February 27, 2026

To Nidec Corporation:

Investigation Report

(Version for Public Release)

Third-Party Committee

Chairperson: Kaku Hirao

Member: Toraki Inoue

Member: Makoto Shirai

I. Background to Establishment of Third-Party Committee and Summary of Investigation

Part 1. Background to Establishment of the Third-Party Committee

A report was made on July 22, 2025 by the Internal Audit Department of Nidec Techno Motor Corporation, a subsidiary of Nidec Corporation ("**Nidec**"), addressed to the Nidec Internal Audit Department and the Audit and Supervisory Committee, to the effect that there were suspicions of improper accounting relating to one-time purchase incentives received from suppliers by Nidec Techno Motor (Zhejiang) Co., Ltd., Nidec's subsidiary in China.[1] Nidec engaged outside law firms and others as experts and conducted investigations, including a forensic investigation, under the supervision of the Audit and Supervisory Committee; during that process, materials were discovered that could be interpreted as indicating that assets with questionable asset value had accumulated at various Nidec Group sites, and that Nidec's management may have been determining the timing of disposition of those assets arbitrarily.

In response to these developments, Nidec decided that, rather than conducting investigations led by the Audit and Supervisory Committee, it was necessary to have third parties independent from the company conduct an objective investigation. On September 3, 2025, the Nidec Board of Directors decided to establish the Third-Party Committee ("**Committee**").

Part 2. Objectives of the Committee

The objectives of the Committee are to investigate and examine the following matters within the Nidec Group.

(i) Fact-finding investigations of suspected improper accounting at the Nidec Group, such as arbitrarily adjusting the timing of write-downs of the value of certain assets with risk in terms of their asset value;
(ii) If improper accounting is found, calculation of the amount of the impact;
(iii) Root cause investigations and recommendations for recurrence prevention measures, if improper accounting is found; and
(iv) Other matters deemed necessary by the Committee.

---

[1] The newly appointed Japanese general manager of the Chinese subsidiary became aware that there was a possibility that improper accounting was implemented with respect to one-time purchase incentives, and a report made to the Internal Audit Department of Nidec Techno Motor Corporation (NTMC) was the trigger for conducting the investigation.

With regard to item (ii) above, the amount of the impact does not take into consideration the impact of derivative issues, such as effects on corporate income taxes that require revision as a result of correcting misconduct[2] or errors[3] discovered as a result of the investigation, the application of deferred tax accounting, or consideration of impairment of goodwill and fixed assets. However, even where the corrections relate to corporate income taxes, deferred tax accounting, or impairment of goodwill and fixed assets, if the corrections themselves are suspected of constituting misconduct or error, the amount of the resulting impact has been included in the calculations.

Part 3. Structure, etc., of the Committee

The structure of the Committee is as follows.

Chairperson: Kaku Hirao (Attorney, Nishimura & Asahi (Gaikokuho Kyodo Jigyo))
Member: Toraki Inoue (Certified Public Accountant, Accounting Advisory Co., Ltd.)
Member: Makoto Shirai (Attorney, Kohwa Sohgoh Law Offices)

The Committee members were selected in accordance with the "Guidelines for Third-Party Committees in Cases of Corporate Misconduct" established by the Japan Federation of Bar Associations. The Committee also conducted its investigation in accordance with those Guidelines.

The Committee appointed a total of 35 attorneys and others affiliated with Nishimura & Asahi (Gaikokuho Kyodo Jigyo), Kohwa Sohgoh Law Offices, Yakumo Law Office, Uryu & Itoga, and Accounting Advisory Co., Ltd. as investigative assistants, and also appointed a total of 81 certified public accountants (including certified public accountants with foreign qualifications) affiliated with Accounting Advisory Co., Ltd. and Ernst & Young ShinNihon LLC (including overseas EY network firms) and 77 other staff, as investigative assistants.

In cases where the organizations with which the investigative assistants are affiliated have interests in individual Nidec Group companies, such as financial statement audit contracts, the investigations were conducted without the relevant investigative assistants being involved in the review of accounting of those companies in which such interests existed.

2 This refers to intentional acts by management, directors, corporate auditors, employees, or third parties that involve deceiving others to obtain unjust or unlawful gains (ASCS 240, Misconduct in an Audit of Financial Statements, paragraph 10).

3 This refers to the cause of misstatements in financial statements other than misconduct. ASCS 240, Misconduct in an Audit of Financial Statements, paragraph 2 states, "Misstatements in the financial statements can arise from either misconduct or error. The distinguishing factor between misconduct and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional."

Part 4. Overview of the Investigation

1. Meetings of the Third-Party Committee

During the period from the establishment of the Committee to the date of submission of this Report, the Committee held a total of 47 meetings, and in addition to meetings, the Committee members engaged in discussions on numerous occasions.

2. Investigation Period

The Committee commenced its investigation on September 3, 2025. As of the date of submission of this Report, the Committee's investigation is ongoing.

3. Period Subject to Investigation

Taking into consideration the public inspection period for Nidec's securities reports and other factors, the Committee set the period subject to investigation as the period from fiscal 2020 to the first quarter of fiscal 2025. However, the Committee investigated periods prior to fiscal 2020 in cases where the Committee deemed it necessary to analyze causes according to the details.

4. Investigation Procedures

As stated in Part 2 above, the Committee broadly investigated suspected instances of inappropriate accounting covering all of the more than 350 companies in the Nidec Group, and therefore the scope of the investigation was extremely broad. Accordingly, from a risk-based approach, the Committee created a list of suspected instances of improper accounting identified through each of the investigative procedures described below, prioritized them based on quantitative criteria (monetary amounts) and qualitative criteria (such as the attributes of the individuals involved and the nature of the misconduct), and conducted its investigation with a focus on high-priority incidents.

Meanwhile, Nidec conducted self-inspections under the management and supervision of the Committee, as described in the January 28, 2026 "Notice regarding the Disclosure of the Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2026, Exceeding 45 Days after the Quarter-End," but these self-inspections were conducted without any prioritization. As discussed in Section (6) below, the Committee confirmed the scope of implementation, methods, and other details of the self-inspections, received reports on the results of the self-inspections, and conducted its own additional investigations as necessary, thereby conducting a comprehensive and efficient investigation.

The specific investigative procedures are described below.

(1) Examination of Relevant Documents

The Committee gathered relevant documents present within individual Nidec Group companies as well as documents and other materials submitted by interviewees, and examined the content thereof. The primary documents are listed below.

- Internal rules;
- Minutes of meetings of the Board of Directors, Audit and Supervisory Committee, Executive Management Meetings, and other deliberative bodies (including some audio recordings);
- Escalation reports and approval request documents;
- Transaction documents and accounting documents that serve as the basis for accounting;
- Accounting data;
- Reports relating to internal audits, related documents, etc.;
- Documents and other materials relating to past accounting audit procedures; and
- Various other types of documents and materials.

(2) Investigative Interviews

As of February 25, 2026, the Committee interviewed a total of 319 Nidec Group officers and employees and other involved persons (including former officers and employees) and conducted a total of 536 interviews.[4, 5]

Nidec Group officers and employees other than the interviewees were not permitted to attend the interviews.

(3) Forensic Investigations

The Committee preserved the emails, chat messages, and company-loaned PCs and other devices used within the Nidec Group of 113 Nidec Group officers and employees (including former officers and employees) to the extent necessary and possible, and reviewed emails, chat messages, and other information extracted using keywords and other methods deemed appropriate by the Committee.

In addition, the Committee preserved document files and other materials stored on file servers

[4] Including interviews conducted in response to the questionnaire survey described in section (4) below and information submitted to the special hotline described in section (5) below.

[5] Some interviewees were interviewed multiple times.

managed by Nidec and via in-house cloud storage, to the extent necessary and possible, and reviewed those files.

(4) Questionnaire Surveys

The Committee administered a questionnaire survey to a total of 2,103 Nidec Group officers and employees, with a focus on those officers and employees who were involved in accounting operations at individual Nidec Group companies. The survey questionnaire was conducted from September 29, 2025 to January 20, 2026 using two methods: responses were submitted via a link included in a distributed email or by completing a paper questionnaire that was distributed (the response rate was 97%). For those respondents whose native language is not Japanese, the survey was administered in English or Chinese.

Also, prior to conducting the questionnaire survey, Nidec sent the respondents an explanation about the purpose of the survey, the methods of responding, and other information, and informed the respondents that if they cooperated with the Committee's investigation honestly and in good faith, for example, by voluntarily reporting on their own misconduct, that cooperation may be taken into account when considering internal disciplinary action with respect to the conduct in question.

In cases where the Committee deemed it necessary in light of the content of survey responses, the Committee confirmed the facts with respondents through interviews and email.

(5) Establishment of Special Hotline

The Committee established a special hotline for all Nidec Group officers and employees in order to gather information relating to its investigation on a broad basis.

For those whose native language is not Japanese, information about the special hotline was provided in English and Chinese, and submission of information was accepted via web form and email.

In cases where the Committee deemed it necessary in light of the content of the information submitted, the Committee confirmed the facts with respondents through interviews and email.

(6) Review of Self-Inspections

After establishing a framework, pursuant to which outside experts confirmed the details of individual procedures to ensure objectivity, Nidec conducted self-inspections of accounting for the period from fiscal 2019 to the first quarter of fiscal 2025, covering Nidec and its 288 consolidated subsidiaries.[6] The self-inspections were conducted from a conservative perspective, looking back an additional year before the period covered by the Committee's investigation.

Also, to enable extensive self-inspections, the Committee provided information that it obtained through its own investigations to Nidec to the extent it deemed it necessary and appropriate to do so.

When conducting the self-inspections, Nidec created a procedural checklist based on improper accounting methods that were identified in the course of the Committee's investigation, such as early recognition of sales, understating provisions, overstatement of inventory and avoiding impairment of fixed assets, and capitalizing costs, and the Committee checked the list. The self-inspections were conducted by having the responsible personnel at each site perform inspections based on the list, having personnel at other sites conduct cross-checks,[7] and receiving confirmation from outside experts about the details of those procedures.

The Committee confirmed the details of the self-inspection procedures described above, reviewed the results of the self-inspections, requested additional confirmation as necessary, and conducted its own additional investigations.

Furthermore, during the course of its investigation, the Committee identified multiple sites at which fictitious inventory were recorded, and as part of its self-inspections, Nidec conducted on-site inventory, with the end of December 2025 or the end of January 2026 as a reference date for those sites determined to be high risk, and the Committee reviewed the results of those on-site inventories as well.

The aforementioned self-inspections are ongoing as of the date of submission of this Report.

Nidec decided to conduct the self-inspections, triggered by the Committee's investigation, in order to reaffirm the appropriateness of accounting within the Nidec Group and ensure that financial closing procedures are performed properly. Accordingly, corrections to accounting will be made not only in cases where instances of misconduct are identified, but also in cases where corrections are deemed necessary to achieve more appropriate accounting. Therefore, the amount of the impact on the Nidec Group's net assets, as set forth in the Group's consolidated financial statements at the end of the first quarter of fiscal 2025, described below in "II, Part 7: Amount of Impact on Consolidated Financial Statements," includes corrections identified through the self-inspections, which include not only corrections resulting from misconduct, but also corrections resulting from errors.

---

[6] Based on the consolidated subsidiaries that existed as of the end of the first quarter of fiscal 2025 and taking into account that the Committee's investigation relates to suspected incidents of inappropriate accounting, certain entities were excluded from the scope of the investigation, specifically, regional management companies, dormant companies, companies in liquidation, and shared services entities that are not subject to performance management by Nidec and are considered to have little incentive to engage in improper accounting.

[7] There were some instances in which outside experts performed cross-checks.

5. Limits of Investigation

The Committee's investigation was not conducted with compulsory force pursuant to statutory authority, but rather with the voluntary cooperation of the parties concerned. For this reason, it was not possible to interview some former officers and employees, nor was it possible to perform a comprehensive check of the information and electronic data in the possession of Nidec officers and employees in their personal capacities.

In addition, the audit working papers of Nidec's accounting auditors were not examined and the engagement partners were not interviewed, but written responses were received from the accounting auditors. Consequently, no evaluation of the accounting auditors is contained in this Report.

In addition to the presence of these restrictions, the Committee's investigation is ongoing at the present time, and if any new facts are uncovered, the Committee's findings of fact, analysis of causes, and recommendations are subject to change.

Furthermore, the Committee notes that its investigation was not performed for the purpose of pursuing the liability of specific officers and employees, and does not constitute a guarantee of any decisions by courts or other relevant authorities.

II. Investigation Results

Part 1. Overview of the Facts Revealed as a Result of Investigation

The facts revealed as a result of the Committee's investigation are extensive and highly varied; therefore, we begin by providing an overall image of the facts that emerged from the results of the investigation, to facilitate understanding.

1. Overview of Improper Accounting Revealed as a Result of the Investigation

The Committee's investigation is still ongoing, but to date the investigation has revealed numerous instances of improper accounting at various Nidec Group sites.

The specifics of the improper accounting that was discovered are wide-ranging in nature and include the following situations: [i] instances in which inventory write-downs were not recorded, by falsely claiming that raw materials and products with virtually no prospect of future use and sale, which therefore lacked asset value, in fact did possess value, [ii] instances in which impairment was avoided by incorporating certain projects, for which there was a low likelihood that sales would be realized, into sales plans that served as the basis for impairment tests for fixed assets, [iii] instances involving labor costs, for which capitalization as incidental expenses was not appropriate, that were recorded as fixed assets and expensed through depreciation, thereby deferring the timing of expense recognition, [iv] instances in which provisions recorded by subsidiaries in their standalone financial statements that related to the repayment of Government Grants and other items were reversed improperly on the consolidated financial statements when Nidec's consolidated financial statements were prepared, [v] instances in which grants that by their nature were ineligible to be recognized as revenue nonetheless were recognized as revenue by misrepresenting their nature, and [vi] instances in which allowances for doubtful accounts for non-performing receivables were not recorded appropriately.

The negative impact on net assets in the consolidated financial statements as of the end of the first quarter of fiscal 2025 due to misconduct and errors discovered as a result of the investigation by the Committee as of the date of submission of this Report is approximately 139.7 billion yen.

2. Methods of Setting and Managing Performance Targets

All instances of improper accounting identified through the Committee's investigation were acts of misconduct carried out against the backdrop of excessive pressure to meet performance targets, particularly operating profit targets.

Under the forceful leadership of Shigenobu Nagamori ("**Mr. Nagamori**"), the belief that "losses are unacceptable" became thoroughly entrenched within the Nidec Group over many years,[8] and achieving performance targets came to be seen as imperative. For many years, the Nidec Group's performance targets were set by Mr. Nagamori in a top-down manner and allocated to individual business units and subsidiaries, but the targets were determined from the perspective of the level of growth expected by investors, and they were beyond the actual capabilities of the business units and subsidiaries. In addition, Mr. Nagamori applied considerable pressure on executive officers at the Nidec headquarters and the CFOs, who were responsible for the business units and subsidiaries achieving the performance targets.

The performance pressure imposed on executive officers at Nidec headquarters led directly to pressure to achieve performance targets being placed on executives in the business units and at subsidiaries. Among the examples identified by the Committee, there were instances in which, when performance targets were not achieved, Nidec headquarters executive officers held meetings spanning multiple consecutive days, blamed the executives of subsidiaries for not meeting operating profit targets, and repeatedly made unreasonable demands, instructing executives to generate operating profits even if they had to work through the night. This was not the exception, even after the end of the fiscal period, and if preliminary operating profit figures were worse than expected, instructions were issued to increase the figures before the accounting closing date. Mr. Nagamori also directly

8 It should be noted that for many years, an operating profit margin of less than 10% was considered to be a "loss" at Nidec.

applied pressure on the business units and executives of subsidiaries on a daily basis.

In this way, given this imposition of intense performance pressure, there were many business units and subsidiaries that attempted to meet their performance targets using accounting procedures, for example, early recognition of sales, avoiding inventory write-downs and impairment of fixed assets, changing asset valuation methods, capitalizing costs, etc.[9]

The CFOs and accounting departments of business units and subsidiaries came up with reasons to justify these accounting procedures, explained those reasons to the accounting auditors,[10] and obtained approval, but among these instances, there are examples where the explanations provided to the accounting auditors differed from the facts or where no one ventured to explain inconvenient facts.

Needless to say, there is a certain degree of latitude in how accounting procedures are applied, as exemplified by asset valuation methods and determinations of fixed asset impairment, and not all such accounting procedures are impermissible under accounting standards. However, the Committee's investigation revealed that in some instances, accounting procedures that deviated from the scope of permissible procedures were implemented.

Furthermore, there also were instances in which the Nidec headquarters CFO or Accounting Department took the lead in improper accounting in order to achieve the Nidec Group's consolidated performance targets. The backdrop to this was the fact that, in effect, the Nidec headquarters CFO and Accounting Department were held responsible for achieving performance targets, and in cases where those performance targets were not achieved, they were subjected to severe criticism by Mr. Nagamori.

3. "Legacy Liabilities" and Efforts to Eliminate Them

The trigger that led the Committee to be established was the discovery, through an earlier internal investigation, of materials that could be interpreted as indicating that assets with questionable asset values had accumulated at various Nidec Group sites, and for which Nidec's management may have been determining the timing of their disposition arbitrarily. These "assets with questionable asset values" refers to assets arising from the avoidance of asset impairment measures and similar measures implemented to achieve performance targets, and the accumulation of those assets. These assets were

---

9 It should be noted that many people cited, as one of the causes of the large-scale asset impairments arising, the fact that high performance targets were set in accordance with instructions from Mr. Nagamori, that substantial capital investments were made to secure sales and operating profit commensurate with those targets, and that when expectations were not met, business units and subsidiaries were left with large amounts of non-performing assets.

10 It should be noted that the Kyoto Audit Corporation (the firm name was changed to PricewaterhouseCoopers Kyoto (PwC Kyoto) in 2016) served as Nidec's accounting auditor for many years, but on December 1, 2023, PwC Kyoto merged with PricewaterhouseCoopers Aarata LLC ("**PwC Aarata**") to become PricewaterhouseCoopers Japan LLC ("**PwC Japan**"). In this report, "**PwC Kyoto**" refers to Kyoto Audit Corporation or PwC Kyoto. When discussing matters that apply to both PwC Kyoto and PwC Japan, the term "accounting auditor(s)" is used.

referred to within Nidec as “legacy liabilities” and by other similar terms. Starting around the end of 2016, an initiative called the “Asset Revitalization Project” was launched, under the leadership of the Internal Audit Department, to gather information about “legacy liabilities” based on reports from each Nidec Group company, and to dispose of assets that required impairment or other similar treatment. The status of disposition of “legacy liabilities” was reported to management executives periodically, beginning with Mr. Nagamori (it should be noted that where large amounts of “legacy liabilities” were disposed of, external announcements were made, for example, stating that “structural reform expenses” had been recorded in preparation for future business development).

However, the company required the disposition of “legacy liabilities” to be carried out through “self-funding;” in other words, it was required that firm performance targets be achieved by covering the losses incurred via the disposal of “legacy liabilities” with revenue. For business units and subsidiaries, the disposition of “legacy liabilities” meant deterioration of their own operating profits and losses, and given the circumstances, in which the achievement of performance targets was demanded rigorously, there were limits to the comprehensive identification of “legacy liabilities” through self-reporting and the immediate disposition thereof. As a result, the disposition of “legacy liabilities” did not proceed as anticipated, and even as dispositions advanced, new “legacy liabilities” were being created. Given these circumstances, the Internal Audit Department terminated initiatives under the “Asset Revitalization Project” during fiscal 2022.

4. Structural Reforms During the Fourth Quarter of Fiscal 2022

In place of that project, disposition of “legacy liabilities” was to be carried out under the designation of “structural reforms” during the fourth quarter of fiscal 2022, led by the new, recently-appointed CFO of Nidec’s headquarters. When undertaking this initiative, the Nidec headquarters CFO believed that in order to encourage business units and subsidiaries to report their “legacy liabilities” honestly, it was necessary to omit the expenses required to dispose of “legacy liabilities” from assessments of the performance of business units and subsidiaries. The Nidec headquarters CFO reported this to Mr. Nagamori and obtained his approval to do so. As a result, a total of more than 160 billion yen in “legacy liabilities” was reported to Nidec’s headquarters from business units and subsidiaries, but when the Nidec headquarters CFO obtained approval from Mr. Nagamori to implement structural reforms, the CFO specified a policy of not allowing operating profits for the full 2022 fiscal year to fall below 100 billion yen, and obtained Mr. Nagamori’s approval based on that limitation. In addition, Mr. Nagamori instructed that a V-shaped recovery in business performance should be achieved during fiscal 2023. To achieve this, the Nidec headquarters CFO decided to dispose of those “legacy liabilities” reported by business units and subsidiaries that were most in need of disposition on a preferential basis, along with those that would contribute to the V-shaped recovery, and to have individual business units and subsidiaries carry out “disposition in a planned manner” of their other “legacy liabilities” in fiscal 2023 and later (in principle, this disposition was to be carried out through “self-funding”). As a result, a total of approximately 56.6 billion yen in “legacy liabilities” was disposed of during the fourth quarter of fiscal 2022.

In this manner, the structural reforms implemented during the fourth quarter of fiscal 2022 were undertaken on the premise that operating profits for the full fiscal year would not fall below 100 billion yen. As a result, many of the “legacy liabilities” reported by business units and subsidiaries were not subject to the structural reforms. Among the instances of improper accounting identified through the Committee’s investigation were those in which items were reported as “legacy liabilities” at the time of the structural reforms but were not subject to disposition at an appropriate time due to having been allocated to items subject to “disposition in a planned manner” by individual business units and subsidiaries through “self-funding.”

5. Status in Fiscal 2023 and Thereafter

Disposition of the “legacy liabilities” that were designated for “disposition in a planned manner” did not proceed as planned, as the expenses necessary for their disposition were incorporated into the performance of business units and subsidiaries.

During the fourth quarter of fiscal 2023, in conjunction with the transformation of some businesses, a loss of 59.8 billion yen was reported as structural reform expenses. During the fourth quarter of fiscal 2024, structural reforms were planned again, in a form that would not incorporate the expenses necessary for disposition of “legacy liabilities” into the assessment of the performance of business units and subsidiaries, and although Representative Director and President Mitsuya Kishida (“**Mr. Kishida**”) repeatedly explained the need for this to Mr. Nagamori, Mr. Nagamori rejected it, on the grounds that it was imperative to achieve the operating profit targets. As a result, a situation arose in which “legacy liabilities” that should have been disposed of during the fourth quarter of fiscal 2024 were not disposed of (and Mr. Kishida was not aware of this).

6. Accounting Audits by the Internal Audit Department and Special Audits Ordered by Mr. Nagamori

It is not uncommon for the weakness of an internal audit department to be pointed out as a characteristic of companies that engage in misconduct; however, from the perspective of acting as a check on improper accounting, this characterization does not readily apply to Nidec’s Internal Audit Department. During the 1990s, Mr. Nagamori came across an instance of improper accounting by a subsidiary and, sensing a need to carry out audits focused on accounting, increased the number of personnel by hiring CPAs from outside the company, among other measures, and established an accounting audit unit within the Internal Audit Department. Establishment of a unit dedicated to accounting audits within the Internal Audit Department is not a characteristic commonly seen in many other companies. In general, the Internal Audit Department carries out accounting audits at about 60 sites annually, and if suspicions of improper accounting arise, due to internal whistleblowing reports or otherwise, the department conducts special investigations.

In addition, Mr. Nagamori appointed an employee of a subsidiary, who was highly regarded for his auditing capabilities, to the Nidec headquarters Internal Audit Department and had him conduct investigations on a special assignment basis. The subject matter of these investigations included improper accounting as well as embezzlement and misappropriation by officers and employees, and if Mr. Nagamori received a written allegation reporting improper accounting, embezzlement, misappropriation, or the like, he ordered that an investigation be carried out, and after the relevant employee formulated an investigation plan, a focused investigation targeting the sites and so on involved in the accounting issue was conducted.

These investigations, referred to as "special audits," were conducted from around 2011 to around June 2020, but the details of the special audits were not shared with the Internal Audit Department or PwC Kyoto, and reports were submitted only to Mr. Nagamori and a limited number of management executives. If the relevant employee identified any improper accounting, in principle, that employee would give instructions that it be corrected immediately; however, in instances of improper accounting involving large amounts, rather than immediately correcting the matter, the relevant employee sometimes adopted a considered approach, to avoid any significant decrease in the operating profits of subsidiaries that were under pressure to achieve their performance targets, such as instructing them to address the problem in a planned manner over multiple fiscal years.[11] Through reports from the relevant employee, Mr. Nagamori was made aware that there were instances in which improper accounting that should have been rectified immediately instead was addressed in a planned manner, but he accepted this.

7. Responses to Instances of Improper Accounting

Unlike the special audits, which were conducted in secret, in situations such as those in which internal whistleblowing reports of improper accounting were made, the Internal Audit Department conducted "legitimate" special investigations. Each fiscal year, there were multiple instances of

[11] Although no objective evidence has been confirmed, there were executives of subsidiaries who stated that they were instructed to deal with improper conduct through inappropriate means, for example: "We were instructed to make it appear that fictitious inventory had been moved to another location so that PwC Kyoto and the Internal Audit Department would not become aware of it, and then to obtain a certificate of disposal by slipping the fictitious items in with items that had actually been disposed of."

improper accounting discovered within the Nidec Group, and on each such occasion, the Internal Audit Department conducted a special investigation, but the financial closing schedule was not delayed and these instances of improper accounting were not announced publicly. A former executive officer who was responsible for the Internal Audit Department stated that "Mr. Nagamori insisted on announcing the financial results earlier than any other company. Delaying the financial closing schedule is unthinkable for Nidec, and it was clear that this would anger Mr. Nagamori, so action was taken with the highest priority on meeting the financial closing schedule," and so on.

8. Responses to Instances of Improper Accounting Discovered During the Second Half of Fiscal 2018

During the second half of fiscal 2018, a report to the audit firm in charge of auditing U.S. sites triggered suspicions that management executives in the Nidec headquarters had instructed the CFOs of the U.S. sites to engage in improper accounting. An outside law firm conducted an investigation and discovered multiple instances of improper accounting. In addition, the results of a forensic investigation conducted during the course of that investigation identified multiple emails and documents that suggested similar improper accounting had been conducted at various Nidec Group sites, not limited to the U.S. sites. These emails and documents were shared with PwC Kyoto, and the Internal Audit Department was to confirm the facts.

The emails and documents referenced above included some that were related to the "legacy liabilities" identified through the "Asset Revitalization Project," and the Nidec headquarters CFO and the general manager of the Accounting Department provided an explanation about the "Asset Revitalization Project" to PwC Kyoto. The draft list of "legacy liabilities" prepared by the Internal Audit Department and provided to PwC Kyoto at the time of that explanation indicated that various Nidec sites were carrying these "legacy liabilities" and that the total amount of "legacy liabilities" that the Internal Audit Department considered to need immediate treatment under accounting standards at the time had reached approximately 6.3 billion yen as of the third quarter of fiscal 2018. In addition, the draft list also stated that it could not be ruled out that a considerable number of the "legacy liabilities" could have arisen from intentional misconduct.

Furthermore, the results of the forensic investigation referenced above discovered the report of a special audit regarding the "legacy liabilities" of a certain subsidiary, which also was shared with PwC Kyoto.

Ultimately, as a result of fact-finding carried out with respect to the emails and other documents discovered through the aforementioned forensic investigation, seven instances were determined to have involved improper accounting treatment, and the total amount of the impact was estimated to be 1.066 billion yen. However, corrective measures were implemented for all of these instances of improper accounting treatment by the end of fiscal 2018, and it was determined that all matters that required accounting treatment had been addressed. The financial results were announced on schedule, and PwC Kyoto issued an audit report with an unqualified opinion regarding the full-year financial results for fiscal 2018. In addition, of the "legacy liabilities" identified through the "Asset Revitalization Project," all of the assets believed to require immediate treatment were addressed by the fourth quarter of fiscal 2018.

As stated above, the situation suggested that numerous "legacy liabilities" included items for which it could not be ruled out that they had arisen from intentional misconduct, but later, Nidec did not confirm whether the "legacy liabilities" included in the aforementioned draft list and determined to be "intentional" were the result of intentional misconduct. Furthermore, Nidec did not provide any particular explanation to PwC Kyoto regarding the positioning and actual circumstances of the special audits.

9. Responses to Instances of Improper Accounting Discovered in Fiscal 2019 and Later

Instances of improper accounting were discovered subsequently and repeatedly in the Nidec Group, and on each such occasion, the Internal Audit Department conducted a special investigation. The Internal Audit Department believed that the cause of these instances of improper accounting was excessive performance pressure imposed by the Nidec headquarters, but it deliberately avoided challenging Mr. Nagamori's management style of setting high performance targets and demanding that they be achieved.

For example, there was an instance in which, during an interview conducted by the Internal Audit Department, an executive of a domestic subsidiary mentioned the existence of relentless performance pressure from executive officers at Nidec headquarters as a factor that led to the misconduct, but the Internal Audit Department deleted the relevant portion of the interview minutes and its investigation report did not mention the performance pressure imposed by the headquarters executive officers. Personnel involved in the Internal Audit Department made statements such as, "I thought that if we carelessly were to raise an issue involving an executive officer 'who was favored by' Mr. Nagamori, we would be the ones who suffered the repercussions" and "I felt that making an issue of the conduct of this executive officer would be negating Mr. Nagamori's management style, and it would be difficult to directly indicate it as a problem."[12]

It should be noted that the minutes of the interviews in which relentless pressure from Nidec

[12] It should be noted that some personnel involved in the Legal & Compliance Department also were aware of the existence of the issue of excessive performance pressure at Nidec, via their responses to internal whistleblowing reports and similar matters; however, they avoided turning it into an issue for similar reasons.

headquarters executive officers was reported were shared with PwC Kyoto. The PwC Kyoto engagement partner added a comment to the relevant portions of the minutes, stating that "this seems to suggest that inappropriate and excessive pressure from NCJ [Note: Nidec headquarters] may be a fundamental cause of the occurrence of improper treatment of sales and other data, but it is acceptable to you to leave this description as is?" The minutes of the interviews finalized by the Internal Audit Department based on the comment by the PwC Kyoto engagement partner were discovered as a result of the investigation by the Committee. However, based on these minutes, the statements indicating that the intense pressure to achieve the performance targets was imposed by executive officers at Nidec headquarters were deleted, as stated above. In addition, with regard to the statement "I understood that the accounting treatment needed to be performed within the fiscal year, but there was a profit commitment, so the only option was to eliminate the improper accounting treatment while addressing the issue in a planned manner within the fiscal year," which appears in the minutes of an interview with the president of a subsidiary, the PwC Kyoto engagement partner modified the minutes of the interview with the executive of the subsidiary by adding a comment that "this refers to a profit commitment, but if this were a compulsory order from NCJ, it could be taken as pressure and could be seen as a causal factor, so further confirmation (in addition to the interviews) from personnel involved at NCJ may be necessary" and revised the statement by inserting the phrase "I had planned, as the president" immediately before the phrase "profit commitment." In an in-house email, an Internal Audit Department employee wrote, "All of the corrections were made to statements that could be interpreted as coercive involvement by NCJ and were made to prevent any misunderstanding, and I believe that these are well-considered and appropriate corrections," and the revisions were accepted.

The Committee made an inquiry to PwC Japan about the circumstances of the revision of and the addition of comments to the interview minutes by the relevant engagement partner, and received the following response, designated as "matters that PwC Japan was able to confirm within a short period of time upon receipt of an inquiry from the Committee in February 2026":

> *Regarding the investigation, it had been explained in advance during daily conference calls with NCJ First Senior Vice President XX and General Manager XX that the actions in question had been taken to meet targets set by NSRV [Note: Nidec Servo Corporation (currently Nidec Advanced Motor Corporation)] itself, but the interview minutes contained sections that appeared to differ from or be inconsistent with what was discussed during those conference calls. Thus, considering the time constraints at the time, the aforementioned series of facts were confirmed by directly revising the minutes of interviews to quickly confirm this discrepancy in understanding.*
>
> *Furthermore, prior to the factual confirmation of the content of the aforementioned minutes, the engagement partner conveyed to the corporate auditors via email about the*

need for digital forensics, in order to confirm that there had been absolutely no inappropriate or excessive pressure from NCJ headquarters, nor any setting of overly high targets."

