥958</u>	<u>¥(2,691)</u>	<u>¥(1,104)</u>	<u>¥(2,837)</u>	<u>¥ 912</u>	<u>¥54,471</u>
Cash dividends	—	—	—	—	—	(294)
Bonuses to directors and corporate auditors	—	—	—	—	—	(23)
Net income for the year	—	—	—	—	—	1,456
Purchases of treasury stock	—	—	—	—	—	(883)
Disposal of treasury stock	—	—	—	—	—	299
Reversal of revaluation of land	—	—	—	—	—	(33)
Other	—	—	—	—	—	617
Net changes in items other than shareholders' equity	(166)	33	323	190	178	368
<b>Balance as of December 31, 2006</b>	<u>¥792</u>	<u>¥(2,658)</u>	<u>¥ (781)</u>	<u>¥(2,647)</u>	<u>¥1,090</u>	<u>¥55,978</u>
Cash dividends	—	—	—	—	—	(435)
Net income for the year	—	—	—	—	—	1,703
Purchases of treasury stock	—	—	—	—	—	(940)
Disposal of treasury stock	—	—	—	—	—	94
Net changes in items other than shareholders' equity	(336)	—	(128)	(464)	87	(377)
<b>Balance as of December 31, 2007</b>	<u>¥456</u>	<u>¥(2,658)</u>	<u>¥ (909)</u>	<u>¥(3,111)</u>	<u>¥1,177</u>	<u>¥56,023</u>

(Thousands of U.S. dollars) (Note 3)

	Valuation, translation adjustments and others					Total net assets
	Net unrealized holding gains on available-for-sale securities	Revaluation losses on land	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Minority interests in consolidated subsidiaries	
<b>Balance as of December 31, 2006</b>	<u>\$6,939</u>	<u>\$(23,286)</u>	<u>\$(6,844)</u>	<u>\$(23,191)</u>	<u>\$ 9,548</u>	<u>\$490,381</u>
Cash dividends	—	—	—	—	—	(3,813)
Net income for the year	—	—	—	—	—	14,914
Purchases of treasury stock	—	—	—	—	—	(8,231)
Disposal of treasury stock	—	—	—	—	—	832
Net changes in items other than shareholders' equity	(2,942)	—	(1,113)	(4,055)	759	(3,296)
<b>Balance as of December 31, 2007</b>	<u>\$3,997</u>	<u>\$(23,286)</u>	<u>\$(7,957)</u>	<u>\$(27,246)</u>	<u>\$10,307</u>	<u>\$490,787</u>

(Note) During the year ended December 31, 2006, a former director of OYO Corporation, U.S.A. exercised an option granted over shares in OYO Geospace Corporation. U.S. tax relief of ¥617 million arose as a result of the exercise. Consistent with the accounting treatment adopted by OYO Corporation, U.S.A. under U.S. GAAP, this amount has been credited to additional paid-in capital.

See notes to consolidated financial statements.

**OYO Corporation and Consolidated Subsidiaries**  
**Consolidated Statements of Cash Flows**

For the years ended December 31, 2006 and 2007

(Thousands of  
U.S. dollars)  
(Note 3)

	(Millions of yen)		
	2006	2007	2007
<b>Cash Flows from Operating Activities:</b>			
Income before income taxes and minority interests	¥ 2,737	¥ 2,860	\$ 25,050
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	790	785	6,878
Impairment loss on fixed assets	12	—	—
Amortization of goodwill	8	49	429
Equity in earnings of affiliates	(469)	(551)	(4,821)
Devaluation of investments in securities	14	201	1,758
Decrease in reserve for retirement benefits	(257)	(368)	(3,224)
Increase in reserve for accrued bonuses	35	27	236
Interest and dividend income	(305)	(371)	(3,249)
Interest expense	12	9	82
(Gain) loss on redemption of corporate bonds	(4)	2	18
Devaluation of an equity option	—	33	287
Loss on sale/disposal of properties	32	9	82
Gain on sale of investments in securities	(6)	(89)	(779)
Gain on sale of investments in and advances to subsidiaries and an affiliate	(279)	—	—
Gain on change in equity resulting from a stock offering by an affiliate	—	(137)	(1,199)
Increase in accounts and notes receivable	(881)	(135)	(1,182)
Increase (decrease) in advances received on uncompleted geo-engineering services	274	(94)	(826)
Increase in inventories	(279)	(422)	(3,692)
Decrease (increase) in other current assets	276	(361)	(3,159)
Increase (decrease) in accounts and notes payable	249	(81)	(713)
Increase in other current liabilities	10	555	4,863
Increase in costs incurred on uncompleted geo-engineering services	(364)	(89)	(783)
Payments of bonuses for directors and corporate auditors	(30)	—	—
Other	315	(202)	(1,774)
Subtotal	1,890	1,630	14,282
Interest and dividend income received	315	376	3,293
Interest expense paid	(12)	(9)	(82)
Income taxes paid	(1,655)	(975)	(8,542)
Net Cash Provided by Operating Activities	538	1,022	8,951
<b>Cash Flows from Investing Activities:</b>			
(Decrease) increase in time deposits	(1,142)	598	5,243
Purchases of marketable securities (Note 2 (21))	(4)	(2,699)	(23,646)
Purchases of investments in securities	(2,268)	(425)	(3,728)
Proceeds from sale of marketable securities (Note 2 (21))	—	2,976	26,069
Proceeds from sale of investments in securities	566	487	4,269
Purchases of mortgage securities (Note 2 (21))	(1,500)	—	—
Proceeds from sale of mortgage securities (Note 2 (21))	1,500	—	—
Purchases of securities of affiliates	—	(334)	(2,926)
Proceeds from sale of securities of affiliates	857	—	—
Cash inflow arising from purchases of subsidiaries' stock resulting in changes in the scope of consolidation (Note 4 (2))	269	—	—
Cash outflow arising from sale of subsidiaries' stock resulting in changes in the scope of consolidation	(14)	—	—
Acquisition of a business	—	(38)	(333)
Purchases of properties	(537)	(513)	(4,496)
Proceeds from sale of properties	30	1	11
Other	33	122	1,073
Net Cash (Used in) Provided by Investing Activities	(2,210)	175	1,536
<b>Cash Flows from Financing Activities:</b>			
Increase in short-term loans	55	—	—
Decrease in long-term loans	(14)	(10)	(92)
Purchases of treasury stock	(883)	(940)	(8,231)
Proceeds from sale of treasury stock	299	95	832
Cash dividends paid	(307)	(456)	(3,990)
Other	34	—	—
Net Cash Used in Financing Activities	(816)	(1,311)	(11,481)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	122	(92)	(804)
Net Decrease in Cash and Cash Equivalents	(2,366)	(206)	(1,798)
Cash and Cash Equivalents at Beginning of the Year	19,292	16,926	148,275
Cash and Cash Equivalents at End of the Year	¥16,926	¥16,720	\$146,477

See notes to consolidated financial statements.

## OYO Corporation and Consolidated Subsidiaries Notes to the Consolidated Financial Statements

For the years ended December 31, 2006 and 2007

### 1. Basis of Presentation

The accompanying consolidated financial statements of OYO Corporation (the "Company") and its domestic consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

### 2. Summary of Significant Accounting Policies

#### (1) Principles of Consolidation

The Company had 26 majority-owned subsidiaries as at December 31, 2007 (26 as at December 31, 2006). The consolidated financial statements for the year ended December 31, 2007 include the accounts of the Company and its 26 majority-owned subsidiaries (26 for the year ended December 31, 2006) (collectively, the "Companies"). Details of the significant subsidiaries are listed below:

Name of subsidiary	Equity ownership percentage	Closing date
OYO Corporation, U.S.A. <sup>(1)</sup>	100.0%	September 30
Geometrics, Inc. <sup>(1)(2)</sup>	100.0%	September 30
Geophysical Survey Systems, Inc. <sup>(1)(2)</sup>	100.0%	September 30
Kinometrics, Inc. <sup>(1)(2)</sup>	100.0%	September 30
Robertson Geologging Ltd. <sup>(1)(3)</sup>	95.6%	September 30
OYO Resources Management Corporation	100.0%	September 30
Tohoku Boring Co., Ltd.	100.0%	September 30
NS Environmental Science Consultant Corporation	68.6%	September 30
Ocean Engineering Corporation	100.0%	September 30
KOEI Consultant Co., Ltd.	91.5%	September 30
OYO Seismic Instrumentation Corporation	100.0%	September 30
OYO International Corporation	100.0%	September 30
OYO Geo-Monitoring Service Corporation	100.0%	September 30
Nankyu Geo Technics Corporation	59.3%	September 30
KCS Co., Ltd.	90.0%	September 30
OYO RMS Corporation	80.0%	September 30

Note: There are 10 other consolidated subsidiaries.

