Sankyo

2004 ANNUAL REPORT

Year ended March 31, 2004

Management Principles

1. Management Policy

Based on its "Customer 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, 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 joining the corporate group of Nidec Corporation, Sankyo Seiki has fundamentally revised its management strategies, which enables us to maximize synergies created with the Nidec Group.

As part of this revision, as of the current fiscal year we have withdrawn from the fluid dynamic bearing (FDB) motors business, which had required excessive amounts of management resources.

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 also implement a thorough cost-cutting initiative to cut parts purchasing 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 workpiece field, 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 improve earnings
We will work to cut purchasing and management expenses in order to drastically lower costs. We will also proactively work to improve productivity.

(2) Implement strategies to increase sales
We will work aggressively to increase sales by developing new products and applications for markets for existing products in which further growth is expected.

(3) Implement strategies to improve speed
In order to improve speed in all aspects of the business, we are rebuilding the decision-making structure. This move will greatly enhance the speed of our market response by reforming the organization to establish 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, including our overseas subsidiaries.

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 the auditing system. The Board of Directors consists of 12 members. Although none of these are outside directors, following a change in the Articles of Incorporation, which enacted an extraordinary meeting of shareholders held on March 30, 2004, 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 be adequately allow for a flexible response to changes in the operating environment. Two of the Company's four 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.

Measures to enhance the compliance structure include the creation of a its Code of Corporate Conduct, published in March 2003. Looking ahead, Sankyo Seiki is working to quickly establish a compliance structure suited to the nature of the Company, while at the same time establishing a risk management and internal control structure in cooperation with its parent company Nidec, in an effort to contribute to an increase in the value of the corporate Group.

6. Relationship with the Parent Company

Sankyo Seiki's parent company Nidec Corporation is the world's leading manufacturer of all types of small, precision motors. Building on its key concept of "everything that spins and moves," the Nidec Group seeks to be world leader in drive technologies in a wide range of fields that includes not only IT and OA equipment, but also household appliances, automobiles and industrial machinery. To accomplish this goal, the Group is working to strengthen its technical development and production technology capabilities, as well as enhancing its mass-production and sales structures.

As a member of the Nidec Group, Sankyo Seiki seeks to combine the Group's sales and cost model capabilities with its technology and development capabilities to generate synergies that will strengthen the management structure. We are also seeking to utilize the capital increase to establish an earnings structure marked by stability and growth potential.

Business Performance

1. Review of Fiscal Year 2004

During the first half of fiscal year 2004, ended March 31 2004, the global economy was somewhat lackluster despite high expectations of a moderate recovery. In the latter half, capital investments and exports picked up with the mild turnaround in the world economy led by the United States and China. In Japan, however, individual spending was down compared to capital investment and exports. Investment in housing remained at low levels, and the economy as a whole was unstable with a high unemployment rate. Although the economy showed signs of recovery in the latter half of the fiscal year, it was overshadowed by the sharp rise of the yen.

Under these circumstances, Sankyo Seiki has implemented a restructuring program aimed at a quick recovery in performance, and has entered into a capital alliance with Nidec Corporation. Operations throughout Sankyo Seiki were streamlined through new management methods, operating expenses and other costs reduced, and efforts to restructure management thoroughly implemented.

Net sales for fiscal year 2004 rose 1.3% from the previous fiscal year to ¥106,810 million, but due to deterioration of the FDB motors' business, the Company recorded an operating loss of ¥6,221 million, ¥1,980 million worse than the previous term. The Company also recorded a substantial net loss of ¥28,718 million, stemming from significant losses from restructuring costs, amortization of deferred assets and withdrawal from the FDB motors business, amortization of differences due to changes in accounting standards for the retirement benefits reserve, revision of asset valuation standards, and disposal and sale of assets.

2. Results by Business Segment

<u>Audiovisual and Home Appliance Equipment</u>
Net sales in this segment fell 11.6% from the previous fiscal year to ¥39,440 million. Orders for actuator units for refrigerators were up, while stepping motors for digital still cameras increased 10.4% in a vigorous market. Video motors, however, were down 37.9% in a shrinking market, while audio unit assemblies fell 4.5% as major customers shifted to internal production or OEM, resulting in an overall decline. In terms of profitability, cost cutting and streamlining efforts could not offset the decline in income, and operating income fell ¥771 million from the previous fiscal year to ¥88 million.

<u>Communications and Peripheral Computer Equipment</u>
Net sales in this segment rose 6.3% from the previous fiscal year to ¥44,284 million. Although the floppy disk drive (FDD) motors business suffered a decrease of 68.5%, optical pickup units (OPUs) were up 36.8% due to an increase in orders for OPUs for CD-RW/DVD combo drives, as well as for DVD recording writers. In terms of profitability, despite the positive effects of rising income from OPUs, reductions in administrative costs and the streamlining of operations, the inflated loss from FDB motor operations could not be offset, and Sankyo Seiki recorded an operating loss for this segment of ¥7,496 million. This figure was ¥2,288 million worse than the previous fiscal year. Sankyo Seiki withdrew from the FDB motors business in February 2004.

<u>Industrial Machinery and Equipment</u>
Net sales in this segment rose 28.8% from the previous fiscal year to ¥19,665 million. Orders for LCD glass panel handling robots were particularly strong, rising 81.5%, reaching a record high. Sales of magnetic card readers for ATM terminals were also strong, rising 8.4% as banks prepared for the upcoming introduction of redesigned bills. In terms of profitability, operating income increased by ¥752 million from the previous fiscal year to ¥1,857 million due to increased income from our industrial robot business, along with the reductions in administrative costs and streamlining.

<u>Others</u>
Net sales for all other products combined fell 13.1% from the previous fiscal year to ¥3,421 million. Operating income, however, rose ¥224 million and moved into the black to an operating income of ¥169 million, reflecting restructuring in the music box business that consolidated operations at affiliated companies in August 2003.

