Sankyo

2006 ANNUAL REPORT

Year ended March 31, 2006

MANAGEMENT PRINCIPLES & BUSINESS PERFORMANCE

Management Principles

1. Management Policy

Based on its "Customers First" principle, the Nidec Sankyo Group 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, Nidec Sankyo strives to implement environmental measures, company ethics and other compliance initiatives throughout the Group. Nidec Sankyo 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

The Nidec Sankyo Group 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, the Nidec Sankyo Group 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, and this will allow the business to grow and in turn increase earnings, which is our first priority. Also, in an effort to establish a solid profit structure, we will implement a thorough cost-cutting initiative to reduce the purchasing of parts and other costs.

Furthermore, adhering to the principle of "Customers First," we are working to establish a system that 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 have entered 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 a 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 costs by reforming the cost structure through a basic review of product designs and promoting in-house manufacturing, as well as by implementing 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

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

Nidec Sankyo has adopted an auditing system. The Board of Directors consists of 11 members, including one outside director, and in order to assure for a timely response to shareholders' requests, the period of service for directors was shortened on March 30, 2004, from two years to one. In addition, the Company terminated the directors' retirement benefit system on March 31, 2005, aiming for a more performance-based compensation system. Three of the Company's five auditors are outside auditors, all of whom rigorously audit the statutory and regulatory compliance of the decision-making and the management policies 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. Concerning basic policy and other important matters, the Nidec Sankyo Group is promoting compliance activities with the approval of the Board of Directors.

In addition, the Company encourages ongoing education for all employees and conducts training activities. At the same time, an internal auditors' office was established in April 2005, fully functioning as the framework for internal controls.

6. Issues Concerning the Parent Company

(1) Corporate name

(As of March 31, 2006)

Company name	Type	Percentage of voting shares	Stock exchange listings
Nidec Corporation	Parent company	55.64% (2.10%)	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 Nidec Sankyo.

(2) Relationship and position of Nidec Sankyo to the parent company and other listed companies within the Group
Nidec Sankyo's parent company, Nidec Corporation, owns 53.54% of the Company's voting shares, and six of the Company's managing executives are from the parent company.

Nidec Sankyo basically maintains an autonomous relationship in regards to business operations and transactions with Nidec Corporation and the Nidec Group. The Company coexists peacefully with the parent company's corporate group: interlocking directors and loaned employees from the parent company do not interfere with the Company's own management decisions, and the Company believes that its corporate identity is assured in this way.

Interlocking Directorate

Post	Name	Post at the Parent Company	Reason for Appointment
Chairman & CEO	Shigenobu Nagamori	President & COO	Guidance of the Group's Management
Senior Executive Director	Tetsuo Inoue	Senior Executive Director	Guidance of the Group's Management
Corporate Executive Auditor	Hideo Asahina	Corporate Executive Auditor	Enhancement of the Group's auditing system
Corporate Executive Auditor	Tadayoshi Sano	Corporate Executive Auditor	Enhancement of the Group's auditing system

Note: Four of the Company's eleven directors and five auditors hold concurrent positions as directors of the parent company.

Employees Loaned to the Company

Division	Number of Loaned Employees	Place of Loan	Reason for Loan
Administration Headquarters	One	Nidec Corporation	Strengthening Group Management
Internal Auditors' Office	One	Nidec Corporation	Strengthening Internal Controls

(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 the Fiscal Year Ended March 31, 2006

During the fiscal year ended March 31, 2006, the Japanese economy continued its trend toward gradual recovery on the back of improvements in corporate earnings and increases in capital investment and personal consumption. Amid these circumstances, the Nidec Sankyo Group aggressively engaged in the acquisition of new products, markets and customers and strengthened its activities to increase revenues, aiming for a stronger profit-oriented corporate structure than the previous fiscal year. Despite these efforts, net sales decreased ¥318 million to ¥121,994 million, edging down 0.3% year on year due to the withdrawal from the sales of unprofitable products.

Operating income marked a record-high ¥12,052 million, up ¥1,699 million from the previous fiscal year. Despite decreased sales in small DC motors, several factors contributed to these results: a profit-increase effect from other products, companywide cost reduction, and the Company's efforts to optimize its structure. Net income declined ¥5,123 million to ¥12,673 million. In the last fiscal year, the reversal of the allowance for employee retirement benefits stemming from the liquidation of the pension fund resulted in an extraordinary profit of ¥9,036 million. With the exception of these components, the Company experienced a significant profit increase of ¥3,476 million.

2. Results by Business Segment

Electronic Components
Net sales in the electronic components business decreased ¥1,590 million, or 1.8% compared with the previous fiscal year, to ¥85,095 million due to the harsh business environment, including the steep decline of market prices. Stepping motors enjoyed strong sales for use in PCs, DVD recorders and digital cameras, recording a 21.6% increase year on year. Sales of home appliance units remained robust, with a 7.5% increase from the previous fiscal year. Nidec Sankyo provides home electric appliances and household equipment for a variety of purposes. In the Japanese market, favorable demand for digital home appliances boosted sales of home appliances such as refrigerators and washing machines. At the same time, the Chinese market continued to be buoyant. Sales of optical pickup units (OPU) climbed 7.2%, owing to increased sales for high-value-added recording products and slim-type OPUs for PCs. Amid the severe environment of declining market prices and the ongoing shift in portable products' diversification, such as small HDD and memory-type recording products, the Company fought for renewed market expansion for small DC motors. Despite these efforts, it was unsuccessful in compensating for the loss in sales of conventional products, including VCR motors, in the face of ongoing market shrinkage. As a result, sales dropped 41.0% from the previous fiscal year.