10. Information Sharing with Audit and Supervisory Committee (Board of Corporate Auditors) Concerning Instances of Improper Accounting

The results of the special investigations were reported to the Audit and Supervisory Committee (before the transition to a company with an Audit and Supervisory Committee, it was reported to the Board of Corporate Auditors), but it was not reported that the background to the misconduct was the existence of performance pressure imposed by Nidec headquarters. All of the outside Audit and Supervisory Committee members interviewed by the Committee made statements such as "I was not aware that instances of improper accounting were occurring repeatedly due to pressure from headquarters" and "I did not get any sense that something was wrong regarding the continued occurrence of improper accounting."

On the other hand, the full-time Audit and Supervisory Committee members were engaged in daily exchanges of information with the Internal Audit Department, and one of them believed that in the background to the repeated discovery of instances of improper accounting at various sites was the circumstance that performance targets were set too high from the outset, and that achieving those performance targets was considered to be non-negotiable within Nidec. In fact, that full-time Audit and Supervisory Committee member stated, "Setting high targets and making every possible effort to achieve them was the management style of the founder, Mr. Nagamori, and I thought it would be difficult to call that into question directly."

11. Participation by and Awareness of Nidec Management in Improper Accounting

No facts have been discovered indicating that Mr. Nagamori instructed or directed the improper accounting that has been revealed at this time. Through reports from the employee who carried out special audits, Mr. Nagamori was aware that there were instances in which improper accounting that should have been corrected immediately was handled in a planned manner, and he accepted this. Therefore, the conclusion that Mr. Nagamori condoned some improper accounting cannot be avoided.

In addition, all of the improper accounting uncovered through the Committee's investigation was caused by excessive performance pressure. Mr. Nagamori was also well aware of this, but he continued to demand that excessively high performance targets be achieved.

In light of the foregoing, it must be said that Mr. Nagamori should bear the greatest responsibility for the instances of improper accounting discovered at this time.

No facts were discovered indicating that Mr. Kishida instructed, directed, or condoned the improper accounting discovered at this time.

Hiroshi Kobe ("**Mr. Kobe**") was a founding member of Nidec who previously served as representative director and president. No evidence was found to establish that Mr. Kobe specifically was aware of or condoned the improper accounting. However, it is reasonable to find that Mr. Kobe, who received reports from the employee engaged in the special audits, although less frequently and in less detail than Mr. Nagamori, was at least generally aware of and condoned the fact that improper accounting that should have been addressed immediately was being handled in a planned manner.

Furthermore, no facts were discovered indicating that Hiroyuki Yoshimoto ("**Mr. Yoshimoto**") and Jun Seki ("**Mr. Seki**"), both of whom once were considered to be Mr. Nagamori's successors and served as representative director and president, ever instructed, directed, or condoned the improper accounting discovered at this time.

12. Outside Officers

As stated above, the Internal Audit Department provided a summary explanation of the instances of improper accounting that were discovered to the outside directors and outside corporate auditors who are members of the Audit and Supervisory Committee, but the Internal Audit Department's reports did not touch on the fundamental causes of the misconduct, and none of the outside officers interviewed by the Committee was aware that the presence of the excessive performance pressure within Nidec was the cause of the misconduct.

Also, in interviews conducted by the Committee, the outside officers uniformly stated that they were aware that ambitious performance targets were set within Nidec, in reflection of Mr. Nagamori's management philosophy, and that strong demands to meet those performance targets were made, but none were aware that those targets were unrealistic. In addition, the issue of "legacy liabilities" was not shared with the outside officers, and none of the outside officers interviewed by the Committee was aware that Nidec had long faced the issue of "legacy liabilities" or that efforts to resolve this issue had been undertaken under the guise of the Asset Revitalization Project and structural reforms.

Part 2. Overview and Organizational Structure of the Nidec Group

1. History of Nidec

Nidec is a *kabushiki kaisha* (stock corporation) established by Mr. Nagamori in 1973. A history of the company is presented in the following table.

1973	Nippon Densan Corporation (now Nidec Corporation) established
1976	Nidec America Corporation established in the U.S.
1984	Axial-flow fan business acquired from U.S. company Torin Corporation and Nidec Torin Corporation established in the U.S.
1988	Company stock listed on the Osaka Stock Exchange and Kyoto Stock Exchange
1992	Nidec (Dalian) Ltd. established in China
1993	Nidec Electronics GmbH established in Germany
1995	Nidec acquired a stake in Kyoritsu Machinery Co., Ltd. (currently Nidec Machinery Corporation (NDMJ))
1995	Nidec acquired a stake in Shimpo Industries Co., Ltd. (currently Nidec Drive Technology Corporation (NDTC))
1997	Nidec acquired a stake in Tosok Corp. (currently Nidec Powertrain Systems Corporation (NPSC))
1997	Nidec acquired a stake in Read Electronics Corp. (currently Nidec Advance Technology Corporation (NATC))
1997	Nidec acquired a stake in Kyori Kogyo Co., Ltd. (currently Nidec Drive Technology Corporation (NDTC))
1998	Nidec acquired stakes in Copal Co., Ltd. (currently Nidec Precision Corporation (NPCJ)) and Copal Electronics Co., Ltd. (currently Nidec Components Corporation (NCCC))
1998	Company stock listed on the Tokyo Stock Exchange
1998	Shibaura Nidec Corp. (currently Nidec Techno Motor Corporation (NTMC)) established through joint investment with Shibaura Mechatronics Corp. and Toshiba Corp.
2000	Nidec acquired a stake in Y-E Drive Corp. (currently Nidec Techno Motor Corporation (NTMC))
2001	Company stock listed on the New York Stock Exchange
2003	Nidec acquired a stake in Sankyo Seiki Mfg. Co., Ltd. (currently Nidec Instruments Corporation (NIST))
2006	Nidec acquired the motor and actuator business of Valeo S.A., a French company, to establish Nidec Motors & Actuators
2007	Nidec acquired a stake in Japan Servo Co., Ltd. (currently Nidec Advanced Motor Corporation (NAMC))
2010	Nidec Techno Motor Holdings Corporation (currently Nidec Techno Motor Corporation (NTMC)) acquired the home appliance motor business

	of Appliances Components S.p.A., an Italian home appliance manufacturer and established Nidec Sole Motor Corporation S.R.L.
2010	Nidec established Nidec Motor Corporation by acquiring the Motors & Controls business of Emerson Electric Co., an American company. Nidec established Nidec Motor Holdings Corporation as its holding company.
2011	Nidec acquired a stake in SANYO Seimitsu Corp. (currently Nidec Precision Corporation (NPCJ))
2012	Nidec acquired Ansaldo Sistemi Industriali S.p.A. of Italy
2012	Nidec US Holdings Corporation established in the U.S.; this holding company acquired Avtron Industrial Automation, Inc.
2012	Nidec US Holdings Corporation in the U.S. acquired Kinetek Group Inc.
2014	Nidec acquired Honda Elesys Co., Ltd. (later, Nidec Elesys Corporation (NESJ))
2015	Nidec acquired German automotive pump manufacturer Geräte- und Pumpenbau GmbH Dr. Eugen Schmidt (GPM)
2016	Nidec delisted its stocks from the New York Stock Exchange
2016	Accounting standard changed from U.S. accounting standards to IFRS
2017	Corporate brand logos of group companies unified to “Nidec”
2018	Nidec and French car manufacturer Groupe PSA established a joint venture (Nidec PSA eMotors SAS (NPe))
2019	Nidec acquired the compressor business of Whirlpool Corporation, a U.S. company
2019	Nidec and GAC Groups, a Chinese automaker, established a joint venture (Guangzhou Nidec Auto Drive System Co., Ltd.)
2019	Nidec acquired OMRON Automotive Electronics Co. Ltd. (currently Nidec Mobility Corporation (NMOJ))
2020	Nidec transitioned from a Company with a Board of Corporate Auditors to a Company with an Audit and Supervisory Committee
2021	Nidec acquired Mitsubishi Heavy Industries Machine Tool Co., Ltd. (currently Nidec Machine Tool Corporation (NMTJ))
2022	Nidec Corporation acquired OKK Corporation (currently Nidec OKK Corporation (NOKJ))
2023	Nidec acquired Italian machine tool manufacturer PAMA S.p.A.
2023	Nidec changed its Japanese name from Nippon Densan Kabushiki Kaisha to Nidec Kabushiki Kaisha (Nidec Corporation)
2023	Nidec acquired lathe manufacturer Takisawa Machine Tool Co., Ltd.

	(NTKS) via a tender offer bid
2025	Nidec Mobility Corporation (NMOJ) merged with Nidec Elesys Corporation (NESJ), with Nidec Mobility as the surviving company
2025	Nidec Instruments Corporation (NIST) merged with Nidec Machinery Corporation (NDMJ) with Nidec Instruments as the surviving company

Since its founding, the company's business domains have expanded rapidly, and one of the drivers of that growth was M&A. In a publication he authored, Mr. Nagamori wrote, "In Nidec's case, 50% has been organic, internally generated growth, while the remainder was growth achieved through M&A."[13] Starting with acquisition of the axial-flow fan division of Torin Corporation, a U.S. company, in 1984, Nidec successively acquired companies that possessed technologies and other capabilities that it did not have, thereby expanding its business domains.[14] In 2006, Nidec established a Corporate Strategy Office, a department specializing in M&A, to establish a structure to accelerate M&As. Through this series of M&As, Nidec grew from a small precision motor business into a comprehensive motor manufacturer that operates in the automotive products business, the appliance, commercial, and industrial motors business, and the machine tool business.

Nidec's core business has changed since the company was established. During the company's early years, its rapid growth was supported by its small precision motor business, particularly the hard disk drive (HDD) motor business, but thereafter, in conjunction with changes in the market environment, including a decline in demand for HDD motors, its presence declined. In fiscal 2003, the small precision motor business accounted for 53.4% of the Nidec Group's sales (of which the HDD motor business accounted for 32.5%), but by fiscal 2018, this figure fell to 29.9% (of which the HDD motor business accounted for 12.1%), and declined further to 18.7% in fiscal 2024 (of which the HDD motor business accounted for 3.8%).

Meanwhile, the automotive products business and the appliance, commercial, and industrial motors business have been expected to become next-generation pillars to replace the small precision motor business. In fiscal 2013, the automotive products business accounted for just 13.2% of the Nidec Group's sales, but this increased to 19.6% in fiscal 2018 and 25.5% in fiscal 2024. Similarly, the appliance, commercial, and industrial motors business accounted for 26.3% of the Group's sales in

13 Shigenobu Nagamori, *Nagamori Style—The Principles of Management and Money* [in Japanese], p. 172 (Nihon Keizai Shimbun Shuppan, 2022).

14 Mr. Nagamori described this series of M&As as "buying time," meaning that it was more rational to accelerate growth through M&A than to develop technology and human resources internally from the ground up.

fiscal 2013, but this expanded to 35.5% in fiscal 2018 and 40.4% in fiscal 2024.[15]

Both the automotive products business and the appliance, commercial, and industrial motors business share the common feature that they have expanded through M&As, particularly through M&As of overseas companies, but the appliance, commercial, and industrial motors business in particular is distinctive, in that its foundations were laid through M&As of overseas companies and that the overseas companies acquired continue to play a central role.

2. Structure, etc., of the Nidec Group

(1) Overview

In addition to Nidec, the Nidec Group comprises a total of 354 subsidiaries and affiliates (as of the end of September 2025).

Nidec adopted a business unit system[16] in April 2012, and the business of each Nidec Group company is managed on a business unit level (because of this, some subsidiaries are under multiple business units).

The structure of the business units has undergone many changes, but as of the end of September 2025, the company had five business units: the Small Platform Motor & Solutions Business Unit (SPMS), the Automotive Motor & Electronic Control Business Unit (AMEC), the Appliance and Automotive Division (AAD); the Motion & Energy Business Unit (MOEN), and the Machinery and Automation Business Unit (NMAB). Also, some business units oversee multiple types of business, and within those business units, organizational units known as "business platforms" are established for each type of business.

The head of each business unit is the executive general manager of the business unit (sometimes also referred to as a "CEO"), and business units also have a financial officer (sometimes referred to as a "CFO"). In addition, CEOs and CFOs are appointed for the business platforms established under the business units.

Furthermore, in addition to these business units, Nidec established a separate management unit called the Group Company Business, and the Group Companies Business Management Department oversees performance management and related matters for 15 subsidiaries[17] of Nidec and their respective affiliated companies (five of those 15 subsidiaries are jointly overseen together with the

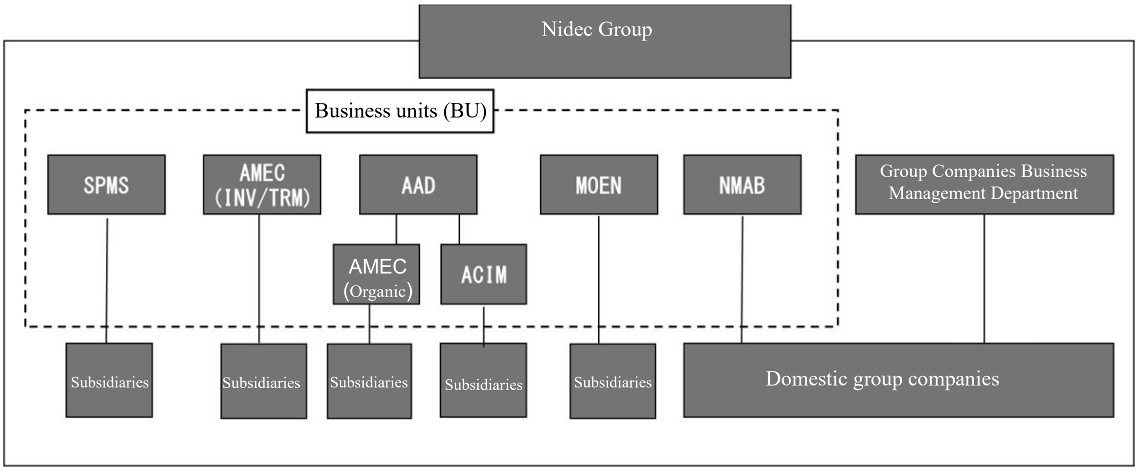
---

15 Among the domestic subsidiaries, there are companies engaged in the small precision motor business, automotive products business, and appliance, commercial, and industrial motors business, and the business segment sales ratios do not correspond to the sales ratios for the business units described below.

16 Business units are sometimes referred to as "BU."

17 Fourteen of the 15 companies are domestic subsidiaries.

NIDEC Machinery and Automation Business Unit (NMAB); in this Report, subsidiaries overseen by the Group Companies Business Management Department are sometimes referred to as "**domestic group companies**").



(2) Business Units

Overviews of each business unit are set forth below. Within Nidec, the business units generally are referred to by their English acronyms, such as "SPMS," "AMEC," and "MOEN," and these acronyms also are used at times throughout this Report.

a. Small Platform Motor & Solutions Business Unit (SPMS[18])

The Small Platform Motor & Solutions Business Unit (SPMS) handles the small precision motor business, which was Nidec's founding business. The small precision motor business is further divided into the HDD motor business and other small motor business. HDD motors are motors made for the hard disk drives used in information devices, such as PCs and servers, and other small motors are small motors for electric bikes, drones, office automation equipment, household appliances, and communications devices. Also, with the explosive spread of AI in recent years, demand for water-cooled modules has been expanding,[19] and it is expected that this business will be a next-generation pillar that supports the SPMS.

In fiscal 2024, the SPMS accounted for approximately 15.0% of the Nidec Group's sales.

---

[18] Acronym for "Small Platform Motor & Solutions."

[19] AI servers perform learning processes using massive amounts of data and, as a result, generate vastly more heat than conventional servers. Because of this, they require water cooling systems, rather than conventional air cooling systems using fans.

b. Automotive Motor & Electronic Control Business Unit (AMEC[20])

The Automotive Motor & Electronic Control Business Unit (AMEC) oversees the automotive products business (business relating to motors, pumps, and other components used in automobiles). As the presence of the small precision motor business recedes, the automotive products business is expected to become the next pillar of Nidec's business. Nidec began mass production of electric power steering motors in 2000 and made a full-scale entry into the automotive products business. Subsequently, Nidec expanded the automotive products business through M&A, acquiring the motors and actuators business of Valeo S.A. of France in 2006[21] and acquiring Geräte- und Pumpenbau GmbH Dr. Eugen Schmidt (GPM),[22] a German automotive pump manufacturer, in 2015. Nidec also commenced mass production of traction motors (E-Axles[23]) for electric vehicles (EVs) in 2019, but later shifted direction toward developing business with a focus on parts supply, rather than developing and manufacturing traction motors.

Within the automotive products business, the business relating to electric power steering motors and pumps was referred to as the "AMEC Organic" business, while business relating to traction motors was referred to as the "AMEC TRM" business, but the "AMEC Organic" business was transferred to the Appliance and Automotive Division (AAD) on January 1, 2025. In addition, effective May 1, 2025, following Nidec's absorption-type corporate split to assume the inverter business of its wholly-owned subsidiary, Nidec Mobility Corporation, the Automotive Motor & Electronic Control Business Unit (AMEC) took over the inverter business.[24] As a result, AMEC currently oversees both the traction motor business and inverter business.

In fiscal 2024, AMEC's sales accounted for approximately 13.4% of the Nidec Group's sales (as stated above, the AMEC Organic businesses were transferred to the Appliance and Automotive Division (AAD) on January 1, 2025, however, this figure also includes the AMEC Organic Business but does not include the inverter business).

---

20 Acronym for "Automotive Motor & Electronic Control."

21 Nidec acquired shares of multiple subsidiaries engaged in the Motors and Actuators business.

22 Currently Nidec GPM GmbH.

23 The E-Axle is a traction motor system that functions as the heart of an electric vehicle (EV). It integrates a motor with an inverter and reducer.

24 The business of inverters and other components for hybrid vehicles. The inverter business originally was handled by Nidec Elesys Corporation, but Nidec Mobility Corporation merged with Nidec Elesys Corporation, with Nidec Mobility as the surviving company, effective April 1, 2025.

c. Appliance and Automotive Division (AAD[25])

The Appliance and Automotive Division (AAD) is a business management division established in January 2025. It oversees the Appliance, Commercial & Industrial Motor Business Unit (ACIM[26]) and the AMEC Organic Business Unit (as stated above, the AMEC Organic Business Unit was transferred from the Automotive Motor & Electronic Control Business Unit (AMEC) on January 1, 2025).

The Appliance, Commercial & Industrial Motor Business Unit (ACIM) oversees the appliance, commercial, and industrial motors businesses. These businesses also are expected to become pillars of Nidec in place of the small precision motor business, and they are similar to the automotive products business in that they have expanded through M&A. In 2010, Nidec acquired the home appliance motor business of Appliances Components Companies S.p.A., an Italian manufacturer of home appliance parts engaged in the appliance motor business,[27] and acquired the industrial, air conditioning, and home appliance motor businesses of Emerson Electric Co., a U.S. company,[28] and the businesses obtained through these acquisitions became the foundation of the appliance, commercial, and industrial motor businesses. Nidec also acquired the compressor business of U.S.-based Whirlpool Corporation in 2019,[29] reinforcing its refrigeration compressor business.

As the appliance, commercial, and industrial motor businesses expanded, Nidec established the Motion & Energy Business Unit (MOEN) as a spinoff from the Appliance, Commercial & Industrial Motor Business Unit (ACIM) in 2022, with the objective of achieving further business growth and agile organizational operations under a leaner organizational structure. With this change, the Appliance, Commercial & Industrial Motor Business Unit (ACIM) began to oversee the global appliance (GA) business and commercial and industrial (C&I) business, while the MOEN oversees the motion and control (M&C) business and the energy and infrastructure (E&I) business.

In fiscal 2024, the Appliance, Commercial & Industrial Motor Business Unit (ACIM)'s sales accounted for approximately 17.7% of the Nidec Group's sales.

The business platforms under the current Appliance, Commercial & Industrial Motor Business Unit (ACIM) are the global appliance (GA) business and the commercial and industrial (C&I) business. The products of the global appliance business include motors for washing machines, dryers, and air conditioners, as well as refrigeration compressors, while the products of the commercial and industrial

---

25 Abbreviation of "Appliance and Automotive Division."

26 Abbreviation of "Appliance, Commercial & Industrial Motor."

27 Nidec acquired the shares of Sole Motors, which was engaged in the home appliance motor business.

28 Nidec acquired the shares of multiple subsidiaries that were engaged in the industrial, air conditioning, and home appliance motor businesses.

29 Nidec acquired the shares of multiple subsidiaries that were engaged in the compressor business, including Embraco Industria de Compressores e Solucoes em Refrigeracao Ltda. (Embraco Brasil).

business include large induction motors for industrial and commercial applications, and servomotors.

The business platforms under the AMEC Organic Business Unit are the chassis business, powertrain business, and fluid system business. The products of the chassis business include electric power steering and brake brush motors, the products of the powertrain business include belt-driven starter generators, and the products of the fluid system business include pumps.

d. Motion & Energy Business Unit (MOEN[30])

As discussed in section c above, the Motion & Energy Business Unit (MOEN) was established as a spinoff from the Appliance, Commercial & Industrial Motor Business Unit (ACIM) in 2022. Business platforms under the MOEN include the motion and control (M&C) business and the energy and infrastructure (E&I) business. The products of the motion and control business include servomotors, precision gearbox products, and ultra-low voltage (ULV) drives, while the products of the energy and infrastructure business include products for renewable energy markets, such as wind power and power storage systems.

In fiscal 2024, the Motion & Energy Business Unit's sales accounted for approximately 22.0% of the Nidec Group's sales.

e. Machinery and Automation Business Unit (NMAB[31])

In 1995, Nidec acquired a stake in Shimpo Industries Co., Ltd. (currently Nidec Drive Technology Corporation (NDTC)), which handles reducers, press machines, and other products, and began its entry into the machine tool business. Nidec expanded its machine tool business through a series of M&As, including acquisition of Mitsubishi Heavy Industries Machine Tool Co., Ltd., (currently Nidec Machine Tool Corporation (NMTJ)) in August 2021, OKK Corporation (currently Nidec OKK Corporation (NOKJ)) in February 2022, PAMA S.p.A. of Italy in February 2023, and Takisawa Machine Tool Co., Ltd. (NTKS) in November 2023.

In order to conduct integrated management of its machine tool business and maximize synergistic effects among individual subsidiaries, Nidec established the Machinery and Automation Business Unit (NMAB) in April 2023 as a business unit that oversees subsidiaries active in the machine tool business. The products of the NMAB include strain wave gear reducers, internal gear planetary reducers, large machine tools, lathes, machining centers, and press machines.

In fiscal 2024, the Machinery and Automation Business Unit's sales accounted for approximately

---

30 Acronym for "Motion and Energy."

31 Acronym for "NIDEC Machinery and Automation Business."

8.2% of the Nidec Group's sales.

(3) Group Companies Business Management Department

Following the establishment of the Affiliates Management Department in July 1997, the Nidec Group has referred to some acquired subsidiaries, particularly domestic subsidiaries, as "group companies," and these companies were treated as a management unit separate from the business units. The objective of this was to maximize the effective utilization of management resources held by companies that had joined the Nidec Group, as well as synergies among group companies, by ensuring thorough implementation of groupwide management policies and providing guidance and advice for the development and growth of group companies.

The name of the Affiliates Management Department was changed to the Group Companies Management Department in October 2016. Subsequently, the name of the department responsible for the overall management of domestic group companies was changed to the Group Companies Business Department, the Group Performance Management Department, and the Group Companies Business Management Department. Currently, the Group Companies Business Management Department oversees the overall management[32] of 14 domestic subsidiaries and one foreign subsidiary and their subsidiaries (in this Report, the department is referred to as the "**Group Companies Business Management Department**," regardless of the period).

The 15 subsidiaries overseen by the Group Companies Business Management Department as of the end of September 2025 are as shown below (five of which are under the Machinery and Automation Business Unit). As indicated above, the term "group company" formerly was used to designate acquired domestic subsidiaries, but currently the 15 companies overseen by the Group Companies Business Management Department are not limited to domestic companies, but also include PAMA S.p.A,[33] an Italian machine tool maker.[34]

In fiscal 2024, the 10 domestic group companies other than the five overseen by the Machinery and Automation Business Unit accounted for approximately 23.7% of the Nidec Group's net sales.

It should be noted that, similar to the business units, Nidec subsidiaries commonly are referred to by acronyms for their English names, such as NTMC, NPSC, and NATC. In addition, the Nidec

32 According to Nidec's Rules on the Division of Roles, the department "provides guidance and advice on formulation of management plans, performs analysis and submits requests regarding business performance and account settlement, reviews investment proposals and submits opinions, performs work related to enhancement of cooperation among group companies, and performs work related to M&A."

33 Became a wholly-owned subsidiary of Nidec in February 2023.

34 PAMA S.p.A. is an overseas subsidiary, but in light of its machine tool manufacturing business operations, it was placed under the Machinery and Automation Business Unit, and in conjunction with this, it also is overseen by the Group Companies Business Management Department.

headquarters frequently is referred to as NCJ. At times these acronyms also are used in this Report.

	Company Name	Business Activities
10 group companies	Nidec Techno Motor Corporation (NTMC)[35]	Development, manufacture, and sale of various types of small and mid-size motors for air conditioning, home appliances, and industrial machinery
	Nidec Powertrain Systems Corporation (NPSC)[36]	Development, manufacture, and sale of automotive parts and measuring machinery
	Nidec Mobility Corporation (NMOJ)[37]	Marketing, development, manufacture, and sale of automotive electric parts and automotive electronic control units for vehicle bodies
	Nidec Advance Technology Corporation (NATC)[38]	Semiconductor package inspection systems, printed circuit board inspection systems, inspection fixtures, optical vision inspection systems, FPD-related inspection systems
	Nidec Components Corporation (NCCC)[39]	Development, manufacture, and sale of electronic components and modules, mainly for industrial equipment markets, including switches, trimmers, pressure sensors, polygon mirrors, and high-frequency related measuring instruments
	Nidec Precision Corporation (NPCJ)[40]	Manufacture and sale of optical devices, electronic devices, components, and system devices

35 The company names before becoming a Nidec Group company were Shibaura Nidec Corp. and Y-E Drive Corp.

36 The company name before becoming a Nidec Group company was Tosok Corp.

37 The company name before becoming a Nidec Group company was OMRON Automotive Electronics Co. Ltd.

38 The company name before becoming a Nidec Group company was Read Electronics Corp.

39 The company name before becoming a Nidec Group company was Copal Electronics Co., Ltd.

40 The company name before becoming a Nidec Group company was Copal Co., Ltd.

	Company Name	Business Activities
	Nidec Advanced Motor Corporation (NAMC)[41]	Development, manufacture, and sale of small precision motors
	Nidec Global Service Corporation (NGSJ)[42]	Insurance agency business, real estate service business, vending machine business, in-house store operation, beverage sales business, human resource services business, financial business, hotel business
	Nidec Machinery Corporation (NDMJ)[43] (merged into Nidec Instruments Corporation (NIST) on October 1, 2025)	Design, manufacture, and sale of and technical support for various types of automation machinery, factory automation equipment, and measuring and testing devices
	Nidec Instruments Corporation (NIST)[44]	Development, manufacture, and sale of motor drive units, card readers, industrial robots, plastic molded products, music boxes, and other products
Machinery and Automation Business Unit	Nidec Drive Technology Corporation (NDTC)[45]	Manufacture and sale of variable speed drive and gearboxes, manufacture of various measuring instruments, and manufacture and sale of forge rolling machines and precise pressforming machines
	Nidec Machine Tool Corporation (NMTJ)[46]	Design, manufacture and sale of and consulting regarding machine tools, cutting tools, and related products
	Nidec OKK Corporation (NOKJ)[47]	Manufacture and sale of machine tools

41 The company name before becoming a Nidec Group company was Japan Servo Co., Ltd.

42 Its predecessor was Nihon Sansho Co., Ltd., which was established as a Nidec subsidiary.

43 The company name before becoming a Nidec Group company was Kyoritsu Machinery Co., Ltd.

44 The company name before becoming a Nidec Group company was Sankyo Seiki Mfg. Co., Ltd.

45 The company name before becoming a Nidec Group company was Shimpo Industries Co., Ltd.

46 The company name before becoming a Nidec Group company was Mitsubishi Heavy Industries Machine Tool Co., Ltd.

47 The company name before becoming a Nidec Group company was OKK Corporation.

Company Name	Business Activities
PAMA S.p.A. (PAMA)	Manufacture and sale of machine tools
Takisawa Machine Tool Co., Ltd. (NTKS)	Manufacture and sale of machine tools and lathes

3. Mr. Nagamori's Management Philosophy, etc.

When discussing Nidec, it is impossible to avoid mentioning Mr. Nagamori's management philosophy. Mr. Nagamori, the founder of Nidec, served as the top executive of Nidec for many years, and embedded his personal management philosophy throughout the Nidec Group. Nidec is a company that has grown through M&A, and the presence of Mr. Nagamori's management philosophy is also the case for companies that Nidec acquired. Mr. Nagamori's management philosophy became instilled at companies that became part of the Nidec Group through M&A.[48]

Mr. Nagamori's management philosophy is well-known for its "Three Essential Attitudes": "Passion, enthusiasm, and tenacity," "Work hard and smart," and "Do it now; do it without hesitation; do it until completed." The Nidec Integrated Report 2024 (p. 24) explains "Passion, enthusiasm and tenacity" as follows: "Gushing passion, welling enthusiasm, and tenacity that fights against difficulties—these are the three core principles that form the foundation of everything we do at NIDEC." It also describes "Work hard and smart" as "work hard and smart to produce output that cannot be achieved just by working in an ordinary way." In addition, it describes "Do it now; do it without hesitation; do it until completed" in the following manner: "Do what you can do immediately now, instead of thinking you will do it tomorrow or sometime later, and do it until it's completed." Mr. Nagamori's management philosophy is also known for its "three management methods," which are "deep-well management," "household finance management," and "thin-sliced management." The Nidec history[49] includes a chapter explaining Mr. Nagamori's management philosophy, which states that "deep-well management" refers to "digging a hole until items (water) emerges," which is explained, for example, as "in any case, keep digging until improvement items emerge.". "Household finance management" is described as follows: "By applying ingenuity to management of expenses (material costs, expenses, and other expenditures) so that they remain appropriate for income (sales), healthy profit can be secured. If plans are not achieved, it is because expenses are not being managed

---

48 A book titled *The Path to Challenge*, which explains Mr. Nagamori's management philosophy in detail, is distributed to new employees upon joining the company, and in addition to employees being required to submit statements on their impressions, new employee training is based on *The Path to Challenge*. Furthermore, for a time, there was an initiative within Nidec to have group readings of *The Path to Challenge* conducted during morning meetings at each worksite. Copies of *The Path to Challenge* were also distributed to mid-career hires with the objective of instilling Mr. Nagamori's management philosophy throughout the organization.

49 *Fifty Years of Relentless Challenge: The History of Nidec 1973 – 2023* [in Japanese], pp. 206 -230.

in proportion to income." Also, "thin-sliced management" is explained as follows: "Don't try to solve difficult or major problems head-on; they can be solved by breaking them down and examining them."

The actual organizational operations of Nidec also clearly reflected Mr. Nagamori's management philosophy. It can also be said that the setting of unrealistic performance targets and the attitude of relentlessly demanding that those high targets be achieved, as discussed below, are a strong reflection of the Three Essential Attitudes, including "Passion, enthusiasm, and tenacity" and "Do it now; do it without hesitation; do it until completed." As is also discussed below, at Nidec Group, employees were required at the start of each month to create a list of items (measures) for achieving performance targets, a practice designated as "item generation," as a practical application of "deep-well management."