3. Cash Flows

Cash and cash equivalents ("cash") on a consolidated basis at the end of the fiscal year under review totaled ¥26,714 million, an increase of ¥8,273 million from the previous fiscal year, including exclusions from consolidations of ¥822 million.

Cash Flows from Operating Activities
Net cash used in operating activities was ¥3,817 million. This was mainly due to a loss before income taxes and minority interests.

Cash Flows from Investing Activities
Net cash provided by investing activities totaled ¥3,993 million. The proceeds were mainly from marketable and investment securities, and from sales of consolidated subsidiaries. Proceeds from sales of property, plant and equipment offset expenditures from purchases of property, plant and equipment.

Cash Flows from Financing Activities
Net cash provided by financing activities was ¥9,017 million. This was mainly due to the issuance of new shares, which were allocated to third parties, though this was partially offset by repayments of long-term debt.

4. Outlook for Fiscal Year 2005

The political and economic situation is expected to remain unstable both domestically and abroad; while there is also increasing uncertainty due to rising prices of raw materials and fluctuations in exchange rates. Under these circumstances, it is extremely difficult to come up with accurate demand forecasts.

To address this situation, Sankyo Seiki implemented a new management structure on April 1, 2004 with the aim of effecting a rapid reconstruction of the Company's business. In addition, Sankyo Seiki has aggressively introduced the management methods of Nidec Corporation, Sankyo Seiki's new parent company, with a concerted effort to reform its internal corporate culture. Specifically, Sankyo Seiki introduced Nidec's "Management by Business Unit" system for profit management and strengthened sales offices, which are the heart of the company, and enhanced the R&D department. These actions are the stepping-stones for a reorganization aimed at securing sustainable growth.

The positive impacts of these changes can already be seen in the fourth quarter of fiscal 2004, thus we are confident that Sankyo Seiki will make a profit in all its businesses, and will be able to significantly recover market competitiveness in fiscal year 2005. All the losses that formed the negative legacy of the past were settled during fiscal year 2004. Furthermore, Sankyo Seiki is expecting extraordinary income from the reduction in the retirement and pension benefits reserve that comes from the liquidation of the employees' pension fund.

FIVE-YEAR SUMMARY

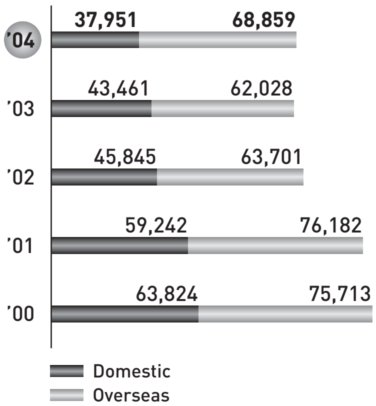
Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

	Millions of Yen					Thousands of U.S. Dollars
Years Ended March 31	**2004**	2003	2002	2001	2000	**2004**
Net sales	**¥106,810**	¥105,489	¥109,546	¥135,424	¥139,537	**$1,010,596**
Net income (loss)	**(28,718)**	(10,368)	(7,778)	1,694	885	**(271,719)**
	Yen					U.S. Dollars
Per share:						
Net income (loss)	**¥(234.66)**	¥(118.80)	¥(89.08)	¥19.40	¥10.14	**$(2.22)**
Cash dividends				4.00	4.00	
	Millions of Yen					Thousands of U.S. Dollars
Total shareholders' equity	**¥ 34,609**	¥ 25,779	¥ 38,592	¥ 46,559	¥ 45,701	**$ 327,454**
Total assets	**93,496**	99,660	111,980	123,105	122,096	**884,625**
Working capital	**37,678**	8,214	16,541	23,189	17,901	**166,373**
Long-term debt, less current portion	**579**	14,613	15,143	14,680	6,610	**5,475**
Capital expenditures	**8,713**	5,864	6,125	8,389	6,842	**82,439**
Depreciation and amortization	**5,715**	5,951	6,108	6,073	6,252	**54,075**

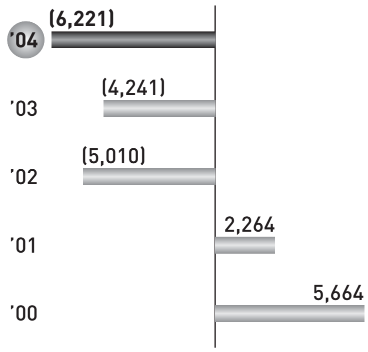
Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥106=US$1.00.

MAJOR FINANCIAL INDICES

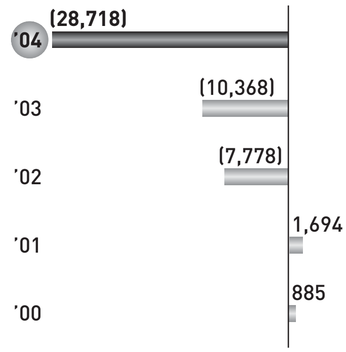
Net Sales
[Millions of Yen]



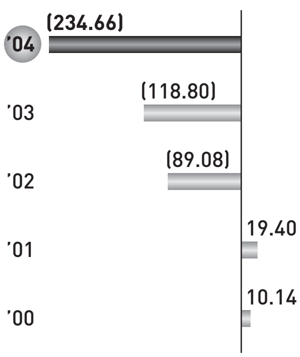
Operating Income (Loss)
[Millions of Yen]



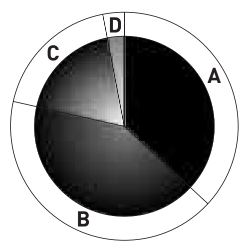
Net Income (Loss)
[Millions of Yen]