On the earnings front, operating income fell to ¥3,670 million, down ¥121 million from the previous fiscal year. Nidec Sankyo targeted profit recovery by aggressively promoting cost reduction and productivity improvement, mainly in overseas offices. However, overall earnings in this segment were on par with the previous fiscal year due to a sales decline in small DC motors and the delay in OPU profits until the fourth quarter.

Systems Machinery

Net sales in the systems machinery business rose ¥1,920 million to ¥34,568 million, up 5.9% year on year. The market for wide-screen LCD TVs has been steadily growing, and manufacturers are planning to construct new plants employing large-sized glass substrates. Under such circumstances, the Company's LCD glass-panel-handling robots were widely acknowledged for their advanced features, including secure delivery, excellent rigidity, high reliability and energy conservation. As a result, sales of LCD glass-panel-handling robots remained at a high level, as in the previous fiscal year, establishing a firm position in this market. Sales of magnetic card readers for ATM terminals, which have boasted the top share in the global market, continued to be strong due to increasing demand, reflecting the introduction of biometric systems and the corresponding shift to IC card-compatible ATM terminals in Japan. Furthermore, new demand for ATM terminal renewals is expected in the European market owing to the ongoing shift to IC card-compatible machines. Accordingly, net sales in this segment gained 19.6% year on year.

On the earnings front, operating income increased ¥1,767 million to ¥8,764 million, owing to the Company's vigorous promotion of cost reduction and productivity improvement, in addition to the effects of the sales increase.

Others

Net sales for all other products were down ¥647 million, or 21.7%, to ¥2,331 million. The major components of this result were the Company's sale of its holdings in Sankyo Total Service Corporation to Nidec Total Service Corporation and the following removal of the company from the scope of consolidation at the previous fiscal year-end, along with the sales decline in music boxes. Operating income decreased ¥102 million to ¥152 million, reflecting the impact of the sales decline.

3. Cash Flows

Cash and cash equivalents on March 31, 2006 totaled ¥32,307 million, up ¥11,394 million from a year earlier.

Net cash provided by operating activities was ¥16,148 million. The principal component for this was income before income taxes and minority interests.

Net cash used in investing activities was ¥9,126 million, owing to the acquisition of property, plant and equipment and marketable and investment securities.

Net cash provided by financing activities was ¥2,871 million. The principal reason was the increase in short-term bank loans, but a part of that amount was offset by cash dividends.

4. Outlook

In the fiscal year ending March 31, 2007, Nidec Sankyo will continue to promote revenue-increasing activities by aggressively cultivating new products, markets and customers in pursuit of advances in companywide rationalization and better profitability. At the same time, the Company will dynamically take on the challenges involved with its basic principle of addressing the enhancement of cost reductions and profitability.

Nidec Sankyo will take initiatives in each product's development as follows: the Company will strive to expand the sales of stepping motors in this currently growing market. On top of that, the Company will aggressively increase sales of lens actuators that have been uniquely developed for use in mobile phones, aiming to nurture this business as one of the Company's mainstay products.

In the home appliance units business, the Company will actively develop proposal-based marketing by combining its proprietary technologies in order to cultivate new demand. Along with these efforts, the Company will focus on business expansion in overseas markets, particularly in the BRICs (Brazil, Russia, India and China) countries, in addition to Europe and the United States.

In the card reader business, Nidec Sankyo will vigorously implement business expansion in promising new markets, leveraging the Company's dominant superiority in such markets. LCD glass-panel-handling robots are seeing solid growth in the wide-screen LCD TV market, and rapid expansion is expected in both investment and production scale in and after 2006. In addition, the Company will aim for further business expansion by responding to demand for high-quality logistics systems in clean rooms: the Company provides a lineup of wafer-handling robots for class-one clean rooms, along with vacuum-environment handling robots.

Nidec Sankyo anticipates the market for optical pickup units to continue its upward trend and will develop its production of slim-type optical pickup units for combo drives and DVD-R media based on the proven track record in combo (half height) business.

Finally, the Company will accelerate its activities for profitability improvements, which it has been implementing since last year. The Company will concentrate its development resources by carefully selecting its development objectives, striving to launch new products and providing increased customer satisfaction.

FIVE-YEAR SUMMARY

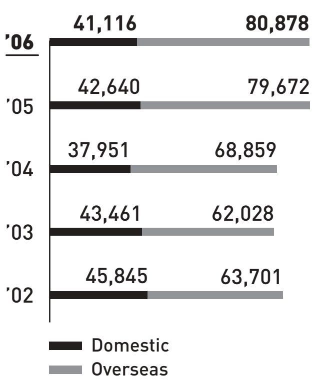
NIDEC SANKYO CORPORATION and Consolidated Subsidiaries

