

Consolidated Balance Sheets

As of March 31, 2005 and 2004

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Current Assets:			
Cash and cash equivalents (Note 2-c)	¥ 21,759	¥ 24,780	\$ 202,622
Notes and accounts receivable (Notes 2-d and 4):			
Trade	62,610	58,241	583,023
Other	4,074	1,602	37,935
	66,684	59,843	620,958
Allowance for doubtful receivables (Note 2-d)	(287)	(408)	(2,675)
Total notes and accounts receivable	66,397	59,435	618,283
Inventories (Note 2-e)	46,963	41,534	437,313
Deferred tax assets (Note 6)	5,124	6,554	47,712
Prepaid expenses and other current assets	7,052	6,650	65,667
Total current assets	147,295	138,953	1,371,597
Tangible Fixed Assets (Note 2-f):			
Land	15,086	16,135	140,480
Buildings and structures	97,223	92,881	905,323
Machinery and transportation equipment	253,102	226,576	2,356,852
Construction in progress	1,228	763	11,436
	366,639	336,355	3,414,091
Accumulated depreciation	(210,118)	(187,897)	(1,956,590)
Net tangible fixed assets	156,521	148,458	1,457,501
Intangible Fixed Assets:			
Consolidation adjustments (Note 2-i)	10,353	11,423	96,406
Other	3,760	980	35,014
	14,113	12,403	131,420
Investments and Other Assets:			
Investments in affiliates (Notes 2-g and 4)	147	219	1,372
Investments in securities (Note 2-g)	6,162	6,867	57,376
Long-term loans receivable	35	47	331
Deferred tax assets (Note 6)	6,017	6,167	56,025
Other	1,871	1,897	17,418
	14,232	15,197	132,522
Allowance for doubtful receivables (Note 2-d)	(57)	(142)	(530)
Net investments and other assets	14,175	15,055	131,992
Deferred Charges	113	46	1,048
Total Assets	¥ 332,217	¥ 314,915	\$ 3,093,558

The accompanying notes to consolidated financial statements are an integral part of these statements.

Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	<i>Millions of yen</i>		<i>Thousands of U.S. dollars (Note 3)</i>
	2005	2004	2005
Current Liabilities:			
Short-term loans payable (Note 5)	¥ 81,256	¥ 76,195	\$ 756,645
Current portion of long-term debt (Note 5)	5,856	43,448	54,526
Notes and accounts payable (Note 4):			
Trade	25,901	22,777	241,188
Other	9,399	7,019	87,524
Total notes and accounts payable	35,300	29,796	328,712
Income taxes payable (Note 6)	2,344	2,639	21,830
Accrued expenses and other current liabilities	16,693	15,548	155,446
Total current liabilities	141,449	167,626	1,317,159
Long-Term Liabilities:			
Long-term debt (Note 5)	85,341	51,842	794,680
Other (Note 2-h)	804	902	7,487
Total long-term liabilities	86,145	52,744	802,167
Minority Interests in Consolidated Subsidiaries	2,535	679	23,599
Shareholders' Equity (Note 10):			
Common stock			
Authorized 1,000,000,000 shares			
Issued:			
March 31, 2005—399,167,695 shares			
March 31, 2004—399,167,695 shares	68,259	68,259	635,617
Capital reserve	94,757	94,757	882,360
Retained earnings	5,519	2,755	51,398
Differences on revaluation of other marketable securities	1,575	1,647	14,668
Foreign currency translation adjustments	(67,966)	(73,505)	(632,889)
	102,144	93,913	951,154
Treasury stock	(56)	(47)	(521)
Total shareholders' equity	102,088	93,866	950,633
Contingent Liabilities (Notes 12 and 13)			
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	¥332,217	¥314,915	\$3,093,558

