Sankyo

# 2005 ANNUAL REPORT

Year ended March 31, 2005

**Management Principles**

1. Management Policy

Based on its "Customers First" principle, Sankyo Seiki Manufacturing Co., Ltd. aims to strengthen its competitiveness through the accumulation and development of core technologies, to maintain high profitability, and to become a company that can achieve continuous development.

In addition, while pursing globalization of management and greater efficiencies throughout the Group, Sankyo Seiki strives to implement environmental measures, company ethics and other compliance initiatives throughout the Group. Sankyo Seiki also works to maximize shareholder value by achieving strong growth, greater earnings and a rising share price over the long term, and seeks to fulfill its responsibilities to all shareholders.

2. Profit-Sharing Policy

Sankyo Seiki intends to build good relationships with stakeholders and expand its business, while contributing to the emergence of a better society.

Stable dividends are important to our shareholders. At the same time, it is our responsibility to declare dividends in proportion to the Company's business performance. Profit sharing with shareholders, therefore, is based on comprehensive consideration of the Company's long-term welfare.

Retained earnings will be applied to R&D and capital investment in order to provide for further growth and development.

3. Medium-Term Management Strategy

Since becoming a member of the Nidec Group, Sankyo Seiki has fundamentally revised its management strategies, which enables it to maximize synergies created with the Nidec Group.

Management resources will now be actively invested in developing new products and markets and attracting new customers, which will allow the business to grow and in turn increase earnings, our first priority. Also, in an effort to establish a solid profit structure, we will implement a thorough cost-cutting initiative to cut purchasing of parts and other costs.

Furthermore, adhering to the principle of "Customers First," we are working to establish a system which allows us to respond to the needs of customers as quickly as possible, and to keep pace with changes in the global marketplace.

In a new business venture, we are entering the field of parts processing, utilizing the Company's ultraprecision processing technologies in an effort to develop a precision parts business. We intend to expand this business into the wider market, increasing earnings and growing the business.

4. Priority Issues

(1) Implement strategies to increase sales
We will work aggressively to increase sales by reinforcing existing products and thoroughly developing new products, markets and customers.

(2) Implement strategies to improve earnings
To solidify and enhance its profit structure, the Company as a whole is working to reduce basic costs by reforming the cost structure through a basic review of product designs and the promotion of in-house manufacturing, as well as an in-depth assessment of expenditures.

(3) Implement strategies to improve speed
In order to improve speed in all aspects of the business, we are working to greatly enhance the speed of our market response by establishing a synchronous development, production, and sales structure, and working to respond to the demands of our customers.

(4) Implement environmental strategies
As a corporate Group that is expanding globally, measures for environmental protection are an important issue. We are working proactively in this area, and include our overseas subsidiaries in such efforts.

5. Corporate Governance

Sankyo Seiki considers an active corporate governance program indispensable to increasing corporate value, retaining the trust of shareholders and all stakeholders, and ensuring support for the Company.

Sankyo Seiki has adopted an auditing system. The Board of Directors consists of 11 members. Although none of these are outside directors, the period of service for directors was shortened from two years to one. This revision was made in order to speed up the response to the needs of shareholders. The executive officer system was also abandoned in accordance with this change, but we believe that the shortening of the term for directors will adequately allow for flexible response to changes in the operating environment. Furthermore, as of March 31, 2005, the provision for directors' retirement benefits was eliminated and a performance-based compensation system was adopted. Two of the Company's three auditors are outside auditors, both of which rigorously audit the statutory and regulatory compliance of decision making and management of directors in a highly professional manner.

In regards to the compliance structure, compliance and risk management committees were established in October 2004, with the heads of each committee being appointed by the Board of Directors. With regard to basic policy and other important matters, the Sankyo Seiki Group is promoting compliance activities with the approval of the Board of Directors. In addition, the Company encourages ongoing education for all of its employees and conducts training activities. At the same time, from April 2005, an internal auditing office was established, fully functioning as the framework for internal controls.

6. Issues Concerning the Parent Company

(1) Corporate name

(As of March 31, 2005)

| Company name | Type | Percentage of voting shares | Stock exchange listings |
|---|---|---|---|
| Nidec Corporation | Parent company | 56.14% (2.12%) | Tokyo, Osaka, New York |

Note: Listed in the percentage of voting shares column, in parentheses, is the parent company's percentage of indirectly owned shares in Sankyo Seiki.

(2) Relationship and position of Sankyo Seiki to the parent company and other listed companies within the group
Sankyo Seiki's parent company, Nidec Corporation, owns 54.02% of the Company's voting shares, and three of the Company's managing executives are from the parent company.

Sankyo Seiki basically maintains an autonomous relationship in regards to business operations and transactions with Nidec Corporation and the Nidec Group.

(3) Issues relating to parent company transactions
Important transactions with the parent company are described in the note regarding "related-party transactions."

**Business Performance**

1. Review of Fiscal Year 2005

During the fiscal year 2005, ended March 31 2005, the Japanese economy benefited from the steady expansion of the world economy, which was driven by strong conditions in America and East Asia. As a result, the trend toward recovery continued. However, prices of raw material and fuel continued to rise, and companies in the IT-related industries adjusted inventories, which imparted a slight sluggishness to the economic picture, particularly in the export-related industries. This clouded the business outlook, and harsh conditions in the business environment persisted.

The electronic devices markets served by the Sankyo Seiki Group were energized by the strength of digital home electronics, and sales of home appliances (refrigerators and washing machines) remained healthy. However, price competition in Japan's deflationary economy was intense. The market for optical drives for PCs expanded, and sales of DVD burners and slim hard drives for notebook PCs were particularly strong. In the systems machinery market, the sharp growth of the liquid crystal television market and the increasing size of liquid crystal panels produced rapid expansion of demand for LCD glass panel handling robots.

In this environment, Sankyo Seiki's consolidated net sales rose ¥15,502 million, or 14.5%, to ¥122,312 million, and, following last fiscal year's operating loss of ¥6,221 million, operating income of ¥10,354 million was posted, a record high. Because the Sankyo Seiki Group's policy is to effect management reorganization promptly, from the last fiscal year forward, Sankyo Seiki will be aggressively addressing such matters as withdrawal from or downsizing of unprofitable businesses, reform measures such as companywide rationalization and cost-cutting programs, new product development, and the allocation of resources to profitable businesses. These measures will allow the Company to build a solid earnings structure, and significant progress was made in implementing reform measures during the fiscal year under review.

Beginning with the fiscal year under review, Sankyo Seiki changed to segments organized by type of business. The previous fiscal year's figures have been recalculated in line with the new structure to facilitate comparisons with fiscal 2005 figures. Performance by business segment was as follows.

2. Results by Business Segment

Electronic Components
Net sales in the electronic components business rose ¥1,541 million, or 1.8%, to ¥86,686 million. Performance was affected by the downsizing of the floppy-disk-drive (FDD) motor business and the February 2004 shutdown of fluid dynamic bearing (FDB) motor operations. Sales of VCR motors dropped 33.4% as a result of the contraction of that market, and production cuts by our customers caused a 37.1% decline in sales of brush motors and a significant drop in sales of DC motors. In contrast, orders increased for optical pick-up units, particularly CD-R/RW and DVD combination type units, and sales of these products grew 38.1%. Orders for parts units for refrigerators and washing machines were healthy, and sales of home appliance units rose 11.1%.

Operating income totaled ¥3,791 million, in contrast to last fiscal year's operating loss. In addition to the increased sales revenues of home appliance units, rationalization resulted in lower costs, and earnings on sales of these products increased. While sales of DC motors contracted, rationalization and reductions in operating expenses, mainly in overseas operations, brought significant improvement in earnings. The increased sales of optical pickups, termination of FDB motor operations, and the downsizing of the FDD motor business also contributed to the recovery in operating income. Sankyo Seiki's subsidiaries also showed progress in lowering production costs and operating expenses, resulting in improved profitability. Overall, this segment showed significant improvement in earnings.

Systems Machinery
Net sales in the systems machinery business rose ¥14,608 million, or 81.0%, to ¥32,649 million. Sales of LCD glass panel handling robots shot up 174.1%, and net sales of these products reached a new high. In addition, revenues from sales of magnetic card readers for ATM terminals rose 2.1%.