(1) Overseas subsidiary

(2) A wholly-owned subsidiary of OYO Corporation, U.S.A.

(3) A 95.6% owned subsidiary of OYO Corporation, U.S.A.

The Company's remaining subsidiary (one for 2006) has been excluded from consolidation as its combined assets, net sales and net income were not significant compared to those of the consolidated financial statements of the Companies. The investment in this unconsolidated subsidiary is carried at cost or less.

For the consolidation of the accounts of subsidiaries whose closing dates are not the same as that of the Company, necessary adjustments are made for significant intercompany transactions which took place during the periods between the year-end closing dates of the respective consolidated subsidiaries and that of the Company.

#### (2) Investments in Affiliates

The Company had 17 affiliates (the equity interest owned by the Company in such affiliates was between 20 percent and 50 percent) as at December 31, 2007 (16 as at December 31, 2006). The equity method was applied to investments in 17 affiliates for the year ended December 31, 2007 (16 for the year ended December 31, 2006). The investment in the Company's remaining affiliate was not significant to the consolidated financial statements and was carried at cost or less for the years ended December 31, 2006 and 2007.

Details of the major affiliates are listed below:

Name of company	Equity ownership percentage	Closing date
OYO Geospace Corporation	20.2%	September 30
Iris Instruments SAS	49%	December 31
RMS Japan Corporation	20%	September 30
Engineering & Risk Services Corporation	50%	March 31

The significant subsidiary to which the equity method was not applied was Siguma Kogyo Co., Ltd. The company was excluded from the scope of the equity method because the portions of its net income and retained earnings equal to the Company's equity interest did not have a significant effect on the accompanying consolidated financial statements for the years ended December 31, 2006 and 2007 and were not regarded as significant overall.

### **(3) Translation of Foreign Currencies**

Revenue and expense items arising from transactions denominated in foreign currencies are translated into Japanese yen, in general, at the rates in effect at the respective transaction dates.

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rates prevailing at the respective balance sheet dates and the resulting translation gain or loss is included in the determination of net income for the year.

In translating the financial statements of subsidiaries or affiliates stated in foreign currencies into yen, for purposes of consolidation with the Company or for application of the equity method, all assets and liabilities are translated at the exchange rates in effect at the respective balance sheet dates, while capital stock and retained earnings are translated at their historical exchange rates. All revenue and expense items for the year are translated at the applicable average exchange rates.

The net difference arising from the translation of the foreign currency financial statements is shown as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

### **(4) Cash and Cash Equivalents**

Cash and cash equivalents in the accompanying consolidated statements of cash flows are composed of cash in hand, bank deposits withdrawable on demand and short-term investments with a maturity of three months or less when purchased, and which represent a minor risk of fluctuation in value.

### **(5) Sales Recognition of Geo-engineering Services**

The Company's and its domestic consolidated subsidiaries' primary business is to engage in rendering geo-engineering services. The rendering of geo-engineering services of the Company and its domestic consolidated subsidiaries, except for certain large-scale and long-term contracts, is accounted for using the completed contract method under which net sales and the related cost of sales for the completed contracts are recognized when the rendering of such services is complete. The revenue for certain large-scale and long-term geo-engineering service contracts, whose terms are over one year and whose contract amounts are ¥100 million or over, is accounted for by the percentage-of-completion method.

The accumulated cost of uncompleted services is shown as "Costs incurred on uncompleted geo-engineering services" and the related advances received are shown as "Advances received on uncompleted geo-engineering services" in the accompanying consolidated balance sheets.

### **(6) Costs Incurred on Uncompleted Geo-engineering Services**

Costs incurred on uncompleted geo-engineering services are stated at cost on an individual project basis, cost being determined using the individual identified cost method together with an allocation of appropriate production overheads.

### **(7) Inventories**

Finished products, raw materials and work-in-process of the Company and certain of its consolidated subsidiaries are stated at cost, cost being determined by the average method, while those of the significant subsidiaries are stated at the lower of cost or market value, cost being determined by the first-in, first-out method.

When the net realizable value of certain items of inventory of the Companies is substantially less than their carrying value, and the decline in value is not expected to be recovered in the near future, appropriate write-downs are recorded on such items.

### **(8) Securities**

Other securities with market quotations are stated at market value determined using the closing market price at the balance sheet date. Unrealized gains/losses on valuation are included in net assets. The cost of securities sold is determined by the moving average method.

Other securities without market quotations are stated at cost less a provision for impairment where appropriate. Cost is determined by the moving average method.

### **(9) Derivatives**

Derivatives are stated at fair market value. Changes in their market value are recorded in earnings.

### **(10) Property, Plant and Equipment**

Depreciation of buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) held by the Company and its domestic consolidated subsidiaries is computed using the straight-line method, and depreciation of other property and equipment held by the Company and its domestic consolidated subsidiaries is computed using the declining-balance method, at rates based on the estimated useful lives of the respective assets which are prescribed by Japanese income tax laws. The range of estimated useful lives is principally from 2 to 50 years for buildings and structures, and 2 to 15 years for machinery and equipment.

Depreciation of property, plant and equipment held by overseas consolidated subsidiaries is mainly computed using the straight-line method.

The cost of property, plant and equipment retired or otherwise disposed of, and accumulated depreciation in respect thereof, is eliminated from the related accounts, and the resulting gain or loss is reflected in income for the period.

Normal repairs and maintenance costs, including minor renewals and improvements, are charged to income as incurred.

### **(Change in Accounting Policy)**

#### **(Fiscal year 2007)**

In accordance with the changes to the Japanese tax code introduced in the 2007 tax reform, concerning the depreciation of tangible fixed assets acquired on and after April 1, 2007, the depreciation rate used to compute depreciation expense has been changed to that permitted under the new regulation.

The effect of this change on the accompanying consolidated statement of income for the year ended December 31, 2007 was immaterial.

### **(11) Amortization of Intangible Assets**

#### **Goodwill**

Any difference between the cost of an investment in a subsidiary and the relevant net equity of the subsidiary is treated as an asset or a liability and amortized over a period of five years on a straight-line basis.

The Company's U.S. subsidiaries have adopted SFAS No. 142 entitled "Goodwill and other intangible assets" with respect to goodwill, and goodwill is tested for impairment, at a minimum, on an annual basis.

#### **(Additional Information)**

#### **(Fiscal year 2007)**

Regarding the affiliates of the Company's U.S. subsidiaries, under Accounting Principles Board Opinion No. 18 ("APB 18"), "The Equity Method of Accounting for Investments in Common Stock," the Company performs impairment tests on its investments in affiliates to determine whether or not other-than-temporary impairments should be recognized on such investments.

#### **Computer Software Costs**

Computer software costs are amortized using the straight-line method over a period of 5 years, the estimated useful life of the software.

#### **(12) Finance Leases**

Finance leases other than those under which the ownership of the leased assets is to be transferred to lessees are accounted for in a similar manner as that applied to operating leases.

#### **(13) Income Taxes**

The income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

The Company and its consolidated subsidiaries apply the deferred tax accounting method.

Deferred taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of the assets and liabilities and those as reported in the accompanying consolidated financial statements.

#### **(14) Allowance for Doubtful Accounts**

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful accounts receivable. The amount provided is determined by applying a percentage based on past actual experience of bad debt loss to the balance of normal receivables, plus a provision for specific amounts deemed necessary to cover potential losses on an individual account basis. Overseas consolidated subsidiaries provide an allowance for the amounts deemed necessary to cover potential losses on an individual account basis.

#### **(15) Reserve for Accrued Bonuses**

Reserve for accrued bonuses to employees is provided based on the amount estimated to be paid by the Company and its domestic consolidated subsidiaries.

#### **(16) Reserve for Retirement Benefits**

The Company and its consolidated subsidiaries each maintain a defined benefit pension plan and a lump-sum severance payment plan. Accrued retirement benefits are provided based on the amount of the projected benefit obligation less the fair value of the pension plan assets at the end of the fiscal year.

