

The **Motor** the **World** Turns to

Annual Report 2006
Fiscal Year Ended December 31, 2006

Profile

Established in 1954, Mabuchi Motor Co., Ltd. has constantly delivered small, high-quality, high-performance, direct-current motors at affordable prices. Used in automotive products, audio and visual equipment, information and communication equipment, home appliances and power tools, toys, and models, they support convenient and comfortable lifestyles. Today, Mabuchi boasts over 50% worldwide market share in unit sales and conducts all production overseas, mainly in China and Vietnam.

Under the management creed “Contributing to International Society and Ever-expanding Our Contribution,” we take initiatives for new growth. Mabuchi will progress as a leading company specializing in small motors by providing even better, more affordable products to support society and deliver comfort.

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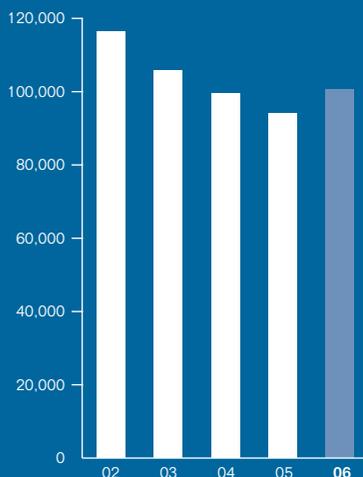
Financial Highlights

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
Years ended December 31

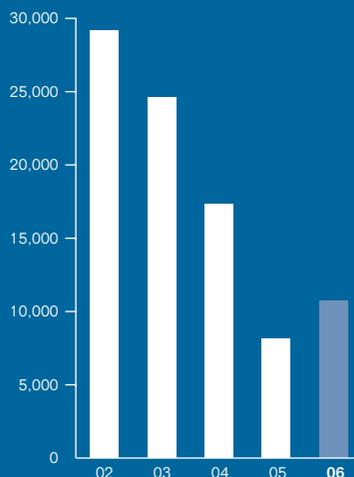
	Yen (millions)					U.S. Dollars (thousands)	
	2002	2003	2004	2005	2006	2006	
Net sales	¥116,356	¥105,743	¥ 99,347	¥ 93,927	¥100,517	\$ 844,680	
Operating income	29,122	24,576	17,312	8,149	10,700	89,915	
Income before income taxes and minority interests	27,968	24,741	19,676	11,597	15,914	133,731	
Net income	18,025	16,731	13,279	7,350	10,603	89,100	
Shareholders' equity	224,315	212,803	201,543	211,875	211,284	1,775,495	
Total assets	244,987	229,674	216,489	227,375	236,999	1,991,588	
	Yen					U.S. Dollars	
Per share of common stock:							
Net income	¥ 392.13	¥ 375.41	¥ 316.14	¥ 180.72	¥ 268.03	\$ 2.25	
Cash dividends	70.00	128.00	115.00	92.00	114.00	0.95	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥119=U.S.\$1, the approximate exchange rate on December 31, 2006.

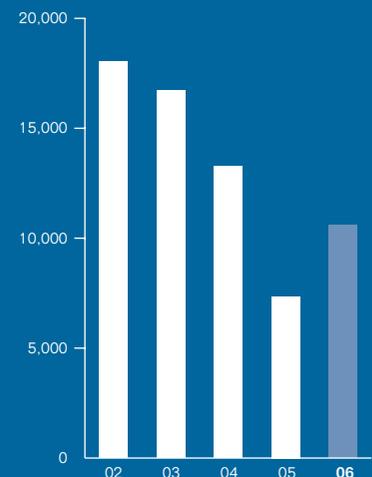
Net Sales
Yen (millions)



Operating Income
Yen (millions)



Net Income
Yen (millions)



Forward-Looking Statements

This annual report contains forward-looking statements about Mabuchi Motor Co., Ltd.'s future plans, beliefs, strategies and performance that are not historical facts. They are based on current expectations, forecasts, estimates and projections about the industry in which Mabuchi Motor Co., Ltd. operates and beliefs and assumptions made by management. As the expectations, forecasts, estimates and projections are subject to a number of risks, uncertainties and assumptions, they may cause actual results to differ materially from those projected. Mabuchi Motor Co., Ltd., therefore, wishes to caution readers not to place undue reliance on forward-looking statements. Furthermore, the Company undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments.

Risks, uncertainties and assumptions mentioned above include, but are not limited to, exchange rates and economic conditions; the outcome of pending and future litigation; commodity prices; and the continued financing, financial instruments and financial resources.

▶ To Our Shareholders



Takaichi Mabuchi
Chairman



Shinji Kamei
President

For the fiscal year ended December 31, 2006, Mabuchi reported on a consolidated basis operating income of ¥10,700 million, up 31.3% year on year, and net income of ¥10,603 million, an increase of 44.3%, on net sales of ¥100,517 million, an increase of 7.0% compared to the previous year.

▶ Fiscal 2006 in Review

For the fiscal year ended December 31, 2006, Mabuchi posted generally robust sales. Although audio & visual equipment sales fell ¥699 million, or 3.0%, year on year, sales grew in the Company's remaining three segments. In automotive products, the main pillar of the Company's growth strategy, sales jumped ¥5,184 million, or 16.4%; in information & communication equipment, sales increased ¥256 million, or 1.6%; and in home appliances, power tools & others, sales rose ¥1,128 million, or 5.0%, year on year.

In terms of costs, the Company faced increasing challenges such as the surging price of copper and higher labor costs. However, company-wide efforts to reform the cost structure generated some solid results. Together with the benefits of the weaker yen, this helped Mabuchi to report both higher sales and earnings.

On a consolidated basis, the Company posted operating income of ¥10,700 million, up 31.3%, on net sales of ¥100,517 million, 7.0% higher than the previous fiscal year. Net income was ¥10,603 million, an increase of 44.3%.

▶ Targeting Steady Growth

In 2006, we put priority on driving a recovery in profitability. We achieved some success by putting particular focus on paring back fixed costs to transform the Company's earnings structure.

In our outlook for 2007, we are projecting higher sales in automotive products, home appliances and power tools, while sales in audio & visual equipment are forecast to remain weak. Meanwhile, we expect to face a difficult cost environment in the year ahead as raw material costs increase due to sustained high prices for copper and other materials, and because of higher direct labor costs following an increase in the minimum wage of workers in China in the second half of 2006. Against this backdrop, we are forecasting an increase in operating income of 2.8% to ¥11 billion on a slight rise in net sales of 0.5% to ¥101 billion. However, we are projecting a drop in net income of 5.7% to ¥10 billion due to the anticipated absence of any foreign exchange gains. Building on our activities to date, we will work to respond to changes in our business environment and tackle any issues that stand in the way of returning the Company to steady growth.

1. Growth Strategy

Based on our policy of maximizing the potential of our mainstay small direct-current (DC) brush motor business, we will work to quickly create growth opportunities by combining new product fields with applications that boast high market demand. To this end, we have selected the following four approaches that will enable us to create a more competitive business portfolio:

- (i) Boost sales of products for automotive applications, particularly power windows and seat adjusters
- (ii) Break into new markets for compact, high-torque motors and offer a wider lineup of these products
- (iii) Increase sales of brushless motors for car audiovisual and navigation system applications
- (iv) Develop new motor technologies

These four approaches contain two areas that are especially important to our growth strategy:

- (i) **Boost sales of products for automotive applications, particularly power windows and seat adjusters**

Until now, Mabuchi has accelerated business growth by focusing resources on target fields. This is helping us to build up a solid track record of orders with specific customers in the automotive manufacturing sector. In addition, we plan to launch a number of strategic products that have been under development for the last few years. We will work to boost sales and market share by rolling out a global marketing strategy for these products.

- (ii) **Break into new markets for compact, high-torque motors and offer a wider lineup of these products**

Mabuchi has identified extremely strong market needs for compact, high-torque motors. In response, we have started developing new strategic products for volume production that will have the same torque but half the size of existing motors. These new motors will allow customers to make their finished products smaller and lighter and help them to create more standardized designs. At the same time, the motors will offer the potential to move into new markets that have been difficult for us to develop until now with our current product lineup. Leveraging the core technologies of existing products, we will bring our newly developed motors to market and expand our product offering to drive an increase in sales.

2. Cost Strategy

Centered on the following six initiatives, we will work to build a powerful earnings structure capable of responding to changes in our business environment.

- (i) **Develop simplified, labor-saving equipment**

By developing and exploring the use of simplified equipment that save labor, we will minimize the impact of medium-term increases in personnel costs, and at the same time, target zero quality defects by increasing automation in processes that require skilled operators.

- (ii) **Effectively use labor cost advantages and preferential tariffs**

Give increasing weight to sites such as the new Mabuchi production base in Danang City, Vietnam, which came onstream in 2006, where labor-cost advantages and preferential export tariffs can be maximized.

- (iii) **Actively conduct comparative procurement for components**

Conduct more thorough comparative procurement in component purchasing, including optimally combining the use of components produced both in-house and externally, comparing procurement prices globally, and increasing the ratio of products sourced from competitive suppliers.

- (iv) **Create a highly strategic headquarters**

The benefits of our efforts to date emerged in 2006 with a reduction in selling, general and administrative expenses. Going forward, we will entrench the greater efficiency of headquarters functions and steadily promote activities to create a small, highly strategic headquarters.