Consolidated Statements of Income

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Net Sales (Note 4)	¥294,422	¥268,574	¥272,202	\$2,741,620
Cost of Sales (Notes 4 and 9)	232,019	203,261	203,500	2,160,531
Gross profit	62,403	65,313	68,702	581,089
Selling, General and Administrative Expenses (Notes 2-i and 9)	48,320	47,209	49,350	449,948
Operating income	14,083	18,104	19,352	131,141
Other Income (Expenses):				
Interest income	145	111	243	1,352
Equity in income of unconsolidated subsidiaries and affiliates	13	3	10	129
Prior year's adjustment of losses on liquidation of subsidiaries and affiliates	—	325	—	—
Reversal of reserve for liquidation of switching power supplies and related businesses	—	441	—	—
Interest expense	(3,361)	(3,213)	(4,765)	(31,300)
Gains on sales of investment securities and investment securities in affiliates	—	882	3	—
Losses on devaluation of investment securities	(619)	—	(4,945)	(5,770)
Foreign currency exchange losses (Note 2-b)	(755)	(771)	(506)	(7,032)
Losses on sales and disposals of tangible fixed assets	(1,019)	(747)	(712)	(9,494)
Losses on liquidation of subsidiaries and affiliates	(270)	—	(1,843)	(2,514)
Losses on liquidation of switching power supplies and related businesses	—	—	(3,144)	—
Environment-related expenses incurred by U.S. subsidiaries	—	—	(1,206)	—
Other, net	(439)	(2,177)	(1,992)	(4,080)
	(6,305)	(5,146)	(18,857)	(58,709)
Income before Income Taxes and Minority Interests	7,778	12,958	495	72,432
Income Taxes (Note 6):				
Current	5,943	4,412	4,276	55,344
Deferred (benefit)	(430)	2,798	(1,370)	(4,005)
	5,513	7,210	2,906	51,339
Minority Interests	(3,316)	(271)	23	(30,879)
Net Income (Loss)	¥ 5,581	¥ 6,019	¥ (2,434)	\$ 51,972
			Yen	U.S. dollars (Note 3)
Per Share Data (Note 11):				
Net income (loss):				
Basic	¥13.93	¥15.08	¥(6.10)	\$0.13
Diluted	13.27	14.51	(4.85)	0.12
Cash dividends applicable to the year	7.00	7.00	7.00	0.07

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005, 2004 and 2003

Millions of yen

	Number of Shares of Common Stock	Common Stock	Capital Reserve	Retained Earnings (Note 10)	Differences on Revaluation of Other Marketable Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 2002	399,167,695	¥68,259	¥94,757	¥ 4,774	¥(1,719)	¥(53,333)	¥ (6)
Net loss	—	—	—	(2,434)	—	—	—
Cash dividends	—	—	—	(2,794)	—	—	—
Other	—	—	—	—	1,682	(10,941)	(32)
Balance at March 31, 2003	399,167,695	68,259	94,757	(454)	(37)	(64,274)	(38)
Net income	—	—	—	6,019	—	—	—
Cash dividends	—	—	—	(2,794)	—	—	—
Other	—	—	—	(16)	1,684	(9,231)	(9)
Balance at March 31, 2004	399,167,695	68,259	94,757	2,755	1,647	(73,505)	(47)
Net income	—	—	—	5,581	—	—	—
Cash dividends	—	—	—	(2,793)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(24)	—	—	—
Other	—	—	—	(0)	(72)	5,539	(9)
Balance at March 31, 2005	399,167,695	¥68,259	¥94,757	¥ 5,519	¥ 1,575	¥(67,966)	¥(56)

Thousands of U.S. dollars (Note 3)

	Number of Shares of Common Stock	Common Stock	Capital Reserve	Retained Earnings (Note 10)	Differences on Revaluation of Other Marketable Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 2004	399,167,695	\$635,617	\$882,360	\$ 25,661	\$15,344	\$(684,476)	\$(435)
Net income	—	—	—	51,972	—	—	—
Cash dividends	—	—	—	(26,012)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(219)	—	—	—
Other	—	—	—	(4)	(676)	51,587	(86)
Balance at March 31, 2005	399,167,695	\$635,617	\$882,360	\$ 51,398	\$14,668	\$(632,889)	\$(521)