#### **(17) Reserve for Losses on Geo-engineering Contracts**

The domestic consolidated subsidiaries provide a reserve for losses on geo-engineering construction contracts at an amount sufficient to cover probable and determinable future losses on the construction contracts outstanding at the balance sheet date.

#### **(18) Retirement Benefits for Directors and Corporate Auditors**

Prior to March 30, 2006, the Company provided an allowance for retirement benefits for directors and corporate auditors at the amount to be paid at the end of the year based on its regulations on retirement benefits for directors and corporate auditors in preparation for paying such benefits to retiring directors and corporate auditors. However, the Company abolished this director and corporate auditor retirement benefits system based on the approval of a resolution at its annual shareholders' meeting held on March 29, 2006.

Accordingly, no further provisions have been made effective January 1, 2007.

Due to this abolition, ¥4 million was used for the purpose of paying retirement benefits to retiring directors and corporate auditors from the balance of the allowance for retirement benefits for directors and corporate auditors as of March 29, 2006 of ¥71 million. The remaining balance of ¥66 million was transferred to "Other long-term liabilities."

#### **(19) Distribution of Retained Earnings**

Under the Corporate Law of Japan and the Articles of Incorporation of the Company, plans for distributions of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved at a shareholders' meeting, which must be held within three months of the end of each fiscal year. The distributions of retained earnings reflected in the accompanying consolidated statements of changes in net assets represent the results of such distributions which are applicable to the immediately preceding fiscal year but which were approved by a shareholders' meeting held during the current fiscal year.

Dividends are paid to shareholders whose names are recorded on the shareholders' register at the end of each fiscal year.

#### **(20) Net Income per Share**

Basic net income per share of common stock is computed by dividing net income available for distribution to shareholders of common stock by the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent splits of common stock.

Diluted net income per share is computed by dividing net income available for distribution to the shareholders by the weighed average number of shares of common stock outstanding during each year assuming full conversion of convertible bonds and full execution of warrants.

#### **(21) Reclassification**

##### **(Fiscal year 2007)**

##### **(Consolidated Balance Sheets)**

Mortgage securities, which had been disclosed separately in the previous fiscal year, have been accounted for as "Marketable securities" effective the current fiscal year in accordance with the Financial Products Exchange Law (amended on September 30, 2007), "Accounting Standard for Impairment of Financial Instruments" issued by the Accounting Standards Board of Japan amended on June 15, 2007, and Accounting Committee Report No. 14 entitled "Practical Guidance of Accounting for Financial Instruments" issued by The Japanese Institute of Certified Public Accountants amended on July 4, 2007.

The balance of mortgage securities as of December 31, 2007 was ¥1,000 million (\$8,760 thousand).

##### **(Fiscal year 2007)**

##### **(Consolidated Statements of Cash Flows)**

Purchases of mortgage securities and proceeds from sale of mortgage securities, which had been disclosed separately in "Cash Flows from Investing Activities" in the previous fiscal year, have been accounted for as "Purchases of marketable securities" and "Proceeds from sale of marketable securities," respectively, effective the current fiscal year in line with the reclassification of the consolidated balance sheets described above.

The portions of "Purchases of marketable securities" and "Proceeds from sale of marketable securities" attributable to purchases of mortgage securities and proceeds from sale of mortgage securities, respectively, for the year ended December 31, 2007 both amounted to ¥2,500 million (\$21,901 thousand).

### 3. U.S. Dollar Amounts

The dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars at the rate of ¥114.15=U.S.\$1, the approximate exchange rate in effect at the current balance sheet date of December 31, 2007. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at that or any other rate.

### 4. Consolidated Statements of Cash Flows

#### (1) Cash and Cash Equivalents

"Cash and cash equivalents" were reconciled to "Cash in hand and at bank" at December 31, 2006 and 2007 as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2006	2007	2007
Cash in hand and at bank	¥15,816	¥15,001	\$131,414
Marketable securities	2,536	3,799	33,277
	18,352	18,800	164,691
Time deposits with maturities of over 3 months	(1,202)	(597)	(5,231)
Securities investment trust instruments with maturities of more than 3 months	(224)	(1,483)	(12,983)
Cash and cash equivalents	¥16,926	¥16,720	\$146,477

#### (2) Assets and Liabilities of OYO RMS Corporation and KCS Co., Ltd.

##### (Fiscal year 2006)

During fiscal year 2006, the Company purchased shares of KCS Co., Ltd. and OYO RMS Corporation, and both companies were newly consolidated. The assets acquired and the liabilities assumed were as follows:

	<i>(Millions of yen)</i>
	2006
Current assets	¥1,005
Non-current assets	181
Goodwill	245
Current liabilities	(700)
Long-term liabilities	1
Minority interests in consolidated subsidiaries	(92)
Investments in affiliates under the equity method	(215)
Acquisition costs of securities of newly-consolidated subsidiaries	425
Newly-consolidated subsidiaries' cash and cash equivalents	694
Difference: Cash inflow arising from purchases of subsidiaries' stock resulting in change in scope of consolidation	¥ 269

### 5. Marketable Securities and Investments in Securities

Other securities at December 31, 2006 and 2007 were as follows:

	<i>(Millions of yen)</i>						<i>(Thousands of U.S. dollars)</i>		
	2006			2007			2007		
	Acquisition cost	Carrying value (estimated fair value)	Unrealized gain/(loss)	Acquisition cost	Carrying value (estimated fair value)	Unrealized gain/(loss)	Acquisition cost	Carrying value (estimated fair value)	Unrealized gain/(loss)
Market value available:									
Stocks	¥2,649	¥ 3,908	¥1,259	¥2,445	¥ 3,247	¥802	\$21,423	\$ 28,448	\$7,025
Bonds – Government bonds and local government bonds	100	100	—	75	75	—	658	658	—
– Corporate bonds	600	596	(4)	300	301	1	2,631	2,632	1
– Other	1,447	1,383	(64)	1,648	1,582	(66)	14,430	13,862	(568)
Other	1,355	1,479	124	1,070	1,071	1	9,380	9,382	2
	¥6,151	7,466	¥1,315	¥5,538	6,276	¥738	\$48,522	54,982	\$6,460
Market value not available:									
Total		¥11,507			¥11,480			\$100,566	

Note: Impairment losses amounting to ¥199 million (\$1,750 thousand) on other securities with market quotations were recognized for the year ended December 31, 2007.

Proceeds from sales of other securities for the years ended December 31, 2006 and 2007 amounted to ¥203 million and ¥456 million (\$3,993 thousand), respectively. The gross realized gains and losses on those sales for the year ended December 31, 2006 were ¥6 million and nil, respectively, and those for the year ended December 31, 2007 were ¥94 million (\$825 thousand) and ¥5 million (\$46 thousand), respectively.

The carrying amounts of other securities without market quotations at December 31, 2006 and 2007 were as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2006	2007	2007
Commercial paper	¥ 999	<b>¥1,098</b>	<b>\$ 9,616</b>
Money management funds	1,113	<b>1,117</b>	<b>9,787</b>
Equity securities	1,152	<b>1,202</b>	<b>10,528</b>
Mortgage securities	—	<b>1,000</b>	<b>8,760</b>
Other	475	<b>384</b>	<b>3,368</b>
	<u>¥3,739</u>	<u><b>¥4,801</b></u>	<u><b>\$42,059</b></u>

Note: Impairment losses amounting to ¥14 million and ¥1 million (\$7 thousand) on other securities without market quotations were recognized for the years ended December 31, 2006 and 2007, respectively.