Mr. Nagamori writes in his book, "A leader must continuously emphasize their own passion, philosophy, vision, and dreams to share them with all team members. Once is never enough. It is necessary to speak of these things repeatedly and continuously until they penetrate the hearts of those listening and stir their souls."[50] The Committee's forensic investigation found that Mr. Nagamori frequently sent emails to management executives in an effort to thoroughly instill his management philosophy. A small number of such examples are set forth below.

> [Omitted]
> Based on a deep recognition of this as a major failure, a group-wide directive was immediately issued to the entire company and the entire group. The development of "new sales reform" will be given top priority; all sales personnel will be required to make at least 100 client visits per month, as was done during the period of remarkable growth by the Nippon Densan Group. However, this is not about sales personnel simply visiting many different clients. For clients with a high likelihood of generating business opportunities, sales team must work in close coordination with personnel from the development department and pursue concrete, hands-on sales activities aimed at thoroughly increasing the certainty of securing orders. Needless to say, we will have no option but to ask those sales personnel who are unable to participate in these activities actively to leave the company.
> [Omitted]
> Over the past several years, outside human resources have been hired in large numbers, not just by Nippon Densan Corporation, but by Group companies as well, and we have welcomed new companies into the Group through M&A, but unfortunately, thorough adoption of Nippon Densan policies has been slow, and there are many people who have brought bad habits with them from their previous jobs. This has resulted in a rapid increase in executives and others who perform their

50 Shigenobu Nagamori, *The Power of Achievement* [in Japanese], p. 154 (Sunmark Shuppan, 2021).

jobs without fully adopting the essence of Nagamori-style management—"Do it now; do it without hesitation; do it until completed"—as seen in their slow pace of action, lack of sensitivity to costs, and trying numerous development and other projects without seeing them through. Only by generating healthy profits can a company achieve stable and sound management. Yet there are executives who joined us after experiencing management crises at their previous companies who appear to regard careless, late, or incomplete work as acceptable. I cannot help but worry that these circumstances will cause personnel to leave Nippon Densan for other companies.
[Omitted]

Even when the founder sends this type of heartfelt message intended to instill a sense of urgency to many executives during a holiday afternoon, the difference between those who respond immediately in accordance with the Nippon Densan spirit of "Do it now; do it without hesitation; do it until completed" and those who wait to respond until they come into the office during working hours on Monday serves as a clear indicator of whether they are afflicted with "large company disease." If we line up the timing of responses in a table, the sense of crisis felt by the executives and their dedication to their work become apparent. To be honest, I was disappointed to see that there were many who waited until they came into the office to respond.
[Omitted]
Given this response timeline, it would be better to assume that we will not be able to win future competition with China and other countries. I would like executives who are not passionate about their work to leave the Nippon Densan Group as early as possible.

Looking at the terrible results for the third quarter, I am beyond feeling disheartened and confused, and every day I feel a sense of looming crisis. As I explained in the previous issue,[51] those individuals with high IQs have a strong sense of pride despite lacking any track record or actual ability in management, and try to perform their work based solely on their academic background or past career records, resulting in management in which missing performance targets becomes the norm. It is no exaggeration to say that the current management executives have been developed by subjecting individuals with low IQs but the potential to improve their EQs to harsh training that borders on harassment. However, the current management executives have become complacent, careless, and lazy, and have ceased making efforts, lowering the EQ levels that they spent so long and so much effort building up, and accelerating the deterioration of business performance.

[51] Starting in early 2020 during the spread of the COVID-19 pandemic, Mr. Nagamori began sending messages titled "Founder's Bulletin" to management executives across the Nidec Group, communicating Nidec management issues and instructing the management executives to manage the business with a heightened sense of crisis. The term "previous issue" refers to the Founder's Bulletin sent on the previous occasion.

The common point repeatedly seen in failures to achieve business plans is that if managers had followed my management methods, they would have definitely achieved and exceeded the plans, but they failed to strictly comply with those methods and continued to conduct business in their own ways.
[Omitted]
Personnel fail to generate items determined on the fifth day of each month without concern, and the top leaders themselves continue to conduct management through compromise and giving up. Why do these executives, who are capable of performing only careless, slow, and half-hearted work, stay with the company instead of leaving?

As indicated in the above emails, Mr. Nagamori explained his management philosophy to management executives and strongly demanded that they achieve performance targets. In addition, Mr. Nagamori frequently applied pressure by hinting at personnel changes among management executives, and as discussed below, Mr. Nagamori was the ultimate decision-maker with respect to the appointment and transfer of officers; therefore, this pressure was by no means just an empty threat. In fact, numerous Nidec management executives were demoted or compelled to "resign" from Nidec to take responsibility for deteriorating business performance.

In this way, Mr. Nagamori has demonstrated a strong obsession with achieving performance targets, but at the same time, he took every opportunity to emphasize the importance of conducting proper accounting procedures.[52] According to Mr. Nagamori, this is what he refers to as "legitimate accounting," that is, accounting procedures conducted with integrity by "walking straight down the middle of the road." The term "legitimate accounting" appears frequently in emails and other communications exchanged among Nidec's officers and employees.

Representative examples of emails sent by Mr. Nagamori to Nidec management executives are set forth below.

I would like to impress upon everyone that the fundamental principle of Nippon Densan's management is that royal road of business management and legitimate accounting procedures must always take the highest priority without exception. I want our foundation to be management that is without reproach.
This year in particular, I want all officers to be fully aware that only by having all business as well

52 In Mr. Nagamori's book, he wrote, "Increasing profits is important, but seeking profit alone will lead to seeking ways of recording profits that do not bring in actual cash, such as capitalizing development costs as assets. Even if such treatment is permitted under accounting standards, one should always walk straight down the middle of the road." (Ibid., *Nagamori Style—The Principles of Management and Money*, p. 36).

as every group company and every BU operate under a “form of management in which exceeding business plans is taken as the norm,” the company will be recognized as a corporate group built on sound management. In management, “doing the right thing must take precedence over all else.” For this reason, I want all relevant management executives to align their efforts, ask themselves, “Is this management or accounting procedure correct?”, and take responsibility for the results. If exceeding business plans can be achieved only by misconduct, then failing to achieve them is acceptable. If that is the true capability of the management team, then it cannot be avoided, and the only option is to try again using different methods. It is a moral wrong to achieve results through misconduct or deception. Management results are proportional to the capacity and management skills of the top management, no more and no less. If one pushes beyond one’s capacity, the consequences will inevitably follow. This is why honing one’s own management capabilities is the only way to continuously conduct management where exceeding business plans is the norm. I ask that you all take this to heart.

I request that you strictly refrain from taking arbitrary action and dedicate yourselves to sound management (royal road of business management). The foundation of this lies in the rigorous adherence to the Nagamori three management methods and the three management attitudes. We mustn’t pursue fleeting, one-off gains or easy profits. I ask that you understand that healthy profits can be generated only from hard work and dedicated commitment. I do not want you to repeat the same failures that were made during your time at the former ●● [Committee note: this refers to the company where the addressee executive previously worked]. Losses are a moral wrong, failure to achieve business plans are bad, and violations of rules are crimes. Please take this to heart.

In this way, Mr. Nagamori instructed the rigorous adherence to “legitimate accounting” from time to time, but at the same time, he never let up on the performance pressure that was applied to management executives.

For example, on May 4, 2023, which was during the Golden Week holiday period, Mr. Nagamori sent the following email to management executives (excerpted).

I want all of you to understand that, in most cases, serious management problems that have developed from erroneous management decisions on numerous occasions since the company’s foundation were caused by dishonesty, window-dressing, or misconduct. It is true that my management style has created an atmosphere in which unfavorable reports are difficult to present, and this is a part of the problem, but as the company continues to expand in scale, it has become impossible for me to grasp everything in the same way as in the past. For this reason, I want you to understand that mutual trust is the only means of resolving these problems [Omitted] I ask that you strictly maintain royal road of business management and legitimate accounting procedures based entirely on relationships of mutual trust. The company is not simply a temporary gathering of people. Sound management above all else is essential for enabling perpetual growth. I understand that there is also strong pressure to achieve plans. Even so, would you not choose sound management as the top priority?

Mr. Kobe and other management executives who were recipients of the above email responded to Mr. Nagamori's email with expressions of agreement, and in response, Mr. Nagamori sent the following email (excerpted) to Mr. Kobe, on the following day, May 5.

Have you personally confirmed that, as of today, the fifth, all business units and group companies have completed 124% item generation[53] using only items with absolutely no filler items? Without even making such confirmation, can it be said that the duties of the president have been fulfilled? I'm asking you not to make any excuses for missing targets while failing to do what needs to be done. Also, is progress being made on balance sheets improvements, such as reducing inventories, collecting accounts receivable, and reducing borrowings? All of these are things that can be accomplished if you have the will to do so.

Upon receipt of this email, Mr. Kobe forwarded Mr. Nagamori's email to other management executives and wrote, "I have to respond to the comment below. Please report on the status of the business units for which you are in charge and their response measures by noon today (JST)." As a result, the management executives were forced to work, giving up a day off.

4. Changes in Nidec's Net Sales and Mid-Term Management Plan

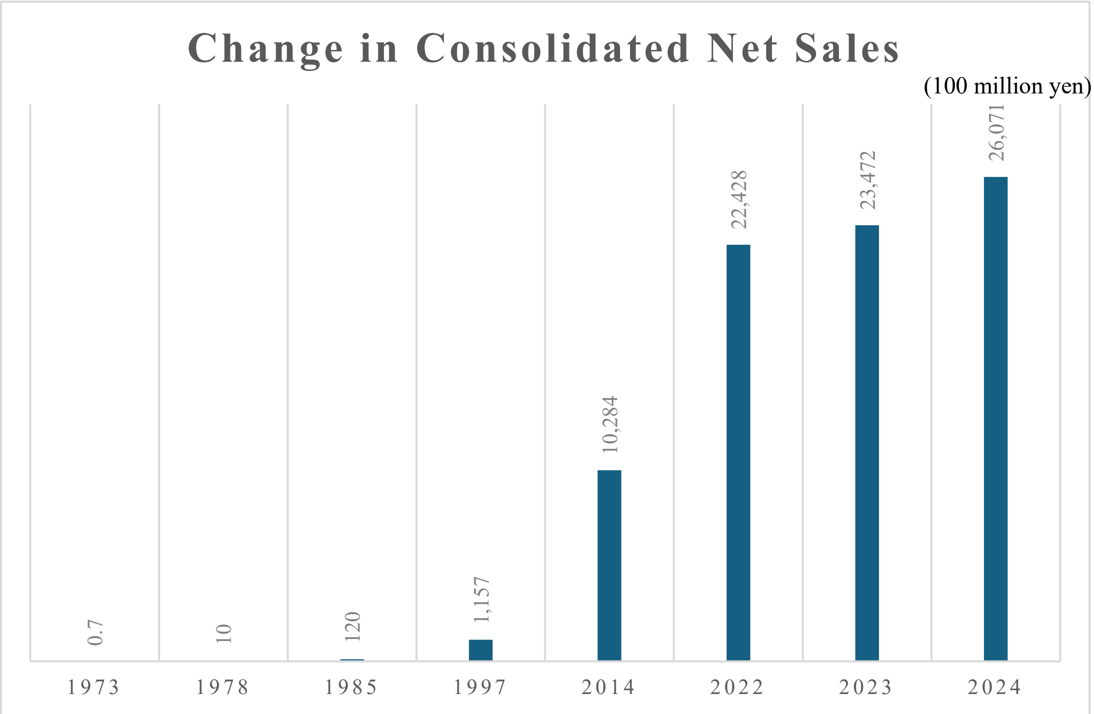
Mr. Nagamori wrote in his book, "I am fundamentally an advocate of growth. I believe that as long as a company exists, it has to continuously grow at all times, and without growth, a company cannot be revitalized,"[54] and in line with this sentiment, Nidec has maintained positive growth to the present day.

The change in the Nidec Group's net sales is shown in the figure below.

---

53 "124% item generation" is a Nidec in-house term referring to the practice of generating measures (items) for improving profitability at 124% of the required amount. This is based on the thinking that since some of the measures submitted by business units may be ineffective in practice, it is only by generating 124% of measures that 100% of measures can be ensured.

54 Ibid., *Nagamori Style—The Principles of Management and Money*, p. 60.



As indicated in the figure above, net sales of approximately 70 million yen in the year of the company's founding grew to approximately 1 billion yen in fiscal 1978 and surpassed 1 trillion yen in fiscal 2014. Net sales reached the 2 trillion yen level in fiscal 2022 and have continued to grow to the present. Mr. Nagamori announced at the financial briefing for the third quarter of fiscal 2014, held on January 22, 2015, that the company would pursue net sales of 10 trillion yen by fiscal 2030, and since then, he has from time to time mentioned the target of 10 trillion yen in net sales by fiscal 2030.

During an interview by the Committee, Mr. Nagamori stated, "When Nippon Densan started with four members, I said we would 'try to reach 100 million yen in sales.' The other three asked me whether I had actually meant to say '1 million yen,' but I had not. The company was started with a target that seemed too high, in other words, an 'overly ambitious target,' to see how far we could go. After we reached net sales of 100 million yen, we went for 1 trillion yen, when we reached that target, we pursued 2 trillion yen, and when we achieved that, we aimed to reach 3 trillion yen."

Mr. Nagamori's idea of pursuing continuous growth was reflected in Nidec's mid-term management plan.

The medium-term strategic goal announced in April 2015 (Vision 2020), immediately after Nidec reached net sales of 1 trillion yen, included the following targets: (i) consolidated net sales of 2 trillion yen, (ii) a consolidated operating profit margin of at least 15%, and (iii) a return on equity (ROE) of at least 18% (premised on a target equity ratio of 60%) to be achieved in fiscal 2020.

Moreover, the medium-term strategic goal announced in July 2021 (Vision 2025) included targets for consolidated net sales of 4 trillion yen and return on invested capital (ROIC) of at least 15%, to be achieved in fiscal 2025.

In this manner, Nidec consistently pursued upward growth and continuously sent strong messages to the market that it was seeking further growth.[55]

However, it is believed that even Mr. Nagamori, himself, perceived the difficulty of maintaining continuous upward growth. During interviews conducted by the Committee, Mr. Nagamori made comments such as, “Around the time that Nidec reached its 40th anniversary [note: around 2013], I started to think that Nidec was attempting to achieve targets that exceeded its capabilities. I thought that it would be dangerous to continue in the same manner, but it was difficult to stop something that had been driven forward with momentum until then,” “Nidec was able to achieve net sales of 1 trillion yen and 2 trillion yen by taking full advantage of its potential, but the hurdle of 3 trillion yen was high,” and “Nidec continuously produced wonderful products, but human resource development and organizational structures within the administrative bases couldn’t keep up. I believe that this distortion led to the problems that we’re facing now.” Through these statements, Mr. Nagamori expressed his complex feelings concerning the continuing pursuit of upward growth.

As discussed below, the internal process at Nidec to select a successor to Mr. Nagamori was complex and circuitous; however, after discussions within the Nomination Committee, Mr. Kishida was appointed the president and CEO on April 1, 2024. Mr. Kishida then was appointed representative director, as well as president and CEO, at the ordinary general shareholders’ meeting held in June of that year. Mr. Nagamori resigned from his position as founder and executive chairman of the board on December 19, 2025, during the Committee’s investigation, and assumed the role of chairman emeritus (non-full-time). In an interview conducted by the Committee prior to his resignation, Mr. Nagamori stated that Mr. Kishida possessed the qualities suitable in a successor and made it clear that, going forward, he intended to leave management to Mr. Kishida and step back from the front lines.[56]

The Mid-Term Management Plan (Conversion 2027) announced at the financial briefing for the fiscal year ended March 2025 was formulated under Mr. Kishida’s leadership. In an interview conducted by the Committee, Mr. Kishida stated, “Until then, we had been accustomed to having targets set by Mr. Nagamori in a top-down manner, and as a result, individual business sites were not able to think on their own. Accordingly, I asked each business site to examine business plans based on their own risks, and we drafted a realistic and well-grounded new mid-term management plan,” and, in fact, the plan set targets such as consolidated net sales of 2.9 trillion yen and ROIC of 12% for fiscal

[55] The Nidec Integrated Report 2024 contains statements such as, “As exemplified by Nagamori’s remarks such as ‘Anything but first is equivalent to last place,’ and ‘A snake that doesn’t shed its skin will die,’ pursuit of the world’s No. 1 position for continuous growth has been upheld since Nidec’s founding and is built into the DNA of the company. Only high-ranking companies have been able to survive in many industries, and there are some cases in which a company’s growth is impeded by its dependence on organic businesses. Pursuit of the world’s No. 1 position for continuous growth can be said to be perfectly rational as a business strategy.”

[56] Mr. Nagamori resigned from his position as chairman emeritus effective February 26, 2026.

2027, which represent downward revisions of the previous targets. During an interview conducted by the Committee, Mr. Nagamori made statements such as, "The new mid-term management plan is conservative and will cause share prices to decline, which sometimes frustrates me, but this is a necessary change, and I intend to leave things to Mr. Kishida."[57]

5. Changes to Nidec's Top Management

Mr. Nagamori served as Nidec's top executive for many years, since the company's foundation; however, in recent years, the process of selecting his successor has involved many twists and turns.

In a book published in 2022, Mr. Nagamori wrote, "I started seriously searching for a successor 10 years ago, when I was about 67 years old [note: around 2011]," and "I interviewed about 100 people from inside and outside the company as potential successors."[58] In June 2018, Mr. Yoshimoto, who was the representative director, executive vice president, and chief operating officer, and previously worked at Nissan Motor Co., Ltd., was appointed representative director, president, and chief operating officer. This was the first time that anyone other than Mr. Nagamori had served as president (Mr. Nagamori went from being representative director, chairman, and president to being representative director and chairman, and thus, he retained the CEO position). A management structure that Mr. Nagamori referred to as a "collective leadership structure" then was established on a trial basis, under which matters deliberated on by the COO Conference, which was comprised of Mr. Yoshimoto and other COOs, were approved by Mr. Nagamori, as CEO.

At that time, as the market for the small precision motor business, the company's original business, was shrinking, Nidec positioned the automotive products business and the appliance, commercial, and industrial motors business as its growth pillars, and Mr. Yoshimoto, who previously worked for Nissan Motor Co., Ltd., was expected to drive these businesses, but after Mr. Yoshimoto was appointed president, operating profits in those businesses slumped. Under the circumstances, Mr. Nagamori then selected Mr. Seki, who was deputy chief operating officer at Nissan Motor Co., Ltd., as a candidate successor to replace Mr. Yoshimoto. Mr. Seki joined Nidec in January 2020 and was appointed president and chief operating officer in April of that year (Mr. Yoshimoto was demoted to representative director, executive vice president and chief operating officer[59]) and appointed representative director, president, and chief operating officer in June 2020. In June 2021,

57 This statement was also made before Mr. Nagamori resigned as founder and executive chairman of the board.

58 Ibid., *Nagamori Style—The Principles of Management and Money*, p. 231.

59 It should be noted that, in addition to Mr. Yoshimoto, other directors and executive officers were demoted across the board. One of the officers at the time explained, "Mr. Nagamori said, 'Other executives were equally at fault for failing to support Mr. Yoshimoto,' and they also were demoted."

Mr. Nagamori stepped down from the CEO position for the first time, and Mr. Seki became representative director and president and CEO.

Less than one year after stepping down from the CEO position, however, Mr. Nagamori returned to the positions of representative director, chairman, and chief executive officer in April 2022, and Mr. Seki was demoted to representative director, president, and chief operating officer. In September 2022, Mr. Seki resigned as representative director, president, and chief operating officer, to take responsibility for the company's deteriorating financial performance, and Mr. Kobe, a founding member of Nidec who supported Nidec for many years along with Mr. Nagamori, became Mr. Seki's successor.

Later, on March 10, 2023, a decision was made at a Nidec Board of Directors' meeting to appoint five executive vice presidents as candidates for the future position of representative director and president. The Nomination Committee, which had been established in November 2022, deliberated on the candidates to select the vice presidents. During interviews with the Committee, Mr. Nagamori made comments such as, "Until then, I had selected the candidate successors on my own, but I believed there was a risk in making this decision by myself, so I put a nomination framework in place, including a Nomination Committee, and had the candidates selected through that framework."

The Nomination Committee interviewed the five executive vice presidents multiple times and selected Mr. Kishida as the successor presidential candidate. Following the adoption of a resolution by the Board of Directors, Mr. Kishida was appointed president and CEO on April 1, 2024. In conjunction with this, Mr. Nagamori was appointed founder and executive chairman of the board and Mr. Kobe was appointed a member of the Board of Directors and chairman. Then, after being approved at the ordinary general shareholders' meeting in June 2024, Mr. Kishida took office as representative director and president and CEO.

6. Nidec's Operating Business Structure

(1) Overview

Mr. Nagamori served as the head of Nidec's business operations for many years.

Deliberative bodies involved in the execution of business include the Managing Directors' Meeting (the name of which was changed to the Management Committee in April 2021), which met three times a month on Saturdays, and the Senior Managers' Meeting, which met on the first Saturday of each month.[60]

After Mr. Kishida became president and CEO and Mr. Nagamori resigned as representative director, chairman, and chief executive officer and became founder and executive chairman of the board in April 2024, Mr. Kishida became the top executive for business operations. In addition, the Management Committee was renamed the Executive Management Meeting, and the Senior Managers' Meeting was renamed the Monthly Executive Meeting.

(2) Overview of Main Deliberative Bodies Through March 2024

a. Senior Managers' Meeting

The Senior Managers' Meeting was a deliberative body for purposes of Nidec headquarters management executives gaining an understanding of the status of business operations, and met on the first Saturday of each month. The Senior Managers' Meeting consisted of a general meeting, monthly financial summary meeting, and cross-departmental meeting that involved the headquarters and business units. The Senior Managers' Meeting was attended by Mr. Nagamori and all executive officers.

At the general meeting, Mr. Nagamori discussed company-wide management policies and other topics, at the monthly financial summary meeting, the CFO reported on monthly company-wide business results, and at the cross-departmental meeting, administrative bases and business units gave various reports.

b. Managing Directors' Meeting

The Managing Directors' Meeting served as an advisory body to Mr. Nagamori and its meetings were attended by executive officers at the managing executive officer level and higher. Mr. Nagamori did not attend meetings of the Managing Directors' Meeting, but minutes of meetings were circulated to Mr. Nagamori, and he commented on them.

The Managing Directors' Meeting met three times each month, on Saturdays, excluding Saturdays on which the Senior Managers' Meeting was held.

Matters to be discussed by the Managing Directors' Meeting included: (i) all matters to be submitted

---

[60] The Managing Directors' Meeting and the Senior Managers' Meeting described below met on Saturdays because Mr. Nagamori believed that management executives should devote their time on weekdays to business operations. It also should be noted that management executives were required to submit weekly reports to Mr. Nagamori each Sunday, and Mr. Nagamori provided comments on the weekly reports the same day. Management executives also were required to respond to Mr. Nagamori's comments on the same day.

to the Board of Directors, (ii) general business policies and basic policies, (iii) individual matters believed to be important from a company-wide perspective, and (iv) other matters deemed to be necessary by committee members. It should be noted that the Managing Directors' Meeting was not a business decision-making body, but only an advisory body for Mr. Nagamori, and matters deliberated on and decided by the Managing Directors' Meeting were subject to approval by Mr. Nagamori through the approval procedure.

c. Management Committee

In April 2021, when Mr. Seki was representative director, president, and chief operating officer, the Managing Directors' Meeting was renamed the Management Committee, and it served as a deliberative body that focused on deliberations regarding research and development, production, purchasing, and individual projects, as well as organizational and rules changes, topics that should be deliberated on by the Board of Directors, and medium- to long-term issues.

The Management Committee meetings were attended by principal officers at the executive officer level and higher. Mr. Nagamori did not attend meetings of the Management Committee, but minutes of the meetings were circulated to Mr. Nagamori and he commented on them. Management Committee meetings were held twice a month on Saturdays.[61]

Despite the changes described above, the Management Committee remained an advisory body to Mr. Nagamori.

(3) Overview of Main Deliberative Bodies Effective April 2024

a. Monthly Executive Meeting (formerly, Senior Managers' Meeting)

In April 2024, when Mr. Kishida became president and CEO, the Senior Managers' Meeting was renamed the Monthly Executive Meeting. The Monthly Executive Meeting was attended by all executive officers, fellows, and councilors, and information on important management matters and other relevant topics was shared. Mr. Nagamori did not attend the Monthly Executive Meeting, and since no minutes were prepared, minutes were not circulated to Mr. Nagamori.

---

[61] When the name was changed to the Management Committee, the Performance Committee was established to monitor sales, profit, and other changes in, and the status of progress of, management plans. The Performance Committee met once a month on Saturdays.

b. Executive Management Meeting (formerly, Management Committee)

In April 2024, when Mr. Kishida became president and CEO, the Management Committee was renamed the Executive Management Meeting.

The matters deliberated on by the Executive Management Meeting were the same as those addressed by the Management Committee, but it no longer served as an advisory body to Mr. Nagamori, and the results of its deliberations were not reported to Mr. Nagamori. However, as discussed in section (4) below, until August 2025, the matters deliberated on and decided by the Executive Management Meeting were subject to approval by Mr. Nagamori through the approval procedures.

c. Three-Party Meeting (NKK Meeting)

When Mr. Kishida became president and CEO in April 2024, the Three-Party Meeting, comprised of Mr. Nagamori, Mr. Kobe, and Mr. Kishida, the top three executives on the business operations side, was established as a deliberative body to discuss the progress of business performance, various management issues, and responses to risks (the meeting was referred to as the "NKK Meeting," derived from the first letters of the participants' surnames). The Three-Party Meeting met once a week on Mondays.[62]

(4) Mr. Nagamori's Approval Authority

The specifics of Mr. Nagamori's approval authority varied depending on the time, but until August 2025, he was the decision-maker for significant matters requiring approval within the Nidec Group.[63] Looking at personnel matters, Mr. Nagamori was the decision-maker for appointment and transfer of officers at the Nidec headquarters (for the Small Platform Motor & Solutions Business Unit (SPMS),

---

62 After Mr. Nagamori resigned as founder and executive chairman of the board and became chairman emeritus (non-full-time) effective December 19, 2025, meetings of the NKK Meeting were no longer held. Mr. Nagamori resigned as chairman emeritus effective February 26, 2026.

63 Looking to the Nidec headquarters (the Small Platform Motor & Solutions Business Unit (SPMS), the Automotive Motor & Electronic Control Business Unit (AMEC), administrative bases, and other departments) and domestic group companies, matters subject to approval included business operations, transactions, finance and accounting, expenditures, the transfer, sale and lending of fixed assets including manufacturing equipment, personnel, litigation, rules, and comprehensive approvals, and Mr. Nagamori had approval authority over many sub-items within these categories. For example, Mr. Nagamori had approval authority at Nidec headquarters with regard to the disposal of fixed assets, such as manufacturing equipment (including write-down of impaired assets), for business units whose operating profit margin during the first half of the fiscal year exceeded 15% where the amount was 10 million yen or more, for business units whose operating profit margin during the first half of the fiscal year was 15% or lower, and for administrative bases for which the amount involved was 3 million yen or more, and for domestic group companies where the amount involved was 1 million yen or more.

the Automotive Motor & Electronic Control Business Unit (AMEC), administrative bases, and other departments), hiring employees at or above a certain grade, employee rewards, and other important personnel matters. In addition, Mr. Nagamori was the decision-maker for important matters, such as executive personnel appointments, executive compensation, and employee bonuses for domestic group companies. Moreover, Mr. Nagamori was the decision-maker for numerous other important personnel matters (including transfers of business unit executives and changes in compensation) for the business units that had overseas sites (the Appliance and Automotive Division (AAD) and the Motion & Energy Business Unit (MOEN)). As discussed below, Mr. Nagamori frequently exerted performance pressure on Nidec's management executives by threatening personnel changes, and in the background to this was the fact that Mr. Nagamori had the authority to approve decisions relating to transfers and other changes relating to executives.

Mr. Yoshimoto became president and chief operating officer in June 2018, and later, Mr. Seki and Mr. Kishida served as president, but the approval authority granted to the three of them was limited. For example, Mr. Kishida was appointed president and chief operating officer in April 2024, but looking at matters relating to the Nidec headquarters, his approval authority was limited to transfers of employees of a certain grade and matters relating to the establishment, modification, or elimination of certain Nidec internal rules, and approval authority relating to the appointment and transfer of executive officers and other matters was retained by Mr. Nagamori. Later, the matters over which Mr. Nagamori held approval authority were transferred to Mr. Kishida in August 2025.[64]

(5) Executive Officers

At Nidec, executive officers were appointed by resolution of the Board of Directors, and their terms of office expired upon the close of the first Board of Directors meeting held after the ordinary General Shareholders Meeting relating to the fiscal year ending within one year after their appointments. Also, as discussed in Part 7(1) below, Nidec established a voluntary Nomination Committee in November 2022, and the Nomination Committee deliberated on the appointment of executive officers of Nidec and reported to the Board of Directors. There was no employment relationship between Nidec's executive officers and Nidec, and executive officers entered into services agreements with Nidec.

[64] It should be noted that with respect to domestic group companies, a circular was issued by the Nidec headquarters dated August 20, 2025 stating that Mr. Nagamori would continue to have approval authority over matters such as executive compensation, employee bonuses, and executive and advisor personnel changes. On this point, the executive officer responsible for the Group Companies Business Management Department, discussed below, stated, "Domestic group companies have diverse backgrounds and are not easy to manage. Mr. Nagamori and Mr. Kishida discussed this and concluded that it would be premature to have Mr. Kishida, who had limited experience with the company, make final decisions on matters such as executive compensation and executive personnel changes at domestic group companies." (That said, in September of that year, Mr. Nagamori indicated his intention to delegate final decision-making authority to Mr. Kishida, and thereafter, Mr. Kishida had approval authority, in practice.)

As discussed in Part (4) above, until August 2025, the appointment and transfer of executive officers was to be approved by Mr. Nagamori, before being deliberated on by the Nomination Committee and approved by resolution of the Board of Directors. Details about executive officers' compensation are discussed in Part 4-4 below.

(6) CxOs

At Nidec, chief officers (commonly referred to as CxOs) are appointed for each group that oversees business in each business area. Nidec has had a CEO since its foundation and a COO since 2005. Subsequently, CxOs were appointed in stages, as needed.

The chief performance officer (CPO) position was created in June 2019. Prior to that, the CFO oversaw performance management operations, but the CPO position was created in response to a recommendation from an outside law firm engaged to investigate instances of improper accounting discovered during the second half of fiscal 2018, as discussed below, to the effect that the accounting line and performance management line be separated. Subsequently, the CFO was responsible for accounting and tax matters, and the CPO was responsible for performance management, financial matters, and investor relations operations, but starting in June 2021, the CFO was put in charge of accounting, tax matters, financial matters, and investor relations operations, and the CPO took on oversight of performance management operations.[65]

[65] Initially the Global Performance Management Department was placed under the CFO and CPO, but the Global Performance Management Department and Group Companies Business Department (the predecessor of the Group Companies Business Management Department) were integrated on June 20, 2023, and the Group Performance Management Department was established as an organization under the CFO, CPO, and the Executive Officer Responsible for Group Companies. Later, the Accounting Department and Group Performance Management Department were integrated on May 1, 2024 for the purpose of unifying financial accounting functions and management accounting functions, and the Accounting & Corporate Management Department was established as an organization under the CFO (at that time, the Group Companies Business Management Department was established as a separate organization under the Executive Officer Responsible for Group Companies), and the Accounting & Corporate Management Department continued to support the CPO. Subsequently, on May 1, 2025, the Accounting & Corporate Management Department was divided into the Accounting and Tax Department, which handles financial accounting functions, and the Corporate Management Department, which handles management accounting functions.