Net Income (Loss) per Share
[Yen]



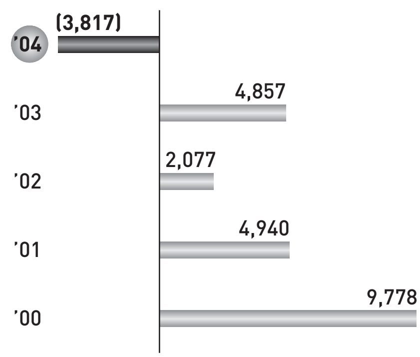
Sales by Business Segment in the Year Ended March 31, 2004
[%]



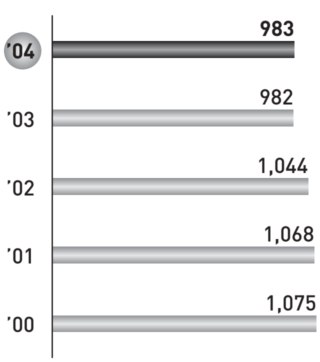
A 36.9% Audiovisual and Home Appliance Equipment
B 41.5% Communications and Peripheral Computer Equipment
C 18.4% Industrial Machinery and Equipment
D 3.2% Others [Music Boxes, etc.]

Net Sales: **¥106,810** million

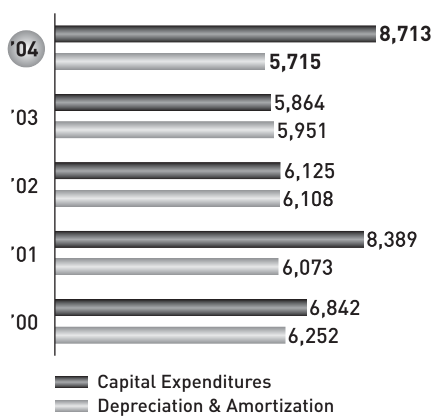
Net Cash Provided by (Used in) Operating Activities
[Millions of Yen]



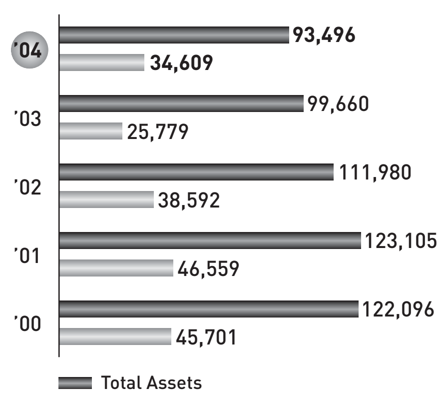
R&D Expenses
[Millions of Yen]



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, 2004 and 2003	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 26,714**	¥ 18,441	**$ 252,755**
Short-term investments (Note 4)	**456**	459	**4,318**
Notes and accounts receivable:			
Trade notes	**3,799**	1,630	**35,948**
Trade accounts	**25,519**	19,693	**241,451**
Unconsolidated subsidiaries and associated companies	**134**	394	**1,270**
Other (Note 10)	**4,381**	1,556	**41,450**
Allowance for doubtful receivables	**(204)**	(35)	**(1,931)**
Inventories (Note 5)	**13,383**	11,973	**126,623**
Deferred tax assets (Note 9)	**184**	158	**1,739**
Prepaid expenses and other current assets	**364**	475	**3,445**
Total current assets	**74,730**	54,744	**707,068**
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	**1,253**	6,406	**11,859**
Buildings and structures	**12,062**	26,602	**114,123**
Machinery and equipment	**44,370**	60,667	**419,811**
Construction in progress	**157**	356	**1,488**
Total	**57,842**	94,031	**547,281**
Accumulated depreciation	**(42,441)**	(62,015)	**(401,566)**
Net property, plant and equipment	**15,401**	32,016	**145,715**
INVESTMENTS AND OTHER ASSETS:			
Investments securities (Note 4)	**1,156**	3,867	**10,937**
Investments in unconsolidated subsidiaries and associated companies	**1,230**	1,416	**11,634**
Software	**20**	967	**188**
Deferred charges—development costs		4,652	
Deferred tax assets (Note 9)	**263**	276	**2,488**
Other assets (Note 10)	**696**	1,722	**6,595**
Total investments and other assets	**3,365**	12,900	**31,842**
TOTAL	**¥ 93,496**	¥ 99,660	**$ 884,625**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	**¥ 7,641**	¥ 22,307	**$ 72,295**
Current portion of long-term debt (Note 6)	**196**	2,578	**1,851**
Notes and accounts payable:			
Trade notes	**5,111**	4,108	**48,355**
Trade accounts	**16,810**	11,946	**159,051**
Unconsolidated subsidiaries and associated companies		3	**5**
Other	**3,042**	2,784	**28,779**
Income taxes payable (Note 9)	**368**	291	**3,479**
Accrued expenses	**2,757**	1,523	**26,083**
Deferred tax liabilities (Note 9)	**46**	26	**438**
Other current liabilities	**1,081**	964	**10,234**
Total current liabilities	**37,052**	46,530	**350,570**
LONG-TERM LIABILITIES:			
Long-term debt, less current portion (Note 6)	**579**	14,613	**5,475**
Liability for retirement benefits (Note 7)	**17,992**	10,412	**170,237**
Deferred tax liabilities (Note 9)	**585**	865	**5,531**
Other	**312**	52	**2,953**
Total long-term liabilities	**19,468**	25,942	**184,196**
MINORITY INTERESTS	**2,367**	1,409	**22,405**
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 2004 and 87,311,591 shares in 2003	**35,270**	16,575	**333,712**
Additional paid-in capital	**28,238**	18,602	**267,175**
Accumulated deficits	**(26,550)**	(6,845)	**(251,209)**
Unrealized gain (loss) on available-for-sale securities	**402**	(127)	**3,805**
Foreign currency translation adjustments	**(2,689)**	(2,409)	**(25,440)**
Treasury stock—at cost, 128,059 shares in 2004 and 73,407 shares in 2003	**(62)**	(17)	**(589)**
Total shareholders' equity	**34,609**	25,779	**327,454**
TOTAL	**¥ 93,496**	¥ 99,660	**$ 884,625**