The aggregate annual maturities of other securities with maturity dates at December 31, 2006 and 2007 were as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2006	2007	2007
Within 1 year	¥1,225	<b>¥2,583</b>	<b>\$22,631</b>
1–5 years	1,857	<b>1,169</b>	<b>10,237</b>
5–10 years	173	<b>422</b>	<b>3,699</b>
Over 10 years	400	<b>425</b>	<b>3,723</b>
	<u>¥3,655</u>	<u><b>¥4,599</b></u>	<u><b>\$40,290</b></u>

## 8. Investments in and Advances to Unconsolidated Subsidiaries and Affiliates

Investments in and advances to unconsolidated subsidiaries and affiliates at December 31, 2006 and 2007 were as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>	
	2006	2007	2007	2007
Investment in common stock		Investment in common stock	Investment in common stock	Investment in common stock
Unconsolidated subsidiaries and affiliates:		Percentage of ownership		
OYO Geospace Corporation	¥1,714	20.2%	<b>¥2,389</b>	<b>\$20,930</b>
Iris Instruments SAS	280	49.0%	363	3,176
RMS Japan Corporation	86	20.0%	93	817
Engineering & Risk Services Corporation	213	50.0%	207	1,810
Other (including an unconsolidated subsidiary)	15	—	15	131
	<u>¥2,308</u>		<u><b>¥3,067</b></u>	<u><b>\$26,864</b></u>

## 6. Inventories

Inventories as at December 31, 2006 and 2007 consisted of the following:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2006	2007	2007
Finished products and merchandise	¥ 707	<b>¥ 696</b>	<b>\$ 6,100</b>
Work-in-process	475	<b>842</b>	<b>7,377</b>
Raw materials	1,319	<b>1,353</b>	<b>11,855</b>
Supplies	42	<b>41</b>	<b>356</b>
	<u>¥2,543</u>	<u><b>¥2,932</b></u>	<u><b>\$25,688</b></u>

## 7. Land Revaluation

Pursuant to Article 34 of the Law Concerning Revaluation of Land (publicly announced on March 31, 1998), land used for business operations has been revalued. The related gain/loss on revaluation of land has been included in "Revaluation losses on land" within "Net assets," net of income taxes.

### Methods of revaluation

Standard land, as determined by Article 2.4 of the Enforcement Ordinance for the Law Concerning Revaluation of Land (Ministerial Ordinance 119, publicly announced on March 31, 1998), has been revalued using the method used for calculating inheritance tax (the "Rosenka" method). Other land, as determined by Article 2.3 of the same ordinance, has been revalued using the assessed value for land tax purposes, reflecting appropriate adjustments, detailed as follows:

Date of revaluation:	December 31, 2001
Difference between year-end market price of revalued land and carrying value after revaluation:	(¥381 million) (\$3,336 thousand)

## 9. Short-term Bank Loans and Long-term Debt

December 31,	<i>(Millions of yen)</i>			
	2006			
	Opening balance	Closing balance	Average interest rate	Maturity
Short-term bank loans	¥120	¥175	1.80%	—
Current portion of long-term debt	13	10	4.16%	—
Long-term debt	30	19	4.28%	2008 – 2012
Total	<u>¥163</u>	<u>¥204</u>	<u>—</u>	<u>—</u>

December 31,	<i>(Millions of yen)</i>			
	2007			
	Opening balance	Closing balance	Average interest rate	Maturity
Short-term bank loans	¥175	¥175	2.11%	—
Current portion of long-term debt	10	10	4.16%	—
Long-term debt	19	8	4.42%	2009 – 2012
Total	<u>¥204</u>	<u>¥193</u>	<u>—</u>	<u>—</u>

December 31,	<i>(Thousands of U.S. dollars)</i>			
	2007			
	Opening balance	Closing balance	Average interest rate	Maturity
Short-term bank loans	\$1,533	\$1,533	2.11%	—
Current portion of long-term debt	91	92	4.16%	—
Long-term debt	164	72	4.42%	2009 – 2012
Total	<u>\$1,788</u>	<u>\$1,697</u>	<u>—</u>	<u>—</u>

Note: Aggregate annual maturities of long-term debt subsequent to December 31, 2007 were as follows:

Year ending December 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2008	¥10	\$92
2009	¥7	\$64
2010	¥1	\$4
2011	¥0	\$2
2012	¥0	\$1

The following assets were pledged as collateral to secure long-term debt, including the current portion thereof, at December 31, 2006 and 2007:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2006	2007	2007
Buildings	¥86	¥86	\$754
Land	173	173	1,515
	<u>¥259</u>	<u>¥259</u>	<u>\$2,269</u>
Secured long-term debt:			
Long-term loans	¥26	¥16	\$147
(Including current portion of long-term loans)	¥10	¥10	\$88

In addition to the above-mentioned pledged assets, based on asset-based lending laws of the U.S.A., accounts and notes receivable, inventories and so forth of a certain U.S. consolidated subsidiary were pledged as collateral for a line of credit to such subsidiary, in the amounts of ¥294 million and ¥259 million (\$2,276 thousand) as at December 31, 2006 and 2007, respectively.

## 10. Income Taxes

Significant components of deferred tax assets and liabilities as at December 31, 2006 and 2007 were as follows:

	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	2006	2007	2007
Deferred tax assets:			
Tax losses carried forward	¥413	¥382	\$3,345
Provision for retirement benefits	1,410	1,261	11,045
Additional personnel expenses payable	—	239	2,092
Loss on valuation of securities	1	83	727
Reserve for accrued bonuses	132	145	1,274
Enterprise taxes	60	39	345
Loss on write-downs of inventories	73	79	694
Loss on land revaluation	1,502	1,502	13,150
Other	308	277	2,431
Gross deferred tax assets	3,899	4,007	35,103
Less valuation allowance	(2,007)	(2,039)	(17,858)
Total deferred tax assets	<u>1,892</u>	<u>1,968</u>	<u>17,245</u>
Deferred tax liabilities:			
Revaluation of fixed assets	336	349	3,054
Gain on land revaluation	707	707	6,193
Other	805	788	6,904
Total deferred tax liabilities	<u>1,848</u>	<u>1,844</u>	<u>16,151</u>
Net deferred tax assets	<u>¥44</u>	<u>¥124</u>	<u>\$1,094</u>

Differences between the statutory tax rate and the effective tax rates for the years ended December 31, 2006 and 2007 are reconciled as follows:

	2006	2007
Statutory tax rate	40.7%	40.7%
Adjustments:		
Entertainment and other permanently disallowable expenses	0.6	0.4
Dividend income receivable and other permanently excluded items	(5.6)	(1.1)
Local inhabitants' taxes per capita	4.6	5.3
Losses in respect of subsidiaries not subject to deferred tax accounting	3.1	(2.0)
Investment losses arising from application of the equity method	(3.3)	(1.2)
Valuation allowance	0.7	3.1
Differences in tax rates applicable to overseas subsidiaries	1.5	(1.1)
Tax credit	—	(3.2)
Other	1.7	(4.2)
Effective tax rates	<u>44.0%</u>	<u>36.7%</u>

## 11. Reserve for Retirement Benefits

### (1) Summary of Reserve for Retirement Benefits

The Company and its domestic consolidated subsidiaries each maintain a defined benefit pension plan, a lump-sum severance payment plan, a prepaid retirement allowance and a defined contribution pension plan. Accrued retirement benefits are provided based on the amount of the projected benefit obligation less the fair value of the pension plan assets at the end of the fiscal year.

On August 1, 2005, the Company revised its retirement benefits system by transferring funds from the ongoing lump-sum severance payment plan and the tax-qualified pension plan to an agreement-type defined benefit corporate pension plan (cash balance plan), as well as introducing a point-based retirement allowance system.

In accordance with the enforcement of the Defined Contribution Pension Law on October 1, 2003, one of the Company's domestic consolidated subsidiaries (NS Environmental Science Consultant Corporation) changed its severance payment regulations and implemented a defined contribution pension plan, replacing the lump-sum severance payment plan, and a prepaid retirement allowance to employees concerned.

### (2) Reserve for Retirement Benefits as of December 31, 2006 and 2007 Was as Follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
1. Projected benefit obligation	¥(6,262)	¥(6,384)	\$(55,930)
2. Fair value of plan assets	<u>3,382</u>	<u>3,729</u>	<u>32,669</u>
3. Projected benefit obligation in excess of plan assets [(1) + (2)]	(2,880)	(2,655)	(23,261)
4. Unrecognized actuarial gain or loss	153	86	756
5. Unrecognized prior service cost	<u>(696)</u>	<u>(485)</u>	<u>(4,246)</u>
6. Net liability recognized in the balance sheets [(3) + (4) + (5)]	(3,423)	(3,054)	(26,751)
7. Prepaid pension cost	<u>111</u>	<u>200</u>	<u>1,758</u>
8. Reserve for retirement benefits [(6) - (7)]	<u>¥(3,534)</u>	<u>¥(3,254)</u>	<u>\$(28,509)</u>

Note: Certain consolidated subsidiaries used a simplified method for calculating retirement benefit obligations.