	Millions of Yen					Thousands of U.S. Dollars
Years Ended March 31	**2006**	2005	2004	2003	2002	**2006**
Net sales	**¥121,994**	¥122,312	¥106,810	¥105,489	¥109,546	**$1,038,513**
Net income (loss)	**12,673**	17,795	(28,718)	(10,368)	(7,778)	**107,881**
	Yen					U.S. Dollars
Per share:						
Net income (loss)	**¥65.98**	¥93.07	¥(234.66)	¥(118.80)	¥(89.08)	**$0.56**
Cash dividends	**7.50**	5.00				**0.06**
	Millions of Yen					Thousands of U.S. Dollars
Total shareholders' equity	**¥ 65,662**	¥ 52,484	¥ 34,609	¥ 25,779	¥ 38,592	**$ 558,965**
Total assets	**112,727**	96,052	93,496	99,660	111,980	**959,620**
Working capital	**43,019**	38,578	37,678	8,214	16,541	**366,218**
Long-term debt, less current portion	**105**	380	579	14,613	15,143	**896**
Capital expenditures	**8,727**	13,079	8,713	5,864	6,125	**74,294**
Depreciation and amortization	**4,943**	4,259	5,715	5,951	6,108	**42,078**

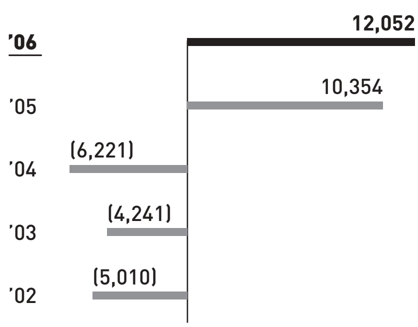
Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥117=US$1.00.

MAJOR FINANCIAL INDICES

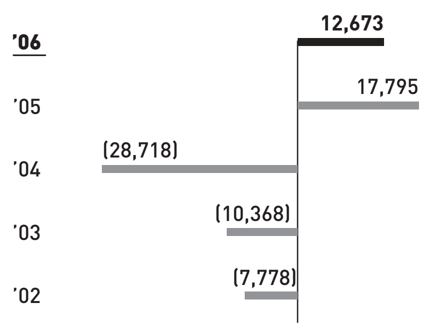
Net Sales
[Millions of Yen]



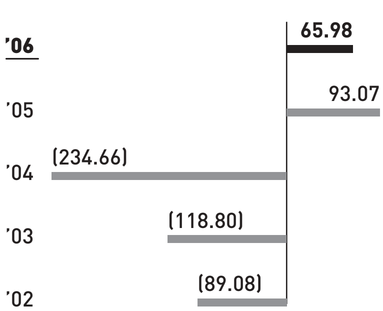
Operating Income (Loss)
[Millions of Yen]



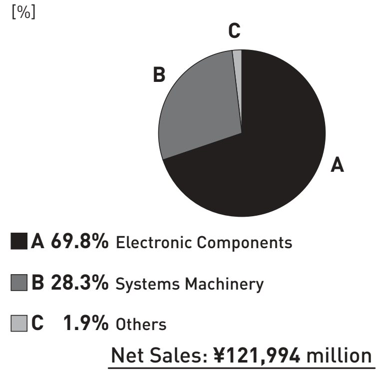
Net Income (Loss)
[Millions of Yen]



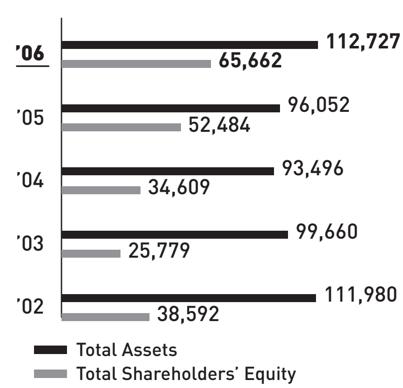
Net Income (Loss) per Share
[Yen]



Sales by Business Segment in the Year Ended March 31, 2006
[%]



