

*Nidec*



ANNUAL REPORT 2006

NIDEC CORPORATION

# Driving



# Everything

# that Spins and Moves

## PROFILE

Thirty-three years ago, four young engineers in Japan's ancient capital of Kyoto established Nidec on a hot July day in 1973. From that time forward, shared passion, enthusiasm and tenacity have been spinning up dramatic growth into new industries and markets around the world. Nidec is an aggressively energetic company that thrives on pioneering advancements and is totally dedicated to global leadership in a broad range of motor-driven technology—in every sense, a company with drive.

Nidec holds a 70% share of the world hard disk drive (HDD) spindle motor market, based on our pioneering leadership in HDD miniaturization technologies. And, in fields beyond HDDs, the potential market for Nidec precision brushless DC motors is expanding yearly into new business sectors and applications such as fan motors, mid-size motors for automotive systems and applications in office and household equipment.

Nidec has also expanded into various electronic component and equipment sectors, building this business largely through acquisition. Today, Nidec ranks top or near the top across all its chosen segments—proof of its technical superiority and high-cost competitiveness on a global scale.

As one of only a handful of Japanese companies to be NYSE-listed and to maintain a dedicated IR representative office in the United States and London, Nidec continues to make steady progress down its chosen path toward acquisition of global scale through world-leading technology and focused management.

In a world that demands rapid technological and corporate innovation, Nidec's motto, "Do it now, do it without fail, do it until completed" exhorts employees to thrive on challenge. Relying on flexible thinking and bold commitment to action, Nidec is steadily pursuing global leadership in its core competence of "everything that spins and moves."

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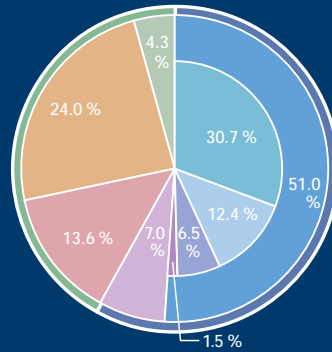
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### Disclaimer:

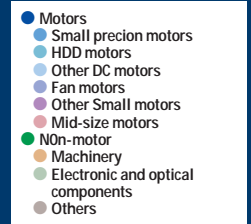
This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our business, our industry and capital markets around the world. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "plan" or similar words. These statements discuss future expectations, identify strategies, contain projections of results of operations or of our financial condition, or state other forward-looking information. Known and unknown risks, uncertainties and other factors could cause the actual results to differ materially from those contained in any forward-looking statement. We cannot promise that our expectations expressed in these forward-looking statements will turn out to be correct. Our actual results could be materially different from and worse than our expectations as a result of certain factors, including, but not limited to (i) our ability to design, develop, mass produce and win acceptance of our products, particularly those that use the new fluid dynamic bearing motor technology, which are offered in highly competitive markets characterized by continual new product introductions and rapid technological development, (ii) general economic conditions in the computer, information technology and related product markets, particularly levels of consumer spending, (iii) exchange rate fluctuations, particularly between the Japanese yen and the U.S. dollar and other currencies in which we make significant sales or in which our assets and liabilities are denominated, (iv) our ability to acquire and successfully integrate companies with complementary technologies and product lines, and (v) adverse changes in laws, regulations or economic policies in any of the countries where we have manufacturing operations, especially China.

## MAJOR PRODUCTS

More than ever—and in more fields than ever, our core technologies help companies compete on the leading edge of product innovation and customer satisfaction.



## NET SALES



### HDD motors

Spindle motors for 1", 1.8", 2.5" and 3.5" hard disk drives



### Mid-size motors

Brushless DC motors for automobiles, home electronic appliances and industrial equipment



### Other DC motors

Brushless DC motors for optical disc drives and office automation equipment. Stepping motors and other brushless DC motors



### Machinery

Industrial robots, die bonders, circuit board testers, high-speed pressing machines, chip mounters, measuring machines, power transmission equipment, factory automation systems, card readers



### Fan motors

For computer cooling units, game machine consoles, PC/communication devices, home appliances and automobiles



### Electronic and optical components

Camera shutters, camera lens units, encoders, switches, trimmer potentiometers, motor-driven actuator units, optical pickup units, processing, precision plastic molded products



### Other small motors

Vibration motors, brush motors



### Others

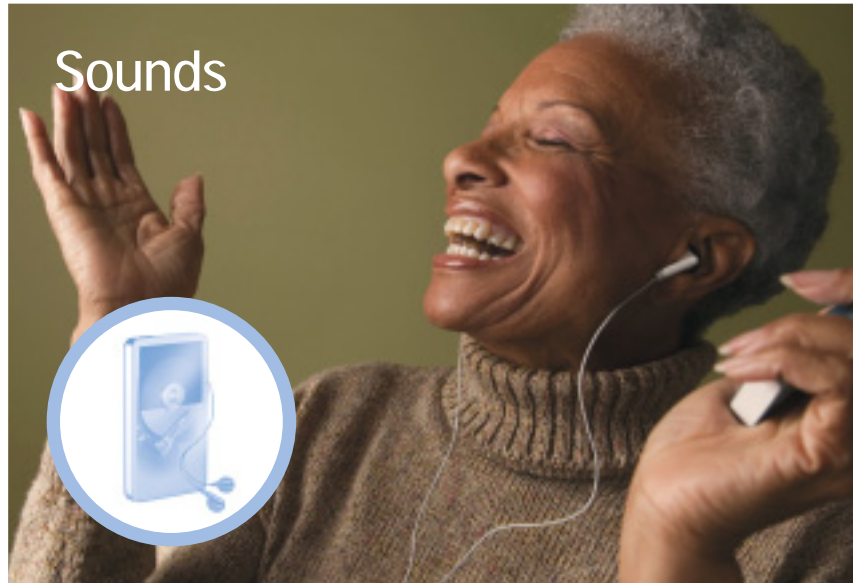
Auto parts, pivot assemblies, logistics, services, musical products, etc.

## KEEPING THE WORLD SPINNING

IT IS POSSIBLE THAT YOU YOURSELF USE A NIDEC PRODUCT EVERYDAY WITHOUT REALIZING IT. NIDEC COMMANDS A LEADING SHARE OF THE GLOBAL MARKET FOR HARD DISK DRIVE (HDD) SPINDLE MOTORS, THE CRITICAL COMPONENTS THAT KEEP HARD DRIVES SPINNING AND MAKE MEMORY STORAGE AND RETRIEVAL POSSIBLE.

Nidec led the original revolution that helped miniaturize HDDs, and today its fluid dynamic bearing (FDB) technology is powering another revolution as HDDs become small enough to fit in portable audio devices, such as music players, cameras and cell phones.

Besides its wide range of HDD motors, Nidec manufactures other small precision brushless DC motors, fan motors, and mid-size motors for automotive systems and other applications. The potential market for brushless DC motors is large and growing fast, as the digital revolution brings electronics and computing power to every conceivable appliance. In the constant search for higher efficiency and greener operation in everything from cars to home appliances, our brushless DC motors are spinning up satisfying solutions in more ways every day.





# Keeping the World Spinning



Amusement



Office



## CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of yen (Except number of shares outstanding)					Thousands of U.S. dollars <sup>(3)</sup>	
	2002	2003	2004	2005	2006	2006	
Income statement data:							
Net sales	¥ 193,332	¥ 231,836	¥ 277,497	¥ 485,861	¥ 536,858	\$ 4,570,171	
Cost of products sold	159,442	187,306	218,189	370,938	413,012	3,515,893	
Selling, general and administrative expenses	17,691	21,302	28,542	35,340	41,188	350,626	
Operating income	10,472	16,404	22,015	53,665	53,426	454,805	
Income before provision for income taxes (1)	11,477	10,911	19,639	57,290	64,378	548,038	
Net income	6,580	10,680	16,089	33,455	40,949	348,591	
Balance sheet data (period end):							
Total assets	¥ 257,911	¥ 257,932	¥ 443,886	¥ 484,173	565,970	4,817,996	
Short-term borrowings	58,395	64,597	86,636	28,478	43,621	371,337	
Current portion of long-term debt	15,365	8,951	2,653	8,493	4,647	39,559	
Long-term debt	21,360	16,388	45,025	37,833	32,134	273,551	
Total shareholders' equity	85,475	88,557	110,046	207,040	263,659	2,244,479	
Common stock	26,469	26,485	28,995	61,180	65,649	558,858	
Number of shares outstanding	63,563,653	63,574,729	65,017,898	71,252,463	144,661,292	144,661,292	
Per share data:							
	Yen					U.S. dollars	
Net income per share—basic (2)	¥ 51.76	¥ 84.01	¥ 125.57	¥ 239.87	¥ 285.47	\$ 2.43	
Net income per share—diluted (2)	49.42	79.91	120.76	228.29	275.05	2.34	
Cash dividends paid per share (2)(4)	13.75	10.00	15.00	17.50	25.00	0.21	
Cash dividends declared per share (2)(4)	12.50	12.50	15.00	22.50	32.50		
Return on Equity (ROE)(%)	8.0	12.3	16.2	21.1	17.4		

Notes:

(1) Under U.S. GAAP, income before provision for income taxes does not include equity in net income/losses of affiliated companies.

(2) Net income per share and dividends for the fiscal years ended March 31, 2002, 2003 and 2004 retroactively reflect the effect of the two-for-one stock split effective in November 2005.

(3) U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117.47 = U.S.\$1.00, the approximate exchange rate in Japan on March 31, 2006.

(4) "Cash dividends paid per share" reflects dividend payments received during the fiscal year, as per U.S. GAAP. "Cash dividends declared per share" reflects dividends announced during, and applicable to, the fiscal year, as per Japanese GAAP.

Amount per share of common stock: one ADR (American Depositary Receipt) represents one-fourth of one share of common stock, reflecting the four-for-one ratio change that took effect as of January 2004.

## PERFORMANCE SUMMARY

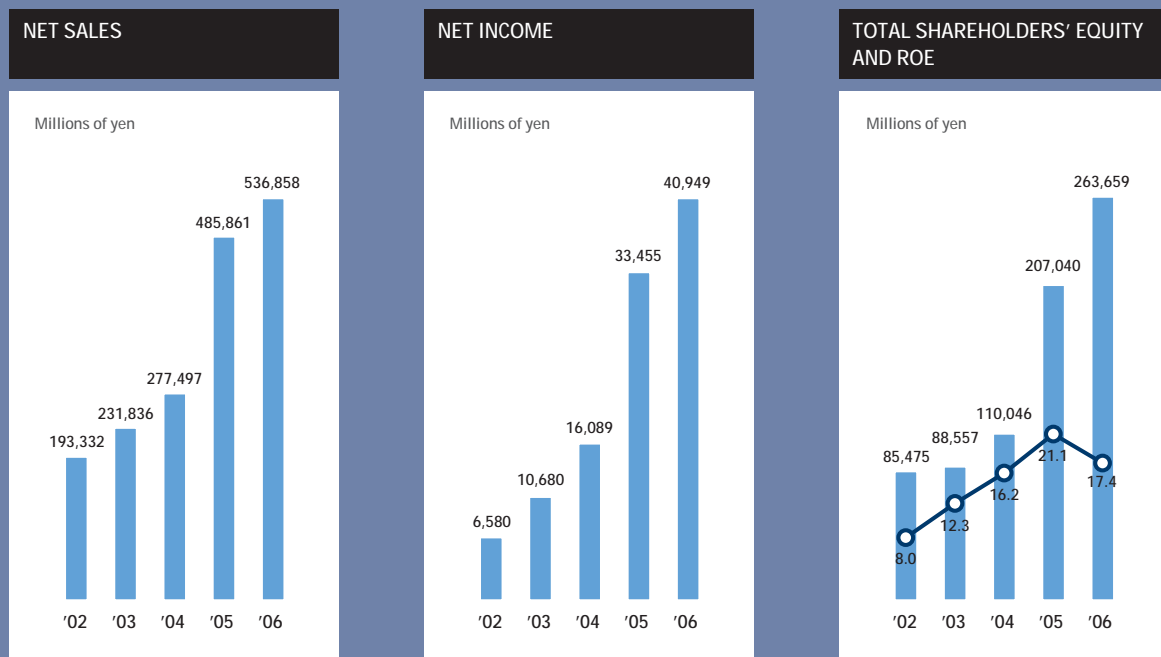
Consolidated net sales rose 10.5% year on year, driven by a 38% increase in sales of HDD motors.

Consolidated operating income slipped 0.4% due to sluggish subsidiaries' businesses.

Consolidated net income rose 22.4% to an all-time record, mainly benefiting from Yen's depreciation.

Earnings per share were the highest on record, up 19% to ¥550.10 on a pre-split adjusted basis.  
(EPS of ¥275.05 on a post-split basis.)

Return on equity 17.4%.



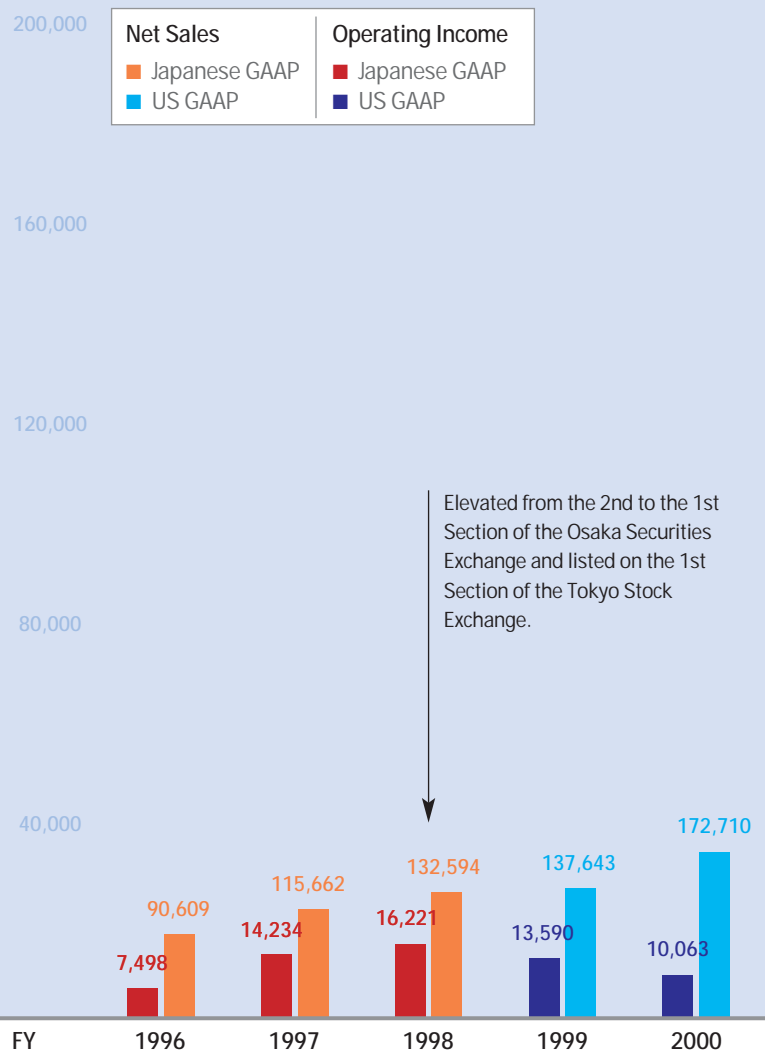
## ROADMAP FOR STEADY GROWTH

NIDEC'S PRIMARY TARGET IS TO ACHIEVE CONSOLIDATED SALES OF ¥1 TRILLION BY FISCAL 2010. WE WILL CONTINUE TO FOCUS OUR EFFORTS ON THE CORE MOTOR BUSINESS, LEVERAGING OUR CUTTING-EDGE TECHNOLOGY TO CREATE NEW MARKETS AND NEW PRODUCTS, WHILE EXPANDING THE EXISTING PRODUCT LINEUP RANGING FROM MICRO MOTORS TO MID-SIZE MOTORS FOR HOME APPLIANCES, INDUSTRIAL USE AND AUTOMOBILES.

Meanwhile, M&A activity continues to be an essential means for us to enrich technological resources and also to complement internal growth towards fiscal 2010. In this view, we established an M&A strategy unit in June 2006, which consists of financial professionals equipped with strong investment banking credentials and international corporate acquisition expertise.

For corporate growth in the true sense of the word, we place as much value on long-term profitability as on scale expansion, eying a 15% operating profit margin (operating profit as a percentage of sales) in fiscal 2008.

Operating Income  
(¥ million)



### POLITICAL AND ECONOMIC ENVIRONMENT >

1997: Asian currency crisis

1998: Russian currency crisis

2000: Dot-com bubble bursts

### MARKET PC/CE MARKET >

1995: Windows95 released

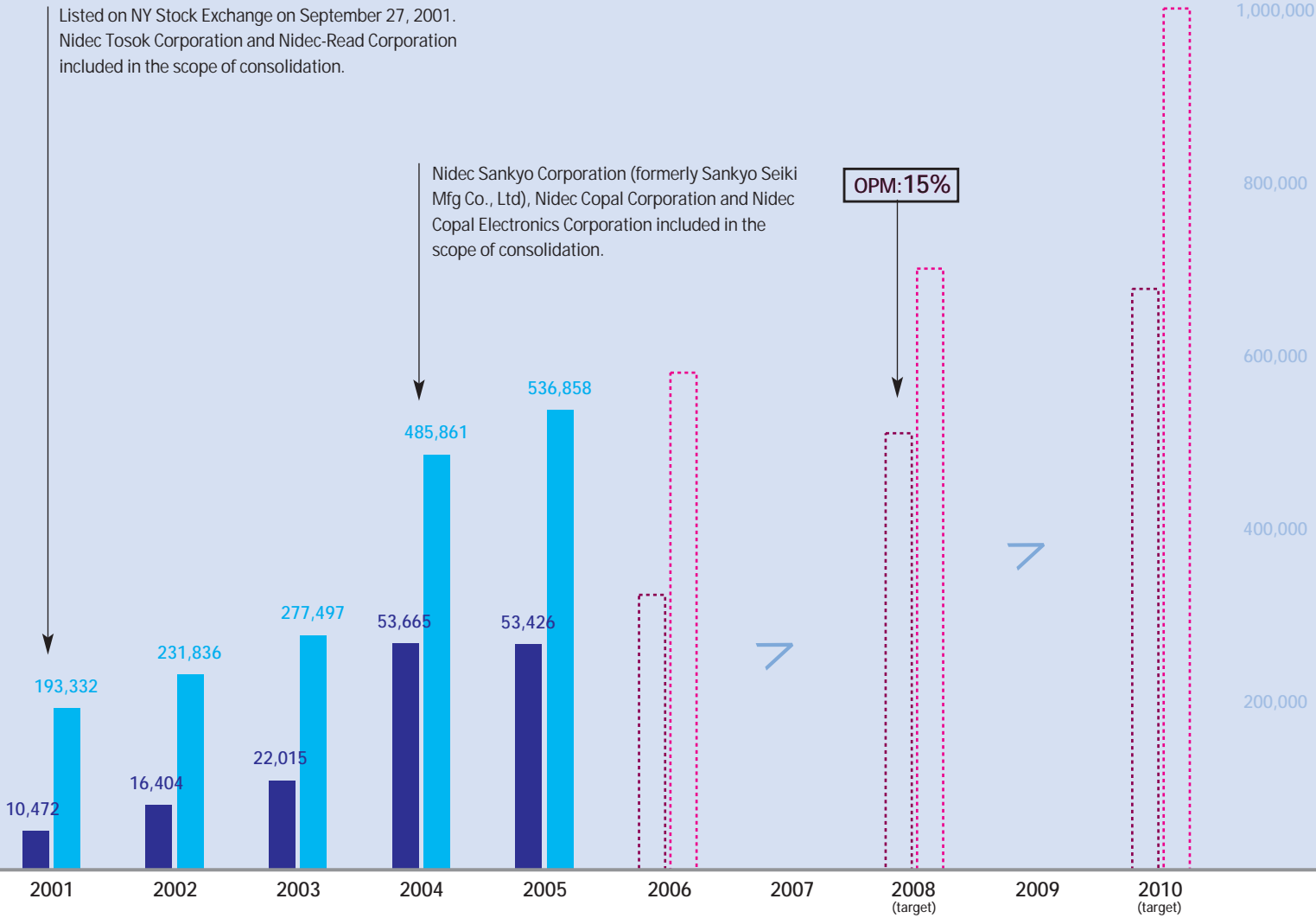
1996: HDD world shipments exceed 100 million units

1999: PC world shipments exceed 100 million units

2000: DVD-drive-equipped game machines brought to market

Net Sales:  
¥1 trillion

Net Sales  
(¥ million)



2001: Sep. 11 terrorist attacks upon the U.S.  
Enron Corp going bankrupt

2002: WorldCom Inc. going bankrupt

2003: The Second Gulf War  
Raw material prices start rising

> BRICs economic expansion

2002: HDD world shipments exceed 200 million units

2004: HDD world shipments exceed 300 million units

2005: Cell phone world shipments exceed 800 million units  
PC world shipments exceed 200 million units

# ON TRACK TOWARD BECOMING A “SOCIALY INDISPENSABLE” ENTERPRISE

IN 1973, NIDEC CORPORATION CAME INTO BEING AS A NON-FAMILY, INDEPENDENT COMPANY WITH EYES SET ON THE GLOBAL STAGE. THE GOAL WE PURSUE IS ONE AND ONLY—TO MAXIMIZE OUR SOCIAL VALUE BY ATTAINING THE WORLD’S NO.1 POSITION IN THE FIELD OF MOTOR-CENTRIC DRIVE TECHNOLOGY.



Shigenobu Nagamori  
Chairman of the Board,  
President and CEO

## **2005 OVERVIEW**

For the year ended March 31, 2006 (fiscal 2005), we are able to report record sales for the twelfth consecutive year and the highest net income in our history. Overall global demand moved upward during the year on IT/digital markets. These were strong in newly growing BRIC countries mainly led by China and relatively firm in the major industrialized nations. Brisk demand for HDD motors, benefiting from the buoyant world market, drove our consolidated performance to its high level. Still, fiscal 2005 presented a mixed picture. On the flip side of the advances in the core small motor business, the electronic and optical component businesses slowed largely due to shorter prod-

uct cycles that put a strain on the development and production activities of our major consolidated subsidiaries.

As a result, consolidated net sales showed an increase of 10.5% to ¥536.9 billion compared with the previous fiscal year, while operating income was essentially even with the previous fiscal year at ¥53.4 billion (a decrease of 0.4%). Consolidated net income rose ¥7.5 billion, or 22.4%, to ¥40.9 billion over the previous fiscal year.

## **BUSINESS SEGMENT PERFORMANCE**

Net sales of Small Precision Motors increased 23% to ¥273.8 billion over the previous fiscal year on growth of nearly 38% in HDD motor shipments driven by

robust demand for notebook PCs and consumer electronics. Operating income of this business segment increased approximately 37% over the previous fiscal year as profitability improved due to a broadened product portfolio and sales mix further towards high-value added motors for HDDs and optical disc drives used in notebook PCs.

Net sales of Mid-size Motors increased 6.2% to ¥38 billion over the previous fiscal year. About half of this increase derived from expanded sales of electric power steering motors. Meanwhile, a steep hike in cost of raw materials, particularly steel, together with increased expenses for transferring production to China, resulted in an operating loss of approximately ¥1.9 billion.

Net sales of Machinery declined 4.8% to ¥73.2 billion over the previous fiscal year. During the term, we experienced a sharp downturn in sales of laboratory systems, with Nidec Copal's major customer, Agfa Photo GmbH, going insolvent. In the meantime, we faced a decline in demand for Nidec Tosok's semiconductor manufacturing equipment. As a result of the stated sales decrease and write-offs associated with the bankruptcy of Agfa Photo GmbH, operating income of Machinery declined 7.5% to ¥11.1 billion over the previous fiscal year. Nidec Sankyo's LCD (liquid crystal display) transfer robots and card readers marked healthy growth both in sales and profit.

Net sales of Electronic and Optical Components leveled out at a 0.3% increase over the previous fiscal year. Operating income decreased 22% to ¥9.7 billion. The reasons for the profit decline were threefold: Nidec Copal's delayed launch of new plastic lens

units, soft demand for Nidec Copal Electronics' actuators, and Nidec Sankyo's low-yielding optical pickup unit business.

Net sales of Other products increased approximately 5% to ¥23.3 billion over the previous fiscal year on steady demand for Nidec's pivot assemblies business and Nidec Tosok's automobile parts business. However, operating income decreased by ¥0.6 billion to ¥2.1 billion due to an increased development cost for new-generation automobile electromagnetic valves and impacts from material price hikes.

**LOOKING BACK ON OUR PROGRESS OF THE PAST DECADE**

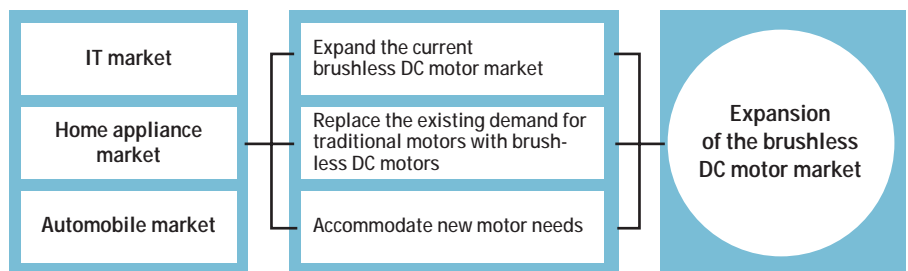
Seeking always to become the global leader in what we do, we have expanded business since inception, most notably, over the past ten years.

Subsequent to the 1998 listing on the First Section of the Tokyo Stock

Exchange, in September 2001, we gained a toehold in the world's largest capital market by listing on the New York Stock Exchange. Since 2003, we have focused on the development of new markets, new products and new customers, and as a result, have seen our sales double over the last three years.

During these three years, we brought about a substantial change to our scale of operation by taking a stake in our then-competitor, Sankyo Seiki Mfg. Co., Ltd., now Nidec Sankyo Corporation. Our greatest challenge in consolidating the debt-ridden company was to mitigate its impact on our productivity. We addressed this challenge with a focus on improving profit at our core, small precision motor business and bringing Sankyo Seiki back to profitability in the shortest possible time. A year later, we saw Sankyo Seiki hit the highest annual operating income in its history.

**EXPANSION OF THE BRUSHLESS DC MOTOR MARKET**



With a business focus on the development and manufacturing of motors, or in broader terms, "everything that spins and moves," we have grown to be the world's largest manufacturer of brushless DC motors claiming dominant market share in many different fields. Toward the fulfillment of our FY2010 sales target of one trillion yen, our strategies revolve around a vigorous expansion of the brushless DC motor market and forward-looking M&A.

## A MESSAGE TO OUR SHAREHOLDERS



### ***TOWARD FISCAL YEAR 2010***

The competitive environment surrounding the IT/digital device market is increasingly harsh. Competition has extended beyond the traditional market boundaries and begun to assume a cross-industrial rivalry that requires companies to depart from the existing strategic paradigm.

We have observed that one major indication of a "global company" is an ability to constantly generate ¥1 trillion in annual sales even in the most difficult circumstances. With this in mind, we will pursue a five-phased approach over the next five years: reinforcement of the core business, development of a future pillar of business, strengthening of manufacturing power, competitive R&D, and M&A that contributes to achieve them all.

### ***DOING WHAT IT TAKES TO BE "SOCIALY INDISPENSABLE"***

Our urgent challenge is to become a "socially indispensable" entity that rewards all stakeholders in substantial and meaningful ways. For shareholders and investors, that means consistent profit return; for customers, high-quality and affordable products; for employees, a rewarding work experience and steady income; and for the communities that host our operations, cultural and economic enrichment. All this presupposes a strong contribution to environmental sustainability. We are convinced that we can play a major role towards a cleaner environment by replacing old-style motors with highly energy-efficient brushless DC motors. I feel fortunate to head a company that possesses both the will and the means to turn these aspirations into realities.

A handwritten signature in black ink, reading "S. Nagamori". The signature is written in a cursive, flowing style.

July 2006

**Shigenobu Nagamori**

Chairman of the Board, President and CEO

Management Target:



Net Sales ¥1 Trillion

- > REINFORCING OUR CORE BUSINESS
- > NURTURING THE NEXT CORE BUSINESS
- > ENHANCING PRODUCTION CAPABILITIES
- > STRENGTHENING R&D ACTIVITIES
- > EXTENDING OUR M&A STRATEGY

## BUSINESS REINFORCEMENT

### BUSINESS EXTENSION: 1

# REINFORCING OUR CORE BUSINESS

### GROWTH OF THE HDD MARKET

The spread of broadband Internet and digital broadcast services in recent years have significantly increased demand for data storage both in business and leisure.

Today's HDD industry appears to be gearing up for a long-term demand for increased drive capacities as audio and visual data require many multiples of the storage capacity needed to store text data. We consider the industry's pursuit of higher storage densities will continue in all HDD form factors, leveraging the perpendicular recording technology in which data bits are oriented vertically on

the disc platter (perpendicular to the disc surface), rather than flat to the surface as with existing longitudinal recording.

As the world's leading manufacturer of HDD motors, we consider our ability to constantly fulfill our supplier's responsibility, both in quality and in quantity, is of growing importance for stable development of the HDD market. We have maintained market leadership in this field through a ceaseless quest for excellence in spindle motor technology, motor miniaturization know-how, supply capacity and cost competitiveness in ways that effectively advance the performance and applicability of HDD for our downstream customers.

the FDB unit using sintered-alloy metal increases our competitive advantage in this field. It reduces processing steps and cuts production lead time and costs. Sintered-alloy-metal FDB motors are increasingly recognized among major HDD manufacturers for its practicality and are fast coming into use for PCs and various consumer electronics.

### PRODUCTION ENHANCEMENT

To meet the growing demand, we are strengthening our production activities in Asian/Southeast Asian countries, such as China, Thailand, Singapore and the Philippines, where our customers' manufacturing bases are predominantly situated. The latest developments include the construction of two additional factories in Thailand, which are due to start operation within the year. We estimate our aggregate production capacity, including these new factories, will have increased approximately 40% year on year by the end of 2006. Also, as part of our efforts to improve productivity, we are manufactur-

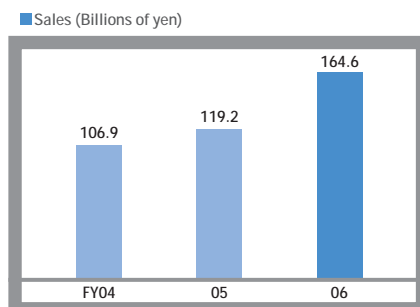


Our fluid dynamic bearing (FDB) spindle motors offer better shock resistance and increased rotational accuracy due to reduced friction.

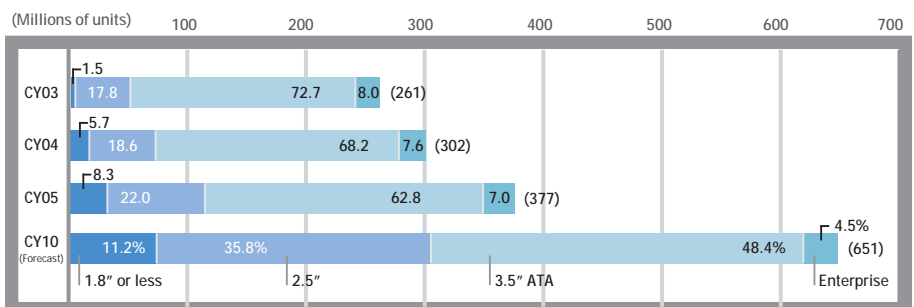
### TECHNOLOGICAL LEADERSHIP

Our fluid dynamic bearing (FDB) motors, which perfectly meet the demand for faster rotational speed, enhanced precision and quieter operation, quickly gained the recognition of the HDD manufacturers and have almost entirely replaced traditional ball-bearing motors as the mainstream HDD motor today. Constructing

#### SALES OF HDD MOTORS



#### HDD MARKET BY PLATFORM



Source: TSR (Dated May 2006)

ing more and more of the components and peripheral parts of HDD motors in house.

### **EXPANSION INTO BROADER ELECTRONICS MARKET**

We also seek to increase our presence in the broader market for small precision motors by leveraging our technological and manufacturing prowess related to brushless DC motors. These non-HDD-oriented brushless DC motors mainly activate optical disk drives, office equipment, and cooling fans for varying purposes. The following are our recent progress in these market segments.

#### **OPTICAL DISK DRIVE MARKET**

Particularly in Japan, a gradual transition to the next-generation DVD formats referred to as Blu-ray Disc and HD DVD is

underway in step with the popularization of high-definition digital broadcast. As the dominant supplier of brushless DC motors for high-end optical disk drives, we eye the emerging market for new revenue opportunities. In the meantime, we have also been extending a reach into the low-end Asian markets, making extensive use of our technological, scale advantages already established in the high-end field.