With respect to the implementation of the defined contribution pension plan mentioned in (1) above, the amounts not transferred as of December 31, 2006 and 2007 recorded in "Other current liabilities" were ¥20 million and ¥19 million (\$173 thousand), respectively, and recorded in "Other long-term liabilities" were ¥81 million and ¥59 million (\$520 thousand), respectively.

### (3) Net Retirement Benefit Cost for the Years Ended December 31, 2006 and 2007 Was as Follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
1. Service cost	¥331	¥336	\$2,946
2. Interest expense	121	126	1,100
3. Expected return on plan assets	(69)	(82)	(722)
4. Amortization of prior service cost	(211)	(211)	(1,851)
5. Amortization of actuarial gain or loss	181	120	1,055
6. Payments of prepaid retirement benefits	17	18	160
7. Installment payments to defined contribution pension plan	<u>46</u>	<u>47</u>	<u>415</u>
8. Net retirement benefit costs			
[(1) + (2) + (3) + (4) + (5) + (6) + (7)]	<u>¥416</u>	<u>¥354</u>	<u>\$3,103</u>

Note: Retirement benefit cost applicable to consolidated subsidiaries using the simplified method for calculating retirement benefit obligations was included in "Service cost."

### (4) The Assumptions Used in the Calculation of Retirement Benefit Obligations Were as Follows:

	As of December 31, 2006	As of December 31, 2007
1. Discount rate	The Company: 2.0%; Consolidated subsidiaries: 2.5%	The Company: 2.0%; Consolidated subsidiaries: 2.5%
2. Expected rate of return on plan assets	2.50%	2.50%
3. Method for periodically appropriating retirement benefits	Period fixed-amount basis	Period fixed-amount basis
4. Amortization period for prior service cost	5 years	5 years
5. Amortization period for net retirement benefit obligation at transition	The Company: 1 year; Consolidated subsidiaries: 5 years	The Company: 1 year; Consolidated subsidiaries: 5 years
6. Amortization period for unrecognized actuarial gain or loss	5 years from the year following that in which they arise	5 years from the year following that in which they arise

## 12. Stock Option Plans

	(1) Plan approved on March 29, 2000	(2) Plan approved on March 27, 2003
Qualified beneficiaries	5 directors 305 employees	<b>10 directors</b> <b>1,152 employees</b> <b>17 directors of subsidiaries</b>
Type and maximum number of shares for which new subscription rights offered	Common stock 500,000	<b>Common stock</b> <b>1,284,400</b>
Grant date	May 24, 2000	<b>October 17, 2003</b>
Period of exercise of rights	From April 1, 2002 to March 30, 2007	<b>From April 1, 2005 to March 31, 2010</b>
Exercise price (yen)	—	<b>¥ 834</b>
Number of options which have already been vested (shares):		
As of December 31, 2005	328,500	<b>885,900</b>
Exercised	16,500	<b>330,900</b>
Lapsed	10,000	<b>8,000</b>
As of December 31, 2006	302,000	<b>547,000</b>
Exercised	—	<b>113,800</b>
Lapsed	302,000	<b>4,000</b>
As of December 31, 2007	—	<b>429,200</b>
Average price per share of common stock at exercise date (yen)	—	<b>¥ 1,401</b>

## 13. Supplementary Statements of Income Information

Components of "Selling, General and Administrative Expenses" for the years ended December 31, 2006 and 2007 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Directors' Compensation	¥ 590	¥ 651	\$ 5,706
Salary	4,125	4,420	38,719
Welfare expenses	653	655	5,741
Provision for reserve for accrued bonuses	118	113	993
Retirement benefit cost	173	146	1,278
Travel expenses	577	569	4,986
Rental expenses	564	570	4,990
Research and development cost	975	1,096	9,605
Depreciation and amortization	267	270	2,362
Amortization of goodwill	9	49	430
Provision for allowance for doubtful accounts	60	9	75
Other	2,902	2,839	24,870
	<u>¥11,013</u>	<u>¥11,387</u>	<u>\$99,755</u>

## 14. Research and Development Cost

The amounts charged to income for the Company's research and development activities for the years ended December 31, 2006 and 2007 were ¥975 million and ¥1,096 million (\$9,605 thousand), respectively.

## 15. Lease Transactions

### (1) Finance Lease Contracts without Ownership Transfer

Finance leases other than those in which the ownership of the leased assets is to be transferred to lessees are accounted for in a similar manner as that applied to operating leases. Had such leases been capitalized, the following items would have been recognized on the accompanying consolidated balance sheets as at December 31, 2006 and 2007:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Acquisition cost equivalent:			
Machinery and equipment	¥935	¥614	\$ 5,381
Accumulated depreciation equivalent:			
Machinery and equipment	¥490	¥363	\$ 3,182
Net book value equivalent:			
Machinery and equipment	¥445	¥251	\$ 2,199
Future lease payments:			
Within one year	¥186	¥ 95	\$ 835
Over one year	259	156	1,364
	<u>¥445</u>	<u>¥251</u>	<u>\$ 2,199</u>

Lease rental expense on finance lease contracts without ownership transfer for the years ended December 31, 2006 and 2007 amounted to ¥207 million and ¥114 million (\$95 thousand), respectively.

### (2) Operating Leases

The amounts of outstanding future lease payments as at December 31, 2006 and 2007, which included the portion of interest thereon, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Future lease payments:			
Within one year	¥ 89	¥106	\$ 929
Over one year	363	311	2,723
	<u>¥452</u>	<u>¥417</u>	<u>\$3,652</u>

## 16. Related Party Transactions

The Company's sales to and purchases from its directors and major shareholders and their relationship with the Company for the years ended December 31, 2006 and 2007 were as follows:

(For the year ended December 31, 2006)

(Millions of yen)

Description	Name	Address	Capital (including investments in capital)	Business line / occupation	Voting rights	Relationship	
						Personnel	Business
(1) Major shareholder of the Company	Atsuo Fukada	—	—	Corporate adviser of the Company	10.41%	—	Corporate adviser of the Company
(2) A company whose majority shares are held by a major shareholder of the Company or his/her close relatives	Houkoku Kogyo, Co., Ltd.	Yodogawa-ku, Osaka city, Osaka	¥10	Rental of real estate	0.01%	—	Rental of real estate

Name	Transaction	Transaction amount	Description	Year-end balance
Atsuo Fukada	Salary for services as corporate adviser	¥2	—	—
Houkoku Kogyo, Co., Ltd.	Rent for building and parking lot	¥92	Deposit	¥85

(For the year ended December 31, 2007)

(Millions of yen, Thousands of U.S. dollars)

Description	Name	Address	Capital (including investments in capital)	Business line / occupation	Voting rights	Relationship	
						Personnel	Business
(1) Major shareholder of the Company	Atsuo Fukada	—	—	Corporate adviser of the Company	10.61%	—	Corporate adviser of the Company
(2) A company whose majority shares are held by a major shareholder of the Company or his/her close relatives	Houkoku Kogyo, Co., Ltd.	Yodogawa-ku, Osaka city, Osaka	¥10 (\$87)	Rental of real estate	0.01%	—	Rental of real estate

Name	Transaction	Transaction amount	Description	Year-end balance
Atsuo Fukada	Salary for services as corporate adviser	¥2 (\$16)	—	—
Houkoku Kogyo, Co., Ltd.	Rent for building and parking lot	¥92 (\$808)	Deposit	¥85 (\$747)

Notes: 1) Transaction amounts and year-end balances do not include consumption taxes.

2) Houkoku Kogyo, Co., Ltd. is wholly-owned by Atsuo Fukada and his close relatives.

3) Salary for services as corporate adviser was determined in line with that for other corporate advisers.

4) Rent for building and parking lot was determined in line with that for other similar arm's-length transactions.