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2005	2004	2003	2005
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 7,778	¥ 12,958	¥ 495	\$ 72,432
Depreciation and amortization	22,462	21,705	22,826	209,169
Amortization of consolidation adjustments	1,083	1,023	1,189	10,089
Interest and dividend income	(182)	(138)	(292)	(1,699)
Interest expense	3,361	3,213	4,765	31,300
Losses on sales and disposals of tangible fixed assets	718	664	678	6,686
Losses on liquidation of subsidiaries and affiliates	—	—	1,843	—
Increase in notes and accounts receivable	(1,020)	(7,734)	(4,070)	(9,504)
(Increase) decrease in inventories	(1,597)	(1,883)	3,972	(14,873)
Increase (decrease) in notes and accounts payable	1,283	(386)	(1,585)	11,951
Other	1,256	(678)	11,732	11,690
Total adjustments	35,142	28,744	41,553	327,241
Interest and dividends received	183	176	266	1,711
Interest paid	(3,388)	(3,197)	(5,087)	(31,550)
Income tax paid	(4,351)	(4,009)	(4,453)	(40,518)
Net cash provided by operating activities	27,586	21,714	32,279	256,884
Cash Flows from Investing Activities:				
Purchase of tangible fixed assets	(23,060)	(18,825)	(16,382)	(214,732)
Proceeds from sales of tangible fixed assets	2,173	2,372	662	20,236
Purchase of intangible fixed assets	(3,059)	—	—	(28,490)
Net proceeds from acquisition of shares in subsidiaries	71	—	—	667
Proceeds from sales of shares in subsidiaries	—	385	—	—
Increase (decrease) in loans receivable	(67)	(156)	78	(628)
Other, net	153	1,292	(591)	1,421
Net cash used in investing activities	(23,789)	(14,932)	(16,233)	(221,526)
Cash Flows from Financing Activities:				
Proceeds from (repayment of) long-term debt	(5,909)	6,368	(12,663)	(55,020)
Cash dividends paid	(2,793)	(2,794)	(2,794)	(26,013)
Cash dividends paid to minority shareholders	(16)	(27)	—	(158)
Other, net	(54)	844	(14)	(499)
Net cash provided by (used in) financing activities	(8,772)	4,391	(15,471)	(81,690)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	358	(570)	(350)	3,341
Net increase (decrease) in cash and cash equivalents	(4,617)	10,603	225	(42,991)
Cash and Cash Equivalents at Beginning of Year	24,780	14,177	13,952	230,749
Increase in Cash and Cash Equivalents Due to Establishment of a Joint Venture	1,596	—	—	14,864
Cash and Cash Equivalents at End of Year	¥ 21,759	¥ 24,780	¥ 14,177	\$ 202,622

The accompanying notes to consolidated financial statements are an integral part of these statements.

**1. Basis of Presenting
Financial Statements**

The accompanying consolidated financial statements of Minebea Co., Ltd. (the “Company”), and its consolidated domestic and overseas subsidiaries are stated in Japanese yen, the accounts of which are maintained in accordance with the accounting principles generally accepted in the respective countries and audited by independent auditors in those countries.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Ministry of Finance in Japan as required by the Securities and Exchange Law of Japan, in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. For the purpose of this annual report, certain reclassifications have been made and additional information provided to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan.

**2. Summary of Significant
Accounting Policies**

a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and 48 affiliated companies, including 47 consolidated subsidiaries and one nonconsolidated affiliate. All significant intercompany balances, intercompany transactions and unrealized profits have been eliminated in consolidation.

b) Translation of foreign currencies

Monetary assets and liabilities denominated in overseas currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date, except for certain accounts that were hedged by forward exchange contracts. Translation differences arising from the translation of the financial statements denominated in overseas currencies are recorded as minority interests in consolidated subsidiaries and foreign currency translation adjustments, in shareholders’ equity.

Financial statement items of consolidated overseas subsidiaries are translated into Japanese yen as follows:

Balance sheet items	At the rates of exchange prevailing at the balance sheet date
Statement of income items	At the average rate of exchange during the fiscal year

c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be “cash equivalents.”

d) Allowance for doubtful receivables

Allowance for doubtful receivables of the Company and its consolidated domestic subsidiaries is provided for normal receivables based on the historical write-off rate and an estimate of uncollectible amounts for doubtful receivables on a specific identification basis. Allowance for doubtful receivables of consolidated overseas subsidiaries is generally provided for estimated uncollectible receivables.

Allowance for doubtful receivables provided for consolidated subsidiary receivables is eliminated for consolidation purposes. Allowance for doubtful receivables as of March 31, 2005 and 2004, were sufficient to cover the estimated uncollectible receivables.

e) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated primarily at cost, being determined by the moving average method, and those of its consolidated overseas subsidiaries are stated at the lower of cost or market, being determined by the first-in, first-out method or the moving average method.