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



CONSOLIDATED BALANCE SHEETS

NIDEC SANKYO CORPORATION and Consolidated Subsidiaries

March 31, 2006 and 2005	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 32,307**	¥ 20,914	**$ 275,024**
Short-term investments (Note 3)	**343**	408	**2,920**
Notes and accounts receivable:			
Trade notes	**3,522**	4,893	**29,978**
Trade accounts	**30,525**	30,915	**259,853**
Unconsolidated subsidiaries and associated companies	**50**	28	**428**
Other	**726**	948	**6,178**
Allowance for doubtful receivables	**(83)**	(81)	**(703)**
Inventories (Note 4)	**11,308**	10,797	**96,266**
Deferred tax assets (Note 8)	**210**	226	**1,791**
Prepaid expenses and other current assets	**400**	258	**3,402**
Total current assets	**79,308**	69,306	**675,137**
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 9)	**7,047**	5,577	**59,987**
Buildings and structures	**13,709**	12,079	**116,703**
Machinery and equipment	**46,900**	45,035	**399,253**
Construction in progress	**1,066**	268	**9,078**
Total	**68,722**	62,959	**585,021**
Accumulated depreciation	**(40,312)**	(39,679)	**(343,174)**
Net property, plant and equipment	**28,410**	23,280	**241,847**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**2,540**	920	**21,625**
Investments in unconsolidated subsidiaries and associated companies	**1,672**	1,578	**14,231**
Software	**75**	83	**635**
Deferred tax assets (Note 8)	**304**	389	**2,590**
Other assets (Note 9)	**418**	496	**3,555**
Total investments and other assets	**5,009**	3,466	**42,636**
TOTAL	**¥112,727**	¥ 96,052	**$ 959,620**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	**¥ 7,085**	¥ 1,986	**$ 60,309**
Current portion of long-term debt (Note 5)	**111**	113	**946**
Notes and accounts payable:			
Trade notes	**2,316**	2,936	**19,717**
Trade accounts	**17,275**	15,419	**147,056**
Unconsolidated subsidiaries and associated companies	**32**	—	**275**
Other (Note 2. h)	**4,289**	4,995	**36,508**
Income taxes payable (Note 8)	**953**	742	**8,108**
Accrued expenses	**3,196**	2,619	**27,209**
Deferred tax liabilities (Note 8)	**4**	63	**37**
Other current liabilities	**1,028**	1,855	**8,754**
Total current liabilities	**36,289**	30,728	**308,919**
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Note 5)	**105**	380	**896**
Liability for retirement benefits (Note 6)	**263**	473	**2,242**
Deferred tax liabilities (Note 8)	**1,190**	1,011	**10,129**
Other (Note 2. h)	**5,594**	7,855	**47,618**
Total long-term liabilities	**7,152**	9,719	**60,885**
MINORITY INTERESTS	**3,624**	3,121	**30,851**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 13)			
SHAREHOLDERS' EQUITY (Note 7):			
Common stock—authorized, 400,000,000 shares; issued, 191,107,628 shares in 2006 and 191,107,628 shares in 2005	**35,270**	35,270	**300,248**
Additional paid-in capital			
Accumulated earnings	**30,702**	19,483	**261,359**
Unrealized gain on available-for-sale securities	**464**	223	**3,951**
Foreign currency translation adjustments	**(580)**	(2,396)	**(4,938)**
Treasury stock—at cost, 229,633 shares in 2006 and 161,707 shares in 2005	**(194)**	(96)	**(1,655)**
Total shareholders' equity	**65,662**	52,484	**558,965**
TOTAL	**¥112,727**	¥ 96,052	**$ 959,620**

CONSOLIDATED STATEMENTS OF OPERATIONS

NIDEC SANKYO CORPORATION and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Years Ended March 31, 2006 and 2005	**2006**	2005	**2006**
NET SALES	**¥121,994**	¥122,312	**$1,038,513**
COST OF SALES (Note 10)	**98,645**	99,708	**839,743**
Gross profit	**23,349**	22,604	**198,770**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	**11,297**	12,250	**96,170**
Operating income	**12,052**	10,354	**102,600**
OTHER INCOME (EXPENSES):			
Interest expense	**(265)**	(117)	**(2,254)**
Interest and dividend income	**234**	98	**1,989**
Foreign exchange gain	**2,566**	719	**21,844**
Gain on sales of marketable and investment securities	**274**	103	**2,335**
Gain on sales of investment in associated companies	**482**	26	**4,106**
Additional retirement paid to employees	**(51)**	—	**(438)**
Gain on sales of property, plant and equipment	**740**	91	**6,298**
Loss on disposals of property, plant and equipment	**(418)**	(486)	**(3,555)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**84**	15	**714**
Gain on liquidation of welfare pension plans (Notes 2. h and 6)	**437**	8,491	**3,720**
Reversal of allowance for directors and corporate auditors retirement benefit (Note 6)	**—**	545	**—**
Loss on liquidation of subsidiaries	**—**	(72)	**—**
Other—net	**(794)**	135	**(6,759)**
Other expenses—net	**3,289**	9,548	**28,000**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**¥ 15,341**	¥ 19,902	**$ 130,600**
INCOME TAXES (Note 8):			
Current	**2,036**	965	**17,332**
Deferred	**(33)**	266	**(278)**
Total income taxes	**2,003**	1,231	**17,054**
MINORITY INTERESTS IN NET INCOME (LOSS)	**(665)**	(876)	**(5,665)**
NET INCOME	**¥ 12,673**	¥ 17,795	**$ 107,881**
	Yen		U.S. Dollars
PER SHARE INFORMATION			
COMMON STOCK—Net income (Note 2. p)	**¥ 65.98**	¥ 93.07	**$ 0.56**
CASH DIVIDENDS	**¥ 7.5**	¥ 5.0	**$ 0.06**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NIDEC SANKYO CORPORATION and Consolidated Subsidiaries

	Thousands	Millions of Yen					
Years Ended March 31, 2006 and 2005	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, 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)
Net income				12,673			
Cash dividends, ¥7.50 per share				(1,432)			
Bonus paid to director				(22)			
Net increase in unrealized gain on available-for-sale securities					241		
Net increase in foreign currency translation adjustments						1,816	
Acquisition of treasury stock	(68)						(98)
BALANCE, MARCH 31, 2006	**190,878**	**¥35,270**	**¥ —**	**¥30,702**	**¥ 464**	**¥ (580)**	**¥(194)**

	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, 2005	$ 300,248	$ —	$ 165,854	$ 1,901	$ (20,399)	$ (821)
Net income			107,881			
Cash dividends, $0.06 per share			(12,191)			
Bonus paid to director			(185)			
Net increase in unrealized gain on available-for-sale securities				2,051		
Net increase in foreign currency translation adjustments					15,461	
Acquisition of treasury stock						(834)
BALANCE, MARCH 31, 2006	**$300,248**	**$ —**	**$261,359**	**$3,952**	**$ (4,938)**	**$(1,655)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NIDEC SANKYO CORPORATION and Consolidated Subsidiaries