- (v) **Channel development resources into strategic products**

We have taken a number of systematic steps to help channel development resources into strategic products. These moves have included upgrading internal company systems to promote information sharing on product development, shifting small-scale design projects to China and expanding the use of IT in the development process. Based on these steps, we will be able to respond even more rapidly to customer needs.

▶ To Our Shareholders



Growth Strategy
Develop and launch new strategic products

- Boost sales of products for automotive applications, particularly power windows and seat adjusters
- Break into new markets for compact, high-torque motors and offer wider lineup of these products



Cost Strategy
Concentrate management resources dispersed across sites

- Develop simplified, labor-saving equipment
- Effectively use labor cost advantages and preferential tariffs
- Actively conduct comparative procurement for components
- Create a highly strategic headquarters
- Channel development resources into strategic products
- Save space at manufacturing sites

Return Mabuchi to Growth Track

(vi) *Save space at manufacturing sites*

Mabuchi is targeting a 30% reduction in factory space while maintaining current production capacity. Eliminating the unnecessary movement of material within factories is the main thrust of efforts to save space, and by eliminating wasteful practices at manufacturing sites and simplifying processes we can achieve total cost reductions.

▶ Working to Boost Mabuchi's Corporate Value

Mabuchi boasts the world's top market share for small DC motors. Our production volume of these products, unrivaled worldwide, testifies to the high acclaim and trust received from customers. Therefore, as a leading company in the industry, Mabuchi understands the importance of fulfilling its corporate social responsibility, and in this context, recognizes long-term sustained growth as its ultimate goal. In 2006, we put priority on driving a recovery in profitability. As a result of these efforts, we posted an increase in both sales and earnings. We will now work on the issues outlined earlier to ensure we continue to sustain this growth going forward. Guided by this thinking, we will continue to place top

priority on sharing the fruits of our efforts with shareholders, and the active participation and support of our shareholders will be extremely important to achieving these goals.

We have paid an annual dividend applicable to fiscal 2006 of ¥114 per share, including the interim dividend, representing an increase of ¥22 over the ¥92 dividend applicable to fiscal 2005. The fiscal 2006 annual dividend comprises an ordinary dividend of ¥60 per share, a fixed amount paid consistently to shareholders, and a special dividend linked to business performance equivalent to 20% of consolidated net income divided among the number of applicable shares.

We hope we can count on your continued support as we work to take Mabuchi to the next stage of growth.

March 29, 2007



Takaichi Mabuchi, Chairman



Shinji Kamei, President

Corporate Governance

Basic Approach to Corporate Governance

The Mabuchi Group strives to fulfill the mission stated in its management philosophy, "Contributing to International Society and Ever-expanding Our Contribution," through its small DC motor business. Corporate governance provides the necessary management framework to achieve this goal and strategies to ensure it remains an underlying aspect of our business. Therefore, building an adequate corporate governance structure and ensuring its efficacy is one of Mabuchi's top priorities.

Mabuchi endeavors to fulfill the following corporate governance criteria:

1. Ensure that management decision-making and efficient business execution are clearly separated and the scope of accountability is clear.
2. Build and operate a sound internal control system to establish an effective framework for checks and balances and management supervision.
3. Foster a corporate culture in which all Group employees recognize that compliance and adherence to corporate ethics are crucial to supporting robust corporate activities.
4. Disclose corporate and management information to stakeholders in a fair, timely, and clear manner.

Group Organizations and Status of Internal Control System

Mabuchi employs a system of corporate auditors. Corporate bodies, accounting auditors and other organizations stipulated by the Corporate Law fulfill their respective legal functions. In addition to these organizations, Mabuchi has independently established an Executive Committee, an Internal Audit Department and other organizations related to business execution and internal control. Through the participation of these internal organizations and outside specialists, we have established and are operating a group-wide internal control system.

At each of our overseas Group companies, we also conduct internal control through corporate bodies required by the laws of the respective countries, supported by other internal organizations and outside experts. Through the Mabuchi Group Management Vision, we also share our corporate culture and values across the world, and we are striving to improve our internal control functions throughout the Group by holding meetings for the management of overseas bases and for the heads of different Group departments, as well as through operational audits of Group companies conducted by the Internal Audit Department.

Board of Directors and Executive Committee

Management decisions are made by the Board of Directors, which comprises seven members, and the Executive Committee. The Board of Directors makes decisions on important matters stipulated by law. The Executive Committee complements the Board of Directors by making decisions flexibly and by monitoring the directors' execution of duties.

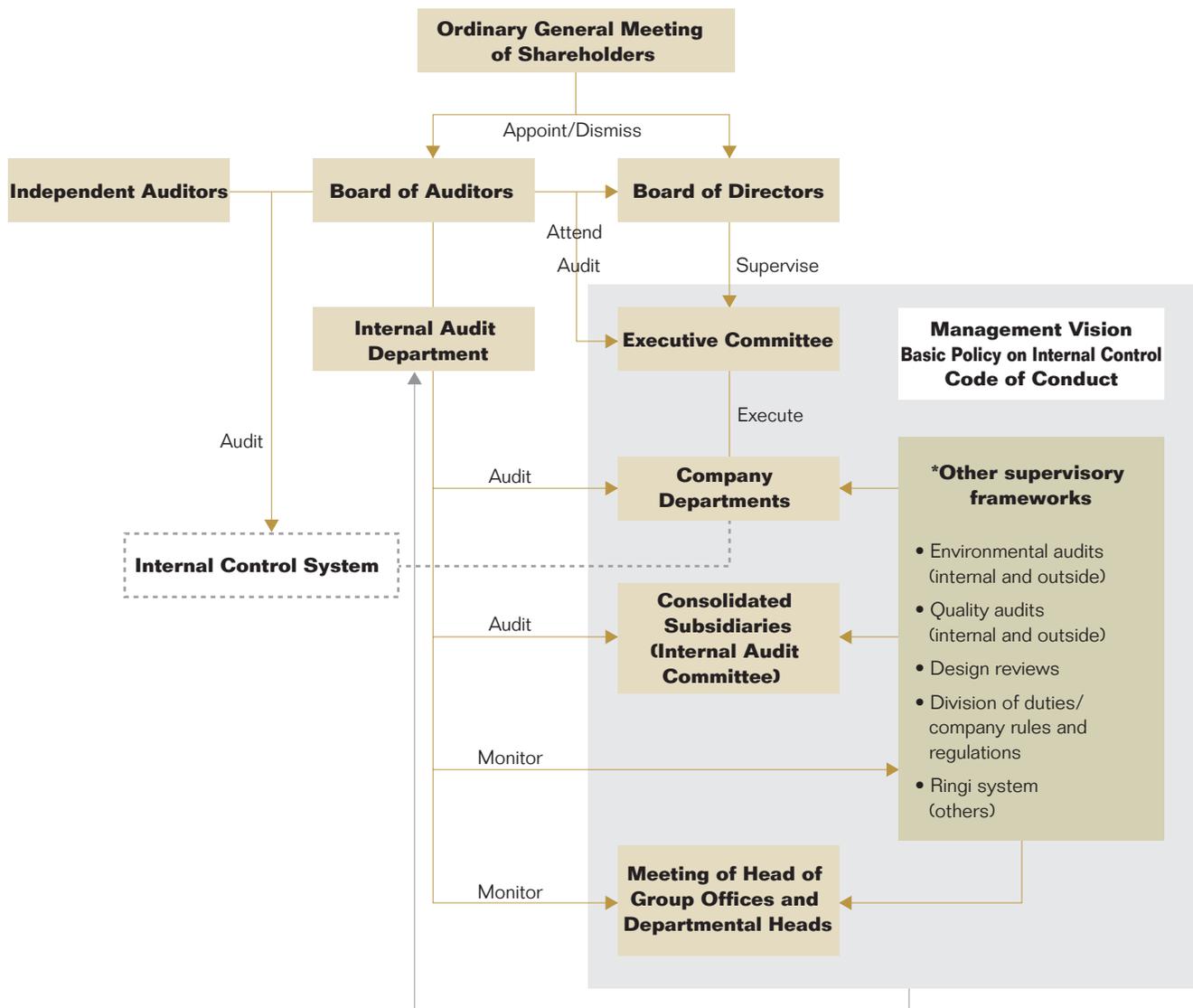
▶ Corporate Governance

● Management Supervisory System

The Board of Auditors comprises four auditors, including three outside auditors, who attend meetings of the Board of Directors and Executive Committee and monitor the executive actions of directors. Mabuchi has also established an Internal Audit Department comprising two full-time staff members. The Department continually monitors compliance, including the effectiveness of internal control systems at each Group company and the application of procedures and rules. In addition to audits conducted by Ernst & Young ShinNihon, Mabuchi has introduced the following systems from a group-wide perspective: environmental audits, quality audits on production activities, design reviews on research and development activities, and a collective decision-making system (ringi system) by which decisions are reviewed by the concerned person.

▶ Risk Management System

Mabuchi has established a Risk Management Committee to identify and assess risk quantitatively and qualitatively across the Group and formulate appropriate countermeasures.



▶ Environmental & Social Activities

▶ Reducing Environmental Impact

We have used our acquisition of ISO 14001 certification to jump-start efforts to establish an in-house framework for maintaining and further developing our environmental management system and to pursue tangible expansion of environmental activities into our business activities.

● Reducing emissions of CO₂

Mabuchi has successively cut emissions of CO₂ thanks to comprehensive and systematic energy-saving activities that cover the head office and all other sites, including bases in China.