#### **OFFICE EQUIPMENT MARKET**

In recent years, our product portfolio has grown to include new brushless DC motor lineups closely directed toward meeting replacement demand for office equipment applications. With their technological advantages intact, our new brushless DC motor lines are designed to conform to the most commonly used motor dimen-

sions and therefore fit in virtually all applications currently filled by brush/AC motors, making it easy for customers to upgrade. Nidec and Nidec Copal Electronics have jointly made full-scale sales initiatives to promote the use of the new lines.

#### **COOLING FAN MARKET**

In the cooling-fan business, we are seeing our product mix shifting toward high-value-added lines, including those in use for micro processing units. With a particular focus on further productivity enhancement, we have taken measures to streamline production, including a review of manufacturing locations.

## **BUSINESS EXTENSION: 2**

# **NURTURING THE NEXT CORE BUSINESS**

### **PENETRATION INTO THE AUTOMOTIVE MOTOR MARKET**

With emphasis on enhancing the driving safety, fuel efficiency and environmental friendliness of automobiles, the automobile industry is gradually moving toward highly-sophisticated, electronically-controlled automobile drive systems which technically require a greater number of electric motors than the existing mechanically-controlled systems. We position the automotive motor market as a major source of our future growth and have

been proactively investing research and development resources in this area. Automotive applications using our brushless DC motors on a commercial basis presently include electric power steering system, car seat fans and fuel cell cooling fans. We foresee our products expanding into a wider range of riding and handling systems, such as electrically activated suspension and brakes, and even into core drive systems of gas-electric hybrid cars.



NIDEC AUTOMOBILE MOTOR (ZHEJIANG) CORPORATION, established in February 2006, has launched full production in the "Pinghu Economic Development Zone" Zhejiang, China, as the spearhead for the Group's automotive motor business.

# ENHANCING PRODUCTION CAPABILITIES



## Nidec Production Network in Asia

### China:

- Nidec (Zhejiang) Corp.
- Nidec (Dalian) Limited
- Nidec (Dongguan) Limited
- Nidec Sankyo (Zhejiang) Corp.
- Nidec Copal (Zhejiang) Co., Ltd.
- Nidec Copal Electronics (Zhejiang) Co., Ltd.
- Nidec Shibaura (Zhejiang) Corp.
- Nidec-Shimpo (Zhejiang) Corp.
- Nidec Power Motor (Zhejiang) Co., Ltd.
- Nidec System Engineering (Zhejiang) Corp.
- Nidec Steel Products (Zhejiang) Corp.
- NTN-Nidec (Zhejiang) Corp., etc.
- Nidec Automobile Motor (Zhejiang)

### Thailand:

- Nidec Electronics (Thailand) Co., Ltd.
- Nidec Hi-Tech Motor (Thailand) Co., Ltd.
- Nidec Precision (Thailand) Co., Ltd., etc.
- NTN-Nidec (Thailand) Co., Ltd.

### Thailand:

- Nidec Electronics (Thailand) Co., Ltd.
- Nidec Hi-Tech Motor (Thailand) Co., Ltd.
- Nidec Precision (Thailand) Co., Ltd., etc.

### The Philippines:

- Nidec Philippines Corp.
- Nidec Precision Philippines Corp.
- Nidec Subic Philippines Corp., etc.

### Vietnam:

- Nidec Copal (Vietnam) Co., Ltd.
- Nidec Tosok (Vietnam) Co., Ltd.
- Nidec Vietnam Corporation

### Indonesia:

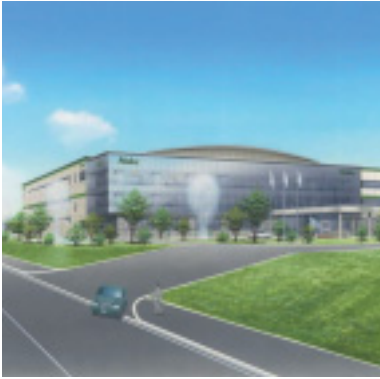
- P.T. Nidec Indonesia

### Singapore:

- Nidec Singapore Pte. Ltd.



▶ Nidec's global production network extends to countries throughout Asia



NTN-NIDEC (THAILAND) CO. LTD., the second joint venture with NTN Corporation, following NTN-Nidec (Zhejiang) Corporation in China, undertakes the production of a fluid dynamic bearing unit, the core part of the HDD motor.



NIDEC ELECTRONICS (THAILAND) CO., LTD. is moving into the final stage of construction of its fourth Thailand factory. Located in Rangsit, the new factory is set to be the world's largest base for HDD motor manufacturing. Production is scheduled to begin in October 2006.

**CONSTANTLY LOWERING MANUFACTURING COSTS TO ENHANCE PRICE COMPETITIVENESS AND PROFITABILITY.**

Mitigating the impact of market fluctuations on the company performance is an essential part of managerial efforts. To achieve this, we constantly work on productivity improvements, primarily through reasonable reductions in manufacturing cost. Specific measures include shifting production to lower-cost, tax-advantaged overseas locations (particularly those in immediate proximity to our customers' manufacturing bases for transport efficiency), producing more components in-house, and achieving overall quantitative increase in the way that generates merit of scale.

**INCREASING PRODUCTION CAPABILITIES IN ALL KEY REGIONAL MARKETS**

We seek to develop our competitive advantage by increasing our manufacturing presence in the world's key geographical market areas: Asia, North America and Europe. The Asian region, as illustrated by the rapid rise of the Chinese and Indian economies, is assuming greater prominence today not only as global manufacturing centers, but also as huge consumer markets of enormous growth potential.

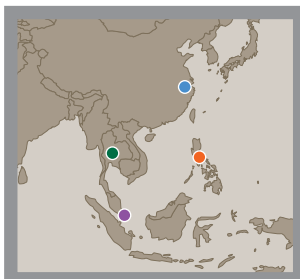
Building upon advances thus far made in the Southeast Asian countries, we have established and strengthened our manufacturing, logistical and sales capabilities in China over the past few years in step

with our customers' production shift to the country. In the Pinghu Economic Development Zone in Zhejiang, we have thirteen companies in operation on a group-wide basis today. To help maintain an optimal balance in overseas production, we are now looking at Vietnam's Saigon High-tech Park (SHTP) for future capacity increases .



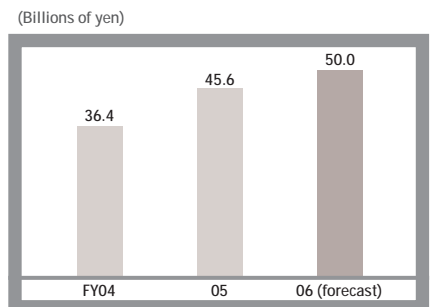
NIDEC VIETNAM CORPORATION, established within Vietnam's "Saigon High-tech Park" in October 2005, has begun full-scale operation as the center of the Group's fan motor production.

**ENHANCEMENT OF HDD MOTOR PRODUCTION**



- Nidec Electronics (Thailand)
  - Ayutthaya Factory
  - Bangkadi Factory
  - Rojana Factory
  - Rangsit factory (Newly Established)
- Nidec Hi-Tech Motor
- Nidec Precision(Thailand) (Expanded)
- NTN-Nidec(Thailand) (Newly Established)
- Nidec(Zhejiang)
- NTN-Nidec(Zhejiang)
- Nidec Philippines (Expanded)
- Nidec Subic Philippines (Expanded)
- Nidec Precision Philippines (Expanded)
- Nidec Singapore

**CAPITAL EXPENDITURE**



SPECIAL FEATURE:2

# STRENGTHENING R&D ACTIVITIES

## > GLOBAL

NORTH CALIFORNIA OFFICE/R&D CENTER



LONGMONT R&D CENTER



NIDEC SINGAPORE PET. LTD. TECHNICAL CENTER



NIDEC TAIWAN CORPORATION TECHNICAL CENTER



CENTRAL TECHNICAL LABORATORY

## > JAPAN



NIDEC MOTOR ENGINEERING RESEARCH LABORATORY



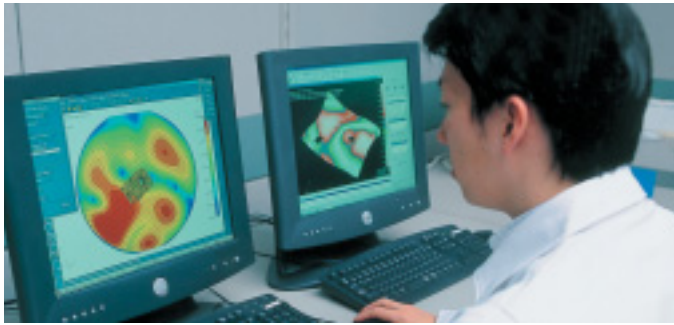
SHIGA TECHNICAL CENTER



NAGANO TECHNICAL CENTER



TOTTORI TECHNICAL CENTER



Acoustic and vibration computer analyses are some of the high-level tests employed to assure high performance and product consistency.

### INCREASING OUR VALUE THROUGH THE DEVELOPMENT OF NEXT-GENERATION TECHNOLOGIES

Our main product segments, require a high degree of integration of mechanical engineering, electronics, tribology, chemistry, fluid dynamics and materials engineering, among others. The R&D division of Nidec has accumulated core technologies in each of these fields through basic research, while at the same time engaging in development and commercialization of breakthrough solutions for its customers' leading-edge products.

To increase our value to customers as a partner in the development of their next-generation products, Nidec is reinforcing those research and development activities that help it respond to fast-changing market needs. We are focusing on enhancing collective efforts on a group-wide basis to create new technology and new products.

Taking the lead in these efforts since May 2003 is the Central Technical Laboratory in the newly built headquarters building in Kyoto. It consolidates procurement and integrates research, development and design toward development of new products and mass production technologies, prototype testing and inspection,

start-up support as well as quality assurance. The Central Technical Laboratory is a comprehensive, highly efficient R&D stronghold possessing an uninterrupted, seamless two-way process flow from product research to mass-production system engineering. Its core areas of research are advanced-technology development, core-technology research, materials research and chemical analysis. It also is responsible for design and development of HDD spindle motors and operational support of spindle motor manufacturing.

The convergence of the Company's technical expertise under a group-wide R&D effort also means that we are refining and enhancing the independent R&D frameworks of respective group companies as their researchers are freed up to tackle research specifically tied to their core competitiveness.

Around the Central Technical Laboratory now orbit three specialist research centers, each free to concentrate on efficiency and speed improvements in their specialized fields of R&D activity. The Nagano Technical Center works on developing and manufacturing HDD spindle motors and offering technological support to Nidec's manufacturing bases overseas. The Shiga Technical Center devel-

ops small brushless DC motors and automotive-application motors. The Tottori Technical Center focuses on fan motors.

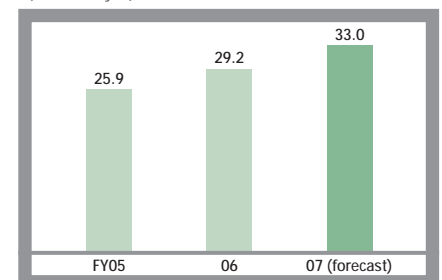
Furthermore, in April 2005, we established Nidec Motor Engineering Research Laboratory at Nidec's facilities in Tokyo. It is headed by the world's top authority on electric motor technology. He is supported by a top-quality team of veteran researchers. The Motor Engineering and Research Laboratory conducts and extends the world's most advanced basic research on next-generation motor technologies. Breakthroughs in power efficiency and new materials will lead to new applications in consumer and industrial electronics fields.



Acoustical testing in an anechoic room captures the precise sound signature of a product and helps us identify and reduce noise.

### R&D EXPENDITURE

(Billions of yen)



SPECIAL FEATURE:3

## EXTENDING OUR M&A STRATEGY



**MERGERS AND ACQUISITIONS TO INCREASE TECHNOLOGICAL STRENGTH AND BROADEN OUR PRODUCT PORTFOLIO**

To win and maintain market leadership in an expanding range of business areas, it is increasingly important for us to shorten the research and development cycle so as to bring new products to market with ever-increasing speed and consistency. For this reason, we have made corporate acquisition one of the essential elements to our business growth strategy. Acquisitions strengthen product development capabilities and bring us timely access to peripheral manufacturing technologies and know-how we deem essential for the group's business expansion.

Since 1995, Nidec's capital participation has extended to 23 companies, and many of them have possessed the highest levels of R&D and manufacturing technology with-

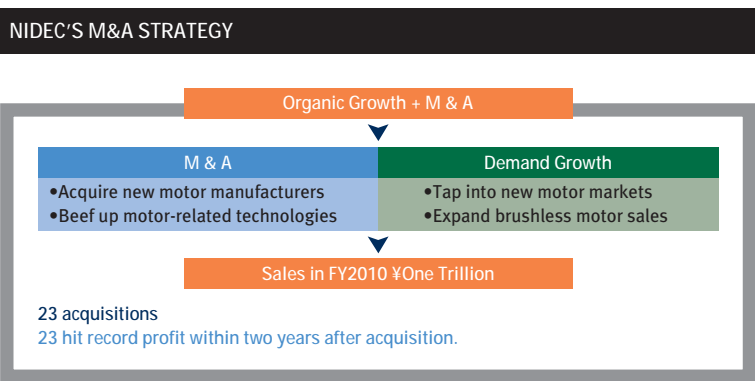
in their industries. Whenever such leading-edge technology is applied to other areas of our operations, it contributes immensely toward raising the overall industrial prowess of Nidec as a group.

Our basic approach to M&A is to form a long-term vision and from that, sketch out a "specification list" of target industries and technologies. Next we research the best companies in each field in terms of their compatibilities and potential contribution. Then we wait until M&A is the best solution going forward for both parties involved, but because we have already done our homework, when opportunity knocks, we are ready.

From a strategic perspective, we consider that further steps toward a more integrated product development environment will require technologies relating to semiconductor manufacturing systems and electronic control units. Extending our

strategic perspective even longer-term, acquiring a solid foothold in the market for large motors, which is still dominated by conventional brush/AC technology, is also a strategic option that is very much in line with the opportunities we see for brushless DC motors in the replacement market.

To underpin the future of our corporate acquisition efforts, we have recruited experts from the outside the Company and established a think tank specializing in mergers and acquisitions in June 2006 (Corporate Strategy Office). These experts have detailed corporate acquisition experience at home and abroad, and their presence as an in-house unit is expected to greatly facilitate our ability to approach companies under a much wider range of circumstances and the efficiency with which we pursue them—not to mention the improved due diligence we will be able to apply prior to any new proposal.



CORPORATE STRATEGY OFFICE, Nidec's in-house M&A strategy unit established in June 2006, addresses corporate acquisitions through investigations of a broader international scope.



## FINANCIAL SECTION

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## Operating and Financial Review and Prospects

### Item A. Operating Results.

*You should read the following discussion of our financial condition and results of operations together with our consolidated financial statements and information included in this annual report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth on the inside cover of this annual report.*

### Overview

#### ***Market Environment for Hard Disk Drive Spindle Motors***

Sales of hard disk drive spindle motors, mainly to major hard disk drive manufacturers account for the most significant portion of our sales, and constituted 30.7% of our total sales for the year ended March 31, 2006.

According to Techno Systems Research Co., Ltd. (TSR), a Japanese research institute specializing in technological industries, 84.2% of hard disk drives were used for PCs and the rest were used for non-PC products such as game consoles, DVD recorders and portable audio units for the calendar year ended December 31, 2005.

During the year ended March 31, 2006, we believe that almost all hard disk drive manufacturers in the world, with a few exceptions, shifted from conventional ball bearing motors to fluid dynamic bearing motors.

Reflecting the recent rapid worldwide expansion in demand for digital devices, such as PCs, hard disk drives (HDD) recorders, digital audio players, car navigation systems and game machines demand for HDDs has increased dramatically. According to TSR, world-wide HDD shipments increased by around 25% in calendar year 2005 compared to calendar year 2004, although the average sales price of HDDs declined by approximately 2%. Our average sales price of hard disk drive spindle motors rose by approximately 4% in Japanese Yen terms and fell by approximately 1% in US Dollar terms during the year ended March 31, 2006 due to the depreciation of the Japanese Yen against the US Dollar. During the year ended March 31, 2006, our shipments of hard disk drive spindle motors increased by 32% and our sales increased by 38%, reflecting, we believe changes in our product mix of hard disk drive spindle motors, especially the increase of motors for 2.5-inch HDDs and motors for HDDs smaller than 1.8-inches.

The increase in the shipments of HDDs was attributable to the strong demand for notebook PCs and consumer electronics. We have seen an increasing number of our customers establish their hard disk drive production centers in Asia, as they have been attracted by these countries' low production cost environment. We believe that the migration of our customers' production facilities to Asian and Southeast Asian countries will continue for the next several years.

We have been responding to the trends described above by taking the following steps:

- We are expanding manufacturing and assembly operations in China and other low-cost production locations, such as Thailand and the Philippines.
- We are expanding the manufacture of a new type of fluid dynamic bearing spindle motor using oil-impregnated, sintered-alloy metal. The use of sintered-alloy metal, due to its fitness for molding and press work, significantly lessens dependence on the comparatively lengthy

machining process during production of other spindle motors, and therefore substantially reduces processing cost per unit.

- We are expanding the percentage of components we produce in-house.

We believe that, by taking these steps, we are achieving cost savings that outweigh the decrease in average unit prices. In addition, we have been increasing total revenue from fluid dynamic bearing spindle motors in new non-computer markets, a trend we believe will continue. This, we believe, reflects strong demand for our hard disk drive motors, especially from manufacturers of new consumer electronics and home entertainment applications.

### ***Market Environment for Other Small Precision Brushless DC Motors***

Most of our revenues from sales of other DC motors, which accounted for 12.4% of our total net sales for the year ended March 31, 2006, are derived from the sales to manufacturers of CD-ROM, COMBO (CD-R/W drive combined with DVD-ROM drive) drives and writable DVD drives.

We believe that the market for CD-ROM drives is reaching maturity. On the other hand, the markets for COMBO drives and writable DVD drives are growing, in part as replacements for CD-ROM drives. Despite a recent strong demand for computers, especially for notebook PCs, there is significant downward pressure on the pricing for these drives. Accordingly, some of our small precision brushless DC motors, particularly for use in CD-ROM drives, have been experiencing downward pricing pressure, while the demand for other uses, particularly in COMBO drives and writable DVD drives in non-computer products, has been growing. We expect to become more competitive in these markets, as our production costs decline as a result of standardizing our product lines and we achieve the effects of mass production.

### ***Market Environment for brushless DC Fans***

We sell our brushless DC fans, which accounted for 6.5% of our total net sales for the year ended March 31, 2006, to various manufacturers of computers, computer peripheral, game consoles, photocopy machines, projectors and household appliances such as refrigerators. We also sell brushless DC fans, which are used to cool automobile seats.

Sales of brushless DC fans are primarily affected by the general market demand for the products that incorporate them. For several years prior to calendar year 2003, the demand for brushless DC fans used for game consoles increased substantially. However, during the last three fiscal years ended March 31, 2004 to 2006, such demand dropped substantially, mainly due to a peak in the global demand for game machines, which had a negative effect on the market for brushless DC fans. Despite significant decreases in sales of brushless DC fans, we have seen strong demand for fans directed to the high-end segments of the PC, server, and MPU cooler markets. Demand for our brushless DC fans is also increasing in the market for household electric appliances, as represented by microwave ovens, warm water toilet seats and refrigerators. In addition, we believe, new demand for our brushless DC fans for use in next generation game consoles is scheduled to be introduced to the market some time this fiscal year ending March 31, 2007.

### ***Market Environment for Mid-size Motors***

We sell mid-size motors, which accounted for approximately 7.0% of our total net sales for the year ended March 31, 2006, to home electric appliance, industrial machine and automobile power steering system manufacturers.

The demand for power steering systems that incorporate mid-size brushless DC motors and help conserve energy has been increasingly growing. An increasing number of power steering system manufacturers have shifted to producing such power steering systems, as opposed to the conventional engine-driven type that uses belts. Although this shift in demand has been increasing, we believe that it will take some more time before the acceptance of power steering systems that use mid-size brushless DC motors reaches a high level of our mass production of these motors, since the evaluation of samples that must take place prior to the introduction of a new product takes a comparatively long period of time in this industry. Also, in recent years there has been increased demand for mid-size brushless DC motors for automobiles for use engine rooms and hybrid engine systems. To comply with those demands and to secure the orders for the coming year, we have made significant expenditures for research and development. In addition, there has recently been increased demand for mid-size brushless DC motors for household appliance products, including air conditioners and dish washers that use mid-size brushless DC motors.

However, during the fiscal year ended March 31, 2006, mid-size brushless DC motors for use in home electric appliances and industrial machines suffered increases in raw material prices, particularly the prices of copper and aluminum in the second half of the year. In this segment, mainly due to a steep rise in raw material prices, operating income decreased by ¥2,119 million as compared to the previous period, to minus ¥1,863 million.

### ***Market Environment for Machinery***

Sales of our machinery, which accounted for approximately 13.6% of our total net sales for the year ended March 31, 2006, include sales of industrial robots, card readers, high-speed pressing machines and die bonders. The sales decrease in the year ended March 31, 2006 is due to a decrease in sales of laboratory systems to Agfa Photo GmbH, which declared bankruptcy during the year, as well as to decreases in semiconductor manufacturing device, such as die bonders. These decreases more than offset increases in sales of industrial robots, especially liquid crystal substrate handling robots and card readers for ATMs. We expect the demand for liquid crystal substrate handling robots and the increase in sales of card readers to increase further because demand for flat panel TVs which use liquid crystal substrates is rapidly increasing world-wide and demand for card readers are increasing significantly in Brazil, Russia, India and China.

### ***Market Environment for Electronic and Optical Components***

We sell electronic and optical components, which accounted for approximately 24.0% of our total net sales for the year ended March 31, 2006, to digital camera and optical disk drive manufacturers.

In the field of optical pickup units for computer optical disk drives, sales expanded over the previous year due to increased orders. However, there was a delay in our adoption of technology, which significantly reduced production yield and profitability. We believe the overall market for optical pickup units expanded during the fiscal year due to the strength of healthy demand for high-end optical disk drives used in notebook PCs and DVD recorders.

Sales of our shutters and lens units decreased over the previous fiscal year, primarily due to inventory adjustments in the first half of the year.

### ***Effects of Our Recent Acquisitions Activities on Our Financial Statements***

We have sought growth by investing in or acquiring companies with motors, drives and other related products and technologies. Depending on the circumstances, we acquire a majority interest or a substantial

minority interest in the target companies we seek to acquire. Our approach has been to identify underperforming companies with advanced products and technologies. In the past years, we have acquired substantial interests in a number of major companies, several of which were public companies in Japan.

In connection with our acquisition of subsidiaries, we had an aggregate amount of goodwill of ¥3,611 million as of March 31, 2002. This goodwill was originally scheduled to be amortized over a period of five years. In accordance with Statement of Financial Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), amortization of goodwill ceased beginning on April 1, 2002. Goodwill is now to be tested for impairment at least annually.

In February 2002, we made an additional acquisition of approximately 1.1% of the common stock of Nidec-Shimpo Corporation and made it our majority-owned subsidiary. As a result of this acquisition, Nidec Read Corporation, Nidec Tosok Corporation and other affiliated companies also became our majority-owned subsidiaries.

We acquired additional shares of common stock of Nidec Copal Corporation, Nidec Copal Electronics Corporation and Sankyo Seiki Mfg. Co., Ltd. (currently named Nidec Sankyo Corporation), which had previously been accounted for by the equity method, in January and February 2004. Our ownership interests in these companies increased to over 50%, and our consolidated financial statements now include the accounts of these majority-owned subsidiaries from their acquisition dates.

The decrease in net sales, gross profit, net income and earnings from equity-method investments in affiliated companies for the year ended March 31, 2005 compared with the previous year was primarily due to the consolidation of Nidec Copal Corporation and Nidec Copal Electronics Corporation as subsidiaries in January and February 2004, respectively.

### ***Effects of Foreign Currency Fluctuations***

A significant portion of our business is conducted in currencies other than the yen, most significantly, the U.S. dollar. Our business is thus sensitive to fluctuations in foreign currency exchange rates, especially the yen-U.S. dollar exchange rate. Our consolidated financial statements are subject to both translation risk and transaction risk. Translation risk is the risk that our consolidated financial statements for a particular period or for a particular date are affected by changes in the prevailing exchange rates of the currencies in those countries in which we conduct business against the Japanese yen. The translation effect, even if it is substantial, is a reporting consideration and does not reflect our underlying results of operations.

Transaction risk arises when the currency structure of our costs and liabilities deviates from the currency structure of our sales proceeds and assets. A substantial portion of our overseas sales are made in U.S. dollars. While sales denominated in U.S. dollars are, to a significant extent, offset by U.S. dollar denominated costs, we generally have had a significant net long U.S. dollar position. With respect to costs not denominated in U.S. dollars, we believe that we have been able to reduce the level of transaction risk to the extent that our overseas subsidiaries incur costs in currencies that generally follow the U.S. dollar. Transaction risk remains for products sold in U.S. dollars to the extent that we must purchase parts for our products from Japan, the costs for which are denominated in yen.

Changes in the fair values of our foreign exchange forward contracts and changes in option prices under our foreign currency option agreements are recognized as gains or losses on derivative instruments in our consolidated statement of income. For a more detailed discussion of these instruments, you should read Note 21 to our consolidated financial statements included in this annual report.

### **Trends for the Year Ending March 31, 2007**

We believe that we face multiple factors of uncertainty surrounding our businesses for the fiscal year ending March 31, 2007. Although a large number of Japanese corporations, including in the industries in which we operate, reported high operating profits for the fiscal year ended March 31, 2006, mainly due to strong demand from Asian countries, especially from China, it remains unclear how the Chinese economy will respond to exchange fluctuations and whether such strong demand will last.

Further, there is a concern that political instability, including the situation concerning North Korean situation, may give rise to adverse effects on corporate activities. In addition, our business will be significantly affected depending on whether the recent divergence between product prices and raw material prices will be corrected or expand.

Under such changing circumstances, while it is impossible to accurately forecast demand, our group will continue to pursue challenges not only in the motor business but also new growth by expanding the scope of related technologies. We expect that the machinery segment and electronics and optical components segment of the group companies will gradually improve for the year ended March 31, 2007 and continue to grow in accordance with overall economic recoveries in their respective markets.

The foregoing statements regarding the year ending March 31, 2007 are forward-looking statements based on our assumptions and beliefs as to economic and market conditions. Our performance under those conditions and other factors are subject to the qualifications set forth in the “Disclaimer” on the inside cover of this annual report. Our actual results of operations could vary significantly from those described above, as a result of factors such as:

- a decline in the demand for computer hard disk drives and related information technology products and consumer home electronics contained hard disk drives that incorporate our motors, or a longer than expected delay in the recovery of such demand;
- a downward movement in the pricing of our motors due to efforts by competing manufacturers to reduce excess inventory or to gain market share;
- a general decline in the global economy, particularly levels of consumer spending and capital investment;
- our ability to mass produce and win market acceptance of our products, particularly those that use new motor technology;
- the appreciation of the Japanese yen against the U.S. dollar and other currencies in which we make significant sales or in which our assets and liabilities are denominated; and
- other factors discussed under “Disclaimer” on the inside cover of this annual report.

In addition to the above, unanticipated events and circumstances could affect our results of operations.

## Results of Operations

The following table sets forth selected information relating to our income and expense items for each of the three years in the period ended March 31, 2006.

	<u>Yen in millions</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31, 2006</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	
Net sales .....	¥277,497	¥485,861	¥536,858	\$4,570,171
Operating expenses:				
Cost of products sold.....	218,189	370,938	413,012	3,515,893
Selling, general and administrative expenses....	28,542	35,340	41,188	350,626
Research and development expenses .....	8,751	25,918	29,232	248,847
	<u>255,482</u>	<u>432,196</u>	<u>483,432</u>	<u>4,115,366</u>
Operating income .....	<u>22,015</u>	<u>53,665</u>	<u>53,426</u>	<u>454,805</u>
Other income (expense):				
Interest and dividend income .....	362	929	1,664	14,165
Interest expense.....	(862)	(871)	(1,362)	(11,594)
Foreign exchange (loss) gain, net.....	(3,149)	2,377	7,866	66,962
(Loss) gain on derivative instruments, net .....	(5)	(175)	75	639
Gain from marketable securities, net .....	816	1,586	3,869	32,936
Gain (loss) from sales of investments in affiliated companies .....	45	(3)	-	-
Other, net.....	417	(218)	(1,160)	(9,875)
	<u>(2,376)</u>	<u>3,625</u>	<u>10,952</u>	<u>93,233</u>
Income before provision for income taxes .....	19,639	57,290	64,378	548,038
Provision for income taxes .....	(5,424)	(12,847)	(15,213)	(129,505)
Income before minority interest and equity in earnings of affiliated companies .....	14,215	44,443	49,165	418,533
Minority interest in income of consolidated subsidiaries.....	648	10,954	8,170	69,550
Equity in net (income) / losses of affiliated companies .....	(2,522)	34	46	392
Net income .....	<u>¥16,089</u>	<u>¥33,455</u>	<u>¥40,949</u>	<u>\$348,591</u>

## Results of Operations – Year Ended March 31, 2006 Compared to Year Ended March 31, 2005

### Net Sales

	(Yen in millions)			
	2005	2006	Inc/Dec	%
Net sales:				
Small precision motors:				
Hard disk drives spindle motors.....	¥119,233	¥164,575	¥45,342	38.0%
Other small precision brushless DC motors .....	61,066	66,463	5,397	8.8
Small precision brush DC motors .....	7,980	7,849	(131)	(1.6)
Brushless DC fans.....	34,435	34,872	437	1.3
Sub-total.....	222,714	273,759	51,045	22.9
Mid-size motors .....	35,564	37,767	2,203	6.2
Machinery .....	76,957	73,243	(3,714)	(4.8)
Electronic and optical components	128,417	128,791	374	0.3
Others.....	22,209	23,298	1,089	4.9
Consolidated total .....	¥485,861	¥536,858	¥50,997	10.5%

Details will be described by segment below.

Net sales of our hard disk drive spindle motors increased ¥45,342 million, or 38.0%, from ¥119,233 million for the year ended March 31, 2005 to ¥164,575 million for the year ended March 31, 2006. This increase was primary due to an increase of 32.5% in the sales volume of hard disk drive spindle motors compared to the same period of the previous fiscal year, resulting primarily from an increase in net sales of 2.5-inch and 3.5-inch motors for notebook PCs, new consumer electronics and home entertainment applications.

Net sales of hard disk drive spindle motors accounted for 24.5% of total net sales for the year ended March 31, 2005 and 30.7% of total net sales for the year ended March 31, 2006.

Net sales of our other small precision brushless DC motors increased ¥5,397 million, or 8.8%, from ¥61,066 million for the year ended March 31, 2005 to ¥66,463 million for the year ended March 31, 2006, primary due to an increase in net sales of Nidec (Dalian) Limited.

Net sales of our other small precision brushless DC motors accounted for 12.6% of total net sales for the year ended March 31, 2005 and 12.4% of total net sales for the year ended March 31, 2006.

Net sales of our brushless DC fans increased ¥437 million, or 1.3%, from ¥34,435 million for the year ended March 31, 2005 to ¥34,872 million for the year ended March 31, 2006. This slight increase was primary due to the fact that our top customer has adopted just-in-time management processes, which delayed our sales recognition.

Net sales of our brushless DC fans accounted for 7.1% of total net sales for the year ended March 31, 2005 and 6.5% of total net sales for the year ended March 31, 2006.

Net sales of our mid-size motors increased ¥2,203 million, or 6.2%, from ¥35,564 million for the year ended March 31, 2005 to ¥37,767 million for the year ended March 31, 2006. This increase was primarily due to an increase in net sales of motors for power steering in automobiles and for home appliances. Net sales of motors for power steering in automobiles increased ¥1,190 million compared to the same period of the previous fiscal year.

Net sales of our mid-size motors accounted for 7.3% of our total net sales for the year ended March 31, 2005 and 7.0% of total net sales for the year ended March 31, 2006.

Net sales of our machinery decreased ¥3,714 million, or 4.8%, from ¥76,957 million for the year ended March 31, 2005 to ¥73,243 million for the year ended March 31, 2006. This decrease was primarily due to a decrease in sales of photo laboratory systems manufactured by Nidec Copal Corporation and of semiconductor manufacturing machinery by Nidec Tosok Corporation, which more than offset a substantial increase in net sales of industrial robots manufactured by Nidec Sankyo Corporation.