Years Ended March 31, 2006 and 2005	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥15,341**	¥ 19,902	**$130,600**
Adjustments for:			
Income taxes—paid	**(1,899)**	(582)	**(16,169)**
Depreciation and amortization	**4,943**	4,259	**42,078**
Reversal of allowance for doubtful receivables	**(25)**	(190)	**(214)**
Provision for retirement benefits—net	**(3)**	(592)	**(29)**
Gain on liquidation of welfare pension plans	**(437)**	(8,491)	**(3,720)**
Reversal of allowance for directors' and corporate auditors' retirement benefit	**—**	(545)	**—**
Gain on sales of marketable and investment securities	**(274)**	(103)	**(2,335)**
Gain on sales of investment in associated companies	**(482)**	(26)	**(4,106)**
Gain on sales of property, plant and equipment	**(740)**	(91)	**(6,299)**
Loss on disposals of property, plant and equipment	**418**	486	**3,555**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(84)**	(15)	**(714)**
Loss on liquidation of subsidiaries	**749**	72	**6,372**
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	**2,673**	(6,115)	**22,758**
Decrease (increase) in inventories	**(1,783)**	2,525	**(15,179)**
Increase (decrease) in trade payables	**622**	(3,779)	**5,298**
Other—income	**950**	3,180	**8,093**
Other—expenses	**(3,821)**	(217)	**(32,528)**
Total adjustments	**807**	(10,224)	**6,861**
Net cash provided by operating activities	**16,148**	9,678	**137,461**
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	**863**	1,062	**7,345**
Purchases of property, plant and equipment	**(9,222)**	(10,820)	**(78,502)**
Proceeds from sales of marketable and investment securities	**623**	324	**5,300**
Purchases of marketable and investment securities	**(1,536)**	(4)	**(13,073)**
Proceeds from sales of consolidated subsidiaries	**551**	93	**4,690**
Purchases of consolidated subsidiaries	**(144)**	—	**(1,222)**
Purchases of unconsolidated subsidiaries and associated companies	**—**	(72)	**—**
Maturity of time deposits	**88**	2	**745**
Increase (decrease) in other assets	**(349)**	75	**(2,968)**
Net cash used in investing activities	**(9,126)**	(9,340)	**(77,685)**
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	**4,662**	(5,862)	**39,683**
Proceeds from long-term debt	**—**	665	**—**
Repayments of long-term debt	**(130)**	(924)	**(1,103)**
Payment of cash dividends	**(1,432)**	—	**(12,191)**
Payment of cash dividends to minority interests	**(131)**	(135)	**(1,114)**
Other—net	**(98)**	(34)	**(834)**
Net cash provided by (used in) financing activities	**2,871**	(6,290)	**24,441**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,099**	152	**9,357**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,992**	(5,800)	**93,574**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**402**	—	**3,420**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,913**	26,714	**178,030**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥32,307**	¥ 20,914	**$275,024**
ADDITIONAL CASH FLOW INFORMATION:			
Interest paid	**258**	114	**2,200**
Interest and dividends received	**271**	126	**2,303**

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 2005 financial statements to conform to the classifications used in 2006.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which NIDEC SANKYO CORPORATION (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 ¥117 to $1, the approximate rate of exchange at March 31, 2006. 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.

As of October 1, 2005, Sankyo Seiki Mfg. Co., Ltd. made the shift to NIDEC SANKYO CORPORATION.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The accompanying consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 22 (22 in 2005) 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 associated company were accounted for by the equity method in 2006. Investments in one unconsolidated subsidiary and one associated company were accounted for by the equity method in 2005.

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 invested 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 weighted-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.

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

f. Software—Costs for development of software that has a bright prospect of future economic benefits or expense reduction in utilization, 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).

g. 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.

h. 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.

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 affiliated 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 ¥437 million ($3,720 thousand) and ¥8,491 million for the years ended March 31, 2006 and 2005.

In addition, effects from the shift to a defined contribution pension plan system ¥758 million ($6,453 thousand) and ¥202 million for the years ended March 31, 2006 and 2005, are included in Current liabilities, Other, and ¥5,103 million ($43,442 thousand) and ¥7,554 million for the years ended March 31, 2006 and 2005 are included in Long-term liabilities, Other.

i. 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.

j. 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.

k. 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.

l. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables of the Company and its consolidated domestic subsidiaries 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.

m. 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.

n. 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 that 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.

o. 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 190,915 thousand shares for 2006 and 190,962 thousand shares for 2005.

Cash dividends per share presented in the accompanying consolidated statements of operations are calculated by dividends applicable to the respective years and those dividends are paid during the year and to be paid after the end of respective fiscal year.

In 2005 and 2006, the Company did not disclose the diluted net income per share since potential dilutive securities are not issued.

p. New Accounting Standard—Impairment of Fixed Assets

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 (ASBJ) 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.