● Using resources efficiently

By actively reducing, reusing and recycling waste, we have cut the volume of emissions and saved energy.

● Managing environmentally harmful substances

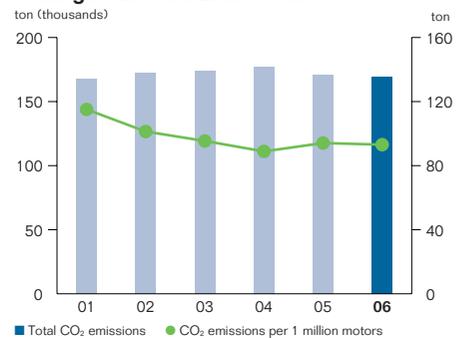
Significant support from suppliers enabled us to make all our products RoHS-compliant by the end of 2005.

Mabuchi will continue to help build a better society by ensuring the ongoing implementation of environmental activities.

For more details on the Mabuchi Group's efforts to protect the environment, please visit our website.

URL: http://www.mabuchi-motor.co.jp/en_US/environ/e_0500.html

Changes in CO₂ Emissions



▶ Contributing to Society

At Mabuchi, we believe that the survival and development of a company can only be realized when it continues to increase its contribution to society. By raising our level of contribution, we aim to remain a company that plays an indispensable role in society.

● Contributing to society through corporate activities

As a manufacturer of small motors, we operate our business based on the principle of contributing to the realization of an affluent society and comfortable lifestyles by providing higher quality products at lower prices. We directly contribute to society by creating jobs and paying taxes.

● Providing educational support

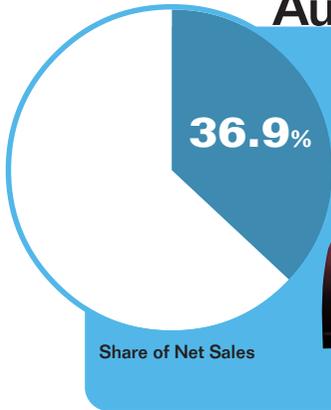
Our support for education is aimed at cultivating the next generation of engineers and developing science learning. Among other activities, Mabuchi sponsors a robot building contest, helps to promote science education for children, and has established scholarships and schools.

● Supporting local communities

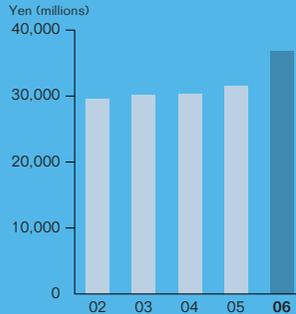
Mabuchi is working together with local communities to help build a better society through local cleanup activities, home visit and home help volunteer activities, tree planting and blood donation activities.

Business Overview

Automotive Products



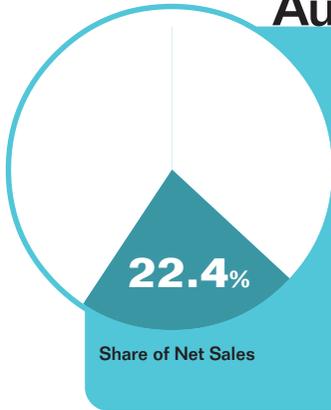
Net Sales



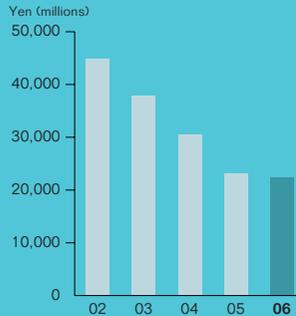
Major Applications

- Door mirrors
- Door locks
- Air conditioning damper actuators
- Power windows
- Headlight beam level adjusters

Audio & Visual Equipment



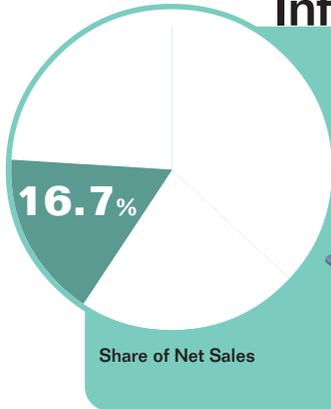
Net Sales



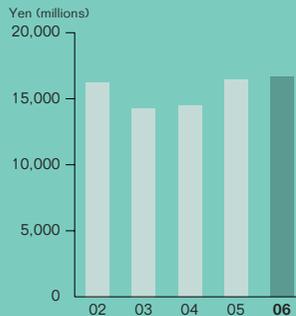
Major Applications

- DVD players and recorders
- Car component systems
- DVD/CD-ROM game machines

Information & Communication Equipment



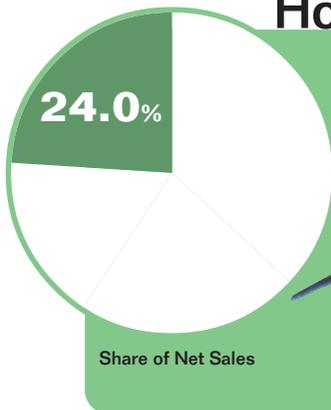
Net Sales



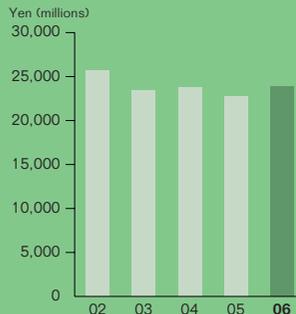
Major Applications

- Printers
- Cameras
- Digital cameras
- CD/DVD-ROM drives
- Copy machines
- Facsimile machines

Home Appliances, Power Tools & Others



Net Sales



Major Applications

- Electric toothbrushes
- Hair dryers
- Electric shavers
- Drills
- Screwdrivers
- Toys
- Plastic models

Mabuchi supplies small, high-performance motors that enable advances in automotive electronic equipment, thereby playing an important role in making automobiles safer and more comfortable. In addition to rising automobile production worldwide, cars are being equipped with more electronics. The latter trend means the number of small motors used

in vehicles is also rising, and consequently, the outlook for demand growth in this segment is strengthening.



Power Window Lifters



Rearview Mirrors

Mabuchi provides compact, high-performance motors for car navigation systems, car audio-visual equipment and other applications in the car entertainment field, as well as for applications in the visual equipment field centered on new disk media. Due to the growing popularity of audio equipment that uses flash memory and hard drives, demand for motors

used in CD players is falling. However, the car CD and DVD market is expanding and the use of Mabuchi motors in new game equipment offers the potential for further growth.



DVD Player



Car Component Systems

With the emergence of a highly networked, advanced information society, Mabuchi's high-performance motors play a vital role in today's increasingly compact and sophisticated high-tech electronic equipment such as personal computers, cameras and printers. In the buoyant market for motors for inkjet printers, Mabuchi is raising competitiveness in terms

of product quality and production capacity. There is also the potential for increased orders for motors fitted with encoders.

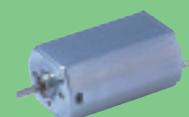


Digital Cameras



Printers

As a diverse array of electronic devices becomes available to households, Mabuchi motors are finding numerous applications in home appliances and other consumer goods that make life more convenient and comfortable. Demand for beauty equipment and hairdressing products continues to grow steadily, while sales of health-related equipment remain robust.



Shavers, Toothbrushes



Cordless Power Tools

Research & Development Activities

Framework

The Mabuchi Group's research and development activities are concentrated at the Company's corporate headquarters. The Research and Development Headquarters covers two R&D departments and the Production Engineering Department—each with their own areas of specialization. In conjunction with our strategy to shift design improvement activities to China, we are also transferring related functions in the Research and Development Headquarters.

Initiatives

Responding to market needs

Against the backdrop of product diversification and demand for shorter delivery times, we are working to enhance our basic research and design technologies with a focus on making products quieter, smaller and more affordable while offering greater torque. At the same time, we are conducting applied R&D to develop products that draw on Mabuchi's core strengths. Aiming to reduce delivery times, we are promoting even greater use of concurrent engineering and implementing reforms centered on using computer-aided design, manufacturing and engineering to create fully integrated work practices from design and infrastructure to tool production. Furthermore, we are conducting production technology development and implementing the Mabuchi Production System (MPS) across the Group to boost manufacturing efficiency. These steps have led to significant cost reductions through production process reforms that cut both inventories and the number of manufacturing steps.

Creating environmentally friendly motors

Mabuchi has led the industry in introducing motor components that contain no cadmium, lead or hexavalent chromium. In production line cleaning, we are phasing out the use of environmentally harmful substances and instead installing cleansing equipment that uses hydrocarbon-based solvents at all motor production bases. We plan to extend these initiatives across the Group and also provide eco-motors, which incorporate the results of past environmental research efforts, to customers.

Power window motors

We have put particular focus on developing motors for power windows as a new business for Mabuchi. We began producing these products after winning a build-to-order contract from a Japanese car manufacturer via an automotive components firm. Since then, output has increased steadily on the back of rising demand from car makers overseas.

► R&D Expenses

For fiscal 2006, Mabuchi recorded ¥4.0 billion in R&D expenses. Mabuchi owns a total of 496 industrial property rights (133 in Japan and 363 overseas) and has 329 employees engaged in R&D activities.



R&D Achievements in Fiscal 2006

- Sunroof unit (LL-578VA)

A new lineup of gear units that represents the first use of existing power window base motors in non-power window applications.