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

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2005	2004	2005
Merchandise and finished goods	¥25,096	¥22,320	\$233,692
Work in process	9,920	9,451	92,375
Raw materials	8,486	7,384	79,019
Supplies	3,461	2,379	32,227
	<u>¥46,963</u>	<u>¥41,534</u>	<u>\$437,313</u>

f) Tangible fixed assets

Tangible fixed assets is stated at cost. Depreciation of the Company and its consolidated domestic subsidiaries is computed by the declining balance method based upon the estimated useful lives of the assets, whereas depreciation of consolidated overseas subsidiaries is computed primarily by the straight-line method based upon the estimated useful lives of the assets. Maintenance and normal repair expenses are charged against income as incurred, while significant renewals and improvements are capitalized.

g) Investments in securities

Investments in securities consist of equity securities of listed and unlisted companies. Securities held by the Company or its domestic subsidiaries with quoted market values are stated at the closing quoted value price on March 31, 2005. Resulting valuation gains and losses are included, after the application of tax effect accounting, in shareholders' equity in the consolidated balance sheets. Those securities with no quoted market value are stated at cost by the moving average method.

	<i>Millions of yen</i>						<i>Thousands of U.S. dollars</i>		
	2005		2004		2005		2005		
	<i>Acquisition cost</i>	<i>Carrying value</i>	<i>Unrealized gain (loss)</i>	<i>Acquisition cost</i>	<i>Carrying value</i>	<i>Unrealized gain (loss)</i>	<i>Acquisition cost</i>	<i>Carrying value</i>	<i>Unrealized gain (loss)</i>
Equity securities	¥3,105	¥5,687	¥2,582	¥3,071	¥5,772	¥2,701	\$28,913	\$52,956	\$24,043

The aggregate acquisition cost and market value of securities held by the Company and its consolidated domestic subsidiaries as of March 31, 2005, are as follows:

	<i>Millions of yen</i>
Aggregate acquisition cost:	
Current	¥ —
Noncurrent	3,105
	<u>¥3,105</u>
Aggregate market value:	
Current	¥ —
Noncurrent	5,687
	<u>¥5,687</u>

h) Accounting for retirement benefits

With effect from April 1, 2000, the Company and its consolidated domestic subsidiaries have adopted the accounting standards for retirement benefits. To provide for the payment of retirement benefits to employees, the Company makes provisions based on the projected benefit obligations and the estimated plan assets as of March 31, 2005. The net transition amount of ¥3,050 million resulting from adoption of the new accounting standards is amortized over five years using the straight-line method as other (expenses).

Actuarial gains and losses are amortized using the straight-line method over the average remaining service period of employees (5–15 years), from the period subsequent to the period in which they are incurred.

Certain of the Company's overseas subsidiaries have employee defined-benefit pension plans. To provide for the payment of retirement benefits to employees, these companies make provisions based on the projected benefit obligations and estimated plan assets as of March 31, 2005.

Unrecognized prior service cost is amortized using the straight-line method over a period of 10 years as cost.

Actuarial gains and losses are amortized using the straight-line method over a period of 10 years, from the period subsequent to the period in which they are incurred.

Retirement benefit plans

Projected benefit obligations, net retirement benefit costs and assumptions used for calculation for the years ended March 31, 2005 and 2004, are as follows:

Projected Benefit Obligations	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2005	2004	2005
Projected benefit obligations	¥(23,030)	¥(20,489)	\$(214,452)
Plan assets at fair value	19,638	15,978	182,866
Unfunded projected benefit obligations	(3,392)	(4,511)	(31,586)
Unrecognized transitional obligations	—	610	—
Unrecognized prior service cost	15	—	140
Unrecognized actuarial losses	3,076	3,348	28,643
Net amount recognized on consolidated balance sheets	(301)	(553)	(2,803)
Prepaid pension cost	5	—	47
Accrued retirement benefits	¥ (306)	¥ (553)	\$ (2,850)

Net Retirement Benefit Costs	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2005	2004	2005
Services cost	¥1,059	¥1,081	\$ 9,861
Interest cost	885	666	8,241
Expected return on plan assets	(869)	(143)	(8,092)
Amortization of transitional obligations	609	610	5,671
Amortization of prior service cost	2	—	19
Amortization of actuarial losses	450	765	4,190
Retirement benefit costs	¥2,136	¥2,979	\$19,890

Assumption Used for Calculation	2005	2004
Discount rate	mainly 2.5%	mainly 2.5%
Expected rate of return on plan assets	mainly 2.5%	mainly 2.5%
Allocation of estimated amount of all retirement benefits to be paid at future retirement dates	Equally to each service year using the estimated number of total service years	Equally to each service year using the estimated number of total service years

i) Consolidation adjustments

Excess of cost over net assets acquired for business acquisitions is amortized, amounting to ¥1,083 million in fiscal 2005 and ¥1,023 million in fiscal 2004, on a straight-line basis over a period ranging from five to 40 years.

j) Reclassifications

Certain reclassifications of previous years' figures have been made to conform with the current year's classification.