In the year ended March 31, 2006, the Company adopted the new accounting standard. Fixed assets are grouped at the lowest level for which there are identifiable cash flows that are independent from cash flows of other groups of assets. As a result of the adoption of this new accounting standard, a loss of ¥81 million ($690 thousand) was recognized and income before income tax decreased by the same amount.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Current:			
Time deposits	**¥343**	¥408	**$2,920**
Total	**¥343**	¥408	**$2,920**

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Non-current:			
Marketable equity securities	**¥2,432**	¥758	**$20,702**
Trust fund investments and other	**108**	162	**924**
Total	**¥2,540**	¥920	**$21,625**

Information regarding the category of the securities classified as available-for-sale at March 31, 2006 and 2005, was as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable equity securities	**¥1,638**	**¥794**	**¥ —**	**¥2,432**
March 31, 2005				
Securities classified as:				
Marketable equity securities	469	289	—	758
Trust fund investments and other	45	3	—	48

	Thousands of U.S. Dollars			
March 31, 2006	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable equity securities	**$13,940**	**$6,762**	**$—**	**$20,702**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Available-for-sale:			
Non-marketable securities	**¥108**	¥114	**$924**
Total	**¥108**	¥114	**$924**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005, were ¥623 million ($5,301 thousand) and ¥324 million, respectively. Gross realized gains on these sales, computed on the weighted-average cost basis, were ¥274 million ($2,335 thousand), respectively, for the year ended March 31, 2006. And gross realized gains and losses on these sales were ¥142 million and ¥33 million for the year ended March 31, 2005.

4. INVENTORIES

Inventories at March 31, 2006 and 2005, were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Finished products	**¥ 3,604**	¥ 3,357	**$30,679**
Work in process	**3,553**	1,661	**30,244**
Raw materials, supplies for sale	**4,151**	—	**35,343**
Raw materials, supplies and land for sale	**—**	5,779	**—**
Total	**¥11,308**	¥10,797	**$96,266**

5. 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 1.45% to 4.99% and from 0.24% to 3.24% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
1.82% to 2.80% (1.50% to 2.80% in 2005) loans from banks and insurance companies, due serially to 2009	**¥ 153**	¥ 407	**$1,305**
3.15% to 6.40% (3.15% to 6.80% in 2005) loans from government financing institutions, due serially to 2026	**63**	86	**537**
Total	**216**	493	**1,842**
Less current portion	**(111)**	(113)	**(946)**
Long-term debt, less current portion	**¥ 105**	¥ 380	**$ 896**

Annual maturities of long-term debt at March 31, 2006, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥111	$ 946
2008	49	421
2009	14	117
2010	3	22
2011 and thereafter	39	336
Total	¥216	$1,842

6. RETIREMENT AND PENSION PLANS

The Company and certain domestic 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 employees' retirement benefits at March 31, 2006 and 2005, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Projected benefit obligation	**¥263**	¥264	**$2,242**
Net liability	**¥263**	¥264	**$2,242**

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 affiliated companies as of May 1, 2004, we are applying the guidelines "Accounting for Transfers between Retirement Benefit Plans," as laid out in Financial Accounting Standards Implementation Guidance No. 1, issued by the ASBJ.

Gains resulting from the transfer to a defined contribution pension plan system amounted to ¥437 million ($3,720 thousand) and ¥8,491 million during the fiscal year ended March 31, 2006 and 2005.

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥ 55**	¥299	**$ 469**
Others	**283**	87	**2,404**
Net periodic benefit costs	**¥338**	¥386	**$2,873**

7. 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.

The amount of retained earnings available for dividends under the Code was ¥1,432 million ($12,191 thousand) as of March 31, 2006, 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.

Dividends are approved by the shareholders at the shareholders' meeting held subsequent to the fiscal year to which the dividends are applicable. Interim dividends may also be paid upon resolution of the Board of Directors, subject to the limitations imposed by the Code.

8. 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 40% for the years ended March 31, 2006 and 2005. Foreign subsidiaries are subject to income taxes of the jurisdiction in which they operate.

The tax effects of significant temporary differences and loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2006 and 2005, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Current:			
Deferred tax assets:			
Accrued bonuses	**¥ 442**	¥ 449	**$ 3,762**
Accrued business tax	**83**	95	**707**
Unrealized profit incurred in intragroup transactions	**8**	7	**64**
Loss on devaluation of inventories	**986**	1,572	**8,392**
Other	**553**	1,034	**4,709**
Offsetting of balances within the same tax jurisdiction	**(10)**	(6)	**(80)**
Less valuation allowance	**(1,852)**	(2,925)	**(15,763)**
Total	**¥ 210**	¥ 226	**$ 1,791**
Deferred tax liabilities:			
Property and equipment	**¥ —**	¥ 237	**$ —**
Other	**14**	10	**117**
Offsetting of balances within the same tax jurisdiction	**(10)**	(184)	**(80)**
Total	**¥ 4**	¥ 63	**$ 37**

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Non-current:			
Deferred tax assets:			
Tax loss carryforwards	**¥ 4,194**	¥ 6,949	**$ 35,703**
Pension and severance costs	**358**	419	**3,051**
Directors' retirement benefits	**33**	84	**281**
Investment securities	**25**	49	**217**
Allowance for doubtful receivables	**2**	7	**19**
Property, plant and equipment	**986**	453	**8,390**
Long-term payables	**1,920**	2,757	**16,343**
Other	**449**	38	**3,820**
Offsetting of balances within the same tax jurisdiction	**(258)**	(220)	**(2,194)**
Less valuation allowance	**(7,405)**	(10,147)	**(63,040)**
Total	**¥ 304**	¥ 389	**$ 2,590**
Deferred tax liabilities:			
Property and equipment	**¥ 296**	¥ —	**$ 2,518**
Unrealized gain on available-for-sale securities	**295**	46	**2,510**
Undistributed earnings of foreign subsidiaries	**815**	927	**6,939**
Other	**42**	80	**356**
Offsetting of balances within the same tax jurisdiction	**(258)**	(42)	**(2,194)**
Total	**¥ 1,190**	¥ 1,011	**$ 10,129**