Net sales of our machinery accounted for 15.8% of our total net sales for the year ended March 31, 2005 and 13.6% of total net sales for the year ended March 31, 2006.

Net sales of our electronic and optical components increased ¥374 million, or 0.3%, from ¥128,417 million for the year ended March 31, 2005 to ¥128,791 million for the year ended March 31, 2006. This slight increase was primary due to an increase in net sales of optical pickup units and home appliance components manufactured by Nidec Sankyo Corporation, which more than off set decreases in net sales of optical components manufactured by Nidec Copal Corporation and actuators manufactured by Nidec Copal Electronics Corporation.

Net sales of our electronic and optical components accounted for 26.4% of our total net sales for the year ended March 31, 2005 and 24.0% of total net sales for the year ended March 31, 2006.

Net sales of our other products increased ¥1,089 million, or 4.9%, from ¥22,209 million for the year ended March 31, 2005 to ¥23,298 million for the year ended March 31, 2006. This increase was primarily due to an increase in net sales of pivot assemblies by Nidec Singapore Pte. Ltd and automobile components manufactured by Nidec Tosok Corporation.

### **Cost of Products Sold**

Our cost of products sold increased ¥42,074 million, or 11.3%, from ¥370,938 million for the year ended March 31, 2005 to ¥413,012 million for the year ended March 31, 2006 due primarily to increased sales. As a percentage of net sales, cost of sales increased slightly from 76.3% to 76.9%, due primarily to a cost increase caused by a rise in materials prices such as steel and copper.

### **Selling, General and Administrative Expenses**

Our selling, general and administrative expenses increased ¥5,848 million, or 16.5%, from ¥35,340 million for the year ended March 31, 2005 to ¥41,188 million for the year ended March 31, 2006. This increase was due in part to a ¥1,059 million loss on bad debts at Nidec Copal Corporation resulting from the insolvency of AgfaPhoto GmbH. In addition, during the previous year, we had a gain from reversal of accrued retirement benefit to directors amounting to ¥1,001 million and from the termination of the employee's pension fund at Nidec Copal Corporation amounting to ¥2,312 million, which were recognized as a decrease in selling, general and administrative expenses, which we did not experience in the year ended March 31, 2006. We also had an increase in personnel expenses of ¥1,460 million due mainly to an increase in our employees. As a percentage of net sales, selling, general and administrative expenses increased from 7.3% for the year ended March 31, 2005 to 7.7% for the year ended March 31, 2006.

### **Research and Development Expenses**

Our research and development expenses increased ¥3,314 million, or 12.8%, from ¥25,918 million for the year ended March 31, 2005 to ¥29,232 million for the year ended March 31, 2006. This was primarily due to an increase in expenses for our research and development with respect to sub-1.8 inch hard disk drive spindle motors, mainly used for portable music players, and mid-size motors, mainly used for automobile steering systems. An increase in expenses related to research and development resources, including labor costs for technical personnel, was another contributing factor.

## **Operating Income**

As a result of the foregoing factors, our operating income decreased ¥239 million, or 0.4%, from ¥53,665 million for the year ended March 31, 2005 to ¥53,426 million for the year ended March 31, 2006. As a percentage of net sales, operating income decreased from 11.0% to 10.0%.

## **Other Income (Expenses)**

Other income increased ¥7,327 million, or 202.1%, from ¥3,625 million for the year ended March 31, 2005 to ¥10,952 million for the year ended March 31, 2006.

Interest and dividend income increased ¥735 million, or 79.1%, from ¥929 million for the year ended March 31, 2005 to ¥1,664 million for the year ended March 31, 2006. This was primarily due to interest income attributable to the increased average balance of our foreign currency deposits and increases of interest rates.

Gain from marketable securities, net increased ¥2,283 million, or 143.9%, from ¥1,586 million for the year ended March 31, 2005 to ¥3,869 million for the year ended March 31, 2006. This increase was attributable to profitable sales of marketable securities, reflecting favorable stock prices.

Foreign exchange gain increased ¥5,489 million, or 230.9%, from ¥2,377 million for year ended March 31, 2005 to ¥7,866 million for the year ended March 31, 2006. This was principally due to an increase in the balance of our foreign currency denominated assets during the year ended March 31, 2006 and a further depreciation in the value of the yen against relevant foreign currencies, as compared to the year ended March 31, 2005. The exchange rate of the yen against the U.S. dollar as of March 31, 2005 and 2006 was 107.39 yen and 117.47 yen, respectively.

## **Income before Provision for Income Taxes**

As a result of the foregoing, our income before income taxes increased ¥7,088 million, or 12.4%, from ¥57,290 million for the year ended March 31, 2005 to ¥64,378 million for the year ended March 31, 2006.

## **Provision for Income Taxes**

Our provision for income taxes increased ¥2,366 million, or 18.4%, from ¥12,847 million for the year ended March 31, 2005 to ¥15,213 million for the year ended March 31, 2006.

The effective income tax rate for the year ended March 31, 2006 was higher compared to the effective income tax rate for the year ended March 31, 2005. This was mainly because of changes in the valuation allowance for the year ended March 31, 2006 at Nidec Sankyo Corporation as its recovery in profitability was less than in the previous year.

## **Minority Interest in Income of Consolidated Subsidiaries**

Minority interest in income of our consolidated subsidiaries decreased ¥2,784 million, or 25.4%, from ¥10,954 million for the year ended March 31, 2005 to ¥8,170 million for the year ended March 31, 2006.

This was due primarily to a decrease in income of group companies and a decrease in minority interest as a result of an increase in interests held in subsidiaries such as Nidec Copal Corporation and Nidec Tosok Corporation.

## Equity in Net Losses of Affiliated Companies

Equity in net losses of our affiliated companies increased ¥12 million, or 35.3%, from ¥34 million for the year ended March 31, 2005 to ¥46 million for the year ended March 31, 2006. This was primarily due to an increase in net losses of affiliates accounted for by the equity method.

## Net Income

As a result of the foregoing, our net income increased ¥7,494 million, or 22.4%, from ¥33,455 million for the year ended March 31, 2005 to ¥40,949 million for the year ended March 31, 2006.

## Results of Operations – Year Ended March 31, 2005 Compared to Year Ended March 31, 2004

### Net Sales

	(Yen in millions)			
	2004	2005	Inc/Dec	%
Net sales:				
Small precision motors:				
Hard disk drives spindle motors.....	¥106,919	¥119,233	¥12,314	11.5%
Other small precision brushless DC motors .....	34,138	61,066	26,928	78.9
Small precision brush DC motors .....	5,372	7,980	2,608	48.5
Brushless DC fans.....	26,047	34,435	8,388	32.2
Sub-total.....	172,476	222,714	50,238	29.1
Mid-size motors .....	32,574	35,564	2,990	9.2
Machinery .....	31,240	76,957	45,717	146.3
Electronic and optical components	23,188	128,417	105,229	453.8
Others.....	18,019	22,209	4,190	23.3
Consolidated total .....	¥277,497	¥485,861	¥208,364	75.1%

Our net sales increased ¥208,364 million, or 75.1%, from ¥277,497 million for the year ended March 31, 2004 to ¥485,861 million for the year ended March 31, 2005. This increase was mainly due to the addition of newly consolidated subsidiaries. In particular, net sales of Nidec Copal Corporation, Nidec Copal Electronics Corporation, Nidec Sankyo Corporation and certain other affiliated companies were newly consolidated in January and February 2004 as a result of an increase in our ownership interest therein, and were included in our net sales for only February and March 2004. The net sales of these newly consolidated subsidiaries were ¥29,723 million for February and March 2004 and ¥207,767 million for the year ended March 31, 2005. Excluding the contribution from these newly consolidated subsidiaries, net sales increased ¥30,320 million, or 12.2%, from ¥247,774 million for the year ended March 31, 2004 to ¥278,094 million for the year ended March 31, 2005, due primarily to an increase in sales of hard disk drive spindle motors, other small precision brushless DC motors and machinery.

Details will be described by segment below.

Net sales of our hard disk drive spindle motors increased ¥12,314 million, or 11.5%, from ¥106,919 million for the year ended March 31, 2004 to ¥119,233 million for the year ended March 31, 2005. Unit shipments of our hard disk drive spindle motors increased by 20.4%. However, the average sales price on a yen basis dropped by slightly less than 9% as compared to the previous period. The primary factor for the small decrease in the average sales price was the increase in sales volume of high-priced goods of 1.8 inches or smaller hard disk drive spindle motors.

Net sales from hard disk drive spindle motors accounted for 38.5% of total net sales for the year ended March 31, 2004 and 24.5% of total net sales for the year ended March 31, 2005. Net sales of fluid dynamic bearing motors accounted for 77.0% of total net sales of hard disk drive spindle motors for the year ended March 31, 2004 and 90.3% of total net sales for the year ended March 31, 2005.

Net sales of other small precision brushless DC motors increased ¥26,928 million, or 78.9%, from ¥34,138 million for the year ended March 31, 2004 to ¥61,066 million for the year ended March 31, 2005. Excluding the contribution from newly consolidated subsidiaries, net sales increased ¥2,466 million, or 7.9%, from ¥31,028 million for the year ended March 31, 2004 to ¥33,494 million for the year ended March 31, 2005. Unit shipments increased approximately 25% as compared to the previous period, which together with the impact of a stronger yen and changes in the mix of products contributed to a decrease in the average sales price of approximately 14% at an annualized rate.

Net sales of other small precision brushless DC motors accounted for 12.3% of total net sales for the year ended March 31, 2004 and 12.6% of total net sales for the year ended March 31, 2005.

Net sales of our brushless DC fans increased ¥8,388 million, or 32.2%, from ¥26,047 million for the year ended March 31, 2004 to ¥34,435 million for the year ended March 31, 2005. Excluding the contribution from newly consolidated subsidiaries, net sales increased ¥7,898 million, or 30.4%, from ¥25,986 million for the year ended March 31, 2004 to ¥33,884 million for the year ended March 31, 2005. Unit shipments only increased by approximately 11%. The primary factor for the increase was the increase in sales of high-priced goods, including those for high-end PCs and servers and for high-end MPU coolers.

Net sales of brushless DC fans accounted for 9.4% of total net sales for the year ended March 31, 2004 and 7.1% of total net sales for the year ended March 31, 2005.

Net sales of mid-size motors increased ¥2,990 million, or 9.2%, from ¥32,574 million for the year ended March 31, 2004 to ¥35,564 million for the year ended March 31, 2005. The increase in net sales was due to a sales increase in motors for home appliances, including air conditioners, and industrial use. Net sales of motors for power steering remained almost unchanged as a result of a change to sales of motors without electronic control devices during the previous period.

Net sales of mid-size motors accounted for 11.7% of our total net sales for the year ended March 31, 2004 and 7.3% of total net sales for the year ended March 31, 2005.

Net sales of machinery increased ¥45,717 million, or 146.3%, from ¥31,240 million for the year ended March 31, 2004 to ¥76,957 million for the year ended March 31, 2005. ¥39,426 million, out of total increase, was from the addition of Nidec Copal Corporation and Nidec Sankyo Corporation as a result of an expansion in our consolidation of these companies. Excluding the contribution of these newly consolidated subsidiaries, net sales increased ¥6,291 million, or 23.2%, from ¥27,171 million for the year ended March 31, 2004 to ¥33,462 million for the year ended March 31, 2005. The increase was primarily due to increased sales of digital information devices and liquid crystal related devices as a result of the expansion of consolidation and products related to capital investment, including the precision press of Nidec-Kyori Corporation, inspection equipment of Nidec-Read Corporation and various semiconductor manufacturing equipment of Nidec Tosok Corporation. However, in the fourth quarter of the current period, sales significantly declined.

Net sales of machinery accounted for 11.3% of our total net sales for the year ended March 31, 2004 and 15.8% of total net sales for the year ended March 31, 2005.

“Electronic and Optical components” is a new product category established from the current period as a result of expansion in the scope of consolidation. This product category includes optical pickup units, shutters for digital cameras and trimmer potentiometers produced by Nidec Sankyo Corporation, Nidec Copal

Corporation, Nidec Copal Electronics Corporation and Nidec Nemicon Corporation. (Note: Products of these companies had been included in the “Others” product category in the previous fiscal year ended March 31, 2004). Net sales from this business for the year ended March 31, 2005 totaled ¥128,417 million and accounted for 26.4% of our total net sales year ended March 31, 2005.

Net sales of other products increased ¥4,190 million, or 23.3%, from ¥18,019 million for the year ended March 31, 2004 to ¥22,209 million for the year ended March 31, 2005. This increase mainly resulted from increased sales of products by Nidec Sankyo Corporation and automobile parts by Nidec Tosok Corporation.

Net sales of other products accounted for 6.5% of total net sales for the year ended March 31, 2004 and 4.6% of total net sales for the year ended March 31, 2005.

### **Cost of Products Sold**

Our cost of products sold increased ¥152,749 million, or 70.0%, from ¥218,189 million for the year ended March 31, 2004 to ¥370,938 million for the year ended March 31, 2005. Much of the increase was attributable to Nidec Sankyo Corporation, Nidec Copal Corporation, Nidec Copal Electronics Corporation and others, in which we increased our ownership interest and which became consolidated subsidiaries in January and February 2004. As a percentage of net sales, cost of sales decreased from 78.6% to 76.3%. This was due primarily to the efficiencies of scale realized by mass production of small precision motors. Excluding the contribution from the newly consolidated subsidiaries, cost of products sold increased ¥22,459 million, or 11.5%, from ¥194,726 million for the year ended March 31, 2004 to ¥217,185 million for the year ended March 31, 2005 due primarily to increased sales.

### **Selling, General and Administrative Expenses**

Our selling, general and administrative expenses increased ¥6,798 million, or 23.8%, from ¥28,542 million for the year ended March 31, 2004 to ¥35,340 million for the year ended March 31, 2005. This increase was due primarily to the additional expenses of our newly consolidated subsidiaries as described above. As a percentage of net sales, selling, general and administrative expenses decreased from 10.3% for the year ended March 31, 2004 to 7.3% for the year ended March 31, 2005. Excluding the additional expenses from the newly consolidated subsidiaries, selling, general and administrative expenses decreased ¥662 million, or 3.1%, from ¥21,451 million for the year ended March 31, 2004 to ¥20,789 million for the year ended March 31, 2005. This was due primarily to a decrease in the disposal loss of property, plant and equipment by ¥614 million.

### **Research and Development Expenses**

Our research and development expenses increased ¥17,167 million, or 196.2%, from ¥8,751 million for the year ended March 31, 2004 to ¥25,918 million for the year ended March 31, 2005. This increase was due in part to the additional expenses of our newly consolidated subsidiaries. As a percentage of net sales, research and development expenses increased from 3.2% for the year ended March 31, 2004 to 5.3% for the year ended March 31, 2005. Excluding the additional expenses of the newly consolidated subsidiaries, research and development expenses increased ¥9,581 million, or 124.9%, from ¥7,668 million for the year ended March 31, 2004 to ¥17,249 million for the year ended March 31, 2005. This was primarily due to an increase in expenses for our research and development with respect to sub-1.8 inch hard disk drives spindle motors, mainly used for portable music players and mid-size motors mainly used for automobile steering systems. An increase in expenses related to research and development resources, including labor costs for technical personnel, was another contributing factor.

## **Operating Income**

As a result of the foregoing factors, our operating income increased ¥31,650 million, or 143.8%, from ¥22,015 million for the year ended March 31, 2004 to ¥53,665 million for the year ended March 31, 2005. As a percentage of net sales, operating income increased from 7.9% to 11.0%.

## **Other Income (Expenses)**

We had other income in the amount of ¥3,625 million for the year ended March 31, 2005, while we incurred other expenses in the amount of ¥2,376 million for the year ended March 31, 2004.

Interest and dividend income increased ¥567 million, or 156.6%, from ¥362 million for the year ended March 31, 2004 to ¥929 million for the year ended March 31, 2005. This was primarily due to the addition of our newly consolidated subsidiaries. Excluding the effect of the addition of these newly consolidated subsidiaries, interest and dividend income increased ¥170 million, or 53.6%, from ¥317 million for the year ended March 31, 2004 to ¥487 million for the year ended March 31, 2005. This was primarily due to interest income attributable to the increased average balance of our foreign currency deposits.

Gain on marketable securities, net increased ¥770 million, or 94.4%, from ¥816 million for the year ended March 31, 2004 to ¥1,586 million for the year ended March 31, 2005. This increase is attributable to the fact that a stable domestic stock market facilitated sales of marketable securities providing for net realized gains.

We had foreign exchange gains in the amount of ¥2,377 million for the year ended March 31, 2005, an increase of ¥5,526 million from foreign exchange losses in the amount of ¥3,149 million for the year ended March 31, 2004. This increase was primarily due in some part to the addition of our newly consolidated subsidiaries. Excluding the effect of these newly consolidated subsidiaries, we had foreign exchange gains in the amount of ¥1,686 million for the year ended March 31, 2005, an increase of ¥4,867 million from foreign exchange losses in the amount of ¥3,181 million for the year ended March 31, 2004. This was principally due to an increase in the balance of our foreign currency denominated assets during the fiscal year ended March 31, 2005 and a further depreciation in the value of the yen against relevant foreign currencies, as compared to the fiscal year ended March 31, 2004. The exchange rate of the yen against the U.S. dollar as of March 31, 2004 and March 31, 2005 was 105.69 yen and 107.39 yen, respectively.

## **Income before Provision for Income Taxes**

As a result of the foregoing, our income before income taxes increased ¥37,651 million, or 191.7%, from ¥19,639 million for the year ended March 31, 2004 to ¥57,290 million for the year ended March 31, 2005.

## **Provision for Income Taxes**

Our provision for income taxes increased ¥7,423 million, or 136.9%, from ¥5,424 million for the year ended March 31, 2004 to ¥12,847 million for the year ended March 31, 2005.

Our provision for income taxes did not increase in proportion to the income before provision for income taxes because the estimated effective income tax rate for the year ended March 31, 2005 was lower than the estimated effective income tax rate for the year ended March 31, 2004. This was mainly because the valuation allowance corresponding to the estimated taxable income for the year ending March 31, 2005 decreased primarily due to a decrease in carryforwards losses for tax purposes as a result of the recovery in the profitability of Nidec Sankyo Corporation. The impact of tax benefits associated with foreign subsidiaries decreased due to a drop in the ratio of income from overseas subsidiaries with lower tax rates to total income

resulting from the addition of Nidec Sankyo Corporation, Nidec Copal Corporation and Nidec Copal Electronics Corporation as consolidated subsidiaries which operate primarily in Japan.

#### **Minority Interest in Income (Loss) of Consolidated Subsidiaries**

Minority interest in income of our consolidated subsidiaries increased ¥10,306 million, or almost 16 times, from ¥648 million for the year ended March 31, 2004 to ¥10,954 million for the year ended March 31, 2005. This was due primarily to our increased interest in, Nidec Copal Corporation, Nidec Copal Electronics Corporation, Nidec Sankyo Corporation and certain other affiliated companies, which became consolidated subsidiaries in January and February 2004.

#### **Equity in Net (Income)/Losses of Affiliated Companies**

We had equity in net losses of affiliated companies in the amount of ¥34 million for the year ended March 31, 2005, as compared to an equity in net income in our affiliated companies in the amount of ¥2,522 million for the year ended March 31, 2004. This was primarily due to a decrease in the number of affiliates accounted for by the equity method as we acquired additional ownership interests in Nidec Copal Electronics Corporation, Nidec Copal Corporation, Nidec Sankyo Corporation and certain other affiliated companies, which resulted in their consolidation in January and February 2004, respectively.

#### **Net Income**

As a result of the foregoing, our net income increased ¥17,366 million, or 107.9%, from ¥16,089 million for the year ended March 31, 2004 to ¥33,455 million for the year ended March 31, 2005.

## Segment Information

Based on the applicable criteria set forth in the Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), we have fourteen reportable operating segments on which we report in our consolidated financial statements. These reportable operating segments are legal entities. One of them is Nidec Corporation, while the others are Nidec's thirteen consolidated subsidiaries: Nidec Electronics (Thailand) Co., Ltd., Nidec (Zhejiang) Corporation, Nidec (Dalian) Limited, Nidec Singapore Pte. Ltd., Nidec (H.K.) Co., Ltd., Nidec Philippines Corporation, Nidec Sankyo Corporation\*(1), Nidec Copal Corporation, Nidec Tosok Corporation, Nidec Copal Electronics Corporation, Nidec Shibaura Corporation, Nidec-Shimpo Corporation, and Nidec Nissin Corporation\*(2). For the information required by SFAS No. 131, see Note 25 to our consolidated financial statements included in this annual report.

Nidec (Zhejiang) Corporation and Nidec (H.K.) Co., Ltd. were identified as reportable segments because the materiality of these segments increased for the year ended March 31, 2006. Segment information for the year ended March 31, 2004 and 2005 has been restated to conform to the current presentation. We excluded Nidec Taiwan Corporation and Nidec Power Motor Corporation for the year ended March 31, 2006 due to their immateriality.

We evaluate our financial performance based on segmental profit and loss, which consists of sales and operating revenues less operating expenses. Segmental profit or loss is determined using the accounting principles in the segment's country of domicile. Nidec Corporation, Nidec Sankyo Corporation, Nidec Copal Corporation, Nidec Tosok Corporation, Nidec Copal Electronics Corporation, Nidec Shibaura Corporation, Nidec-Shimpo Corporation, and Nidec Nissin Corporation apply Japanese GAAP. Nidec Electronics (Thailand) Co., Ltd. applies Thai accounting principles. Nidec (Zhejiang) Corporation and Nidec (Dalian) Limited apply Chinese accounting principles. Nidec (H.K.) Co., Ltd. applies Hong Kong accounting principles. Nidec Singapore Pte. Ltd. applies Singaporean accounting principles, and Nidec Philippines Corporation applies Philippine accounting principles. Therefore our segmental data has not been prepared under U.S. GAAP on a basis that is consistent with our consolidated financial statements or on any other single basis that is consistent between segments. While there are several differences between U.S. GAAP and the underlying accounting principles used by the operating segments, the principal differences that affect segmental operating profit or loss are accounting for pension and severance costs, directors' bonuses and leases. We believe that the monthly segmental information is available on a timely basis and that it is sufficiently accurate at the segment profit and loss level for us to manage our business.

Notes: \*(1) Sankyo Seiki Mfg. Co., Ltd. changed its name to Nidec Sankyo Corporation as of October 1, 2005.  
\*(2) Nissin Kohki Co., Ltd. changed its name to Nidec Nissin Corporation as of October 1, 2005.

The first of the following two tables shows revenues from external customers and other operating segments by reportable operating segment for the years ended March 31, 2004, 2005 and 2006. The second table shows operating profit or loss by reportable operating segment, which includes intersegment revenues, for the years ended March 31, 2004, 2005 and 2006:

	<b>Year ended March 31,</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
(Yen in millions and U.S. dollars in thousands)				
Nidec				
External revenues .....	¥60,316	¥56,602	¥68,613	\$584,090
Intersegment revenues .....	58,320	73,749	99,607	847,936
Sub total .....	118,636	130,351	168,220	1,432,026

	<b>Year ended March 31,</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
(Yen in millions and U.S. dollars in thousands)				
<b>Nidec Electronics (Thailand)</b>				
External revenues .....	33,003	36,891	47,745	406,444
Intersegment revenues .....	17,794	21,240	29,732	253,103
Sub total .....	50,797	58,131	77,477	659,547
<b>Nidec (Zhejiang)</b>				
External revenues .....	9,142	13,037	14,995	127,650
Intersegment revenues .....	391	1,052	4,377	37,261
Sub total .....	9,533	14,089	19,372	164,911
<b>Nidec (Dalian)</b>				
External revenues .....	112	754	3,044	25,913
Intersegment revenues .....	31,270	38,678	45,629	388,431
Sub total .....	31,382	39,432	48,673	414,344
<b>Nidec Singapore</b>				
External revenues .....	36,668	45,442	62,009	527,871
Intersegment revenues .....	3,081	1,363	1,179	10,037
Sub total .....	39,749	46,805	63,188	537,908
<b>Nidec (H.K.)</b>				
External revenues .....	12,112	17,114	24,600	209,415
Intersegment revenues .....	1,792	2,003	2,702	23,002
Sub total .....	13,904	19,117	27,302	232,417
<b>Nidec Philippines</b>				
External revenues .....	1,511	1,094	1,186	10,096
Intersegment revenues .....	22,117	21,131	31,121	264,927
Sub total .....	23,628	22,225	32,307	275,023
<b>Nidec Sankyo</b>				
External revenues .....	7,779	68,880	70,195	597,557
Intersegment revenues .....	3,641	19,313	17,977	153,035
Sub total .....	11,420	88,193	88,172	750,592
<b>Nidec Copal</b>				
External revenues .....	9,146	54,067	46,408	395,063
Intersegment revenues .....	1,384	9,351	8,977	76,420
Sub total .....	10,530	63,418	55,385	471,483
<b>Nidec Tosok</b>				
External revenues .....	21,211	23,992	22,081	187,971
Intrasegments revenues .....	666	657	407	3,465
Sub total .....	21,877	24,649	22,488	191,436
<b>Nidec Copal Electronics</b>				
External revenues .....	2,854	20,653	19,151	163,029
Intersegment revenues .....	372	2,355	2,642	22,491
Sub total .....	3,226	23,008	21,793	185,520
<b>Nidec Shibaura</b>				
External revenues .....	15,767	14,449	13,502	114,940
Intersegment revenues .....	4,429	9,348	2,702	23,002
Sub total .....	20,196	23,797	16,204	137,942

	<b>Year ended March 31,</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
	(Yen in millions and U.S. dollars in thousands)			
<b>Nidec-Shimpo</b>				
External revenues .....	8,476	10,317	9,619	81,885
Intersegment revenues .....	1,583	2,326	1,514	12,888
Sub total .....	<u>10,059</u>	<u>12,643</u>	<u>11,133</u>	<u>94,773</u>
<b>Nidec Nissin</b>				
External revenues .....	1,974	12,641	12,022	102,341
Intersegment revenues .....	303	1,041	907	7,721
Sub total .....	<u>2,277</u>	<u>13,682</u>	<u>12,929</u>	<u>110,062</u>
<b>All Others</b>				
External revenues .....	59,459	109,700	120,041	1,021,886
Intersegment revenues .....	64,754	166,350	182,093	1,550,121
Sub total .....	<u>124,213</u>	<u>276,050</u>	<u>302,134</u>	<u>2,572,007</u>
<b>Total</b>				
External revenues .....	279,530	485,633	535,211	4,556,151
Intersegment revenues .....	211,897	369,957	431,566	3,673,840
Adjustments (*) .....	(2,033)	228	1,647	14,020
Intersegment elimination .....	(211,897)	(369,957)	(431,566)	(3,673,840)
Consolidated total (net sales) .....	<u>¥277,497</u>	<u>¥485,861</u>	<u>¥536,858</u>	<u>\$4,570,171</u>

(\*) See Note 25 to the consolidated financial statements included in this annual report.

	<b>Year ended March 31,</b>			
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
	(Yen in millions and U.S. dollars in thousands)			
<b>Segment profit or loss:</b>				
Nidec .....	¥1,483	¥2,351	¥8,852	\$75,355
Nidec Electronics (Thailand) .....	8,590	8,649	11,335	96,493
Nidec (Zhejiang) .....	(345)	107	108	919
Nidec (Dalian) .....	2,486	2,436	3,718	31,651
Nidec Singapore .....	2,489	1,935	1,205	10,258
Nidec (H.K.) .....	243	362	347	2,954
Nidec Philippines .....	1,422	(379)	1,059	9,015
Nidec Sankyo .....	(2,581)	7,624	9,050	77,041
Nidec Copal .....	586	3,195	2,524	21,486
Nidec Tosok .....	1,450	1,053	435	3,703
Nidec Copal Electronics .....	307	3,583	2,949	25,104
Nidec Shibaura .....	801	1,356	(274)	(2,333)
Nidec-Shimpo .....	826	1,397	498	4,239
Nidec Nissin .....	229	946	683	5,814
All Others .....	7,283	13,252	12,179	103,679
Total .....	<u>25,269</u>	<u>47,867</u>	<u>54,668</u>	<u>465,378</u>
Adjustments (*) .....	(3,254)	5,798	(1,242)	(10,573)
Consolidated total .....	<u>¥22,015</u>	<u>¥53,665</u>	<u>¥53,426</u>	<u>\$454,805</u>

(\*) See Note 25 to the consolidated financial statements included in this annual report.

Net sales of Nidec increased ¥37,869 million, or 29.1%, from ¥130,351 million for the year ended March 31, 2005 to ¥168,220 million for the year ended March 31, 2006. External revenues of Nidec increased ¥12,011 million, or 21.2%, from ¥56,602 million for the year ended March 31, 2005 to ¥68,613 million for the year ended March 31, 2006. This increase resulted primarily from an increase in net sales in our core business, hard disk drive spindle motors, reflecting strong demand in the IT industry and consumer electronics. Intersegment revenues of Nidec increased ¥25,858 million, or 35.1%, from ¥73,749 million for the year ended March 31, 2005 to ¥99,607 million for the year ended March 31, 2006. This increase resulted primarily from an increase in sales of hard disk drives spindle motors to one of our main customers through Nidec Singapore Pte. Ltd. Operating profit of Nidec increased ¥6,501 million, or 276.5%, from ¥2,351 million for the year ended March 31, 2005 to ¥8,852 million for the year ended March 31, 2006. This increase was due primarily to an increase in commission fees from subsidiary companies.

Net sales of Nidec increased ¥11,715 million, or 9.9%, from ¥118,636 million for the year ended March 31, 2004 to ¥130,351 million for the year ended March 31, 2005. External revenues of Nidec decreased ¥3,714 million, or 6.2%, from ¥60,316 million for the year ended March 31, 2004 to ¥56,602 million for the year ended March 31, 2005. This decrease resulted primarily from a decrease in sales of hard disk drives spindle motors due to a change in sales methods for some overseas customers. Sales to these overseas customers were previously made through Nidec but, starting with the year ended March 31, 2005, such sales have been made through direct transactions between our overseas subsidiaries and customers. Nonetheless, intersegment revenues of Nidec increased ¥15,429 million, or 26.5%, from ¥58,320 million for the year ended March 31, 2004 to ¥73,749 million for the year ended March 31, 2005. This increase resulted primarily from an increase in sales of hard disk drives spindle motors to one of our main customers, through Nidec Singapore Pte. Ltd. Operating profit of Nidec increased ¥868 million, or 58.5%, from ¥1,483 million for the year ended March 31, 2004 to ¥2,351 million for the year ended March 31, 2005. This increase was due primarily to an increase in commission fees from subsidiary companies.

Net sales of Nidec Electronics (Thailand) Co., Ltd. increased ¥19,346 million, or 33.3%, from ¥58,131 million for the year ended March 31, 2005 to ¥77,477 million for the year ended March 31, 2006 due primarily to an increase in sales of hard disk drive spindle motors to main customers. Operating profit increased ¥2,686 million, or 31.1%, from ¥8,649 million for the year ended March 31, 2005 to ¥11,335 million for the year ended March 31, 2006 due primarily to the large increase in sales.

Net sales of Nidec Electronics (Thailand) Co., Ltd. increased ¥7,334 million, or 14.4%, from ¥50,797 million for the year ended March 31, 2004 to ¥58,131 million for the year ended March 31, 2005 due primarily to an increase in sales of fluid dynamic bearing motors to main customers. Operating profit increased slightly by ¥59 million, or 0.7%, from ¥8,590 million for the year ended March 31, 2004 to ¥8,649 million for the year ended March 31, 2005 due primarily to an increase in royalty expenses and commission fees to Nidec that partially offset the increase in net sales.

Net sales of Nidec (Zhejiang) Corporation increased ¥5,283 million, or 37.5%, from ¥14,089 million for the year ended March 31, 2005 to ¥19,372 million for the year ended March 31, 2006. This increase resulted from increased sales of hard disk drive spindle motors, reflecting strong demand. Operating profit increased slightly by ¥1 million from ¥107 million for the year ended March 31, 2005 to ¥108 million for the year ended March 31, 2006. The comparatively lower increase in operating profit compared with sales was resulted primarily from a delay in shifting to a more efficient mass production of our hard disk drive spindle motors.

Net sales of Nidec (Zhejiang) Corporation increased ¥4,556 million, or 47.8%, from ¥9,533 million for the year ended March 31, 2004 to ¥14,089 million for the year ended March 31, 2005 due to an increase in sales of hard disk drive spindle motors, reflecting strong demand. Nidec (Zhejiang) Corporation had an operating loss of ¥345 million for the year ended March 31, 2004 and operating profit of ¥107 million for the year ended March 31, 2005. This increase in operating profit was due to volume efficiency as a result of an increase in sales.