7. Status of Nidec's Governance Structures and Internal Controls

(1) Board of Directors, Audit and Supervisory Committee, etc.

a. Overview

Nidec is a company with a Board of Directors, accounting auditors, and Audit and Supervisory Committee (Companies Act, Article 2, item (xi)-2) and established a Nomination Committee and Remuneration Committee as advisory bodies for the Board of Directors. Nidec made the transition to a company with an Audit and Supervisory Committee on June 17, 2020.

b. Board of Directors

The Nidec Board of Directors makes decisions regarding important matters relating to management and supervises the execution of business. In principle, the Board meets once per month, and as necessary, holds extraordinary meetings from time to time, for example, meetings held at the time of announcing summaries of financial results and meetings held in connection with proposals relating to M&As. Until December 19, 2025,[66] the chairman of the board was Mr. Nagamori, the founder and representative director of Nidec. A majority of the directors are outside directors.

Since Nidec made the transition to a company with an Audit and Supervisory Committee in 2020, the outside directors have been as set forth below (honorifics omitted; shading indicates Audit and Supervisory Committee members). The outside directors are former government officials, scholars, and attorneys.

---

[66] Mr. Nagamori resigned as founder and executive chairman of the board and became chairman emeritus (non-full-time) effective December 19, 2025. Mr. Kishida, the representative director, president, and CEO, assumed the office of the chairman of the board.

2020	2021	2022	2023	2024	2025
Teiichi Sato[67]	Teiichi Sato	Shinichi Sato[68]	Shinichi Sato	Shinichi Sato	Shinichi Sato
Osamu Shimizu[69]	Osamu Shimizu	Yayoi Komatsu[70]	Yayoi Komatsu	Yayoi Komatsu	Yayoi Komatsu
Takeshi Nakane[71]	Takeshi Nakane	Takako Sakai	Takako Sakai	Takako Sakai	Takako Sakai
Aya Yamada [72]	Aya Yamada	Takeshi Nakane*	Aya Yamada	Aya Yamada	Hiroshi Yoshii[73]
Takako Sakai[74]	Takako Sakai	Aya Yamada	Junko Watanabe	Hiroe Toyoshima	Aya Yamada
		Tamame Akamatsu[75]	Hiroe Toyoshima[76]	Kunio Umeda[77]	Hiroe Toyoshima
		Junko Watanabe[78]			Kunio Umeda

* Takeshi Nakane resigned in October 2022, and Junko Watanabe, who was a reserve Audit and Supervisory Committee member, was appointed as a director (and Audit and Supervisory Committee member).

---

67 Former Administrative Vice Minister of Education, Culture, Sports, Science and Technology

68 Former Administrative Vice-Minister of Finance

69 Former Deputy Director General of the Finance Minister's Secretariat; Former Vice-Minister for Policy Coordination

70 Former Director General, Research Promotion Bureau, the Ministry of Education, Culture, Sports, Science and Technology

71 Former Director General, Disarmament, Non-proliferation and Science Department, Foreign Policy Bureau, the Ministry of Foreign Affairs

72 Professor, Graduate School of Law, Kyoto University

73 Former Director General of the Osaka Regional Taxation Bureau, Director General for Policy Planning, the Ministry of Land, Infrastructure, Transport and Tourism

74 Professor, Graduate School of Economics, Osaka Metropolitan University

75 Chairperson of the Board and President, Kyoto City University of Arts

76 Attorney

77 Former Director General, International Cooperation Bureau, the Ministry of Foreign Affairs

78 Professor, Graduate School of Economics, Kyoto University

c. Audit and Supervisory Committee

As of the end of September 2025, the Audit and Supervisory Committee comprised five members, of which four were outside directors (two Audit and Supervisory Committee members are full-time members, one of whom is an outside director). In principle, the Audit and Supervisory Committee meets monthly, on the same day that the Board of Directors regularly meets. Of the 12 regular Audit and Supervisory Committee meetings held annually, the accounting auditors attend approximately eight meetings and exchange opinions on matters pointed out during accounting audits and other relevant matters. In addition, the representative director and president attends Audit and Supervisory Committee meetings approximately four times each year to explain the status of execution of the business.

The Corporate Administration & Internal Audit Department supports the performance of the Audit and Supervisory Committee members' duties and, at the request of the Audit and Supervisory Committee, audits matters required by the committee and reports the results to the committee.

The Audit and Supervisory Committee also receives reports once per year on the status of internal whistleblowing reports.

Fundamentally, the Audit and Supervisory Committee itself does not conduct on-site audits (this also was the case when the company had a Board of Corporate Auditors).[79]

d. Voluntary Nomination Committee and Remuneration Committee

Within Nidec, Mr. Nagamori, the founder, had substantial influence over personnel matters, and Mr. Nagamori's intentions played a major role in the selection of candidate directors and executive officers at the Nidec headquarters, but a Nomination Committee was established in November 2022.

The main objective of establishing the Nomination Committee was to select Mr. Nagamori's successor, and the committee was established at the initiative of Mr. Nagamori himself, who indicated an intention to establish the committee based on a desire to select a successor, after also listening to the opinions of the outside directors. As of the end of September 2025, the Nomination Committee comprised five members (four of whom were outside directors). The committee deliberates on basic policies and criteria regarding the selection of directors, executive officers and others, proposed

[79] However, instances of improper accounting were discovered in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and the Automotive Motor & Electronic Control Business Unit (AMEC) during the second half of fiscal 2018, and in response to an investigation conducted by an outside law firm, two full-time corporate auditors (Audit and Supervisory Committee members) at the Nidec headquarters were assigned to serve as corporate auditors of domestic group companies, with the work duties divided between them.

candidates, and other matters, and reports the results of its deliberations to the Board of Directors.[80]

In 2024, the Nomination Committee selected Mr. Kishida as a candidate for president from among the five executive vice-presidents that had been chosen as candidates for president, and the outside director who serves as the Nomination Committee member made statements such as, “Mr. Nagamori appeared to make a deliberate effort to avoid having any say in the matter, and the outside directors took the lead in discussions. We interviewed the five candidates for president multiple times and reached the conclusion that Mr. Kishida was the most suitable to be president.”

In addition, Nidec established a Remuneration Committee in February 2021. As of the end of September 2025, the Remuneration Committee comprised five directors (four of whom were outside directors). The committee deliberates on basic policies concerning officer remuneration, remuneration structures, and other matters, and reports the results of its deliberations to the Board of Directors.

An outside director has served as chair of the Nomination Committee since the time of its establishment in November 2022. Mr. Nagamori served as chair of the Remuneration Committee at the time of its establishment in February 2021, followed in succession by Mr. Seki, Mr. Nagamori again, and Mr. Kobe, after which time the position has been filled by an outside director from June 2024. Mr. Nagamori was a member of both the Nomination Committee and the Remuneration Committee until May 2025.

(2) Accounting Department Structures and Business Process Relating to Financial Results and Financial Reporting

a. Accounting Department Structures

Until April 2024, the Accounting Department at Nidec was responsible for operations relating to financial accounting and the Group Performance Management Department was responsible for operations relating to management accounting, but on May 1, 2024, the Accounting & Corporate Management Department was established via an organizational restructuring, and that department was put in charge of operations relating to financial accounting and management accounting. The Accounting & Corporate Management Department included the Strategic Planning Group, Accounting Group, Budget Management Group, SPMS Business Support Group, AMEC Business Support Group, and ACIM/MOEN Business Support Group. Of these groups, the Accounting Group was responsible for operations relating to financial accounting and management accounting.

Later, in May 2025, another organizational restructuring was implemented, and the Accounting &

80 However, the executives, including Mr. Nagamori, presented a list of director or executive officer candidates to the Nomination Committee, and the Nomination Committee basically nominated a candidate from that list.

Corporate Management Department was divided into the Accounting and Tax Department, which was responsible for operations relating to financial accounting, and the Corporate Management Department, which was responsible for operations relating to management accounting.[81] The Accounting and Tax Department comprised the Unconsolidated Accounting Group, Consolidated Accounting Group, Tax Group, and Planning Group, and of these groups, the Consolidated Accounting Group was responsible for operations relating to consolidated financial accounting, but the Planning Group also was involved in some work relating to preparation of the consolidated financial statements.

b. Business Process Relating to Financial Results and Financial Reporting

Within the Nidec Group, a consolidated accounting system known as STRAVIS is used to prepare consolidated financial statements. The functions of STRAVIS are divided broadly into a consolidated data collection system and settlement processing system, and each subsidiary directly accesses the consolidated data collection system and inputs its own financial results. Later, personnel in charge of the Consolidated Accounting Group of the Accounting and Tax Department at the Nidec headquarters verify that no errors have occurred in the data as entered and then import the financial results into the settlement processing system to perform consolidation settlement processing.

There are more than 300 subsidiaries in the Nidec Group, and not all subsidiaries individually report their financial results to the Nidec headquarters. In the case of the U.S., for example, sub-consolidated[82] financial results covering several tens of subsidiaries are reported to the Nidec headquarters. In this way, within the Nidec Group, flat consolidation and sub-consolidation are both present in parallel, and as a result, the number of reporting units for financial results is in the 150 to 160 range.

On about the fifth business day of the month following the final month of each quarter, Nidec receives a reporting package comprised of raw data on financial statements and financial transactions and other data from individual subsidiaries not included in the sub-consolidation. It also receives reporting packages from subsidiaries included in the sub-consolidation on about the eighth business day of that month. Personnel in charge of the Consolidated Accounting Group then prepare the quarterly or annual consolidated financial statements.

The consolidated financial statements prepared by the Consolidated Accounting Group are confirmed by the general manager of the Accounting and Tax Department and the CFO, and after reporting to Mr. Nagamori during the third week of the month in which financial results reports are

---

81 As explained above, the structure of the Accounting Department has changed over time, but in this Report, the term “Accounting Department” is used regardless of the period.

82 This refers to situations in which a Nidec subsidiary prepares consolidated financial statements covering its own subsidiaries, etc.

released, they are released as summaries of financial results.

Nidec has adopted a policy of announcing its financial results earlier than any other company, in accordance with Mr. Nagamori's intent.[83] The Accounting and Tax Department has just a few days to prepare the financial statements, and preparation of consolidated financial statements is completed around the 15th day of the relevant month of each quarter.

c. Accounting Rules

Nidec formulated the Nidec Global Accounting Policy Manual ("**NIAP**") as a statement of accounting policies and manuals based on the International Financial Reporting Standards (IFRS). The NIAP was prepared for general matters[84] and individual major line items.[85, 86]

The NIAP was prepared in September 2015, and starting in the fiscal year ended March 2017, Nidec adopted IFRS in place of the U.S. generally-accepted accounting principles (USGAAP) used until then.

Nidec informs all of its group companies about the NIAP through methods such as posts on the portal site and in the consolidated accounting system, and all accounting personnel of subsidiaries who submit reporting packages to Nidec are able to access the NIAP. In addition, the NIAP is submitted to the accounting auditors on a quarterly basis, whether or not it has been revised during the relevant period.

Nidec Group companies are required to prepare their accounting packages in accordance with the NIAP and, in principle, each company is responsible for preparing its own reporting package.

Issuing a new version of or revising the NIAP requires the approval of the Nidec headquarters CFO, and the Nidec headquarters Accounting and Tax Department continuously examines the need for revision. Also, when any Nidec Group company revises its internal rules on accounting policies or accounting manuals, it must submit a request for review to the Nidec headquarters Accounting and Tax Department.

The NIAP includes provisions that specify fundamental accounting treatment and exceptional

---

83 Regarding the release of financial results for the fourth quarter of fiscal 2019, when the COVID-19 pandemic was spreading, the Accounting Department made a request to postpone the release date of financial results on the grounds that it would be difficult to prepare financial statements as planned due to the impact of travel restrictions and lockdowns in the countries where overseas sites are located, but Mr. Nagamori rejected this request.

84 For example, objectives and scope, IFRS principles and frameworks, accounting policies, changes in accounting estimates and errors, and financial statement presentation.

85 For example, inventory, tangible fixed assets, and intangible fixed assets.

86 Each NIAP comprises items such as definitions of terms, related IFRS, summaries of standards, accounting policies, accounting manuals, presentation and disclosure, and FAQs.

accounting treatment, side-by-side,[87] and states that the standards set by the IFRS need not apply to those items deemed immaterial, taking into account both quantitative and qualitative factors. In cases where an individual business unit or subsidiary is uncertain about the application of the NIAP or a determination of materiality, a prior inquiry should be submitted to the Consolidated Accounting Group of the Nidec headquarters Accounting and Tax Department. The Consolidated Accounting Group of the Accounting and Tax Department then provides a response to the individual items, taking into consideration the ease of the financial closing procedures of each company, the degree of impact on the financial statements (a comprehensive determination made based on net sales, operating profit, total assets, and so on), and other factors. In fiscal 2018 and earlier, however, the requirement to make prior inquiries to the Nidec headquarters was not strictly enforced, and exceptional treatment frequently was performed at the discretion of each company. Because of this, starting in fiscal 2019, the Nidec headquarters used various methods, including accounting notices, internal circulars, and accounting circulars, to inform each business unit and subsidiary repeatedly that when it seeks to apply exceptional accounting treatment, it must submit a prior inquiry to the Nidec headquarters.[88]

(3) Compliance Departments, etc.

a. Legal & Compliance Department

The Nidec Legal & Compliance Department is responsible for operating the internal whistleblowing reporting system, as well as planning and proposing policies and rules relating to compliance, and makes determinations on conformity with laws, regulations, internal rules, corporate ethics, and so on with regard to issues that may be in conflict with laws and regulations in the course of conducting business. The Legal & Compliance Department includes the Legal Group, Compliance Team, and Trade Control Office, and of these, the Compliance Team is responsible for compliance operations. On December 1, 2025, the Legal & Compliance Department was divided into the Compliance

---

87 For example, with regard to inventory, the NIAP contains a principle applicable to long-term inventory, which is: "goods, raw materials and supplies that have passed a certain period of time since they were delivered, and finished products and work in progress that have passed a certain period of time since they were manufactured, are identified as long-term inventory and are written down 100%," and further provides that "where accounting treatment other than the above is to be applied, prior approval must be obtained from the officer responsible for the NCJ Accounting and Tax Department through the business unit general manager."

88 In response to the recommendations from the outside law firm that investigated the instances of improper accounting discovered during the second half of fiscal 2018, as explained below, these notices came to be issued as one recurrence prevention measure.

Department and the Legal Department,[89] but considering that this organizational restructuring was implemented recently, this Report explains the organizational structure and related matters as in effect at the time when the Legal & Compliance Department existed.

To ensure rigorous compliance, the Compliance Team performs the roles of overseeing compliance departments throughout the Nidec Group and providing guidance and support as necessary, and also reports compliance information to the Compliance Committee, Audit and Supervisory Committee, and Board of Directors. The Compliance Team also is responsible for responding to internal whistleblowing reports and conducting compliance training for new employees, as well as the compliance seminars that are held roughly once per month.

Compliance seminars have been held since fiscal 2018, with in-person seminars held at all domestic group companies in fiscal 2018 and at all sites, with the exception of the Nidec Tokyo Office, in fiscal 2019. In fiscal 2020 and fiscal 2021, due to the effects of the COVID-19 pandemic, the compliance seminars were carried out by distributing audio materials via the portal site, but in-person seminars resumed in December 2022 for Nidec headquarters business department personnel and domestic group companies. The compliance seminars consist of a lecture carried out in a classroom format in the morning, and group sessions of about ten participants in the afternoon, which discuss mainly case studies regarding work issues and harassment. After the end of the seminar, Legal & Compliance Department employees stay in the room to respond to individual requests for consultations from participants (compliance issues reported during individual consultations are required to be handled in the same manner as internal whistleblowing reports).

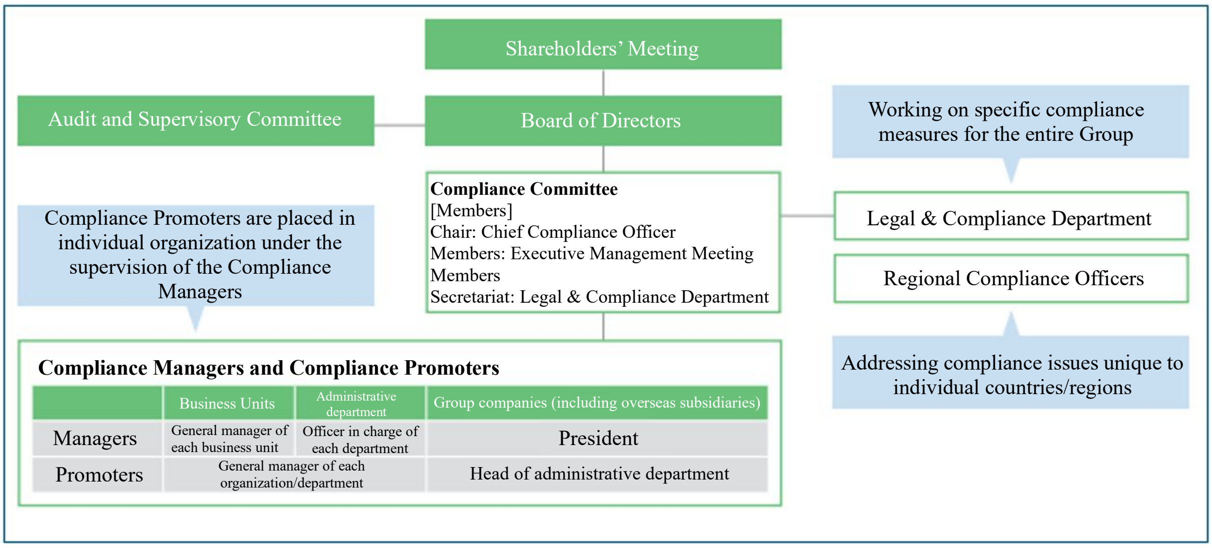
Compliance training at overseas sites is conducted by regional compliance officers in each region, as discussed in section b below.

b. Nidec Group's Global Compliance Structure

The Nidec Group's business domains expanded on a global scale through numerous M&A transactions. The Nidec Group has established a global compliance structure to respond in a more timely and accurate manner to individual matters and incidents that may arise in different regions of the world.

The following overview of the structure is cited from the Nidec Integrated Report 2024:

89 The Compliance Department comprises the Compliance Group, which corresponds to the former Compliance Team, and the Trade Compliance Office, which corresponds to the former Trade Control Office.



To explain the global compliance structure further: regional compliance officers are appointed in Japan (the regional compliance officer in Japan is in charge of compliance in South Korea), China, Southeast Asia, the Americas, and the EMEA (a general term for Europe, the Middle East, and Africa) region, and each regional compliance officer responds to compliance issues that occur at subsidiaries in their respective regions. If a problem related to a regional subsidiary occurs, the regional compliance officer for the region in which the subsidiary is located addresses the problem, regardless of the business unit with which the subsidiary is affiliated.[90] In addition, compliance offices have been established in Japan, China, the Americas, and the EMEA region.

At the top of the global compliance structure is the chief compliance officer. The chief compliance officer, along with the Legal & Compliance Department, regularly reports on the formulation of compliance measures and the status of implementation thereof to the Audit and Supervisory Committee, and reports from time to time if requested to do so by the Audit and Supervisory Committee.

As of the end of September 2025, the status of appointment of regional compliance officers in each region was as described below.

There are a total of three regional compliance officers in Japan, currently led by the chief legal officer,[91] under whom the general manager of the Legal & Compliance Department and a Compliance Team member serve as regional compliance officers.[92]

There is one regional compliance officer in China, who was seconded from the Nidec

90 The regional compliance officers for Southeast Asia and the EMEA region are also responsible for legal and compliance operations at the respective business sites with which they are affiliated.

91 The executive officer responsible for the Legal & Compliance Department serves as the chief legal officer.

92 Two Nidec Compliance Team members assist the regional compliance officers, as staff.

headquarters.[93]

The legal director of Nidec India Private Limited (NIND) currently serves as the regional compliance officer for Southeast Asia.

There are two regional compliance officers in the Americas (North, Central, and South America). The leader is affiliated with Nidec Americas Holding Corporation (NAHC), a management company for the Americas. The other regional compliance officer is an attorney who works at NAHC's site in Mexico.[94, 95]

There are two regional compliance officers in the EMEA region. The leader is the legal director affiliated with Nidec Control Techniques Limited (NICT) in the UK, and the other is legal counsel for Nidec ASI S.p.A. (NASI) in Italy.[96]

c. Compliance Committee

Nidec established a Compliance Committee, which is chaired by the chief compliance officer, who is selected from among the directors; the members of the Executive Management Meeting serve as the members of the Compliance Committee. The Legal & Compliance Department functions as the secretariat of the Compliance Committee.

The Compliance Committee deliberates on the details of various Nidec Group compliance measures formulated by the Legal & Compliance Department and provides guidance as necessary. In addition, the Compliance Committee oversees the status of implementation of compliance measures throughout the Nidec Group, and is responsible for providing guidance where improvement is needed. Furthermore, the Compliance Committee is responsible for carrying out final deliberations on the basic compliance policies formulated by the Legal & Compliance Department at the beginning of each fiscal year, and for presenting them to the Board of Directors.

d. Compliance Managers and Compliance Promoters

The Nidec Group Compliance Rules state that compliance managers and compliance promoters are

---

93 The China Compliance Office has two staff members, one of whom is affiliated with the Legal Department of the regional management company in China.

94 The Americas Compliance Office staff includes one attorney who works at the NAHC U.S. site. In addition, a portion of the NAHC shared service functions are present in the Philippines, and the staff members affiliated with that Philippine site also serve as staff for the Americas Compliance Office.

95 Until the end of April 2025, there was a regional compliance officer in Brazil, but the position has been vacant since that officer left the company.

96 Nidec Europe B.V. (NEUN), a management company for Europe, has a compliance office, and an attorney affiliated with Nidec Deutschland GmbH in Germany and staff members of Nidec Oradea Srl in Romania assist the regional compliance officers.

to be appointed in each business unit and subsidiary, under the chief compliance officer. The compliance managers are executive general managers of business units, presidents of subsidiaries, or the equivalent, while the compliance promoters are general managers of departments or offices, or the equivalent. The rules state that compliance managers "are responsible for instilling an awareness of compliance throughout organizations under their authority and preventing compliance violations by implementing and operating various compliance measures" and "share information on compliance issues in their areas of responsibility with the Legal & Compliance Department in a timely manner and collaborate with the Legal & Compliance Department to resolve those issues." The rules also state that compliance promoters "work under the guidance of the compliance manager to increase awareness of compliance within the organizations with which they are affiliated and to prevent compliance violations" and "serve as liaisons with the Legal & Compliance Department and regional compliance officers."

Compliance managers and compliance promoters of the Nidec Group are appointed in accordance with the foregoing rules. If the Legal & Compliance Department receives an internal whistleblowing report concerning a group company, it may carry out an internal investigation in collaboration with the compliance manager or compliance promoter for that group company. It should be noted, however, that under normal circumstances, the compliance managers and compliance promoters do not engage in any particular activities relating to the promotion of compliance. One member of the Legal & Compliance Department stated, "We do not engage in any special collaboration with the compliance promoters."

(4) Risk Management Committee and Risk Management Office

A Risk Management Committee was established at Nidec under the Board of Directors, and is tasked with making decisions on risk management policies and measures, and with reporting and making recommendations to the Board of Directors. The chair of the Risk Management Committee is the risk management and oversight officer (and if there is no chief officer, the responsible officer), and the persons designated by the chair from among members of the Executive Management Meeting serve as the committee members. Previously, the Risk Management Committee met once per year at the end of the fiscal year to determine basic risk management policies and reported those policies to the Board of Directors, but since fiscal 2018, in addition to the meeting at the end of the fiscal year, a meeting is held at the start of the second half of the fiscal year, and the status of activities is reviewed semiannually.

The Risk Management Office serves as the secretariat of the Risk Management Committee and drafts plans relating to risk management, liaises with and coordinates among the risk managers discussed below and the risk oversight officers, organizes risk data,[97] and performs other tasks.

Also, business site managers, department general managers, and others are designated as risk managers, and are responsible for managing risks in their respective areas of responsibility. Risk managers are required to formulate risk management plans for their areas of responsibility in accordance with the basic policies and other matters determined by the Risk Management Committee and to report to the Risk Management Office.

The Nidec Group Risk Management Rules define “risk” as “any event that could have an adverse impact on the company’s positive value, including its social credibility, the safety of its officers and employees, relationships of trust with customers, manufacturing facilities, intellectual assets, information, other property, etc.” and designate the Global Business Promotion & Marketing Division, Global Quality Management Division, and Group Companies Business Management Department, as well as other responsible departments of Nidec headquarters, business units, and group companies as risk oversight departments for each category of risk.[98] Also, the officer responsible for the risk oversight departments, in their role as risk oversight officer, receives reports from risk managers on risks relating to their areas of responsibility and supports and oversees responses to those risks.

Previously, as a part of measures taken during normal times, the Risk Management Office had risk managers complete certain documents, referred to as risk survey and assessment sheets, describing risk events, causes, etc., compiled these documents, and reported to the Risk Management Committee as appropriate. However, upon the realization that these measures were merely a formality, since around 2020, efforts have been made for risk oversight departments to conduct monthly self-assessments based on Key Risk Indicators (KRIs) established by the Risk Management Committee to evaluate the likelihood of risks occurring and the improvements that have been made in response, with the Risk Management Office compiling the results and reporting them to the Risk Management Committee on a quarterly basis. In addition, since May 2021, the risk oversight departments have surveyed current risk events and causes, evaluated the likelihood of risks occurring and the severity of the resulting impacts, examined and implemented countermeasures, reviewed risk events and causes (once per year) and re-evaluated risks, with the Risk Management Office compiling the results and

---

97 Implementing and compiling risk surveys and assessments, setting and monitoring Key Risk Indicators (KRIs), receiving reports on risk occurrences, recording those occurrences in ledgers, etc.

98 The risk oversight departments, organized by risk category, are as follows: sales risks (Global Business Promotion & Marketing Division), manufacturing and product risks (Global Quality Management Division, business units, and quality assurance oversight divisions of group companies), group company risks (Group Companies Business Management Department); overseas business risks (business units and overseas business departments of group companies), system risks (Information Systems Department), legal risks (Technology Strategy Planning Department and Legal & Compliance Department), accounting and financial risks (Accounting and Tax Department, Finance Department, and Corporate Management Department), environmental risks (General Affairs & Sustainability Promotion Department), officer and employee work, safety, and health risks (Human Resources Department), and other risks (departments determined by the Risk Management Office).

reporting them to the Risk Management Committee.

In addition to the foregoing activities undertaken during normal times, when an event occurs that is deemed to require reporting for risk management purposes, after implementing emergency responses, risk managers must report the circumstances to the risk oversight officers and Risk Management Office as soon as possible. When the Risk Management Office receives a report of risk-related information from a risk manager, it reports to the Risk Management Committee and Board of Directors as necessary and provides the risk manager and risk oversight officers with support for risk management purposes.

As discussed above, although certain risk management structures have been established within the Nidec Group since 2022 through the activities of the Risk Management Committee, Risk Management Office, and other organizations, to the extent confirmed via the materials, the Risk Management Office staff generally has consisted of four to six persons, including those holding concurrent positions, and it is undeniable that this is a small number, compared with the scale of the Nidec Group.

During an interview conducted by the Committee, one of the people with experience as a risk management and oversight officer stated, "It is difficult to say that the Risk Management Office was able to carry out adequate activities, and I thought the personnel should be increased and proposed this to Mr. Nagamori, but he said, 'I understand risks better than anyone else,' and rejected my proposal."

(5) Internal Audit Systems

a. Overview of Corporate Administration & Internal Audit Department

The Corporate Administration & Internal Audit Department at Nidec handles the "third-line internal audits" (accounting audits). The Audit Department of the Office of the President (the predecessor to the Corporate Administration & Internal Audit Department) was established on April 1, 1984, and the Audit Department of the Office of the President was reorganized into the Corporate Administration & Internal Audit Department on January 31, 2004.

The Corporate Administration & Internal Audit Department consists of two groups: the Internal Audit Group and the Internal Control Group. The Internal Audit Group is responsible for accounting audits, and the Internal Control Group handles assessments of internal controls. It is atypical for a division specializing in accounting audits to be established in an internal audit department, and this is a feature unique to Nidec's internal audit systems.

As of the end of September 2025, the Corporate Administration & Internal Audit Department had a total of 16 members, including a general manager, and the department is staffed with personnel who have expertise in conducting accounting audits, including personnel with accounting experience and former employees of accounting firms. The Internal Control Group's main roles are compiling the results of assessments of internal controls carried out by the audit departments of individual subsidiaries and providing instructions and guidance as necessary; in principle, it does not conduct on-site audits. However, the Internal Control Group conducts assessments of internal controls at the Nidec headquarters.

The Internal Audit Group conducts internal audits of Nidec and group companies, and for overseas group companies, members of audit teams posted at sites not only in Japan, but also in China, Asia (Singapore), Europe (the Netherlands), and the Americas (the U.S.) travel directly to individual group companies to conduct on-site internal audits.

b. Normal Internal Audits

The Corporate Administration & Internal Audit Department formulates an audit plan during the period from January to February of each year and selects the sites that will be subject to audits during the following fiscal year (in general, approximately 60 sites are audited each year). The sites subject to audit are selected using a risk-based approach based on whether there were any significant issues indicated in audits, etc., conducted during the previous fiscal year, the scale of sales, and any other relevant factors. The internal audit plan is confirmed by the responsible officer, and by the representative director and president, around March of each year, and after being approved by Mr. Nagamori, the plan is finalized (since fiscal 2025, Mr. Kishida, the representative director and president, has been the approver, in place of Mr. Nagamori).

To give one example, looking at the audit plan for fiscal 2024, the Corporate Administration & Internal Audit Department stated, "For this fiscal year's audit subjects, while basing selection primarily on the presence of significant issues and sales scale, in light of the recent occurrence of improper accounting, we would like to add companies with a higher potential risk, regardless of scale," and in accordance with this, even companies with no significant issues and sales of less than 10 billion yen were included as internal audit subjects if they satisfied all three of the following criteria: (i) their managers had not changed for a long period of time, (ii) there had been significant changes in the company's business activities, and (iii) no audits were conducted previously (a total of 64 companies were subject to audit).

Internal audits (accounting audits) are carried out via a combination of document audits, on-site audits, and remote audits (advance audits using a remote conferencing system), and it is unusual for on-site audits to be omitted. Remote audits are conducted from the perspective of reducing costs, with the objective of addressing issues that can be addressed in advance to minimize the number of days in the on-site audit.

After completion of an internal audit (accounting audit), the Corporate Administration & Internal

Audit Department prepares an internal audit report,[99, 100] and after the report is confirmed by the relevant officer and the representative director and president, it is submitted to Mr. Nagamori for approval (since fiscal 2024, Mr. Kishida, the representative director and president, has been the approver in place of Mr. Nagamori).

Basically, internal audit reports are not shared with the accounting auditors, and there is no particular coordination with the accounting auditors when internal audits are conducted.

c. Special Investigations

In addition to the regular internal audits described above, the Corporate Administration & Internal Audit Department and Legal & Compliance Department collaborate to conduct "special investigations" in cases where suspicions of improper accounting arise through an internal whistleblowing report or by similar means (the Corporate Administration & Internal Audit Department plays the central role in the investigations). Members from the audit teams posted at sites in Japan, China, Asia (Singapore), Europe (the Netherlands), and the Americas (the U.S.) also conduct special investigations.

Where suspicion of improper accounting arose, the Corporate Administration & Internal Audit Department reported the matter at that stage to the president, full-time Audit and Supervisory Committee members, the officer responsible for the Corporate Administration & Internal Audit Department, and the accounting auditors. In addition, the results of the investigations were compiled in the form of investigation reports, and in addition to obtaining approval from the president, full-time Audit and Supervisory Committee members, the officer responsible for the Corporate Administration & Internal Audit Department, and Mr. Nagamori, the reports were shared with the accounting auditors. Information also was shared with the outside Audit and Supervisory Committee members through the

[99] The body of an internal audit report generally consists of: (i) a cover sheet, (ii) comments from the responsible persons at the local subsidiary and the headquarters, (iii) a summary of the audit report, and (iv) a statement of the internal audit findings and improvement measures. The statement of the internal audit findings and improvement measures in item (iv) constitutes the main part of the internal audit report and sets forth matters discovered through the audit and improvement measures proposed by the internal auditors. The summary of the audit report in item (iii) is a summary prepared to facilitate confirmation by the officers. The comments from the responsible persons at the local subsidiary and the headquarters in item (ii) include comments made by the responsible person in the audited department, in light of the internal audit results. The officer who has confirmed the internal audit report makes comments on the cover sheet referenced in item (i).