As a result of the increased sales of robots and card readers, combined with rationalization and reductions in operating expenses, operating income in this segment grew ¥5,209 million to ¥6,997 million.

Others
Net sales for all other products combined fell ¥647 million, or 17.9%, from the previous fiscal year to ¥2,977 million. The principal reason for this is that Sankyo Seiki sold all its holdings in Sankyo Logistics Co., Ltd. to Nidec Corporation in fiscal 2004, and in fiscal 2005 sold its holdings in Sankyo Total Service Corporation to Nidec Total Service Corporation, with the result that both companies were removed from the scope of consolidation.

Net sales in the Others Segment were affected by the decline in revenues, but progress was made in reducing production costs. This allowed operating income to rise by ¥69 million to ¥254 million.

3. Cash Flows

Cash and cash equivalents on March 31, 2005 totaled ¥20,914 million, down ¥5,800 million from a year earlier.

Principal factors affecting cash flows during the fiscal year under review were as below.

Cash flows from operating activities
Net cash provided by operating activities was ¥9,678 million. The principal reason for this was an increase in income before income taxes and minority interests, but the increased reversal of the allowance for employee retirement benefits stemming from the liquidation of the employees' pension fund was also a factor.

Cash flows from investing activities
Net cash used in investing activities was ¥9,340 million. These investments were primarily in the acquisition of tangible fixed assets.

Cash flows from financing activities
Net cash used in financing activities was ¥6,290 million. This is primarily due to an increase in repayment of borrowed money.

4. Outlook

The world economy is forecast to remain in an unsettled condition throughout 2005, in addition to which rising petroleum and raw material prices further cloud the outlook. Stumbling IT-related industries have begun to show some signs of recovery following inventory adjustments and other measures, but continued severe economic conditions are forecast.

Sankyo Seiki is responding to this by further reinforcing the strong profit structure erected in the previous term, while working to expand earnings through the development of new products, markets, and customers. The Company is also continuing the rationalization and cost-reduction programs launched in the previous fiscal year, and is endeavoring to increase its ability to influence prices and its earning power.

## FIVE-YEAR SUMMARY

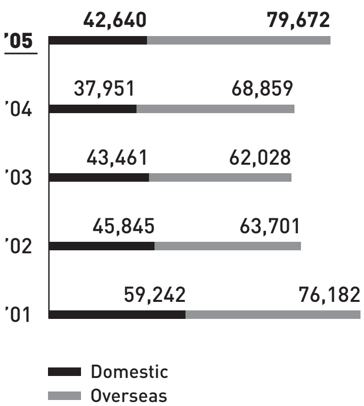
Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

| | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| Years Ended March 31 | **2005** | 2004 | 2003 | 2002 | 2001 | **2005** |
| Net sales | **¥122,312** | ¥106,810 | ¥105,489 | ¥109,546 | ¥135,424 | **$1,138,949** |
| Net income (loss) | **17,795** | (28,718) | (10,368) | (7,778) | 1,694 | **165,709** |
| | Yen | | | | | U.S. Dollars |
| Per share: | | | | | | |
| Net income (loss) | **¥93.19** | ¥(234.66) | ¥(118.80) | ¥(89.08) | ¥19.40 | **$0.87** |
| Cash dividends | **5.00** | | | | 4.00 | **0.05** |
| | Millions of Yen | | | | | Thousands of U.S. Dollars |
| Total shareholders' equity | **¥ 52,484** | ¥ 34,609 | ¥ 25,779 | ¥ 38,592 | ¥ 46,559 | **$ 488,720** |
| Total assets | **96,052** | 93,496 | 99,660 | 111,980 | 123,105 | **894,419** |
| Working capital | **38,578** | 37,678 | 8,214 | 16,541 | 23,189 | **359,231** |
| Long-term debt, less current portion | **380** | 579 | 14,613 | 15,143 | 14,680 | **3,540** |
| Capital expenditures | **13,079** | 8,713 | 5,864 | 6,125 | 8,389 | **121,787** |
| Depreciation and amortization | **4,259** | 5,715 | 5,951 | 6,108 | 6,073 | **39,659** |

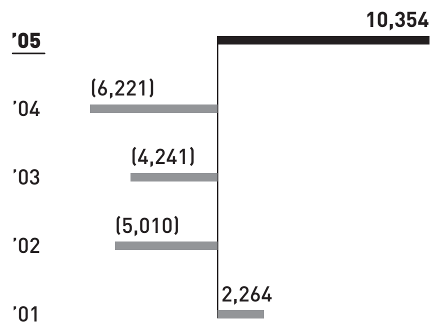
Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥107=US$1.00.

# MAJOR FINANCIAL INDICES

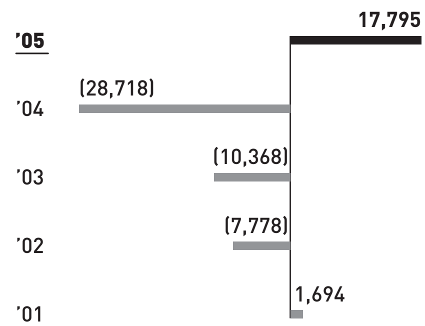
**Net Sales**
[Millions of Yen]