- Spindle brushless motor for DVD car navigation systems (BS-W64CA)

A new variant in the BS-W64AA series, this brushless motor has the same external motor diameter but with DVD 4x speed performance (approximately 6,000 rpm).



- General-purpose motors for electric shavers and other products (FF-180SB/FF-180PB)

New models developed as lower-price versions of existing FF-180SH and FF-180PH motors used primarily in electric shavers and toothbrushes. These products were created at a design facility transferred to China.



- Shaving conditioner lotion dispenser unit (MF-N20PC)

In response to growing demand from customers for electric shavers with additional functions (pump mechanisms), Mabuchi has developed a compact unit that adds a gear head to its existing FF-N20PA motor.

- General-purpose motor for electric mirrors and other small electric devices (FC-140PJ)

Based on the FC-140RE, this new enhanced model features large end play, shaft support specifications, longer life and better heat resistance. This model was developed to be used widely in a range of applications such as compact door locks and headlight beam level adjusters, in addition to electric mirrors.

- Environmentally friendly eco-motors

In January 2006, we completed the switch to production of motors that do not contain six substances restricted by the RoHS Directive and four substances restricted by the ELV Directive in Europe. We plan to begin supplying products that do not contain other environmentally harmful products such as chlorinated paraffin, which is restricted in Europe, and phthalate compounds, which will become a restricted substance in toys and other products for children from 2007.

Financial Section

Six-year Financial Summary

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
Years ended December 31

	Yen (millions)						U.S. Dollars (thousands)
	2001	2002	2003	2004	2005	2006	2006
Operating Results							
Net sales	¥105,129	¥116,356	¥105,743	¥ 99,347	¥ 93,927	¥100,517	\$ 844,680
Operating income	22,079	29,122	24,576	17,312	8,149	10,700	89,915
Income before income taxes and minority interests	23,495	27,968	24,741	19,676	11,597	15,914	133,731
Net income	16,281	18,025	16,731	13,279	7,350	10,603	89,100
Per Share of Common Stock:							
Net income (Yen and U.S. Dollars)	¥ 345.85	¥ 392.13	¥ 375.41	¥ 316.14	¥ 180.72	¥ 268.03	\$ 2.25
Cash dividends per share (Yen and U.S. Dollars)	67.00	70.00	128.00	115.00	92.00	114.00	0.95
Depreciation and Amortization	¥ 6,599	¥ 6,336	¥ 5,578	¥ 5,241	¥ 5,734	¥ 5,360	\$ 45,042
Capital Expenditures	5,132	6,278	5,673	11,606	5,543	3,627	30,478
R&D Expenses	3,421	3,535	3,714	4,035	4,196	4,076	34,252
Balance Sheet							
Shareholders' equity	¥241,859	¥224,315	¥212,803	¥201,543	¥211,875	¥211,284	\$1,775,495
Total assets	260,328	244,987	229,674	216,489	227,375	236,999	1,991,588
Other Data							
Number of shares outstanding (thousands of shares)	47,075	45,966	44,223	41,770	40,469	39,560	
Number of employees	45,203	50,762	51,796	49,743	46,412	45,015	

Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥119=U.S.\$1, the approximate exchange rate on December 31, 2006.
2. Until the year ended December, 2002, net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year.
In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share since 2003 has been computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the respective year.
3. Number of employees includes contract manufacturing labor at plants in Guangdong and Wafangdian, China.

Management's Discussion and Analysis

Net Sales

In fiscal 2006, consolidated net sales increased 7.0% year on year to ¥100,517 million (U.S.\$844 million). The majority of consolidated sales are accounted for by sales of motors, which rose 6.3% to ¥99,702 million (U.S.\$837 million). The higher sales were attributable to strong demand for motors used in automotive applications, an improved product mix due to rising sales of high-priced motors, and the benefits of the weaker yen.

Net Sales by Application

Years ended December 31

	Yen (millions)					U.S. Dollars
	2002	2003	2004	2005	2006	(thousands)
Automotive Products	¥ 29,603	¥ 30,127	¥30,376	¥31,597	¥ 36,781	\$309,084
Audio & Visual Equipment	44,800	37,866	30,567	23,061	22,361	187,907
Information & Communication Equipment	16,240	14,273	14,499	16,402	16,658	139,983
Home Appliances, Power Tools & Others	25,688	23,435	23,806	22,772	23,900	200,840
Other	25	39	97	93	815	6,848
Total	¥116,356	¥105,743	¥99,347	¥93,927	¥100,517	\$844,680

Other includes parts and equipment sales.

Automotive Products

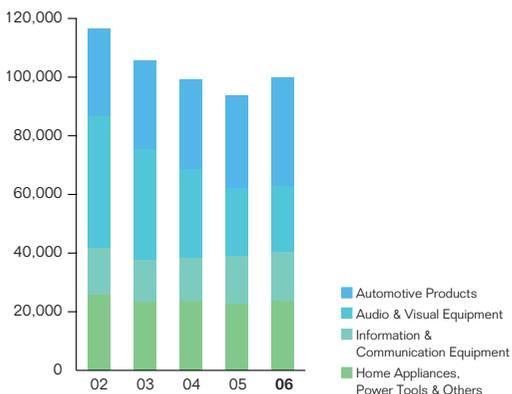
Net sales surged 16.4% year on year to ¥36,781 million (U.S.\$309 million). An increase in the number of small motors installed per vehicle as more electronics are used in automobiles was the main factor supporting this growth. In particular, demand for motors used in mainstay applications such as door mirrors, door locks, air conditioning damper actuators and power window lifters grew steadily, while sales of motors for headlight beam level adjusters, which are being equipped to new cars at a significant rate, and new applications for Mabuchi such as steering locks, also grew at a robust pace.

Audio & Visual Equipment

Net sales fell 3.0% from the previous fiscal year to ¥22,361 million (U.S.\$187 million). Although demand for motors used in CD players continued dropping due to the growing popularity of audio devices that use flash memory or hard disk drives, motors for car CD players remained healthy. Sales of motors used in DVD players and recorders jumped 27.9% year on year, as the market expanded primarily in the BRICs countries. This increase helped to compensate for the significant sales decline in CD applications.

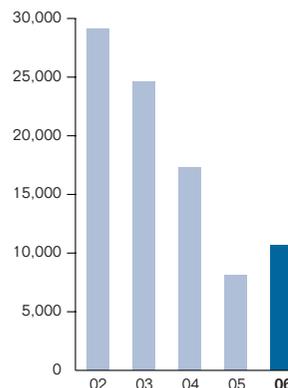
Net Sales by Application

Yen (millions)



Operating Income

Yen (millions)



Financial Section

Information & Communication Equipment

Net sales rose 1.6% year on year to ¥16,658 million (U.S.\$139 million). Although the overall market for motors used in inkjet printers was stagnant, Mabuchi sales rose, supported by entry into the market for high-value-added motors with a rotation control mechanism and higher prices for existing models. In motors for PC drives, sales declined due to inventory cutbacks by customers and the discontinuation of brushless spindle motor production. Motors for cameras saw a substantial decline as leading camera makers in Japan stopped manufacturing film-based cameras and competition intensified between digital camera makers in Japan and overseas.

Home Appliances, Power Tools & Others

Net sales increased 5.0% to ¥23,900 million (U.S.\$200 million). Sales of motors for beauty equipment, particularly toothbrushes, hair dryers, and hairdressing products saw firm growth. There was also an increase in sales of linear motors used in premium shavers as well as motors for vibrating-type wet shavers, contributing to the overall rise in sales. Although sales of motors used in power tools for North America were relatively weak due to the impact of a slowdown in housing starts, sales for the European market were robust. Meanwhile, sales of motors used in health equipment remained strong.

Net Sales by Geographic Area

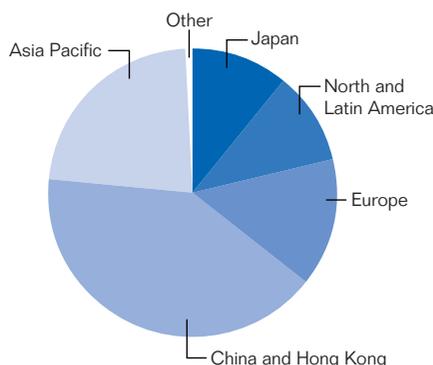
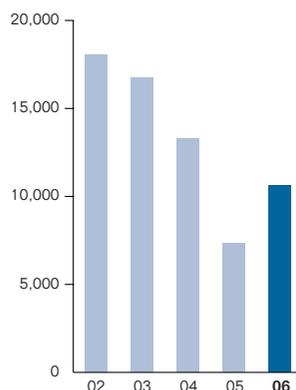
Years ended December 31

	Yen (millions)					U.S. Dollars (thousands)
	2002	2003	2004	2005	2006	2006
Japan	¥ 11,942	¥ 11,611	¥11,536	¥10,928	¥ 10,902	\$ 91,613
North and Latin America	12,624	10,183	9,091	8,728	10,459	87,890
Europe	15,187	14,781	13,848	13,068	14,430	121,260
China and Hong Kong	50,736	45,797	44,855	41,665	41,105	345,420
Asia Pacific	25,842	23,331	19,917	19,443	22,804	191,630
Other	25	39	97	93	815	6,848
Total	¥116,356	¥105,743	¥99,347	¥93,927	¥100,517	\$844,680

Other includes parts and equipment sales.