[100] Issues discovered through an internal audit are classified as "improvement required," "recommended," or "note for attention." "Improvement required" refers to matters that require immediate improvement, such as accounting treatment not in accordance with the NIAP, delays in write-downs, and errors in the timing of revenue recognition. "Recommended" refers to matters that are not violations of accounting rules but require monitoring or other action due to a risk of accounting problems arising at a later time if left unaddressed. "Note for attention" refers to matters that require attention but do not fall within either of the other categories.

full-time Audit and Supervisory Committee members.

Information regarding instances of improper accounting is shared at meetings in which Nidec Group management participates, such as management policy announcement meetings and Executive Management Meetings, and the Corporate Administration & Internal Audit Department provides reports summarizing instances of improper accounting that were discovered as a result of special investigations at the quarterly CFO Conference (a conference of CFOs from Nidec Group companies) to disseminate information throughout the group. In addition, the checklists used for the self-audits that each group company is requested to carry out once per year include items for confirmation that take instances of improper accounting into consideration.

(6) Internal Whistleblowing Reporting Systems

a. Methods of Reporting

Nidec established internal whistleblowing reporting hotlines ("**Compliance Hotlines**"), which are available to all officers, full-time employees, associate employees,[101] part-time employees, personnel dispatched from outside agencies, contract employees, and limited-term employees who work for any Nidec Group company, as well as former employees (within one year after leaving the company). The available reporting methods are set forth below.

(i) Email

Email addresses for Compliance Hotlines ("**Hotline Addresses**") have been created to direct email to the respective regional compliance offices (if no compliance office has been established, then the regional compliance officer) in Japan, China, the Americas, EMEA (a general term for Europe, the Middle East, and Africa), and Southeast Asia. Members of the Compliance Team in the Nidec Legal & Compliance Department and the chief compliance officer also receive emails sent to overseas regional Hotline Addresses.

In addition, it is possible to submit internal whistleblowing reports to the group address of the Nidec Compliance Team. Moreover, internal whistleblowing reports can be submitted using an inquiry form on the Nidec website operated by the Nidec Corporate Communication Department, and the Corporate Communication Department forwards those reports to the group address of the Nidec Compliance Team.

The Hotline Addresses were created in 2014.

---

[101] "Associate employee" refers to a person who performs work on behalf of a full-time employee or performs routine, support, or temporary work in accordance with the instructions of a full-time employee.

(ii) Telephone

In Japan, a telephone hotline was set up in 2018 that connects directly to the general manager of the Legal & Compliance Department.

At overseas sites, telephone hotlines that connect directly to the regional compliance officers for each region were set up in 2018, and telephone hotlines operated by an outside service provider were set up in 2019 at sites then under the umbrella of the Appliance, Commercial & Industrial Motor Business Unit (ACIM), allowing reports to be made in the language of the country in which the overseas site is located, such as English. The telephone hotlines operated by the outside service provider have been accessible throughout the Nidec Group, not just at those sites under the umbrella of the ACIM, since 2024.

(iii) Website

Since 2019, officers, employees, and other personnel in the Americas, Europe, the Middle East, and Africa, as well as officers, employees, and other personnel of companies under the umbrella of the ACIM and MOEN that are located in China or Southeast Asian countries, have been able to submit reports in their respective local languages via a website operated by an outside service provider.

(iv) Outside Hotline in Japan

In Japan, all Nidec Group officers, full-time employees, associate employees, part-time employees, personnel dispatched from outside agencies, contract employees, and limited-term employees who work for any Nidec Group company and former employees (within one year after leaving the company) have been able to submit reports by telephone or email to an outside law firm ("**Outside Hotline**") since fiscal 2022.

(v) Other Reporting Methods

In addition to the aforementioned reporting hotlines, the Nidec Group treats reports made when the Corporate Administration & Internal Audit Department conducts internal audits, reports made to the accounting auditors, and compliance information submitted to the Public Relations Department or other similar departments as internal whistleblowing reports. In addition, reports made during compliance seminars conducted by the Nidec Compliance Team (discussed in section 3a above) also are treated as internal whistleblowing reports.

Nidec Group personnel are informed about each of the reporting hotlines discussed above during compliance seminars and through methods like internal posters, internal portal sites, and compliance handbooks distributed to employees.

The number of internal whistleblowing reports received in recent years is shown in the table below.

	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025 [102]
Hotlines, etc.*1	26	107	142	116	125	118	97	117	67
Outside Hotline	-	-	-	-	0	0	6	2	3
Hotlines operated by outside service providers *2	-	-	134	107	218	235	312	279	41

*1 Total number of reports submitted other than those submitted to the Outside Hotline and hotlines operated by outside service providers.

*2 The number of reports made to hotlines operated by outside service providers is the total number of reports submitted to telephone hotlines and websites operated by outside service providers.

The Compliance Hotlines also receive reports of improper accounting, and the numbers of reports received are shown in the table below.

Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025[103]
1	0	2	2	5	5	2	2	1

b. Responses to Reports

The reporting hotlines described above receive reports concerning improper accounting, bribery,

102 Number of reports made through the end of August 2025.

103 Number of reports made through the end of August 2025.

occupational safety, harassment, and other conduct in violation of laws and regulations, internal rules, ethics, etc.

The Nidec Compliance Team determines investigative policies and carries out actual investigations of reports sent to the Hotline Addresses in Japan, the Compliance Team's group addresses, the telephone hotline that connects directly to the general manager of the Legal & Compliance Department, the Outside Hotline, the Corporate Administration & Internal Audit Department, and accounting auditors and reports made during compliance seminars. Also, if the Nidec Compliance Team determines that a matter is of high importance, it responds through consultations with the chief compliance officer and the chief legal officer. A report about improper accounting is deemed to be a matter of high importance.

In the event of a report made by an officer or employee at an overseas site, if the report is made to a Hotline Address, as indicated above, the chief compliance officer and Nidec Compliance Team are included among the recipients, and therefore, the Compliance Team members are able to access the content of the report. However, in the case of a report made to a telephone hotline that connects directly to a regional compliance officer, a telephone hotline operated by an outside service provider, or a website operated by an outside service provider, the respective regional compliance officer considers the content of the report and shares only those matters deemed to be of high importance with the Nidec Compliance Team (as explained above, a report about improper accounting is deemed to be a matter of high importance and is shared with the Nidec Compliance Team[104]).

In addition, the regional compliance officer who manages the relevant site determines the investigation policy with respect to reports made by officers and employees of overseas sites. Depending on the content and nature of the report, the regional compliance officer may delegate the investigation and response to the human resources department in the relevant region or to compliance managers or compliance promoters for the relevant site, or may proceed with the investigation and response directly.

In Japan and all overseas regions, since the Nidec Compliance Team and the regional compliance officer do not necessarily possess accounting expertise, the Nidec Corporate Administration & Internal Audit Department is entrusted to carry out the investigation where the content of a report is suspected to involve improper accounting.[105]

The regional compliance officer in each region formulates improvement measures and recurrence prevention measures relating to matters that were the subject of an internal whistleblowing report, on

---

[104] However, there are no specific provisions in the Nidec Group internal rules that specify which types of reports must be shared with the Nidec Compliance Team.

[105] This is what is done in practice, and the Nidec Group internal rules do not specify the situations in which the Corporate Administration & Internal Audit Department must be entrusted with carrying out an investigation.

the basis of the investigation results. However, if the content of a report raises suspicions of improper accounting, the Corporate Administration & Internal Audit Department takes the lead in formulating improvement measures and recurrence prevention measures.

c. Internal Sharing of Internal Whistleblowing Reports

Internal whistleblowing reports that are deemed to be of high importance are reported at the quarterly Compliance Committee meetings. Those matters deemed of high importance also are reported regularly to the Board of Directors and the Audit and Supervisory Committee.

In addition, the Nidec Compliance Team generally conducts compliance seminars on a monthly basis, and while carrying out those seminars, Compliance Team members explain summaries of instances of improper accounting that actually occurred in the past at the Nidec Group.

The Nidec Compliance Team manages a list that contains a summary of each matter referenced in an internal whistleblowing report and the details of the response. This list is prepared for purposes of sharing information among the Compliance Team members, but since the third quarter of fiscal 2023, the list has been anonymized and shared with the accounting auditors, when requested by the accounting auditors.[106]

(7) Accounting Auditor

Nidec's accounting auditors were Chuo Aoyama Audit Corporation[107] from the time that Nidec's shares were listed in 1988 until the fiscal year ended March 2006, Misuzu Audit Corporation (to which Chuo Aoyama Audit Corporation was renamed) during the fiscal year ended March 2007, and Kyoto Audit Corporation starting in the fiscal year ended March 2008. Kyoto Audit Corporation is an audit firm that was established by certain former partners of Misuzu Audit Corporation in conjunction with the latter's dissolution.

Kyoto Audit Corporation became a member firm of PwC in 2013, and in 2016 the name was changed to "PwC Kyoto." On December 1, 2023, PwC Kyoto merged with PwC Aarata and became "PwC Japan LLC."

PwC Kyoto and PwC Japan also provided audit certifications for Nidec's balance sheets, income statements, and other financial accounting documents submitted in accordance with the Financial

106 As explained below, PwC Kyoto, which was formerly Nidec's accounting auditor, merged with PwC Aarata on December 1, 2023 and became PwC Japan. PwC Japan has carried out accounting audits since the third quarter of fiscal 2023.

107 In 1988, the company's original name was Chuo Shinko Audit Corporation, and after the name was changed to Chuo Audit Corporation, the firm merged with Aoyama Audit Corporation to become Chuo Aoyama Audit Corporation.

Instruments and Exchange Act.

Part 3. Special Audits by Corporate Administration & Internal Audit Department Personnel

1. Circumstances Leading up to Implementation of Special Audits

As explained in Part 2-7(5) above, for many years, Nidec has had a structure in place whereby the Corporate Administration & Internal Audit Department conducts accounting audits and, where improper accounting is suspected, conducts investigations and makes corrections. However, the Committee's investigation found facts indicating that from around 2011 until June 2020, in parallel with these "official efforts," a certain employee affiliated with the Corporate Administration & Internal Audit Department ("**Mr. A**") conducted investigations of incidents suspected of involving improper accounting, on a special assignment basis, pursuant to orders from Mr. Nagamori. The Committee requested that Mr. A, who already left Nidec, be interviewed, but because Mr. A has not responded to the request, the Committee has not been able to interview Mr. A.

Mr. A joined the Nidec Group when the company he was working for became a part of the Nidec Group. Mr. A was engaged in audit work for the corporate auditor at that subsidiary, when Mr. Nagamori heard about Mr. A's reputation of "not trying to fit in with the organization, but having strong auditing skills," and in February 2011, Mr. Nagamori caused Mr. A to be transferred to Nidec and assigned to the Corporate Administration & Internal Audit Department to carry out audits specially ordered by Mr. Nagamori, and Mr. A was given the title of "General Manager in charge of Special Audits." The subjects of the special audits conducted by Mr. A included instances of improper accounting, cases of embezzlement and misappropriation by officers and employees, and the like. When Mr. Nagamori received a letter alleging improper accounting, embezzlement, or misappropriation, he instructed Mr. A to investigate, and Mr. A also proposed an investigation plan and carried out a priority investigation of the site or other office having an accounting issue. During an interview conducted by the Committee, Mr. Nagamori made comments to the effect that "I often directly received letters from officers and employees in Japan, China, and other sites in Asia alleging improper conduct,[108] and I appointed Mr. A to investigate these matters."

2. Sharing of Information About Special Audits

Although Mr. A worked in the Corporate Administration & Internal Audit Department, he did not engage in the department's day-to-day operations, but instead worked exclusively under the direction of Mr. Nagamori, investigating matters involving suspected improper accounting, embezzlement, misappropriation, or the like. One employee with experience in the Corporate Administration & Internal Audit Department made statements such as, "Although we sat at the desks side by side, we had no interaction whatsoever, and while we were aware that Mr. A was conducting investigations into matters of misconduct, including improper accounting, on instructions from Mr. Nagamori, we had no idea exactly what he was doing."

Mr. A's role was to investigate and remediate instances of misconduct reported to Mr. Nagamori, but at the same time, another important role of Mr. A's was to deal with instances of misconduct "covertly." During an interview conducted by the Committee, Mr. Nagamori used the term "Ooka-style judgment," referring to a wise and benevolent resolution, when explaining his reasons for directing Mr. A to conduct investigations on a special assignment basis, rather than instructing the Corporate Administration & Internal Audit Department, which handles internal audit work, to perform the investigations, and made statements such as, "If I had instructed the Corporate Administration & Internal Audit Department to perform the investigations, the information would have been shared with PwC Kyoto, and it would have escalated into a major issue. I believed that it would be better to correct the improper conduct without making it public, and to give employees who are remorseful a second chance, so I directed Mr. A to conduct the investigations."

In weekly reports submitted to Mr. Nagamori, Mr. A repeatedly made statements such as, "My

---

108 During an interview conducted by the Committee, Mr. Nagamori made statements such as, "I frequently visited sites in Japan, China, and Asia, and I interacted with officers and employees and repeatedly explained the importance of 'legitimate accounting,' and I believe that this is why these officers and employees made allegations directly to me." The Committee's forensic investigation also discovered exchanges suggesting that letters alleging improper accounting were received by Mr. Nagamori. For example, an email sent by Mr. Nagamori to Mr. Kobe in July 2018 stated, "We have already received six letters alleging that manipulative accounting treatment is being conducted at GMS, but is it true? If so, this would be a serious matter. An audit should be conducted immediately" ("GMS" is an abbreviation for "General Motor Systems," a business department that previously existed within the Small Platform Motor & Solutions Business Unit). Mr. Kobe responded to this email as follows: "It is my understanding that, in response to the push to increase sales, not only GMS, but other BUs and group companies are engaging in a practice known as AS [note: abbreviation for "advance sale" (premature recognition of sales)] including practices that fall within a gray area. With regard to AS, the conditions have been set for carrying it out, and in the case of models that remain in production, as in SPM ("SPM" is an abbreviation for "Small Platform Motor," a business department that previously existed within the Small Platform Motor & Solutions Business Unit), the negotiations with customers are easy and it's not a problem, but in businesses that have a lot of models, there are instances where treatment deviates from proper practice."

position has always been the same—I am preventing the details of the indicated matters from leaking outside NCJ," and "My audit philosophy is to prevent information from leaking outside NCJ," suggesting that Mr. A paid careful attention to ensuring confidentiality. Also, as a result of the Committee's investigation, a document was discovered in which, in February 2019, Mr. A explained the duties of the general manager in charge of special audits to Mr. Yoshimoto, who was the representative director and president at the time. The document listed as an "achievement" the fact that "there has been no overlap of findings with the outside auditors or internal audits and no identification of response measures. → I am highly prioritizing defense of the organization and paying close attention to the prevention of external leaks."[109]

This stance also was followed rigorously when reporting the results of investigations into incidents of misconduct to Mr. Nagamori. In an interview conducted by the Committee, Mr. Nagamori stated that "Mr. A presented printed copies while giving reports, rather than sending reports describing the investigation results by email, and when his presentation was completed, he collected the printed copies. He said that if I retained the reports, there was a risk that someone else would see them by mistake," and "I believe that by the time Mr. A left Nidec, he had investigated several hundred cases, and when he left the company, he destroyed the reports." In fact, the Committee investigated whether any investigation reports prepared by Mr. A still exist, not only in data but also as paper documents, and only PDF data from an extremely small portion of the reports was uncovered.

In addition to reporting the results of his investigations to Mr. Nagamori, Mr. A also reported to Mr. Kobe, although not at the same frequency or in the same degree of detail. In addition, for matters involving domestic group companies, investigation results were reported to the executive officer responsible for the Group Companies Business Management Department (the executive officer with responsibility for the Group Companies Business Management Department from April 2013 to the present) ("**Executive Officer Responsible for Group Companies**"). However, information about what Mr. A was investigating was not shared even with the Corporate Administration & Internal Audit Department, and problems identified as a result of his investigations were not shared with that department or any other department. Furthermore, there was an arrangement by which the matters identified by Mr. A through the special audits were not subjected to audits by the Corporate Administration & Internal Audit Department. For example, when the Corporate Administration & Internal Audit Department conducted an audit, if the audited site explained that "This matter was the

[109] During an interview conducted by the Committee, Mr. Yoshimoto made comments such as, "I understood that Mr. A was an individual who was investigating misconduct on a special assignment from Mr. Nagamori, but he was secretive, and I didn't know specifically what he was doing."

subject of a special audit by Mr. A," no further audit of that matter was carried out.[110]

In addition, there were instances in which misconduct reported via a letter submitted to Mr. Nagamori also was reported to an internal hotline, and in these cases, the normal practice was that Mr. A's investigation took priority, and the details and results of the investigation were not reported to the Legal & Compliance Department, which was responsible for the internal hotlines. During an interview conducted by the Committee, one employee with experience working in the Corporate Administration & Internal Audit Department stated, "I thought that normally, problems discovered by Mr. A should be shared with the Corporate Administration & Internal Audit Department and that an appropriate response should be implemented by the organization, but Mr. A did not explain the details of his investigations at all. Mr. A was a presence dealing with misconduct in the dark at the direction of Mr. Nagamori, and he was completely outside Nidec's governance systems."

The fact that Mr. A was conducting special audits was known to an executive officer who had served as a full-time corporate auditor and full-time Audit and Supervisory Committee member. During an interview conducted by the Committee, that executive officer commented, "Mr. A did not share the results of the special audits, and I did not personally ask Mr. A to share information. Even if I had made such a request, he would have rejected it. At the time, I didn't feel that there was anything strange about Mr. Nagamori using Mr. A as a trusted advisor. I had no awareness at the time that Mr. A's operating outside of Nidec's governance systems was a problem."[111]

---

110 An email dated April 2018, sent by Mr. A to an executive at a certain domestic group company, stated, "I request during each special audit that the details of special audits not be disclosed to anyone, including ●. There was an arrangement that if during an audit it was stated that this matter already had been identified during a special audit, the matter would not be audited again. Please make sure that matters will not be unnecessarily escalated going forward." The domestic group company in question was the subject of an accounting audit by the Corporate Administration & Internal Audit Department after Mr. A conducted special audits.

Also, a document prepared by the general manager of the Corporate Administration & Internal Audit Department summarizing special audit cases includes statements to the effect that, in September 2015, in the course of conducting audits of Nidec Sankyo (Dalian) Corporation (NSDL) and Nidec Sankyo Electronics (Dongguan) Corporation (NSDP), the Corporate Administration & Internal Audit Department discovered that non-performing assets that already had been written down were bought and sold between the two companies, and therefore, it was decided that an investigation would be carried out, on the grounds that profit manipulation was suspected, but immediately after that, the department received notice from the Executive Officer Responsible for Group Companies stating that "this matter has already been identified through the special audits and the parties involved have been disciplined," and the investigation was terminated.

Furthermore, an email from an employee of a certain domestic group company, reporting the results of accounting audits on a subsidiary of that domestic group company, conducted by the Corporate Administration & Internal Audit Department, states, "There are not many items believed to be significant, since items identified through the special audits have been excluded, but there is an indication relating to the timing of sales revenue recognition, which is a matter of some concern."

111 It should be noted that during an interview conducted by the Committee, one full-time Audit and Supervisory Committee member stated, "I was aware that Mr. A was investigating instances of misconduct via a special assignment from Mr. Nagamori, but no information was shared, and I did not know specifically what he was doing. I did not think that it went as far as dealing with misconduct in secret."

No full-time corporate auditors or Audit and Supervisory Committee members shared the fact that Mr. A was conducting special audits with the outside officers. During an interview conducted by the Committee, the aforementioned executive officer who previously served as a full-time corporate auditor and full-time Audit and Supervisory Committee member stated, “At the time, it was unthinkable that we would explain the presence of Mr. A, who was working covertly via a special assignment from Mr. Nagamori, to the outside officers.”

3. Responses to Issues Discovered as a Result of Special Audits

When Mr. A identified accounting issues during special audits, he provided guidance to relevant subsidiary executives and had them take corrective measures (however, the entries in the weekly reports are extremely concise and the specific details are often unclear). It can be inferred from the entries in the weekly reports that, in most instances, Mr. A directed that problems be corrected promptly, but at the same time, in instances of improper accounting involving large sums, rather than directing immediate correction, at times Mr. A would instruct that the problem be addressed in a planned manner over multiple fiscal years, indicating a degree of consideration for subsidiaries that were under pressure to meet performance targets and ensuring that they would not experience significant drops in operating profit. As explained below, information about “legacy liabilities” identified through the special audits from 2017 to 2018 was shared with the executive officer responsible for the Corporate Administration & Internal Audit Department, but these “legacy liabilities” were assets that had been left to accumulate as a result of problem assets not being dealt with in a timely manner, and they included liabilities that even Mr. A would have determined would require immediate resolution under normal circumstances. Mr. Nagamori also was aware, via reports from Mr. A, that there were instances in which problems that would have required immediate correction under normal circumstances were being addressed in a planned manner.[112] During an

[112] For example, in October 2019, Mr. A reported to Mr. Nagamori that as a result of a special audit of a certain group company, it was found that the company had “legacy liabilities” that had arisen starting around 2015, and as of the second quarter of fiscal 2019, the total “legacy liabilities” that should be eliminated as a priority management item had reached approximately 2.1 billion yen. Among the “legacy liabilities” listed in the report were items that clearly required immediate resolution, such as “recording of fictitious die sales,” but Mr. A prepared an amortization plan to reduce the relevant “legacy liabilities” to a total of approximately 1.5 billion yen by the end of fiscal 2019, in order to “continue thoroughly eliminating the risk of external leaks through ‘internal and external audits etc.,’” and submitted the plan to Mr. Nagamori. In response, Mr. Nagamori made comments such as, “Achieving healthy finances is an urgent task,” but approved the amortization plan. In addition, as explained below, although Mr. Nagamori was aware that, with respect to improper accounting that occurred at Nidec Precision Corporation (NPCJ) (formerly Nidec Copal Corp. (NCPL)), some facilities and other items required impairment, he approved addressing the assets “in a planned manner” rather than immediately recognizing the impairment.

interview conducted by the Committee, Mr. Nagamori stated, "At Nidec, 'self-funding'[113] is a basic principle. It was my position that assets that require resolution should be dealt with immediately, but Mr. A showed compassion to domestic group companies that were struggling to meet their performance targets and asked me to deal with those assets in a planned manner, and I accepted this sometimes."

There also were Nidec officers and employees who stated that they dealt with problems in inappropriate ways at Mr. A's direction (this has not been corroborated by objective evidence, and these instances were not reported to Mr. Nagamori in the weekly reports; therefore, this is introduced here only as comments made by officers and employees). For example, the CFO of a certain domestic group company stated that, after consulting with Mr. A about the disposition of fictitious inventory, Mr. A instructed the CFO to treat the fictitious inventory as having been moved to a different location to avoid detection by PwC Kyoto and the Corporate Administration & Internal Audit Department, and then to obtain a certificate of disposal by incorporating the fictitious inventory into items that actually were being discarded, and that said CFO complied with those instructions.

It can be inferred from the statements in the weekly reports that Mr. A gave instructions for dealing with these types of problems while exercising great care to ensure that the existence of the problems was not detected by PwC Kyoto and the Corporate Administration & Internal Audit Department. For example, the weekly reports contained the following statements:

Fortunately, KAC [Note: PwC Kyoto] and the Corporate Administration & Internal Audit Department have not identified these issues, and I gave instructions to make revisions in Q2 in an inconspicuous manner.

None of the issues has been discovered through internal or external audits, but KAC is requesting that the company be subjected to an overseas audit in October. I instructed the NSNK headquarters CFO and other limited executives to give top priority to avoid an audit, and ensure that proper corrective treatment is performed starting in Q3, and I will follow up on this thoroughly.

As stated above, most of the reports prepared by Mr. A have not been uncovered, and the overall picture of the misconduct that Mr. A discovered through the special audits is unclear. However, in February 2019, Mr. A stated in a document explaining the work of the general manager in charge of special audits addressed to Mr. Yoshimoto, who was the representative director and president at the

113 "Self-funding" is a term used internally at Nidec. It refers to an approach whereby losses incurred by business units or domestic group companies are borne by those business units or domestic group companies themselves (that is, they are incorporated into their business results), and performance targets are to be achieved after those losses are incorporated.

time, that as the result of his work up to that time, "over eight years of special investigations, approximately 300 cases of misconduct involving approximately 35 billion yen have been identified, and responsive measures and write-offs have been implemented."

4. Status of Information Sharing After Commencement of Asset Revitalization Project

In this manner, Mr. A secretly investigated instances of misconduct, including improper accounting, via a special assignment from Mr. Nagamori, and the details of the investigations were not shared other than with Mr. Nagamori and certain management executives. However, as explained below, after the "Asset Revitalization Project" was launched in November 2016, pursuant to which the Corporate Administration & Internal Audit Department played a central role in consolidating information regarding "legacy liabilities" with problems relating to asset value and addressing those assets, Mr. A shared a list of problem assets of which he was aware with the former executive officer (who already left Nidec) responsible for the Corporate Administration & Internal Audit Department. During an interview conducted by the Committee, the former executive officer explained, "To ensure the success of the Asset Revitalization Project, I believed that obtaining information about the special audits being conducted by Mr. A was essential. Therefore, I gradually established a relationship of trust by inviting Mr. A to go out for drinks after work and so on. As a result, some time after the project started, I received a list from Mr. A of "legacy liabilities" of which Mr. A had become aware through the special audits, and I added them to the assets subject to the Asset Revitalization Project. After that, I periodically received updated lists from Mr. A."[114]

5. Provision of Materials Relating to Special Audits to PwC Kyoto

The fact the Mr. A was investigating instances of misconduct, including improper accounting, via a special assignment from Mr. Nagamori was concealed from PwC Kyoto. However, as explained below, instances of improper accounting that were discovered in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and Automotive Motor & Electronic Control Business Unit (AMEC) in 2018 were investigated by an outside law firm, and during the forensic investigation carried out as part of that investigation, special audit reports concerning "legacy liabilities" of the Nidec Copal Group were discovered and shared with PwC Kyoto.

---

[114] A report about the Asset Revitalization Project was made to Mr. Nagamori on November 4, 2017, and according to the minutes, the executive officer responsible for the Corporate Administration & Internal Audit Department explained the necessity of Mr. A sharing information about the results of the special audits and obtained Mr. Nagamori's approval.

6. Termination of Special Audits

There are no indications that Mr. A's weekly reports were sent to Mr. Nagamori after June 28, 2020. As it turned out, in connection with the instances of improper accounting that were discovered in February 2020 at Nidec Servo Corporation (NSRV) (discussed below), suspicions arose that Mr. A, who was the general manager in charge of special audits and also serving as a non-full time corporate auditor at NSRV, was aware as early as September 2018 that improper practices had been conducted at NSRV, such as recording sales with the assumption that the sales later would be reversed, but did not correct them. In addition, suspicions also arose that immediately before the Corporate Administration & Internal Audit Department audited NSRV, Mr. A learned of the impending investigation and instructed management executives at NSRV to destroy relevant documents. Mr. A denied all suspicions during the investigation by the Corporate Administration & Internal Audit Department, and ultimately, these suspicions were not confirmed as fact, but Mr. A was subjected to a formal written warning on grounds of having failed to detect misconduct in his capacity as non-full time corporate auditor.[115] In August 2020, Mr. A sent an email to Mr. Nagamori indicating that he would decline re-employment upon expiration of his contract.

Ultimately, Mr. A did not leave Nidec at that time, but on September 1, 2020, his title of "General Manager in charge of Special Audits" was changed to "executive consultant," and his remuneration was reduced by 40%. No evidence was found indicating that Mr. A conducted special audits in his capacity as an executive consultant, and Mr. A left Nidec in June 2022.

During an interview conducted by the Committee, Mr. Nagamori made comments such as, "There was no replacement for Mr. A, and I discontinued the special audits. After that, I shared letters alleging misconduct directed to me with the Corporate Administration & Internal Audit Department and other departments. It was no longer possible to deal with problems secretly and successfully, and as a result, the number of such letters declined"[116] and "(Under the Nidec internal reporting system,) [a] law firm

115 An email from the executive officer responsible for the Corporate Administration & Internal Audit Department dated April 24, 2020, addressed to Mr. Kobe, stated, "In the past, the methods adopted by Mr. ● [Note: Mr. A] may have been acceptable, but in a time when transparency and strict compliance are strongly demanded, Mr. ●'s methods put the company at risk. I believe that being aware of improper accounting but failing to report it (including the Asset Revitalization Project) to NCJ, as well as instructing personnel to delete emails and concealing evidence, are grounds for discipline. On the other hand, Mr. ● is aware of various incidents of misconduct that occurred in the past, and making him into an enemy and having him turn against the company poses a significant risk, so how we handle this situation is a real dilemma," explaining his concerns about the handling of Mr. A, who had addressed cases involving misconduct in secret.

116 A document from February 2019 in which Mr. A explained the duties of the general manager of special audits to Mr. Yoshimoto, who was representative director and president at that time, noted the following as a challenge: "Since the work is being carried out by a single person, while the risk of external leaks is reduced, it is difficult to develop personnel with real investigative abilities—the ability to dig deep—and the ability to respond."

was the designated reporting channel, but major culprits cannot be discovered through that route. Whistleblowers will not submit a report to such a place with respect to individuals who are actually engaged in misconduct."

Part 4. Methods of Setting and Managing Performance Targets (Sales and Operating Profit Target Values) at Nidec

Each instance of improper accounting discovered in the Committee's investigation was caused by excessive performance pressure. In order to clarify the origin and background factors of that excessive performance pressure, the Committee will include a description of how performance targets were actually set and managed at Nidec.

1. Method of Setting Performance Targets (Sales and Operating Profit Target Values)

(1) Process of Setting Performance Targets Throughout Nidec

a. Nidec's Internal Performance Targets and Publicly Announced Figures

As an initial matter, performance targets[117] were set during the target setting phase at Nidec that would be difficult to call realistic. At Nidec, for many years, an operating profit margin of less than 10% was considered a "loss," and based on Mr. Nagamori's belief that "losses are unacceptable," a 10% operating profit margin was considered to be an "imperative target." Moreover, Mr. Nagamori gave instructions for the company to achieve an even higher operating profit margin of 15% or more.[118]

In addition, as shown in the table below, the performance targets set within Nidec, particularly operating profit targets, were higher than the performance forecasts announced to the public. Nidec's various business units and domestic group companies were strongly pressed to achieve not the performance forecasts that were announced to the public, but rather the higher performance targets

[117] Although sales and operating profit were both indicators, operating profit was given greater importance. This was referred to within the Nidec Group as "business plans."

[118] Page 215 of "*Nagamori Style—The Principles of Management and Money*" (Ibid.), published in 2022, states, "Until now, Nippon Densan has set an operating profit margin of 10% as a must-achieve benchmark. Our business units are all required to achieve that profit rate, and anything less than that is considered a 'loss.' But now, that is not good enough. A profit rate of 15% will be our new standard. Once we are able to achieve that, then ultimately I'd like to make it as high as 20%." In addition, on p. 53, it states, "Losses are unacceptable. I've professed this both inside and outside the company. Doing business involves a lot of people working, as well as getting loans from financial institutions. We also have shareholders. Failing to turn a profit and not paying taxes in spite of all that would be unforgivable. And now, we've set an even tougher internal hurdle. Our operating margin benchmark is 10%, and anything less is a loss, in our judgment."

that had been set internally.