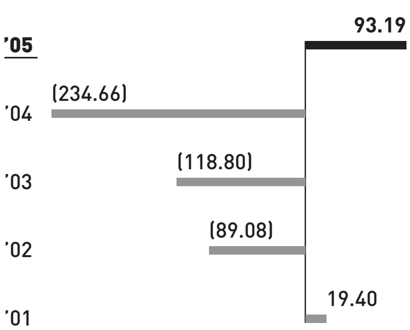

**Operating Income (Loss)**
[Millions of Yen]



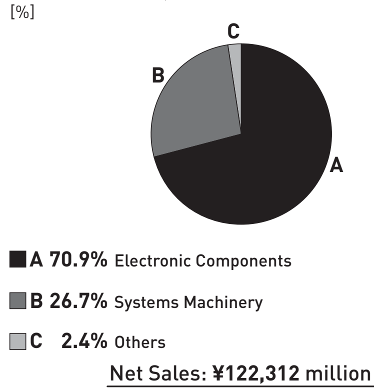

**Net Income (Loss)**
[Millions of Yen]



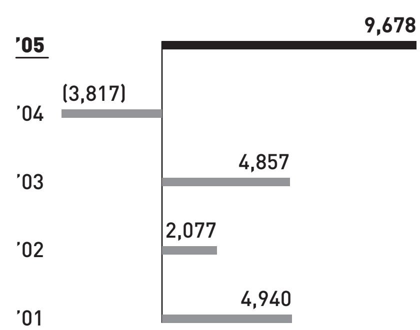

**Net Income (Loss) per Share**
[Yen]



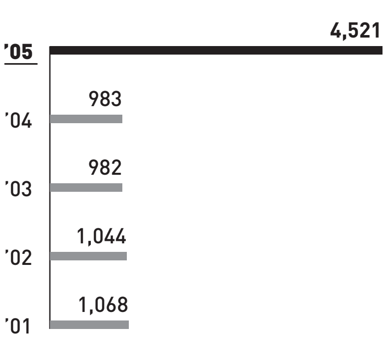

**Sales by Business Segment in the Year Ended March 31, 2005**
[%]



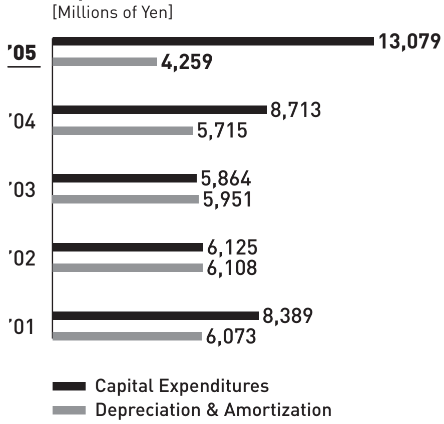

**Net Cash Provided by (Used in) Operating Activities**
[Millions of Yen]



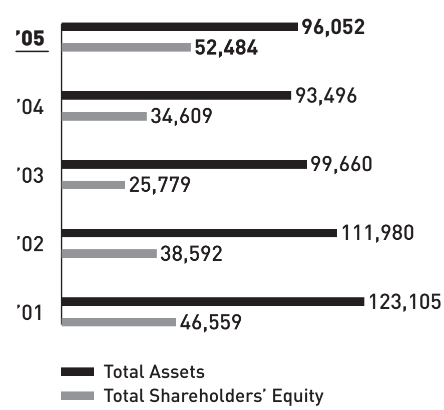

**R&D Expenses**
[Millions of Yen]




**Capital Expenditures/ Depreciation & Amortization**
[Millions of Yen]




**Total Assets/Total Shareholders' Equity**
[Millions of Yen]



## CONSOLIDATED BALANCE SHEETS

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

| March 31, 2005 and 2004 | Millions of Yen 2005 | Millions of Yen 2004 | Thousands of U.S. Dollars (Note 1) 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | **¥ 20,914** | ¥ 26,714 | **$ 194,744** |
| Short-term investments (Note 4) | **408** | 456 | **3,799** |
| Notes and accounts receivable: | | | |
| Trade notes | **4,893** | 3,799 | **45,564** |
| Trade accounts | **30,915** | 25,519 | **287,879** |
| Unconsolidated subsidiaries and associated companies | **28** | 134 | **258** |
| Other (Note 10) | **948** | 4,381 | **8,829** |
| Allowance for doubtful receivables | **(81)** | (204) | **(755)** |
| Inventories (Note 5) | **10,797** | 13,383 | **100,538** |
| Deferred tax assets (Note 9) | **226** | 184 | **2,106** |
| Prepaid expenses and other current assets | **258** | 364 | **2,404** |
| Total current assets | **69,306** | 74,730 | **645,366** |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land | **5,577** | 1,253 | **51,929** |
| Buildings and structures | **12,079** | 12,062 | **112,482** |
| Machinery and equipment | **45,035** | 44,370 | **419,359** |
| Construction in progress | **268** | 157 | **2,495** |
| Total | **62,959** | 57,842 | **586,265** |
| Accumulated depreciation | **(39,679)** | (42,441) | **(369,482)** |
| Net property, plant and equipment | **23,280** | 15,401 | **216,783** |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investments securities (Note 4) | **920** | 1,156 | **8,572** |
| Investments in unconsolidated subsidiaries and associated companies | **1,578** | 1,230 | **14,691** |
| Software | **83** | 20 | **770** |
| Deferred tax assets (Note 9) | **389** | 263 | **3,621** |
| Other assets (Note 10) | **496** | 696 | **4,616** |
| Total investments and other assets | **3,466** | 3,365 | **32,270** |
| TOTAL | **¥ 96,052** | ¥ 93,496 | **$ 894,419** |

See notes to consolidated financial statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| CURRENT LIABILITIES: | | | |
| Short-term bank loans (Note 6) | **¥ 1,986** | ¥ 7,641 | **$ 18,495** |
| Current portion of long-term debt (Note 6) | **113** | 196 | **1,048** |
| Notes and accounts payable: | | | |
| Trade notes | **2,936** | 5,111 | **27,343** |
| Trade accounts | **15,419** | 16,810 | **143,578** |
| Unconsolidated subsidiaries and associated companies | | | |
| Other (Note 2.i) | **4,995** | 3,042 | **46,516** |
| Income taxes payable (Note 9) | **742** | 368 | **6,908** |
| Accrued expenses | **2,619** | 2,757 | **24,389** |
| Deferred tax liabilities (Note 9) | **63** | 46 | **585** |
| Other current liabilities | **1,855** | 1,081 | **17,272** |
| Total current liabilities | **30,728** | 37,052 | **286,134** |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt, less current portion (Note 6) | **380** | 579 | **3,540** |
| Liability for retirement benefits (Note 7) | **473** | 17,992 | **4,404** |
| Deferred tax liabilities (Note 9) | **1,011** | 585 | **9,416** |
| Other (Note 2.i) | **7,855** | 312 | **73,144** |
| Total long-term liabilities | **9,719** | 19,468 | **90,504** |
| MINORITY INTERESTS | **3,121** | 2,367 | **29,061** |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12 and 14) | | | |
| SHAREHOLDERS' EQUITY (Note 8): | | | |
| Common stock—authorized, 400,000,000 shares; issued, 191,107,628 shares in 2005 and 191,107,628 shares in 2004 | **35,270** | 35,270 | **328,430** |
| Additional paid-in capital | | 28,238 | |
| Accumulated deficits | **19,483** | (26,550) | **181,422** |
| Unrealized gain on available-for-sale securities | **223** | 402 | **2,080** |
| Foreign currency translation adjustments | **(2,396)** | (2,689) | **(22,314)** |
| Treasury stock—at cost, 161,707 shares in 2005 and 128,059 shares in 2004 | **(96)** | (62) | **(898)** |
| Total shareholders' equity | **52,484** | 34,609 | **488,720** |
| TOTAL | **¥ 96,052** | ¥ 93,496 | **$ 894,419** |

## CONSOLIDATED STATEMENTS OF OPERATIONS

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| Years Ended March 31, 2005 and 2004 | **2005** | 2004 | **2005** |
| NET SALES | **¥122,312** | ¥106,810 | **$1,138,949** |
| COST OF SALES | **99,708** | 99,862 | **928,465** |
| Gross profit | **22,604** | 6,948 | **210,484** |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11) | **12,250** | 13,169 | **114,071** |
| Operating income (loss) | **10,354** | (6,221) | **96,413** |
| OTHER INCOME (EXPENSES): | | | |
| Interest expense | **(117)** | (776) | **(1,091)** |
| Interest and dividend income | **98** | 296 | **911** |
| Foreign exchange gain (loss) | **719** | (1,461) | **6,690** |
| Gain on sales of marketable and investment securities | **103** | 1,131 | **963** |
| Loss on devaluation of marketable and investment securities | | (57) | |
| Gain on sales of investment in associated companies | **26** | 420 | **244** |
| Additional retirement benefits paid to employees | | (1,228) | |
| Gain on sales of property, plant and equipment | **91** | 3,531 | **849** |
| Loss on disposals of property, plant and equipment | **(486)** | (5,419) | **(4,523)** |
| Equity in earnings of unconsolidated subsidiaries and associated companies | **15** | 101 | **139** |
| Amortization of transitional obligation on retirement benefits | | (6,346) | |
| Amortization of deferred charges—development costs | | (4,421) | |
| Loss on business restructuring | | (2,993) | |
| Loss from revaluation of properties for sale (Note 5) | | (3,490) | |
| Gain on liquidation of welfare pension plans (Notes 2.i and 7) | **8,491** | | **79,065** |
| Reversal of allowance for directors and corporate auditors retirement benefit (Note 7) | **545** | | **5,076** |
| Loss on liquidation of subsidiaries | **(72)** | | **(670)** |
| Other—net | **135** | (1,291) | **1,259** |
| Other expenses—net | **9,548** | (22,003) | **88,912** |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS | **¥ 19,902** | ¥ (28,224) | **$ 185,325** |
| INCOME TAXES (Note 9): | | | |
| Current | **965** | 776 | **8,979** |
| Deferred | **266** | (229) | **2,480** |
| Total income taxes | **1,231** | 547 | **11,459** |
| MINORITY INTERESTS IN NET INCOME (LOSS) | **(876)** | 53 | **(8,157)** |
| NET INCOME (LOSS) | **¥ 17,795** | ¥ (28,718) | **$ 165,709** |
| | Yen | | U.S. Dollars |
| PER SHARE INFORMATION | | | |
| COMMON STOCK—Net income (loss) (Note 2.q) | **¥ 93.19** | ¥ (234.66) | **$ 0.87** |
| CASH DIVIDENDS | **¥ 5.0** | | **$ 0.05** |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