## 17. Segmental Information

### (1) Segmental Information by Type of Business

	(Millions of yen)				
	2006				
	Geo-engineering services	Measuring instruments	Subtotal	Corporate/ (Eliminations)	Consolidated total
Net sales and operating income:					
(1) Sales to external customers	¥30,898	¥ 8,533	¥39,431	¥ —	¥39,431
(2) Inter-segment transactions	—	831	831	(831)	—
Net sales	<u>30,898</u>	<u>9,364</u>	<u>40,262</u>	<u>(831)</u>	<u>39,431</u>
Operating expenses	29,771	8,832	38,603	(878)	37,725
Operating income	<u>¥ 1,127</u>	<u>¥ 532</u>	<u>¥ 1,659</u>	<u>¥ 47</u>	<u>¥ 1,706</u>
Total assets, depreciation and amortization expense, impairment loss on fixed assets and capital expenditure:					
Total assets	¥32,357	¥12,041	¥44,398	¥23,795	¥68,193
Depreciation and amortization expense	¥ 579	¥ 195	¥ 774	¥ 16	¥ 790
Impairment loss on fixed assets	¥ 12	¥ —	¥ 12	¥ —	¥ 12
Capital expenditure	<u>¥ 357</u>	<u>¥ 224</u>	<u>¥ 581</u>	<u>¥ (14)</u>	<u>¥ 567</u>
	(Millions of yen)				
	2007				
	Geo-engineering services	Measuring instruments	Subtotal	Corporate/ (Eliminations)	Consolidated total
Net sales and operating income:					
(1) Sales to external customers	¥32,827	¥ 9,917	¥42,744	¥ —	¥42,744
(2) Inter-segment transactions	—	729	729	(729)	—
Net sales	<u>32,827</u>	<u>10,646</u>	<u>43,473</u>	<u>(729)</u>	<u>42,744</u>
Operating expenses	31,669	9,828	41,497	(766)	40,731
Operating income	<u>¥ 1,158</u>	<u>¥ 818</u>	<u>¥ 1,976</u>	<u>¥ 37</u>	<u>¥ 2,013</u>
Total assets, depreciation and amortization expense, and capital expenditure:					
Total assets	¥32,216	¥15,034	¥47,250	¥20,844	¥68,094
Depreciation and amortization expense	¥ 542	¥ 229	¥ 771	¥ 14	¥ 785
Capital expenditure	<u>¥ 311</u>	<u>¥ 479</u>	<u>¥ 790</u>	<u>¥ (1)</u>	<u>¥ 789</u>
	(Thousands of U.S. dollars)				
	2007				
	Geo-engineering services	Measuring instruments	Subtotal	Corporate/ (Eliminations)	Consolidated total
Net sales and operating income:					
(1) Sales to external customers	\$287,580	\$ 86,875	\$374,455	\$ —	\$374,455
(2) Inter-segment transactions	—	6,387	6,387	(6,387)	—
Net sales	<u>287,580</u>	<u>93,262</u>	<u>380,842</u>	<u>(6,387)</u>	<u>374,455</u>
Operating expenses	277,435	86,094	363,529	(6,713)	356,816
Operating income	<u>\$ 10,145</u>	<u>\$ 7,168</u>	<u>\$ 17,313</u>	<u>\$ 326</u>	<u>\$ 17,639</u>
Total assets, depreciation and amortization expense, and capital expenditure:					
Total assets	\$282,224	\$131,710	\$413,934	\$182,600	\$596,534
Depreciation and amortization expense	\$ 4,754	\$ 2,004	\$ 6,758	\$ 120	\$ 6,878
Capital expenditure	<u>\$ 2,727</u>	<u>\$ 4,203</u>	<u>\$ 6,930</u>	<u>\$ (17)</u>	<u>\$ 6,913</u>

Notes: 1) Method of determination of business segments:

Business segments are classified based on business line, product, and similarity of market.

2) The Companies operate principally in the following two areas of business:

Geo-engineering services ----- Geo-engineering, planning, construction, environmental research, environmental assessment, risk analysis, and so forth.

Measuring instruments ----- Measuring instruments for geo-engineering, oil search, sound wave searching, underground radar, earthquake observation, security, and so forth.

3) Included in the "Corporate/(Eliminations)" column are common assets of ¥24,029 million and ¥20,941 million (\$183,452 thousand) as at December 31, 2006 and 2007, respectively, which mainly comprised surplus working funds (cash and marketable securities), long-term investment funds (investments in securities), and other assets which belong to the Companies.

4) "Depreciation and amortization expense" and "Capital expenditure" include long-term prepaid expenses and the related amortization.

5) Effective January 1, 2006, the Company and its domestic consolidated subsidiaries adopted the Accounting Standard for Directors' Bonuses (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005). As a result, operating income decreased by ¥39 million for "Geo-engineering services" and ¥1 million for "Measuring instruments" for the year ended December 31, 2006 compared with what would have been reported using the previous method.

(2) Segmental Information by Geographical Region

(Millions of yen)

	2006					Consolidated total
	Japan	North America	Other areas	Subtotal	Eliminations	
Net sales and operating income:						
(1) Sales to external customers	¥32,314	¥ 6,100	¥1,017	¥39,431	¥ —	¥39,431
(2) Inter-segment sales	46	134	38	218	(218)	—
Net sales	<u>32,360</u>	<u>6,234</u>	<u>1,055</u>	<u>39,649</u>	<u>(218)</u>	<u>39,431</u>
Operating expenses	31,130	5,766	1,046	37,942	(217)	37,725
Operating income	<u>¥ 1,230</u>	<u>¥ 468</u>	<u>¥ 9</u>	<u>¥ 1,707</u>	<u>¥ (1)</u>	<u>¥ 1,706</u>
Total assets:						
Total assets	<u>¥33,757</u>	<u>¥ 9,579</u>	<u>¥ 898</u>	<u>¥44,234</u>	<u>¥23,959</u>	<u>¥68,193</u>

(Millions of yen)

	2007					Consolidated total
	Japan	North America	Other areas	Subtotal	Eliminations	
Net sales and operating income:						
(1) Sales to external customers	¥33,999	¥ 6,594	¥2,151	¥42,744	¥ —	¥42,744
(2) Inter-segment sales	43	318	17	378	(378)	—
Net sales	<u>34,042</u>	<u>6,912</u>	<u>2,168</u>	<u>43,122</u>	<u>(378)</u>	<u>42,744</u>
Operating expenses	32,786	6,294	2,032	41,112	(381)	40,731
Operating income	<u>¥ 1,256</u>	<u>¥ 618</u>	<u>¥ 136</u>	<u>¥ 2,010</u>	<u>¥ 3</u>	<u>¥ 2,013</u>
Total assets:						
Total assets	<u>¥35,564</u>	<u>¥10,417</u>	<u>¥1,263</u>	<u>¥47,244</u>	<u>¥20,850</u>	<u>¥68,094</u>

(Thousands of U.S. dollars)

	2007					Consolidated total
	Japan	North America	Other areas	Subtotal	Eliminations	
Net sales and operating income:						
(1) Sales to external customers	\$297,842	\$57,766	\$18,847	\$374,455	\$ —	\$374,455
(2) Inter-segment sales	380	2,787	145	3,312	(3,312)	—
Net sales	<u>298,222</u>	<u>60,553</u>	<u>18,992</u>	<u>377,767</u>	<u>(3,312)</u>	<u>374,455</u>
Operating expenses	287,216	55,143	17,798	360,157	(3,341)	356,816
Operating income	<u>\$ 11,006</u>	<u>\$ 5,410</u>	<u>\$ 1,194</u>	<u>\$ 17,610</u>	<u>\$ 29</u>	<u>\$ 17,639</u>
Total assets:						
Total assets	<u>\$311,555</u>	<u>\$91,261</u>	<u>\$11,069</u>	<u>\$413,885</u>	<u>\$182,649</u>	<u>\$596,534</u>

- Notes: 1) Geographical segmentation is determined by geographical proximity.  
2) Main regions other than Japan:  
(1) North America: U.S.A. and Canada  
(2) Other areas: Other regions excluding U.S.A. and Canada  
3) Included in the "Eliminations" column are common assets of ¥24,029 million and ¥20,941 million (\$183,452 thousand) as at December 31, 2006 and 2007, respectively, which mainly comprised surplus working funds (cash and marketable securities), long-term investment funds (investments in securities), and other assets which belong to the Companies.  
4) Effective the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries adopted the Accounting Standard for Directors' Bonuses (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005). As a result, operating income decreased by ¥40 million for "Japan" for the year ended December 31, 2006 compared with what would have been reported using the previous method.