For example, when the fiscal 2020 business plan was being formulated, Mr. Nagamori instructed the management executives and other relevant personnel to consider consolidated figures of 1.6 trillion yen in net sales, 160 billion yen in operating profit, and an operating profit margin of 10%, but at that time, the figures that were envisioned as Nidec's targets to be publicly announced were a consolidated 1.5 trillion yen in net sales, 135 billion yen in operating profit, and an operating profit margin of 9%; thus, Nidec's internal performance target figures were set higher than the figures to be announced to the public. Mr. Nagamori sent an email to management executives and other relevant persons, instructing them to "make your review on the assumption that the figures we need to achieve are absolutely the ones in our internal plans."

(100 million yen)

FY	Nidec's Internal Performance Targets			Publicly Announced Performance Forecasts			Performance Results		
	Net Sales	Operating Profit	Operating Profit Margin	Net Sales	Operating Profit	Operating Profit Margin	Net Sales	Operating Profit	Operating Profit Margin
2016	12,505	1,500	12.0%	12,500	1,300	10.4%	11,993	1,394	11.6%
2017	14,500	1,750	12.1%	13,500	1,600	11.9%	14,590	1,659	11.4%
2018	16,800	2,150	12.8%	15,750	1,900	12.1%	14,754	1,292	8.8%
2019	17,000	1,900	11.2%	16,500	1,750	10.6%	15,348	1,086	7.1%
2020	16,000	1,600	10.0%	15,000	1,250	8.3%	16,181	1,600	9.9%
2021	17,600	2,000	11.4%	17,000	1,800	10.6%	19,182	1,704	8.9%
2022	23,000	2,370	10.3%	21,000	2,100	10.0%	22,300	899	4.0%
2023	22,500	3,075	13.7%	22,000	2,200	10.0%	23,472	1,619	6.9%
2024	24,500	2,600	10.6%	24,000	2,300	9.6%	26,078	2,378	9.1%
2025	26,000	2,600	10.0%	26,000	2,600	10.0%			

* The figures listed in this table are consolidated figures. Nidec's internal performance target figures are the final figures, which reflect any changes made during the relevant term.

b. Method of Setting Performance Targets Until Fiscal 2023

Prior to fiscal 2024, when Mr. Kishida was appointed as president and CEO, performance targets ultimately were decided by Mr. Nagamori in top-down fashion. Although the specific method used to set these performance targets differed slightly depending on the fiscal year, in general, they were formulated through a process in which directions on business plan guidelines first were given by the Performance Management Department to all of the business units and to the Group Companies Business Management Department, after which, business plan proposals would be determined in light of discussions with the business units and the Group Companies Business Management Department, and finally the decisions would be approved by Mr. Nagamori.

(a) Formulation of Medium-Term Plan Guidelines and Business Plan Guidelines for Following Fiscal Year

Every year from December to around January, the Performance Management Department gave directions to the business units and the Group Companies Business Management Department about the guidelines for the following fiscal year's business plan (net sales, operating profit, and operating profit margin).

The specific method for formulating these business plan guidelines varied, depending on the year, but, for example, the formulation of the fiscal 2021 guidelines proceeded as follows.

Beginning in 2020, Nidec adopted a system in which medium-term sales and operating profit plans covering five-year periods would be created every fiscal year, and in November 2020, the Corporate Planning Department took the lead in creating five-year medium-term plan guidelines in cooperation with the Sales Department and the Performance Management Department. Under these medium-term plan guidelines, with the premise of generating 5 trillion yen in sales during fiscal 2025 (3 trillion yen from organic business growth, and 2 trillion yen from M&As), the guideline for sales (organic business) for fiscal 2022 was set at 2 trillion yen, while the guideline for sales (organic business) for fiscal 2021 was set at 1.7 trillion yen, based on analyst forecasts (1.59 to 1.72 trillion yen). In addition, the guideline for operating profit (organic business) for fiscal 2021 was set at 225 billion yen (operating profit margin of 13.2%), based on Nidec's target operating profit margin figure of 15% and on analyst forecasts (166 to 216 billion yen). The fiscal 2021 guidelines in this medium-term plan became the fiscal 2021 business plan guidelines that the Performance Management Department instructed the business units and the Group Companies Business Management Department to follow.

The target of 5 trillion yen in sales during fiscal 2025 (3 trillion yen from the growth of organic business), which served as the underpinning for the medium-term plan guidelines, was obtained by working backward from the assumption that sales would grow by 15% every year, taking into account the target declared by Mr. Nagamori to aim for net sales of 10 trillion yen in fiscal 2030.[119] Thus, the medium-term plan guidelines created under the direction of the Corporate Planning Department were formulated in consideration of an ideal vision obtained by calculating backward from the target that Mr. Nagamori publicly communicated, as well as analyst forecasts.

In the course of formulating the medium-term plan guidelines, the business units and the Group

[119] The target of 2 trillion yen in sales (organic business) for fiscal 2022 under these medium-term plan guidelines also was derived via a similar approach.

Companies Business Management Department also submitted their own medium-term plans, but those plans diverged significantly from the medium-term plan guidelines that were developed on the initiative of the Corporate Planning Department. To use the fiscal 2021 figures as an example, the medium-term plans submitted by the business units and the Group Companies Business Management Department had, in total, sales of 1.5966 trillion yen (103.4 billion yen short of the guideline figure) and operating profits of 126.8 billion yen (98.2 billion yen short of the guideline figure), showing significant gaps in relation to the guidelines. In the Managing Directors' Meeting as well, a certain executive general manager of the business unit stated his opinion that "to call the guidelines a stretch is an understatement; they far exceed our actual abilities." Thus, it is apparent that from the planning phase, the medium-term plan guidelines significantly diverged from the medium-term plans made by the business units and the Group Companies Business Management Department.

(b) Formulation of Business Plan Proposals

Once medium-term plan guidelines were established, the Performance Management Department would instruct the business units and the Group Companies Business Management Department about the following fiscal year's business plan guidelines on that basis. The business units and the Group Companies Business Management Department then would formulate their business plans for the following fiscal year, considering the business plan guidelines, and then, around January of each year, they would submit their business plans to the Performance Management Department. However, the figures in the business plans submitted by the business units and the Group Companies Business Management Department were formulated on the basis of the sales and costs that actually were expected,[120] and as such they typically fell short of the guideline figures.

Thus, given that the figures in the business plans submitted by the business units and the Group Companies Business Management Department usually fell short of the guidelines, the Performance Management Department would have repeated discussions with the business units and the Group Companies Business Management Department, requesting that they increase their own figures. The

[120] To take the Group Companies Business Management Department as an example, every autumn, the group companies would create medium-term plans for sales and operating profits over the next five years, or three years, which they then would submit to the Group Companies Business Management Department. In addition, if the operating profit target submitted by a group company was less than 10% of its sales target, for example, the Group Companies Business Management Department would have discussions with the group company while it worked out the details of its medium-term plan, asking the group company to generate an operating profit that was 10% of the sales target or higher, and thus, between November and December it would firm up the medium-term plans for the various group companies. A medium-term plan, particularly the plan for the following fiscal year, would be refined at the level of profit and loss statements, with the plan for the following fiscal year being carved out and adopted as the following fiscal year's business plan. The Group Companies Business Management Department then assembled all of the group companies' business plans for the following fiscal year and submitted them to the Performance Management Department together.

business units and the Group Companies Business Management Department would add to their figures to the extent possible and finalize their business plan proposals, which then would be submitted to Mr. Nagamori. In interviews with the Committee, the Executive Officer Responsible for Group Companies stated, for instance, that "We wanted the group companies to achieve the performance targets, and gave realistic plans to the Performance Management Department, but the Performance Management Department always came back with requests to increase our figures in line with the expected consolidated performance results, and although we'd negotiate about this, in the end we had no choice but to accept those increases."

In addition, the forensic investigations conducted by the Committee also uncovered emails in which executives in the business units indicated that the performance targets given by the Performance Management Department were unrealistic. The following is an excerpt from an email sent by a Japanese executive from the Appliance, Commercial & Industrial Motor Business Unit (ACIM) to the Performance Management Department in the process of formulating the fiscal 2018 business plan. This email was a reply to a message from the Performance Management Department in which the following question was asked: "In order to exceed VISION2020 on an overall consolidated basis for NIDEC, it's extremely important for ACIM to achieve net sales of 568.4 billion yen and an operating profit of 77.2 billion yen. How is FY18 being treated in terms of exceeding this plan?"

> The figures that we communicated to you disregard the low growth rate of the market overall, or any headwinds involving individual customers, aiming for growth that's double or triple the market's, but the figures that the CFO Strategy Department presented far exceed that.
> We will continue submitting figures to the extent possible, but we'd like to have your department show the rationale behind your figures, as it would seem necessary to confirm that both sides are on the same level. What does your department think we need to do to be able to achieve a plan that calls for growth tens of times greater than the market growth? Could you explain your basis for thinking that's reasonable?

A person with experience as an ACIM executive stated that "ACIM submitted materials that served as the basis for the target figures set by ACIM and also provided an explanation to the CFO at Nidec headquarters, but nobody listened at all. Nidec headquarters showed no sign that it was inclined to revise the target figures in light of the supporting materials submitted by ACIM, nor was there any room for negotiation."

The Performance Management Department would instruct the business units and the Group Companies Business Management Department as to the operating profit targets they were to achieve on a quarterly and monthly basis, e.g., with the full-year operating profit target to be divided into 52% for the first half (26% in the first quarter, 26% in the second quarter), and 48% for the second half

(26% in the third quarter, 22% in the fourth quarter), and the monthly proportions of the quarterly targets to be divided into 34%, 34%, and 32%. Quarterly or monthly operating profits by their nature will fluctuate depending on the characteristics of the business (e.g., with substantial orders tending to be received at the end of the fiscal year), but no particular consideration was given to these business-specific characteristics.

(c) Raising of Performance Targets by Mr. Nagamori

The Performance Management Department engaged in repeated discussions with individual business units and the Group Companies Business Management Department, drafted business plans with targets that are as ambitious as possible based on guidelines, and submitted the draft plans to Mr. Nagamori, but Mr. Nagamori frequently rejected them on the grounds that the draft business plans were “too conservative,” and the department was compelled to revise the plans upward.

In fiscal 2016, for example, the total amount of the performance targets submitted by business units and the Group Companies Business Management Department, on a consolidated basis, were net sales of 1.1276 trillion yen, operating profit of 116.8 billion yen, and an operating profit margin of 10.4%, but after discussions with each business unit, the Performance Management Department increased these figures to net sales of 1.156 trillion yen, operating profit of 130 billion yen, and operating profit margin of 11.2%, on a consolidated basis.

The Performance Management Department submitted the business plan above to Mr. Nagamori in late March 2016, but Mr. Nagamori made the following handwritten comment on the submitted proposal and rejected it.

Rejected. Do you think that “If we all miss the plan together, there’s nothing to be afraid of!”? Is there not a single person who will take responsibility for the results? I am enraged! Year-on-year declines in revenue and profit are completely unacceptable. It would be the minimum acceptable level to set the targets at net sales of 1.25 trillion yen, operating profit of 150 billion yen, and 12% operating profit margin, and the figures to be announced externally at net sales of 1.2 trillion yen, operating profit of 130 billion yen, and 10.83% operating profit margin.

In response, the Performance Management Department reset the targets to net sales of 1.25 trillion yen, operating profit of 150 billion yen, and operating profit margin of 12%, in accordance with Mr. Nagamori’s instructions, and it resubmitted the plan and received approval from Mr. Nagamori.

During fiscal 2017, in late March 2017, the Performance Management Department submitted a plan to Mr. Nagamori with targets set at net sales of 1.42 trillion yen, operating profit of 161.2 billion yen, and operating profit margin of 11.4%, but Mr. Nagamori rejected the proposed plan with the following handwritten comment.

You must not forget that we have announced to the market that we will achieve net sales of 2 trillion yen and operating profit of 300 billion yen, with an operating profit margin of 15% during fiscal 2020. Accordingly, set the targets for fiscal 2017 at net sales of 1.4 trillion yen and operating profit of 175 billion yen, for an operating profit margin of 12.5%. I would like to adjust the plan one more time and conduct the final discussion tomorrow afternoon or at the best time on Saturday; what do you think?

In late March 2017, the Performance Management Department redrafted the business plan, revising the targets to net sales of 1.42 trillion yen, operating profit of 175 billion yen, and an operating profit margin of 12.3%, on a consolidated basis, and submitted it to Mr. Nagamori. Later, on May 3, 2017, Mr. Nagamori instructed executives to work during the Golden Week holiday to revise the plan and increase the net sales target to 1.45 trillion yen.

No matter what happens, this fiscal year, we must return to a fundamentally healthy growth trajectory, with increases in both revenue and profit. In particular, there is no path to restoring our narrative of growth unless we achieve, at a minimum, double-digit organic sales growth, excluding acquisitions. . . . Thoroughly review the sales plans of each company, and push them to reach net sales of 1.45 trillion yen based on $1 = 105 yen and €1 = 110 yen (on an externally announced basis). . . . I would like you to conduct a thorough review during the holiday period so that we can examine the sales plan at the Executive Management Meeting as soon as we return to work after the holiday.

In response to these instructions, on May 5, 2017, the Performance Management Department reset the targets to consolidated net sales of 1.45 trillion yen in accordance with Mr. Nagamori's instructions, and resubmitted the plan and received approval from Mr. Nagamori.

When Mr. Seki resigned as representative director, president, and CEO, and Mr. Nagamori again took up the position of representative director, chairman, and chief executive officer (CEO) in fiscal 2022, Mr. Nagamori specified the performance targets from the start, without waiting for the Performance Management Department to submit a proposal. In early March 2022, Mr. Nagamori sent an email to Nidec executives stating, "I have decided to present a business plan for the next fiscal year that I prepared myself by utilizing my long-standing business planning abilities. I would like everyone involved to finalize the proposal for total consolidated financial performance." In this draft proposal, he set performance targets of sales of 2.3 trillion yen, operating profit of 230 billion yen, and an operating profit margin of 10%, on a consolidated basis. (He also indicated proposed figures for external announcement of sales of 2.1 trillion yen, operating profit of 210 billion yen, and an operating profit margin of 10%, on a consolidated basis.) Mr. Nagamori closed this email with the following comment.

> This is purely my own draft, and I request that if anyone has proposals or revisions, they should let me know. However, this is the absolute minimum, below which the share price cannot be allowed to fall, and since we need to implement a minimum of two upward revisions to the externally announced figures, we must absolutely achieve the internal plan targets. I want everyone to engage in thorough discussions with a commitment to seeing this through. This cannot be a top-down allocation directive, as was done in the past, and a decision needs to be reached by consensus among all involved, including individual group companies. It will likely be difficult without implementing rigorous improvement measures, including a review of fixed cost structures.

At that time, the draft business plans submitted by the individual business units and the Group Companies Business Management Department to the Performance Management Department provided for an operating profit of approximately 202 billion yen, resulting in a gap of 28 billion yen from the figure indicated by Mr. Nagamori. As a result, the Performance Management Department and the executive general managers of the business units, as well as the Executive Officer Responsible for Group Companies, started looking into ways to close the gap, but they were unable to do so. Consequently, in late March 2022, the Performance Management Department submitted an unavoidable proposal with an operating profit target of 45 billion yen for the first quarter of fiscal 2022 and an operating profit of 230 billion yen for the remainder of the year from the second quarter, but Mr. Nagamori rejected this, and made the following handwritten comment on the submitted proposal.

> Nidec is a 3K company [note: high-profit, high-growth, high share price [translation note: "3K" derives from the first Roman letter of each of these terms in Japanese: *koshueki, koseicho, kokabuka*]]. This plan has been considered with a 3T mindset [note: low-profit, low-growth, low share price [*teishueki, teiseicho, teikabuka*]], and I cannot approve it. The key issue is how thoroughly 124% item generation was implemented. If 124% item generation is performed more thoroughly than ever before, then 40.1 billion [note: the figure presented by the business units and group companies] × 1.25 = 50.1 billion yen. 45.0 billion [note: the figure proposed by the Performance Management Department] × 1.25 = 55.8 billion yen, but I don't believe that the plan has been worked out this far, and therefore I am instructing that the plan be revised again.

Several days after that, the Performance Management Department submitted a plan that raised the operating profit target value for the first quarter of fiscal 2022 to 50 billion yen and included targets of net sales of 2.175 trillion yen, operating profit of 230 billion yen, and an operating profit margin of 10.6% for the year, on a consolidated basis, and it obtained Mr. Nagamori's approval.[121]

With regard to the business plan for fiscal 2023, Mr. Nagamori specified a policy through which, compared with the first half of fiscal 2022, the company would achieve net sales of 2.5 trillion yen, operating profit of 300 billion yen, and an operating profit margin of 12% by (i) reducing the ratio of variable costs to net sales by 10%, (ii) reducing the absolute value of fixed costs by 25%, and (iii) reducing working capital by 10% (WPR-X Activity[122]). In response, in early February 2023, the CPO directed each business unit and the Group Companies Business Management Department to formulate business plans in accordance with the policy above, and as a result, the figures submitted by the business units, on a consolidated basis, were net sales of 2.2471 trillion yen, operating profit of 227.2 billion yen, and an operating profit margin of 10.1%, a substantial deviation from the policy indicated by Mr. Nagamori. At this time, Mr. Nagamori's instructions were for consolidated net sales of 2.25 trillion yen, operating profit of 330 billion yen, and an operating profit margin of 14.7% (an even higher operating profit target). In early March, the CPO allocated the figures specified by Mr. Nagamori to each business unit and the Group Companies Business Management Department, and issued these figures as the performance target for the fiscal year. Later, discussions were held by the Performance Management Department, individual business units, and others, and ultimately, a plan was finalized with targets of consolidated net sales of 2.25 trillion yen, operating profit of 307.5 billion yen, and an operating profit margin of 13.7%.

As stated above, the net sales and operating profit targets set in Nidec's business plans frequently were increased at Mr. Nagamori's direction, and, as was the case in fiscal 2022 and fiscal 2023,

---

121 It should be noted that the submitted proposal included "responsible party comments" from the executive general managers of the business units and executive officer responsible for the Group Companies Business Management Department at Nidec. Many of these comments express a commitment to achieve the performance targets, and some executive general managers of business units indicated that the specific measures needed to achieve the targets were not yet in place, with comments such as, "The current situation is a so-called 'empty box' that lacks any content." Also, in fiscal 2022, the MOEN was established as a spin-off from the ACIM, and the executive general managers of both business units were filled by non-Japanese nationals who acknowledged that they had no choice but to accept the top-down targets set by NCJ, but also commented that they could not commit to figures that they could not logically explain.

122 "WPR-X Activities" were explained in Nidec's announcement of fiscal 2022 third quarter financial results as activities for "profitability improvement that goes beyond an extension of existing approaches" that involves "accelerating the development of products in which we can achieve overwhelming success through our technological capabilities, while advancing automation and rationalization through our own technology to achieve structural reforms intended to significantly reduce fixed costs." Nidec launched its original "W (double) Profit Ratio (WPR)" activities during the global financial crisis (triggered by the collapse of Lehman Brothers in September 2008, which was caused by the subprime mortgage issue) with the objective of "building a structure capable of remaining profitable even if sales are halved." Measures implemented at that time included promoting in-house production of parts and equipment, reducing line equipment and personnel through a review of production lines, introducing low-cost automation equipment, and improving the productivity of administrative and indirect departments. Later, in response to deteriorating business performance, Nidec implemented WPR-2 activities in fiscal 2012 and WPR-3 activities in fiscal 2018, as well as WPR-4 activities in fiscal 2020 in response to the COVID-19 pandemic.

Mr. Nagamori instructed them to set high targets from the outset. During interviews conducted by the Committee, Mr. Nagamori made comments about the reason for setting these high targets, such as, "A company can achieve growth only when it sets ambitious targets and works desperately to achieve them. Even if the targets are not achieved, the individuals who made every attempt to do so will grow, and that will lead to future success."

In addition, there were many management executives (including former management executives; hereinafter the same in this section) who pointed out that Mr. Nagamori instructed that target values be increased from the perspective of the level of growth expected by investors. This is reflected in the comments that Mr. Nagamori added to the business plans that were submitted to him for approval. For example, as discussed above, Mr. Nagamori added the following comments to the fiscal 2017 business plan submitted for approval: "You must not forget that we have announced to the market that we will achieve net sales of 2 trillion yen and operating profit of 300 billion yen, with an operating profit margin of 15% in fiscal 2020."[123] There were many executives who commented that the performance targets determined by Mr. Nagamori from the perspective of investors were unrealistic and greatly exceeded the capabilities of the individual business units and domestic group companies. Among these executives, there was one who commented, "We feared incurring Mr. Nagamori's displeasure, and unfavorable information from below no longer rose to reach Mr. Nagamori. In recent years, Mr. Nagamori no longer had an accurate understanding of actual business conditions." In a May 2023 email presented above, Mr. Nagamori told management executives, "It is true that my management style has created an atmosphere in which unfavorable reports are difficult to present, and this is a part of the problem, but as the company continues to expand in scale, it has become impossible for me to grasp everything in the same way as in the past."

The performance targets set by Mr. Nagamori in this top-down manner were invariably far beyond the capabilities of the business units and domestic group companies, and the business units and Group Companies Business Management Department made requests to the CPO to lower the target values, but it was rare that these requests were accepted.

Also, as discussed above, the Performance Management Department issued operating profit targets to each business unit and the Group Companies Business Management Department on a quarterly and monthly basis, and the proposals for these targets that the Performance Management Department submitted to Mr. Nagamori also were rejected at times.

For example, in early April 2017, the Performance Management Department submitted a plan

[123] In his writings, Mr. Nagamori also made comments such as, "In the pursuit of becoming a strong company, the figure that I emphasize above all others is stock market capitalization. Market capitalization reflects not just whether a company is large or small, but its relative value, including the market's assessment," and, "It is precisely by being aware of the equities markets and share prices that heightened management awareness is generated, and that also leads to growth." (Ibid., *Nagamori Style—The Principles of Management and Money*, pp. 60, 170.)

relating to the fiscal 2017 business plan that called for 48% of operating profit to be achieved during the first half of the year and 52% in the second half, but Mr. Nagamori rejected the proposal and added the following handwritten comment on the submitted report:

> The plan for Nippon Densan is the most lenient. Rejected. Over the past several years, we have drawn up back-loaded plans and have failed completely (fallen short) every time. Therefore, unless we proceed with a plan that allocates 52% to the first half and 48% to the second half, there will be a major shortfall this fiscal year again, and a plan that repeats the same mistake is unacceptable. I want this plan to be revised and adjusted.

In mid-April of that year, the Performance Management Department revised the plan to allocate 49% of operating profit to the first half and 51% to the second half and resubmitted it, but Mr. Nagamori rejected this plan as well, with the following handwritten comment on the submitted report.

> Every one of you is an irresponsible, unmotivated deadbeat! Fabrication of these management-illiterate figures drives expectations lower and lower. Rejected. You would all be doing me a favor if you quit! I can no longer work with the likes of you!

In late May of the same year, the Performance Management Department submitted a proposed plan that called for 47% of operating profit to be achieved in the first half of the year and 53% in the second half, with the explanation that “each BU made desperate attempts to front-load the target” but “special factors, including market demand and the timing of new model launches, were taken into consideration.” Mr. Nagamori ultimately approved this plan, with the following handwritten comment on the submitted report.

> Reluctantly approved. There has never been a case of a previous plan that was back-loaded working out well, and there is a risk that this plan will not be achieved. Shouldn’t you at least consider a plan that brings the ratio to 50:50?

(d) Interim Revision of Performance Targets

During the fiscal year, Mr. Nagamori also made revisions to performance targets that were set previously, considering the performance of other companies[124] or the impact on Nidec's share price. For example, as stated above, the targets in the fiscal 2022 business plan were raised, at Mr. Nagamori's direction, to new sales of 2.175 trillion yen, operating profit of 230 billion yen, and an operating profit margin of 10.6%. In late April of that year, however, Mr. Nagamori sent the following email instructions to Nidec and domestic group companies' executives to revise the plan as indicated below.

> The absolute minimum operating profit that must be achieved this fiscal year was set at 230 billion yen, but later, looking at the financial results of other companies from the previous fiscal year and results forecasts for this fiscal year, it has become clear that, with this figure, our relative performance will deteriorate even further, and it has become apparent how low our expectations were. Murata's reported operating profit figure for the previous fiscal year has increased to two and a half times our figure, a gap that I find difficult to believe. With operating profit of 230 billion yen for the year, there is a risk that the gap will steadily expand even more, so we need to raise our expectations. Therefore, I would like you to work toward the figures indicated below. If we cannot do what other companies are already doing (raising selling prices and implementing structure reforms to fixed costs to increase output and profit per employee), then the company will fall into a 3T condition [note: low-profit, low-growth, low share price].
>
> 1. Operating profit amount for the year
> A = 230 × 124% =285.2 billion yen
> B = 230 × 117% = 269.1 billion yen
> C = 230 × 110% = 253.0 billion yen[125]
>
> Based on the above:
> (1) Failure = Less than 230 billion yen (a major problem)
> (2) Target achieved = Less than 253 billion yen
> (3) Target exceeded by 10% = 253 billion yen or more (absolute worst value)
> (4) Target exceeded by 17% = 269.1 billion yen or more
> (5) Target exceeded by 24% = 285.2 billion yen or more
>
> 2. Q1 results will be the most important for achieving recovery of the stock price.

124 Within Nidec, "relative performance" was used to indicate Nidec's performance compared to the performance of other companies.

125 Within Nidec, "A Exceed," "B Exceed," and "C Exceed" were used to indicate varying degrees to which performance targets were exceeded (overachieved).

50-billion-yen plan figure: Current stock price maintained (a major problem)
55 billion yen (target exceeded by 10%): Stock price recovers to 10,000-yen level (absolute worst value)
60 billion yen (target exceeded by 20%): I would like each business unit and group company to revise their plans based on the stock price reaching at least the 12,000-yen level.

In response, the Performance Management Department requested that each business unit and the Group Companies Business Management Department revise the fiscal 2022 business plan with a view to treating “C Exceed” (exceeding the initial plan values by 10%) as the “absolute minimum that must be achieved.” It submitted a plan with an operating profit performance target of 253 billion yen, and obtained Mr. Nagamori’s approval.[126] Later, when it became clear, in light of the results for the first half of fiscal 2022, that the operating profit target of 253 billion yen could not be achieved, the operating profit target for the fiscal 2022 was revised to 237 billion yen in October 2022.

Furthermore, Mr. Nagamori directed that semi-annual and quarterly business plans that were set previously be modified during those periods, to front-load them.

For example, the fiscal 2016 business plan provided for 44% of operating profit to be achieved in the first half of the year and 56% in the second half, and the business units and Group Companies Business Management Department were notified to that effect at the end of March 2016, but in mid-April of that year, Mr. Nagamori sent the following email to the executive general managers of the business units and the Executive Officer Responsible for Group Companies, directing that the plan be revised.

Reflecting on the fact that the business plans for the past three fiscal years have not been achieved, we will revise the plan to achieve 52% of operating profit in the first half of the year (allocating 26% equally to the first and second quarter) and 48% in the second half (26% in the third quarter and 22% in the fourth quarter). Back-loading the plan is certain to lead to failure to achieve targets. We need to thoroughly review the way that business plans are being formulated across the entire company and the entire group. We need to resolutely stop creating plans based on groundless expectations that performance will improve later. Rigorously practice the three management methods!

126 At the time of the submission of this proposal, the Performance Management Department incorporated a change to the company’s internal exchange rate (from 110 yen to US $1 to 120 yen to US $1) in the 230-billion-yen figure, which was the initial operating profit target, and it reported the operating profit target as 237 billion yen. In response, Mr. Nagamori set 253 billion yen as a must-achieve target, and he decided to set 237 billion yen in operating profit as a criterion for personnel evaluations (a criterion for determining whether targets had been achieved).

c. Methods of Setting Performance Targets in Fiscal 2024 and Thereafter

On April 1, 2024, Mr. Nagamori shifted from representative director, chairman, and chief executive officer to founder and executive chairman of the board, and he resigned from the position of CEO. In his place, Mr. Kishida, who was an executive vice president (and executive general manager of the Automotive Motor & Electronic Control Business Unit), became president and CEO. Thereafter, a management structure was established in which Mr. Kishida took the lead in directing business operations.

As a reflection of this structural change, Mr. Kishida formulated the performance targets for fiscal 2024 and thereafter, as the person with ultimate responsibility, and measures were taken to ensure that Mr. Nagamori did not issue any instructions to raise the targets. During interviews conducted by the Committee, Mr. Kishida made statements such as, "Over many years, Nidec's business units and group companies became accustomed to business plans being handed down top-down from Mr. Nagamori. Starting in fiscal 2024, I had each business unit and group company take responsibility for examining their own business plans."

For business plans in fiscal 2024 and thereafter, the Performance Management Department first set consolidated net sales and operating profit target values, taking into account the figures for the following fiscal year in the medium-term plan, the projected results figures for the current fiscal year, and the cost improvement targets for each business unit and domestic group company, and allocated those targets to individual business units and domestic group companies and formulated performance target guidelines. The Performance Management Department conducted repeated discussions with the individual business units and the Group Companies Business Management Department, and drafted a business plan. Following discussions with Mr. Kishida, the CPO, CFO, Performance Management Department, and others, the final business plan was approved.

d. Excessively High Performance Targets and "Legacy Liabilities"

Among the "legacy liabilities" that recently were deemed to be an issue were many assets for which impairment became necessary due to reasons like initial expectations not being met, causing projects to come to a halt, or sales failing to reach the levels initially anticipated, and, many people cited the fact that high performance targets were set as mentioned above as one of the causes that gave rise to these "legacy liabilities." One individual pointed out that "it was necessary to make substantial capital investments to achieve those high targets, but there was no internal organization to validate the investments, and it was left to the discretion of the individual business units. The self-serving business plans formulated by each business unit were approved." Also, with respect to the traction motor business of the Automotive Motor & Electronic Control Business Unit (AMEC), which had no choice but to implement a major impairment of fixed assets in the fourth quarter of fiscal 2023, one individual stated, “Believing that the electric vehicle market would grow, Mr. Nagamori issued an order to establish a foundation for producing 6 million units per year, and the rush to make this massive capital investment led to the impairments. Investment decisions were made without considering the business risks, such as the presence of competing manufacturers in China or the massive costs that would be required to develop traction motors.”

(2) Process of Setting Performance Targets for Domestic Group Companies

As discussed above, each year, from late March to about the end of the March, the Performance Management Department presented business plans to each business unit and to the Group Companies Business Management Department, and the business units and the Group Companies Business Management Department allocated portions of target revenue in excess of those in the business plan initially submitted among individual sites and domestic group companies. Below, the Group Companies Business Management Department is used as an example to explain the process by which the business plan presented by the Performance Management Department was allocated by the Group Companies Business Management Department to individual domestic group companies.

The presentation of business plans for domestic group companies as a whole by the Performance Management Department to the Group Companies Business Management Department occurred during the period from late March to about the end of March, immediately before the start of the following fiscal year, and, consequently, the Group Companies Business Management Department had limited time to determine how to make the allocation to individual domestic group companies. It was not uncommon for the department to be unable to conduct detailed investigations of how the excess portion of target profits should be allocated to individual domestic group companies, and some Group Companies Business Management Department personnel commented, “Since we had no time, there were instances in which we adopted a ‘good-enough’ approach and allocated the excess target profits to domestic group companies on a pro-rata basis.”

In addition, the Group Companies Business Management Department allocated target values to each domestic group company that were inflated from the business plan presented by the Performance Management Department. This was done based on the idea that even if some domestic group companies failed to meet their targets, other domestic group companies would be able to cover the disparity.

Moreover, the Group Companies Business Management Department presented sales and operating profit targets for the following fiscal year to domestic group companies during the period from late

March to the end of March.[127]

As is clear from the explanation above, the sales and operating profit targets presented to each domestic group company frequently exceeded the targets that each company independently formulated in their medium-term plans by a wide margin. It should be noted that the Group Companies Business Management Department did not provide any particular explanation to the domestic group companies with regard to its reasons for setting targets that diverged from the target values reported by the domestic group companies.