| | Thousands | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|---|
| Years Ended March 31, 2005 and 2004 | Outstanding Number of Shares of Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings (Accumulated Deficits) | Unrealized Gain (Loss) on Available-for-sale Securities | Foreign Currency Translation Adjustments | Treasury Stock |
| BALANCE, MARCH 31, 2003 | 87,238 | ¥ 16,575 | ¥ 18,602 | ¥ (6,845) | ¥ (127) | ¥ (2,409) | ¥ (17) |
| Conversion of convertible bond | 15,996 | 4,743 | 4,726 | | | | |
| Issuance of common stock to NIDEC Corporation and its affiliates: | | | | | | | |
| ¥216 per share on October 1, 2003 | 57,800 | 6,242 | 6,242 | | | | |
| ¥513 per share on January 31, 2004 | 30,000 | 7,710 | 7,681 | | | | |
| Transfer to accumulated deficits from additional paid-in capital | | | (9,013) | 9,013 | | | |
| Net loss | | | | (28,718) | | | |
| Net increase in unrealized gain on available-for-sale securities | | | | | 529 | | |
| Net decrease in foreign currency translation adjustments | | | | | | (280) | |
| Acquisition of treasury stock | (54) | | | | | | (45) |
| BALANCE, MARCH 31, 2004 | 190,980 | ¥ 35,270 | ¥ 28,238 | ¥(26,550) | ¥ 402 | ¥ (2,689) | ¥ (62) |
| Transfer to accumulated deficits from additional paid-in capital | | | (28,238) | 28,238 | | | |
| Net income | | | | 17,795 | | | |
| Net decrease in unrealized gain on available-for-sale securities | | | | | (179) | | |
| Net increase in foreign currency translation adjustments | | | | | | 293 | |
| Acquisition of treasury stock | (34) | | | | | | (34) |
| BALANCE, MARCH 31, 2005 | **190,946** | **¥35,270** | | **¥19,483** | **¥ 223** | **¥(2,396)** | **¥(96)** |

| | Thousands of U.S. Dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | Additional Paid-in Capital | Retained Earnings (Accumulated Deficits) | Unrealized Gain (Loss) on Available-for-sale Securities | Foreign Currency Translation Adjustments | Treasury Stock |
| BALANCE, MARCH 31, 2004 | $ 328,430 | $ 262,946 | $ (247,233) | $ 3,745 | $ (25,037) | $ (580) |
| Transfer to accumulated deficits from additional paid-in capital | | (262,946) | 262,946 | | | |
| Net income | | | 165,709 | | | |
| Net decrease in unrealized gain on available-for-sale securities | | | | (1,665) | | |
| Net increase in foreign currency translation adjustments | | | | | 2,723 | |
| Acquisition of treasury stock | | | | | | (318) |
| BALANCE, MARCH 31, 2005 | **$328,430** | | **$ 181,422** | **$ 2,080** | **$(22,314)** | **$(898)** |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| Years Ended March 31, 2005 and 2004 | **2005** | 2004 | **2005** |
| OPERATING ACTIVITIES: | | | |
| Income (loss) before income taxes and minority interests | **¥ 19,902** | ¥(28,224) | **$ 185,325** |
| Adjustments for: | | | |
| Income taxes—paid | **(582)** | (690) | **(5,414)** |
| Depreciation and amortization | **4,259** | 5,715 | **39,659** |
| Reversal of doubtful receivables | **(190)** | (17) | **(1,765)** |
| Provision for retirement benefits—net | **(592)** | 1,178 | **(5,509)** |
| Gain on liquidation of welfare pension plans | **(8,491)** | | **(79,065)** |
| Reversal of allowance for directors and corporate auditors retirement benefit | **(545)** | | **(5,076)** |
| Gain on sales of marketable and investment securities | **(103)** | (1,019) | **(963)** |
| Gain on sales of investment in associated companies | **(26)** | (420) | **(244)** |
| Gain on sales of property, plant and equipment | **(91)** | (3,531) | **(850)** |
| Loss on disposal of property, plant and equipment | **486** | 5,419 | **4,523** |
| Equity in earnings of unconsolidated subsidiaries and associated companies | **(15)** | (101) | **(139)** |
| Loss on devaluation of marketable and investment securities | | 57 | |
| Loss on liquidation of subsidiaries | **72** | | **670** |
| Changes in assets and liabilities: | | | |
| Increase in trade receivables | **(6,115)** | (7,948) | **(56,941)** |
| Decrease (increase) in inventories | **2,525** | (2,107) | **23,510** |
| Increase (decrease) in trade payables | **(3,779)** | 7,475 | **(35,194)** |
| Other—net | **2,963** | 20,396 | **27,591** |
| Total adjustments | **(10,224)** | 24,407 | **(95,207)** |
| Net cash provided by (used in) operating activities | **9,678** | (3,817) | **90,118** |
| INVESTING ACTIVITIES: | | | |
| Proceeds from sales of property, plant and equipment | **1,062** | 7,809 | **9,887** |
| Purchases of property, plant and equipment | **(10,820)** | (8,343) | **(100,757)** |
| Proceeds from sales of marketable and investment securities | **324** | 3,968 | **3,012** |
| Purchases of marketable and investment securities | **(4)** | (11) | **(36)** |
| Proceeds from sales of consolidated subsidiaries | **93** | 1,482 | **870** |
| Purchases of consolidated subsidiaries | | (20) | |
| Purchases of unconsolidated subsidiaries and associated companies | **(72)** | (19) | **(670)** |
| Maturity of (investment in) time deposits | **2** | (26) | **23** |
| Decrease (increase) in other assets | **75** | (847) | **699** |
| Net cash provided by (used in) investing activities | **(9,340)** | 3,993 | **(86,972)** |
| FINANCING ACTIVITIES: | | | |
| Decrease in short-term bank loans—net | **(5,862)** | (11,644) | **(54,585)** |
| Proceeds from long-term debt | **665** | 1,475 | **6,197** |
| Repayments of long-term debt | **(924)** | (7,685) | **(8,605)** |
| Decrease in commercial paper—net | | (1,655) | |
| Redemption of convertible bond | | (54) | |
| Payment of cash dividends to minority interests | **(135)** | (63) | **(1,261)** |
| Proceeds from stock issuance of consolidated subsidiaries to minority interests | | 813 | |
| Proceeds from issuance of common stock | | 27,875 | |
| Other—net | **(34)** | (45) | **(318)** |
| Net cash provided by (used in) financing activities | **(6,290)** | 9,017 | **(58,572)** |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | **152** | (1,030) | **1,415** |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **(5,800)** | 8,163 | **(54,011)** |
| CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR | | 110 | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | **26,714** | 18,441 | **248,755** |
| CASH AND CASH EQUIVALENTS, END OF YEAR | **¥ 20,914** | ¥ 26,714 | **$ 194,744** |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Increase in capital stock from conversion of convertible bonds into common stock | | ¥ 4,743 | |
| Increase in additional paid-in capital from conversion of convertible bonds into common stock | | 4,726 | |
| Decrease in convertible bonds from conversion of convertible bonds into common stock | | 9,469 | |
| ADDITIONAL CASH FLOW INFORMATION: | | | |
| Interest paid | **¥ 114** | 756 | **$ 1,058** |
| Interest and dividends received | **126** | 329 | **1,176** |

See notes to consolidated financial statements.

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classifications used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Sankyo Seiki Mfg. Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***a. Consolidation—***The accompanying consolidated financial statements as of March 31, 2005 include the accounts of the Company and its 22 (23 in 2004) significant subsidiaries (together, the "Group").

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

Investments in one (one in 2004) unconsolidated subsidiary and one (one in 2004) associated company are accounted for by the equity method.

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

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method, over its equity in the net assets at the respective dates of acquisition, is charged to income when incurred.

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

***b. Cash Equivalents—***Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

***c. Marketable and Investment Securities—***Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (2) available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

***d. Inventories—***Inventories held by the Company, all of its domestic consolidated subsidiaries and most of its foreign consolidated subsidiaries are valued at lower of cost or market. All cost of inventories is determined by the first-in, first-out method. See Note 3(1) for a description of the change in accounting for valuation method for inventories for the year ended March 31, 2004.

***e. Property, Plant and Equipment—***Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized; maintenance and repairs, and minor renewals and improvements, are charged to income as incurred. Interest costs relating to construction of property, plant and equipment are not capitalized.

Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method while the straight-line method is applied to buildings acquired by the Company and its domestic consolidated subsidiaries on or after April 1, 1998. Those of foreign subsidiaries are principally computed by the straight-line method. The range of the estimated useful lives of the assets is principally as follows:

| | |
|---|---|
| Buildings and structures | 15-60 years |
| Machinery and equipment | 2-20 years |

(For the year ended March 31, 2004)
With the high speed renovation of technology, certain machinery and equipment become obsolete, and its estimated useful life becomes shorter. Therefore, during this current year, additional depreciation amounting to ¥475 million ($4,501 thousand) was provided, and in addition, the useful life was changed from 10 years to 7 years.