(3) Overseas Sales

	(Millions of yen)		(Thousands of U.S. dollars)
	2006	2007	2007
Overseas sales	¥ 7,276	¥ 9,021	\$ 79,034
North America	2,434	3,444	30,170
Other areas	4,842	5,577	48,864
Consolidated net sales	<u>¥39,431</u>	<u>¥42,744</u>	<u>\$374,455</u>
Overseas sales/Consolidated net sales	18.5%	21.1%	21.1%
North America	6.2%	8.1%	8.1%
Other areas	12.3%	13.0%	13.0%

- Notes: 1) The above regions are determined by geographical proximity.  
2) Main regions:  
(1) North America: U.S.A. and Canada  
(2) Other areas: Other regions excluding U.S.A. and Canada  
3) "Overseas sales" consisted of exports of the Company and sales of consolidated subsidiaries outside Japan (but excluded transactions between consolidated subsidiaries).

## 18. Derivatives

The Company and one domestic consolidated subsidiary enter into currency swap agreements as hedging instruments, and invest in exchangeable bonds ("EB"). The currency swap agreements are designed to hedge and minimize the Company's and its domestic consolidated subsidiary's exposure to foreign currency exchange rate fluctuations on receivables and payables denominated in foreign currencies. The purposes of investments in EB are to receive stable financial gains and to utilize the Company's excess funds. The Company's and its domestic consolidated subsidiary's policy does not allow the holding or issuance of any derivative financial instruments for trading or speculation purposes. The Company's and its domestic consolidated subsidiary's management believes that there is no credit

risk associated with these currency swaps since they are executed with creditworthy financial institutions.

With the approval of the Company's and its domestic consolidated subsidiary's senior management, the finance and accounting department executes and manages the Company's and its domestic consolidated subsidiary's derivative contracts, subject to internal rules governing transaction authority and transaction limits.

### Supplementary information:

With respect to the market values of derivative transactions, the contract amount of each transaction is either a nominal contract amount or a notional principal amount and, therefore, does not accurately reflect the size of the risk involved in the transaction.

(2006)

### Currency-related transactions

December 31,		(Millions of yen)			
		2006			
Type of transaction:		Contract amount	Portion exceeding 1 year	Market value	Unrealized gain/(loss)
Non-marketable transactions	Currency swaps Receive fixed (U.S.\$) , Pay fixed (¥)	¥ 688	¥ 516	¥ (1)	¥ (1)
Total		<u>¥ 688</u>	<u>¥ 516</u>	<u>¥ (1)</u>	<u>¥ (1)</u>

Notes: 1) Market values

Currency swap transactions: Market values are based on prices submitted by the financial institutions involved in the transactions.

2) Currency option transactions include offsetting transactions (both buy and sell) that meet certain market conditions for spot exchange rates.

(2007)

### Currency-related transactions

December 31,		(Millions of yen)			
		2007			
Type of transaction:		Contract amount	Portion exceeding 1 year	Market value	Unrealized gain/(loss)
Non-marketable transactions	Currency swaps Receive fixed (U.S.\$) , Pay fixed (¥)	¥ 688	¥ 378	¥ 1	¥ 1
Total		<u>¥ 688</u>	<u>¥ 378</u>	<u>¥ 1</u>	<u>¥ 1</u>

Notes: 1) Market values

Currency swap transactions: Market values are based on prices submitted by the financial institutions involved in the transactions.

2) Currency option transactions include offsetting transactions (both buy and sell) that meet certain market conditions for spot exchange rates.

### Equity option

December 31,		(Millions of yen)			
		2007			
Type of transaction:		Contract amount	Portion exceeding 1 year	Market value	Unrealized gain/(loss)
Non-marketable transaction	Exchangeable bond	¥ 100	¥ 100	¥ 67	¥ (33)
Total		<u>¥ 100</u>	<u>¥ 100</u>	<u>¥ 67</u>	<u>¥ (33)</u>

Notes: 1) The valuation of fair market value for the above contract was based on a report from a financial institution.

2) The bond portion and the implied derivative portion cannot be valued separately; thus, they are valued together and the related unrealized gain (loss) is reflected in "Other Income (Expenses)" in the accompanying consolidated statement of income for the year ended December 31, 2007.

(2007)

### Currency-related transactions

December 31,		(Thousands of U.S. dollars)			
		2007			
Type of transaction:		Contract amount	Portion exceeding 1 year	Market value	Unrealized gain/(loss)
Non-marketable transactions	Currency swaps Receive fixed (U.S.\$) , Pay fixed (¥)	\$ 6,031	\$ 3,317	\$ 3	\$ 3
Total		<u>\$ 6,031</u>	<u>\$ 3,317</u>	<u>\$ 3</u>	<u>\$ 3</u>

Notes: 1) Market values

Currency swap transactions: Market values are based on prices submitted by the financial institutions involved in the transactions.

2) Currency option transactions include offsetting transactions (both buy and sell) that meet certain market conditions for spot exchange rates.

### Equity option

(Thousands of U.S. dollars)

December 31,		2007			
Type of transaction:		Contract amount	Portion exceeding 1 year	Market value	Unrealized gain/(loss)
Non-marketable transaction	Exchangeable bond	\$ 878	\$ 878	\$ 591	\$ (287)
Total		<u>\$ 878</u>	<u>\$ 878</u>	<u>\$ 591</u>	<u>\$ (287)</u>

Notes: 1) The valuation of fair market value for the above contract was based on a report from a financial institution.

2) The bond portion and the implied derivative portion cannot be valued separately; thus, they are valued together and the related unrealized gain (loss) is reflected in "Other Income (Expenses)" in the accompanying consolidated statement of income for the year ended December 31, 2007.

### 19. Prior-year Personnel Expenses

The Company has received a recommendation and attention regarding unpaid overtime allowances with respect to one of its branches from the Labor Standard Inspection Office on January 9, 2008.

The Company has accepted the recommendation and attention and has provided an overtime allowance for all employees in all branches with respect to the year ended December 31, 2006, amounting to ¥254 million (\$2,228 thousand) in other expenses for the year ended December 31, 2007.

### 20. Subsequent Event

The following distribution of retained earnings of the Company in respect of the year ended December 31, 2007 proposed by the Board of Directors was approved at the annual shareholders' meeting of the Company held on March 26, 2008:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥7.5 per share)	<u>¥214</u>	<u>\$1,872</u>

## Report of Independent Auditors

### To the Board of Directors and Shareholders of OYO Corporation

We have audited the accompanying consolidated balance sheet of OYO Corporation and consolidated subsidiaries as of December 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company and consolidated subsidiaries as of December 31, 2006 and for the year then ended were audited by other auditors whose report dated March 28, 2007 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OYO Corporation and consolidated subsidiaries as of December 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

*Ernst & Young Shin Nihon*

March 26, 2008

# Corporate Information

## Share Overview (as of December 31, 2007)

### Number of Authorized Shares

120,000,000 shares

### Number of Shares Issued

32,082,573 shares

(of which, Treasury Stock: 3,580,581 shares)

### Shares per Trading Unit

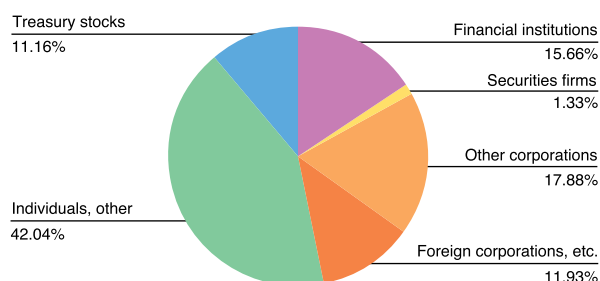
100 shares

### Number of Shareholders

8,007

(excluding shareholders who only hold shares less than one unit)