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, 2004 and 2003	**2004**	2003	**2004**
NET SALES	**¥106,810**	¥105,489	**$1,010,596**
COST OF SALES	**99,862**	95,973	**944,856**
Gross profit	**6,948**	9,516	**65,740**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	**13,169**	13,757	**124,601**
Operating loss	**(6,221)**	(4,241)	**(58,861)**
OTHER INCOME (EXPENSES):			
Interest expense	**(776)**	(652)	**(7,349)**
Interest and dividend income	**296**	211	**2,804**
Foreign exchange loss	**(1,461)**	(657)	**(13,825)**
Gain (loss) on sales of marketable and investment securities	**1,131**	(7)	**10,703**
Loss on devaluation of marketable and investment securities	**(57)**	(546)	**(537)**
Gain (loss) on sales of investment in associated companies	**420**	(10)	**3,972**
Additional retirement benefits paid to employees	**(1,228)**	(744)	**(11,618)**
Gain (loss) on sales of property, plant and equipment	**3,531**	(463)	**33,412**
Loss on disposals of property, plant and equipment	**(5,419)**	(82)	**(51,273)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**101**	76	**957**
Amortization of transitional obligation on retirement benefits	**(6,346)**		**(60,044)**
Amortization of deferred charges—development costs	**(4,421)**		**(41,830)**
Loss on business restructuring	**(2,993)**		**(28,318)**
Loss from revaluation of properties for sale	**(3,490)**		**(33,024)**
Other—net	**(1,291)**	(979)	**(12,219)**
Other expenses—net	**(22,003)**	(3,853)	**(208,189)**
LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS	**¥ (28,224)**	¥ (8,094)	**$ (267,050)**
INCOME TAXES (Note 9):			
Current	**776**	279	**7,343**
Deferred	**(229)**	1,810	**(2,171)**
Total income taxes	**547**	2,089	**5,172**
MINORITY INTERESTS IN NET INCOME	**53**	(185)	**503**
NET LOSS	**¥ (28,718)**	¥ (10,368)	**$ (271,719)**
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK—Net loss (Note 2.q)	**¥ (234.66)**	¥ (118.80)	**$ (2.22)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

Years Ended March 31, 2004 and 2003	Thousands: Outstanding Number of Shares of Common Stock	Millions of Yen: 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, APRIL 1, 2002	87,303	¥16,575	¥18,602	¥ 3,694	¥ 824	¥(1,100)	¥ (3)
Net loss				(10,368)			
Decrease resulting from changes in the scope of consolidation or adoption of the equity method				(171)			
Net decrease in unrealized gain on available-for-sale securities					(951)		
Net decrease in foreign currency translation adjustments						(1,309)	
Acquisition of treasury stock	(65)						(14)
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)**

	Thousands of U.S. Dollars (Note 1): Common Stock	Additional Paid-in Capital	Accumulated Deficits	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2003	$156,828	$176,002	$(64,766)	$(1,198)	$(22,795)	$(164)
Conversion of convertible bond	44,872	44,720				
Issuance of common stock to NIDEC Corporation and its affiliates:						
$2.04 per share on October 1, 2003	59,061	59,061				
$4.85 per share on January 31, 2004	72,951	72,668				
Transfer to accumulated deficits from additional paid-in capital		(85,276)	85,276			
Net loss			(271,719)			
Net increase in unrealized gain on available-for-sale securities				5,003		
Net decrease in foreign currency translation adjustments					(2,645)	
Acquisition of treasury stock						(425)
BALANCE, MARCH 31, 2004	**$333,712**	**$267,175**	**$(251,209)**	**$ 3,805**	**$(25,440)**	**$(589)**