As a result of the abovementioned changes during current year, depreciation expense decreased by ¥20 million ($188 thousand), and loss before income tax and minority interests increased by ¥454 million ($4,304 thousand).

(For the year ended March 31, 2005)
NIL

***f. Software—***Software development costs, which have a bright prospect of future economic benefits or expense reduction in utilizing those software, are deferred and stated at cost less accumulated amortization, which is calculated by the straight-line method principally over the estimated useful life (5 years).

(For the year ended March 31, 2004)
As a result of reviewing the usability of certain internal management and application systems, the Company recorded an other expense of ¥842 million ($7,967 thousand) for loss on the disposal of property, plant and equipment for the year ended March 31, 2004. Loss before income taxes and minority interests increased by the same amount.

(For the year ended March 31, 2005)
NIL

***g. Deferred Charges—Development Costs—***
(For the year ended March 31, 2004)
The Company charges development costs to income as incurred in accordance with accounting standards for development costs in Japan. However, a foreign subsidiary operating in the Philippines deferred its development costs incurred in development of new products in conformity with Philippines accounting standards which are similar to International Financial Reporting Standards. Costs deferred are to be amortized by the straight-line method over 10 years upon finalization of the related new product. However, a change in the business plan at the subsidiary led to the elimination of initially expected earnings, resulting in the write-off of the unamortized balance of ¥4,325 million ($40,922 thousand) as another expense for the year ended March 31, 2004. As a result, loss before income taxes and minority interests increased by the same amount.

(For the ended March 31, 2005)
NIL

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

***i. Retirement and Pension Plans—***Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounting for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The full amount of transitional obligation of the Company and a domestic subsidiary was charged to income and unrealized actuarial loss and unrecognized prior service cost were amortized over 5 years. See Note 3(2) for a description of the change in accounting for transitional obligation, unrecognized prior service cost and unrecognized actuarial loss.

In accordance with the Defined Benefit Pension Plan Law, the Company and its domestic affiliated companies received authorization to dissolve the Sankyo Seiki Pension Fund from the Ministry of Health, Labour and Welfare on April 27, 2004, and dissolved the fund on that same date. Because a defined contribution pension plan system was implemented at the Company as of January 1, 2005, and at affiliate companies as of May 1, 2004, the Company is applying the guidelines "Accounting for Transfers between Retirement Benefit Plans," as laid out in the Financial Accounting Standards Implementation Guidance No. 1, issued by the Accounting Standards Board of Japan (ASBJ).

Gains from the transfer between systems amounted to ¥8,491 million ($79,065 thousand).

In addition, effects from the shift to a defined contribution pension plan systems ¥202 million ($1,878 thousand) included in current liabilities other and ¥7,554 million ($70,341 thousand) included in long-term liabilities other.

***j. Reserve for Restructuring Losses—***The Company prepares a reserve for restructuring losses based on estimates to provide for losses stemming from restructuring in line with the management reform plan.

The Group has recorded ¥112 million ($1,047 thousand) and ¥414 million ($3,880 thousand) for the year ended March 31, 2005 and 2004 in losses on the disposal of property, plant and equipment related to planned restructuring.

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

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

***m. Appropriations of Retained Earnings—***Appropriations of retained earnings at each year end are reflected in the consolidated financial statements in the following year in which shareholders' approval to the proposed appropriations has been obtained.

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

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

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

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

***p. Derivative Financial Instruments—***The Group uses derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency options, interest rate caps, collars, floors and swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

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

The foreign currency forward contracts and currency options are utilized to hedge foreign currency exposures for export sales. Trade receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Currency options applied for forecasted (or committed) transactions are also measured at the fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

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

***q. Per Share Information—***Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The average number of common shares used in the computation was 190,962 thousand shares for 2005 and 122,380 thousand shares for 2004.

Diluted net income per share is not disclosed in 2004 because of the Group's net loss position.

As of March 31, 2005 cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years and those dividends are to be paid after the end of respective fiscal year.

***r. New Accounting Pronouncements—***In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

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

As a result the Company has not yet applied this new accounting standard.

## 3. CHANGES IN ACCOUNTING POLICIES AND RELATED EFFECTS

Changes in significant accounting policies are as follows:

(For the year ended March 31, 2004)
**(1) Inventories—**As of April 1, 2003, inventories held by the Company and its domestic consolidated subsidiaries are valued at the lower of cost or market. Prior to April 1, 2003, inventories were valued at cost. The change was made in order to present the value of inventories timely due to price fluctuation under strong competition of marketable value.

The effect of the above change resulted in a decrease of inventories of ¥573 million ($5,429 thousand), and an equal amount of increase of loss before income taxes and minority interests.

(For the year ended March 31, 2005)
NIL

(For the year ended March 31, 2004)
**(2) Retirement and Pension Plans—**From this fiscal year, the full amount of transitional obligation of the Company and a domestic subsidiary was charged to income and unrecognized prior service cost and unrecognized actuarial loss were amortized over 5 years. Such costs had been amortized over 15 years and 12 years, respectively, in prior years.

With the increased capital contributed by NIDEC Corporation ("NIDEC"), the Company became a subsidiary of NIDEC. The changes of accounting policies mentioned above were made in accordance with those of NIDEC.

As a result of the abovementioned change, retirement-and-pension charges increased by ¥6,825 million ($64,579 thousand) and, loss before income taxes and minority interests increased by ¥6,816 million ($64,495 thousand).

(For the year ended March 31, 2005)
NIL

## 4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2005 and 2004, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Current: | | | |
| Time deposits | **¥408** | ¥383 | **$3,799** |
| Non-marketable corporate bonds | | 73 | |
| Total | **¥408** | ¥456 | **$3,799** |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Non-current: | | | |
| Marketable equity securities | **¥758** | ¥ 977 | **$7,056** |
| Trust fund investments and other | **162** | 179 | **1,516** |
| Total | **¥920** | ¥1,156 | **$8,572** |

Information regarding the category of the securities classified as available-for-sale at March 31, 2005 and 2004, was as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| **March 31, 2005** | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Marketable equity securities | **¥469** | **¥289** | | **¥758** |
| Trust fund investments and other | **45** | **3** | | **48** |
| March 31, 2004 | | | | |
| Securities classified as: | | | | |
| Marketable equity securities | ¥567 | ¥410 | | ¥977 |
| Government and corporate bonds | 78 | | ¥5 | 73 |
| Trust fund investments and other | 44 | 4 | | 48 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| **March 31, 2005** | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Marketable equity securities | **$4,364** | **$2,692** | | **$7,056** |
| Trust fund investments and other | **416** | **32** | | **448** |

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004, were as follows:

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | **2005** | 2004 | **2005** |
| Available-for-sale: | | | |
| Non-marketable securities | **¥114** | ¥131 | **$1,068** |
| Total | **¥114** | ¥131 | **$1,068** |

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004, were ¥324 million ($3,012 thousand) and ¥3,968 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥142 million ($1,321 thousand) and ¥33 million ($309 thousand), respectively, for the year ended March 31, 2005. And gross realized gain and losses on these sales were ¥1,274 million and ¥143 million for the year ended March 31, 2004.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2005, are as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2005** | **2005** |
| | Available for Sale | Available for Sale |
| Due in one year or less | **¥48** | **$448** |
| Total | **¥48** | **$448** |

## 5. INVENTORIES

Inventories at March 31, 2005 and 2004, were comprised of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Finished products | **¥ 3,357** | ¥ 3,268 | **$ 31,259** |
| Work in process | **1,661** | 4,512 | **15,465** |
| Raw materials, supplies and lands for sale | **5,779** | 5,603 | **53,814** |
| Total | **¥10,797** | ¥13,383 | **$100,538** |

Loss on Valuation of Real Estate for Sale—Based on the Company's Board of Directors' resolution to sell certain lands of ¥2,791 million ($26,160 thousand), buildings of ¥2,054 million ($19,252 thousand) and structures of ¥51 million ($478 thousand) previously recorded under property, plant and equipment—the Company reclassified those assets as inventories and recorded an other expense of ¥3,374 million ($31,624 thousand) for the estimated loss on valuation of real estate for sale for the year ended March 31, 2004.