Net Income

Yen (millions)



Share of Net Sales in 2006

Year ended December 31, 2006

Japan	10.8%
North and Latin America	10.4%
Europe	14.4%
China and Hong Kong	40.9%
Asia Pacific	22.7%
Other	0.8%

Costs, Expenses and Net Income

While the cost of sales rose in line with the higher sales, operating income increased 31.3% year on year to ¥10,700 million (U.S.\$89 million). Reasons for this rise in operating income included improvements in both sales prices and the product lineup, specifically due to higher sales to the automotive products sector, an improved product mix, and sales price adjustments that led to higher unit prices. Mabuchi faced a number of negative cost factors during the year under review such as surging prices for raw materials like copper and precious metals, and rising wages primarily in China. However, efforts to reduce other raw material and manufacturing costs more than compensated for these negative factors. Manufacturing costs are being cut through a reduction in fixed costs by integrating some sites, including the closure of a factory in Malaysia, and through the optimization of non-core personnel. Selling, general and administrative expenses also fell, as expenses returned to a normal level following one-off costs incurred in the previous year for a new headquarters office building and the introduction of new IT infrastructure. Tight budget control was also a factor behind the decline.

Despite a drop in exchange gains on foreign currency transactions compared to a year earlier, and the booking of impairment losses on fixed assets, Mabuchi recorded other income of ¥5,213 million (U.S.\$43 million). This mainly reflected higher interest income and income from the sales of scrap materials, the almost total absence of losses associated with the closure of the factory in Malaysia booked in the previous fiscal year, and gain on proceeds from sales of investment securities.

As a result of the above, net income jumped 44.3% year on year to ¥10,603 million (U.S.\$89 million).

Foreign Currency

In preparing the consolidated financial statements, items in financial statements of foreign subsidiaries that are recorded in local currencies are converted to Japanese yen. As a result, post-conversion figures are affected by the exchange rate on the conversion date.

In fiscal 2006, overseas sales accounted for 89% of consolidated net sales, while 88% of overseas sales were booked in U.S. dollars. The average exchange rate during the period under review was ¥116.38 per U.S. dollar, a depreciation of 5.6% compared to the previous fiscal year. For every ¥1 depreciation in fiscal 2006, sales increased by approximately ¥690 million (U.S.\$5 million) and operating income by around ¥120 million (U.S.\$1 million).

Financial Position

Net working capital at December 31, 2005 and 2006 is summarized as follows:

	Yen (millions)		
	2005	2006	Increase
Current assets	¥107,365	¥118,879	¥11,513
Current liabilities	9,920	12,100	2,179
Net working capital	¥ 97,445	¥106,779	¥ 9,334
Current ratio (%)	10.8	9.8	

As of December 31, 2006, total assets were ¥236,999 million (U.S.\$1,991 million), an increase of ¥9,623 million (U.S.\$80 million) compared to the end of the previous fiscal year. This primarily reflected an increase in cash and bank deposits of ¥6,004 million (U.S.\$50 million) as higher earnings and other factors led to an increase in cash flow and a rise in short-term investments of ¥4,735 million (U.S.\$39 million). These increases were partly offset by the booking of impairment losses on fixed assets and depreciation and amortization that exceeded capital expenditures, which together brought down total fixed assets by ¥1,340 million (U.S.\$11 million).

Total liabilities increased ¥2,281 million (U.S.\$19 million) to ¥17,781 million (U.S.\$149 million). One of the main changes compared to a year earlier was an increase in accrued income taxes of ¥1,572 million (U.S.\$13 million) due to the higher earnings. Total net assets increased ¥7,342 million (U.S.\$61 million) to ¥219,217 million (U.S.\$1,842 million).

Financial Section

Cash Flows

The major items of cash flows for the years ended December 31, 2005 and 2006 are summarized below:

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Income before income taxes	¥11,597	¥15,914	\$133,731
Depreciation and amortization	5,734	5,360	45,042
Increase in property, plant and equipment	(4,908)	(3,871)	(32,529)
Change in short-term investment and purchase investment securities	3,805	(1,593)	(13,386)
Cash dividends paid	(3,771)	(3,994)	(33,563)
Purchase of treasury stock	(6,572)	(15)	(126)
Effect of exchange rate changes on cash and cash equivalents	6,026	852	7,159
Other, net	(5,912)	(4,631)	(38,915)
Net increase in cash and cash equivalents	¥ 5,997	¥ 8,020	\$ 67,394

Net cash provided by operating activities was ¥17,500 million (U.S.\$147 million), an increase of ¥6,465 million (U.S.\$54 million). This was mainly attributable to an increase in income before income taxes.

Net cash used in investing activities was ¥6,321 million (U.S.\$53 million), an increase of ¥5,602 million (U.S.\$47 million), as cash used for the purchase of securities and investment securities exceeded proceeds from sales of such securities.

Net cash used in financing activities was ¥4,009 million (U.S.\$33 million), a decline of ¥6,334 million (U.S.\$53 million). Although cash dividends paid rose, the Company did not purchase any of its own shares in fiscal 2006.

Cash and cash equivalents at the end of the fiscal year under review were ¥72,639 million (U.S.\$610 million), up ¥8,043 million (U.S.\$67 million) from ¥64,596 million (U.S.\$542 million) a year ago.

Risks

The following is a list of risks related to Group businesses and other risks that could have a significant influence on investment decisions. Based on an awareness of these risks, the Mabuchi Group is endeavoring to avoid their occurrence and mitigate any impact in the event they do materialize.

• Changes in Economic Conditions

Demand for Mabuchi products, which are incorporated into our customers' products, is influenced by economic conditions in diverse markets where the Group's products are sold. Consequently, the Group's operating results and financial position may be adversely affected by economic downturns and any related drop in demand in Mabuchi's key markets, including Japan, other Asian countries, North America, and Europe. Changes in economic conditions in overseas markets where competitors carry out manufacturing activities may also have an indirect impact on the Mabuchi Group.

• Fluctuations in Foreign Exchange Rates

The Mabuchi Group conducts its business through manufacturing and sales subsidiaries worldwide. Consequently, local currency items converted into Japanese yen during the preparation of consolidated financial statements are subject to foreign exchange rates at the time of conversion. Additionally, any appreciation in the local currency of a country where manufacturing activities are conducted may push up manufacturing and procurement costs, leading to deterioration in the Group's profitability and price competitiveness. Mabuchi therefore works to minimize the negative effects of short-term exchange rate fluctuations by preventing excessive increases in deposits denominated in foreign currencies and by entering into forward-exchange contracts with respect to receivables and payables from import and export transactions. However, significant or medium- to long-term fluctuations in exchange rates may have a major impact on the Group's operating results and financial position.

- **Development of New Products and Technologies**

The development and sale of new products, by its very nature, involves both complexities and uncertainties, and includes a broad array of risks: there is no guarantee that the Group can translate medium- to long-term investment or other resources into successful new products or the creation of new technologies, or that it can sell new products and technologies that accurately predict future customer and market needs. Technological innovation and changes in market needs may also hurt the marketability of certain Mabuchi products, while failure to develop and launch new products and technologies in a timely manner may prevent the Group from responding to market needs.

- **Price Competition**

Technological advances or the emergence of new competitors may lead to increased market or customer pressure to reduce prices, causing further drops in the price of products Mabuchi supplies. Failure to cut costs in response to long-term price reductions may have a significant impact on the Group's operating results and financial position.

- **International Operating Environment**

The Mabuchi Group operates in a number of countries in Europe, North America and Asia. In these countries, unforeseen changes to systems, laws or regulations, unfavorable political or economic factors, difficulties in employing and retaining personnel, the negative impact on manufacturing activities of inadequate infrastructure, international tax risks, and social unrest attributable to terrorist activities, conflict and other factors, may impact on the Group's operating results and financial position.

- **Product Quality**

Although the Mabuchi Group manufactures its products in accordance with internationally recognized quality standards, there is no guarantee that the Group can supply all its products without defects, or that no major product quality issue will occur in the future. In the event of a large-scale product recall or a defect that leads to product liability damages, substantial costs incurred and/or deterioration in sales due to a loss of customer trust could have a significant impact on the Group's operating results and financial position.

- **Intellectual Property**

The Mabuchi Group may suffer a loss of competitiveness in the event that its intellectual property rights are infringed or not fully protected, or from damage due to the manufacture of similar products following the unauthorized use of other intellectual property. Any related lawsuit filed by Mabuchi could require significant costs and time, and may result in losses from the payment of damages or the forfeit of markets.

- **Personnel**

The failure to attract and retain skilled personnel or make progress with employee training programs as planned may have an impact on the Group's operating results and financial position.

- **Raw Material Procurement**

Long-term difficulties in securing raw materials due to any halt or lack of supplies arising from accidents or other issues at suppliers, poor quality, or sharply higher demand in the marketplace, could have a significant impact on manufacturing activities and prevent the Group from delivering products to customers or maintaining quality standards.

- **Natural Disasters and Accidents**

There is no guarantee that the Mabuchi Group can fully protect itself against or mitigate damages as planned arising from the halt of business operations due to disasters, accidents or other issues occurring at its operating sites worldwide.