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, 2004 and 2003	**2004**	2003	**2004**
OPERATING ACTIVITIES:			
Loss before income taxes and minority interests	**¥(28,224)**	¥ (8,094)	**$(267,050)**
Adjustments for:			
Income taxes—paid	**(690)**	(296)	**(6,527)**
Depreciation and amortization	**5,715**	5,951	**54,075**
Reversal of doubtful receivables	**(17)**	(43)	**(163)**
Provision for retirement benefits—net	**1,178**	2,796	**11,146**
Loss (gain) on sales of marketable and investment securities	**(1,019)**	7	**(9,637)**
Loss (gain) on sales of investment in associated companies	**(420)**	10	**(3,972)**
Loss (gain) on sales of property, plant and equipment	**(3,531)**	463	**(33,412)**
Loss on disposal of property, plant and equipment	**5,419**	82	**51,273**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(101)**	(76)	**(957)**
Loss on devaluation of marketable and investment securities	**57**	546	**537**
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	**(7,948)**	4,867	**(75,200)**
Decrease (increase) in inventories	**(2,107)**	405	**(19,932)**
Increase (decrease) in trade payables	**7,475**	(139)	**70,723**
Other—net	**20,396**	(1,622)	**192,980**
Total adjustments	**24,407**	12,951	**230,934**
Net cash provided by (used in) operating activities	**(3,817)**	4,857	**(36,116)**
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	**7,809**	1,664	**73,892**
Purchases of property, plant and equipment	**(8,343)**	(7,366)	**(78,939)**
Proceeds from sales of marketable and investment securities	**3,968**	1,270	**37,541**
Purchases of marketable and investment securities	**(11)**	(260)	**(108)**
Proceeds from sales of consolidated subsidiaries	**1,482**		**14,022**
Purchases of consolidated subsidiaries	**(20)**		**(190)**
Proceeds from sales of unconsolidated subsidiaries and associated companies		3	
Purchases of unconsolidated subsidiaries and associated companies	**(19)**	(361)	**(182)**
Maturity of (investment in) time deposits	**(26)**	814	**(243)**
Increase in deferred charges for development costs		(4,918)	
Decrease (increase) in other assets	**(847)**	107	**(8,016)**
Net cash provided by (used in) investing activities	**3,993**	(9,047)	**37,777**
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	**(11,644)**	3,571	**(110,168)**
Proceeds from long-term debt	**1,475**	2,250	**13,954**
Repayments of long-term debt	**(7,685)**	(2,717)	**(72,715)**
Increase (decrease) in commercial paper—net	**(1,655)**	200	**(15,662)**
Redemption of convertible bond	**(54)**		**(511)**
Payment of cash dividends to minority interests	**(63)**	(10)	**(591)**
Proceeds from stock issuance of consolidated subsidiaries to minority interests	**813**		**7,692**
Proceeds from issuance of common stock	**27,875**		**263,741**
Other—net	**(45)**	(14)	**(425)**
Net cash provided by financing activities	**9,017**	3,280	**85,315**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,030)**	(839)	**(9,738)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**8,163**	(1,749)	**77,238**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**110**	270	**1,036**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**18,441**	19,920	**174,481**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥26,714**	¥18,441	**$252,755**
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Assets increased by consolidation of subsidiaries previously unconsolidated		¥ 6,264	
Liabilities increased by consolidation of subsidiaries previously unconsolidated		899	
Increase in capital stock from conversion of convertible bonds into common stock	**¥ 4,743**		**$ 44,872**
Increase in additional paid-in capital from conversion of convertible bonds into common stock	**4,726**		**44,720**
Decrease in convertible bonds from conversion of convertible bond into common stock	**9,469**		**89,592**
ADDITIONAL CASH FLOW INFORMATION:			
Interest paid	**756**	641	**7,153**
Interest and dividends received	**329**	236	**3,114**

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 2003 financial statements to conform to the classifications used in 2004.

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 ¥106 to $1, the approximate rate of exchange at March 31, 2004. 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, 2004 include the accounts of the Company and its 23 (25 in 2003) 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.

One (two in 2003) unconsolidated subsidiary and one (one in 2003) 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.

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

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).

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). 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.

g. Deferred Charges—Development Costs—The Company charges development costs to income as incurred in accordance with the 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 an other expense for the year ended March 31, 2004. As a result, loss before income taxes and minority interests increased by the same amount.

h. Allowance for Doubtful Receivables—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' 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.

j. Reserve for Restructuring Losses—The Company and certain consolidated subsidiaries prepare 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 ¥414 million ($3,880 thousand) in losses on the disposal of property, plant and equipment related to planned restructuring for the year ended March 31, 2004.

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 statement 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 statement 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.

The 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 are 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 122,380 thousand shares for 2004 and 87,276 thousand shares for 2003.

Diluted net income per share is not disclosed in 2004 and 2003 because of the Group's net loss position.

***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." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

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.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. CHANGES IN ACCOUNTING POLICIES AND RELATED EFFECTS

Changes in significant accounting policies are as follows:

***(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 a same amount of increase of loss before income taxes and minority interests.

(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).

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current:			
Time deposits	**¥383**	¥380	**$3,622**
Non-marketable corporate bonds	**73**	79	**696**
Total	**¥456**	¥459	**$4,318**

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Non-current:			
Marketable equity securities	**¥ 977**	¥3,483	**$ 9,244**
Trust fund investments and other	**179**	384	**1,693**
Total	**¥1,156**	¥3,867	**$10,937**

Information regarding the category of the securities classified as available-for-sale at March 31, 2004 and 2003, was as follows:

	Millions of Yen			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable equity securities	**¥ 567**	**¥410**		**¥ 977**
Government and corporate bonds	**78**		**¥ 5**	**73**
Trust fund investments and other	**44**	**4**		**48**
March 31, 2003				
Securities classified as:				
Marketable equity securities	3,987	643	1,147	3,483
Government and corporate bonds	83		4	79
Trust fund investments and other	47		13	34

	Thousands of U.S. Dollars			
March 31, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable equity securities	**$5,365**	**$3,880**	**$ 1**	**$9,244**
Government and corporate bonds	**741**	**2**	**47**	**696**
Trust fund investments and other	**422**	**34**		**456**

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Available-for-sale:			
Non-marketable securities	**¥131**	¥ 233	**$1,237**
Bond investment trust		186	
Total	**¥131**	¥ 419	**$1,237**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003, were ¥3,968 million ($37,541 thousand) and ¥782 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥1,274 million ($12,055 thousand) and ¥143 million ($1,352 thousand), respectively, for the year ended March 31, 2004. And gross realized losses on these sales were ¥17 million for the year ended March 31, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2004, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available for Sale	Available for Sale
Due in one year or less	¥154	$1,456
Due after one year through five years	48	456
Total	¥202	$1,912

5. INVENTORIES

Inventories at March 31, 2004 and 2003, were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Finished products	**¥ 3,268**	¥ 3,951	**$ 30,925**
Work in process	**4,512**	3,397	**42,687**
Raw materials, supplies and lands for sale	**5,603**	4,625	**53,011**
Total	**¥13,383**	¥11,973	**$126,623**