## 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings represent bank loans. The annual interest rates applicable to the short-term bank loans ranged from 0.24% to 3.24% and from 0.01% to 2.13% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004, was comprised of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| 1.50% to 2.80% (0.56% to 4.75% in 2004) loans from banks and insurance companies, due serially to 2008 | **¥ 407** | ¥ 683 | **$ 3,788** |
| 3.15% to 6.80% (3.15% to 6.80% in 2004) loans from government financing institutions, due serially to 2026 | **86** | 92 | **800** |
| Total | **493** | 775 | **4,588** |
| Less current portion | **(113)** | (196) | **(1,048)** |
| Long-term debt, less current portion | **¥ 380** | ¥ 579 | **$ 3,540** |

Annual maturities of long-term debt at March 31, 2005, are as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2006 | ¥113 | $1,048 |
| 2007 | 130 | 1,212 |
| 2008 | 151 | 1,407 |
| 2009 | 33 | 309 |
| 2010 and thereafter | 66 | 612 |
| Total | ¥493 | $4,588 |

During the year ended March 31, 2004, ¥9,469 million ($89,592 thousand) of the convertible unsecured bonds were converted into common stock, at a conversion price of ¥1,023 per share, and the remaining amount of ¥54 million ($511 thousand) of the convertible unsecured bonds were redeemed.

## 7. RETIREMENT AND PENSION PLANS

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

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2005 for directors and corporate auditors is ¥209 million ($1,949 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The Company and certain domestic consolidated subsidiaries have defined contribution pension plan systems and severance payment plans.

As of March 31, 2005 allowance for directors and corporate auditors retirement benefit system was discontinued.

The liability for employees' retirement benefits at March 31, 2005 and 2004, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Projected benefit obligation | **¥264** | ¥26,870 | **$2,454** |
| Fair value of plan assets | | (8,612) | |
| Unrecognized prior service cost | | 2,693 | |
| Unrecognized actuarial loss | | (3,686) | |
| Unrecognized transitional obligation | | | |
| Net liability | **¥264** | ¥17,265 | **$2,454** |

The Company and certain domestic consolidated subsidiaries have defined contribution pension plan systems and severance payment plans.

In accordance with the Defined Benefit Pension Plan Law, the Company and its domestic affiliated companies received authorization to dissolve the Sankyo Seiki Pension Fund from the Ministry of Health, Labour and Welfare on April 27, 2004, and dissolved the fund on that same date. Because a defined contribution pension plan system was implemented at the Company as of January 1, 2005, and at affiliate companies as of May 1, 2004, we are applying the guidelines "Accounting for Transfers between Retirement Benefit Plans," as laid out in the Financial Accounting Standards Implementation Guidance No. 1, issued by ASBJ.

Effects from the shift in systems are as follows.

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2005** | **2005** |
| Reduction in liability for employees' retirement benefits | **¥26,451** | **$246,309** |
| Fair value of plan assets | **(8,561)** | **(79,718)** |
| Unrecognized actuarial loss | **(3,686)** | **(34,324)** |
| Unrecognized prior service cost | **2,693** | **25,073** |
| Net reduction in allowance for employees' retirement benefits | **¥16,897** | **$157,340** |

In addition, effects from the shift to a defined contribution plan total ¥8,406 million ($78,276 thousand).

The transfer of assets to the defined contribution pension plan at the Company is planned for a period of eight years, and for a period of five years at affiliate companies.

Gains resulting from the transfer to a defined contribution pension plan system amounted to ¥8,491 million ($79,065 thousand) during the fiscal year ended March 31, 2005.

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Service cost | **¥299** | ¥1,115 | **$2,785** |
| Interest cost | | 946 | |
| Expected return on plan assets | | (497) | |
| Amortization of prior service cost | | (668) | |
| Recognized actuarial loss | | 2,535 | |
| Amortization of transitional obligation | | 6,349 | |
| Others | **87** | | **814** |
| Net periodic benefit costs | **¥386** | ¥9,780 | **$3,599** |

Assumptions used for the years ended March 31, 2004, are set forth as follows:

| | 2004 |
|---|---|
| Discount rate | 2.5% |
| Expected rate of return on plan assets | 4.0% |
| Amortization period of prior service cost | 5 years |
| Recognition period of actuarial gain/loss | 5 years |
| Amortization period of transitional obligation | Fully amortized |

## 8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

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

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus amounts of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

There was no retained earnings available!ˇÔr dividends under the Code as of March 31, 2004 based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% and 41% for the years ended March 31, 2005 and 2004. Foreign subsidiaries are subject to income taxes of the jurisdiction in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Current: | | | |
| Deferred tax assets: | | | |
| Accrued bonuses | ¥ 449 | ¥ 347 | $ 4,183 |
| Accrued business tax | 95 | 30 | 886 |
| Unrealized profit incurred in intragroup transactions | 7 | 5 | 65 |
| Loss on devaluation of inventories | 1,572 | 1,690 | 14,642 |
| Other | 1,034 | 100 | 9,629 |
| Offset | (6) | (4) | (60) |
| Less valuation allowance | (2,925) | (1,984) | (27,239) |
| Total | ¥ 226 | ¥ 184 | $ 2,106 |
| Deferred tax liabilities: | | | |
| Property and equipment | ¥ 237 | ¥ 44 | $ 2,206 |
| Other | 10 | 6 | 96 |
| Offset | (184) | (4) | (1,717) |
| Total | ¥ 63 | ¥ 46 | $ 585 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| Non-current: | | | |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥ 6,949 | ¥ 12,406 | $ 64,711 |
| Pension and severance costs | 419 | 6,930 | 3,895 |
| Directors' retirement benefits | 84 | 291 | 780 |
| Investment securities | 49 | 198 | 452 |
| Allowance for doubtful receivables | 7 | 40 | 65 |
| Property, plant and equipment | 453 | 830 | 4,220 |
| Long-term arrears | 2,757 | | 25,672 |
| Other | 38 | 29 | 355 |
| Offset | (220) | (462) | (2,046) |
| Less valuation allowance | (10,147) | (19,999) | (94,483) |
| Total | ¥ 389 | ¥ 263 | $ 3,621 |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | ¥ 46 | ¥ 160 | $ 426 |
| Undistributed earnings of foreign subsidiaries | 927 | 822 | 8,631 |
| Other | 80 | 65 | 747 |
| Offset | (42) | (462) | (388) |
| Total | ¥ 1,011 | ¥ 585 | $ 9,416 |

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2005 and 2004, and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

| | 2005 | 2004 |
|---|---|---|
| Normal effective statutory tax rate | 40.0% | 41.3% |
| Expenses not deductible for income tax purposes | 0.3 | (0.1) |
| Income not taxable for income tax purposes | (0.2) | 0.1 |
| Per capita portion of inhabitants taxes | 0.1 | (0.1) |
| Foreign tax credit | (0.2) | |
| Valuation allowance | (36.9) | (45.7) |
| Prior-period income taxes | | |
| Effect of applied tax rates at foreign subsidiaries | (1.5) | |
| Undistributed earnings of foreign subsidiaries | 5.3 | |
| Other—net | (0.7) | 2.6 |
| Actual effective tax rate | 6.2% | ( 1.9)% |

At March 31, 2005, the Company and certain consolidated subsidiaries have tax loss carryforwards, totaling approximately ¥19,662 million ($183,092 thousand), which can be offset against taxable income, if any, of the Company and such consolidated subsidiaries in the future.

These tax loss carryforwards held by the Company and domestic consolidated subsidiaries, if not utilized, will expire as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2006 | | |
| 2007 | | |
| 2008 | | |
| 2009 | ¥ 43 | $ 399 |
| 2010 | 1,308 | 12,177 |
| 2011 | 13,988 | 130,257 |
| Total | ¥15,339 | $142,833 |

The remaining balance of ¥4,323 million ($40,259 thousand) held by foreign consolidated subsidiaries can be carried forward indefinitely provided that certain conditions are met.

## 10. RELATED PARTY/EMPLOYEE TRANSACTIONS

The Company has been promoting rapid management restructuring according to its reconstruction plan. However, to assure social trust and to prepare for the construction of new factories and future Company facilities, Sankyo Seiki obtained land from NIDEC, the parent company. The purchase price for the land was decided after consideration of current market prices.