Net sales of Nidec (Dalian) Limited increased ¥9,241 million, or 23.4%, from ¥39,432 million for the year ended March 31, 2005 to ¥48,673 million for the year ended March 31, 2006. This increase was due primarily to an increase in customer demand for other small precision brushless DC motors used in DVD drives. Operating profit increased ¥1,282 million, or 52.6% from ¥2,436 million for the year ended March 31, 2005 to ¥3,718 million for the year ended March 31, 2006. This was due primarily to the large increase in sales.

Net sales of Nidec (Dalian) Limited increased ¥8,050 million, or 25.7%, from ¥31,382 million for the year ended March 31, 2004 to ¥39,432 million for the year ended March 31, 2005. This increase was due primarily to an increase in customer demand for brushless DC fans for notebook-type personal computers. However, operating profit decreased 2.0% from ¥2,486 million for the year ended March 31, 2004 to ¥2,436 million for the year ended March 31, 2005 due primarily to an increase in royalty expenses to Nidec and freight and packing expenses that partially offset the increase in net sales.

Net sales of Nidec Singapore Pte. Ltd. increased ¥16,383 million, or 35.0%, from ¥46,805 million for the year ended March 31, 2005 to ¥63,188 million for the year ended March 31, 2006 due primarily to an increase in sales of hard disk drives spindle motors to main customers. However, operating profit of Nidec Singapore Pte. Ltd. decreased ¥730 million, or 37.7%, from ¥1,935 million for the year ended March 31, 2005 to ¥1,205 million for the year ended March 31, 2006. due primarily to the continued decrease of sales with higher margins.

Net sales of Nidec Singapore Pte. Ltd. increased ¥7,056 million, or 17.8%, from ¥39,749 million for the year ended March 31, 2004 to ¥46,805 million for the year ended March 31, 2005 due primarily to an increase in sales of hard disk drives spindle motors to main customers. However the operating profit of Nidec Singapore Pte. Ltd. decreased ¥554 million, or 22.3%, from ¥2,489 million for the year ended March 31, 2004 to ¥1,935 million for the year ended March 31, 2005 due primarily to decreased sales of higher margin products.

Net sales of Nidec (H.K.) Co., Ltd. increased ¥8,185 million, or 42.8%, from ¥19,117 million for the year ended March 31, 2005 to ¥27,302 million for the year ended March 31, 2006. This was due primarily to an increase in sales of hard disk drive spindle motors and other small precision brushless DC motors to main customers. However, operating profit of Nidec (H.K.) Co., Ltd. decreased ¥15 million, or 4.1%, from ¥362 million for the year ended March 31, 2005 to ¥347 million for the year ended March 31, 2006. This was due to an increase in sales with lower margins and increased selling, general and administrative expenses.

Net sales of Nidec (H.K.) Co., Ltd. increased ¥5,213 million, or 37.5%, from ¥13,904 million for the year ended March 31, 2004 to ¥19,117 million for the year ended March 31, 2005. This increase resulted from primarily from an increase in sales of hard disk drive spindle motors and other small precision brushless DC motors to main customers. Operating profit of Nidec (H.K.) Co., Ltd. increased ¥119 million, or 49.0 %, from ¥243 million for the year ended March 31, 2004 to ¥362 million for the year ended March 31, 2005 due primarily to the large increase in sales.

Net sales of Nidec Philippines Corporation increased ¥10,082 million, or 45.4%, from ¥22,225 million for the year ended March 31, 2005 to ¥32,307 million for the year ended March 31, 2006. This increase resulted primarily from an increase in sales of hard disk drive spindle motors to our main customer in Singapore through Nidec. Nidec Philippines Corporation had an operating loss of ¥379 million for the year ended March 31, 2005 and operating profit of ¥1,059 million for the year ended March 31, 2006. This increase in operating profit was due to an increase in sales of high-price and high-margin goods, namely 2.5 inches or smaller hard disk drive spindle motors.

Net sales of Nidec Philippines Corporation decreased ¥1,403 million, or 5.9%, from ¥23,628 million for the year ended March 31, 2004 to ¥22,225 million for the year ended March 31, 2005. This decrease in sales was due primarily to a decrease in sales of conventional ball bearing motors to several main customers.

Also, a main customer in Thailand purchased fluid dynamic bearing motors from Nidec Electronics (Thailand) Co., Ltd. instead of Nidec Philippines Corporation. Nidec Philippines Corporation had operating profit of ¥1,422 million for the year ended March 31, 2004 compared to had an operating loss of ¥379 million for the year ended March 31, 2005. This decrease in operating profit was due primarily to the decrease in sales and an increase in depreciation of tangible fixed assets related to the expansion of our fluid dynamic bearing motors production capacity. The adverse impact from decentralization of production in the Philippines to two factories as a result of absorbing the FDB department of Nidec Sankyo Corporation, as well as an increase in fixed costs also contributed to the operating loss for the year ended March 31, 2005.

Net sales of Nidec Sankyo Corporation decreased ¥21 million from ¥88,193 million for the year ended March 31, 2005 to ¥88,172 million for the year ended March 31, 2006. Operating profit of Nidec increased ¥1,426 million, or 18.7%, from ¥7,624 million for the year ended March 31, 2005 to ¥9,050 million for the year ended March 31, 2006. The major reason for this increase was improvements in production cost efficiency.

Net sales of Nidec Sankyo Corporation were ¥11,420 million for the year ended March 31, 2004 and ¥88,193 million for the year ended March 31, 2005. Nidec Sankyo had an operating loss of ¥2,581 million for the year ended March 31, 2004 compared to an operating profit of ¥7,624 million for the year ended March 31, 2005. Nidec Sankyo has been consolidated since February 2004, and thus only its net sales and operating loss for February and March 2004 are reflected in our consolidated net sales and operating profit for the year ended March 31, 2004. It recorded a significant amount of loss due to expenses for reconstruction of factories in March 2004.

Net sales of Nidec Copal Corporation decreased ¥8,033 million, or 12.7%, from ¥63,418 million for the year ended March 31, 2005 to ¥55,385 million for the year ended March 31, 2006. This was due primarily to a decrease in sales of shutters, optical units and lenses as a result of a delay in the launch of some new products. The decrease also partially resulted from the insolvency of AgfaPhoto GmbH, a purchaser of the company's photo lab systems. Operating profit of Nidec decreased ¥671 million, or 21.0%, from ¥3,195 million for the year ended March 31, 2005 to ¥2,524 million for the year ended March 31, 2006 due primarily to the decrease in sales of shutters, optical units and lenses.

Net sales of Nidec Copal Corporation were ¥10,530 million for the year ended March 31, 2004 and ¥63,418 million for the year ended March 31, 2005. Operating profit was ¥586 million for the year ended March 31, 2004 and ¥3,195 million for the year ended March 31, 2005. Nidec Copal Corporation has been consolidated since February 2004, and thus only its net sales and operating profit for February and March 2004 are reflected in our consolidated net sales and operating profit for the year ended March 31, 2004.

Net sales of Nidec Tosok Corporation decreased ¥2,161 million, or 8.8%, from ¥24,649 million for the year ended March 31, 2005 to ¥22,488 million for the year ended March 31, 2006. This was due primarily to a decrease in sales of semiconductor fabrication equipment as a result of decreased volume of orders starting from the second half of the previous year due to decreased customer investment in facilities in the semiconductor industry. Operating profit decreased ¥618 million, or 58.7%, from ¥1,053 million for the year ended March 31, 2005 to ¥435 million for the year ended March 31, 2006. This was due primarily to the decrease in sales of semiconductor fabrication equipment and a drop in sales prices resulting from severe price competition.

Net sales of Nidec Tosok Corporation increased ¥2,772 million, or 12.7%, from ¥21,877 million for the year ended March 31, 2004 to ¥24,649 million for the year ended March 31, 2005 due primarily to an increase in sales of automobile parts and semiconductor fabrication equipment. However, operating profit decreased ¥397 million, or 27.4%, from ¥1,450 million for the year ended March 31, 2004 to ¥1,053 million for the year ended March 31, 2005. This decrease was due primarily to an increase in research and development expenses related to automobile parts and in depreciation of tangible fixed assets related to the head office.

Net sales of Nidec Copal Electronics Corporation decreased ¥1,215 million, or 5.3%, from ¥23,008 million for the year ended March 31, 2005 to ¥21,793 million for the year ended March 31, 2006. This decrease was primarily due to a decrease in sales of stepping motors and a delay in the launch of some new products. Operating profit decreased ¥634 million, or 17.7%, from ¥3,583 million for the year ended March 31, 2005 to ¥2,949 million for the year ended March 31, 2006. This was due primarily to the decrease in sales of stepping motors.

Net sales of Nidec Copal Electronics Corporation were ¥3,226 million for the year ended March 31, 2004 and ¥23,008 million for the year ended March 31, 2005. Operating profit was ¥307 million for the year ended March 31, 2004 and ¥3,583 million for the year ended March 31, 2005. Nidec Copal Electronics Corporation has been consolidated since January 2004, and thus only its net sales and operating profit for January through March 2004 contributed to our net sales and operating profit for the year ended March 31, 2004.

Net sales of Nidec Shibaura Corporation decreased ¥7,593 million, or 31.9%, from ¥23,797 million for the year ended March 31, 2005 to ¥16,204 million for the year ended March 31, 2006 due primarily to a decrease in sales of machinery and mid-size motors for air conditioners. Nidec Shibaura Corporation had operating profit of ¥1,356 million for the year ended March 31, 2005 and operating loss of ¥274 million for the year ended March 31, 2006 due primarily to a decrease in sales of machinery and mid-size motors for air conditioners.

Net sales of Nidec Shibaura Corporation increased ¥3,601 million, or 17.8%, from ¥20,196 million for the year ended March 31, 2004 to ¥23,797 million for the year ended March 31, 2005 due primarily to an increase in sales of mid-size motors and machines from its trading division. Operating profit increased ¥555 million, or 69.3%, from ¥801 million for the year ended March 31, 2004 to ¥1,356 million for the year ended March 31, 2005. The major reason for this increase in operating profit came from the increase in sales of machines from Nidec Shibaura Corporation's trading division.

Net sales of Nidec-Shimpo Corporation decreased ¥1,510 million, or 11.9%, from ¥12,643 million for the year ended March 31, 2005 to ¥11,133 million for the year ended March 31, 2006. This was due primarily to a decrease in sales of factory automation equipment as a result of decreased customer demand. Operating profit of Nidec-Shimpo Corporation decreased ¥899 million, or 64.4%, from ¥1,397 million for the year ended March 31, 2005 to ¥498 million for the year ended March 31, 2006. This resulted primarily from a decrease in sales of factory automation equipment and a decrease in sales of high-price and high-margin power transmission equipment.

Net sales of Nidec-Shimpo Corporation increased ¥2,584 million, or 25.7%, from ¥10,059 million for the year ended March 31, 2004 to ¥12,643 million for the year ended March 31, 2005 due primarily to an increase in sales of power transmission equipment and factory automation equipment for the Chinese market. Operating profit of Nidec-Shimpo Corporation increased ¥571 million, or 69.1%, from ¥826 million for the year ended March 31, 2004 to ¥1,397 million for the year ended March 31, 2005. The increase in operating profit resulted primarily from the increase in sales and a cost reduction due to a shift of production to China.

Net sales of Nidec Nissin Corporation decreased ¥753 million, or 5.5%, from ¥13,682 million for the year ended March 31, 2005 to ¥12,929 million for the year ended March 31, 2006. This decrease was primarily due to a decrease in sales of plastic lenses for mobile telephones. Operating profit of Nidec decreased ¥263 million, or 27.8%, from ¥946 million for the year ended March 31, 2005 to ¥683 million for the year ended March 31, 2006 due to a decrease in sales of plastic lenses for mobile telephones and an increase in research and development cost.

Net sales of Nidec Nissin Corporation were ¥2,277 million for the year ended March 31, 2004 and ¥13,682 million for the year ended March 31, 2005. It had operating profit of ¥229 million for the year ended

March 31, 2004 and ¥946 million for the year ended March 31, 2005. Nidec Nissin has been consolidated since February 2004 and thus only its net sales and operating profit for February and March 2004 contributed to our consolidated net sales and operating profit for the year ended March 31, 2004.

Within the All Others segment, net sales increased ¥26,084 million, or 9.4% from ¥276,050 million for the year ended March 31, 2005 to ¥302,134 million for the year ended March 31, 2006. This was primarily due to the expansion in sales of Nidec Subic Philippines Corporation and Nidec (Dongguan) Limited. Operating profit decreased ¥1,073 million, or 8.1% from ¥13,252 million for the year ended March 31, 2005 to ¥12,179 million for the year ended March 31, 2006. This was primarily due to a decrease in profitability in Nidec Power Motor Corporation, Nidec Sankyo Fuzhou (Hong Kong) Co., Ltd. and Nidec Copal (Thailand) Co., Ltd.

Within the All Others segment, net sales increased ¥161,017 million, or 127.9% from ¥125,912 million for the year ended March 31, 2004 to ¥286,929 million for the year ended March 31, 2005. Operating profit also increased ¥7,415 million, or 112.9% from ¥6,568 million for the year ended March 31, 2004 to ¥13,983 million for the year ended March 31, 2005. The net sales and operating profits of our newly consolidated subsidiaries other than Nidec Copal Corporation, Nidec Copal Electronics Corporation, Nidec Sankyo Corporation and Nidec Nissin Corporation were ¥148,171 million and ¥5,810 million for the year ended March 31, 2005, respectively, and were included in the All Others segment. Excluding the contribution from these newly consolidated subsidiaries, net sales and operating profit increased ¥35,009 million and ¥1,858 million, respectively, mainly due to the expansion and improvement of profitability in Nidec (Dongguan) Corporation, Nidec (Zhejiang) Corporation.

### **Recent Accounting Pronouncements**

In November 2004, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standards No. 151 (“SFAS 151”), “Inventory Costs - an amendment of ARB No. 43, Chapter 4.” SFAS 151 amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expenses, freight, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that such items be recognized as current-period charges, regardless of whether they meet the criterion of “so abnormal” as stated in ARB No. 43. SFAS 151 is effective for fiscal years beginning after June 15, 2006. We do not expect that adoption of SFAS 151 will have a material effect on our consolidated financial position, consolidated results of operations, or liquidity.

In December 2004, the FASB issued SFAS No. 123R (“SFAS 123R”), revised 2004, “Share-Based Payment.” SFAS 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25 and allowed under the original provisions of SFAS 123. SFAS 123R requires the use of an option pricing model for estimating fair value, which is amortized to expense over the service periods. For existing employee stock options and rights to purchase shares under stock participation plans, the effect of adoption will not be material to our consolidated financial position, consolidated results of operations, or liquidity.

In May 2005, the FASB issued SFAS No. 154 (“SFAS 154”), “Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3”. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of change a cumulative effect of changing to the new accounting principle whereas SFAS 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle, unless it is impracticable. SFAS 154 also requires that a change in depreciation or amortization be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect that adoption of SFAS 154 will have a material effect on our

consolidated financial position, consolidated results of operations, or liquidity.

### **Application of Critical Accounting Policies**

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of their countries of domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results may differ from these estimates, judgments and assumptions.

An accounting estimate in our financial statements is a critical accounting estimate if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and either different estimates that we reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. We have identified the following critical accounting policies with respect to our financial presentation.

#### ***Inventories***

Our inventories, which consist primarily of finished products such as hard disk drive spindle motors, are stated at the lower of cost or market value. Cost is determined principally using the weighted average cost method and the market value is mainly based on net realizable value less direct sales costs. These products are exposed to frequent innovation, the introduction of new products to the market and short product life cycles due to rapid technological advances and model changes. We periodically assess the market value of our inventory, based on sales trends and forecasts and technological changes and write off inventories with no movement for one year or when it is apparent that there is no possibility of future sales or usage. We may have to recognize large amounts of inventory write-off as a result of an unexpected decline in market conditions, changes in demand or our product line.

#### ***Other-than-temporary Losses on Marketable Securities***

We review the market value of our marketable securities at the end of each fiscal quarter. Our marketable securities consist of available-for-sale securities and investments in listed subsidiaries. Other-than-temporary losses on individual marketable securities are charged to income in the period as incurred. Losses on available-for-sale securities are classified as other-than-temporary based on the length of time and the extent to which the fair value has been less than the carrying amount. When the carrying amount of the equity-method investment exceeds the quoted market value at the end of each period, we write down such investment to the market value if the decline in fair value below the carrying amount is considered other-than-temporary. In determining if a decline in the fair value of equity-method investment is other-than-temporary, we take into consideration the length of time and the extent to which the fair value has been less than the carrying amount, the financial condition and estimated future profitability of the company. The fair value of marketable securities is based on quoted market prices. Our management employs a systematic methodology to assess the recoverability of such investments by reviewing the financial position of underlying companies and prevailing market conditions in which these companies operate to determine if our investment in each of these companies is impaired and whether the impairment is other-than-temporary.

We believe that the accounting estimate related to investment impairment is a critical accounting policy because:

- it is highly susceptible to change from period to period because it requires our management to make assumptions about future financial condition and cash flows of investees; and
- the impact that recognizing an impairment would have on the total assets reported on our balance sheet as well as our operating income would be material.

As of March 31, 2006, the estimated fair value of our marketable securities was ¥19,676 million. We recorded gain on marketable securities in the amount of ¥3,869 million for the years ended March 31, 2006.

### ***Allowance for Doubtful Accounts***

We maintain a general allowance for doubtful accounts based on the historical rate of credit losses experienced. We additionally provide allowances for specific customer accounts deemed uncollectible. Management assesses the need for specific allowances based on changes in the customers' financial condition and length of time the account has remained overdue. As our customer base is highly concentrated, the nonfulfillment or delay in payment caused by even one of our major customers may require us to record a significant additional allowance. For the year ended March 31, 2006, sales to our six largest customers represented approximately 34% of our net sales. Our accounts receivable are likewise concentrated. At March 31, 2006, six customers represented ¥36,960 million, or 29%, of our gross accounts receivable. In addition, during economic downturns, certain number of our customers may have difficulty with their cash flows.

Although we believe that we can make reliable estimates for doubtful accounts, customer concentrations as well as overall economic conditions may affect our ability to accurately estimate the allowance for doubtful accounts. Our allowance for doubtful accounts amounted to ¥538 million as of March 31, 2006. Our trade notes and accounts receivable balance was ¥143,738 million, net of allowance for doubtful accounts, as of March 31, 2006.

### ***Deferred Tax Assets***

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences resulted in deferred tax assets and liabilities, which were included within our consolidated balance sheet. As of March 31, 2006 we had deferred tax assets in the amount of ¥21,457 million. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in our income statement.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We have recorded a valuation allowance of ¥11,602 million as of March 31, 2006, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating losses carried forward for tax purposes incurred by our subsidiaries. Our determination to record valuation allowances is based on a history of unprofitable periods by the subsidiaries and their estimated future profitability. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance which could have an adverse effect on our financial position and results of operations.

### ***Impairment of Long-lived Assets***

Long-lived assets, consisting primarily of property, plant and equipment, comprised approximately 31% of our total assets as of March 31, 2006. We carefully monitor the appropriateness of the estimated useful lives of these assets. Since the fiscal year ended March 31, 2003, the first year we adopted impairment of long-lived assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable, we have reviewed the respective assets for impairment. An impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows. We review idle assets for possible impairment based on their condition or based on the probability of future use. Changes in technology, market demand, our planned product mix, or in our intended use of these assets, may cause the estimated period of use or the value of these assets to change. In addition, changes in general industry conditions such as increased competition could cause the value of a certain amount of these assets to change. Estimates and assumptions used in both estimating the useful life and evaluating potential impairment issues require a significant amount of judgment. As such, our judgment as to the recoverability of capitalized amounts and the amount of any impairment will be significantly impacted by such factors.

### ***Acquisitions***

In recent years, we have made a number of significant business acquisitions, which have been accounted for using the purchase method of accounting. The purchase method requires that the net assets, tangible and identifiable intangible assets less liabilities of the acquired company be recorded at fair value, with the difference between the cost of an acquired company and the fair value of the acquired net assets recorded as goodwill. Application of the purchase method requires our management to make complex judgments about the allocation of the purchase price to that of the fair value of the net assets we acquire and estimation of the related useful lives. The determinations of fair value of assets and liabilities are primarily based on factors such as independent appraisers' cash flow analysis and quoted market prices, if available.

### ***Valuation of Goodwill***

We assess the impairment of acquired goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- significant negative industry or economic trends;
- significant decline in the stock price of the acquired entity for a sustained period; and
- market capitalization of the acquired entity relative to its net book value.

When we determine that the carrying value of goodwill and other intangibles may not be recoverable, based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow determined by our management to be commensurate with the risk inherent in our current business model. Changes in the projected discounted cash flow could negatively affect the valuations. Goodwill amounted to ¥44,266 million as of March 31, 2006.

## Pension Plans

We account for our defined benefit pension plans in accordance with Statement of Financial Accounting Standards No. 87, "Employer's Accounting for Pensions." For periodic pension calculation, we are required to assume some components, which include expected return on plan assets, discount rate, rate of increase in compensation levels and average remaining years of service. We use long-term historical actual return information and estimated future long-term investment returns by reference to external sources to develop our expected rate of return on plan assets. The discount rate is assumed based on the rates available on high-quality fixed-income debt instruments (rated AA by a recognized rating agency) for which the timing and amount of cash inflows approximates the estimated outflows of the defined benefit plan. We assume a rate of increase in compensation levels and average remaining years of service based on our historical data. Changes in these assumptions will have an impact on our net periodic pension cost.

The following table shows the sensitivity to a change in discount rates and the expected rate of return on plan assets, holding all other assumptions constant.

	Yen in millions	
	Effect on pre-tax income For the year ended March 31, 2007	Effect on PBO As of March 31, 2006
<b>Discount rates</b>		
0.5% decrease	¥(122)	¥1,119
0.5% increase	109	(1,008)
<b>Expected rate of return on plan assets</b>		
0.5% decrease	¥(30)	
0.5% increase	30	

## Item B. Liquidity and Capital Resources.

Our principal needs for cash are:

- payments for the purchase of parts and raw materials;
- payments for the purchase of equipment for our production facilities;
- selling, general and administrative expenses such as research and development expenses;
- payments for the purchase of shares of companies targeted under our acquisitions strategy;
- employees' salaries, wages and other payroll costs;
- repayment of short-term debt;
- payments of dividends to our shareholders; and
- taxes.

We fund our growth primarily with funds generated from operations, proceeds from issuances of new shares, unsecured bonds, including convertible bonds, and borrowings from banks. We believe that these funding sources, as well as future sources of external funding, will be sufficient to meet our capital requirements for the current fiscal year. The uses of funds raised are capital expenditures, investment in and financing of affiliated companies and repayment of borrowings from banks. We intend to implement additional funding programs as the need arises to further strengthen our capital base, and thus enhance the balance between borrowings and equity capital. Part of the funds raised going forward will be reserved and utilized for potential mergers and acquisitions.

During the year ended March 31, 2005, we issued 5,620,000 shares of common stock in a public offering in Japan and received proceeds in the amount of ¥59,954 million. We used the proceeds mainly for capital expenditures and the remainder for repayments of borrowings. We intend to obtain significant amounts of cash through offerings of securities as necessary in the future.

We actively seek to implement group financing strategies within Nidec Group in order to improve our cash efficiencies on a consolidated basis and reduce capital costs. We prepared a “Cash management system” during the fiscal year ended March 31, 2006 and introduced it in April 2006. Our subsidiaries actively repay loans with higher interest rates from banks and we extend loans with lower interest rates to these subsidiaries. We work to reduce finance costs on a consolidated basis by thoroughly reviewing and managing the group’s financing costs and allocating surplus cash effectively within the group through balancing cash flows and investment activities including mergers and acquisitions.

Total assets increased ¥81,797 million from ¥484,173 million to ¥565,970 million for the year ended March 31, 2006. Property, plant and equipment increased ¥27,022 million due primarily to additional machinery and equipment acquired to meet increased production in overseas companies. Trade accounts receivable and inventories increased ¥15,430 million and ¥11,512 million, respectively, due to an increase in sales. Cash and cash equivalents also increased ¥21,968 million, as mentioned under “Cash Flows” below.

Total liabilities increased ¥17,707 million from ¥221,626 million to ¥239,333 million for the year ended March 31, 2006. This was mainly due to increases of short-term borrowings of ¥15,143 million and trade notes and accounts payable of ¥13,977 million while long-term debts decreased ¥9,545 million.

Working capital, defined as current assets less current liabilities, increased ¥24,801 million from ¥100,616 million to ¥125,417 million as of March 31, 2006 as compared to March 31, 2005. This was due primarily to the increases in trade accounts receivable and inventories due to an increase in sales.

Our receivable turnover ratio is calculated by dividing net sales for the year ended March 31 by the year-end trade notes and accounts receivable balance. Our receivable turnover ratio was 3.7 for the year ended March 31, 2006, which was the same as the year ended March 31, 2005. The inventory turnover ratio is calculated by dividing cost of products sold for the year ended March 31 by the year-end inventory balance. Our inventory turnover ratio was 6.8 for the year ended March 31, 2006, compared to 7.6 for the year ended March 31, 2005. We have been trying to reduce production levels to enable us to reduce our excess inventory levels and avoid write-offs, but did not reach satisfactory results during this fiscal year.

Total shareholder’s equity increased ¥56,619 million, or 27.3%, from ¥207,040 million for the year ended March 31, 2005 to ¥263,659 million for the year ended March 31, 2006. This increase was mainly due to an increase in retained earnings of ¥37,380 million, offset by dividends paid of ¥3,569 million. Common stock and additional paid-in capital increased by 8,482 million due to the conversion of convertible debt. In addition, foreign currency translation adjustments increased ¥9,391 million due to the depreciation of the yen to other main currencies. As a result, the ratio of stockholders’ equity to total assets increased 3.8% from 42.8% as of March 31, 2005 to 46.6% as of March 31, 2006.

## **Cash Flows**

Net cash provided by operating activities increased ¥11,599 million from ¥44,333 million for the year ended March 31, 2005 to ¥55,932 million for the year ended March 31, 2006. This was mainly due to an increase in net income of ¥7,494 million. Accrual for pension and severance costs, net payment increased ¥6,428 million, due to the absence of a transfer to the Japanese Government of Substitutional Portion of Employee Pension Fund Liabilities, which occurred the previous fiscal year. In addition, changes in operating assets and liabilities increased ¥3,597 million mainly due primarily to an increase in notes and accounts payable as compared to the prior year. On the other hand, the total non-cash income statement items decreased ¥6,579 due to decreases in foreign currency adjustments, minority interest in income of consolidated subsidiaries, gain from sales of marketable securities and loss on disposal of property and equipment of ¥3,485 million, ¥2,784 million, ¥2,251 million and ¥1,356 million, respectively, while depreciation increased ¥4,757 million.

Net cash provided by operating activities increased ¥12,923 million from ¥31,410 million for the year ended March 31, 2004 to ¥44,333 million for the year ended March 31, 2005. This was mainly due to an increase in net income of ¥17,366 million. In addition, non-cash income statement items such as depreciation, minority interest in income of consolidated subsidiaries and equity in net income of affiliated companies increased ¥20,117 million. This was offset by decreases in notes and accounts receivable and notes and accounts payable as compared to the prior year of ¥16,304 million and decrease in accrual for pension and severance costs, net payment of ¥8,410 million due to a transfer to the Japanese Government of Substitutional Portion of Employee Pension Fund Liabilities. Excluding the effect of newly consolidated subsidiaries, net cash provided by operating activities increased ¥3,042 million from ¥25,011 million to ¥28,053 million.

Net cash used in investing activities decreased ¥1,913 million from ¥45,888 million for the year ended March 31, 2005 to ¥43,975 million for the year ended March 31, 2006. This mainly resulted from a decrease in payments for additional investments in subsidiaries of ¥6,820 million and an increase in additions to property, plant and equipment to meet increased production in overseas companies of ¥5,928 million.

Net cash used in investing activities increased ¥24,755 million from ¥21,133 million for the year ended March 31, 2004 to ¥45,888 million for the year ended March 31, 2005. This was mainly due to increases in additions to property, plant and equipment of ¥14,626 million and investments in consolidated subsidiaries of ¥11,046 million, as well as decreases in investments in and advances to affiliated companies and in acquisitions of consolidated subsidiaries, net of cash acquired. Excluding the effect of newly consolidated subsidiaries, net cash used in investing activities increased ¥7,389 million from ¥21,124 million to ¥28,513 million.

Net cash provided by financing activities was ¥5,344 million for the year ended March 31, 2006, while net cash used in financing activities was ¥2,494 million for the year ended March 31, 2005. This was mainly because short-term borrowings increased more than other payments such as repayments of long-term debt and dividends paid this year, while short-term borrowings, long-term debt and dividends paid decreased more than proceeds from issuance of new shares last year.

Net cash used in financing activities was ¥2,494 million for the year ended March 31, 2005, while net cash provided by financing activities was ¥32,494 million for the year ended March 31, 2004. This increase in net cash provided by financing activities was mainly due to an increase in the repayment of short-term borrowings of ¥69,028 million and a decrease in proceeds from issuance of corporate bonds of ¥30,873 million, which were partly offset by an increase in proceeds from the issuance of shares of ¥60,133 million. Excluding the effect of newly consolidated subsidiaries, net cash provided by financing activities decreased ¥34,811 million from ¥37,601 million to ¥2,790 million.

As a result of the foregoing factors and the effect of exchange rate changes, our total outstanding balance of cash and cash equivalents increased ¥21,968 million from ¥70,111 million as of March 31, 2005 to ¥92,079 million as of March 31, 2006.

### **Item C. Research and Development, Patents and Licenses, etc.**

An important requirement for success in the highly competitive markets in which we operate is the ability to supply products that incorporate cutting-edge technology and quality. Given that competition has been intensifying, one of the major aims of our research and development activities in recent years has been to reduce the cost of design without affecting the quality of our products.

We employed approximately 1,872 people engaged in research and development mainly in Japan as well as in Singapore, Malaysia, Taiwan and Hong Kong, as of March 31, 2006.

Our position as the leading supplier of hard disk drive spindle motors to the major hard disk drive manufacturers provides us with access to information regarding the industry, which we seek to incorporate into our research and development activities. We seek to quickly develop products that meet the precise needs of each customer.

Based on precision engineering expertise gained from our history of making motors, we have concentrated our research and development activities on drive motor technologies. However, we are conducting research in many areas, including the basic technologies of spindle motors for various types of information equipment, as well as technologies for new types of motors such as fluid dynamic bearing technology, which we have been developing for the past 15 years.

We are diversifying our research and development activities, which have been heavily concentrated on small motor technology in the field of spindle motors, to motor and drive technologies in new fields. For example, through Nidec Shibaura Corporation and Nidec Tosok Corporation, we focus on the research and development of motors for home electric appliances and motors for automobile parts. In addition, through Nidec-Shimpo Corporation, our subsidiary specializing in power transmission drives and variable speed drives, we have been focusing on the research and development of geared motors for color copiers. By doing so, we have been able to develop and market new products through our integrated sales design and production system.

In January and February 2004, Nidec Copal, Nidec Copal Electronics and Nidec Sankyo became our consolidated subsidiaries. Nidec Copal has a substantial market share in shutters for digital cameras and has been developing shutters and lens units. It has developed vibration motors for mobile phones and laboratory systems equipment, among other industrial equipment related products. Nidec Copal Electronics has developed ultra-precision fixed resistors for its circuit parts business and coreless type polygon laser scanners for its actuator business. It has also promoted the development of sensors for its pressure sensor business, mainly for the semiconductor equipment industry. Nidec Sankyo has developed intelligent mechanism products, which have merged fine mechatronics and software, coupled with the development of ultra-precision processing technology. These activities include research and development of multimedia equipment and information accessory equipment such as computers, industrial equipment, home electronics and housing equipment.

In April 2005, we opened Motor Engineering Research Laboratory in our Tokyo Office. Motor Engineering Research Laboratory develops basic research for various types of motors and aims to establish the foundation of motor technology going forward for our motor-related business.