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 0.01% to 2.13% and from 0.62% to 5.04% at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003, was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
0.20% Japanese yen convertible unsecured bonds, due 2007		¥9,523	
0.56% to 4.75% (0.55% to 2.60% in 2003) loans from banks and insurance companies, due serially to 2008	**¥ 683**	5,747	**$ 6,455**
1.40% loans from banks, in foreign currencies		103	
3.15% to 6.80% (1.20% to 6.80% in 2003) loans from government financing institutions, due serially to 2010	**92**	1,818	**871**
Total	**775**	17,191	**7,326**
Less current portion	**(196)**	(2,578)	**(1,851)**
Long-term debt, less current portion	**¥ 579**	¥14,613	**$ 5,475**

Annual maturities of long-term debt at March 31, 2004, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥196	$1,851
2006	335	3,162
2007	101	957
2008	48	453
2009	13	123
Thereafter	82	780
Total	¥775	$7,326

A summary of assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2004, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥285	$2,695
Buildings and structures (net book value)	285	2,695
Total	¥570	$5,390

During the year ended March 31, 2004, ¥9,469 million ($89,592 thousand) of the convertible unsecured bonds were covered 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, 2004 for directors and corporate auditors is ¥728 million ($6,886 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labour and Welfare on January 1, 2003.

As a result of this exemption, the Company and certain consolidated subsidiaries recognized a loss on exemption from future pension obligation of the governmental program in the amount of ¥1,598 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003.

The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥11,335 million ($107,248 thousand) at March 31, 2004.

The liability for employees' retirement benefits at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligation	**¥26,870**	¥38,595	**$254,238**
Fair value of plan assets	**(8,612)**	(13,093)	**(81,487)**
Unrecognized prior service cost	**2,693**	3,297	**25,477**
Unrecognized actuarial loss	**(3,686)**	(12,657)	**(34,876)**
Unrecognized transitional obligation		(6,349)	
Net liability	**¥17,265**	¥ 9,793	**$163,352**

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	**¥1,115**	¥1,448	**$10,545**
Interest cost	**946**	1,382	**8,954**
Expected return on plan assets	**(497)**	(961)	**(4,702)**
Amortization of prior service cost	**(668)**	(300)	**(6,319)**
Recognized actuarial loss	**2,535**	1,365	**23,987**
Amortization of transitional obligation	**6,349**	761	**60,073**
Net periodic benefit costs	**¥9,780**	¥3,695	**$92,538**

Assumptions used for the years ended March 31, 2004 and 2003, are set forth as follows:

	2004	2003
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**4.0%**	4.0%
Amortization period of prior service cost (see Note 3(2))	**5 years**	12 years
Recognition period of actuarial gain/loss (see Note 3(2))	**5 years**	12 years
Amortization period of transitional obligation (see Note 3(2))	**Fully amortized**	15 years

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 for 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 41% for the years ended March 31, 2004 and 2003. 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, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current:			
Deferred tax assets:			
Accrued bonuses	**¥ 347**	¥ 117	**$ 3,281**
Accrued business tax	**30**	8	**281**
Unrealized profit incurred in intragroup transactions	**5**	11	**45**
Loss on devaluation of inventories	**1,690**		**15,990**
Other	**100**	59	**952**
Offset	**(4)**	(3)	**(41)**
Less valuation allowance	**(1,984)**	(34)	**(18,769)**
Total	**¥ 184**	¥ 158	**$ 1,739**
Deferred tax liabilities:			
Property and equipment	**¥ 44**	¥ 26	**$ 416**
Other	**6**	3	**63**
Offset	**(4)**	(3)	**(41)**
Total	**¥ 46**	¥ 26	**$ 438**

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Non-current:			
Deferred tax assets:			
Tax loss carryforwards	**¥ 12,406**	¥ 4,329	**$ 117,380**
Pension and severance costs	**6,930**	3,498	**65,571**
Directors' retirement benefits	**291**	240	**2,754**
Investment securities	**198**	406	**1,869**
Allowance for doubtful receivables	**40**	321	**383**
Property, plant and equipment	**830**	257	**7,854**
Other	**29**	336	**278**
Offset	**(462)**	(69)	**(4,375)**
Less valuation allowance	**(19,999)**	(9,042)	**(189,226)**
Total	**¥ 263**	¥ 276	**$ 2,488**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 160**	¥ 146	**$ 1,513**
Undistributed earnings of foreign subsidiaries	**822**	693	**7,775**
Other	**65**	95	**615**
Offset	**(462)**	(69)	**(4,368)**
Total	**¥ 585**	¥ 865	**$ 5,535**

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2004 and 2003, and the actual effective tax rates reflected in the accompanying consolidated statements of operations is as follows:

	2004	2003
Normal effective statutory tax rate	**41.3%**	41.3%
Expenses not deductible for income tax purposes	**(0.1)**	(0.3)
Income not taxable for income tax purposes	**0.1**	0.4
Per capita portion of inhabitants taxes	**(0.1)**	(0.3)
Foreign tax credit		0.8
Valuation allowance	**(45.7)**	(61.0)
Prior-period income taxes		(4.5)
Effect of tax rate reduction		3.8
Income not taxable under the tax ordinance in the applicable foreign country		(2.8)
Other—net	**2.6**	(3.2)
Actual effective tax rate	**(1.9)%**	(25.8)%

At March 31, 2004, the Company and certain consolidated subsidiaries have tax loss carryforwards, totaling approximately ¥27,544 million ($260,609 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
2005	¥ 113	$ 1,066
2006		
2007	2,767	26,180
2008	7,072	66,917
2009	12,831	121,400
Total	¥22,783	$215,563

The remaining balance of ¥4,761 million ($45,046 thousand) held by foreign consolidated subsidiaries can be carried forward indefinitely provided that certain conditions are met.

10. RELATED PARTY/EMPLOYEE TRANSACTIONS

Related party transactions are not disclosed for the year ended March 31, 2003, because transactions with unconsolidated subsidiaries and associated companies became immaterial as a result of expansion of consolidation scope.