Transactions of the Company with NIDEC, the parent company, for the year ended March 31, 2005, were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | **2005** | **2005** |
| Purchase of land | **¥4,167** | **$38,801** |

Transactions of the Company with NIDEC, the parent company, for the year ended March 31, 2004, were as follows:

| | Millions of Yen |
|---|---|
| | 2004 |
| Sales of land | ¥4,122 |
| Sales of securities of subsidiaries | 2,108 |
| Sales of equipment | 1,455 |
| Sales of investments securities | 2,151 |

The balance due from NIDEC as of March 31, 2004, was as follows:

| | Millions of Yen |
|---|---|
| | 2004 |
| Accounts receivable—Other | ¥1,438 |

Loans to employees, bearing interest of 2.50% per annum, at March 31, 2005 and 2004, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Current | **¥ 8** | ¥ 5 | **$ 79** |
| Non-current | **81** | 96 | **750** |
| Total | **¥89** | ¥101 | **$829** |

## 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs relating to new products and technologies, except development costs incurred and deferred at certain foreign subsidiaries, were ¥4,521 million ($42,103 thousand) and ¥983 million for the years ended March 31, 2005 and 2004, respectively.

## 12. LEASES

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

Total rental expenses for the years ended March 31, 2005 and 2004, were ¥1,392 million ($12,962 thousand) and ¥1,865 million, respectively, including ¥147 million ($1,365 thousand) and ¥1,326 million of lease payments under finance leases.

On an "as if capitalized" basis, pro forma information of leased property such as acquisition cost, accumulated depreciation, lease payment obligations under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2005 and 2004, was as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|---|---|
| | **2005** | | | **2005** | | |
| | Machinery | Equipment | Total | Machinery | Equipment | Total |
| Acquisition cost | **¥34** | **¥478** | **¥512** | **$319** | **$4,452** | **$4,771** |
| Accumulated depreciation | **26** | **278** | **304** | **244** | **2,588** | **2,832** |
| Net leased property | **¥ 8** | **¥200** | **¥208** | **$ 75** | **$1,864** | **$1,939** |

| | Millions of Yen | | |
|---|---|---|---|
| | 2004 | | |
| | Machinery | Equipment | Total |
| Acquisition cost | ¥1,616 | ¥678 | ¥2,294 |
| Accumulated depreciation | 1,065 | 421 | 1,486 |
| Net leased property | ¥ 551 | ¥257 | ¥ 808 |

Obligations under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Due within one year | **¥102** | ¥433 | **$ 951** |
| Due after one year | **109** | 398 | **1,011** |
| Total | **¥211** | ¥831 | **$1,962** |

Depreciation expense and interest expense under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| Depreciation expense | **¥138** | ¥1,253 | **$1,285** |
| Interest expense | **5** | 74 | **48** |
| Total | **¥143** | ¥1,327 | **$1,333** |

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statements of operations, were computed by the straight-line method over the lease period.

## 13. DERIVATIVES

**a. Utilization**

The Group utilizes various derivative financial instruments ("derivatives") to mitigate the risk of fluctuating foreign currency exchange rates and interest rates. The derivatives utilized by the Group include foreign exchange forward contracts, currency option contracts, interest rate caps, collars and swaps.

The Group enters into contracts with major financial institutions in order to avoid credit loss in the event of nonperformance by counterparties to the contracts.

Exposure to market risk is managed through position limits, approvals and monitoring procedures. The operational reports prepared by the executive section with transaction reports sent directly from financial institutions to the administrative section are regularly submitted to the Board of Directors for their analysis and monitoring of the current status of derivative activities.

For derivatives to hedge interest risk exposure, preapproval from the Board of Directors is required and basic policy and credit limits are established and approved by the Board of Directors.

**b. Market Value of Contracts**

The Group had the following derivatives contracts outstanding at March 31, 2005 and 2004:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | | 2004 | | |
| | Contract or Notional Amount | Fair Value | Unrealized Loss | Contract or Notional Amount | Fair Value | Unrealized Loss |
| Non-listed: | | | | | | |
| Interest rate option trading-cap—buying | **¥2,500** | **¥ 1** | **¥(24)** | ¥2,500 | ¥ 7 | ¥(34) |
| Interest rate swaps trading (fixed rate payment, floating rate receipt) | **1,200** | **(46)** | **(46)** | 2,200 | (54) | (54) |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | **2005** | | |
| | Contract or Notional Amount | Fair Value | Unrealized Loss |
| Non-listed: | | | |
| Interest rate option trading-cap—buying | **$23,280** | **$ 5** | **$ (226)** |
| Interest rate swaps trading (fixed rate payment, floating rate receipt) | **11,174** | **(433)** | **(433)** |

Forward exchange contracts which are assigned to certain assets or liabilities denominated in foreign currency, shown by using that forward exchange rate in the consolidated balance sheets, are excluded from the above.

The contract or notional amounts of derivatives shown above do not represent the amounts of which those contracts could be exchanged to the counterparties and do not prescribe the index to credit or market risk sustained by the Group.

## 14. CONTINGENT LIABILITIES

At March 31, 2005, the Group had the following contingent liabilities:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2005 | 2005 |
| Guarantees and items of a similar nature: | | |
| Employees' housing loans | ¥373 | $3,476 |
| Total | ¥373 | $3,476 |

## 15. OTHERS

Litigation

In April 2005, the Group was sued in the U.S. District Court, Southern District of New York, by Bourne Co. and 61 other U.S. companies holding music copyrights, who claim that Group sales of musical movements violate related copyright laws.

The Company is currently investigating facts surrounding royalty payments by importers in the U.S., and is presently unable to predict the outcome.

## 16. SEGMENT INFORMATION

Information on operations in different industry segments, foreign operations and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004, was as follows:

### (1) Operations in Different Industries

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| Year Ended March 31, 2005 | Electronic Components | Systems Machinery | Others | Eliminations and Corporate | Consolidated |
| Sales to customers | ¥86,686 | ¥32,649 | ¥2,977 | | ¥122,312 |
| Intersegment sales | 38 | 72 | 76 | ¥ (186) | |
| Total sales | 86,724 | 32,721 | 3,053 | (186) | 122,312 |
| Operating expenses | 82,933 | 25,724 | 2,799 | 502 | 111,958 |
| Operating income | ¥ 3,791 | ¥ 6,997 | ¥ 254 | ¥ (688) | ¥ 10,354 |
| Assets | ¥56,061 | ¥17,794 | ¥1,072 | ¥ 21,125 | ¥ 96,052 |
| Depreciation | 3,754 | 350 | 24 | 131 | 4,259 |
| Capital expenditures | 8,091 | 439 | 5 | 4,544 | 13,079 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| Year Ended March 31, 2005 | Electronic Components | Systems Machinery | Others | Eliminations and Corporate | Consolidated |
| Sales to customers | $807,205 | $304,017 | $27,727 | | $1,138,949 |
| Intersegment sales | 351 | 674 | 706 | $ (1,731) | |
| Total sales | 807,556 | 304,691 | 28,433 | (1,731) | 1,138,949 |
| Operating expenses | 772,264 | 239,532 | 26,064 | 4,676 | 1,042,536 |
| Operating income | $ 35,292 | $ 65,159 | $ 2,369 | $ (6,407) | $ 96,413 |
| Assets | $522,027 | $165,696 | $ 9,982 | $196,714 | $ 894,419 |
| Depreciation | 34,958 | 3,256 | 224 | 1,220 | 39,658 |
| Capital expenditures | 75,338 | 4,085 | 51 | 42,313 | 121,787 |

Notes: The electronic components segment consists of micromotors, timers, motor units, optical pick-up units and stepping motors.
The systems machinery segment consists of magnetic card readers and machinery units.
The others segment contains musical movements and other items.
The unallocated operating expenses is principally composed of general corporate expenses incurred by the Administration Headquarters of the Company.

| Year Ended March 31, 2004 | Audiovisual and Home Appliance Equipment | Communications and Peripheral Computer Equipment | Industrial Machinery and Equipment | Others | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|---|
| | Millions of Yen | | | | | |
| Sales to customers | ¥39,440 | ¥44,284 | ¥19,665 | ¥ 3,421 | | ¥ 106,810 |
| Intersegment sales | | 177 | 15 | 681 | ¥ (873) | |
| Total sales | 39,440 | 44,461 | 19,680 | 4,102 | (873) | 106,810 |
| Operating expenses | 39,352 | 51,957 | 17,823 | 3,933 | (34) | 113,031 |
| Operating income (loss) | ¥ 88 | ¥ (7,496) | ¥ 1,857 | ¥ 169 | ¥ (839) | ¥ (6,221) |
| Assets | ¥23,742 | ¥35,891 | ¥11,702 | ¥ 1,320 | ¥20,841 | ¥ 93,496 |
| Depreciation | 1,717 | 2,784 | 397 | 146 | 671 | 5,715 |
| Capital expenditures | 1,380 | 6,950 | 241 | 105 | 37 | 8,713 |

Notes: The audiovisual and home appliance equipment segment consists of micromotors, timers and motor units.
The communications and peripheral computer equipment segment contains micromotors, optical pick-up units and stepping motors.
The industrial machinery and equipment segment consists of magnetic card readers and machinery units.
The others segment contains musical movements and other items.
The unallocated operating expenses is principally composed of general corporate expenses incurred by the Administration Headquarters of the Company.