Financial Section

Consolidated Balance Sheets

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
December 31, 2005 and 2006

ASSETS	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Current Assets:			
Cash and bank deposits	¥ 61,399	¥ 67,403	\$ 566,411
Short-term investments	11,325	16,061	134,966
Trade notes and accounts receivable	14,407	14,533	122,126
Less—Allowance for doubtful receivables	(344)	(308)	(2,588)
Inventories	17,061	17,814	149,697
Deferred tax assets	1,132	1,215	10,210
Other current assets	2,384	2,159	18,142
Total current assets	107,365	118,879	998,983
Property, Plant and Equipment, at Cost:			
Land	6,198	6,197	52,075
Buildings	44,866	46,108	387,462
Machinery and equipment	63,680	62,685	526,764
Construction in progress	1,106	1,247	10,478
	115,852	116,238	976,789
Less—Accumulated depreciation	(74,148)	(75,875)	(637,605)
Property, plant and equipment, net	41,703	40,362	339,176
Investments and Other Assets:			
Investment securities	75,668	75,141	631,436
Long-term loans receivable	224	151	1,268
Deferred tax assets	142	113	949
Other investments and other assets	2,271	2,350	19,747
Total investments and other assets	78,306	77,757	653,420
Total assets	¥227,375	¥236,999	\$1,991,588

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Current Liabilities:			
Trade notes and accounts payable	¥ 2,877	¥ 3,845	\$ 32,310
Accrued income taxes	891	2,464	20,705
Accrued bonus to employees	293	216	1,815
Accrued bonus for directors	—	62	521
Accrued loss on reorganization of subsidiary	558	509	4,277
Other current liabilities	5,300	5,001	42,025
Total current liabilities	9,920	12,100	101,680
Long-term Liabilities:			
Accrued retirement benefits for employees	122	162	1,361
Accrued retirement benefits for directors and statutory auditors	484	522	4,386
Deferred tax liabilities	4,847	4,887	41,067
Other long-term liabilities	124	108	907
Total long-term liabilities	5,579	5,681	47,739
Shareholders' Equity:			
Common stock, without par value:			
Authorized: 2005—100,000,000 shares			
Issued: 2005—47,075,881 shares	20,704		
Additional paid-in capital	20,419	—	—
Retained earnings	228,319	—	—
Unrealized holding gains on securities	4,034	—	—
Foreign currency translation adjustments	3,115	—	—
Treasury stock, at cost; 7,514,118 shares	(64,718)	—	—
Total shareholders' equity	211,875	—	—
Total liabilities and shareholders' equity	¥227,375	¥ —	\$ —
Net Assets:			
Shareholders' Equity			
Common stock, without par value:			
Authorized: 2006—100,000,000 shares			
Issued: 2006—47,075,881 shares	—	20,704	173,983
Additional paid-in capital	—	20,419	171,588
Retained earnings	—	234,893	1,973,890
Treasury stock, at cost; 7,516,420 shares in 2006	—	(64,733)	(543,974)
Total shareholders' equity	—	211,284	1,775,495
Revaluation/translation differences			
Unrealized holding gains on securities	—	3,478	29,226
Foreign currency translation adjustments	—	4,454	37,428
Total revaluation/translation differences	—	7,932	66,655
Total net assets	—	219,217	1,842,159
Total liabilities and net assets	¥ —	¥236,999	\$1,991,588

Consolidated Statements of Shareholders' Equity

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

	Number of Shares (thousands)		Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2005	2006	2006
Common Stock:					
Beginning balance	47,075	47,075	¥ 20,704	¥ 20,704	\$ 173,983
Ending balance	47,075	47,075	¥ 20,704	¥ 20,704	\$ 173,983
Additional Paid-in Capital:					
Beginning balance			¥ 20,419	¥ 20,419	\$ 171,588
Ending balance			¥ 20,419	¥ 20,419	\$ 171,588
Retained Earnings:					
Beginning balance			¥224,816	¥228,319	\$1,918,647
Net income			7,350	10,603	89,100
Cash dividends			(3,772)	(3,995)	(33,571)
Bonuses to directors and statutory auditors			(74)	(36)	(302)
Increase in accounting changes of scope of consolidation			—	(3)	(25)
Ending balance			¥228,319	¥234,893	\$1,973,890
Unrealized Holding Gains on Investments:					
Beginning balance			¥ 611	¥ 4,034	\$ 33,899
Net change during the year			3,423	(555)	(4,663)
Ending balance			¥ 4,034	¥ 3,478	\$ 29,226
Foreign Currency Translation Adjustments:					
Beginning balance			¥ (6,863)	¥ 3,115	\$ 26,176
Net change during the year			9,978	1,338	11,243
Ending balance			¥ 3,115	¥ 4,454	\$ 37,428
Treasury Stock:					
Beginning balance			¥ (58,145)	¥ (64,718)	\$ (543,848)
Net change during the year			(6,572)	(15)	(126)
Ending balance			¥ (64,718)	¥ (64,733)	\$ (543,974)

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


Financial Section
Consolidated Statements of Cash Flows

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2005 and 2006

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Cash Flows from Operating Activities:			
Income before income taxes	¥ 11,597	¥15,914	\$133,731
Depreciation and amortization	5,734	5,360	45,042
Impairment loss	–	521	4,378
Provision for retirement benefits, net payments	(230)	77	647
Increase (Decrease) in accrued loss on reorganization of subsidiary	558	(48)	(403)
Interest and dividend income	(2,169)	(2,907)	(24,428)
Foreign exchange gain	(1,220)	(98)	(823)
Gain on sales of short-term investments	–	(704)	(5,915)
Loss (Gain) on sales and disposal of fixed assets	267	(36)	(302)
Decrease (Increase) in trade notes and accounts receivables	236	(139)	(1,168)
Decrease (Increase) in inventories	1,329	(197)	(1,655)
(Decrease) Increase in trade notes and accounts payable	(943)	962	8,084
Other, net	(216)	(1,012)	(8,504)
Sub total	14,943	17,691	148,663
Interest and dividends received	2,162	2,911	24,462
Interest paid	(13)	(0)	0
Income taxes paid	(6,058)	(3,102)	(26,067)
Net cash provided by operating activities	11,034	17,500	147,058
Cash Flows from Investing Activities:			
Purchase of short-term investments	(5,712)	(4,781)	(40,176)
Proceeds from sales of short-term investments	8,881	7,080	59,495
Purchase of property, plant and equipment	(5,411)	(4,261)	(35,806)
Proceeds from sales of property, plant and equipment	502	390	3,277
Purchase of investment securities	(6,558)	(9,411)	(79,084)
Proceeds from sales of investment securities	7,193	5,518	46,369
Other, net	384	(856)	(7,193)
Net cash used in investing activities	(719)	(6,321)	(53,117)
Cash Flows from Financing Activities:			
Cash dividends paid	(3,771)	(3,994)	(33,563)
Purchase of treasury stock	(6,572)	(15)	(126)
Net cash used in financing activities	(10,343)	(4,009)	(33,689)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	6,026	852	7,159
Net Increase in Cash and Cash Equivalents	5,997	8,020	67,394
Cash and Cash Equivalents at Beginning of Year	58,598	64,596	542,823
Increase in Accounting Changes of Scope of Consolidation	–	22	184
Cash and Cash Equivalents at End of Year	¥ 64,596	¥72,639	\$610,411

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

Notes to Consolidated Financial Statements

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

(a) Basis of presenting consolidated financial statements

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

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. For the purpose of this report, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

For the convenience of the reader, the accompanying consolidated financial statements have also been presented in U.S. dollars by translating yen amounts at the rate of ¥119 to U.S.\$1, which was the approximate exchange rate prevailing on December 31, 2006.

Certain reclassifications have been made to the accompanying consolidated financial statements for 2005 to conform to the 2006 presentations.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiaries. All significant inter-company balances, transactions, and profits have been eliminated in consolidation. Investments in unconsolidated subsidiaries are stated at cost.

On August 8, 2005, Mabuchi Motor (Malaysia) SDN. BHD., a wholly owned subsidiary, ceased its operations and undertook a voluntary liquidation on November 29, 2005. The results of its operations for the period from November 30, 2005 to December 31, 2006 were included in consolidation.

(c) Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date. Exchange differences resulting from these translations are included in income. Foreign subsidiaries' assets and liabilities are translated into yen at the rates of exchange in effect at the balance sheet date. The accounts of shareholders' equity are translated at historical rates. Revenues and expenses are translated at the average rates of exchange for the year. The resulting foreign currency translation adjustments are shown as a separate component of shareholders' equity.

(d) Cash equivalents

For purposes of the statements of cash flows, the Company considers all highly-liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(e) Short-term investments and investment securities

The Company classifies securities as "held-to-maturity" for which management has the positive intent and ability to hold to maturity, and "available-for-sale" which represent securities not classified as either trading or held-to-maturity.

Held-to-maturity securities are reported at amortized or accumulated cost. Available-for-sale securities are stated at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, and are reported in a separate component of shareholders' equity. However, when the fair value of available-for-sale securities declines significantly and is considered to be irrecoverable to the book value, such unrealized holding losses are charged to income.

Available-for-sale securities for which fair value is not readily determinable are stated at moving average cost.

(f) Inventories

Finished goods, work in process and raw materials are principally stated at average cost. Marketable raw materials such as copper, gold, silver and palladium are stated at the lower of average cost or market.

(g) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Depreciation is computed primarily by the declining-balance method for the Company (except for certain buildings) and principally by the straight-line method for overseas subsidiaries over their estimated useful lives. Buildings acquired by the Company on and after April 1, 1998 are depreciated by the straight-line method. Maintenance and repairs, including minor and improvements, are charged to income as incurred.

Financial Section

(h) Leases

Finance leases, except for those leases of which lease agreements stipulate the transfer of ownership of the leased assets to the lessee, are accounted for as operating leases.