Taking fiscal 2023 as an example, a comparison of the sales and operating profit targets[128] formulated by the domestic group companies and the sales and operating profit targets presented by the Group Companies Business Management Department to the domestic group companies is set forth below. For many of the domestic group companies, the performance targets presented were significantly higher than the performance targets submitted by the domestic group companies.

Unit: million yen

		Value submitted by company (in January 2023)	Value presented to the company (in April 2023)	Difference (amount)	Difference (percentage)
NPCJ[129]	External sales	32,991	36,960	3,969	112%
	Oper. profit Oper. profit marg.	6,812 14.1%	11,000 20.6%	4,188	161%
NCCC[130]	External sales Oper. profit Oper. profit marg.	39,930 9,443 23.6%	43,990 14,000 31.8%	4,060 4,557	110% 148%
NATC[131]	External sales Oper. profit Oper. profit marg.	59,448 16,225 27.1%	50,000 16,500 33.0%	-9,448 275	84% 102%

127 In some situations, targets were presented in early April, after the start of the fiscal year.
128 Figures are for fiscal 2023 and are drawn from the medium-term business plans for each domestic group company, which were compiled by the Group Companies Business Management Department in January 2023.
129 Nidec Precision Corporation
130 Nidec Components Corporation
131 Nidec Advance Technology Corporation

		Value submitted by company (in January 2023)	Value presented to the company (in April 2023)	Difference (amount)	Difference (percentage)
NGSJ[132]	External sales	3,052	3,700	648	121%
	Oper. profit	492	800	308	163%
	Oper. profit marg.	12.3%	18.5%		
NTMC[133]	External sales	86,335	99,500	13,165	115%
	Oper. profit	11,930	21,500	9,570	180%
	Oper. profit marg.	12.8%	20.1%		
NPSC[134]	External sales	61,368	55,880	-5,488	91%
	Oper. profit	10,231	12,000	1,769	117%
	Oper. profit marg.	16.5%	21.4%		
NESJ[135]	External sales	21,837	26,400	4,563	121%
	Oper. profit	3,445	7,000	3,555	203%
	Oper. profit marg.	13.1%	22.6%		
NAMC[136]	External sales	14,677	27,300	12,623	186%
	Oper. profit	3,612	6,000	2,388	166%
	Oper. profit marg.	12.4%	18.8%		
NDMJ[137]	External sales	54	0	-54	0%
	Oper. profit	-50	800	850	—
	Oper. profit marg.	-0.6%	16.7%		
NMOJ[138]	External sales	114,816	109,500	-5,316	95%

132 Nidec Global Service Corporation
133 Nidec Techno Motor Corporation
134 Nidec Powertrain Systems Corporation
135 Nidec Elesys Corporation
136 Nidec Advanced Motor Corporation
137 Nidec Machinery Corporation
138 Nidec Mobility Corporation

		Value submitted by company (in January 2023)	Value presented to the company (in April 2023)	Difference (amount)	Difference (percentage)
	Oper. profit	11,857	22,000	10,143	186%
	Oper. profit marg.	10.2%	19.6%		
NDTC[139]	External sales	97,781	103,100	5,319	105%
	Oper. profit	14,416	20,823	6,407	144%
	Oper. profit marg.	14.4%	19.8%		
NMTJ[140]	External sales	43,714	48,796	5,082	112%
	Oper. profit	6,082	9,303	3,221	153%
	Oper. profit marg.	13.9%	19.1%		
NOKJ[141]	External sales	22,648	25,336	2,688	112%
	Oper. profit	943	3,987	3,044	423%
	Oper. profit marg.	4.2%	15.7%		
PAMA[142]	External sales		18,768		
	Oper. profit		887		
	Oper. profit marg.		4.7%		
NIST[143]	External sales	155,021	162,500	7,479	105%
	Oper. profit	18,738	35,000	16,262	187%
	Oper. profit marg.	11.6%	19.8%		
Buffer[144]	External sales		▲24,730		

139 Nidec Drive Technology Corporation
140 Nidec Machine Tool Corporation
141 Nidec OKK Corporation
142 PAMA S.p.A.
143 Nidec Instruments Corporation
144 As discussed above, the Group Companies Business Management Department allocated a target figure to each domestic group company that was inflated even more above the overall performance targets for all domestic group companies that were presented by the Performance Management Department, so that even if one domestic group company failed to meet its performance targets, the overall performance targets for

		Value submitted by company (in January 2023)	Value presented to the company (in April 2023)	Difference (amount)	Difference (percentage)
	Oper. profit		▲15,600		
Domestic group companies total	External sales	764,233	787,000	22,767	103%
	Oper. profit	103,020	166,000	62,980	161%
	Oper. profit marg.	12.6%	19.8%		

Many of the presidents and CFOs of domestic group companies saw the targets presented by the Group Companies Business Management Department as unrealistic, and one of the domestic group company executives stated, "I was unable to sleep at all the night that I saw the amounts that had been presented."

It should be noted that when the target figures were presented to domestic group companies, the term "guidance values" was commonly used, but the CFOs of the domestic group companies made comments such as, "The emails sent by the Group Companies Business Management Department used the phrase 'guidance values,' which makes it sound like the figures were no more than rough benchmarks, but we understood the numbers to be absolute figures, which we were required to achieve." Some domestic group company executives consulted with the Executive Officer Responsible for Group Companies, and they stressed that it would be difficult to achieve the figures that were presented, but in many cases, the Executive Officer Responsible for Group Companies did not approve any modification of the targets.

Furthermore, as discussed above, the Performance Management Department directed the Group Companies Business Management Department on how the annual performance targets should be allocated on a monthly and quarterly basis, and the Group Companies Business Management Department instructed domestic group companies to prepare business plans in accordance with those directions. In these situations also, no consideration was given to monthly or quarterly fluctuations based on the business characteristics of individual domestic group companies.

As stated above, in fiscal 2016, the initial business plans were revised at Mr. Nagamori's instruction to achieve the performance targets early. Because of this, the Executive Officer Responsible for Group

all domestic group companies as a whole would still be achieved. The additional amount was referred to as the buffer. Subtracting the buffer from the total performance target of each domestic group company gives the overall performance target for all domestic group companies that was presented by the Performance Management Department.

Companies instructed the domestic group companies to review their business plans, but some of the domestic group companies commented that it would be difficult to achieve the new targets. An examination of the minutes of meetings of the Executive Officer Responsible for Group Companies with the presidents and CFOs of domestic group companies reveals that the presidents of the domestic group companies made comments such as, “If we were to do even more than we are doing now, we would put the company in a situation that undermines sound management,” and “Even if there were deals that could generate 100 percent through proper means, there is a risk that moving the target forward into the first quarter through debt or other such means will decrease the results from 100 percent to 60 percent,” indicating that even if the operating profit target for the first quarter were met through unreasonable means, there were concerns that revenue for the year as a whole would deteriorate. However, these concerns were not taken into consideration, and the group companies were required to formulate business plans strictly in accordance with Mr. Nagamori’s instructions. As a result, even though the group companies did not have any specific measures for increasing operating profits, they were forced into a situation in which they had no choice but to draw up business plans as directed by Mr. Nagamori. An email from the CFO of one domestic group company to the Executive Officer Responsible for Group Companies, submitting the revised business plan, included the following statement.

Following the performance meeting yesterday, even though we still have white boxes piling up, I am resubmitting the business plan with an operating profit of 1.6 billion yen and an operating profit margin of 26% for the first quarter.

The term “white boxes” was used within Nidec to refer to the practice of padding operating profit, despite having no specific measures to increase it; this also was referred to as “empty boxes.” As is clear from the email above, some domestic group companies submitted business plans that complied with Mr. Nagamori’s instructions in form only, despite having no specific measures to achieve them.

Moreover, the operating profit targets that were allocated on a monthly basis, as discussed above, also were broken down further, into daily targets. The daily targets generally were distributed evenly across every day of the month, but companies were instructed to achieve their monthly targets at least five days before the end of the month during the first and second months of each quarter, and at least 10 days before the end of the month in the third month of each quarter. Accordingly, for example, for July and August the figure set as the monthly target divided by 26 was set as the daily target for each day (from the first to the 25th day of the month[145]), and for September, the figure set as the monthly target divided by 20 was set as the daily target for each day (from the first to the 20th day of the

[145] Including Saturdays and Sundays.

month), and these target figures were managed on a daily basis.

In addition, if the performance in a particular month did not reach the target, the amount of the unachieved portion was added to the targets for the next and subsequent months. And if the quarterly performance did not reach the target, the amount of the unachieved portion was added to the target for the next quarter.

At times, Mr. Nagamori also instructed that performance targets be increased during a fiscal year, and in these situations, the Group Companies Business Management Department instructed each domestic group company to increase its performance targets. There were some domestic group company executives who referred to these instructions for interim increases to targets as a "regular event."

For example, as discussed above, the Nidec Group's business plan for fiscal 2017 set targets of net sales of 1.4 trillion yen and operating profit of 175 billion yen, but on May 3, 2017, the net sales target was increased to 1.45 trillion yen at Mr. Nagamori's instruction.

In response, on the same day, the Executive Officer Responsible for Group Companies instructed the presidents and CFOs of the domestic group companies to hold emergency meetings the following day, May 4, and to revise their sales plans by working over the holiday period.

In fiscal 2018, the annual targets were not revised, but instructions were issued to move up the recording of sales and operating profits to the first quarter. An email sent by the Group Companies Business Management Department to the presidents of domestic group companies in late May 2018 included the following statement.

> The other day, Representative Director Nagamori instructed that, in order to exceed the plan for this fiscal year, for which future prospects remain uncertain, efforts should be made to advance the schedule so that the sales and operating profits for this first quarter, on a quarterly basis, will reach levels comparable to those achieved in the past. (Refer to the email excerpt at the end of this email.)
> In accordance with these instructions, it was decided today to increase the first quarter sales progress rate of each BU to 24%. (No changes are being made to the plan for the year as a whole, and this change is no more than moving results up to the first quarter. The flag[146] assessment criteria remain unchanged from the initial plan and are unaffected.)
> [Omitted]
> Normally, we would have asked each company to move its figures forward to reach 24%, but since there are a number of companies for which we cannot expect the figures to be moved forward by up

[146] As described below, the term "flag" refers to the flags that were displayed by the seats of business unit and domestic group company executives at the Executive Management Meeting. At that time, flags of different colors were displayed, based on the degree to which sales and operating profit targets had been achieved. This practice of displaying flags was introduced at Mr. Nagamori's instruction, starting with the Executive Management Meeting held in May 2017, and the use of flags continued until around March 2019.

to 24%, we have set individual sales guidance values for each company.

The email from Mr. Nagamori to the Nidec executives quoted in the email above contained the following statement.

Considering that last fiscal year's performance was not good and that, in particular, the performance results for the fourth quarter of the previous fiscal year were terrible, I am concerned that unless we can achieve a V-shaped recovery during this first quarter, we will not be able to recover market confidence. The key to achieving this is whether we can achieve record-high sales and operating profits on a quarterly basis. In particular, we will focus on whether we can achieve a record-high quarterly profit in terms of operating profit.

Furthermore, in cases where Nidec's consolidated operating profit outlook was unfavorable, domestic group companies were instructed to raise their operating profit targets for the current month, and there were instances in which multiple domestic group companies were instructed to allocate the increased targets among themselves.

On July 26, 2025, for example, the Executive Officer Responsible for Group Companies sent the following email to the presidents and CFOs of the domestic group companies.

Each company and BU is working desperately to build up its results in an effort to achieve the must-achieve target of total consolidating operating profit of 70 billion yen for the second quarter, but under current conditions, the projected final result for July is extremely adverse, and a recovery absolutely must be achieved.

This communication is to inform you of the following requested increased figures for your company's final operating profit and to request that you make every effort to increase your results in order to achieve the requested figures.

- July final operating profit increased requested value: ●● million yen

On July 31, immediately after the email above was sent, the Chief Performance Officer (CPO) made a request to increase the targets even further. Below is the email that the CPO sent to the presidents of domestic group companies affiliated with the Machinery and Automation Business Unit.

The projected final value is 2.06 billion yen.

In order to keep our commitment to the publicly announced annual figure of 260 billion yen, we need

to reach 70 billion yen during the second quarter, and the planned figure of 22.88 billion yen on a total consolidated basis for July must be achieved.
Therefore, the must-achieve plan value of 2.28 billion yen for the Machinery and Automation Business Unit must be met without fail. This is because the 2.28 billion yen is a component within the total consolidated figure of 22.88 billion yen.
Since the total consolidated figure is still running short at this time, I ask for your support and cooperation.
Today, I am requesting that the three presidents [Note: the presidents of three domestic group companies affiliated with the Machinery and Automation Business Unit] hold discussions among themselves and determine how the 2.28 billion yen target for the business unit is to be achieved.
It goes without saying that compliance with internal rules, as well as laws and regulations, is an absolute prerequisite.

Requests such as these, to raise targets during the fiscal year, were not limited to the examples presented above; they were made repeatedly on an annual basis to such an extent that the executives of domestic group companies referred to these requests as a "regular event."

It should be noted that the email cited above closes with, "It goes without saying that compliance with internal rules, as well as laws and regulations, is an absolute prerequisite." In the course of the Committee's investigation, in addition to the email above, numerous emails were observed in which Nidec management executives, including Mr. Nagamori, placed particular emphasis on "rigorous compliance," "royal road of business management," and "legitimate accounting," but these phrases were not necessarily taken at face value by executives of domestic group companies. During interviews conducted by the Committee, some executives of domestic group companies made comments to the effect that "although Mr. Nagamori and other executives repeatedly spoke of 'legitimate accounting' and 'rigorous compliance,' they simultaneously set unreasonable performance targets that led to misconduct, and they applied intense pressure to ensure that those targets were met without fail. This was equivalent to saying, 'I instructed you to do the right thing, and it is you who engaged in misconduct,' and I find this to be underhanded."

In this way, performance targets that are difficult to characterize as realistic were imposed in a top-down manner, and, consequently, some domestic group companies independently prepared more realistic business plans based on business conditions and conducted their actual business based on those realistic plans. In effect, there was a dual management structure in which "form-only" business plans for submission to Nidec headquarters and "real" business plans were maintained in parallel. At the companies operating under this type of dual business plan management structure, it was not uncommon for the business plans intended for the Nidec headquarters to be shared only among executives[147] while presenting to the Group Companies Business Management Department the appearance of investigating action plans to achieve the business plan targets, including items that were not actually intended to be implemented.

2. Performance Management Methods

(1) Overview

Nidec was widely known as a company that constantly applied strong pressure to achieve performance targets. As discussed above, business units and domestic group companies were continuously subjected to performance targets that fundamentally could not be characterized as realistic and were based on the belief that "losses are unacceptable." Those unrealistic targets were specified as mandatory objectives to be achieved. The pressure to achieve performance targets had its origins in the pressure imposed on executives, including the executive general managers of business units and the Executive Officer Responsible for Group Companies, by Mr. Nagamori. The pressure felt by these executives was transferred downward, that is, to the sites under their authority.

The Nidec management methods used to achieve performance targets were characterized by the adoption of an extremely intense management approach, whereby progress toward meeting monthly targets was managed on a daily basis. Each site was exposed to intense performance pressure every day.

In this section, we use as an example the domestic group company that Nidec officers and employees across the board described as having been subjected to the most intense performance management, to present how performance management was performed.

(2) Examples of Performance Management at Domestic Group Company

a. Item Generation

To achieve its monthly operating profit targets, Nidec engaged in a practice that it referred to as "124% item generation." This was an initiative to build up measures (items) that would achieve 124% of the monthly operating profit target, with the objective of ensuring that the monthly operating profit target could be met reliably by carrying out the measures built up in this way. The items included not

---

147 With regard to the reason why business plans intended for the Nidec headquarters were shared only among executives, during an interview conducted by the Committee, one executive of a domestic group company stated that if the business plans for the Nidec headquarters were disclosed to employees, there was a risk that the employees would engage in behavior that could damage medium to long-term relationships with customers, such as resorting to unreasonable sales tactics, in order to meet the plan targets.

only measures to build up positives, such as acquiring orders and expanding sales, but also measures to reduce negatives, such as cutting costs. Each item was ranked from A to E, according to the likelihood of implementation during the current month, and the monetary value assigned to each item was calculated by multiplying the expected amount of profit by 100% for A-rank items, 80% for B-rank items, 60% for C-rank items, 40% for D-rank items, and 20% for E-rank items. The total of items across all ranks was required to reach 124% of the monthly operating profit target, and the combined total of A-rank and B-rank items alone was required to reach 80% of the monthly operating profit target.

By the fifth day of each month, domestic group companies were required to perform 124% and 80% item generation, but it was not uncommon for domestic group companies with poor performance to fail to complete the item generation by the fifth day. The CFO of a domestic group company stated, "If we didn't finish the item generation by the fifth, we were required to generate items even if we had to work through the night. Even working through the night, we accomplished little, and we were compelled to manufacture profits through accounting procedures, such as deferring expense recognition, reevaluating write-downs, and capitalizing costs." A different CFO of a domestic group company stated, "In cases where we couldn't come up with items no matter how hard we tried, we would assign an A rank or a B rank to completely unrealistic items in order to somehow come up with 124% and 80% item generation and complete the process."

b. Performance Meetings and Performance Review Meetings

The performance of domestic group companies was managed on a daily basis, and domestic group companies made daily reports on their performance progress to the Performance Management Department through the Nidec Group Companies Business Management Department. In addition, meetings known as "Performance Meetings" were held several times per week (excluding Sundays) and were attended by domestic group company presidents and CFOs, as well as the Executive Officer Responsible for Group Companies, the CPO, and others, for purposes of reporting on and discussing the status of progress toward meeting monthly and quarterly performance targets.

At times, domestic group companies with poor performance also held meetings known as "Performance Review Meetings," in addition to the Performance Meetings. It was not uncommon for Performance Review Meetings to be held daily, and where a domestic group company was unable to put forward measures to achieve its performance targets during a Performance Review Meeting held during the daytime, an additional Performance Review Meeting would be scheduled for the same evening, with the Executive Officer Responsible for Group Companies often requiring that measures be put forward by the evening meeting.

At the Performance Meetings and Performance Review Meetings, the Executive Officer

Responsible for Group Companies repeatedly subjected the presidents and CFOs of those domestic group companies that had little prospect of achieving their performance targets to harsh and severe reprimands, which even could be characterized as relentless. During interviews with the Committee, executives of domestic group companies stated, "If it appeared that performance targets would not be met, we were verbally abused by the executive officer, who made remarks such as 'You're fired,' 'You're a class-S war criminal,' and 'You're a criminal.'" And, "At the Performance Review Meetings, the executive officer never provided any concrete advice on how to achieve performance targets; he simply issued strong demands that the targets be met. He considered these Performance Review Meetings a type of 'punishment' for the subsidiaries' failure to achieve their performance targets."

During the course of the Committee's investigation, audio recordings of some Performance Meetings and Performance Review Meetings were discovered. As executives of domestic group companies also stated during interviews, these audio recordings captured scenes in which domestic group company executives repeatedly explained that they had no means of achieving the operating profit targets and that there were "legacy liabilities" that needed to be disposed of, while the Executive Officer Responsible for Group Companies, at times raising his voice, pressed them with comments such as: "So what! Just do it with 'self-funding,'" and "While everyone else is going all out and working through the night doing everything they can, you can't just walk off like a thief! If you said you'd at least hit the minimum, then hit your number!" The recordings also captured an executive officer losing his temper at a domestic group company executive who mentioned that discussions on profit accumulation had continued until 10 p.m. the previous night, with outbursts such as: "Why did you stop at 10?! Are you serious? Why didn't you work until the morning? Why aren't you putting in more effort? Why are you finishing at 10 and then just saying that you're sorry?" as well as remarks such as, "You say you're working hard. If you say you can't go on, then just quit."

The achievement of performance targets was subjected to rigorous scrutiny on a daily basis, and as a result, during interviews with the Committee, some CFOs of domestic group companies made comments like, "If we were unable to meet our operating profit targets, we faced harsh reprimands from the Executive Officer Responsible for Group Companies and were forced into days of unproductive work, which caused our operations to suffer. To avoid this, there were times when we reported sales as having increased even though they didn't actually do so," and "In the first and second months of each quarter, there were times when we reported operating profits as actual results even though the profit did not really exist. This is because failing to meet targets would mean having to attend Performance Review Meetings on a daily basis, which would disrupt operations. Based on the decision that it was better to suffer only in the third month than to endure Performance Review Meetings through all three months, we frontloaded the operating profits we could expect to earn in the third month of the quarter." In this way, it was not uncommon for the performance figures reported on a monthly basis to deviate from the actual results, particularly among domestic group companies with poor performance.

As the end of each quarter approached, summaries of the financial accounting figures became available, and, consequently, the figures subject to discussion during Performance Meetings and Performance Review Meetings were the figures from the financial accounting. At those times, discrepancies frequently arose between the performance figures that had been tracked up to that time, that is, the figures from management accounting (management values) and the figures from financial accounting (financial values).[148] Where the financial accounting figures did not reach the operating profit targets for the quarter, the Group Companies Business Management Department issued even stronger instructions to increase operating profits. This was not the exception; even after the end of a quarter, if the preliminary quarterly operating profit figures were worse than projected, the department issued instructions to raise the figures by the financial closing deadline.

However, at this stage, it was unrealistic to increase operating profits using methods such as generating additional sales, and, consequently, group companies inevitably were driven to manufacturing operating profits through various accounting procedures, such as deferring the recording of expenses, revising valuation losses, altering asset valuation methods, and capitalizing costs. Within the Nidec Group, terms such as “one timer” and “one-off action item” were used at times to refer to the “stopgap” measures used to produce operating profits.

It should be noted that the discrepancies between the management accounting figures (management values) and financial accounting figures (financial values) frequently were seen as a problem by Nidec headquarters management executives and Accounting Department personnel. For example, as discussed below, the minutes of a meeting held in July 2022 and attended by the Chief Compliance Officer, executive officers responsible for the Management Department, the general manager of the Corporate Administration & Internal Audit Department, and others, include the following statements about instances of improper accounting discovered at Nidec Global Appliance Brasil Ltda. (NGAB) in March 2022.

Executive officer responsible for the Management Department: At Nidec, irresponsible financial accounting is referred to as management accounting. It is being said that it is acceptable because it is an internal report, but this needs to be corrected. False reports

148 For example, there are instances in which reports were made to the effect that sales were expected to increase, in order to endure the rigorous daily performance management, but ultimately sales did not increase. During interviews with the Committee, some CFOs of group companies made comments like, “When sales were reported as having increased even though no actual increase had occurred, efforts were made throughout the quarter to generate real sales, but when those efforts ultimately failed to produce results by the end of the quarter, a discrepancy arose between the management values and the financial values at the close of the quarter. Since reporting the true cause of the discrepancy to the Executive Officer Responsible for Group Companies would incur the officer’s anger, we had no choice but to offer different explanations to the executive officer.”

also are being made to the Board of Directors. Mr. ●● [Note: the Nidec headquarters' CFO] also indicated that since the figures are false, he would like to stop reporting the figures to the Board.[149] This is not ordinary management accounting; it is simply sloppy execution of financial accounting itself.

General manager of the Corporate Administration & Internal Audit Department:

PwC also has been issuing unqualified opinions on the understanding that, based on its review of the monthly financial results, the quarterly financial statements were settled properly. What is different from past cases, such as the Servo matter,[150] is that improper accounting was performed not only at the monthly level but also at the time of the actual financial statements. The pattern is the same as before. The question of whether inappropriate accounting is acceptable because it only affects monthly figures is something that needs to be addressed in the future, and action on this already has begun. This is something all the officers were aware of.

Executive officer responsible for the Management Department:

The roots run deep. These erroneous monthly performance figures are unacceptable because they also are being reported to the Board of Directors. It becomes impossible to adjust the figures, which lays the groundwork for improper financial accounting.

General manager of the Corporate Administration & Internal Audit Department:

This was exactly the situation with the NGPM matter.[151] There also are instances in which a single entry was posted on the RP system in order to align the financial values with the reported values.

c. Executive Management Meetings of Domestic Group Companies

In the past, Mr. Nagamori attended Executive Management Meetings held at domestic group companies and provided direct instruction to the executives of those companies. (In recent years, the frequency of Mr. Nagamori's attendance at Executive Management Meetings decreased, and he did not attend the Executive Management Meetings of any group company from the summer of 2025 onward.) The Executive Management Meeting of individual domestic group companies was held in

[149] In fact, the monthly financial reporting that had been carried out up to that point was discontinued as of the Board of Directors' meeting held on January 7, 2023. The minutes of the Board of Directors' meeting state the following reasons for discontinuing the monthly financial reporting: "The current monthly financial reporting presents preliminary internal management figures prior to finalization of financial values, broken down by business unit based on the internal organizational structure. There are concerns that this may cause confusion among outside directors for the following two reasons: (i) the breakdown differs from the product segment classification used in external communications, and (ii) the reported figures are not as precise as the financial values." One of the outside directors at the time stated that they did not feel that anything in particular was out of place with regard to discontinuation of the monthly financial reporting.

[150] This refers to the instances of improper accounting that were discovered at Nidec Servo Corporation (NSRV) during the fourth quarter of fiscal 2019, as discussed below.

[151] This refers to the instances of improper accounting that were discovered at Nidec GPM GmbH (NGPM) in the third quarter of fiscal 2021, as discussed below.

the early part of each month, when the preliminary figures for the monthly financial closing were released, and it was not uncommon for Mr. Nagamori to give harsh reprimands to the presidents and CFOs of domestic group companies whose performances were poor. There were more than a few domestic group company executives who pointed out the severity of Mr. Nagamori's instructions, with some stating, "Mr. Nagamori shouting things such as, 'What do you mean you can't achieve the target?!' could be heard outside the meeting room."[152]

In addition, Mr. Nagamori frequently sent reprimand emails directly to domestic group company executives. For example, Mr. Nagamori sent the following email to the president of a domestic group company.

> I want you to understand that your term as an officer runs, at the longest, until the General Shareholders' Meeting in June, and unless you produce significant results by then, your role at Nidec will end. The selection of officers for the next fiscal year will be based strictly on the track record of results achieved up to the current fiscal year.

> Even though high fixed costs, including labor costs, are the primary reason for the failure to generate profits, you completely fail to understand that not acting in accordance with my instructions is contributing to the deterioration of overall consolidated performance. If things continue this way, you will soon be forced to step down.

Mr. Nagamori also frequently directly telephoned Nidec headquarters executives to reprimand them, and this was also the case with the executives of domestic group companies. For example, the president of a certain domestic group company sent the following email to the executives of domestic group companies.

> I have received repeated telephone calls from the president since the day before yesterday, with messages coming in every hour, and I eventually was told things, such as if I lack the motivation to work hard, I should get out. I suppose that this is what Mr. ●● meant by hell.

---

152 In May 2017, instructions were issued to each business unit and domestic group company to place green, yellow, and red flags at Executive Management Meeting sites, based on the status of achievement of sales plans and operating profit plans. (The practice of placing flags continued until around March 2019.) An email from Mr. Nagamori contained the following statements: "Please display two flags at the Executive Management Meeting of each business unit and group company held in May. Specifically, place, on a single pole, an upper flag of the appropriate color to indicate whether the sales plan has been exceeded or not and a lower flag of the appropriate color to indicate whether the operating profit plan has been exceeded or not. Make the arrangements for this immediately, and ensure without fail that they are ready in time for the Executive Management Meetings when they resume after the holiday. My intention is to have every business unit and every group company raise two green flags by rigorously exceeding both their sales and profit plans and to hold our Executive Management Meetings under those flags."

3. Pressure on Nidec Management Executives

As discussed at the opening of this Report, the pressure to achieve performance originated with the pressure that Mr. Nagamori applied to executives, including the executive general managers of the business units and the Executive Officer Responsible for Group Companies.

At the Executive Management Meeting held on the first Saturday of the month, Mr. Nagamori regularly would reprimand management executives who were not achieving their performance targets severely, beginning with the executives in the business units and the Executive Officer Responsible for Group Companies. As Mr. Nagamori wrote in his book, "From the company's founding through the period of rapid growth, I consistently developed people by 'reprimanding' them."[153] Severely reprimanding executives in this manner was a part of the management style that Mr. Nagamori intentionally adopted, but a number of executives characterized Mr. Nagamori's reprimands as "insults."[154] One former Nidec executive who joined the company from outside the Nidec Group stated in an interview with the Committee, "It was Mr. Nagamori's style to engage in one-sided abuse in front of a large audience. This is something that is no longer acceptable in Japan, and I felt a strong sense of indignation and resistance."

In addition, Mr. Nagamori frequently sent emails and chat messages to management executives, strongly pressuring them to achieve results. On these occasions, he often dangled his authority regarding executive appointments.

In this way, pressure was applied on a daily basis, and although it is not feasible to present all examples, if some examples of an email sent by Mr. Nagamori to Nidec headquarters CFO are to be presented, they would be the following. (It was not uncommon for emails in which Mr. Nagamori reprimanded management executives to include numerous other executives as CC recipients.)

How many times do you think you need to go back to the beginning before you can put the management methods that you were taught into practice? Everyone recognizes that you're unable to

153 Ibid., *The Power of Achievement*, p. 131

154 Mr. Nagamori frequently used the word "insults" to describe his reprimands. For example, in emails he sent to executives, he made the following statements: "The key is whether you can bear responsibility for results as CEO, so I would like to closely watch the extent of your drive and tenacity to carry through what needs to be done through the royal road of business management and legitimate accounting without resorting to insults." He added, "I have always respected people who can accomplish things I cannot or from whom I can learn. To give a familiar example, Vice Chairman Kobe has worked alongside me since the company's founding. From the very beginning, even when the mistakes were not his own but those of other executives, he sometimes endured my insults and reprimands, being berated like a dog or cat, but over these 50 years he has never once said the word 'quit.' I suspect that if I were in his position, I would have quit long ago. This is precisely why I respect, trust, and have complete confidence in him from the bottom of my heart."

keep promises and do not have the drive or tenacity to do so, and you can no longer be trusted. I want to find a replacement quickly and appoint a CFO who is capable of keeping promises, and if this can't be done, it must be said that Nidec's future is dark. Although you've been given tremendous opportunities, you've failed to take advantage of those opportunities and have only caused problems. I believe that the primary cause for your current disgraceful behavior is simply your lazy character! You should be ashamed of yourself!

If your ability to drive performance progress is such that you repeat the same failure this fiscal year as you did last fiscal year, there will be no choice but for you to step down as CFO. I hope that you don't leave behind results that will blemish the final period of your professional career.

I want you to understand that having a CFO who cannot be trusted by the CEO and COO to share accountability for results is the greatest risk to Nippon Densan. If results continue to fall short of the plans any further, I think that I will ask you to leave the company with dignity. We don't need management executives who are leaders in name only.

If your current performance remains unchanged, removal as an officer or demotion awaits you, and I'm closely monitoring the third-quarter results with this in mind. I'm hoping that the result will not be the worst possible for you, so I want you to work desperately to achieve results. Everything depends on the third-quarter results.

Mr. Nagamori applied strong performance pressure on the management executives who oversaw the business units (including Mr. Seki and Mr. Kishida, who are/were presidents). Below are some examples of emails and chats that Mr. Nagamori sent to the executives responsible for the business units.

Since you started working for the company, I've given you stern guidance on numerous occasions, but you're the first person since Nippon Densan was founded that I found to be completely unrewarding to mentor.
[Omitted]
In the two and one-half years since you joined Nippon Densan, the losses that you've caused the company to incur, including the loss of opportunities to gain profits that should have been earned, now surpass 80 billion yen, as of today. It raises the question: Did you come to destroy Nippon Densan? Are you going to flee in the face of the enemy, leaving behind nothing but destruction? Or are you going to work like hell to cover the company's losses? I would like you to make your decision quickly and release me from this nightmare.