3. Translation into U.S. Dollars

The accompanying financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have also been translated into U.S. dollar amounts at the rate of ¥107.39=US\$1, the approximate rate of exchange on March 31, 2005. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars.

4. Investments in Affiliates

Summarized financial information for all affiliates as of March 31, 2005 and 2004, and for the years then ended, is as follows:

Financial Position	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Assets:			
Current assets	¥316	¥ 704	\$2,943
Other assets, including tangible fixed assets	506	512	4,714
	<u>¥822</u>	<u>¥1,216</u>	<u>\$7,657</u>
Liabilities and shareholders' equity:			
Current liabilities	¥ 59	¥ 306	\$ 548
Noncurrent liabilities	240	258	2,235
Shareholders' equity	523	652	4,874
	<u>¥822</u>	<u>¥1,216</u>	<u>\$7,657</u>

Results of Operations	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales	¥453	¥1,207	\$4,225
Cost and expenses	415	1,201	3,864
Net income	<u>¥ 38</u>	<u>¥ 6</u>	<u>\$ 361</u>

Summarized below are the significant transactions of the Company and its consolidated subsidiaries with affiliates for the years ended March 31, 2005 and 2004, and the related account balances as of March 31, 2005 and 2004:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Sales	¥248	¥276	\$2,315
Purchases	—	0	—
Account balances:			
Notes and accounts receivable	—	91	—
Notes and accounts payable	0	0	0

5. Short-Term Loans Payable and Long-Term Debt

Short-term loans payable consists of notes payable to banks and commercial paper, principally due in 30 to 180 days. The average annual interest rates for short-term loans payable are 1.24% and 1.07% for the years ended March 31, 2005 and 2004, respectively. The rates for commercial paper were 0.01% on March 31, 2005, and 0.02% on March 31, 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes payable to banks	¥81,256	¥72,195	\$756,645
Commercial paper	—	4,000	—
Total	<u>¥81,256</u>	<u>¥76,195</u>	<u>\$756,645</u>

The aggregate annual maturities of long-term debt outstanding as of March 31, 2005, are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2006	¥ 5,856	\$ 54,526
2007	10,341	96,291
2008	—	—
2009	27,000	251,420
2010 and thereafter	48,000	446,969
	<u>¥91,197</u>	<u>\$849,206</u>

The following is a summary of terms of exercise of warrants:

	<i>Exercise price for conversion per share of common stock as of March 31, 2005</i>	<i>Exchange rate applicable upon conversion</i>	<i>Exercise of warrants or redemption at the option by the Company</i>
1.55% unsecured bonds with warrants payable in Japanese yen due 2005	¥1,350.00	—	Exercisable into common stock from May 20, 2003 to September 30, 2005

Note: Exercise or conversion prices are subject to adjustments in certain events such as stock dividends, free share distributions and combinations or reclassifications of the common stock. If all warrants were converted or exercised as of March 31, 2005, 3,291,879 shares of common stock would have been issued.

Long-term debt as of March 31, 2005 and 2004, consists of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2005	2004	2005
0.65% unsecured convertible bonds payable in Japanese yen due 2005	¥ —	¥27,080	\$ —
2.85% unsecured bonds payable in Japanese yen due 2005	—	10,000	—
3.0% unsecured bonds payable in Japanese yen due 2008	15,000	15,000	139,678
0.655% unsecured bonds payable in Japanese yen due 2007	3,000	3,000	27,935
1.39% unsecured bonds payable in Japanese yen due 2010	10,000	10,000	93,119
1.26% unsecured bonds payable in Japanese yen due 2011	10,000	—	93,119
1.55% unsecured bonds with warrants payable in Japanese yen due 2005	4,000	4,000	37,247
0.57% to 7.78% loans from banks, other	49,197	26,210	458,108
	<u>91,197</u>	<u>95,290</u>	<u>849,206</u>
Less current portion	5,856	43,448	54,526
	<u>¥85,341</u>	<u>¥51,842</u>	<u>\$794,680</u>

6. Income Taxes

The Company and its consolidated domestic subsidiaries are subject to a number of different taxes based on income which, in the aggregate, resulted in an effective statutory rate of 39% for fiscal 2005 and 2004.

The income taxes of consolidated overseas subsidiaries are generally levied at lower rates than those currently applied in Japan. In addition, consolidated subsidiaries in Thailand are granted a status by the Promotion of Investment Act, whereby earnings derived from the manufacture or sale of qualifying products are fully exempt from Thai income tax for a period of three to eight years.