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

	Millions of Yen	Thousands of U.S. Dollars
Sales of land	¥ 4,122	$ 39,001
Sales of securities of subsidiaries	2,108	19,952
Sales of equipment	1,455	13,768
Sales of investments securities	2,151	20,354

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

	Millions of Yen	Thousands of U.S. Dollars
Accounts receivable—Other	¥1,438	$13,608

Loans to employees, bearing interest of 2.50% per annum, at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current	**¥ 5**	¥ 16	**$ 44**
Non-current	**96**	137	**912**
Total	**¥101**	¥153	**$956**

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 ¥983 million ($9,301 thousand) and ¥982 million for the years ended March 31, 2004 and 2003, respectively.

12. LEASES

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

Total rental expenses for the years ended March 31, 2004 and 2003, were ¥1,865 million ($17,641 thousand) and ¥2,196 million, respectively, including ¥1,326 million ($12,543 thousand) and ¥1,646 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, 2004 and 2003, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2004			**2004**		
	Machinery	Equipment	Total	Machinery	Equipment	Total
Acquisition cost	**¥1,616**	**¥ 678**	**¥2,294**	**$15,294**	**$ 6,416**	**$21,710**
Accumulated depreciation	**1,065**	**421**	**1,486**	**10,075**	**3,987**	**14,062**
Net leased property	**¥ 551**	**¥ 257**	**¥ 808**	**$ 5,219**	**$ 2,429**	**$ 7,648**

	Millions of Yen		
	2003		
	Machinery	Equipment	Total
Acquisition cost	¥6,050	¥2,100	¥8,150
Accumulated depreciation	2,086	965	3,051
Net leased property	¥3,964	¥1,135	¥5,099

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥433**	¥1,517	**$4,097**
Due after one year	**398**	3,644	**3,763**
Total	**¥831**	¥5,161	**$7,860**

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Depreciation expense	**¥1,253**	¥1,549	**$11,852**
Interest expense	**74**	111	**703**
Total	**¥1,327**	¥1,660	**$12,555**

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 report 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, 2004 and 2003:

	Millions of Yen					
	2004			2003		
	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**	**¥ 7**	**¥(34)**	¥1,000		¥(10)
Floor—selling				110	¥ (2)	(2)
Collar:						
Floor—selling				500	(6)	(6)
Cap—buying				500		
Interest rate swaps trading (fixed rate payment, floating rate receipt)	**2,200**	**(54)**	**(54)**	2,200	(89)	(89)

	Thousands of U.S. Dollars		
	2004		
	Contract or Notional Amount	Fair Value	Unrealized Loss
Non-listed:			
Interest rate option trading—cap—buying	**$23,654**	**$ 69**	**$ (323)**
Interest rate swaps trading (fixed rate payment, floating rate receipt)	**22,708**	**(511)**	**(511)**

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, 2004, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted with banks	¥ 217	$ 2,055
Guarantees and items of a similar nature:		
Unconsolidated subsidiaries and associated companies	733	6,939
Employees' housing loans	424	4,010
Total	¥1,374	$13,004

15. SUBSEQUENT EVENT

On April 27, 2004, the Company and its domestic affiliated companies received authorization to dissolve the Sankyo Seiki Employee Pension Fund from the Ministry of Health, Labour and Welfare and dissolved the fund on that date. The impact of dissolving this employee pension fund on the consolidated financial statements in the fiscal year ending March 31, 2005 is expected to be approximately ¥7.5 billion and to be recorded as other income by the dissolution of liability for retirement benefit.

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, 2004 and 2003, was as follows:

(1) Operations in Different Industries

	Millions of Yen					
Year Ended March 31, 2004	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Eliminations and Corporate	Consolidated
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**

	Thousands of U.S. Dollars					
Year Ended March 31, 2004	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Eliminations and Corporate	Consolidated
Sales to customers	**$373,170**	**$418,999**	**$186,065**	**$32,362**		**$1,010,596**
Intersegment sales		**1,672**	**140**	**6,450**	**$ (8,262)**	
Total sales	**373,170**	**420,671**	**186,205**	**38,812**	**(8,262)**	**1,010,596**
Operating expenses	**372,336**	**491,599**	**168,636**	**37,210**	**(324)**	**1,069,457**
Operating income (loss)	**$ 834**	**$ (70,928)**	**$ 17,569**	**$ 1,602**	**$ (7,938)**	**$ (58,861)**
Assets	**$224,634**	**$339,587**	**$110,721**	**$12,497**	**$197,186**	**$ 884,625**
Depreciation	**16,247**	**26,347**	**3,752**	**1,383**	**6,347**	**54,076**
Capital expenditures	**13,054**	**65,761**	**2,284**	**989**	**349**	**82,437**

Year Ended March 31, 2003	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	¥44,635	¥ 41,644	¥15,273	¥ 3,937		¥ 105,489
Intersegment sales		43		1,461	¥ (1,504)	
Total sales	44,635	41,687	15,273	5,398	(1,504)	105,489
Operating expenses	43,776	46,895	14,168	5,453	(562)	109,730
Operating income (loss)	¥ 859	¥ (5,208)	¥ 1,105	¥ (55)	¥ (942)	¥ (4,241)
Assets	¥28,073	¥ 41,694	¥ 8,774	¥ 5,381	¥15,738	¥ 99,660
Depreciation	1,897	3,200	458	256	140	5,951
Capital expenditures	2,005	2,738	341	130	650	5,864

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 pickup units and stepping motors.
The industrial machinery and equipment segment consists of magnetic card readers and machinery units.
The others segment contains musical movements, etc.
The unallocated operating expenses is principally composed of general corporate expenses incurred by the Administration Headquarters of the Company.