Recently, our principal research and development activities have included the following:

- the development of fluid dynamic bearing spindle motors, including technology for installing fluid dynamic bearing spindle motors in hard disk drives smaller than 1.8 inches and fluid dynamic bearing spindle motors using sintered-alloy metal;
- the development and improvement of basic motor characteristics. For example, in order to achieve a higher transfer rate of memory written on hard disks, higher rotation speeds are required of spindle motors. As a result, spindle motors which were formerly required to generate 5,400

rotations per minute are now required to generate 7,200 to 15,000 rotations per minute. These higher speeds can, however, produce more vibration. Such vibration, as well as the higher density of disks, can disrupt the read-write function of hard disk drives. Accordingly, rotation precision has become more important, and we are conducting research and development with a view to improving such precision;

- the improvement of analysis and material technologies, including (1) improving technologies for investigating the impact of spindle motors on hard disks, (2) improving the cleanliness of materials and of manufacturing technology and (3) research into the development of uses of new materials for spindle motors;
- the development of spindle motors smaller than a 1.0-inch disc, used for digital still cameras, selected mobile phones, car navigation systems and digital video cameras;
- the development and improvement of spindle motors for DVDs;
- the development and improvement of DC fan motors with a high airflow capacity that helps disperse heat inside end products such as computers, game machines and audio-visual equipments;
- the development and improvement of optical components including shutters and lens unit for digital cameras and lens products for blue-ray, vibration motors, stepping motors, dye sublimation printer, printer for IC cards and geared motors by Nidec Copal;
- the development and improvement of actuator, pressure sensors and RF (“radiofrequency”) components by Nidec Copal Electronics; and
- the development and improvement of LCD panel handling robots for large LCD, micro lens actuator units for mobile phone and card readers by Nidec Sankyo.

The core of our research and development activities is our Central Technical Laboratory, located at our headquarters in Kyoto. In addition to basic and applied research, the Central Technical Laboratory supports the development of products that incorporate the latest technology. Market requirements are becoming more demanding. To respond in a reliable and timely matter to these requirements we have established research and development bases in various countries and regions. Nidec operate technical centers most notably in Kyoto, and also in Tokyo, Shiga, Nagano and Tottori Prefectures in Japan. These operations carry out research and development relating not only to the development of new products, but also to improve the quality of and production technology for existing products.

Utilizing state-of-the-art testing, inspection and measurement equipment, we are increasing our understanding and use of various basic technologies, not only precision motor machining technology, but also in fields such as mechanical and materials engineering and applied chemistry. Accurate and prompt inspection, analysis and measurement performed using state-of-the-art equipment are an integral element of our product and process development. The manufacture of precision motors requires high precision, measurement and analysis at the level of hundredths of a micron. Each material must be analyzed at the molecular level in order to prevent contamination, dust and gases, which are generated by adhesives and other materials and which can infiltrate minute gaps between the disk surface and the head. Using the latest equipment, our Research and Development Department conducts rigorous inspection, measurement and analysis, and utilizes the results to improve product design and process capabilities.

Similarly, we respond to challenges such as noise reduction, using advanced equipment and our own methods. Today, noise reduction is a significant issue in the computer and consumer electronics fields. In order

to address this issue, we have constructed acoustic test rooms, consisting of reverberation and sound anechoic chambers which conform to international standards, where we conduct tests, measurement and analysis.

In addition to its motor business, Nidec Copal operates technology development centers in Itabashi, Tokyo and Koriyama, Fukushima Prefecture. Nidec Copal Electronics has technology development centers in Tajiri, Miyagi Prefecture and Sano, Tochigi Prefecture. Nidec Sankyo operates its technology development centers in Shimosuwa, Komagane and Chino in Nagano Prefecture and Itabashi, Tokyo.

We incurred research and development expenses of ¥8,751 million for the year ended March 31, 2004, ¥25,918 million for the year ended March 31, 2005 and ¥29,232 million for the year ended March 31, 2006.

Much of our research and development is conducted by our domestic subsidiaries, which we then reimburse for costs incurred. We also cooperate with our affiliates to conduct significant research and development. We anticipate spending approximately ¥33,000 million on research and development in the year ending March 31, 2007. We believe that our research and development expenses are sufficient for sustaining our competitiveness in the motor industry and other industries.

#### **Item D. Trend Information.**

The information required by this item is set forth in Item A of this annual report.

#### **Item E. Off-Balance Sheet Arrangements.**

Contingent liabilities for guarantees given in the ordinary course of business amounted to approximately ¥587 million (\$4,997 thousand) at March 31, 2006. On April 2002, Nidec's consolidated subsidiary, Nidec Tosok Corporation, agreed to guarantee for Okaya Seiken Corporation, subcontractor of Nidec Tosok Corporation, totaling ¥265 million (\$2,256 thousand) in order to provide funds for Okaya's manufacturing facilities in Vietnam.

In addition, we have guaranteed approximately ¥322 million (\$2,741 thousand) of bank loans for employees for their housing costs. If an employee defaults on his/her loan payments, we are required to perform under such guarantees. The undiscounted maximum amount of our obligation to make future payments in the event of defaults is approximately ¥587 million (\$4,997 thousand). The current carrying amount of the liabilities for our obligations under the guarantees is zero.

## Item F. Tabular Disclosure of Contractual Obligations.

The following tables represent our contractual obligations and other commercial commitments as of March 31, 2006.

(Yen in millions)

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term Debt.....	¥30,935	¥2,747	¥28,127	¥9	¥52
Capital Lease Obligations.....	5,846	1,900	2,818	1,074	54
Interest on debt *1.....	324	152	140	29	3
Operating Leases.....	2,995	448	679	537	1,331
Purchase Commitments for Fixed Assets .....	1,630	1,630	-	-	-
Total Contractual Cash Obligations .....	¥41,730	¥6,877	¥31,764	¥1,649	¥1,440
Contribution under pension plans *2.....	¥2,275	¥2,275	-	-	-
Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration per Period			
		Less than 1 year	2-3 years	4-5 years	Over 5 years
Guarantees	¥587	¥62	¥109	¥109	¥307
Total Commercial Commitments	¥587	¥62	¥109	¥109	¥307

(U.S. dollars in thousands)

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Long-term Debt.....	\$263,344	\$23,385	\$239,440	\$77	\$442
Capital Lease Obligations.....	49,766	16,174	23,989	9,143	460
Interest on debt *1.....	2,758	1,294	1,192	247	25
Operating Leases.....	25,496	3,814	5,780	4,571	11,331
Purchase Commitments for Fixed Assets .....	13,876	13,876	-	-	-
Total Contractual Cash Obligations .....	\$355,240	\$58,543	\$270,401	\$14,038	\$12,258
Contribution under pension plans *2.....	\$19,367	\$19,367	-	-	-
Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration per Period			
		Less than 1 year	2-3 years	4-5 years	Over 5 years
Guarantees	\$4,997	\$528	\$928	\$928	\$2613
Total Commercial Commitments	\$4,997	\$528	\$928	\$928	\$2613

\*1 Interests at variable interest rates are assumed based on the current applicable rate, ranging from 1.2% to 3.6%.

\*2 Amounts are only available for payment due in less than one year.

Our capital commitments as of March 31, 2006 principally consisted of commitments to purchase property, plant and equipment. Commitments outstanding for the purchase of property, plant and equipment and other assets decreased from approximately ¥4,925 million on March 31, 2005 to approximately ¥1,630 million on March 31, 2006, and from approximately ¥5,948 million on March 31, 2004 to approximately ¥4,925 million on March 31, 2005, respectively. These decreases are due mainly to a reduction in investments in facilities equipment compared to the previous year. See Note 24 to our consolidated financial statements included in this annual report. We expect to make capital expenditures in addition to those for which we have outstanding commitments.

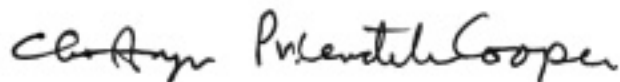
Annual maturities on long-term debt and lease obligations during the next five years are as follows:

<u>Year ending March 31</u>	<u>Yen in millions</u>	<u>U.S. dollars in thousands</u>
2007.....	¥4,647	\$39,559
2008.....	29,830	253,937
2009.....	1,115	9,492
2010 .....	762	6,487
2011.....	321	2,733
2012 and thereafter.....	¥106	\$902

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of  
Nihon Densan Kabushiki Kaisha  
("NIDEC Corporation")

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of NIDEC Corporation and its subsidiaries at March 31, 2005 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



ChuoAoyama PricewaterhouseCoopers  
Kyoto, Japan  
June 22, 2006

**NIDEC CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**ASSETS**

	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>in thousands</u>
	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Current assets:			
Cash and cash equivalents.....	¥70,111	¥92,079	\$783,851
Trade notes and accounts receivable, net of allowance for doubtful accounts of ¥484 million in 2005 and ¥538 million (\$4,580 thousand) in 2006:			
Notes .....	17,351	15,740	133,992
Accounts.....	112,568	127,998	1,089,623
Inventories.....	48,962	60,474	514,804
Other current assets.....	11,951	15,256	129,871
Total current assets.....	<u>260,943</u>	<u>311,547</u>	<u>2,652,141</u>
Marketable securities and other securities investments .....	18,495	21,328	181,561
Investments in and advances to affiliated companies.....	1,865	2,868	24,415
	<u>20,360</u>	<u>24,196</u>	<u>205,976</u>
Property, plant and equipment:			
Land .....	31,774	36,088	307,210
Buildings .....	79,765	89,039	757,972
Machinery and equipment.....	178,594	210,108	1,788,610
Construction in progress .....	6,687	8,780	74,743
	<u>296,820</u>	<u>344,015</u>	<u>2,928,535</u>
Less - Accumulated depreciation .....	(147,614)	(167,787)	(1,428,339)
	<u>149,206</u>	<u>176,228</u>	<u>1,500,196</u>
Goodwill .....	40,664	44,266	376,828
Other non-current assets.....	13,000	9,733	82,855
Total assets .....	<u>¥484,173</u>	<u>¥565,970</u>	<u>\$4,817,996</u>

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

**NIDEC CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>Yen in millions</b>		<b>U.S. dollars</b>
	<b>March 31</b>		<b>in thousands</b>
	<b>2005</b>	<b>2006</b>	<b>March 31, 2006</b>
<b>Current liabilities:</b>			
Short-term borrowings .....	¥28,478	¥43,621	\$371,337
Current portion of long-term debt .....	8,493	4,647	39,559
Trade notes and accounts payable .....	95,076	109,053	928,348
Other current liabilities.....	28,280	28,809	245,246
<b>Total current liabilities.....</b>	<b>160,327</b>	<b>186,130</b>	<b>1,584,490</b>
<b>Long-term liabilities:</b>			
Long-term debt.....	37,833	32,134	273,551
Accrued pension and severance costs .....	11,128	9,704	82,608
Other long-term liabilities .....	12,338	11,365	96,748
<b>Total long-term liabilities .....</b>	<b>61,299</b>	<b>53,203</b>	<b>452,907</b>
Minority interest in consolidated subsidiaries.....	55,507	62,978	536,120
<b>Commitments and contingencies (Note 24)</b>			
<b>Shareholders' equity:</b>			
Common stock authorized 2005 and 2006: 480,000,000 shares; issued and outstanding:			
2005- 142,504,926 shares/			
2006- 144,661,292 shares .....	61,180	65,649	558,858
Additional paid-in capital.....	63,799	68,240	580,914
Retained earnings .....	88,954	126,334	1,075,458
Accumulated other comprehensive loss:			
Foreign currency translation adjustments	(9,466)	(75)	(639)
Unrealized gains on securities	2,777	3,863	32,885
Minimum pension liability adjustment	(56)	(115)	(979)
Treasury stock, at cost:			
2005- 31,204 shares/			
2006- 42,110 shares .....	(148)	(237)	(2,018)
<b>Total shareholders' equity.....</b>	<b>207,040</b>	<b>263,659</b>	<b>2,244,479</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>¥484,173</b>	<b>¥565,970</b>	<b>\$4,817,996</b>

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

**NIDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Yen in millions			U.S. dollars in thousands
	For the year ended March 31			For the year ended March 31, 2006
	2004	2005	2006	2006
Net sales.....	¥277,497	¥485,861	¥536,858	\$4,570,171
Operating expenses:				
Cost of products sold .....	218,189	370,938	413,012	3,515,893
Selling, general and administrative expenses ...	28,542	35,340	41,188	350,626
Research and development expenses .....	8,751	25,918	29,232	248,847
	<u>255,482</u>	<u>432,196</u>	<u>483,432</u>	<u>4,115,366</u>
Operating income.....	<u>22,015</u>	<u>53,665</u>	<u>53,426</u>	<u>454,805</u>
Other income (expense):				
Interest and dividend income .....	362	929	1,664	14,165
Interest expense .....	(862)	(871)	(1,362)	(11,594)
Foreign exchange (loss) gain, net .....	(3,149)	2,377	7,866	66,962
(Loss) gain on derivative instruments, net .....	(5)	(175)	75	639
Gain from marketable securities, net .....	816	1,586	3,869	32,936
Gain (loss) from sales of investments in affiliated companies .....	45	(3)	-	-
Other, net .....	417	(218)	(1,160)	(9,875)
	<u>(2,376)</u>	<u>3,625</u>	<u>10,952</u>	<u>93,233</u>
Income before provision for income taxes.....	19,639	57,290	64,378	548,038
Provision for income taxes .....	<u>(5,424)</u>	<u>(12,847)</u>	<u>(15,213)</u>	<u>(129,505)</u>
Income before minority interest and equity in earnings of affiliated companies .....	14,215	44,443	49,165	418,533
Minority interest in income of consolidated subsidiaries .....	648	10,954	8,170	69,550
Equity in net (income) / losses of affiliated companies .....	<u>(2,522)</u>	<u>34</u>	<u>46</u>	<u>392</u>
Net income.....	<u>¥16,089</u>	<u>¥33,455</u>	<u>¥40,949</u>	<u>\$348,591</u>
		<b>Yen</b>		<b>U.S. dollars</b>
Per share data:				
Net income — basic .....	<u>¥125.57</u>	<u>¥239.87</u>	<u>¥285.47</u>	<u>\$2.43</u>
— diluted .....	<u>¥120.76</u>	<u>¥228.29</u>	<u>¥275.05</u>	<u>\$2.34</u>
Cash dividends.....	<u>¥15.00</u>	<u>¥17.50</u>	<u>¥25.00</u>	<u>\$0.21</u>

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

**NIDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**

Yen in millions

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total
	Shares	Amount					
	Balance at March 31, 2003 .....	127,149,458					
Comprehensive income:							
Net income .....				16,089			16,089
Other comprehensive income (loss):							
Foreign currency translation adjustments .....					(5,785)		(5,785)
Unrealized gains (losses) from securities, net of reclassification adjustment .....					2,747		2,747
Minimum pension liability adjustment ...					1,890		1,890
Total comprehensive income .....							14,941
Dividends paid .....				(1,910)			(1,910)
Conversion of convertible debt .....	1,720,358	2,510	2,510				5,020
New shares issued upon shares exchange ....	1,165,980		3,495				3,495
Purchase of treasury stock .....						(57)	(57)
Reissuance of treasury stock .....							-
Balance at March 31, 2004 .....	<u>130,035,796</u>	<u>¥28,995</u>	<u>¥31,822</u>	<u>¥57,887</u>	<u>¥(8,535)</u>	<u>¥(123)</u>	<u>¥110,046</u>
Comprehensive income:							
Net income .....				33,455			33,455
Other comprehensive income (loss):							
Foreign currency translation adjustments .....					2,009		2,009
Unrealized gains (losses) from securities, net of reclassification adjustment .....					(195)		(195)
Minimum pension liability adjustment ...					(24)		(24)
Total comprehensive income .....							35,245
Dividends paid .....				(2,388)			(2,388)
Conversion of convertible debt .....	1,141,330	1,940	1,940				3,880
Issuance of new shares .....	11,240,000	30,084	30,077				60,161
Issuance cost of new stock .....			(207)				(207)
Exercise of stock option .....	87,800	161	161				322
Treasury stock issued upon stock exchange .....			6			31	37
Purchase of treasury stock .....						(56)	(56)
Balance at March 31, 2005 .....	<u>142,504,926</u>	<u>¥61,180</u>	<u>¥63,799</u>	<u>¥88,954</u>	<u>¥(6,745)</u>	<u>¥(148)</u>	<u>¥207,040</u>

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

**NIDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**

Yen in millions

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total
	Shares	Amount					
Balance at March 31, 2005 .....	142,504,926	¥61,180	¥63,799	¥88,954	¥(6,745)	¥(148)	¥207,040
Comprehensive income:							
Net income .....				40,949			40,949
Other comprehensive income (loss):							
Foreign currency translation adjustments .....					9,391		9,391
Unrealized gains from securities, net of reclassification adjustment .....					1,086		1,086
Minimum pension liability adjustment .....					(59)		(59)
Total comprehensive income .....							51,367
Dividends paid .....				(3,569)			(3,569)
Conversion of convertible debt .....	2,032,966	4,242	4,240				8,482
Issuance cost of new stock .....			(49)				(49)
Exercise of stock option .....	123,400	227	250				477
Purchase of treasury stock .....						(89)	(89)
Balance at March 31, 2006 .....	<u>144,661,292</u>	<u>¥65,649</u>	<u>¥68,240</u>	<u>¥126,334</u>	<u>¥3,673</u>	<u>¥(237)</u>	<u>¥263,659</u>

U.S. dollars in thousands

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total
	Shares	Amount					
Balance at March 31, 2005 .....	\$520,814	\$543,109	\$757,249	\$757,249	\$(57,419)	\$(1,260)	\$1,762,493
Comprehensive income:							
Net income .....				348,591			348,591
Other comprehensive income (loss):							
Foreign currency translation adjustments .....					79,943		79,943
Unrealized gains from securities, net of reclassification adjustment .....					9,245		9,245
Minimum pension liability adjustment .....					(502)		(502)
Total comprehensive income .....							437,277
Dividends paid .....				(30,382)			(30,382)
Conversion of convertible debt .....	36,112	36,094					72,206
Issuance cost of new stock .....		(417)					(417)
Exercise of stock option .....	1,932	2,128					4,060
Purchase of treasury stock .....						(758)	(758)
Balance at March 31, 2006 .....	<u>\$558,858</u>	<u>\$580,914</u>	<u>\$1,075,458</u>	<u>\$31,267</u>	<u>\$31,267</u>	<u>\$(2,018)</u>	<u>\$2,244,479</u>

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

**NIDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Yen in millions</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Cash flows from operating activities:				
Net income .....	¥16,089	¥33,455	¥40,949	\$348,591
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation .....	14,273	21,528	26,285	223,759
Amortization .....	217	577	341	2,903
Gain from marketable securities, net.....	(816)	(1,586)	(3,869)	(32,936)
Loss on sales and disposal of property, plant and equipment.....	819	1,479	123	1,047
Deferred income taxes.....	460	2,537	1,586	13,501
Minority interest in income of consolidated subsidiaries...	648	10,954	8,170	69,550
Equity in net (income) losses of affiliated companies.....	(2,522)	34	46	392
Loss (gain) on derivative instruments, net .....	5	175	(75)	(639)
(Gain) loss from sale of investments in affiliated companies.....	(45)	3	-	-
Foreign currency adjustments .....	3,566	(752)	(4,237)	(36,069)
Accrual for pension and severance costs, net payments.....	(942)	(9,352)	(2,924)	(24,891)
Changes in operating assets and liabilities:				
Increase in notes and accounts receivable .....	(3,559)	(15,132)	(9,806)	(83,477)
Increase in inventories.....	(5,959)	(3,254)	(10,256)	(87,307)
Increase in notes and accounts payable .....	5,699	968	7,943	67,617
Increase in accrued income taxes .....	876	2,303	601	5,116
Other.....	2,601	396	1,055	8,981
Net cash provided by operating activities .....	<u>¥31,410</u>	<u>¥44,333</u>	<u>¥55,932</u>	<u>\$476,138</u>

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

**NIDEC CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Yen in millions</u>			<u>U.S. dollars</u> <u>in thousands</u>
	<u>For the year ended</u> <u>March 31</u>			<u>For the year</u> <u>ended</u> <u>March 31,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Cash flows from investing activities:				
Additions to property, plant and equipment .....	¥(22,631)	¥(37,257)	¥(43,185)	\$(367,626)
Proceeds from sales of property, plant and equipment .....	893	2,510	1,505	12,812
Purchases of marketable securities .....	(2,176)	(3)	(329)	(2,801)
Proceeds from sales of marketable securities .....	1,780	2,739	4,083	34,758
Investments in and advances to affiliated companies .....	(14,807)	-	(725)	(6,172)
Proceeds from sales of investments in affiliated companies .....	955	344	-	-
Acquisitions of consolidated subsidiaries, net of cash acquired .....	16,435	23	-	-
Payments for additional investments in subsidiaries .....	(1,057)	(12,103)	(5,283)	(44,973)
Other .....	(525)	(2,141)	(41)	(349)
Net cash used in investing activities .....	<u>(21,133)</u>	<u>(45,888)</u>	<u>(43,975)</u>	<u>(374,351)</u>
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings .....	11,204	(57,824)	13,080	111,348
Proceeds from issuance of long-term debt .....	0	2,868	100	851
Repayments of long-term debt .....	(7,774)	(4,442)	(3,130)	(26,645)
Proceeds from issuance of corporate bonds .....	30,873	-	-	-
Proceeds from issuance of new shares .....	-	60,133	454	3,865
Dividends paid .....	(1,910)	(2,388)	(3,569)	(30,382)
Other .....	101	(841)	(1,591)	(13,544)
Net cash provided by (used in) financing activities .....	<u>32,494</u>	<u>(2,494)</u>	<u>5,344</u>	<u>45,493</u>
Effect of exchange rate changes on cash and cash equivalents .....	<u>(2,418)</u>	<u>768</u>	<u>4,667</u>	<u>39,729</u>
Net increase (decrease) in cash and cash equivalents .....	40,353	(3,281)	21,968	187,009
Cash and cash equivalents at beginning of year .....	<u>33,039</u>	<u>73,392</u>	<u>70,111</u>	<u>596,842</u>
Cash and cash equivalents at end of year .....	<u>¥73,392</u>	<u>¥70,111</u>	<u>¥92,079</u>	<u>\$783,851</u>

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

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of operations:**

NIDEC Corporation (the “Company”) and its subsidiaries (collectively “NIDEC”) are primarily engaged in the design, development, manufacturing and marketing of i) small precision motors, which include spindle motors for computer hard disk drives, motors for optical disk drives, small precision fans and vibration motors for mobile phones; ii) mid-size motors, which are used in automobiles, various electric household appliances and industrial equipment; iii) machinery, which includes, power transmission equipment, board testers, semi-conductor manufacturing supplies, substrate inspection equipment, measuring equipment, card readers, industrial robots and factory automation systems. iv) electronic and optical components, which include camera shutters, camera lens units, encoders, switches, trimmer potentiometers, motor driven actuator units, optical pickup units, processing and precision plastic mold products. v) other products, which include auto parts, pivot assemblies and other services. Manufacturing operations are located primarily in Asia (China, Singapore, Thailand and the Philippines), and NIDEC has sales subsidiaries primarily in Asia, North America and Europe.

The main customers for spindle motors are manufacturers of hard disk drives. NIDEC also sells its products to the manufacturers of various automation equipment, electric household appliances, home video game consoles, and telecommunication and audio-visual equipment.

**2. Summary of significant accounting policies:**

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of their countries of domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conformity with accounting principles generally accepted in the United States of America. Significant accounting policies after reflecting adjustments for the above are as follows:

***Estimates -***

The preparation of NIDEC’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include allowance for doubtful accounts, depreciation and amortization of long-lived assets, valuation allowance for deferred tax asset and pension liabilities. Actual results could differ from those estimates.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Basis of consolidation and accounting for investments in affiliated companies -***

The consolidated financial statements include the accounts of the Company and those of its majority-owned subsidiary companies. All significant intercompany transactions and accounts have been eliminated. Companies over which NIDEC exercises significant influence, but which it does not control, are classified as affiliated companies and accounted for using the equity method. Consolidated net income includes NIDEC's equity in current earnings (losses) of such companies, after elimination of unrealized intercompany profits.

On occasion, a consolidated subsidiary or affiliated company accounted for by the equity method may issue its shares to third parties as either public or private offering or upon conversion of convertible debt to common stock at amounts per share in excess of or less than NIDEC's average per share carrying value. With respect to such transactions, where the sale of such shares is not part of a broader corporate reorganization and the reacquisition of such shares is not contemplated at the time of issuance, the resulting gains or losses arising from the change in interest are recorded in income for the year when the change in interest transaction occurs. If reacquisition of such shares is contemplated at the time of issuance or realization of such gain is not reasonably assured (i.e., the entity is newly formed, non-operating, a research and development or start-up/development stage entity, or where the entity's ability to continue in existence is in question), the transaction is accounted for as a capital transaction.

NIDEC does not hold any interests in variable interest entities, therefore does not provide the disclosure required by FIN No.46R.

***Translation of foreign currencies -***

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the year-end exchange rates and all income and expense accounts are translated at exchange rates that approximate those prevailing at the time of the transactions. The resulting translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity.

Assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates and the resulting transaction gains or losses are taken into income.

***Cash and cash equivalents -***

Cash and cash equivalents include all highly liquid investments, with original maturities of three months or less that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Inventories -***

Inventories are stated at the lower of cost or market. Cost is determined principally on the weighted average cost basis. Cost includes the cost of materials, labor and applied factory overhead. Projects in progress, which mainly relate to production of factory automation equipment based on contracts with customers, are stated at the lower of cost or estimated realizable value, cost being determined as the accumulated production cost.

***Marketable securities -***

Marketable securities consist of equity securities that are listed on recognized stock exchanges. Equity securities designated as available-for-sale are carried at fair value with changes in unrealized gains or losses included as a component of accumulated other comprehensive income in shareholders' equity, net of applicable taxes. Realized gains and losses are determined on the average cost method and are reflected in the statement of income. Other than temporary declines in market value of individual securities classified as available-for-sale are charged to income in the period the loss occurs.

***Derivative financial instruments -***

NIDEC employs derivative financial instruments, including foreign currency options, interest rate swaps, interest rate caps agreements and foreign exchange forward contracts to manage its exposure to fluctuations in foreign currency exchange rates and interest rates. Derivative contracts are marked to market and changes in value, both increases and decreases, are recognized directly in the consolidated statement of income. No derivatives are designated as hedges or accounted for as hedges.

***Property, plant and equipment -***

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation of property, plant and equipment is mainly computed on the declining-balance method to reflect the manner in which the machinery is used due to short product cycles and rapid technology changes by the Company, its Japanese subsidiaries and its Thai manufacturing subsidiary, which mainly produce high-end spindle motors for hard disk drives and are usually the first to commence production of new products, and on the straight-line method for foreign subsidiary companies (except for the Thai subsidiary manufacturing as described above ) at rates based on the estimated useful lives of the assets. Estimated useful lives range from 10 to 20 years for most spindle motor factories, from 7 to 47 years for factories to produce other products, 50 years for the head office and sales offices, from 2 to 22 years for leasehold improvement, and from 2 to 15 years for machinery and equipment.

Depreciation expense amounted to ¥14,273 million, ¥21,528 million, and ¥26,285 million (\$223,759 thousand) for the years ended March 31, 2004, 2005, and 2006, respectively.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Lease-***

NIDEC applies SFAS No.13 “Accounting for Leases”. Under SFAS No. 13, certain lease agreements of property, plant and equipment where NIDEC has substantially all the risks and rewards of ownership are classified as capital leases and related obligations are recorded as liabilities. Capital leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

***Goodwill -***

Goodwill represents the excess of purchase price and related costs over the fair value of net assets of acquired businesses. Under SFAS No.142 “Goodwill and Other Intangible Assets”, goodwill acquired in business combinations is not amortized but tested annually for impairment. If, between annual tests, an event, which would reduce the fair value below its carrying amount, occurs, we would recognize impairment.

***Long-lived assets -***

NIDEC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated as the excess of the assets carrying value over its fair value. Long-lived assets that are to be disposed of other than by sale are considered to be held and used until the disposal. Long-lived assets that are to be disposed of by sale are reported at the lower of their carrying value or fair value less costs to sell. Reductions in carrying value are recognized in the period in which long-lived assets are classified as held for sale.

***Revenue recognition -***

NIDEC recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assumed. For motors, these criteria are generally met at the time product is delivered to the customers’ site which is the time the customer has taken title to the product and the risk and rewards of ownership have been substantively transferred. These conditions are met at the time of delivery to customers in domestic sales (FOB destination) and at the time of shipment for export sales (FOB shipping point). Revenue for machinery and equipment sales is recognized upon receipt of final customer acceptance. At the time the related revenue is recognized, NIDEC makes provisions for estimated product returns.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Research and development expenses-***

Research and development expenses, mainly consist of personnel and depreciation expenses at research and development branches, are charged to operations as incurred.

***Advertising costs -***

Advertising and sales promotion costs are expensed as incurred. Advertising costs were ¥149 million, ¥304 million, and ¥277 million (\$2,358 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

***Income taxes -***

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

***Earnings per share -***

Basic net income per common share is calculated by dividing net income by the weighted-average number of shares outstanding during the reported period. The calculation of diluted net income per common share is similar to the calculation of basic net income per share, except that the weighted-average number of shares outstanding includes the additional dilution from potential common stock equivalents such as convertible bonds and warrants. All per share amounts have been restated to reflect the retroactive effect of stock splits.

***Other comprehensive income -***

Other comprehensive income refers to revenues, expenses, gains and losses that are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity. NIDEC's other comprehensive income is primarily comprised of unrealized gains and losses on marketable securities designated as available-for-sale, foreign currency translation adjustments and adjustments to recognize additional minimum liabilities associated with NIDEC's defined benefit pension plans.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Stock-based compensation-***

NIDEC followed the disclosure-only provisions of SFAS No. 148 - “Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123 (Revised 2004)” and elected to apply Accounting Principle Board Opinion (“APB”) No. 25 in accounting for its stock-based compensation plans approved on May 14, 2003. Under APB No.25, no compensation expense was recognized on the grant date, since at that date, the option price equals the market price of the underlying common stock.

The following table illustrates the effect of the stock options granted on May 14, 2003 on net income and net income per share over their vesting period for the years ended March 31, 2004, 2005 and 2006, if the fair value based method had been used.

	Yen in millions (except for per share data)			U.S. dollars in thousands (except for per share data)
	For the year ended March 31			For the year ended March 31, 2006
	2004	2005	2006	
Net income, as reported.....	¥16,089	¥33,455	¥40,949	\$348,591
Deduct:				
Stock-based employee compensation cost .....	(680)	(194)	-	-
Pro forma net income .....	¥15,409	¥33,261	¥40,949	\$348,591
Net income per share:				
Basic-as reported .....	¥125.57	¥239.87	¥285.47	\$2.43
Basic-pro forma .....	¥120.26	¥238.48	-	-
Diluted-as reported .....	¥120.76	¥228.29	¥275.05	\$2.34
Diluted-pro forma .....	¥115.68	¥226.97	-	-

***Reclassification***

Certain reclassifications of previously reported amounts have been made to the consolidated statements of cash flows for the years ended March 31, 2004 and 2005 to conform to the current year presentation. Such reclassifications have no effect on cash flows.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Recent Accounting Pronouncements***

In November 2004, the Financial Accounting Standards Board (the “FASB”) issued Statement of Financial Accounting Standards No. 151 (“SFAS 151”), “Inventory Costs - an amendment of ARB No. 43, Chapter 4.” SFAS 151 amends the guidance in ARB No. 43, Chapter 4, “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expenses, freight, handling costs and wasted material (spoilage). Among other provisions, the new rule requires that such items be recognized as current-period charges, regardless of whether they meet the criterion of “so abnormal” as stated in ARB No. 43. SFAS 151 is effective for fiscal years beginning after June 15, 2006. NIDEC does not expect that adoption of SFAS 151 will have a material effect on our consolidated financial position, consolidated results of operations, or liquidity.

In December 2004, the FASB issued SFAS No. 123R (“SFAS 123R”), revised 2004, “Share-Based Payment.” SFAS 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by APB Opinion No. 25 and allowed under the original provisions of SFAS 123. SFAS 123R requires the use of an option pricing model for estimating fair value, which is amortized to expense over the service periods. For existing employee stock options and rights to purchase shares under stock participation plans, the effect of adoption will not be material to our consolidated financial position, consolidated results of operations, or liquidity.

In May 2005, the FASB issued SFAS No. 154 (“SFAS 154”), “Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3”. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of change a cumulative effect of changing to the new accounting principle whereas SFAS 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle, unless it is impracticable. SFAS 154 also requires that a change in depreciation or amortization be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. NIDEC does not expect that adoption of SFAS 154 will have a material effect on our consolidated financial position, consolidated results of operations, or liquidity.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. U.S. dollar amounts:**

U.S. dollar amounts presented in the consolidated financial statements and the related notes are included solely for the convenience of the reader and are unaudited. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. For this purpose, the rate of ¥117.47 = U.S. \$1, the approximate current exchange rate at March 31, 2006, was used for the presentation of the U.S. dollar amounts in the accompanying consolidated financial statements of NIDEC as of and for the year ended March 31, 2006.