The income tax effect is recognized for temporary differences resulting from elimination of intercompany profit and certain adjustments made in the accompanying consolidated financial statements.

Deferred income taxes of ¥10,064 million and ¥11,853 million as of March 31, 2005 and 2004, respectively, are included in the accompanying consolidated balance sheets, as follows:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2005	2004	2005
Deferred Tax Assets			
Accrued bonuses to employees in excess of tax limit	¥ 639	¥ 744	\$ 5,952
Accrued retirement benefits in excess of tax limit	—	93	—
Loss on devaluation of investment securities	1,698	1,519	15,809
Allowance for doubtful receivables in excess of tax limit	2,429	1,489	22,620
Unrealized gains on sales of inventories	1,822	2,046	16,964
Operating losses carried forward	2,823	5,406	26,289
Foreign tax credit carried forward	1,360	1,539	12,664
Other	1,377	939	12,817
Total deferred tax assets	<u>¥12,148</u>	<u>¥13,775</u>	<u>\$113,115</u>
Deferred Tax Liabilities			
Depreciation of overseas subsidiaries	¥ 897	¥ 720	\$ 8,348
Differences on revaluation of other marketable securities	1,007	1,054	9,378
Other	180	148	1,676
Total deferred tax liabilities	<u>2,084</u>	<u>1,922</u>	<u>19,402</u>
Net deferred tax assets	<u>¥10,064</u>	<u>¥11,853</u>	<u>\$93,713</u>

The reconciliation of the statutory tax rate in Japan and the effective tax rates appearing in the consolidated statements of income for the years ended March 31, 2005 and 2004, is shown below:

	2005	2004
Statutory tax rate in Japan	39.0%	39.0%
Adjustments:		
Amortization of consolidated adjustments	5.2	3.0
Difference of rates applied to overseas subsidiaries	(45.5)	(17.3)
Valuation allowance for operating losses of consolidated subsidiaries	21.3	—
Nontaxable dividend income	50.2	32.6
Other	0.6	(1.7)
Effective income tax rate	70.8%	55.6%

7. Leases

Pro forma information for finance leases, except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee, is as follows:

Acquisition Cost, Accumulated Depreciation and Net Book Value of Leased Assets

	<i>Millions of yen</i>					
	2005			2004		
	<i>Acquisition cost</i>	<i>Accumulated depreciation</i>	<i>Net book value</i>	<i>Acquisition cost</i>	<i>Accumulated depreciation</i>	<i>Net book value</i>
Buildings and structures	¥1,269	¥ 585	¥ 684	¥1,196	¥ 657	¥ 538
Machinery and equipment	2,736	1,476	1,260	3,079	1,721	1,358
Software	42	31	11	—	—	—
	¥4,047	¥2,092	¥1,955	¥4,275	¥2,378	¥1,896

	<i>Thousands of U.S. dollars</i>		
	2005		
	<i>Acquisition cost</i>	<i>Accumulated depreciation</i>	<i>Net book value</i>
Buildings and structures	\$11,822	\$ 5,453	\$ 6,369
Machinery and equipment	25,482	13,747	11,735
Software	394	290	104
	\$37,698	\$19,490	\$18,208

Note: Because the outstanding future lease payments at the balance sheet date are not material as compared with the year-end balance of tangible assets, the interest portion is included in the pro forma amounts of acquisition cost.

Outstanding Future Lease Payments Payable

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2005	2004	2005
Due within one year	¥ 892	¥ 946	\$ 8,311
Due after one year	1,063	950	9,897
	¥1,955	¥1,896	\$18,208

Note: Because the outstanding future lease payments payable at the balance sheet date is not material as compared with the year-end balance of tangible fixed assets, the interest portion is included in the pro forma amounts of outstanding future lease payments payable.

Actual Lease Payments and Depreciation Expense

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2005	2004	2005
Actual lease payments	¥1,209	¥1,242	\$11,262
Depreciation	1,209	1,242	11,262

Depreciation of leased assets is computed on the straight-line method over the lease term with no residual value.

8. Derivatives

The Company and its consolidated subsidiaries have entered into forward exchange contracts on foreign currency-denominated receivables and payables related to actual and future import and export transactions to hedge certain risks related to fluctuations in foreign currency exchange rates. In principal, forward exchange contracts are carried at contract rate in the consolidated balance sheets, while changes in their fair value are deferred and recognized in earnings. However, the Company and its consolidated subsidiaries adhere to a policy of maintaining the outstanding balance of these instruments within the amounts of hedged foreign currency-denominated receivables and payables.