(i) Research and development expenses

Expenditures relating to research and development activities are charged to income as incurred and amounted to ¥4,196 million and ¥4,076 million (\$34,252 thousand) for the years ended December 31, 2005 and 2006, respectively.

(j) Income taxes

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using presently enacted tax rates. Provision for Japanese income taxes on undistributed earnings of foreign subsidiaries is made only on those amounts in excess of the funds considered to be permanently reinvested.

(k) Retirement benefits

The Company has a trustee noncontributory pension plan covering substantially all qualified full-time employees. Under the plan, eligible employees are entitled to a 10-year annuity or lump-sum payments based on the rate of pay at the time of retirement or termination, length of service and certain other factors. Annual payments to the trustees for the pension plan, which are deductible for tax purposes, are based on actuarially determined costs of the plan.

Accrued retirement benefits are provided based on the amount of retirement benefit obligation reduced by the fair value of pension plan assets at the end of the annual period.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss are recognized primarily by the straight-line method over the period of mainly 10 years, which is shorter than the average remaining years of service of the employees.

Certain subsidiaries have pension plans similar to the Company or unfunded retirement and termination allowance plans for qualified employees. The amounts required under the plans have been fully accrued.

The Company also has an unfunded retirement benefits plan for directors and statutory auditors and has fully accrued the amount required under the plan.

(l) Derivative and hedging activities

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the Company defers recognition of gains or losses on evaluation of derivative financial instruments until the related losses or gains on the hedged items are recognized.

(m) Change in accounting activities

<Accounting standard for impairment of fixed assets>

The Company adopted the Accounting Standard for Impairment of Fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and the Guidance on Accounting for Impairment of Fixed Assets (Accounting Standards Board of Japan Guidance No. 6 issued by Accounting Standard Board of Japan on October 31, 2003) from current fiscal year.

As a result, net income before income taxes decreased by ¥521 million (\$4,378 thousand). Accumulated loss on impairment is directly deducted from the related assets.

<Accounting standard for presentation of net assets in the balance sheet>

The Company adopted the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standard Board of Japan Statement No. 5 issued by Accounting Standard Board of Japan on December 9, 2005) and the Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standard Board of Japan Guidance No. 8 issued by Accounting Standard Board of Japan on December 9, 2005) from current fiscal year.

The equivalent amount of the total shareholders' equity regulated formerly is ¥219,217 million (\$1,842,159 thousand).

<Accounting standard for bonuses for directors>

The Company adopted the Accounting Standard for Directors' Bonuses (Accounting Standard Board of Japan Statement No. 4 on November 29, 2005) from current fiscal year. As a result, selling, general and administrative expenses increased by ¥62 million (\$521 thousand), while operating income, ordinary income, and net income before income taxes decreased by the same amount.

2. CASH AND CASH EQUIVALENTS

Reconciliation of cash and cash equivalents to the accounts on the statement of cash flows as of December 31, 2005 and 2006 comprised as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Cash and bank deposits on the consolidated balance sheet	¥61,399	¥67,403	\$566,411
Time deposits with maturities over three months at the time of purchase	(3,052)	(3,778)	(31,747)
Short-term investments	11,325	16,061	134,966
Securities under the risk value fluctuation	(5,075)	(7,046)	(59,210)
Cash and cash equivalents	¥64,596	¥72,639	\$610,411

3. INVENTORIES

Inventories as of December 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Finished goods	¥ 9,316	¥ 9,506	\$ 79,882
Work in process	1,656	1,849	15,537
Raw materials	6,088	6,457	54,260
	¥17,061	¥17,814	\$149,697

4. SECURITIES

The cost, net of unrealized gains and losses, and fair value for securities classified as available-for-sale and held-to-maturity as of December 31, 2005 and 2006 were as follows:

	Yen (millions)		
	2005		Gains (losses)
	Cost	Fair value	
Available-for-sale:			
Debt securities	¥19,271	¥19,086	¥ (185)
Equity securities	3,056	6,548	3,491
Other	18,085	21,546	3,461
	¥40,413	¥47,181	¥ 6,767

Held-to-maturity:

Debt securities	¥31,180	¥29,028	¥(2,152)
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	Yen (millions)			U.S. Dollars (thousands)		
	2006		Gains (losses)	2006		Gains (losses)
	Cost	Fair value		Cost	Fair value	
Available-for-sale:						
Debt securities	¥17,571	¥17,491	¥ (80)	\$147,655	\$146,983	\$ (672)
Equity securities	3,540	7,332	3,792	29,747	61,613	31,865
Other	17,120	19,244	2,123	143,865	161,714	17,840
	¥38,232	¥44,068	¥ 5,835	\$321,277	\$370,319	\$ 49,033

Held-to-maturity:

Debt securities	¥34,683	¥32,257	¥(2,425)	\$291,453	\$271,067	\$(20,378)
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Financial Section

The securities for which fair values were not available as of December 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Securities with no fair value			
Commercial paper	¥4,158	¥ 8,295	\$ 69,705
Money management funds	4,260	3,975	33,403
Equity securities of non-consolidated subsidiaries	102	70	588
Other equity securities	110	110	924
	¥8,632	¥12,451	\$104,630

The contractual maturities for securities classified as available-for-sale and held-to-maturity at December 31, 2005 and 2006 were as follows:

	Yen (millions)				
	2005				
	Within one year	Over one year through five years	Over five years through ten years	Over ten years	Total
Corporate bonds	¥2,000	¥16,558	¥7,646	¥24,061	¥50,267
Commercial paper	4,158	–	–	–	4,158
Other	826	9,046	382	–	10,255
	¥6,985	¥25,605	¥8,028	¥24,061	¥64,681

	Yen (millions)					U.S. Dollars (thousands)
	2006					2006
	Within one year	Over one year through five years	Over five years through ten years	Over ten years	Total	Total
Corporate bonds	¥ 710	¥15,660	¥8,707	¥27,096	¥52,174	\$438,436
Commercial paper	8,295	–	–	–	8,295	69,705
Other	0	7,961	290	–	8,252	69,344
	¥9,005	¥23,622	¥8,998	¥27,096	¥68,722	\$577,495

5. RETIREMENT PLANS

The table below sets forth the plan's status and amounts recognized in the balance sheets at December 31, 2005 and 2006.

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Retirement benefit obligation	¥(7,125)	¥(7,254)	\$(60,957)
Plan assets of fair value	6,984	7,320	61,512
Unfunded retirement benefit obligation	(140)	65	546
Unrecognized actuarial gain or loss	33	(38)	(319)
Net retirement benefit obligation	(107)	27	226
Prepaid pension cost	15	189	1,588
Accrued retirement benefits	¥ (122)	¥ (162)	\$ (1,361)

The components of net periodic pension cost for the years ended December 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Service cost	¥479	¥485	\$4,075
Interest cost	122	121	1,016
Expected return on plan assets	(56)	(60)	(504)
Amortization of unrecognized actuarial gain or loss	18	10	84
Net periodic pension cost	¥563	¥556	\$4,672

The assumptions used in accounting for the above plans were as follows:

	2005	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.0%	1.0%

6. INCOME TAXES

The Company and domestic consolidated subsidiaries are subject to a number of taxes based on income with a normal tax rate aggregating approximately 40.4% for the years ended December 31, 2005 and 2006. Foreign subsidiaries are subject to income taxes in the countries where they operate.

The following table summarizes the significant differences between the Japanese statutory income tax rate and the effective income tax rate on pre-tax income for the years ended December 31, 2005 and 2006:

	2005	2006
Statutory income tax rate	40.4%	40.4%
International income taxed at varying rates	(11.7)	(13.6)
Effect on elimination of dividend income from foreign subsidiaries for consolidation purposes	28.6	19.0
Foreign and R&D tax credit utilization	(15.6)	(11.3)
Undistributed earnings in foreign subsidiaries	(4.6)	0.2
Other, net	(0.5)	(1.3)
Effective income tax rate	36.6%	33.4%

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax assets and liabilities at December 31, 2005 and 2006 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Deferred tax assets			
Unrealized profits on inventories and fixed assets	¥1,160	¥1,095	\$ 9,201
Evaluation losses on assets	1,997	1,601	13,453
Depreciation	224	187	1,571
Accrued enterprise taxes	96	296	2,487
Accrued retirements benefits	195	140	1,176
Other	255	186	1,563
Total	¥3,929	¥3,507	\$29,470
Deferred tax liabilities			
Tax on undistributed foreign earnings	¥4,440	¥4,478	\$37,630
Unrealized loss on investments	2,733	2,356	19,798
Other	329	230	1,932
Total	¥7,503	¥7,065	\$59,369

Financial Section

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
As reported in the consolidated balance sheet			
Deferred tax assets	¥1,274	¥1,328	\$11,159
Deferred tax liabilities	4,848	4,887	41,067

7. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays, resulting from appropriations of retained earnings with respect to each annual period, be appropriated to the legal reserve until the total of such reserve and additional paid-in capital equals 25% of the stated capital. As of December 31, 2006, the total of the legal reserve of ¥3,819 million (\$32,092 thousand) which is included in retained earnings at December 31, 2006, and additional paid-in capital, already reached 25% of the stated capital. The Code also provides that additional paid-in capital and the legal reserve up to 25% of the stated capital are not available for cash dividends but may be used to reduce a capital deficit or may be capitalized. The paid-in capital and legal reserve exceeding 25% of the stated capital are available for dividends or purchase of treasury stock upon approval of the shareholders' meeting.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. Under the Law, distribution of earnings can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met. The Company's policy on distribution of earnings is that, as in the past, year-end cash dividends are approved by the shareholders after the end of each fiscal year and semi-annual interim cash dividends are declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each fiscal year or interim six-month period.