**4. Acquisitions and dispositions:**

In January 2004, NIDEC acquired additional ownership of 7.36 % in Nidec Copal Electronics Corporation (“NCEL”), which manufactures and markets trimmer potentiometers, switches, pressure sensors, rotary encoders, motors, polygon laser scanners and fans that incorporate new mechatronics technologies and NCEL became NIDEC’s 51.3 % owned subsidiary.

In February 2004, NIDEC also increased its ownership of 4.23 % in Nidec Copal Corporation (“NCPL”), which manufactures and markets optical and electronic products, such as shutters, optical units and lenses, small precision motors, sensors, backlights for liquid crystal displays, and precision parts and dies and NCPL also became NIDEC’s 51.0% owned subsidiary.

Furthermore, in February 2004, NIDEC acquired 51.0 % of the stock of Sankyo Seiki Mfg. Co., Ltd., currently Nidec Sankyo Corporation (“NSNK”). NSNK develops, manufactures and sells products relating to micro motors, optical pick-up units, card readers, home appliances, factory automation systems and others. As a member of the NIDEC Group, NSNK will pursue synergies with the Company and its subsidiaries in various areas. NSNK became NIDEC’s 51.0 % owned subsidiary.

NIDEC previously accounted for those investments using the equity method of accounting and these step-up acquisitions are accounted for in accordance with SFAS 141. As a result of these acquisitions, NIDEC increased its ownerships in certain other affiliated companies accounted for by the equity-method. The results of operations of the acquired businesses are included in the accompanying financial statements from their respective dates of acquisition. In addition, NIDEC made other step-up acquisitions in NCEL, NCPL, NSNK and other affiliated companies other than those discussed above. Those step-up acquisitions during the year ended March 31, 2004 amounted to ¥32,132 million in aggregate.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Total cash consideration was ¥32,132 million allocated ¥6,161 million for NCPL, ¥694 million for NCEL and ¥25,277 million for NSNK, respectively. NIDEC acquired an additional 3,673,100 shares in NCPL, 364,000 shares in NCEL and 40,171,995 shares in NSNK, respectively.

NIDEC did not recognize contingent payments, options, or commitments specified in the acquired to each major asset and liability caption of the acquired entity at the acquisition date.

NIDEC made no significant business acquisitions or disposal for the year ended March 31, 2005 and 2006.

The following represents the unaudited pro forma results of operations of NIDEC for the year ended March 31, 2004, as if the acquisition in these companies had occurred on April 1, 2003. The unaudited pro forma results of operations are presented for comparative purposes only and are not necessarily indicative of the results of operations that may occur in the future or that would have occurred had the acquisitions been in effect on the dates indicated.

	<b>Yen in millions</b> <b>For the year ended</b> <b>March 31</b> <b>(Unaudited)</b> <b>2004</b>
Pro forma net sales.....	¥494,196
Pro forma net income.....	1,406
	<b>Yen</b>
Pro forma net income per common share	
- basic.....	¥21.95
- diluted.....	21.79

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC described the allocation to separately disclose individually. The assets acquired and liabilities assumed on consolidation are as follows:

	<b>Yen in millions</b>			
	<b>March 31, 2004</b>			
	<b>NCEL</b>	<b>NCPL</b>	<b>NSNK</b>	<b>TOTAL</b>
Cash and cash equivalents .....	¥6,413	¥10,141	¥32,013	¥48,567
Accounts receivable .....	6,099	18,899	28,190	53,188
Inventories .....	2,621	6,603	14,759	23,983
Other current assets .....	698	1,953	2,653	5,304
Property, plant and equipment .....	5,367	14,382	20,792	40,541
Goodwill .....	865	13,440	9,007	23,312
Other non-current assets .....	1,218	13,476	4,755	19,449
Total assets acquired .....	<u>23,281</u>	<u>78,894</u>	<u>112,169</u>	<u>214,344</u>
Short-term borrowings and current portion of long-term debt.....	(901)	(26)	(11,725)	(12,652)
Accounts payable .....	(2,593)	(13,558)	(22,017)	(38,168)
Other current liabilities .....	(2,752)	(4,851)	(8,180)	(15,783)
Long-term debt .....	(6)	(44)	(3,104)	(3,154)
Other non-current liabilities .....	(1,594)	(16,761)	(6,786)	(25,141)
Total liabilities assumed.....	<u>(7,846)</u>	<u>(35,240)</u>	<u>(51,812)</u>	<u>(94,898)</u>
Minority interest .....	(6,897)	(14,078)	(21,880)	(42,855)
Investments in affiliated companies, net of accumulated losses of an affiliated company in excess of investment .....	(7,844)	(23,415)	(13,200)	(44,459)
Net assets acquired.....	<u>¥694</u>	<u>¥6,161</u>	<u>¥25,277</u>	<u>¥32,132</u>

The ¥23,312 million of goodwill was assigned to each operating segments described as below.

	<b>Yen in million</b>
	<b>March 31, 2004</b>
NCJ .....	¥22,465
NCPL .....	312
NTSC .....	156
NSBC .....	156
NCEL .....	78
NSCJ .....	78
NSNK .....	67
	<u>¥23,312</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC finalized our purchase price allocation for the acquisition completed in the fourth quarter of 2004 related to intangible assets and plant & equipment. In this regard, we had engaged an external appraisal firm and updated our purchase price allocation as appropriate.

NIDEC recognized the order or production backlogs in the robotic business assets as a valuable intangible assets, estimated approximately ¥61 million based on the analysis using DCF method. And the trademark for music and royalty for the music software companies license were recognized as a valuable intangible assets, estimated approximately ¥1 million. NSNK had approximately 500 patents and 80 new utility models as of September 30, 2003. However, only three patents were contributing to earn revenues. NIDEC recognized these patents that were automatic ice making, IC card reader and automatic open/close system of toilet seat and cover as valuable intangible assets, estimated approximately ¥44 million on the analysis using RFR method. NIDEC transferred the total amounts of ¥106 million from goodwill account to other non-current assets account involving these valuable intangible assets.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**5. Goodwill and other intangible assets**

Intangible assets subject to amortization are summarized as follows:

	Yen in millions				U.S dollars in thousands	
	March 31				March 31,	
	2005		2006		2006	
	Gross carrying amounts	Accumulated amortization	Gross carrying amounts	Accumulated amortization	Gross carrying amounts	Accumulated amortization
Patent rights.....	¥70	¥22	¥67	¥16	\$570	\$136
Software .....	1,688	768	2,276	1,052	19,375	8,956
Other.....	451	209	491	161	4,180	1,370
Total.....	¥ 2,209	¥999	¥2,834	¥1,229	\$24,125	\$10,462

The weighted average amortization period for patent rights and software are 13 years and 5 years, respectively.

Total amortization of intangible assets for the year ended March 31, 2005 and 2006 amounted to ¥225 million and ¥192 million (\$1,634 thousand), respectively. Total non-depreciated intangible assets amounted to 19 million and 70 million (\$596 thousand) for the year ended March 31, 2005 and 2006, respectively.

The estimated aggregate amortization expense for intangible assets for the next five years is as follows:

<u>Years ending March 31,</u>	Yen in millions	U.S dollars in thousands
2007.....	¥395	\$3,363
2008.....	342	2,911
2009.....	275	2,341
2010.....	156	1,328
2011.....	93	792

Goodwill represents the excess of purchase price and related costs over the fair value of net assets of acquired businesses. On April 1, 2002, NIDEC adopted SFAS No. 142 “Goodwill and Other Intangible Assets”. Under SFAS No. 142, goodwill acquired in business combinations is not amortized but tested annually for impairment. If, between annual tests, an event, which would reduce the fair value below its carrying amount, occurs, NIDEC would recognize an impairment.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC have completed the annual impairment test for existing goodwill as required by SFAS No. 142. NIDEC have determined that the fair value of each reporting unit which includes goodwill is in excess of its carrying amount. Accordingly, no impairment loss was recorded for goodwill.

The carrying amounts of goodwill by operating segment as of March 31, 2005 and 2006 are as follows. Operating segment information is described at note No.25 (2).

	<b>Yen in millions</b>		<b>U.S dollars</b>
	<b>March 31,</b>		<b>in thousands</b>
	<b>2005</b>	<b>2006</b>	<b>March 31,</b> <b>2006</b>
NCJ .....	¥39,970	¥43,572	\$370,920
NCPL .....	312	312	2,656
NSCJ .....	81	81	690
NTSC .....	156	156	1,328
NCEL .....	78	78	664
NSNK .....	67	67	570
	<u>¥40,664</u>	<u>¥44,266</u>	<u>\$376,828</u>

The changes in the carrying amount of goodwill for the year ended March 31, 2006 are as follows:

	<b>Yen in millions</b>	<b>U.S dollars</b>
		<b>in thousands</b>
Balance as of April 1, 2005 .....	¥40,664	\$346,165
Acquired during the year .....	<u>3,602</u>	<u>30,663</u>
Balance as of March 31, 2006 .....	<u>¥44,266</u>	<u>\$376,828</u>

**6. Supplemental cash flow information:**

Cash payments for income taxes were ¥4,088 million, ¥8,007 million and ¥13,026 million (\$110,888 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively. Interest payments during the years ended March 31, 2004, 2005 and 2006 were ¥856 million, ¥853 million and ¥1,348 million (\$11,475 thousand), respectively.

Tax benefit related to stock-based compensation plan of 23 million (\$196 thousand) was classified as an operating cash flow for the year ended March 31, 2006.

Because of the merger of Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings, Inc., on October 1, 2005, NIDEC's shares of UFJ Holdings, Inc. were exchanged for the shares of the new company, Mitsubishi UFJ Financial Group. As a result of this share exchange, NIDEC recognized a gain of ¥1,123 million for the year ended March 31, 2006, which is included in ¥3,869 million of "Gain from marketable securities, net".

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Capital lease obligations of ¥550 million, ¥2,440 million and ¥1,995 million (\$16,983 thousand) were incurred for the years ended March 31, 2004, 2005 and 2006, respectively.

Conversions of convertible debt into common stock were ¥5,020 million, ¥3,880 million and ¥8,482 million (\$72,206 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

**7. Allowance for doubtful accounts:**

An analysis of activity within the allowance for doubtful accounts relating to trade notes and accounts receivable and notes receivable for the years ended March 31, 2004, 2005 and 2006 is as follows:

	Yen in millions			U.S. dollars in thousands
	March 31			March 31,
	2004	2005	2006	2006
Allowance for doubtful accounts at beginning of year .....	¥465	¥623	¥484	\$4,120
Provision for doubtful accounts .....	226	281	1,108	9,432
Collection .....	(40)	(2)	(6)	(51)
Write-offs .....	(27)	(329)	(261)	(2,222)
Write-backs .....	(255)	(100)	(814)	(6,929)
Acquisition and other .....	294	3	0	0
Translation adjustment and other .....	(40)	8	27	230
Allowance for doubtful accounts at end of year .....	¥623	¥484	¥538	\$4,580

**8. Inventories:**

Inventories consist of the following:

	Yen in millions		U.S. dollars in thousands
	March 31		March 31,
	2005	2006	2006
Finished goods .....	¥18,853	¥25,924	\$220,686
Raw materials .....	12,688	14,145	120,414
Work in process .....	13,009	16,662	141,840
Project in progress .....	964	893	7,602
Supplies and other .....	3,448	2,850	24,262
	¥48,962	¥60,474	\$514,804

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**9. Other current assets:**

Other current assets as of March 31, 2005 and 2006 consist of the following:

	<b>Yen in millions</b>		<b>U.S. dollars in thousands</b>
	<b>March 31</b>		<b>March 31,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
Deferred tax assets .....	¥3,855	¥4,451	\$37,890
Other receivable .....	3,399	3,999	34,043
Time deposit .....	852	2,909	24,764
Other .....	3,845	3,897	33,174
	<u>¥11,951</u>	<u>¥15,256</u>	<u>\$129,871</u>

“Other” primarily consists of prepaid expenses, accrued tax and other.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**10. Marketable securities and other securities investments:**

Marketable securities and other securities investments include debt and equity securities of which the aggregate fair value, gross unrealized gains and losses and cost are as follows:

At March 31, 2006, NIDEC had no available-for-sale debt securities.

	<b>Yen in millions</b>			
	<b>March 31, 2005</b>			
	<b>Cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale</b>				
Debt securities .....	¥5	¥0	-	¥5
Equity securities .....	7,586	9,066	¥98	16,554
Total .....	<u>¥7,591</u>	<u>¥9,066</u>	<u>¥98</u>	<u>¥16,559</u>
<b>Securities not practicable to fair value</b>				
Equity securities .....	<u>¥1,936</u>			

	<b>Yen in millions</b>			
	<b>March 31, 2006</b>			
	<b>Cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale</b>				
Equity securities .....	<u>¥7,636</u>	<u>¥12,103</u>	<u>¥63</u>	<u>¥19,676</u>
<b>Securities not practicable to fair value</b>				
Equity securities .....	<u>¥1,652</u>			

	<b>U.S. dollars in thousands</b>			
	<b>March 31, 2006</b>			
	<b>Cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale</b>				
Equity securities .....	<u>\$65,004</u>	<u>\$103,030</u>	<u>\$536</u>	<u>\$167,498</u>
<b>Securities not practicable to fair value</b>				
Equity securities .....	<u>\$14,063</u>			

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During the year ended March 31, 2004, 2005 and 2006, the net unrealized gain on available-for-sale securities included as a component of accumulated other comprehensive income, net of applicable taxes, increased by ¥2,747 million, decreased by ¥195 million and increased by ¥1,086 million (\$9,245 thousand), respectively.

Proceeds from sales of available-for-sale securities were ¥1,780 million, ¥2,739 million and ¥4,083 million (\$34,758 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively. On those sales, gross realized gains were ¥778 million, ¥1,618 million and ¥3,756 million (\$31,974 thousand) and gross realized losses were ¥2 million, ¥nil million and ¥50 million, respectively.

Based on the business combination of Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings, Inc., as of October 1, 2005, NIDEC recorded a gain, amounting to ¥1,123 million (\$9,560 thousand) from the exchange of our shares in UFJ Holdings to those of the new company, Mitsubishi UFJ Financial Group in accordance with the Emerging Issues Task Force 91-5 (“EITF 91-5”).

NIDEC holds long-term investment securities that are classified as “marketable securities and other securities investments.” These securities were issued by various non-public companies. These securities are recorded at cost, as their fair values are not readily determinable. NIDEC’s management employs a systematic methodology to assess the recoverability of such investments by reviewing the financial position of the underlying companies and the prevailing market conditions in which these companies operate to determine if NIDEC’s investment in each individual company is impaired and whether the impairment is other-than-temporary. If any impairment is determined to be other-than-temporary, the cost of the investment is written-down by the impaired amount and the amount is recognized currently as a realized loss.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table presents the gross unrealized losses on, and fair value of, our investment securities, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position, at March 31, 2006.

	<b>Yen in millions</b>		<b>Yen in millions</b>	
	<b>Less than 12 months</b>	<b>12 months or more</b>	<b>Less than 12 months</b>	<b>12 months or more</b>
	Fair value	Unrealized loss	Fair value	Unrealized loss
Equity securities .....	¥472	¥63	¥36	¥0

	<b>U.S. dollars in thousands</b>		<b>U.S. dollars in thousands</b>	
	<b>Less than 12 months</b>	<b>12 months or more</b>	<b>Less than 12 months</b>	<b>12 months or more</b>
	Fair value	Unrealized loss	Fair value	Unrealized loss
Equity securities .....	\$4,018	\$536	\$306	\$0

NIDEC presumes a decline in value of investment securities is other-than-temporary if the fair value is 20% or more below the original cost for an extended period of time. The presumption of an other-than-temporary impairment may be overcome if there is evidence to support that the decline is temporary in nature due to the existence of other factors which overcome the duration or magnitude of the decline. On the other hand, there may be cases where impairment losses are recognized when specific factors indicate the decline in the fair value is other-than-temporary.

As of March 31, 2006, NIDEC determined that the decline in value for investment securities with unrealized losses shown in the above table is temporary in nature.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**11. Investments in and transactions with affiliated companies:**

Summarized financial information for affiliated companies accounted for using the equity method, which is presented based on accounting principles generally accepted in the United States of America, is shown below:

	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>in thousands</u>
	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Current assets.....	¥4,285	¥5,736	\$48,829
Non-current assets.....	5,199	6,698	57,019
Total assets.....	<u>¥9,484</u>	<u>¥12,434</u>	<u>\$105,848</u>
Current liabilities .....	¥3,671	¥4,382	\$37,303
Long-term liabilities .....	1,036	747	6,359
Shareholders' equity.....	4,777	7,305	62,186
Total liabilities and shareholders' equity.....	<u>¥9,484</u>	<u>¥12,434</u>	<u>\$105,848</u>
NIDEC's share of shareholders' equity.....	<u>¥1,431</u>	<u>¥2,377</u>	<u>\$20,235</u>
NIDEC's investment in equity-method affiliates.....	<u>¥1,717</u>	<u>¥2,696</u>	<u>\$22,951</u>
Loan receivable from affiliated companies.....	<u>¥148</u>	<u>¥172</u>	<u>\$1,464</u>
Number of affiliated companies at end of period.....	<u>4</u>	<u>5</u>	

	<u>Yen in millions</u>			<u>U.S. dollars</u>
	<u>For the year ended</u>			<u>in thousands</u>
	<u>March 31</u>			<u>For the</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>year ended</u>
				<u>March 31,</u>
				<u>2006</u>
Net revenues .....	<u>¥156,818</u>	<u>¥10,319</u>	<u>¥9,504</u>	<u>\$80,906</u>
Gross profit .....	<u>¥22,291</u>	<u>¥1,088</u>	<u>¥972</u>	<u>\$8,274</u>
Net income.....	<u>¥5,069</u>	<u>¥45</u>	<u>¥182</u>	<u>\$1,549</u>
NIDEC's share of net income .....	¥2,308	¥(17)	¥35	\$298
Adjustments .....	214	(17)	(81)	(690)
Equity income (loss) .....	<u>¥2,522</u>	<u>¥(34)</u>	<u>¥(46)</u>	<u>\$(392)</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As of March 31, 2005, entities comprising NIDEC's investment in affiliated companies include NTN-Nidec (Zhejiang) Corporation ("NNSC") (40.00%), Nidec Development Philippines Corporation ("NDF") (39.99%), Copal Yamada Corporation ("CYC") (26.91%) and Seijin-Sankyo Control Devices Co., Ltd. ("SCD") (22.23%).

As of March 31, 2006, entities comprising a significant portion of NIDEC's investment in affiliated companies include NNSC (40.00%), NTN-Nidec (Thailand) Co., Ltd. (NNTC) (40.00%), NDF (39.99%), CYC (28.59%) and SCD (22.28%).

An affiliated company, SCD, accounted for using the equity method with carrying amounts of ¥261 million as of March 31, 2005 and ¥338 million (\$2,877 thousand) (1 company, SCD) as of March 31, 2006 were quoted on various established stock markets at an aggregate market capitalization of ¥432 million and ¥1,243 million (\$10,581 thousand), respectively. SCD has become an affiliated company accounted for using the equity method in February 2004. This was because Nidec Sankyo Corporation ("NSNK") has become consolidated subsidiary in February 2004.

For the year ended March 31, 2005, net revenue, gross profit, net income and other incomes, described above table, largely decreased. This was mainly due that these income of NCPL, NCEL, NSNK and their subsidiaries until January and February 2004, when this companies became NIDEC's consolidated subsidiaries, was included in the amounts for the year ended March 31, 2004 described above table.

Account balances and transactions with affiliated companies are presented below:

	<b>Yen in millions</b>		<b>U.S. dollars</b>
	<b>March 31</b>		<b>in thousands</b>
	<b>2005</b>	<b>2006</b>	<b>March 31, 2006</b>
Trade notes and accounts receivable.....	¥201	¥727	\$6,189
Trade notes and accounts payable.....	¥831	¥1,111	\$9,458

	<b>Yen in millions</b>			<b>U.S. dollars</b>
	<b>For the year ended</b>			<b>in thousands</b>
	<b>March 31</b>			<b>For the year</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>ended</b>
				<b>March 31, 2006</b>
Sales of products.....	¥1,166	¥270	¥757	\$6,444
Purchases of goods.....	¥2,088	¥2,870	¥4,503	\$38,333

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

For the year ended March 31, 2005, sales of products according to transactions with affiliated companies largely decreased mainly due to the exclusion in the sales to NCPL, NCEL, NSNK and their subsidiaries which became NIDEC's consolidated subsidiaries in January and February 2004.

For the year ended March 31, 2006, sales of products according to transactions with affiliated companies increased mainly due to the increase of sales to NNSC.

On the other hand, purchases of goods according to transactions with affiliated companies for the year ended March 31, 2005 and 2006 increased compared to the year ended March 31, 2004 and 2005, mainly due to an increase in the transaction with NNSC, respectively.

Dividends from affiliated companies accounted for by the equity method for the years ended March 31, 2004, 2005 and 2006 were ¥515 million, ¥33 million and ¥35 million (\$298 thousand), respectively.

Loan receivables from affiliated companies accounted for by the equity method were ¥148 million and ¥172 million (\$1,464 thousand) as of March 31, 2005 and 2006, respectively.

**12. Other non-current assets:**

Other non-current assets as of March 31, 2005 and 2006 consist of the following:

	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>in thousands</u>
	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Deferred tax assets.....	¥7,374	¥5,404	\$46,003
Other.....	5,626	4,329	36,852
	<u>¥13,000</u>	<u>¥9,733</u>	<u>\$82,855</u>

“Other” primarily consists of other investments and other assets.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**13. Short-term borrowings and long-term debt:**

Short-term borrowings at March 31, 2005 and 2006 consist of the following:

	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>in thousands</u>
	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Loans, principally from banks with average interest at March 31, 2005 of 0.887% and at March 31, 2006 of 3.46% per annum, respectively .....	¥28,478	¥43,621	\$371,337

At March 31, 2006, NIDEC had unused lines of credit amounting to ¥103,254 million (\$878,982 thousand) with banks. Under these programs, NIDEC is authorized to obtain short-term financing at prevailing interest rates.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Long-term debt at March 31, 2005 and 2006 comprises the following:

	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>in thousands</u>
	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Secured loans, representing obligations principally to banks.			
Due 2008 in 2006 with interest ranging 1.89% per annum in 2006.....	¥-	¥74	\$630
Unsecured loans, representing principally to banks.			
Due 2005 to 2026 in 2005 with interest ranging from 0.00% to 6.80% per annum in 2005.			
Due 2006 to 2026 in 2006 with interest ranging from 0.00% to 4.70% per annum in 2006.....	4,648	3,448	29,352
Unsecured 0.8% convertible bonds, due 2006.			
2005: Convertible currently at ¥6,798(\$63) for one common share, redeemable before due date (note1).....	5,394	-	-
Zero coupon 0.0% convertible bonds, due 2008.			
2005: Convertible currently at ¥13,828 (\$129) for one common share, redeemable before due date.			
2006: Convertible currently at ¥6,914(\$59) for one common share, redeemable before due date (note2).....	30,638	27,413	233,362
Long-term capital lease obligations.			
Due 2005 to 2016 in 2005, with interest from 1.00% to 6.04% per annum in 2005			
Due 2006 to 2015 in 2006, with interest from 1.00% to 6.04% per annum in 2006 .....	5,646	5,846	49,766
	46,326	36,781	313,110
Less - Current portion due within one year .....	(8,493)	(4,647)	(39,559)
	<u>¥37,833</u>	<u>¥32,134</u>	<u>\$273,551</u>

Note:

1. Detail of Zero coupon 0.0% convertible bonds, due 2008 is as follow;

	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>in thousands</u>
	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Principal amount .....	¥30,000	¥27,000	\$229,846
Unamortized discount .....	638	413	3,516
Total.....	<u>¥30,638</u>	<u>¥27,413</u>	<u>\$233,362</u>

2. The yen denominated zero coupon convertible bonds with stock acquisition rights due 2008, which are listed at London Stock Exchange, were issued on October 17, 2003, and are redeemable at 100% of face value on October 17, 2008 (maturity date). The face value of the bonds was ¥30,000 million (\$255,384 thousand) and the issue price was 103.00% of the face value.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The aggregate amounts of annual maturity of long-term debt during the next five years are as follows:

<u>Year ending March 31</u>	<u>Yen in millions</u>	<u>U.S. dollars in thousands</u>
2007 .....	¥4,647	\$39,559
2008 .....	29,830	253,937
2009 .....	1,115	9,492
2010 .....	762	6,487
2011 .....	321	2,733
2012 and thereafter .....	¥106	\$902

At March 31, 2006, lands with book value of ¥535 million (\$4,554 thousand), and buildings with book value of ¥414 million (\$3,524 thousand), respectively, were mortgaged as collateral for borrowings from banks.

Standard agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantors will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks.

**14. Other current liabilities:**

Other current liabilities as of March 31, 2005 and 2006 consist of the following:

	<u>Yen in millions</u>		<u>U.S. dollars in thousands</u>
	<u>March 31</u>		<u>March 31,</u>
	<u>2005</u>	<u>2006</u>	<u>2006</u>
Accrued expenses .....	¥12,945	¥14,690	\$125,053
Income taxes payable.....	6,129	6,838	58,211
Payable for property, plant and equipment .....	5,076	3,764	32,042
Other .....	4,130	3,517	29,940
	<u>¥28,280</u>	<u>¥28,809</u>	<u>\$245,246</u>

“Other” primarily consists of deposit received and other.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**15. Pension and severance plans:**

The Company and certain subsidiaries sponsor pension and retirement plans, which entitle employees, under most circumstances, to lump-sum indemnities or pension payments based on current rates of pay and length of service. Under normal circumstances, the minimum payment prior to retirement age is an amount based on voluntary retirement. Employees receive additional benefits upon involuntary retirement, including retirement at the mandatory retirement age.

The Company and certain subsidiaries and affiliates have maintained the employees' pension fund (EPF) pursuant to the Japanese Welfare Pension Insurance Law (JWPIL). The EPF consisted of two tiers, "Substitutional Portion", in which the EPF, in lieu of the government's social insurance program, collected contributions, funded them and paid benefits to the employees with respect to the pay-related portion of the old-age pension benefits prescribed by JWPIL, and "Corporate Portion" which was established at the discretion of each employer.

In June 2001, the Corporate Defined Benefit Pension Plan Law was enacted and allows any EPF to terminate its operation relating to "Substitutional Portion" that in the past an EPF had operated and managed in lieu of the government, subject to approval from the Japanese Minister of Health, Labor and Welfare. In December 2004, The Company obtained the approval from the Minister for the exemption from benefit payments related to employee services of "Substitutional Portion". In March 2005, The Company completed the transfer of the plan assets equivalent to "Substitutional Portion" to the government.

In the year ended March 31, 2005, NIDEC adopted EITF Issue No. 03-02, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" for the settlement process of the substitutional portion of EPF. EITF Issue No. 03-02 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of a substitutional portion of EPF and related plan assets as the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the accumulated benefit obligation and the assets required to be transferred to the government was accounted for and separately disclosed as a subsidy. And a proportionate amount of net unrecognized gain or loss related to the entire EPF and difference between projected benefit obligations and accumulated benefit obligations for a substitutional portion of EPF were recognized as a settlement gain or loss.

In addition, during the year ended March 31, 2005, certain subsidiaries in Japan transferred or terminated their defined benefit pension plans.

Nidec Nissin Corporation and Nidec Sankyo Corporation transferred their defined benefit plans to defined contribution plans in June 2004 and December 2004, respectively.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Nidec Copal Corporation determined to terminate its EPF on January 28, 2005 and received approval of the termination on February 25, 2005. Upon this approval, Nidec Copal Corporation completed the termination process on March 2005 and the gain on the termination was recognized in the year ended March 31, 2005.

The accounting for these transitions and termination were in accordance with SFAS No. 88 “Employers’ Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.”

While NIDEC has no legal obligation, NIDEC provided lump-sum severance benefits for retirement of directors and corporate auditors. The allowance for the payment had been accrued, based on the estimated cost of the severance plan, which had not been funded. NIDEC decided to terminate its severance plan in the year ended March 31, 2005 and completed the termination April 1, 2006.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC uses a December 31 measurement date for its pension plans. Information regarding NIDEC's employees' defined benefit plans is as follows:

	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>in thousands</u>
	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Change in benefit obligation:			
Benefit obligation at beginning of year .....	¥42,971	¥15,104	\$128,577
Service cost .....	1,106	724	6,163
Interest cost .....	876	321	2,733
Actuarial loss (gain) .....	960	(57)	(485)
Acquisition and other .....	15	-	-
Projected benefit obligation settled due to the separation of substitutional portion .....	(3,130)	-	-
Curtailment .....	(1,842)	-	-
Settlement .....	(24,254)	(63)	(536)
Foreign currency exchange rate changes .....	9	42	357
Benefits paid .....	(1,607)	(1,315)	(11,194)
	<u>15,104</u>	<u>14,756</u>	<u>125,615</u>
Change in plan assets:			
Fair value of plan assets at beginning of year .....	14,474	5,119	43,577
Actual return on plan assets .....	444	763	6,495
Employer contribution .....	984	783	6,666
Acquisition and other .....	35	-	-
Assets transferred to the government due to the separation of substitutional portion .....	(1,740)	-	-
Curtailment/Settlement .....	(8,154)	(33)	(281)
Foreign currency exchange rate changes .....	2	9	77
Benefits paid .....	(926)	(622)	(5,295)
Fair value of plan assets at end of year .....	<u>5,119</u>	<u>6,019</u>	<u>51,239</u>
Funded status .....	9,985	8,737	74,376
Unrecognized actuarial loss .....	(524)	120	1,022
Unrecognized prior service cost .....	628	566	4,818
	<u>¥10,089</u>	<u>¥9,423</u>	<u>\$80,216</u>
Amounts included in the consolidated balance sheets are comprised of:			
Accrued pension and severance costs .....	¥10,224	¥9,704	\$82,608
Accumulated other comprehensive income .....	(135)	(281)	(2,392)
Net amounts recognized .....	<u>¥10,089</u>	<u>¥9,423</u>	<u>\$80,216</u>

The accumulated benefit obligation for all defined benefit pension plans were ¥14,211 and ¥13,835 million (\$117,775 thousand) for the year ended March 31, 2005 and 2006, respectively.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for which the accumulated benefit obligations exceed plan assets are as follows:

	<b>Yen in millions</b>		<b>U.S. dollars in thousands</b>
	<b>March 31</b>		<b>March 31,</b>
	<b>2005</b>	<b>2006</b>	<b>2006</b>
Projected benefit obligations.....	¥15,067	¥14,722	\$125,326
Accumulated benefit obligations.....	14,174	13,801	117,485
Fair value of plan assets .....	5,082	5,985	50,949

Weighted-average assumptions used to determine benefit obligations as of March 31, 2005 and 2006 are as follows:

	<b>March 31</b>	
	<b>2005</b>	<b>2006</b>
Discount rate .....	1.0-2.5%	1.5-3.1%
Rate of compensation increase .....	0.0-3.5%	0.0-3.5%

Weighted-average assumptions used to determine net pension and severance costs for the years ended March 31, 2004, 2005 and 2006 are as follows:

	<b>For the year ended March 31</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Discount rate .....	1.0-2.0%	1.0-2.3%	1.0-2.5%
Expected return on plan assets .....	1.0-2.0%	0.8-3.5%	0.8-3.0%
Rate of compensation increase .....	1.5-3.9%	0.0-6.2%	0.0-3.5%

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in million</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Components of net periodic (benefit) cost:				
Service cost .....	¥850	¥1,106	¥724	\$6,163
Interest cost .....	323	876	321	2,733
Expected return on plan assets .....	(132)	(387)	(104)	(885)
Amortization of unrecognized net actuarial loss ..	182	28	3	26
Amortization of net transition obligation .....	208	-	-	-
Amortization of unrecognized prior service cost .....	(93)	(62)	(62)	(528)
Settlement loss resulted from the transfer of the substitutional portion.....	-	39	-	-
Gain from curtailments .....	(101)	(1,842)	-	-
Gain from settlements .....	(358)	(6,735)	(30)	(256)
Net periodic pension cost .....	<u>¥879</u>	<u>¥(6,977)</u>	<u>¥852</u>	<u>\$7,253</u>

Unrecognized prior service cost and unrecognized actuarial gain and loss are amortized using the straight-line method over the average remaining service period of active employees.