The execution of derivative transactions is controlled by the Finance Department. It is the policy of the Company and its consolidated subsidiaries to utilize forward exchange contracts solely for the purpose of hedging foreign currency position-related risks.

In line with internal risk management policies, the Company and its consolidated subsidiaries cover receivables and payables denominated in foreign currencies with forward exchange contracts denominated in the same currency, in the same amount and executed on the same day. Accordingly, the hedging relationships between the derivative financial instrument and the hedged item are highly effective in offsetting changes in currency exchange rates.

There are no derivative financial instruments for which hedge accounting is not applied as of March 31, 2005 and 2004.

9. Research and Development Expenses

Research and development expenses incurred by the Company and its consolidated subsidiaries are included in selling, general and administrative expenses and cost of sales.

Research and development expenses for the years ended March 31, 2005 and 2004, amounted to ¥10,012 million and ¥9,639 million, respectively.

10. Shareholders' Equity

The Commercial Code of Japan provides that an amount equivalent to at least 10% of appropriation of retained earnings paid with respect to each financial period be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock. The legal reserve may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to the common stock account by resolution of the Board of Directors. Additional paid-in capital and the legal reserve may also be drawn down up to an amount that equals 25% of the common stock. In line with consolidated accounting procedures in Japan, additional paid-in capital is included in capital reserve and the legal reserve is included in retained earnings.

Appropriation of retained earnings with respect to cash dividends, bonuses to directors and corporate auditors, and transfer to the legal reserve are subject to the resolution of the general shareholders' meeting. The accompanying consolidated financial statements reflect appropriations approved or to be approved by shareholders subsequent to the fiscal years ended March 31, 2005 and 2004.

11. Per Share Data

Dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year, dividends approved or to be approved after the fiscal year-end but applicable to the fiscal year.

Basic net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is computed using the weighted average number of shares of common stock during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. In calculating diluted net income per share, net income is adjusted, by interest expense net of income taxes, on the convertible bonds when such bonds are dilutive.

The number of shares used in calculating net income per share for the years ended March 31, 2005 and 2004, is as follows:

	<i>Thousands of shares</i>	
	2005	2004
Basic	399,074	399,090
Diluted	426,934	426,950

12. Litigation

As of March 31, 2005, there are no material claims outstanding or threatened against the Company or its consolidated subsidiaries.

13. Contingent Liabilities

The Company and its consolidated subsidiaries had no contingent liabilities as of March 31, 2005.

14. Segment Information

The Company and its consolidated subsidiaries are engaged in two business segments: machined components, which includes bearings and bearing-related products, notably ball bearings, rod-end and spherical bearings and pivot assemblies, as well as other machined components, such as fasteners, and special machined components; and electronic devices and components, encompassing rotary components and other electronic devices and components, primarily PC keyboards and speakers.

The business segments of the Company and its consolidated subsidiaries as of March 31, 2005 and 2004, and for the years then ended are outlined as follows:

Business Segments

Millions of yen

<i>Year ended March 31, 2005</i>	<i>Machined Components</i>	<i>Electronic Devices and Components</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	¥116,105	¥178,317	¥294,422	¥ —	¥294,422
Internal sales	2,194	390	2,584	(2,584)	—
Total sales	118,299	178,707	297,006	(2,584)	294,422
Operating expenses	96,727	186,196	282,923	(2,584)	280,339
Operating income (loss)	21,572	(7,489)	14,083	—	14,083
Assets	194,180	214,142	408,322	(76,105)	332,217
Depreciation and amortization	10,401	12,061	22,462	—	22,462
Capital expenditure	11,400	22,757	34,157	—	34,157

Thousands of U.S. dollars

<i>Year ended March 31, 2005</i>	<i>Machined Components</i>	<i>Electronic Devices and Components</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	\$1,081,156	\$1,660,464	\$2,741,620	\$ —	\$2,741,620
Internal sales	20,434	3,630	24,064	(24,064)	—
Total sales	1,101,590	1,664,094	2,765,684	(24,064)	2,741,620
Operating expenses	900,710	1,733,833	2,634,543	(24,064)	2,610,479
Operating income (loss)	200,880	(69,739)	131,141	—	131,141
Assets	1,808,178	1,994,061	3,802,239	(708,681)	3,093,558
Depreciation and amortization	96,858	112,311	209,169	—	209,169
Capital expenditure	106,162	211,906	318,068	—	318,068