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2006 and 2005, and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

	2006	2005
Normal effective statutory tax rate	**40.0%**	40.0%
Expenses not deductible for income tax purposes	**0.4**	0.3
Income not taxable for income tax purposes	**(1.1)**	(0.2)
Per capita portion of inhabitants' taxes	**0.2**	0.1
Foreign tax credit	**(1.3)**	(0.2)
Valuation allowance	**(22.4)**	(36.9)
Prior-period income taxes	**3.2**	—
Tax on undistributed earning on particular to foreign subsidiaries	**1.3**	—
Effect of applied tax rates at foreign subsidiaries	**(7.0)**	(1.5)
Undistributed earnings of foreign subsidiaries	**0.3**	5.3
Other—net	**(0.5)**	(0.7)
Actual effective tax rate	**13.1**	6.2%

At March 31,2006, the Company and certain consolidated subsidiaries have tax loss carryforwards, totaling approximately ¥12,663 million ($107,794 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
2007	¥ —	$ —
2008	—	—
2009	—	—
2010	—	—
2011	8,995	76,570
2012	—	—
Total	¥8,995	$76,570

The remaining balance of ¥3,668 million ($31,224 thousand) held by foreign consolidated subsidiaries can be carried forward indefinitely provided that certain conditions are met.

9. RELATED PARTY/EMPLOYEE TRANSACTIONS

The Company has been promoting rapid management restructuring according to its reconstruction plan. However, for the strengthening of customer relationships, Nidec Sankyo obtained marketable equity securities from Nidec, the parent company. The purchase price for the marketable equity securities was decided after consideration determined based on current market prices.

Transactions of the Company with Nidec, the parent company, for the year ended March 31, 2006, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2006	**2006**
Purchase of marketable equity securities	**¥1,465**	**$13,474**

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

The purchase price for the land was decided after consideration of current market prices.

Loans to employees, bearing interest of 2.50% per annum, at March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Current	**¥18**	¥ 8	**$157**
Non-current	**49**	81	**416**
Total	**¥67**	¥89	**$573**

10. 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 ¥4,754 million ($40,467 thousand) and ¥4,521 million for the years ended March 31, 2006 and 2005, respectively.

11. LEASES

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

Total rental expenses for the years ended March 31, 2006 and 2005, were ¥1,338 million ($11,394 thousand) and ¥1,392 million, respectively, including ¥585 million ($4,983 thousand) and ¥147 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, 2006 and 2005, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2006			**2006**		
	Machinery	Equipment	Total	Machinery	Equipment	Total
Acquisition cost	**¥2,090**	**¥609**	**¥2,699**	**$17,789**	**$5,186**	**$22,975**
Accumulated depreciation	**793**	**326**	**1,119**	**6,746**	**2,781**	**9,527**
Net leased property	**¥1,297**	**¥283**	**¥1,580**	**$11,043**	**$2,405**	**$13,448**

	Millions of Yen		
	2005		
	Machinery	Equipment	Total
Acquisition cost	¥34	¥478	¥512
Accumulated depreciation	26	278	304
Net leased property	¥ 8	¥200	¥208

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 513**	¥102	**$ 4,367**
Due after one year	**1,085**	109	**9,239**
Total	**¥1,598**	¥211	**$13,606**

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Depreciation expense	**¥555**	¥138	**$4,720**
Interest expense	**30**	5	**256**
Total	**¥585**	¥143	**$4,976**

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.

12. 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, pre-approval 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, 2006 and 2005:

	Millions of Yen					
	2006			2005		
	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**	**¥ —**	**¥ (8)**	¥2,500	¥ 1	¥(24)
Interest rate swaps trading (fixed rate payment, floating rate receipt)	**1,200**	**(12)**	**(12)**	1,200	(46)	(46)

	Thousands of U.S. Dollars		
	2006		
	Contract or Notional Amount	Fair Value	Unrealized Loss
Non-listed:			
Interest rate option trading—cap-buying	**$21,282**	**$ —**	**$ (68)**
Interest rate swaps trading (fixed rate payment, floating rate receipt)	**10,215**	**(105)**	**(105)**

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.

13. CONTINGENT LIABILITIES

At March 31, 2006 and 2005, the Group had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Guarantees and items of a similar nature:			
Employees' housing loans	**¥301**	¥373	**$2,562**
Total	**¥301**	¥373	**$2,562**

14. OTHERS

Litigation
In April 2005, the Group was sued in the U.S. District Court, Southern District of New York, by Bourne Co. and 71 other U.S. companies holding music copyrights, who claim that Group sales of musical movements violate related copyright laws.

At the time of writing, the Company was moving negotiations toward a compromise, with the litigation likely to have a relatively small effect on the business performance of the Company and consolidated subsidiaries.