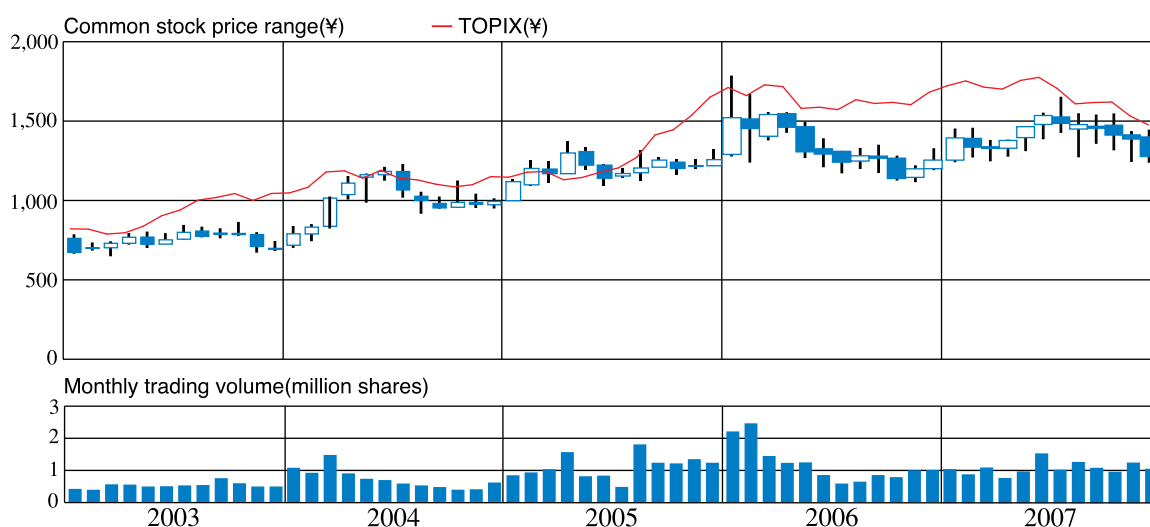
### Breakdown of Shareholders



### Principal Shareholders

Trade name	Number of the Company's shares held (thousand shares)	Shareholding ratio (%)
Atsuo Fukada	3,012	9.39
FUKADA GEOLOGICAL INSTITUTE	2,948	9.19
OYO Corporation Employee Shareholders Association	1,263	3.94
Mizuho Corporate Bank, Ltd.	920	2.87
Goldman Sachs International	822	2.56
The Master Trust Bank of Japan, Ltd. (trust units)	719	2.24
Tama Suyama	576	1.80
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	550	1.71
Japan Trustee Services Bank, Ltd. (trust units)	531	1.66
Nippon Life Insurance Company	527	1.64

### Common Stock Price Trends



## Corporate Data (as of March 26, 2008)

### Name

OYO CORPORATION

### Incorporated

May 2, 1957

### Paid-in Capital

¥16,174,600 thousand (U.S.\$141,696 thousand)

### Number of Employees

2,028 (consolidated)  
1,079 (non-consolidated)  
(as of December 31, 2007)

### Number of Sales Offices

55 (as of April 1, 2008)

### Listing

The Tokyo Stock Exchange (First Section)

### Code Number

9755

### Financial Year

January 1 to December 31

### Annual Shareholders' Meeting

March

### Transfer Agent

Tokyo Securities Transfer Agent Co. Ltd.  
6-2, Ote-machi 2-chome,  
Chiyoda-ku, Tokyo, Japan 100-0004  
Tel: +81-3-5355-7621

### Auditor

Ernst & Young ShinNihon  
Hibiya Kokusai Bldg.  
2-2-3 Uchisaiwai-cho,  
Chiyoda-ku, Tokyo, Japan 100-0011  
C.P.O. Box 1196, Tokyo, Japan 100-8641  
Tel: +81-3-3503-1100

## Board of Directors, Officers and Corporate Auditors (as of April 1, 2008)

### Chairman & CEO

Moriyuki Taya\*

### President & COO

Kiyoshi Mamiya\*

### Deputy President & CFO

Naobumi Daibo\*

### Deputy President

Masaru Narita

### Director

Katsuhiko Kobayashi

### Director and Senior Executive Officers

Tsuneaki Iwasaki  
Keiji Tonouchi  
Keiichi Hirata

### Director

Takashi Kanemori

### Director and Senior Executive Officer

Keizo Kono

### Full-time Corporate Auditors

Tateo Suzuki  
Toshihiko Ishikita

### Corporate Auditors

Kazuo Shinozawa  
Syunji Saito

### Senior Executive Officers

Kazuhiko Sasaki  
Koji Kawamoto  
Kanji Baba

### Executive Officers

Masayoshi Shibuki  
Kenji Yoshinaga  
Yoshinori Sone  
Tadashi Yoshioka  
Jun Shigenobu  
Akira Tanaka  
Fumihiko Doumoto  
Mitsuhiro Nanbu  
Kenji Sato  
Shinichi Hiramatsu

\*Representative Director

## OYO's Subsidiaries and Affiliates

### Head Office

2-6 Kudan-kita 4-chome,  
Chiyoda-ku, Tokyo 102-0073, Japan  
Tel: +81-3-3234-0811  
Fax: +81-3-3263-6854  
www.oyo.co.jp  
E-mail: prosight@oyonet.oyo.co.jp

### [Subsidiaries]

#### OYO Resources Management Corporation

Chiyoda-ku, Tokyo, Japan  
*(Sale of software & hardware products for geological & environmental investigation, temporary personnel agency, nonlife insurance agency)*  
\* www.oyorm.co.jp

#### Tohoku Boring Co., Ltd

Sendai, Miyagi, Japan  
*(Geological investigation, landslip prevention and well drilling)*  
\* www.tbtor.co.jp

#### NS Environmental Science Consultant Corporation

Minato-ku, Tokyo, Japan  
*(Environmental surveys and environmental assessment)*  
\* www.ns-kankyo.co.jp

#### Ocean Engineering Corporation

Saitama, Saitama, Japan  
*(Marine surveying and investigation)*  
\* www1.odn.ne.jp/ocean\_eng  
E-mail: ocean-eng@pop17.odn.ne.jp

#### KOEI Consultant Co., Ltd

Bunkyo-ku, Tokyo, Japan  
*(Civil engineering services related design, surveying and investigation and project management)*  
\* www.koei-ds.co.jp

#### OYO Seismic Instrumentation Corporation

Saitama, Saitama, Japan  
*(Sale of seismometers and seismological instrumentation services)*  
\* www.oyosi.co.jp

#### OYO International Corporation

Chiyoda-ku, Tokyo, Japan  
*(Geotechnical, environmental and disaster prevention engineering services)*  
E-mail: oic@oyointer.com

#### OYO Geo-monitoring Service Corporation

Kawaguchi, Saitama, Japan  
*(Geo-monitoring service and instruments rental)*  
\* www.oyoks.co.jp

#### Nankyu Geo Technics Corporation

Kagoshima, Kagoshima, Japan  
*(Geological investigation and geophysical services)*  
\* www.nan9.co.jp

#### OYO RMS Corporation

Minato-ku, Tokyo, Japan  
*(Damage risk evaluation and risk management for earthquake and typhoon disasters)*  
www.oyorms.co.jp  
E-mail: oyorms@oyorms.co.jp

#### KCS Co. Ltd

Shinjuku-ku, Tokyo, Japan  
*(Road planning, transportation analysis, regional planning, environmental evaluation, and ecosystem survey)*  
\* www.kcsweb.co.jp

### [Overseas Subsidiaries]

#### OYO Corporation U.S.A.

Pasadena, California, U.S.A.  
*(Holding company of US & UK operating subsidiaries)*

#### Kinometrics, Inc.

Pasadena, California, U.S.A.  
*(Manufacturing and sale of seismometers, strong motion seismometers and seismic observation systems)*  
www.kinometrics.com  
E-mail: sales@kmi.com

#### Geometrics, Inc.

San Jose, California, U.S.A.  
*(Manufacturing and sale of geophysical instruments)*  
www.geometrics.com  
E-mail: sales@mail.geometrics.com

#### Geophysical Survey Systems, Inc.

North Salem, New Hampshire, U.S.A.  
*(Manufacturing and sale of ground penetrating radar systems)*  
www.geophysical.com  
E-mail: sales@geophysical.com

#### Robertson Geologging Limited

Deganwy, Conwy, U.K.  
*(Manufacturing and sale of slimhole logging systems)*  
www.geologging.com  
E-mail: sales@geologging.com

### [Affiliates]

#### Engineering & Risk Services Corporation

Minato-ku, Tokyo, Japan  
*(Natural disaster engineering and risk analyzing services and environmental site assessment)*  
www.ers-co.co.jp  
E-mail: webmaster@ers-co.co.jp

#### RMS Japan Corporation

Minato-ku, Tokyo, Japan  
*(Natural disaster risk analysis and advisory services (insurance market))*  
Japan.rms.com

### [Overseas Affiliates]

#### IRIS Instruments SAS

Orleans, France  
*(Manufacturing and sale of geophysical instruments)*  
www.iris-instruments.com  
E-mail: info@iris-instruments.com

#### OYO Geospace Corporation

Houston, Texas, U.S.A.  
*(Holding company of the oil exploration instruments subsidiaries)*  
www.oyogeospace.com

\* Japanese only