Millions of yen

<i>Year ended March 31, 2004</i>	<i>Machined Components</i>	<i>Electronic Devices and Components</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	¥111,693	¥156,881	¥268,574	¥ —	¥268,574
Internal sales	2,191	15	2,206	(2,206)	—
Total sales	113,884	156,896	270,780	(2,206)	268,574
Operating expenses	94,379	158,297	252,676	(2,206)	250,470
Operating income (loss)	19,505	(1,401)	18,104	—	18,104
Assets	189,741	196,918	386,659	(71,744)	314,915
Depreciation and amortization	10,811	10,894	21,705	—	21,705
Capital expenditure	4,168	14,929	19,097	—	19,097

The geographic segments of the Company and its consolidated subsidiaries as of March 31, 2005 and 2004, and for the years then ended are outlined as follows:

Geographic Segments

Millions of yen

<i>Year ended March 31, 2005</i>	<i>Japan</i>	<i>Asia (excluding Japan)</i>	<i>North and South America</i>	<i>Europe</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	¥ 76,660	¥137,424	¥52,390	¥27,948	¥294,422	¥ —	¥294,422
Internal sales	162,763	155,448	1,423	1,025	320,659	(320,659)	—
Total sales	239,423	292,872	53,813	28,973	615,081	(320,659)	294,422
Operating expenses	236,671	287,002	49,303	28,022	600,998	(320,659)	280,339
Operating income	2,752	5,870	4,510	951	14,083	—	14,083
Assets	169,239	223,995	32,442	20,300	445,976	(113,759)	332,217

Thousands of U.S. dollars

Year ended March 31, 2005	Japan	Asia (excluding Japan)	North and South America	Europe	Total before Eliminations	Eliminations or Corporate	Total
Sales to external customers	\$ 713,853	\$1,279,673	\$487,847	\$260,247	\$2,741,620	\$ —	\$2,741,620
Internal sales	1,515,629	1,447,508	13,249	9,546	2,985,932	(2,985,932)	—
Total sales	2,229,482	2,727,181	501,096	269,793	5,727,552	(2,985,932)	2,741,620
Operating expenses	2,203,852	2,672,518	459,099	260,942	5,596,411	(2,985,932)	2,610,479
Operating income	25,630	54,663	41,997	8,851	131,141	—	131,141
Assets	1,575,933	2,085,814	302,095	189,039	4,152,881	(1,059,323)	3,093,558

Millions of yen

Year ended March 31, 2004	Japan	Asia (excluding Japan)	North and South America	Europe	Total before Eliminations	Eliminations or Corporate	Total
Sales to external customers	¥ 68,760	¥121,072	¥48,726	¥30,016	¥268,574	¥ —	¥268,574
Internal sales	138,158	125,129	2,859	1,387	267,533	(267,533)	—
Total sales	206,918	246,201	51,585	31,403	536,107	(267,533)	268,574
Operating expenses	202,035	235,438	49,501	31,029	518,003	(267,533)	250,470
Operating income	4,883	10,763	2,084	374	18,104	—	18,104
Assets	166,277	201,194	29,173	20,075	416,719	(101,804)	314,915

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004, are summarized as follows:

Overseas Sales

Millions of yen

Year ended March 31, 2005	To Asia (excluding Japan)	To North and South America	To Europe	Total
Overseas sales	¥140,229	¥46,013	¥29,505	¥215,747
Consolidated net sales				¥294,422
Overseas sales as a percentage of consolidated net sales	47.6%	15.7%	10.0%	73.3%

Thousands of U.S. dollars

Year ended March 31, 2005	To Asia (excluding Japan)	To North and South America	To Europe	Total
Overseas sales	\$1,305,797	\$428,466	\$274,749	\$2,009,012
Consolidated net sales				\$2,741,620
Overseas sales as a percentage of consolidated net sales	47.6%	15.7%	10.0%	73.3%

Millions of yen

Year ended March 31, 2004	To Asia (excluding Japan)	To North and South America	To Europe	Total
Overseas sales	¥121,598	¥45,336	¥32,238	¥199,172
Consolidated net sales				¥268,574
Overseas sales as a percentage of consolidated net sales	45.3%	16.9%	12.0%	74.2%

15. Subsequent Event

There were no significant events subsequent to the year ended March 31, 2005.