15. 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, 2006 and 2005, was as follows:

(1) Operations in Different Industries

	Millions of Yen				
Year Ended March 31, 2006	Electronic Components	Systems Machinery	Others	Eliminations and Corporate	Consolidated
Sales to customers	**¥85,095**	**¥34,568**	**¥2,331**	**¥ —**	**¥121,994**
Intersegment sales	**71**	**36**	**101**	**(208)**	**—**
Total sales	**85,166**	**34,604**	**2,432**	**(208)**	**121,994**
Operating expenses	**81,496**	**25,840**	**2,280**	**326**	**109,942**
Operating income	**¥ 3,670**	**¥ 8,764**	**¥ 152**	**¥ (534)**	**¥ 12,052**
Assets	**¥61,583**	**¥19,905**	**¥ 783**	**¥30,456**	**¥112,727**
Depreciation	**4,572**	**240**	**13**	**118**	**4,943**
Impairment losses	**81**	**—**	**—**	**—**	**81**
Capital expenditures	**7,115**	**441**	**15**	**1,156**	**8,727**

	Thousands of U.S. Dollars				
Year Ended March 31, 2006	Electronic Components	Systems Machinery	Others	Eliminations and Corporate	Consolidated
Sales to customers	**$724,400**	**$294,272**	**$19,841**	**$ —**	**$1,038,513**
Intersegment sales	**601**	**309**	**863**	**(1,773)**	**—**
Total sales	**725,001**	**294,581**	**20,704**	**(1,773)**	**1,038,513**
Operating expenses	**693,764**	**219,971**	**19,406**	**2,772**	**935,913**
Operating income	**$ 31,237**	**$ 74,610**	**$ 1,298**	**$ (4,545)**	**$ 102,600**
Assets	**$524,245**	**$169,450**	**$ 6,661**	**$259,264**	**$ 959,620**
Depreciation	**38,921**	**2,041**	**111**	**1,005**	**42,078**
Impairment losses	**692**	**—**	**—**	**—**	**692**
Capital expenditures	**60,567**	**3,757**	**129**	**9,841**	**74,294**

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 are principally composed of general corporate expenses incurred by the Administration Headquarters of the Company.

Year Ended March 31, 2005	Electronic Components	Systems Machinery	Others	Eliminations and Corporate	Consolidated
	Millions of Yen				
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 (loss)	¥ 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

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 are principally composed of general corporate expenses incurred by the Administration Headquarters of the Company.

(2) Foreign Operations

The foreign operations of the Group for the years ended March 31, 2006 and 2005 are summarized as follows:

Year Ended March 31, 2006	Japan	Asia	North America	Europe	Eliminations and Corporate	Consolidated
	Millions of Yen					
Sales:						
Outside customers	**¥ 85,126**	**¥31,384**	**¥4,056**	**¥1,428**	**¥ —**	**¥121,994**
Inter-area	**18,685**	**42,388**	**14**	**8**	**(61,095)**	**—**
Total sales	**103,811**	**73,772**	**4,070**	**1,436**	**(61,095)**	**121,994**
Operating expenses	**93,313**	**72,391**	**3,503**	**1,286**	**(60,551)**	**109,942**
Operating income	**¥ 10,498**	**¥ 1,381**	**¥ 567**	**¥ 150**	**¥ (544)**	**¥ 12,052**
Assets	**¥ 67,319**	**¥38,498**	**¥2,723**	**¥ 743**	**¥ 3,444**	**¥112,727**

Year Ended March 31, 2006	Japan	Asia	North America	Europe	Eliminations and Corporate	Consolidated
	Thousands of U.S. Dollars					
Sales:						
Outside customers	**$724,660**	**$267,165**	**$34,527**	**$12,161**	**$ —**	**$1,038,513**
Inter-area	**159,057**	**360,841**	**122**	**71**	**(520,091)**	**—**
Total sales	**883,717**	**628,006**	**34,649**	**12,232**	**(520,091)**	**1,038,513**
Operating expenses	**794,353**	**616,249**	**29,823**	**10,947**	**(515,459)**	**935,913**
Operating income	**$ 89,364**	**$ 11,757**	**$ 4,826**	**$ 1,285**	**$ (4,632)**	**$ 102,600**
Assets	**$573,076**	**$327,727**	**$23,181**	**$ 6,322**	**$ 29,314**	**$ 959,620**

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
Inter-area	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

Notes: The Asia area is composed of China, Hong Kong, Singapore, Chinese Taipei.
The North America area represents the United States of America.
For the year ended March 31, 2006, Europe was added in the segment information of foreign operations since that subsidiary in Europe was included in the scope of consolidation.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
North America	**¥ 4,508**	¥ 4,311	**$ 38,372**
Europe	**4,180**	3,739	**35,585**
Asia	**70,846**	70,387	**603,096**
Others	**1,344**	1,235	**11,445**
Total	**¥80,878**	¥79,672	**$688,498**

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

Kyoto Mitsui Bldg. 7th Floor
Shijo Karasuma, Shimogyo-ku,
Kyoto 600-8008, Japan
Telephone +81-75-241-1945
Facsimile +81-75-221-8720

Report of Independent Auditors

To the Board of Directors and Shareholders of
NIDEC SANKYO CORPORATION

We have audited the accompanying consolidated balance sheets of NIDEC SANKYO CORPORATION and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 NIDEC SANKYO CORPORATION and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 p, effective from April 1, 2005, the Company and its domestic subsidiaries have adopted the new Japanese accounting standard for impairment of fixed assets.

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 20, 2006

A Nidec Group Company

Sankyo

NIDEC SANKYO CORPORATION

Corporate Data

(As of March 31, 2006)

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:
1,245 (Unconsolidated)

Web site:
http://www.nidec-sankyo.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.

This annual report is printed on recycled paper.
PRINTED IN JAPAN