The weighted-average asset allocations of our pension plans are as follows:

Assets Category	<u>Asset allocation of pension plans</u>		
	<u>Actual (%)</u>		<u>Target (%)</u>
	<u>March 31 2005</u>	<u>March 31 2006</u>	<u>March 31 2007</u>
Equity securities	25	42	41
Debt securities	23	18	19
Life insurance company general accounts	36	32	33
Others	16	8	7
Total	<u>100</u>	<u>100</u>	<u>100</u>

NIDEC's policy and objective for plan asset management is to generate a stable return on the investment over the long term, which enable NIDEC's pension funds to meet future benefit payment requirements under risks which NIDEC considers permissible. NIDEC formulates "basic" portfolio that suits the above-mentioned policy, and ensure that plan assets are allocated under this "basic" portfolio. NIDEC evaluates its actual return and revise the "basic" portfolio, if necessary.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC expects to contribute approximately ¥764 million (\$6,504 thousand) to its defined benefit plans for the year ending March 31, 2007.

The future benefit payments for defined benefit plans are expected as follows:

Year ending March 31,	<b>Yen in million</b>	<b>U.S. dollars in thousands</b>
2007 .....	¥1,276	\$10,862
2008 .....	1,147	9,764
2009 .....	1,042	8,870
2010 .....	1,119	9,526
2011 .....	1,137	9,679
Years 2012-2016 .....	4,257	36,239

Certain subsidiaries have a number of defined multiemployer plans. Total amounts of cost recognized for certain subsidiaries' contribution to the plans were ¥24, ¥188 and ¥216 million (\$1,839 thousand) for the year ended March 31, 2004, 2005 and 2006, respectively and NIDEC expects to contribute approximately ¥215 million (\$1,830 thousand) for the year ending March 31, 2007.

Certain subsidiaries have a number of defined contribution plans. Total amounts of cost recognized for certain subsidiaries' contribution to the plans were ¥92, ¥244 and ¥403 million (\$3,431 thousand) for the year ended March 31, 2004, 2005 and 2006, respectively and NIDEC expects to contribute approximately ¥1,295 million (\$11,024 thousand) for the year ending March 31, 2007.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

In the year ended March 31, 2005, the accounting for the settlement for a substitutional portion of EPF at the Company in accordance with EITF Issue No. 03-02 are as follows:

	<b>March 31 2005</b>	
	<b>Yen in million</b>	<b>U.S. dollars in thousands</b>
Accumulated benefit obligations for a substitutional portion of EPF .....	¥3,130	\$29,146
Related government-specified portion of plan assets of EPF transferred to the government.....	1,740	16,203
Subsidy .....	1,390	12,943
Proportionate amount of net unrecognized loss related to the entire EPF .....	(39)	(363)
Periodic pension costs related to the settlement for a substitutional portion of EPF.....	(39)	(363)
Net settlement gain for a substitutional portion of EPF.....	<u>1,351</u>	<u>12,580</u>

Subsidy was all included as a reduction of selling, general, and administrative expenses (“SG&A expenses”), and periodic pension costs related to the settlement for a substitutional portion of EPF was allocated ¥17 million into cost of sales and ¥22 million into SG&A expenses in the Consolidated Statements of Income for the year ended March 31, 2005.

**16. Other long-term liabilities:**

Other long-term liabilities as of March 31, 2005 and 2006 consist of the following:

	<b>Yen in millions</b>		<b>U.S. dollars</b>
	<b>March 31</b>		<b>in thousands</b>
	<b>2005</b>	<b>2006</b>	<b>March 31, 2006</b>
Deferred tax liabilities .....	¥817	¥2,371	\$20,184
Long-term accrued liabilities .....	7,554	5,747	48,923
Other .....	3,967	3,247	27,641
	<u>¥12,338</u>	<u>¥11,365</u>	<u>\$96,748</u>

“Other” primarily consists of revenue received in advance, and other.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**17. Shareholders' equity:**

In June 2004, the Company issued 5,620,000 shares of common stock in a public offering in Japan, and received proceeds in the amount of ¥59,954 million (\$510,377 thousand).

On November 18, 2005, the Company completed a two-for-one stock split. The number of shares issued was 71,542,257 shares. There was no increase in the common stock account because the new shares were distributed from the portion of previously issued shares accounted for as excess of par value in the common stock account in accordance with the Japanese Commercial Code. All per share amounts have been restated to reflect the retroactive effect of the stock split.

Conversions of convertible debt into common stock are accounted for in accordance with the provisions of the Japanese Commercial Code by crediting approximately one-half of the conversion proceeds to the common stock account and the remainder to the additional paid-in capital account.

The Japanese Commercial Code provides that an amount equal to at least 10% of annual cash dividends and other distributions from retained earnings (including bonuses to Directors and Corporate Auditors) and an amount equal to 10% of interim dividends paid by the Company and its Japanese subsidiaries must be appropriated as a legal reserve. Before amendments to the Japanese Commercial Code that took effect on October 1, 2001, no further appropriation was required when the legal reserve reached 25% of stated capital. This reserve was not available for dividends under the Japanese Commercial Code but could be used to reduce a deficit or could be transferred to stated capital. Certain foreign subsidiaries were also required to appropriate their earnings to legal reserves under the laws of the respective countries.

Due to the amendments to the Japanese Commercial Code that took effect on October 1, 2001, the appropriation of the legal reserve is now required until the sum of the legal reserve and the additional paid-in capital equals 25% of stated capital. As was the case prior to the amendments, the portion of the legal reserve and the additional paid-in capital is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. However, the portion of the legal reserve and the additional paid-in capital exceeding 25% of stated capital is available for dividends subject to approval at the shareholders' ordinary general meeting. The additional paid-in capital currently exceeds 25% of stated capital and the legal reserve is available for dividends except with respect to certain foreign subsidiaries that are required to appropriate their earnings to legal reserves and are unavailable for dividends under the laws of the respective countries.

**NIDEC CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The amount of statutory retained earnings of the Company available for dividend payments to shareholders was ¥43,401 million and ¥62,217 million (\$529,642 thousand) for the year ended March 31, 2005 and 2006, respectively. In accordance with customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings for the year ended March 31, 2006 includes amounts representing final cash dividends of ¥2,892 million (\$24,619 thousand), ¥20 (\$0.17) per share, which were approved at the shareholders' meeting held on June 22, 2006.

Retained earnings relating to equity in undistributed earnings reflect ¥431 million, ¥433 million and ¥415 million (\$3,533 thousand) of accumulated deficit of the companies accounted for by the equity method for the years ended March 31, 2004, 2005 and 2006.

Detailed components of accumulated other comprehensive income at March 31, 2004, 2005 and 2006 and the related changes, net of taxes, for the years ended March 31, 2004, 2005 and 2006 consist of the following:

	<b>Yen in millions</b>			
	<b>Foreign currency translation adjustments</b>	<b>Unrealized gains (losses) on securities</b>	<b>Minimum pension liability adjustment</b>	<b>Accumulated other comprehensive income (loss)</b>
Balance at March 31, 2003.....	(5,690)	225	(1,922)	(7,387)
Other comprehensive income (loss)...	(5,785)	2,747	1,890	(1,148)
Balance at March 31, 2004.....	(11,475)	2,972	(32)	(8,535)
Other comprehensive income (loss)...	2,009	(195)	(24)	1,790
Balance at March 31, 2005.....	¥(9,466)	¥2,777	¥(56)	¥(6,745)
Other comprehensive income (loss)...	9,391	1,086	(59)	10,418
Balance at March 31, 2006.....	¥(75)	¥3,863	¥(115)	¥3,673
	<b>U.S. dollars in thousands</b>			
	<b>Foreign currency translation adjustments</b>	<b>Unrealized gains (losses) on securities</b>	<b>Minimum pension liability adjustment</b>	<b>Accumulated other comprehensive income (loss)</b>
Balance at March 31, 2005 .....	\$(80,582)	\$23,640	\$(477)	\$(57,419)
Other comprehensive income (loss)...	79,943	9,245	(502)	88,686
Balance at March 31, 2006 .....	\$(639)	\$32,885	\$(979)	\$31,267

The minimum pension liability adjustment shown in the above table relates to two consolidated subsidiaries.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Tax effects allocated to each component of other comprehensive income for the years ended March 31, 2004, 2005 and 2006 are as follows:

	<b>Yen in millions</b>		
	<b>Pre-tax amount</b>	<b>Tax expense</b>	<b>Net-of-tax amount</b>
For the year ended March 31, 2004:			
Foreign currency translation adjustments .....	¥(5,769)	¥(16)	¥(5,785)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period .....	5,410	(2,218)	3,192
Less: reclassification adjustment primarily for other than temporary losses included in net income .....	(765)	320	(445)
Minimum pension liability adjustment .....	3,202	(1,312)	1,890
Other comprehensive income (loss) .....	<u>¥2,078</u>	<u>¥(3,226)</u>	<u>¥(1,148)</u>
For the year ended March 31, 2005:			
Foreign currency translation adjustments .....	¥1,971	¥38	¥2,009
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period .....	1,326	(544)	782
Less: reclassification adjustment primarily for other than temporary losses included in net income .....	(1,586)	609	(977)
Minimum pension liability adjustment .....	(55)	31	(24)
Other comprehensive income .....	<u>¥1,656</u>	<u>¥134</u>	<u>¥1,790</u>
For the year ended March 31, 2006:			
Foreign currency translation adjustments .....	¥9,345	¥46	¥9,391
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period .....	5,721	(2,346)	3,375
Less: reclassification adjustment primarily for other than temporary losses included in net income .....	(3,869)	1,580	(2,289)
Minimum pension liability adjustment .....	(100)	41	(59)
Other comprehensive income (loss) .....	<u>¥11,097</u>	<u>¥(679)</u>	<u>¥10,418</u>
	<b>U.S. dollars in thousands</b>		
	<b>Pre-tax amount</b>	<b>Tax expense</b>	<b>Net-of-tax amount</b>
For the year ended March 31, 2006:			
Foreign currency translation adjustments .....	\$79,551	\$392	\$79,943
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period ....	48,702	(19,971)	28,731
Less: reclassification adjustment primarily for other than temporary losses included in net income .....	(32,936)	13,450	(19,486)
Minimum pension liability adjustment .....	(851)	349	(502)
Other comprehensive income (loss) .....	<u>\$94,466</u>	<u>\$(5,780)</u>	<u>\$(88,686)</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**18. Stock-based compensation:**

On May 14, 2003, the Company's shareholders approved a stock option plan. Under the plan, executives and certain employees receive options. The number of shares to be issued upon exercise of the options is limited to 296,700 shares of the Company's common stock. Each option entitles the holder to purchase 100 shares of the Company's common stock. The options vested at June 30, 2004 and became exercisable for the period from July 1, 2004 to June 30, 2007. The exercise price was determined as ¥7,350 (\$62.56) per share of common stock. Options were granted with an exercise price equal to the closing price of the Company's shares traded on the Osaka Securities Exchange on the grant date.

On November 18, 2005, the Company completed a two-for-one stock split. As a result, the exercise price changed to ¥3,675 (\$31.28) per share of common stock. The exercise price is presented by the changed price retroactive to the previous fiscal year in the table below.

	<u>Number of options</u>	<u>Exercise price ( per share )</u>	
Balance at March 31, 2003:			
Granted .....	2,967	¥3,675	\$31.28
Exercised.....	0	3,675	31.28
Canceled .....	105	3,675	31.28
Balance at March 31, 2004:	2,862	3,675	31.28
Exercised.....	439	3,675	31.28
Canceled .....	61	3,675	31.28
Balance at March 31, 2005:	2,362	3,675	31.28
Exercised.....	606	3,675	31.28
Canceled .....	0	3,675	31.28
Balance at March 31, 2006:	<u>1,756</u>	3,675	31.28

The Company uses the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, for the accounting of its stock-based compensation plans. No stock-based compensation cost was recognized on the date of grant, as the current market price of the underlying stock was equal to the exercise price.

The fair value of option was ¥3,499 (\$29.79) per share. The fair value as of the date of grant was estimated using a Black-Scholes option-pricing model with the following assumptions:

<u>As of May 14, 2003</u>	
Risk-free interest rate.....	0.14%
Expected volatility .....	64.00%
Expected dividend yield .....	0.34%
Expected lives.....	<u>4.13 years</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**19. Income taxes:**

The components of income before income taxes comprise the following:

	<u>Yen in millions</u>			<u>U.S. dollars</u> <u>in thousands</u>
	<u>For the year ended</u>			<u>For the year</u>
	<u>March 31</u>			<u>Ended</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2006</u>
Income before income taxes:				
The Company and domestic subsidiaries ..	¥2,069	¥34,725	¥39,370	\$335,150
Foreign subsidiaries.....	17,570	22,565	25,008	212,888
	<u>¥19,639</u>	<u>¥57,290</u>	<u>¥64,378</u>	<u>¥548,038</u>

The provision for income taxes consists of the following:

	<u>Yen in millions</u>			<u>U.S. dollars</u> <u>in thousands</u>
	<u>For the year ended</u>			<u>For the year</u>
	<u>March 31</u>			<u>Ended</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>March 31,</u> <u>2005</u>
Current income tax expense:				
The Company and domestic subsidiaries...	¥3,490	¥8,471	¥10,947	\$93,190
Foreign subsidiaries.....	1,474	1,839	2,680	22,814
Total current .....	<u>4,964</u>	<u>10,310</u>	<u>13,627</u>	<u>116,004</u>
Deferred income tax expense (benefit):				
The Company and domestic subsidiaries...	321	2,292	1,279	10,888
Foreign subsidiaries.....	139	245	307	2,613
Total deferred.....	<u>460</u>	<u>2,537</u>	<u>1,586</u>	<u>13,501</u>
Total provision.....	<u>¥5,424</u>	<u>¥12,847</u>	<u>¥15,213</u>	<u>\$129,505</u>

The low effective tax rates of the Company and domestic subsidiaries for the year ended March 31, 2006 are mainly due to a net decrease in valuation allowance.

The low effective tax rates of the Company and domestic subsidiaries for the year ended March 31, 2005 are mainly due to a net decrease in valuation allowance.

The high effective tax rates of the Company and domestic subsidiaries for the year ended March 31, 2004 are mainly due to a net increase in valuation allowance.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC is subject to a number of different income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 42.0% in 2004, and 41.0% in 2005 and 2006. Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	<b>For the year ended</b>		
	<b>March 31</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Statutory tax rate.....	42.0%	41.0%	41.0%
Increase (reduction) in taxes resulting from:			
Tax benefit in foreign subsidiaries.....	(28.2)	(12.7)	(12.6)
Tax on undistributed earnings.....	5.0	2.6	1.5
Valuation allowance	8.8	(10.2)	(6.6)
Other.....	0.0	1.7	0.3
Effective income tax rate.....	27.6%	22.4%	23.6%

The effective income tax rate for the year ended March 31, 2006 was higher compared to the effective income tax rate for the year ended March 31, 2005. This was mainly because of changes in the valuation allowance for the year ended March 31, 2006 at Nidec Sankyo Corporation as its recovery in profitability was less than last year.

Tax benefit in foreign subsidiaries primarily relates to income sourced from foreign subsidiaries mainly in Thailand, Singapore and the Philippines. In Thailand, NIDEC received privileges under the promotional certificates issued in April 1995, August 1997, May 1999, July 1999, October 1999 and August 2000. Under these privileges, NIDEC received an exemption from corporate income tax for a period of three to seven years from the date of commencement of certain revenue-generating activities identified by the promotional certificate. In Singapore, NIDEC has been granted pioneer status for a period of ten years, commencing in April 1996. In April 2004 NIDEC received another pioneer status of a new project for 10 years. The pioneer status exempts NIDEC from income tax. In the Philippines, NIDEC received certain tax incentives in March 1997, which included an income tax holiday for six years. In March 2003 the income tax holiday was extended for one year. In March 2004 NIDEC received another income tax holiday of a new project for four years.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The aggregate dollar and per share effects of the tax holidays are as follows:

	<b>Yen in millions</b>			<b>U.S. dollars in thousands</b>
	<b>For the year ended March 31</b>			<b>For the year Ended March 31,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Aggregate amounts of tax holidays.....	¥2,896	¥3,647	¥4,100	\$34,903
	<b>Yen</b>			<b>U.S. dollars</b>
Per share --- basic .....	¥22.60	¥26.15	¥28.58	\$0.24
diluted.....	¥21.67	¥24.86	¥27.53	\$0.23

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies, effective April 2004. As a result, the normal statutory corporate income tax rate in Japan was decreased from 42% to approximately 41% from April 2004. Our tax rates used for the current and non-current deferred assets and liabilities on March 31, 2003 were 42% and 40%, respectively. On March 31, 2004, we changed both of the rates to 41% and the amounts affected by the rate change were a decrease of ¥43 million at the net current deferred tax assets and an increase of ¥115 million at the net non-current deferred tax assets.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The significant components of deferred tax assets and liabilities are as follows:

	<b>Yen in millions</b>		<b>U.S. dollars</b>
	<b>March 31</b>		<b>in thousands</b>
	<b>2005</b>	<b>2006</b>	<b>March 31, 2006</b>
<b>Deferred tax assets:</b>			
Inventories .....	¥2,812	¥2,750	\$23,410
Property, plant and equipment .....	3,995	4,713	40,121
Accrued bonus .....	1,990	2,115	18,005
Accrued enterprise tax .....	882	785	6,683
Pension and severance plans .....	8,865	7,873	67,021
Operating loss carryforwards for tax purposes .....	7,716	5,393	45,910
Foreign tax credit .....	2,032	1,367	11,637
Other .....	(1,470)	(3,539)	(30,127)
Gross deferred tax assets .....	26,822	21,457	182,660
Less - Valuation allowance .....	(15,593)	(11,602)	(98,766)
Net deferred tax assets .....	11,229	9,855	83,894
<b>Deferred tax liabilities:</b>			
Basis difference of acquired assets .....	(3,230)	(2,955)	(25,155)
Undistributed earnings not permanently reinvested ...	(1,934)	(1,921)	(16,353)
Marketable securities .....	(2,559)	(4,835)	(41,160)
Other .....	6,840	7,241	61,641
Gross deferred tax liabilities .....	(883)	(2,470)	(21,027)
Net deferred tax assets .....	¥10,346	¥7,385	\$62,867

Operating loss carryforwards for tax purposes of consolidated subsidiaries on March 31, 2006 amounted to approximately ¥14,690 million (\$125,053 thousand) and are available as an offset against future taxable income of such subsidiaries.

With the exception of ¥2,596 million (\$22,099 thousand) with no expiration period, total available operating loss carryforwards expire at various dates primarily up to 7 years.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The valuation allowance mainly relates to deferred tax assets of consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for deferred tax assets for the years ended March 31, 2004, 2005 and 2006 consist of the following:

	<b>Yen in millions</b>			<b>U.S. dollars</b>
	<b>March 31</b>			<b>in thousands</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>March 31, 2006</b>
Valuation allowance at beginning of year	¥(3,607)	¥(20,765)	¥(15,593)	\$(132,740)
Additions.....	(1,726)	-	-	-
Deductions .....	-	5,172	3,991	33,974
Impact of acquisition of companies .....	(15,432)	-	-	-
Valuation allowance at end of year ..	<u>¥(20,765)</u>	<u>¥(15,593)</u>	<u>¥(11,602)</u>	<u>\$(98,766)</u>

Net deferred tax assets are included in the consolidated balance sheets as follows:

	<b>Yen in millions</b>		<b>U.S. dollars</b>
	<b>March 31</b>		<b>in thousands</b>
	<b>2005</b>	<b>2006</b>	<b>March 31, 2006</b>
Deferred tax assets:			
Other current assets.....	¥3,855	¥4,451	\$37,891
Other non-current assets.....	7,374	5,404	46,003
Deferred tax liabilities:			
Other current liabilities .....	(66)	(99)	(843)
Other long-term liabilities .....	(817)	(2,371)	(20,184)
Net deferred tax assets .....	<u>¥10,346</u>	<u>¥7,385</u>	<u>\$62,867</u>

Management of NIDEC intends to reinvest certain undistributed earnings of their foreign subsidiaries for an indefinite period of time. As a result, no deferred tax liability has been recorded on undistributed earnings of these subsidiaries, which are not expected to be remitted in the foreseeable future, aggregating ¥49,578 million (\$422,048 thousand) as of March 31, 2006. NIDEC estimates an additional deferred tax liability of ¥8,964 million (\$76,309 thousand) would be required at such time if the full amount of these accumulated earnings were expected to be remitted.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**20. Reconciliation of the differences between basic and diluted earnings per share:**

In a meeting of the Board of Directors held on July 28, 2005, the Company decided to implement a two-for-one stock split (the “Stock Split”). The shares of shareholders listed or recorded on the final shareholders register and the official shareholders register for September 30, 2005 were split two for one. The number of issued shares of record on September 30, 2005 was the number of shares to be split.

Basic and diluted earnings per share as well as the number of shares in the following table retroactively reflect the effect of the two-for-one stock split that became effective on November 18, 2005.

The table below sets forth a reconciliation of the differences between basic and diluted income per share for the year ended March 31, 2004, 2005 and 2006.

	<u>Yen in millions</u>	<u>Thousands of shares</u>	<u>Yen</u>	<u>U.S. dollars</u>
	<u>Net income</u>	<u>Weighted- average shares</u>	<u>Net income per share</u>	<u>Net income per share</u>
<b>For the year ended March 31, 2004:</b>				
Basic net income per share				
Net income available to common shareholders .....	¥16,089	128,125	<u>¥125.57</u>	
Effect of dilutive securities				
Unsecured 1.0% convertible bonds.....	0	132		
Unsecured 0.8% convertible bonds.....	43	2,712		
Unsecured 0.5% convertible bonds.....	9	1,373		
Zero coupon 0.0% convertible bonds .....	-	1,177		
Securities of a subsidiary .....	(2)	-		
Stock option .....	<u>-</u>	<u>117</u>		
Diluted net income per share				
Net income for computation .....	<u>¥16,139</u>	<u>133,636</u>	<u>¥120.76</u>	

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>	<u>Thousands of shares</u>	<u>Yen</u>	<u>U.S. dollars</u>
	<u>Net income</u>	<u>Weighted- average shares</u>	<u>Net income per share</u>	<u>Net income per share</u>
<b>For the year ended March 31, 2005:</b>				
Basic net income per share				
Net income available to common shareholders .....	¥33,455	139,470	<u>¥239.87</u>	
Effect of dilutive securities				
Unsecured 0.8% convertible bonds.....	42	2,589		
Zero coupon 0.0% convertible bonds .....	-	4,463		
Securities of a subsidiary .....	(2)	-		
Stock option .....	-	197		
Diluted net income per share				
Net income for computation .....	<u>¥33,495</u>	<u>146,719</u>	<u>¥228.29</u>	
<b>For the year ended March 31, 2006:</b>				
Basic net income per share				
Net income available to common shareholders .....	¥40,949	143,445	<u>¥285.47</u>	<u>\$2.43</u>
Effect of dilutive securities				
Unsecured 0.8% convertible bonds.....	11	872		
Zero coupon 0.0% convertible bonds .....	-	4,386		
Securities of a subsidiary .....	0	-		
Stock option .....	-	212		
Diluted net income per share				
Net income for computation .....	<u>¥40,960</u>	<u>148,915</u>	<u>¥275.05</u>	<u>\$2.34</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**21. Financial instruments:**

NIDEC manages the exposure of its financial assets and liabilities to interest rate and foreign exchange rate movements through the use of derivative financial instruments which include foreign exchange forward contracts, foreign currency option agreements, interest rate swap agreements and interest rate cap agreements. These financial instruments are executed with creditworthy financial institutions, and substantially all foreign currency contracts are denominated in U.S. dollars. Financial instruments involve, to varying degrees, market risk as instruments are subject to price fluctuations and elements of credit risk in the event that the counterparty should default. In the unlikely event the counterparties fail to meet the contractual terms of a foreign currency or an interest rate instrument, NIDEC's risk is limited to the fair value of the instrument. Although NIDEC may be exposed to losses in the event of non-performance by counterparties on financial instruments, it does not anticipate significant losses due to the nature of its counterparties. Counterparties to NIDEC's financial instruments represent, in general, international financial institutions. Additionally, NIDEC does not have a significant exposure to any individual counterparty. Based on the creditworthiness of these financial institutions, NIDEC believes that the overall credit risk related to its financial instruments is insignificant.

The estimated fair values of NIDEC's financial instruments are summarized as follows:

	<b>Yen in millions</b>	
	<b>March 31, 2005</b>	
	<b>Carrying amount</b>	<b>Estimated fair value</b>
Asset (Liability)		
Cash and cash equivalents .....	¥70,111	¥70,111
Short-term investments .....	852	852
Short-term loan receivable .....	374	374
Marketable securities .....	16,559	16,559
Long-term loan receivable .....	499	504
Short-term borrowings .....	(28,478)	(28,478)
Long-term debt including the current portion and excluding capital lease obligation.....	(40,680)	(49,462)
Foreign exchange forward contracts .....	(26)	(26)
Interest rate swap agreements .....	(46)	(46)
Interest rate cap agreements .....	(24)	(24)

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<b>Yen in millions</b>		<b>U.S. dollars in thousands</b>	
	<b>March 31, 2006</b>		<b>March 31, 2006</b>	
	<b>Carrying Amount</b>	<b>Estimated fair value</b>	<b>Carrying amount</b>	<b>Estimated fair value</b>
Asset (Liability)				
Cash and cash equivalents .....	¥92,079	¥92,079	\$783,851	\$783,851
Short-term investments .....	2,909	2,909	24,764	24,764
Short-term loan receivable .....	56	56	477	477
Marketable securities .....	19,676	19,676	167,498	167,498
Long-term loan receivable .....	361	365	3,073	3,107
Short-term borrowings .....	(43,621)	(43,621)	(371,337)	(371,337)
Long-term debt including the current portion and excluding capital lease obligation .....	(30,940)	(43,345)	(263,386)	(368,988)
Foreign exchange forward contracts .....	(1)	(1)	(9)	(9)
Interest rate swap agreements .....	(12)	(12)	(102)	(102)
Interest rate cap agreements .....	(8)	(8)	(68)	(68)

The following are explanatory notes relating to the financial instruments.

Cash and cash equivalents, short-term investments, short-term loans receivable and short-term borrowings: In the normal course of business, substantially all cash and cash equivalents, time deposits short-term loans receivable and short-term borrowing are highly liquid and are carried at amounts that approximate fair value.

Marketable securities: The fair value of marketable securities was based on quoted market prices.

Long-term loan receivable: The fair value of long-term loans was estimated by discounting expected future cash flows.

Long-term debt: The fair value of bonds issued by NIDEC was estimated based on their market price which was influenced by, and corresponded to stock price. The fair value of long-term bank loans (including the current portion and excluding capital lease obligation) was estimated based on the discounted amounts of future cash flows using NIDEC's current incremental borrowing rates for similar liabilities.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Derivative financial instruments*

Changes in the estimated fair value of foreign exchange forward contracts, determined by reference to the discounted present value of net cash flows, are recognized as “Gain (loss) from derivative instruments, net” in the consolidated statement of income. Losses on foreign exchange forward contracts were ¥5 million and ¥192 million for the year ended March 31, 2004 and 2005, and gains from foreign exchange forward contracts were ¥25 million (\$213 thousand) for the year ended March 31, 2006. The contracted amounts outstanding on March 31, 2005 and 2006 were ¥1,761 million and ¥1,463 million (\$12,454 thousand), respectively.

Interest rate swap and cap agreements, which mature from 2006 to 2009, were designed to reduce NIDEC’s exposure to losses resulting from adverse fluctuations in cash flows due to changes in interest rates on underlying debt instruments.

Changes in the fair value of interest rate swap agreements, which are estimated based on the discounted amounts of net future cash flows, are recognized as “Gain (loss) from derivative instruments, net” in the income statement. Losses on interest rate swap agreements were ¥2 million for the year ended March 31, 2004, gains from interest rate swap agreements were ¥8 million for the year ended March 31, 2005, and gains from interest rate swap agreements were ¥34 million (\$289 thousand) for the year ended March 31, 2006. Both of the notional amounts of interest rate swap agreements on March 31, 2005 and 2006 were ¥1,200 million (\$10,215 thousand).

Interest rate cap agreements require the writer to pay the purchaser at specified future dates the amounts, if any, by which a specified market interest rate exceeds the fixed cap rate, applied to a notional amount. The premiums paid for interest rate cap agreements purchased are included in “Prepaid expenses and other current assets” and “Other non-current assets” in the accompanying consolidated balance sheets. Differences between the premium paid and fair value of these contracts and subsequent changes in fair values of option prices, which are calculated based on Black-Scholes option-pricing model, are recognized as “Gain (loss) from derivative instruments, net” in the income statement. Gains from interest rate cap agreements for the year ended March 31, 2004, 2005, and 2006 were ¥1 million, ¥10 million, and ¥16million (\$136 thousand), respectively. Both of the notional amounts of interest rate cap agreements on March 31, 2005 and 2006 were ¥2,500 million (\$21,282 thousand).

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**22. Related party transactions:**

As of March 31, 2006, the president of the Company and a business entity indirectly owned by the president of the Company held 8.3% and 6.1% of the outstanding shares of the Company, respectively. There were no significant related party transactions other than described in Note 11 for the year ended March 31, 2006.

**23. Lease commitments:**

NIDEC leases certain assets under capital lease and operating lease arrangements. An analysis of leased assets under capital leases is as follows:

<i>Class of property</i>	<u>Yen in millions</u>		<u>U.S. dollars</u>
	<u>March 31</u>		<u>March 31,</u>
	<u>2005</u>	<u>2006</u>	<u>2006</u>
Machinery and equipment.....	¥8,834	¥9,516	\$81,008
Other leased assets .....	724	829	7,057
Less - Accumulated amortization.....	(5,150)	(5,735)	(48,821)
	<u>¥4,408</u>	<u>¥4,610</u>	<u>\$39,244</u>

Amortization expenses under capital leases for the years ended March 31, 2004, 2005 and 2006 were ¥1,182 million, ¥1,923 million and ¥1,947 million (\$16,574 thousand), respectively.

Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2006 are as follows:

	<u>Yen in</u>	<u>U.S. dollars</u>
	<u>Millions</u>	<u>in thousands</u>
<u>Year ending March 31:</u>		
2007.....	¥2,018	\$17,179
2008.....	1,813	15,434
2009.....	1,141	9,713
2010.....	780	6,640
2011.....	323	2,750
2012 and thereafter.....	55	468
Total minimum lease payments .....	<u>6,130</u>	<u>52,184</u>
Less – Amount representing interest.....	<u>(284)</u>	<u>(2,418)</u>
Present value of net minimum lease payments .....	5,846	49,766
Less – Current obligations .....	<u>(1,900)</u>	<u>(16,174)</u>
Long-term capital lease obligations.....	<u>¥3,946</u>	<u>\$33,592</u>

Rental expenses under operating leases for the years ended March 31, 2004, 2005 and 2006 were ¥330 million, ¥368 million and ¥560 million (\$4,767 thousand), respectively.

**NIDEC CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The minimum rental payments required under operating leases relating primarily to land, buildings and equipment having initial or remaining non-cancelable lease terms in excess of one year at March 31, 2006 are as follows:

	<b>Yen in millions</b>	<b>U.S. dollars in thousands</b>
Year ending March 31:		
2007 .....	¥448	\$3,814
2008 .....	392	3,337
2009 .....	287	2,443
2010 .....	270	2,298
2011 .....	267	2,273
2012 and thereafter .....	1,331	11,331
Total minimum future rentals .....	<u>¥2,995</u>	<u>\$25,496</u>

NIDEC is a lessor in operating leases for which a portion of the land, office and manufacturing facilities is leased over various terms. Rental revenues under operating leases for the years ended March 31, 2004, 2005 and 2006 were ¥24 million, ¥46 million and ¥45 million (\$383 thousand), respectively.

The future minimum lease payments to be received under operating leases that have remaining non-cancelable term at March 31, 2006 are as follows:

	<b>Yen in millions</b>	<b>U.S. dollars in thousands</b>
Year ending March 31:		
2007 .....	¥44	\$374
2008 .....	29	247
2009 .....	29	247
2010 .....	4	34
2011 .....	-	-
2012 and thereafter .....	-	-
Total minimum future rentals .....	<u>¥106</u>	<u>\$902</u>

## NIDEC CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

#### **24. Other commitments and contingencies, concentrations and factors that may affect future operations:**

##### ***Commitments -***

Commitments outstanding at March 31, 2006 for the purchase of property, plant and equipment and other assets approximated ¥1,630 million (\$13,876 thousand).