### Changes in Industry Segment Classification

During the fiscal year under review, the Company combined the previous industry segment classifications of Audiovisual and Home Appliance Equipment, Communications and Peripheral Computer Equipment, Industrial Machinery and Equipment, and Others into Electronic Components, Systems Machinery, and Others.

The market for audiovisual and home appliances and the market for communications and peripheral computer equipment are steadily overlapping due to increasingly diverse and complex products, and separating industry segments according to markets has become progressively difficult. In addition, as of April 1, 2004, the Company overhauled its management structure to one that emphasizes earnings by product rather than market application. Seizing upon this opportunity, the Company reviewed its conventional classification of industry segments, and as a result, the actual condition of the business structure is more clearly reflected by the changes. For the convenience of the readers, results for fiscal 2004 have been reformatted below according to the new segment classifications.

| Year Ended March 31, 2004 | Electronic Components | Systems Machinery | Others | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|
| | Millions of Yen | | | | |
| Sales to customers | ¥85,145 | ¥ 18,041 | ¥ 3,624 | | ¥ 106,810 |
| Intersegment sales | | 43 | 660 | ¥ (703) | |
| Total sales | 85,145 | 18,084 | 4,284 | (703) | 106,810 |
| Operating expenses | 92,499 | 16,296 | 4,099 | 136 | 113,030 |
| Operating income (loss) | ¥ (7,354) | ¥ 1,788 | ¥ 185 | ¥ (839) | ¥ (6,220) |
| Assets | ¥59,420 | ¥ 11,823 | ¥ 1,428 | ¥ 20,825 | ¥ 93,496 |
| Depreciation | 4,489 | 406 | 150 | 671 | 5,716 |
| Capital expenditures | 8,330 | 241 | 105 | 37 | 8,713 |

### (2) Foreign Operations

The foreign operations of the Group for the years ended March 31, 2005 and 2004, were summarized as follows:

| **Year Ended March 31, 2005** | Japan | Asia | North America | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|
| | Millions of Yen | | | | |
| Sales: | | | | | |
| Outside customers | **¥85,183** | **¥33,691** | **¥3,438** | | **¥122,312** |
| Interarea | **19,976** | **39,819** | **29** | **¥(59,824)** | |
| Total sales | **105,159** | **73,510** | **3,467** | **(59,824)** | **122,312** |
| Operating expenses | **95,213** | **72,839** | **3,024** | **(59,118)** | **111,958** |
| Operating income | **¥ 9,946** | **¥ 671** | **¥ 443** | **¥ (706)** | **¥ 10,354** |
| Assets | **¥63,455** | **¥34,810** | **2,354** | **¥ (4,567)** | **¥ 96,052** |

| Year Ended March 31, 2005 | Thousands of U.S. Dollars<br>Japan | Asia | North America | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|
| Sales: | | | | | |
| Outside customers | **$793,211** | **$313,728** | **$32,010** | | **$1,138,949** |
| Interarea | **186,012** | **370,789** | **267** | **$(557,068)** | |
| Total sales | **979,223** | **684,517** | **32,277** | **(557,068)** | **1,138,949** |
| Operating expenses | **886,607** | **678,262** | **28,163** | **(550,496)** | **1,042,536** |
| Operating income | **$ 92,616** | **$ 6,255** | **$ 4,114** | **$ (6,572)** | **$ 96,413** |
| Assets | **$590,880** | **$324,142** | **$21,923** | **$ (42,526)** | **$ 894,419** |

| Year Ended March 31, 2004 | Millions of Yen<br>Japan | Asia | North America | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|
| Sales: | | | | | |
| Outside customers | ¥62,290 | ¥ 41,110 | ¥ 3,410 | | ¥ 106,810 |
| Interarea | 20,796 | 19,409 | 82 | ¥(40,287) | |
| Total sales | 83,086 | 60,519 | 3,492 | (40,287) | 106,810 |
| Operating expenses | 84,950 | 64,371 | 3,241 | (39,531) | 113,031 |
| Operating income (loss) | ¥ (1,864) | ¥ (3,852) | ¥ 251 | ¥ (756) | ¥ (6,221) |
| Assets | ¥59,255 | ¥ 29,417 | ¥ 1,908 | ¥ 2,916 | ¥ 93,496 |

Notes: The Asia area is composed of China, Hong Kong, Malaysia, Singapore, Chinese Taipei and Korea.
The North America area represents the United States of America.

### (3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2005 and 2004, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2005** | 2004 | **2005** |
| North America | **¥ 4,311** | ¥ 3,032 | **$ 40,146** |
| Europe | **3,739** | 3,074 | **34,817** |
| Asia | **70,387** | 60,726 | **655,435** |
| Others | **1,235** | 2,027 | **11,500** |
| Total | **¥79,672** | ¥68,859 | **$741,898** |

## 17. METHOD OF PRESENTING THE CORPORATE SIZE-BASED ASPECT OF CORPORATE INCOME TAX ON THE CONSOLIDATED STATEMENTS OF INCOME

The Law to Revise Certain Local Tax Laws (the ninth revision of the law, 2003) was pronounced on March 31, 2003. In accordance with the implementation of a corporate size-based tax system from the fiscal year started April 1, 2004, the Company is utilizing the "Practical Solution on Presentation for Corporate Size-Based Aspect of Corporate Income Tax on Income Statement" guidelines laid out in the ASBJ Guidance No. 12, issued on February 13, 2004. In accordance with these guidelines, the added value portion and the capital portion of corporate income taxes are accounted for under selling, general and administrative expenses.

As a result, selling, general and administrative expenses increased ¥166 million ($1,545 thousand), and income before income taxes and minority interests decreased ¥166 million ($1,545 thousand).

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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## Report of Independent Auditors

To the Board of Directors and Shareholders of
Sankyo Seiki Mfg. Co., Ltd.

We have audited the accompanying consolidated balance sheet of Sankyo Seiki Mfg. Co., Ltd. and its subsidiaries as of March 31, 2005 and the related consolidated statement of income, shareholders' equity, 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.

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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sankyo Seiki Mfg. Co., Ltd. and its subsidiaries as of March 31, 2005 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.

As discussed in Note 16 to the consolidated financial statements, the Company changed its classification of industry segment.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Kyoto, Japan
June 21, 2005

A Nidec Group Company

Sankyo

Sankyo Seiki Mfg. Co., Ltd.

## Corporate Data

(As of March 31, 2005)

**Head Office:**
5329, Shimosuwa-machi, Suwa-gun,
Nagano 393-8511, Japan
Telephone: +81-266-27-3111
Facsimile: +81-266-28-5833

**Established:**
June 18, 1946

**Paid-in Capital:**
¥35,270 million

**Number of Employees:**
1,177 (Unconsolidated)

**Web site:**
http://www.sankyoseiki.co.jp/e/

### Cautionary Note on Forward-Looking Statements

This annual report contains forward-looking statements, including information about estimates, expectations, beliefs, plans and strategies. Such forward-looking statements are based on currently available information and are subject to various uncertainties and risks, including changes in market and economic conditions. These statements do not guarantee future results. Actual results may differ from those anticipated in these statements.

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