On September 22, 2006, semi-annual interim cash dividends (¥51 or \$0.42 per share) of ¥2,017 million (\$16,949 thousand) were paid to shareholders of record at June 30, 2006. On March 29, 2007, the shareholders approved the declaration of cash dividends (¥63 or \$0.52 per share) totaling ¥2,492 million (\$20,941 thousand).

8. PER SHARE DATA

Until the year ended December 2002, net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year ended December 31, 2006.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into forward exchange contracts and forward precious metal contracts as a normal part of risk management efforts.

As a result, the Company is exposed to risk of credit-related losses in the event of nonperformance of counterparties to foreign exchange contracts and precious metal contracts. Management believes such risks are minor because of the high credit worthiness of the counterparties and such financial instruments have not been held for trading purposes. The following is a summary of derivative financial instruments which are currently held by the Company.

The Company uses foreign exchange forward contracts to hedge the risk of changes in foreign exchange rates substantially associated with accounts receivable and payable denominated in foreign currencies. Gains and losses explicitly deferred, arising from contracts related to future trade transactions, were insignificant as of December 31, 2005 and 2006. There were no outstanding currency option contracts at December 31, 2005 and 2006.

Forward precious metal contracts are used by the Company to hedge the risk of changes in market prices resulting from purchase of precious metals as raw materials for motor products.

There were no outstanding forward precious metal contracts at December 31, 2005 and 2006.

10. CONTINGENT LIABILITIES

As of December 31, 2006, there were no significant reportable contingent liabilities.

11. SEGMENT INFORMATION

The Company and consolidated subsidiaries manufacture and sell small electric motors, parts and equipment used for production purposes. Substantially all of the consolidated net sales and operating income are generated from a broad range of motor products. The information on net sales, operating income and assets by geographic area, and overseas sales is summarized as follows:

Segment Information by Geographic Area

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Net sales:			
Japan			
Outside customers	¥ 20,040	¥ 22,659	\$ 190,411
Intersegment	38,190	44,584	374,655
Total	58,230	67,243	565,067
Asia			
Outside customers	52,725	54,419	457,302
Intersegment	40,222	48,622	408,588
Total	92,948	103,041	865,890
U.S.A.			
Outside customers	8,118	9,035	75,924
Intersegment	29	43	361
Total	8,148	9,078	76,285
Europe			
Outside customers	13,043	14,403	121,033
Intersegment	0	0	0
Total	13,043	14,403	121,033
Corporate and elimination	(78,442)	(93,249)	(783,605)
Consolidated	¥ 93,927	¥100,517	\$ 844,680
Operating income:			
Japan	¥ 2,654	¥ 4,905	\$ 41,218
Asia	4,346	5,335	44,831
U.S.A.	63	181	1,521
Europe	165	70	588
Corporate and elimination	920	207	1,739
Consolidated	¥ 8,149	¥ 10,700	\$ 89,915
Assets:			
Japan	¥ 64,131	¥ 69,841	\$ 586,899
Asia	95,758	101,155	850,042
U.S.A.	4,788	5,043	42,378
Europe	5,514	6,470	54,369
Corporate and elimination	57,182	54,488	457,882
Consolidated	¥227,375	¥236,999	\$1,991,588

Financial Section

The amount of corporate assets included in "Corporate and elimination" is ¥110,835 million in 2005 and ¥114,611 million (\$963,117 thousand) in 2006, which comprises principally cash, short-term investments and investment securities.

Overseas Sales

	Yen (millions)		U.S. Dollars (thousands)
	2005	2006	2006
Overseas sales			
U.S.A.	¥ 8,728	¥ 10,459	\$ 87,890
Europe	13,068	14,430	121,260
Asia and other	61,199	64,106	538,705
Total	¥82,996	¥ 88,996	\$ 747,865
Net sales	93,927	100,517	844,680
% of overseas sales to net sales	88.4%	88.5%	88.5%

Overseas sales are the total of exports by the Company and sales by consolidated overseas subsidiaries.

Independent Auditors' Report

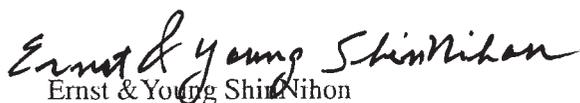
The Board of Directors
Mabuchi Motor Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mabuchi Motor Co., Ltd. and consolidated subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mabuchi Motor Co., Ltd. and consolidated subsidiaries at December 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a) to the consolidated financial statements.


Ernst & Young ShinNihon
March 29, 2007

Corporate Information

BOARD OF DIRECTORS

As of March 29, 2007

Chairman Takaichi Mabuchi

President Shinji Kamei

Executive Managing Director Nobuyo Habuchi

Managing Director Shunroku Nishimura

Directors Akira Okuma
Takashi Kamei
Kaoru Kato

Statutory Auditors Kiyoshi Iwakura
Ichiro Ando
Yuzaburo Nagase
Toyokuni Yazaki

CORPORATE DIRECTORY

As of December 31, 2006

Consolidated Subsidiaries

MABUCHI INDUSTRY CO., LTD.

19 Sam Chuk Street, San Po Kong,
Kowloon, Hong Kong
Tel: 852-2328-5575
Fax: 852-2352-5266

MABUCHI TAIWAN CO., LTD.

No. 18, Chunghwa Road,
Hsinchu Industrial District, Hsinchu, Taiwan
Tel: 886-3-598-1111
Fax: 886-3-598-6256

MABUCHI MOTOR TAIWAN LTD.

No. 66 Kaifa Road, N.E.P.Z.,
Kaohsiung, Taiwan
Tel: 886-7-362-1111
Fax: 886-7-361-9111

MABUCHI MOTOR DALIAN LTD.

No. 41 Harbin Road, Dalian Economic and
Technical Development Zone, China
Tel: 86-411-8761-1111
Fax: 86-411-8761-2900

MABUCHI MOTOR WAFANGDIAN LTD.

Laohutun Town, Wafangdian City,
Liaoning Province, China
Tel: 86-411-8537-0241
Fax: 86-411-8537-0291

MABUCHI MOTOR (JIANGSU) CO., LTD.

No. 1 Liuxu Road,
Wujiang Economic Development Zone,
Jiangsu Province, China
Tel: 86-512-6345-1111
Fax: 86-512-6345-0438

MABUCHI MOTOR VIETNAM LTD.

No. 2-5A Street, Bien Hoa II Industrial Zone,
Bien Hoa, Dong Nai, Viet Nam
Tel: 84-61-8336711
Fax: 84-61-8336712

MABUCHI MOTOR DANANG LTD.

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Zone, Lien Chieu Dist., Da Nang City,
Viet Nam
Tel: 84-511-731931
Fax: 84-511-731934

DONGGUAN MABUCHI MOTOR EQUIPMENT CO., LTD.

Guandong Science & Technology Park,
Shilong Road, Guanlong Road's Section,
Dongguan City, Guangdong Province,
523119, China
Tel: 86-769-2225-6985
Fax: 86-769-2225-6984

MABUCHI PRECISION INDUSTRIES HONG KONG LTD.

19 Sam Chuk Street, San Po Kong,
Kowloon, Hong Kong
Tel: 852-2328-5575
Fax: 852-2352-5266

MABUCHI MOTOR AMERICA CORP.

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Tel: 1-248-816-3100
Fax: 1-248-816-3242

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111 North Bridge Road, #12-05 Peninsula
Plaza, Singapore 179098
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Fax: 65-6339-9091

MABUCHI MOTOR (EUROPE) GmbH

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Fax: 49-69-66902247

MABUCHI MOTOR (SHANGHAI) CO., LTD.

Room 2001 Tower A, Shanghai City Building,
No. 100 Zunyi Road, Changning District,
Shanghai, 200051, China
Tel: 86-21-6237-1533
Fax: 86-21-6237-1933

MABUCHI MOTOR KOREA CO., LTD.

Room 426, Central Plaza G-five, 1685-8
Seocho-Dong, Seocho-Gu, Seoul, Korea
Tel: 82-2-534-8131
Fax: 82-2-534-8135

MABUCHI MOTOR (MALAYSIA) SDN. BHD.

This company closed during 2005

Non-Consolidated Subsidiary

MABUCHI REAL ESTATE CO., LTD.

INVESTOR INFORMATION

As of March 31, 2007

Corporate Headquarters

MABUCHI MOTOR CO., LTD.
430 Matsuhidai, Matsudo-shi,
Chiba-ken 270-2280, Japan
Tel: 81-47-710-1111
Fax: 81-47-710-1141
<http://www.mabuchi-motor.co.jp>

Ordinary General Meeting of Shareholders

The Ordinary General Meeting of Shareholders will be held at the end of March in Matsudo.

Independent Accountants

Ernst & Young ShinNihon
Tokyo, Japan

Shareholders' Register Custodian

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Department
10-11, Higashi-suna 7-chome, Koto-ku,
Tokyo 137-8081, Japan

Japanese Stock Exchange Listing

Tokyo Stock Exchange

MABUCHI MOTOR CO., LTD.

CORPORATE HEADQUARTERS

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