Changes in accounting policies/estimation and related effects

Change in valuation methods for inventories—As stated in changes in accounting policies and related effects, inventories held by the Company and its domestic consolidated subsidiaries are valued at the lower of cost or market from this fiscal year, while they were valued at cost in prior years. Compared with the previous accounting method, the effect of this change was to increase operating expenses by ¥122 million ($1,143 thousand) in the audiovisual and home appliance equipment segment, ¥390 million ($3,655 thousand) in the communications and peripheral computer equipment segment and ¥61 million ($571 thousand) in the industrial machinery and equipment segment, respectively, and to decrease operating income by the same amounts, respectively.

Change in accounting method for retirement and pension plans—As stated in changes in accounting policies and related effects, from this fiscal year, the full amount of transitional obligation of the Company and a domestic consolidated subsidiary was charged to income and unrecognized prior service cost and unrecognized actuarial loss were amortized over 5 years, while they were amortized over 15 years and 12 years, respectively, in prior years. Compared with the previous accounting method, the effect of this change was to increase operating expense by ¥149 million ($1,396 thousand) in the audiovisual and home appliance equipment segment, ¥121 million ($1,134 thousand) in the communications and peripheral computer equipment segment and ¥196 million ($1,837 thousand) in the industrial machinery and equipment segment, respectively, and to decrease operating income by the same amounts, respectively.

Change in useful life for certain machinery and equipment—As stated in the summary of significant accounting policies, the Company shortened the useful life of certain machinery and equipment from 10 years to 7 years. Compared with the previous useful life, the effect of this change was to decrease operating expenses by ¥20 million ($188 thousand) in the audiovisual and home appliance equipment segment and to increase operating income by the same amount in the fiscal year.

(2) Foreign Operations

The foreign operations of the Group for the years ended March 31, 2004 and 2003, were summarized as follows:

Year Ended March 31, 2004	Japan	Asia	North America	Eliminations and Corporate	Consolidated
	Millions of Yen				
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**

Year Ended March 31, 2004	Japan	Asia	North America	Eliminations and Corporate	Consolidated
	Thousands of U.S. Dollars				
Sales:					
Outside customers	**$589,360**	**$388,971**	**$32,265**		**$1,010,596**
Interarea	**196,767**	**183,639**	**779**	**$(381,185)**	
Total sales	**786,127**	**572,610**	**33,044**	**(381,185)**	**1,010,596**
Operating expenses	**803,762**	**609,057**	**30,667**	**(374,029)**	**1,069,457**
Operating income (loss)	**$ (17,635)**	**$(36,447)**	**$ 2,377**	**$ (7,156)**	**$ (58,861)**
Assets	**$560,646**	**$278,331**	**$18,056**	**$ 27,592**	**$ 884,625**

Year Ended March 31, 2003	Japan	Asia	North America	Eliminations and Corporate	Consolidated
	Millions of Yen				
Sales:					
Outside customers	¥58,385	¥ 44,060	¥ 3,044		¥ 105,489
Interarea	18,032	20,089	242	¥(38,363)	
Total sales	76,417	64,149	3,286	(38,363)	105,489
Operating expenses	80,719	63,780	2,922	(37,691)	109,730
Operating income (loss)	¥ (4,302)	¥ 369	¥ 364	¥ (672)	¥ (4,241)
Assets	¥53,028	¥ 41,069	¥ 1,919	¥ 3,644	¥ 99,660

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

Changes in accounting policies/estimation and related effects

Change in valuation methods for inventories—As stated in changes in accounting policies and related effects, inventories held by the Company and its domestic consolidated subsidiaries are valued at the lower of cost or market from this fiscal year, while they were valued at cost in prior years. Compared with the previous accounting method, the effect of this change was to increase operating expenses by ¥573 million ($5,371 thousand) in Japan and to increase operating loss by the same amount in the fiscal year.

Change in accounting method for retirement and pension plans—As stated in changes in accounting policies and related effects, from this fiscal year, the full amount of transitional obligation of the Company and a domestic consolidated subsidiary was charged to income and unrecognized prior service cost and unrecognized actuarial loss were amortized over 5 years, while they were amortized over 15 years and 12 years, respectively, in prior years. Compared with the previous accounting method, the effect of this change was to increase operating expense by ¥467 million ($4,377 thousand) in Japan and to increase operating loss by the same amount in the fiscal year.

Change in useful life for certain machinery and equipment—As stated in the summary of significant accounting policies, the Company shortened the useful life of certain machinery and equipment from 10 years to 7 years. Compared with the previous useful life, the effect of this change was to decrease operating expenses by ¥20 million ($188 thousand) in Japan and to decrease operating loss by the same amount in the fiscal year.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
North America	**¥ 3,032**	¥ 2,579	**$ 28,685**
Europe	**3,074**	3,569	**29,085**
Asia	**60,726**	54,359	**574,567**
Others	**2,027**	1,521	**19,182**
Total	**¥68,859**	¥62,028	**$651,519**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Sankyo Seiki Mfg. Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Sankyo Seiki Mfg. Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, 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 discussed in item (1) of Note 3 to the consolidated financial statements, the Company and its domestic consolidated subsidiaries changed its method of accounting for inventories as of April 1, 2003.

As discussed in item (2) of Note 3 to the consolidated financial statements, the Company changed its method of accounting for the transitional obligation, unrecognized prior service cost and unrecognized actuarial loss for employees' retirement benefits.

As discussed in Note 15, on April 27, 2004, the Sankyo Seiki Employee Pension Fund was dissolved upon approval by the Ministry of Health, Labour and Welfare.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 21, 2004

A Nidec Group Company

Sankyo
Sankyo Seiki Mfg. Co., Ltd.

Corporate Data

(As of March 31, 2004)

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Nagano 393-8511, Japan
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Established:
June 18, 1946

Paid-in Capital:
¥35,270 million

Number of Employees:
1,199 (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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