##### ***Contingencies -***

Contingent liabilities for guarantees given in the ordinary course of business amounted to approximately ¥587 million (\$4,997 thousand) at March 31, 2006. On April 2002, Nidec's consolidated subsidiary, Nidec Tosok Corporation, agreed to guarantee for Okaya Seiken Corporation, subcontractor of Nidec Tosok Corporation, totaling ¥265 million (\$2,256 thousand) in order to provide funds for Okaya's manufacturing facilities in Vietnam.

Besides NIDEC has guaranteed approximately ¥322 million (\$2,741 thousand) of bank loan of employees for their housing costs. If an employee defaults on his/her loan payments, NIDEC is required to perform under the guarantee. The undiscounted maximum amount of NIDEC's obligation to make future payments in the event of defaults is approximately ¥587 million (\$4,997 thousand). The current carrying amount of the liabilities for our obligations under the guarantee is zero.

##### ***Concentration of risk -***

NIDEC is dependent on a number of large customers for a substantial portion of NIDEC's net sales. Sales to NIDEC's six largest customers represented approximately 40%, 29%, and 34% of consolidated net sales for the years ended March 31, 2004, 2005, and 2006, respectively. Sales to NIDEC's largest customer were approximately 14%, 8%, and 11% of consolidated net sales for the years ended March 31, 2004, 2005 and 2006, respectively. Accounts receivable are financial instruments that expose NIDEC to a concentration of credit risk. At March 31, 2005, the six largest customers with the outstanding accounts receivable balances totaled ¥33,627 million, or 30% of the gross accounts receivable, compared to ¥36,960 million (\$314,634 thousand), or 29% of the gross accounts receivable, at March 31, 2006. If any one or group of these customer's receivable balances should be deemed uncollectable, it would have a materially adverse effect on NIDEC's results of operations and financial condition.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**25. Segment information:**

*(1) Enterprise-wide information:*

*Product information –*

The following table provides product information for the years ended March 31, 2004, 2005 and 2006:

	Yen in millions			U.S. dollars in thousands
	For the year ended March 31			For the year ended March 31,
	2004	2005	2006	2006
Net sales:				
Small precision motors:				
Hard disk drives spindle motors.....	¥106,919	¥119,233	¥164,575	\$1,400,996
Other small precision brushless DC motors .....	34,138	61,066	66,463	565,787
Small precision brush DC motors .....	5,372	7,980	7,849	66,817
Brushless DC fans .....	26,047	34,435	34,872	296,859
Sub-total .....	172,476	222,714	273,759	2,330,459
Mid-size motors .....	32,574	35,564	37,767	321,503
Machinery .....	31,240	76,957	73,243	623,504
Electronic and optical components	23,188	128,417	128,791	1,096,374
Others.....	18,019	22,209	23,298	198,331
Consolidated total .....	¥277,497	¥485,861	¥536,858	\$4,570,171

The “Hard disk drives spindle motors” group of products consists of ball bearing hard disk drives spindle motors, including those for 3.5-inch, 2.5-inch, 1.8-inch and 1.0-inch hard disk drives. It also includes fluid dynamic bearing hard disk drives spindle motors for 3.5-inch, 2.5-inch, 1.8-inch, 1.0-inch and 0.85-inch hard disk drives for the years ended March 31, 2004, 2005 and 2006.

The “Other small precision brushless DC motors” group of products consists of brushless motors for many types of products, including optical disk drives, copiers, printers and fax machines.

The “Small precision brush DC motors” group of products consists of brush DC motors for many types of products, including DVD players, CD players, home video game consoles and mobile phones.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The “Brushless DC fans” group of products consists of brushless fans, which are used in many types of products, including computers and game machines for the purpose of lowering the temperature of central processing units in these products.

The “Mid-size motors” group of products consists of motors for automobiles, motors for industrial equipment, motors for home appliances and servomotors for OA equipment.

The “Machinery” group of products consists of industrial robots, card readers, semiconductor production equipment (e.g., die bonders, board testers), high-speed press machines, measuring machines, power transmission equipment, and FA systems.

The “Electronic and optical components” group of products consists of electric components and optical components, which include optical pick up units, motor driven actuator units, camera shutters, trimmer potentiometers and plastic mold products.

“Others” consists of automobile parts, pivot assemblies, other components and other services.

***Geographic information –***

Revenue from external customers, which are attributed to countries based on the location of the parent company or the subsidiaries that transacted with the external customer for the years ended March 31, 2004, 2005 and 2006, and long-lived assets for the years ended March 31, 2005 and 2006 are as follows:

	<b>Yen in millions</b>			<b>U.S. dollars in thousands</b>
	<b>For the year ended March 31</b>			<b>For the year ended March 31,</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>
Sales and operating revenue:				
Japan.....	¥149,392	¥292,822	¥294,307	\$2,505,380
U.S.A. ....	5,378	8,200	8,398	71,491
Singapore.....	39,056	59,989	72,970	621,180
Thailand.....	36,610	42,653	56,246	478,812
The Philippines.....	2,230	5,557	6,848	58,296
China .....	13,439	23,771	30,565	260,194
Other.....	31,392	52,869	67,524	574,818
Consolidated total .....	<u>¥277,497</u>	<u>¥485,861</u>	<u>¥536,858</u>	<u>\$4,570,171</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>		<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>		<u>For the year ended March 31,</u>
	<u>2005</u>	<u>2006</u>	<u>2006</u>
Long-lived assets:			
Japan.....	¥74,133	¥80,180	\$682,557
U.S.A. ....	789	841	7,159
Singapore.....	992	1,206	10,266
Thailand.....	18,390	22,987	195,684
The Philippines.....	15,923	20,026	170,478
China .....	25,134	36,979	314,795
Other .....	13,845	14,009	119,257
Consolidated total .....	<u>¥149,206</u>	<u>¥176,228</u>	<u>\$1,500,196</u>

**(2) Operating segment information:**

The operating segments reported below are defined as components of an enterprise for which separate financial information is available and regularly reviewed by NIDEC's chief operating decision maker. NIDEC's chief operating decision maker utilizes various measurements to assess segment performance and allocate resources to segments.

The NCJ segment comprises NIDEC Corporation in Japan, which primarily produces and sells hard disk drive motors, DC motors and fans.

The NET segment comprises Nidec Electronics (Thailand) Co., Ltd. and Nidec Precision (Thailand) Co., Ltd., subsidiaries in Thailand, which primarily produce and sell hard disk drive motors.

The NCC segment comprises Nidec (Zhejiang) Corporation, a subsidiary in China, which primarily produces and sells hard disk drive motors. NCC has been a new reportable segment.

The NCD segment comprises Nidec (Dalian) Limited, a subsidiary in China, which primarily produces and sells DC motors and fans.

The NCS segment comprises Nidec Singapore Pte. Ltd., a subsidiary in Singapore, which primarily produces and sells hard disk drive motors and pivot assemblies.

The NCH segment comprises Nidec (H.K.) Co., Ltd., a subsidiary in Hong Kong, which primarily sells hard disk drive motors, DC motors and fans. NCH has been a new reportable segment.

## NIDEC CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The NCF segment comprises Nidec Philippines Corporation and Nidec Precision Philippines Corporation, subsidiaries in The Philippines, which primarily produce and sell hard disk drive motors.

The NSNK segment comprises Nidec Sankyo Corporation, a subsidiary in Japan, which primarily produces and sells micro motors and optical and electronic parts. NSNK was acquired in February 2004.

The NCPL segment comprises Nidec Copal Corporation, a subsidiary in Japan, which primarily produces and sells optical and electronic parts and machinery. NCPL was acquired in February 2004.

The NTSC segment comprises Nidec Tosok Corporation, a subsidiary in Japan, which primarily produces and sells automobile parts and machinery.

The NCEL segment comprises Nidec Copal Electronics Corporation, a subsidiary in Japan, which primarily produces and sells electronic parts. NCEL was acquired in January 2004.

The NSBC segment comprises Nidec Shibaura Corporation, a subsidiary in Japan, which primarily produces and sells mid-size motors.

The NSCJ segment comprises Nidec-Shimpo Corporation, a subsidiary in Japan, which primarily produces and sells power transmission drives, measuring machines and electric potter's wheels.

The NNSN segment comprises Nidec Nissin Corporation, a subsidiary in Japan, which primarily produces and sells optical components. NNSN was acquired in February 2004.

The All Others segment comprises subsidiaries that are operating segments but not designated as reportable segments due to materiality.

NCC and NCH were identified as reportable segments because the materiality of these segments increased in the current period. Segment information for the years ended March 31, 2004 and 2005 has been restated to conform to the current presentation. NCT and NPMC were not identified as reportable segments in the current period due to their immateriality.

NIDEC has fourteen reportable segments, NCJ, NET, NCC, NCD, NCS, NCH, NCF, NSNK, NCPL, NTSC, NCEL, NSBC, NSCJ, and NNSN which have been identified based on differences in legal entities with responsible managers.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC evaluates performance based on segmental profit and loss, which consists of sales and operating revenues less operating expenses. Segmental profit or loss is determined using the accounting principles in the segment's country of domicile. NCJ, NSNK, NCPL, NTSC, NCEL, NSBC, NSCJ, NNSN's operating profit or loss is determined using Japanese GAAP, NET applies Thai accounting principles, NCC and NCD applies Chinese accounting principles, NCS applies Singaporean accounting principles, NCH applies Hong Kong accounting principles and NCF applies Philippine accounting principles. Therefore our segmental data has not been prepared under U.S. GAAP on a basis that is consistent with the consolidated financial statements or on any other single basis that is consistent between segments. While there are several differences between U.S. GAAP and the underlying accounting bases used by management, the principal differences that affect segmental operating profit or loss are accounting for pension and severance costs, directors' bonuses and leases. Management believes that the monthly segmental information is available on a timely basis and that it is sufficiently accurate at the segment profit and loss level for management's purposes.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following tables show revenues from external customers and other financial information by operating segment for the years ended March 31, 2004, 2005 and 2006:

	Yen in millions			U.S. dollars in thousands
	For the year ended March 31			For the year ended March 31, 2006
	2004	2005	2006	2006
Revenues from external customers:				
NCJ.....	¥60,316	¥56,602	¥68,613	\$584,090
NET.....	33,003	36,891	47,745	406,444
NCC.....	9,142	13,037	14,995	127,650
NCD.....	112	754	3,044	25,913
NCS.....	36,668	45,442	62,009	527,871
NCH.....	12,112	17,114	24,600	209,415
NCF.....	1,511	1,094	1,186	10,096
NSNK.....	7,779	68,880	70,195	597,557
NCPL.....	9,146	54,067	46,408	395,063
NTSC.....	21,211	23,992	22,081	187,971
NCEL.....	2,854	20,653	19,151	163,029
NSBC.....	15,767	14,449	13,502	114,940
NSCJ.....	8,476	10,317	9,619	81,885
NNSN.....	1,974	12,641	12,022	102,341
All Others.....	59,459	109,700	120,041	1,021,886
Total.....	279,530	485,633	535,211	4,556,151
US GAAP adjustments *1.....	(2,485)	(34)	(488)	(4,154)
Consolidation adjustments related to elimination of intercompany transactions via third party.....	(95)	(331)	(295)	(2,511)
Others.....	547	593	2,430	20,685
Consolidated total.....	¥277,497	¥485,861	¥536,858	\$4,570,171

\*1 US GAAP adjustments mainly related to the differences of revenue recognition between shipment and delivery bases. And the sales to affiliates that are consolidated under Japanese GAAP but equity accounted under U.S. GAAP.

**NIDEC CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

NIDEC had sales to one customer of ¥38,909 million and ¥58,767 million within the NCJ, NET, NCC, NCS and “All Others” segments for the years ended March 31, 2004 and 2006, respectively, and to another customer of ¥30,664 million within the NCJ, NET, NCS, NSNK and “All Others” segments for the years ended March 31, 2004 that exceeded 10% of NIDEC’s net sales. There were no sales which exceeded 10% of the consolidated net sales for the year ended March 31, 2005.

	Yen in millions			U.S. dollars in thousands
	For the year ended March 31			For the year ended March 31, 2006
	2004	2005	2006	
Revenue from other operating segments:				
NCJ .....	¥58,320	¥73,749	¥99,607	\$847,936
NET .....	17,794	21,240	29,732	253,103
NCC .....	391	1,052	4,377	37,261
NCD .....	31,270	38,678	45,629	388,431
NCS .....	3,081	1,363	1,179	10,037
NCH .....	1,792	2,003	2,702	23,002
NCF .....	22,117	21,131	31,121	264,927
NSNK .....	3,641	19,313	17,977	153,035
NCPL .....	1,384	9,351	8,977	76,420
NTSC .....	666	657	407	3,465
NCEL .....	372	2,355	2,642	22,491
NSBC .....	4,429	9,348	2,702	23,002
NSCJ .....	1,583	2,326	1,514	12,888
NNSN .....	303	1,041	907	7,721
All Others .....	64,754	166,350	182,093	1,550,121
Total .....	211,897	369,957	431,566	3,673,840
Intersegment elimination .....	(211,897)	(369,957)	(431,566)	(3,673,840)
Consolidated total .....	-	-	-	-

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31, 2006</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Segment profit or loss:				
NCJ .....	¥1,483	¥2,351	¥8,852	\$75,355
NET .....	8,590	8,649	11,335	96,493
NCC .....	(345)	107	108	919
NCD .....	2,486	2,436	3,718	31,651
NCS .....	2,489	1,935	1,205	10,258
NCH .....	243	362	347	2,954
NCF .....	1,422	(379)	1,059	9,015
NSNK .....	(2,581)	7,624	9,050	77,041
NCPL .....	586	3,195	2,524	21,486
NTSC .....	1,450	1,053	435	3,703
NCEL .....	307	3,583	2,949	25,104
NSBC .....	801	1,356	(274)	(2,333)
NSCJ .....	826	1,397	498	4,239
NNSN .....	229	946	683	5,814
All Others .....	7,283	13,252	12,179	103,679
Total .....	<u>25,269</u>	<u>47,867</u>	<u>54,668</u>	<u>465,378</u>
Main components of US GAAP adjustments:				
Pension and severance costs .....	341	547	151	1,285
Lease .....	54	(86)	(167)	(1,422)
Directors' bonus .....	(150)	(403)	(437)	(3,720)
Consolidation adjustments mainly related to elimination of intersegment profits .....	(754)	(839)	(174)	(1,481)
Reclassification *1 .....	(3,039)	7,048	(425)	(3,618)
Others *2 .....	294	(469)	(190)	(1,617)
	<u>¥22,015</u>	<u>¥53,665</u>	<u>¥53,426</u>	<u>\$454,805</u>

\*1 Loss on disposal of fixed assets and some other items are reclassified from other expenses and included in operating expenses.

\*2 Others include other U.S. GAAP adjustments such as the differences of revenue recognition between shipment and delivery bases, depreciation of fixed assets and provision for compensated absence.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Interest revenue:				
NCJ .....	¥120	¥319	¥1,052	\$8,955
NET .....	16	44	142	1,209
NCC .....	2	5	10	85
NCD .....	8	19	38	323
NCS .....	54	133	400	3,405
NCH .....	5	6	11	94
NCF .....	23	25	43	366
NSNK .....	8	172	372	3,167
NCPL .....	1	14	28	238
NTSC .....	1	1	1	9
NCEL .....	0	14	6	51
NSBC .....	9	37	70	596
NSCJ .....	11	15	66	562
NNSN .....	20	12	14	119
All Others .....	72	137	304	2,588
Total .....	350	953	2,557	21,767
Intersegment elimination .....	(81)	(454)	(1,213)	(10,326)
Consolidated total .....	¥269	¥499	¥1,344	\$11,441

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Interest expense:				
NCJ .....	¥310	¥329	¥823	\$7,006
NET .....	25	1	0	0
NCC .....	9	25	86	732
NCD .....	7	0	0	0
NCS .....	0	0	0	0
NCH .....	0	0	0	0
NCF .....	103	137	287	2,443
NSNK .....	45	32	208	1,771
NCPL .....	0	3	9	77
NTSC .....	13	18	12	102
NCEL .....	1	9	1	9
NSBC .....	94	120	152	1,294
NSCJ .....	34	39	88	749
NNSN .....	40	26	18	153
All Others .....	192	467	789	6,716
Total .....	873	1,206	2,473	21,052
Intersegment elimination .....	(11)	(335)	(1,111)	(9,458)
Consolidated total .....	<u>¥862</u>	<u>¥871</u>	<u>¥1,362</u>	<u>\$11,594</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Depreciation:				
NCJ .....	¥1,777	¥1,605	¥1,550	\$13,195
NET .....	2,622	2,565	2,886	24,568
NCC .....	123	168	383	3,260
NCD .....	1,103	919	1,201	10,224
NCS .....	736	240	465	3,958
NCH .....	2	2	4	34
NCF .....	1,876	2,109	2,656	22,610
NSNK .....	96	1,244	1,016	8,649
NCPL .....	308	1,350	1,561	13,288
NTSC .....	526	655	707	6,019
NCEL .....	151	825	803	6,836
NSBC .....	89	71	75	638
NSCJ .....	191	189	345	2,937
NNSN .....	0	326	459	3,907
All Others .....	4,337	8,554	10,975	93,428
Total .....	13,937	20,822	25,086	213,551
U.S. GAAP adjustments*1 .....	923	1,445	1,663	14,157
Reconciliation .....	(587)	(739)	(464)	(3,949)
Consolidated total .....	<u>¥14,273</u>	<u>¥21,528</u>	<u>¥26,285</u>	<u>\$223,759</u>

\*1 Leased properties are not capitalized in the operating segment but are capitalized under U.S. GAAP.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>			<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>			<u>For the year ended March 31,</u>
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
Income tax expenses or benefit:				
NCJ .....	¥2,399	¥1,177	¥5,954	\$50,685
NET .....	571	204	351	2,988
NCC .....	0	0	0	0
NCD .....	151	213	353	3,005
NCS .....	45	49	102	868
NCH .....	45	63	61	519
NCF .....	9	11	10	85
NSNK .....	(17)	100	122	1,039
NCPL .....	274	2,083	607	5,167
NTSC .....	556	290	157	1,338
NCEL .....	123	1,334	1,142	9,722
NSBC .....	121	119	(1,036)	(8,819)
NSCJ .....	51	224	88	749
NNSN .....	175	475	1,157	9,849
All Others .....	1,453	3,259	3,800	32,348
Total .....	5,956	9,601	12,868	109,543
Consolidation adjustments ....	(532)	3,246	2,345	19,962
Consolidated total .....	<u>¥5,424</u>	<u>¥12,847</u>	<u>¥15,213</u>	<u>\$129,505</u>

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>		<u>U.S. dollars</u> <u>in thousands</u>
	<u>For the year ended</u> <u>March 31</u>		<u>For the year</u> <u>ended</u> <u>March 31,</u>
	<u>2005</u>	<u>2006</u>	<u>2006</u>
Segment assets:			
NCJ .....	¥261,296	¥302,801	\$2,577,688
NET .....	32,463	45,606	388,235
NCC .....	7,187	9,923	84,473
NCD .....	17,215	19,425	165,361
NCS .....	24,448	28,778	244,982
NCH .....	5,645	10,796	91,904
NCF .....	15,483	20,348	173,219
NSNK .....	80,771	97,447	829,548
NCPL .....	53,123	60,859	518,081
NTSC .....	27,109	25,544	217,451
NCEL .....	24,724	25,036	213,127
NSBC .....	20,750	18,846	160,432
NSCJ .....	18,268	21,310	181,408
NNSN .....	11,297	11,483	97,753
All Others .....	164,413	194,526	1,655,963
Total .....	<u>764,192</u>	<u>892,728</u>	<u>7,599,625</u>
U.S. GAAP adjustments:			
Lease .....	3,079	3,235	27,539
Property, plant and equipment .....	(2,221)	(2,221)	(18,907)
Deferred tax assets .....	4,115	4,844	41,236
Marketable securities .....	2,108	443	3,771
Others .....	(2,818)	(3,383)	(28,799)
Sub-total .....	4,263	2,918	24,840
Elimination of intersegment assets, net of taxes .....	(336,134)	(393,173)	(3,347,008)
Valuation differences .....	6,798	6,641	56,534
Goodwill .....	40,664	44,266	376,828
To adjust affiliate from cost to equity method *1 ...	(521)	(412)	(3,507)
Others .....	4,911	13,002	110,684
Consolidated total .....	<u>¥484,173</u>	<u>¥565,970</u>	<u>\$4,817,996</u>

\*1 The costs of investments in equity method investees were included in the segments and the adjustments under the equity method were included in the reconciliation.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	<u>Yen in millions</u>		<u>U.S. dollars in thousands</u>
	<u>For the year ended March 31</u>		<u>For the year ended March 31,</u>
	<u>2005</u>	<u>2006</u>	<u>2006</u>
Expenditure for segment assets:			
NCJ .....	¥2,066	¥2,325	\$19,792
NET .....	3,230	4,686	39,891
NCC .....	719	2,641	22,482
NCD .....	1,115	1,308	11,135
NCS .....	516	550	4,682
NCH .....	1	9	77
NCF .....	2,095	2,620	22,304
NSNK .....	6,408	2,137	18,192
NCPL .....	1,977	4,125	35,115
NTSC .....	3,469	535	4,554
NCEL .....	1,226	1,126	9,585
NSBC .....	36	138	1,175
NSCJ .....	1,182	1,543	13,136
NNSN .....	502	1,180	10,045
All Others .....	20,823	16,611	141,406
Total .....	45,365	41,534	353,571
Reconciliation *1 .....	(8,108)	1,651	14,055
Consolidated total .....	<u>¥37,257</u>	<u>¥43,185</u>	<u>\$367,626</u>

\*1 The amounts of expenditure for segment assets were on an accrual basis while the amounts of consolidated total were on a cash basis.

NIDEC did not have significant non-cash items other than depreciation in reported profit. Equity in earnings of affiliates were not allocated to the segments in the financial information report available and are not regularly reviewed by NIDEC's chief operating decision maker. Intersegment sales were made at prices that approximate current market value.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**26. Subsequent events:**

*Dividends*

Subsequent to March 31, 2006, the Company's Board of Directors declared a cash dividend of ¥2,892 million (\$24,619 thousand) payable on June 23, 2006 to stockholders of record on March 31, 2006. This decision is subject to approval by the shareholders at the annual general meeting of shareholders to be held on June 22, 2006.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**27. Quarterly Financial Data for the year ended March 31, 2006: (Unaudited)**

	Yen in millions				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales .....	¥122,499	¥133,675	¥136,729	¥143,955	¥536,858
Operating expenses:					
Cost of products sold .....	94,602	101,944	104,830	111,636	413,012
Selling, general and administrative expenses .....	11,293	9,021	9,709	11,165	41,188
Research and development expenses.....	7,002	7,234	7,187	7,809	29,232
	<u>112,897</u>	<u>118,199</u>	<u>121,726</u>	<u>130,610</u>	<u>483,432</u>
Operating income .....	9,602	15,476	15,003	13,345	53,426
Other income (expense):					
Interest and dividend income.....	318	406	355	585	1,664
Interest expense .....	(166)	(305)	(356)	(535)	(1,362)
Foreign exchange gain (loss), net.....	2,224	2,292	3,129	221	7,866
(Loss) gain on derivative instruments, net.....	(24)	38	22	39	75
Gain from marketable securities, net.....	31	1,072	1,732	1,034	3,869
Other, net .....	(26)	(751)	(247)	(136)	(1,160)
	<u>2,357</u>	<u>2,752</u>	<u>4,635</u>	<u>1,208</u>	<u>10,952</u>
Income before provision for income taxes .....	11,959	18,228	19,638	14,553	64,378
Provision for income taxes .....	(2,344)	(3,573)	(5,194)	(4,102)	(15,213)
Income before minority interest and equity in earnings of affiliated companies.....	9,615	14,655	14,444	10,451	49,165
Minority interest in income of consolidated subsidiaries .....	817	3,025	2,369	1,959	8,170
Equity in net losses/(income) of affiliated companies .....	4	23	(49)	68	46
Net income.....	<u>¥8,794</u>	<u>¥11,607</u>	<u>¥12,124</u>	<u>¥8,424</u>	<u>¥40,949</u>
	Yen				
Per share data:					
Net income - basic.....	¥61.59	¥81.23	¥84.43	¥58.29	¥285.47
- diluted.....	¥59.17	¥78.08	¥81.38	¥56.50	¥275.05
Cash dividends .....	¥12.50	¥0.00	¥12.50	¥0.00	¥25.00

Earnings-per-share amounts for each quarter are computed independently. As a result, their sum may not equal the total year earnings-per-share amounts.

**NIDEC CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	U.S. dollars in thousands				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales .....	\$1,042,811	\$1,137,950	\$1,163,948	\$1,225,462	\$4,570,171
Operating expenses:					
Cost of products sold .....	805,329	867,830	892,398	950,336	3,515,893
Selling, general and administrative expenses .....	96,135	76,794	82,651	95,046	350,626
Research and development expenses.....	59,607	61,582	61,182	66,476	248,847
	<u>961,071</u>	<u>1,006,206</u>	<u>1,036,231</u>	<u>1,111,858</u>	<u>4,115,366</u>
Operating income .....	81,740	131,744	127,717	113,604	454,805
Other income (expense):					
Interest and dividend income.....	2,707	3,456	3,022	4,980	14,165
Interest expense .....	(1,413)	(2,596)	(3,031)	(4,554)	(11,594)
Foreign exchange gain (loss), net.....	18,933	19,511	26,637	1,881	66,962
(Loss) gain on derivative instruments, net .....	(204)	324	187	332	639
Gain from marketable securities, net.....	264	9,126	14,744	8,802	32,936
Other, net .....	(221)	(6,393)	(2,103)	(1,158)	(9,875)
	<u>20,066</u>	<u>23,428</u>	<u>39,456</u>	<u>10,283</u>	<u>93,233</u>
Income before provision for income taxes .	101,806	155,172	167,173	123,887	548,038
Provision for income taxes .....	(19,954)	(30,416)	(44,215)	(34,920)	(129,505)
Income before minority interest and equity in earnings of affiliated companies.....	81,852	124,756	122,958	88,967	418,533
Minority interest in income of consolidated subsidiaries.....	6,955	25,751	20,167	16,677	69,550
Equity in net losses/(income) of affiliated companies.....	34	196	(417)	579	392
Net income.....	<u>\$74,863</u>	<u>\$98,809</u>	<u>\$103,208</u>	<u>\$71,711</u>	<u>\$348,591</u>
	<b>U.S. dollars</b>				
Per share data:					
Net income - basic.....	\$0.52	\$0.69	\$0.72	\$0.50	\$2.43
- diluted.....	\$0.50	\$0.66	\$0.69	\$0.48	\$2.34
Cash dividends .....	\$0.11	\$0.00	\$0.10	\$0.00	\$0.21

Earnings-per-share amounts for each quarter are computed independently. As a result, their sum may not equal the total year earnings-per-share amounts.

## BOARD OF DIRECTORS

(AS OF JUNE 22, 2006)

### Chairman of the Board, President & CEO

Shigenobu Nagamori

### Executive Vice President & COO

Hiroshi Kobe

### Executive Vice President & CFO

Yasunobu Toriyama

### Executive Vice President

Kenji Sawamura

Jyuntaro Fujii

### Senior Managing Directors

Yasuo Hamaguchi

### Managing Directors

Seizaburo Kawaguchi

Tadaaki Hamada

### Directors

Seiichi Hattori

Tetsuo Inoue

Satoru Kaji

Takashi Iwata

Akira Kagata

Kiyoyoshi Takegami

Toru Kodaki

### Auditors

Hideo Asahina

Tadayoshi Sano

Tsutomu Katsuyama

Shiro Kuniya

Yoshiro Kitano

## CORPORATE DATA

(As of March 31, 2006)

### Head Office:

338 Tonoshiro-cho, Kuze, Minami-ku, Kyoto 601-8205, Japan

Tel: +81-75-935-6140

Fax: +81-75-935-6141

E-mail: ir@nidec.co.jp

U R L : http://www.nidec.co.jp/english

### IR Representative Office in New York:

1040 Avenue of the Americas, Suite 2412

New York, New York 10018

Tel: +1-212-703-7988

Fax: +1-212-703-7989

Mobile: +1-646-335-5193

E-mail: masahiro.nagayasu@nidec.com

### IR Representative Office in London:

90 Long Acre, Covent Garden, London WC2E 9RZ, UK

Tel: 44(0)870-351-7388

Fax: 44(0)870-351-7389

E-mail: SHUSAKU\_DAIJO@notes.nidec.co.jp

### Established:

July 23, 1973

### Paid-in Capital:

¥65,648,785,886

### Number of Shares:

144,661,292 (stock split 2 for 1)

### Number of Shareholders:

21,567

### ADR Ratio:

1 ordinary share of the common stock = 4 ADRs

### Stock Listings:

Tokyo, Osaka, New York

### Transfer Agent for Common Stock:

The Sumitomo Trust and Banking Company, Limited

5-33, Kitahara 4-chome, Chuo-ku, Osaka 540-0041 Japan

### Depository and Transfer Agent for American Depository Receipts (ADRs):

JPMorgan Chase Bank

270 Park Avenue, New York, New York 10017-2070 U.S.A.

Tel: +1-212-270-6000

### Principal Shareholders:

Name	Number of Stocks (in thousands)	Holding Ratio (%)
1. The Master Trust Bank of Japan, Ltd.	12,581	8.71
2. Shigenobu Nagamori	11,946	8.27
3. Japan Trustee Services Bank, Ltd.	10,876	7.53
4. SN Kosan Ltd.	8,867	6.14
5. State Street Bank & Trust Company	7,314	5.06
6. The Bank of Kyoto, Ltd.	5,808	4.02
7. The Dai-ichi Mutual Life Insurance Company	4,621	3.20
8. Nippon Life Insurance Company	4,137	2.86
9. Trust & Custody Services Bank, Ltd.	3,835	2.65
10. Meiji Yasuda Life Insurance Company	3,366	2.33

## PRINCIPAL GROUP COMPANIES

### New Consolidated Companies:

Nidec Automobile Motor (Zhejiang) Corporation

Nidec Vietnam Corporation

NTN-Nidec (Thailand) Co.Ltd.

### Domestic Companies:

Nidec Sankyo Corporation

Nidec Copal Corporation

Nidec Tosok Corporation

Nidec Copal Electronics Corporation

Nidec-Read Corporation

Nidec Shibaura Corporation

Nidec-Shimpo Corporation

Nidec-Kyori Corporation

Nidec Logistics Corporation

Nidec Nemicon Corporation

Nidec Power Motor Corporation

Nidec Machinery Corporation

Nidec Pigeon Corporation

Nidec Total Service Corporation

Nidec Nissin Corporation

### Overseas Companies:

Nidec America Corporation

Nidec Electronics GmbH

Nidec Electronics (Thailand) Co.,Ltd

Nidec (Zhejiang) Corporation

Nidec (Dalian) Limited

Nidec (Dongguan) Limited

Nidec Taiwan Corporation

Nidec Singapore Pte.Ltd.

P.T.Nidec Indonesia

Nidec (H.K.) Co.,Ltd

Nidec Philippines Corporation

Nidec Subic Philippines Corporation

Nidec Korea Corporation

Nidec (Shanghai) International Trading Co.,Ltd

Nidec Copal (Vietnam) Co.,Ltd.

Nidec Power Motor (Zhejiang) Corporation

Nidec Tosok (Vietnam) Co.,Ltd.

Nidec Copal Philippines Corporation

Nidec System Engineering (Zhejiang) Corporation

Nidec Shibaura (Zhejiang) Co.,Ltd.

Nidec Total Service (Zhejiang) Corporation

Nidec Machinery (Thailand) Co.,Ltd

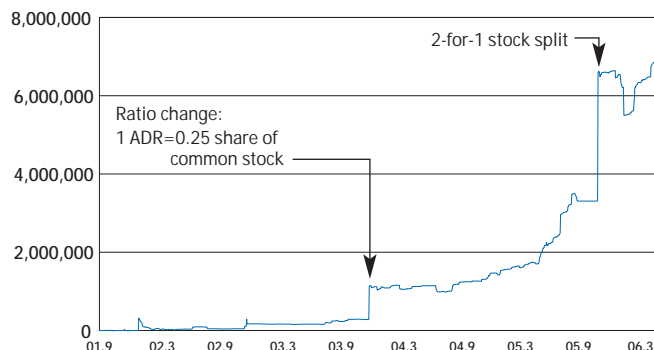
Nidec Copal (Malaysia) Sdn.Bhd.

NTN-Nidec (Zhejiang) Corporation

### ADR Price (US\$ per ADR—adjusted) :



### ADRs Outstanding:



The above line chart retroactively reflects the effect of a four-for-one ratio change effective January 2004, by which one ADR represents one-fourth of one share of common stock, and the effect of a two-for-one split effective November 2005.