It is difficult to say that you are someone I can entrust with things with confidence, and I believe you are unfit to be president. Your business management is completely unacceptable, and you cannot be relied upon, so I want you to be aware that if you continue making these kinds of mistakes, you will be replaced as president.
You are able to speak well, but your abilities do not match your words, and your continued failure to achieve plans is a disappointment. Please understand that if things continue without change and the fourth quarter plans are not achieved, a change of presidents awaits you.
Selecting someone like you for president was a mistake. It is pathetic that even though you were given this opportunity, you have failed to take advantage of it.

Both you and ●● were given large raises in July, but you're failing to live up to expectations, so shouldn't you be taking steps to ensure that you aren't demoted again? This is a precarious situation you're in!

At this rate, won't the ●● Business Department shrink further in pursuit of breakeven, to the point where it will have to be downgraded to something like a business section? Are you deliberately trying to destroy the business?
[Omitted]
Reading the emails from you and the executives below you, which lack any sense of urgency, fills me with anger. When did our executive team become so inept? The business is heading toward a complete contraction to a sustainable minimum and ultimately will likely cease to exist. Is this the result of entrusting business to a weak leader?

Not only is it not possible to promote people from businesses that are operating in the red, it's also necessary to reduce the number of officers and assign officers to businesses that are producing positive results. Under current conditions, the probability of personnel demotions next fiscal year is increasing.

Consideration of executive personnel matters for the next fiscal year has just started, but in relation to ●●, the matter of your demotion is already being discussed. Based on the sales forecast figures from last time, your performance will almost certainly result in a demotion. You were selected to be VP, so isn't there something you can do to achieve a recovery? Otherwise, a significant shortfall from the sales plan will mean a demotion.

You must not fail to achieve the second quarter targets under any circumstances! Be sure to achieve positive results in the second half to make up for the shortfall in the first quarter and achieve the plan for the year in order to recover the trust and confidence that you've lost. If you are unable to do this, it'll mean that you're unqualified to be called an executive.
[Omitted]
I don't think that you have ever demonstrated your full potential, even a single time, in the past 10-plus years. You may believe that you are trying your very best, but it has never appeared that way to me.

Even Mr. Kobe, a founding member of Nidec, was not an exception to this strong pressure being exerted by Mr. Nagamori. Below are some examples of messages that Mr. Nagamori sent to Mr. Kobe.

It makes me not only sad but also angry that you and your subordinates seem to have absolutely no understanding of the importance of this for the fourth quarter or why I swallowed my pride and announced such terrible results at the third-quarter earnings announcement.
[Omitted]
I'm surrounded by unreliable people, and the only conclusion is that it was a mistake for me to build up the company to its current size. It seems that I was a fool to have trusted you!

Am I truly the only one in the company raising my voice and continuously reprimanding people? If you actually felt a deep sense of crisis, wouldn't you realize that colluding with ●●, ▲▲, and others who are spouting nonsense could end up ruining your professional career at the end? Unless you demonstrate your commitment through your attitude more and strictly manage and guide your subordinates, you will end up as no more than VC in name only!

How long are you going to keep talking nonsense?! Management is about results! How long are you going to keep making the same excuses?! Failing to meet the business plans is unacceptable! You need to take more responsibility for the results! It's due to your attitude that ●● and ▲▲ don't even care if they also missed their targets!

Many individuals stated that, due in part to the language barrier, Mr. Nagamori did not exert as much pressure on the foreign executives as the Japanese executives. Some individuals stated that Mr. Nagamori might be concerned that if he exerted excessive pressure on the foreign executives, who were operating in a culture different from that of Japan, he would be met with strong resistance. In any case, it can be said that while the pressure exerted on the foreign executives was not as strong as that exerted on the Japanese executives, even the foreign executives were exposed to rather strong performance pressure. The improper accounting discovered in the Appliance, Commercial & Industrial Motor Business Unit (ACIM), discussed below, occurred against a backdrop of intense performance pressure exerted by Mr. Nagamori on the ACIM's foreign executives.

4. Business Performance, Officer Compensation, and Employee Salaries and Bonuses

(1) Overview

The Nidec Group's compensation system adopted a structure that was linked to the degree of achievement of performance targets. The methods of determining officer compensation and employee salaries and bonuses differed for the Nidec headquarters, business units with major sites in Japan, domestic group companies, and business units with major sites overseas.

(2) Nidec Headquarters and Business Units with Major Sites in Japan[155]

a. Officer Compensation

The compensation of officers (meaning directors other than outside officers, as well as executive officers) of the Nidec headquarters and business units with major sites in Japan is comprised of fixed compensation, variable compensation, and performance-linked stock-based compensation.

Variable compensation is calculated by multiplying the fixed compensation from the previous fiscal year by the results of an overall evaluation (on a 10-point scale). The indicators for overall evaluation are (i) the degree of achievement of performance targets and (ii) an indicator determined at the discretion of the chairman and president.[156] With regard to performance targets, for officers responsible for business units, the indicators are consolidated company-wide performance (net sales and operating profit) and division performance (net sales and operating profit), and for officers responsible for administrative bases and other departments, the indicators are consolidated company-wide performance (net sales and operating profit) and targets set by each officer.[157] With regard to the

155 The business units with major sites in Japan are SPMS and AMEC. However, since AMEC Organic was transferred to under AAD on January 1, 2025, AMEC Organic is excluded. Also, the domestic group company compensation system discussed below applies to domestic group companies overseen by the Machinery and Automation Business Unit and PAMA S.p.A.

156 The ratios of (i) the degree of achievement of performance targets and (ii) the discretion of the chairman and president in the overall evaluation are: for the chairman, 100% of the performance target; for the president, 90% of the performance target and 10% at the discretion of the chairman; and for other officers, 80% of the performance target and 20% at the discretion of the chairman and the president.

157 Nidec employs a management method known as Management by Objectives (MBO), whereby corporate management policies are aligned with the individual targets of officers and employees to harmonize their directions, specific targets to be achieved are set for each individual, and their progress and results are

discretion of the chairman and president, the chairman and president evaluate the comprehensive degree of contributions by the officer in question, at their discretion.

In the past, Mr. Nagamori had decision-making authority over variable compensation, but since the Remuneration Committee was established in February 2021, after a final evaluation by Mr. Nagamori (since fiscal 2025, Mr. Kishida),[158] the Remuneration Committee submits a report, and the Board of Directors makes a decision based on that report.

Performance-linked stock-based compensation is explained below in section (4).

b. Employee Salaries and Bonuses

Among the salaries of employees at the Nidec headquarters and business units with major sites in Japan, the salaries of employees in the leader class[159] and above are determined by their qualitative performance evaluations from the previous fiscal year (on a five-point scale) under a system that resets and recalculates salaries each year (the "wash and replace" method[160]). For employees below the leader class, salaries are increased through an accumulation of annual qualitative evaluations (on a five-point scale) under a system of incremental merit-based raises (the "merit increase" method[161]).

The bonuses of employees at the Nidec headquarters and business units with major sites in Japan are comprised of a standard bonus and a discretionary bonus.

Standard bonuses are paid to employees within the scope of bonus funds. Bonus funds are determined taking into consideration business performance and, currently, the performance of SPMS and AMEC, as well as total consolidated performance (percentage of operating profit margin and net sales target achieved), and they are used as indicators for making the determination. (The performance of SPMS and AMEC accounts for approximately 70%, and total consolidated performance accounts for approximately 30%.) The Human Resources Department would first prepare a proposal for bonus funds, which until the 2023 winter bonus then was subject to final approval by Mr. Nagamori, but since the summer 2024 bonus it has been subject to final approval by the Three-Party Meeting (NKK Meeting), which is comprised of Mr. Nagamori, Mr. Kobe, and Mr. Kishida. After Mr. Nagamori resigned as founder and executive chairman of the board on December 19, 2025 and became chairman

---

monitored.

158 There also were instances in which Mr. Nagamori modified the initial evaluations at his discretion.

159 "Leader class" refers to employees positioned between staff-level employees and management.

160 The "wash and replace" system is a mechanism whereby salaries are determined based on evaluations of job responsibilities and duties, rather than regular raises based on age, length of service, or other factors.

161 The merit increase method is a mechanism whereby salary amounts vary while retaining the cumulative results of annual evaluations. For example, if the evaluation in year one is 4 and the evaluation in year two is 3, the evaluation base for year three is 7 (4+3), to which the current year's evaluation is then added, with the resulting cumulative total determining the salary.

emeritus (non-full time), final approval has been given by President Kishida.

The standard bonuses for individual employees are based on qualitative evaluations of each employee, and each employee's standard bonus is adjusted within the range of the bonus funds.

The amounts of discretionary bonuses are determined at the discretion of the general manager of business unit and the responsible officer.

(3) Domestic Group Companies

a. Officer Compensation

The compensation of officers of domestic group companies is comprised of variable compensation and performance-linked stock-based compensation only, and does not include any fixed compensation.

Variable compensation is calculated by multiplying a base annual salary, which is derived from the "amount of operating profit" of the respective domestic group company, by the results of an overall evaluation on a 10-point scale. Among the metrics used for overall evaluation, before May 2023, only the "rate of achievement of the operating profit plan[162]" and the "balance sheet improvement status (CCC improvement rate)[163, 164]" were used as evaluation metrics, but after changes to the officer compensation system in May 2023, "operating profit margin" and "Representative Director Nagamori's assessment (the degree of autonomous management at each company[165])" were added as new metrics.

Among the overall evaluation metrics, the "rate of achievement of the operating profit plan," "balance sheet improvement status (CCC improvement rate)," and "operating profit margin" are subject to a mechanism whereby evaluation scores are calculated mechanically, based on a variable compensation calculation criteria table. However, no evaluation criteria are set for "Representative Director Nagamori's assessment (the degree of autonomous management at each company)," and the

162 The rate of achievement is calculated by comparing the operating profit target value set in the business plan with the actual value achieved.

163 The improvement rate is calculated by comparing it with the CCC (cash conversion cycle) for the previous fiscal year. CCC is a key performance indicator (KPI) that indicates the length of time from when a product is manufactured and sold to when revenue is collected, as well as the cash flow required during that period. It is calculated as the sales period plus the recovery period minus the payment period, and the shorter the CCC is, the shorter the period from when a company produces a product to revenue collection, meaning a more efficient cash conversion cycle.

164 The "CCC improvement rate" is not included as an evaluation metric for Nidec headquarters' officer compensation.

165 The degree of autonomous management at each company is a metric used to evaluate whether each domestic group company is being managed in a stable manner (i.e., the management capabilities of the management team), taking into account, for example, whether there are quality problems or instances of misconduct.

evaluation is determined at Mr. Nagamori's discretion.[166]

Proposals for the compensation of officers at domestic group companies were prepared by the Group Companies Business Management Department and approved by Mr. Nagamori. As discussed in Part 2-6(4) above, around September 2025, the mechanism for determining the compensation of officers at domestic group companies was changed so that Mr. Kishida had decision-making authority.[167]

b. Employee Salaries and Bonuses

With regard to the salaries of employees of domestic group companies, before fiscal 2022, the salary systems that existed prior to the acquisition by Nidec were retained, but since fiscal 2022, the same system that applied to the salaries of Nidec headquarters' employees was adopted at those companies.[168] Bonus funds for employees of domestic group companies use a mechanism that determines the amount based on the consolidated operating profit margin of each company, and the range of bonuses was quite broad, from two to nine months' salary.

As in the case of proposed bonuses for officers of domestic group companies (described above in section a), the Group Companies Business Management Department prepared a proposal with regard to bonus funds for all employees of domestic group companies, which then was subject to approval by Mr. Nagamori, but as stated above in section a, in September 2025, this was changed so that Mr. Kishida had decision-making authority over the compensation of officers of domestic group companies.

(4) Performance-Linked Stock-Based Compensation

The Nidec Group introduced a performance-linked stock-based compensation system in 2018 in order to provide incentives for achieving performance targets and other objectives set in the mid-term management plans and thereby foster a heightened desire to contribute to the sustainable enhancement of corporate value through the holding of company shares, by clarifying the link between the compensation of officers and others and Nidec headquarters' share price.

---

166 After calculating the "pre-representative director assessment compensation," this figure was multiplied by "Representative Director Nagamori's assessment" (on a five-point scale, ranging from 105% to 85%).

167 As stated in Part 2-6(4) above, on August 20, 2025, Nidec headquarters issued a notice to domestic group companies stating that Mr. Nagamori would continue to be the decision-maker with regard to officer compensation, employee bonuses, personnel matters relating to officers and executive consultants, and other matters, but in September of that year, Mr. Nagamori expressed his intent to entrust final decision-making to Mr. Kishida, and Mr. Kishida served as the decision-maker thereafter.

168 The evaluation mechanism for determining the bonuses of employees of domestic group companies was the same as that for employees of the Nidec headquarters and business units with major sites in Japan both before and after fiscal 2022.

The subjects of this system are Nidec directors (excluding the Founder,[169] outside directors, and Audit and Supervisory Committee members), executive officers and those in equivalent positions, and the directors (excluding outside directors) and executive officers of domestic group companies (“**Eligible Directors**”).

Eligible Directors are granted points based on their positions and the degree of achievement of total consolidated performance targets each year, and every three fiscal years, shares equivalent to 50% of the number of accumulated points are granted and a monetary amount, equivalent to the proceeds from the sale of shares corresponding to the remaining balance of accumulated points, is paid.

(5) Business Units with Major Sites Located Overseas

The compensation system at business units with major sites located overseas, which are the Appliance, Commercial & Industrial Motor Business Unit (ACIM), Motion & Energy Business Unit (MOEN), and AMEC Organic Business Unit (following its transfer to the Appliance and Automotive Division (AAD) on January 1, 2025), is based on the compensation systems of the companies that formed the foundations of the respective business units, such as Emerson Electric Co. However, adjustments have been made as part of the post-acquisition PMI in order to align those systems with the Nidec headquarters’ compensation system.

Currently, the compensation of officers of business units with major sites located overseas is comprised of base compensation, variable compensation (annual bonuses), and long-term incentives.

Rates of increase for base compensation are determined by referring to the market rate of increases in compensation and inflation. Variable compensation (annual bonuses) is calculated by multiplying base salary by the annual bonus rate (which is set by referring to market levels, based on the scope of work duties and responsibility, and is proposed by each business unit) and the annual bonus payment rate (calculated according to the degree of achievement of business plans (net sales and operating profit)). Long-term incentives are calculated by multiplying base compensation by the long-term incentive rate (based on position and region (in the United States and in territories other than the United States)) and the long-term incentive payment rate (calculated in the same manner as annual bonuses; average values for the most recent three years are used).

Base compensation, variable compensation, and long-term incentives are proposed by each business unit to the Nidec headquarters’ Human Resources Department. Until fiscal 2023 they were subject to approval by Mr. Nagamori, and they have been approved by Mr. Kishida since fiscal 2024.

The salaries of employees of business units with major sites located overseas are set pursuant to

[169] The Board of Directors at Nidec headquarters adopted a resolution, at a meeting held on April 23, 2024, to exclude Mr. Nagamori from eligibility for performance-linked stock-based compensation, and he was excluded from that system thereafter.

individual salary systems for each region and role, based on labor markets in the relevant country, local laws and regulations, and local employment systems.

5. The Views of Mr. Nagamori and Others on Performance Pressure

The setting of performance targets that could be described as unrealistic and an approach to performance management that can be called "relentless" in driving toward those targets can be said to be a strong reflection of the "Three Essential Attitudes" advocated by Mr. Nagamori, namely "Passion, Enthusiasm, and Tenacity," "Working hard and smart," and "Do it now; do it without hesitation; do it until completed." The Committee believes it is no exaggeration to say that this is the essence of Mr. Nagamori's management style.

As discussed above, even during interviews with the Committee, he explained that he intentionally set high targets, commenting, "A company can achieve growth only when it sets ambitious targets and works desperately to achieve them. Even if the targets are not achieved, the individuals who made every attempt to do so will grow, and that will lead to future success."

While Mr. Nagamori expressed the need to work desperately toward achieving ambitious targets, he also made comments to the effect of, "It can't be helped if a target can't be met despite true effort. I repeatedly told officers and employees, 'It's perfectly acceptable to fail to meet targets if they cannot be met without resorting to improper conduct.'"

In this way, Mr. Nagamori set high performance targets and engaged in strict performance management in order to achieve those targets, but he premised this on also practicing "legitimate accounting," that is, proper accounting procedures. An individual with experience as an executive officer responsible for the Corporate Administration & Internal Audit Department stated in an interview with the Committee that he offered the following advice to Mr. Nagamori: "Isn't it unreasonable to insist on strictly adhering to 'legitimate accounting' while also imposing intense performance pressure?" The former executive officer also stated that Mr. Nagamori's response at the time was, "I can do it."

However, it is believed that Mr. Nagamori was aware that strongly demanding performance targets be met increased the risk of improper accounting occurring. During interviews with the Committee, Mr. Nagamori made comments such as, "I said that falling short of targets is acceptable, but at the same time, I also instilled the importance of not showing weakness, and as a result, there is no one who will show weakness," and "Up until around 2010, I had many opportunities to visit factories directly and see operations on the ground, and I was able to discuss matters with front-line officers and employees and correct unrealistic plans when necessary, but I think things started to go wrong after the group expanded in size and I was no longer able to visit the front lines frequently." As discussed above, the fact that Nidec had established an atypical structure in which its Internal Audit

Department was made to conduct accounting audits, , and the fact that, setting aside the propriety of the methods used,Mr. Nagamori assigned personnel specifically to investigate accounting misconduct on special assignment, strongly suggest that he was aware of the risk of accounting misconduct.

The person most frequently mentioned in connection with rigorous performance management is the Executive Officer Responsible for Group Companies. This Executive Officer Responsible for Group Companies visited domestic group companies with Mr. Nagamori for many years and benefited from Mr. Nagamori's guidance, and he is regarded within Nidec as someone who strives to adhere faithfully to Mr. Nagamori's management style. (At times, this executive officer is referred to in Nidec internal documents as "the evangelizer of Representative Director Nagamori's will (directives)."

During an interview with the Committee, the Executive Officer Responsible for Group Companies stated, "The pressure that I applied was not to achieve short-term targets. Achieving targets requires forward-looking measures, and the pressure that I applied was to teach the lesson that 'you are suffering this much now because you did not implement forward-looking measures.'" On the other hand, the Executive Officer Responsible for Group Companies also made comments such as: "When I was interviewed by the Legal & Compliance Department concerning instances of improper accounting, it was pointed out to me that I push people too hard, and I understood that pushing group companies too hard was not a good thing." "I was aware that pushing group companies too hard could lead to the occurrence of improper accounting." And, "Even though I knew I shouldn't apply too much pressure, the target still had to be met, and these two requirements were at odds." The Executive Officer Responsible for Group Companies further stated, "Until now, I conducted business with a strong conviction that 'the company must grow,' but thinking about it now, I should have explained to Mr. Nagamori the actual capabilities of group companies. If I'd been willing to put myself on the line and had explained this, I think that Mr. Nagamori would have understood."

Part 5. Provisions of Accounting Standards, etc., Pertaining to Accounting Treatment Deemed Problematic by the Committee's Investigation

As of fiscal 2016, Nidec adopted the International Financial Reporting Standards (IFRS)[170] in place of the U.S. Generally Accepted Accounting Principles (US GAAP) and prepared its consolidated financial statements and related disclosure materials in accordance with those standards. In this section, we provide an overview of the relationship between the scope of discretion available to management when making accounting estimates and accounting misconduct, taking into consideration

[170] IFRS is a collective term for the international accounting standards published by the International Accounting Standards Board (IASB), the successor to the International Accounting Standards Committee (IASC), and consists of the standards set by the IASB (IFRS), the standards set by the IASC (IAS), and the interpretive guidance issued by each body, respectively.

the accounting standards and other provisions relating to accounting estimates, an issue that has been identified across multiple locations with regard to the accounting misconduct identified through the Committee's investigation

1. Impairment of Assets

IAS 36 (Impairment of Assets)[171] requires that when the value of an asset is impaired, the portion that exceeds the recoverable amount must be recognized as an impairment loss to prevent the book value (carrying amount) of the asset from exceeding the recoverable amount (IAS 36.1).

Impairment assessment consists of three steps: [i] identification of signs of impairment, [ii] measurement of the recoverable amount, and [iii] recognition and measurement of impairment losses.

First, with regard to identification of signs of impairment, under the International Financial Reporting Standards (IFRS), at the end of each reporting period an entity must assess whether there is any indication that an asset may be impaired (IAS 36.9). At that time, in assessing whether there is any indication that an asset may be impaired, the entity shall consider, at a minimum, the following indications (IAS 36.12).

External sources of information	(a) Significant decline in the asset's market value
	(b) Significant changes in the technological, market, economic, or legal environment that have an adverse effect on the entity
	(c) Increases in market interest rates or other rates
	(d) When the carrying amount of the net assets exceeds the entity's market capitalization
Internal sources of information	(e) Obsolescence of or physical damage to the asset
	(f) Significant changes concerning the current or planned use of the asset that have an adverse effect on the entity
	(g) Evidence indicating that the economic performance of the asset is or will be worse than expected

As a result of an assessment based on the foregoing factors, if a determination is made that indications of impairment are recognized, except in the case of certain exceptions, measurement of the recoverable amount specified in item [ii] above is performed.

The "recoverable amount" specified in [ii] above is the higher of an asset's or cash-generating unit's

171 IAS 36 relates not only to the impairment of tangible fixed assets, but also non-current assets used in operations, excluding financial assets.

fair value less the cost of disposal or its value in use (IAS 36.8 and 36.18). The “value in use” is the present value of the future cash flow expected to be derived from an asset or cash-generating unit (IAS 36.6).

When estimating future cash flow, the following are estimated: (a) cash influx from use of the asset, (b) cash outflow that necessarily is incurred from use of the asset, and (c) expenditures to be paid for disposal of the asset at the end of its useful life (IAS 36.39). Since these estimates of future cash flow are predictions of future revenues and expenditures arising from the use of an asset, a certain latitude in judgment arises. Under the IFRS, however, future cash flow projections must be based on reasonable and supportable assumptions, and greater weight must be given to decisions based on objective external evidence. Projections must be based on the most recent financial budgets and forecasts (covering maximum of five years) approved by management (IAS 36.33).

These provisions are intended to prevent the arbitrary avoidance of impairments by managers and to ensure the accuracy of financial statements. When calculating future cash flow, for example, fabricating estimates using forecasts that lack reasonable support or forecasts that deviate from past results without a reasonable basis for doing so in order to intentionally manipulate impairment amounts that should be recognized is deemed to be improper accounting.

Where, as a result of measuring the recoverable amount specified in item [ii], the recoverable amount is less than the carrying amount, the difference must be recognized as an impairment loss, as specified in item [iii] (IAS 36.59).

2. Recording of Provisions

In cases where it is possible that a company will have liabilities, for example, where the company is subject to demands for indemnification or claims for damages from customers on the basis of defects in products or services provided by the company or non-performance of contractual obligations, under IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), the company must consider whether a provision should be recorded.

Under the International Financial Reporting Standards (IFRS), an entity must recognize a provision as a liability if the following three conditions are met (IAS 37.14).

(a) The entity has a present legal obligation or constructive obligation as a result of a past event;
(b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(c) It is possible to make a reliable estimate of the amount of the obligation.

As stated above, the requirements for these provisions include not only legal obligations but also "constructive obligations." A constructive obligation is defined as an obligation that derives from an entity's actions, where, through an established past practice, published policies, or the like, the entity has represented to other parties that it will accept certain responsibilities, and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities (IAS 37.10).

Also, with regard to the requirement that "it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation," under the IFRS, if the outflow of resources is more likely to occur than not, it is regarded as probable (IAS 37.23), and, thus, if the likelihood of occurrence exceeds 50%, this condition is met.

In this way, when recording provisions, it is necessary to examine whether an obligation is currently owed, but this examination involves decisions based on all available evidence at the time (including, for example, the opinions of experts), and decisions may vary with the passage of time. For example, Illustrative Example 10 appended to IAS 37 (court case) explains as follows.

[Example 10]

After a wedding in (the year) 2000, ten people died, possibly as a result of food poisoning from products sold by the entity. Legal proceedings were commenced seeking damages from the entity, but the entity disputed liability. Until the date of authorisation of issuance of the financial statements for the year, through 31 December 2000, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year through 31 December 2001, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

[On 31 December 2000]

On the basis of the evidence available when the financial statements were approved, there was no obligation as a result of past events; no provision was recognised. The matter should be disclosed as a contingent liability, unless the probability of any outflow is regarded as remote.

[On 31 December 2001]

On the basis of the evidence available when the financial statements were approved, there was a present obligation, and it was probable that an outflow of resources embodying economic benefits would occur and, accordingly, a provision should be recognised.

Also, the amount recognized as a provision must be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. When estimating that amount, risks and uncertainties relating to the circumstances must be taken into account (IAS 37.36 and 37.42).

When measuring provisions, objectively determined figures cannot be calculated, and it is necessary to make estimates; therefore, management judgment is required, and a certain degree of latitude in that judgment arises. On this point, the IFRS requires that best estimates be made and that relevant risks and uncertainties be taken into consideration, and, consequently, for example, when measuring provisions, intentionally underestimating the amount by failing to consider or undervaluing the relevant risks and uncertainties, such as the risk of claims from customers and the risk of those claims being upheld by a court or similar body, is considered to be improper accounting.

3. Valuation of Inventory

IAS 2 (Inventories) establishes the accounting treatment and specifies valuation methods for inventory.

Inventory is defined as: (a) goods and products held for sale in the ordinary course of business, (b) semi-finished products in the process of production for such sale, and (c) materials or supplies to be consumed in the production process or in the rendering of services (IAS 2.6).

With regard to valuation methods for these kinds of inventory, the IFRS states that inventory shall be measured at the lower of cost and net realizable value ("**NRV**") (IAS 2.9). NRV is defined as the amount an entity expects to realize from the sale of inventory in the ordinary course of business less, the estimated cost of completion and the estimated cost necessary to make the sale (IAS 2.6). Where inventory consists of products, NRV is the amount equal to the sale price of the products less the cost necessary to make the sale, and where inventory is work-in-progress products, materials, or supplies, NRV is an amount equal to the estimated sale price of the products that will be completed using these assets less the estimated necessary costs of completion of the products and the estimated expenses necessary for sale thereof.

As a result, where NRV is less than cost, the carrying amount of the inventory is reduced to its NRV, and the amount of the reduction is recognized as an expense during the period when that write-down occurs (IAS 2.34).

In this way, when valuing inventory, it is necessary to calculate NRV. NRV includes estimated elements, including the amounts that are expected to be realized from the sale of the inventory, and, therefore, management judgment is required, and a certain degree of latitude in that judgment arises. Under the IFRS, however, when estimates are made, they must be made based on the most reliable evidence available at the time the estimate is made and must take fluctuations in price or cost directly relating to events occurring after the reporting period of financial statements into consideration, to the extent that those events confirm conditions that exist at the end of the fiscal period (IAS 2.30).

Therefore, when valuing inventory, where—despite the occurrence of events that constitute objective evidence, such as a decline in market prices, deterioration in quality, decrease in salability, or an increase in sales costs—a valuation is performed by arbitrarily disregarding those events, or if a write-down that should be recognized is not recognized, this is considered to be improper accounting.

4. Accounting Estimates and Improper Accounting

Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty (IAS 8.5). As outlined in sections 1 to 3 above, accounting estimates require management judgment (IAS 8.32[172]), and it is possible that a certain degree of latitude will arise in that judgment. However, that judgment must be reasonable, and where it is recognized that judgments were made arbitrarily, it is considered improper accounting.

On this point, the Japanese Institute of Certified Public Accountants explains the relationship between accounting estimates and improper accounting in its Auditing Standards Committee Statements (ASCS), which contain provisions that give concrete form to audit standards, as set forth below.

- When preparing financial statements, management is responsible for making a number of judgments and assumptions that affect significant accounting estimates and for monitoring the reasonableness of those estimates on an ongoing basis. Improper financial reporting often is accomplished through intentional misstatements of accounting estimates. This may be achieved, for example, by understating or overstating all provisions or other adjustments to smooth earnings or to achieve a designated earnings level in order to deceive the users of financial statements as to the company's performance and profitability (ASCS No. 240, "Misconduct in an Audit of Financial Statements," paragraph A.43).
- The degree and nature of judgment exercised in making accounting estimates (including the degree of subjectivity) may result in management bias when making decisions about the series of procedures for an accounting estimate that management considers appropriate. Furthermore, when either complexity and estimation uncertainty, or both, are high, the risk and opportunity for management bias, or the risk and opportunity for misconduct, also may increase (ASCS No. 540, "Auditing Accounting Estimates and Related Disclosures," Appendix 1, Inherent Risk Factor 18).

172 IAS 8 Paragraph 32 provides, "An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty—that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgments or assumptions based on the latest available reliable information."

The Committee made reference to the provisions above when conducting its investigation.

Part 6. Instances of Improper Accounting Discovered as a Result of Investigation

The Committee's investigation is still ongoing, but through the investigation thus far, the Committee has identified a large number of instances of improper accounting across various operating bases of the Nidec Group. The impact amounts and examples of methods of improper accounting that are organized by accounting issue, as well as the impact amounts by segment are set out in Part 7 below. The following provides an overview of representative examples.

1. Improper Accounting that Occurred at Nidec Precision Corporation (NPCJ) (Formerly Nidec Copal Corporation (NCPL))

(1) Overview of Improper Accounting

Nidec Precision Corporation (NPCJ) (formerly Nidec Copal Corporation (NCPL)) is a domestic group company that manufactures shutters and small motors for cameras and engages in related businesses. NPCJ's main manufacturing sites are located overseas (in Thailand, China, and Vietnam), but the company also has three domestic manufacturing sites (in Koriyama City, Fukushima Prefecture, Shiojiri City, Nagano Prefecture, and Minamiuonuma City, Niigata Prefecture).

Since the 2010s, markets for NPCJ's main business (especially, the market for camera shutters) have been contracting, and the company has struggled to meet its performance targets. Numerous instances of improper accounting occurred and were reported to the Nidec headquarters, and in fiscal 2012, a large amount of "legacy liabilities" arose due to the discovery of improper accounting in the amount of approximately 10 billion yen, as discussed in Part 8-1 below.

In addition, a total of approximately 11.5 billion yen in "legacy liabilities" arose at NPCJ during fiscal 2016, and since then, it has been reporting to the Nidec headquarters about the status of efforts to resolve those "legacy liabilities." However, the "legacy liabilities" that arose during fiscal 2016 had not been resolved in full when the Committee commenced its investigation, and the Committee confirmed that their disposal was proceeding in a "planned manner." Among those "legacy liabilities" were certain items for which the relevant planned handling was not permitted under accounting standards. In addition, the Nidec headquarters required NPCJ to address those "legacy liabilities" through "self-funding" while at the same time meeting its performance targets, and consequently, NPCJ generated profits by engaging in new instances of improper accounting.

In this section, we explain the details of the "legacy liabilities" that arose at NPCJ during fiscal 2016 ("**NPCJ Legacy Liabilities**"), as well as the status of their disposition, and then we provide an overview of the improper accounting practices (capitalization of expenses without underlying substance) that were carried out in parallel with efforts to dispose of those “legacy liabilities.”

(2) Improper Disposal of NPCJ Legacy Liabilities

a. Overview of NPCJ Legacy Liabilities

In January 2017, Mr. A, who was performing special audits, reported to Mr. Nagamori, the Executive Officer Responsible for Group Companies, and others on the status of the NPCJ Legacy Liabilities. At the top of the materials prepared by Mr. A, it was reported that the maximum financial impact of the NPCJ Legacy Liabilities (combined with other “legacy liabilities” that had been identified as problematic in the past) was approximately 14.0 billion yen, as quoted below, and that thereafter “a proposal for disposition based on adherence to the business performance plan” was formulated, with the status of that disposition to be reported to Mr. Nagamori on a timely basis.

> With regard to the matter above, to ensure that this does not become an impediment to sound global business growth, I have set out below the NCPL risk factors in the “aggregate amount of 14,134 million yen” that are impacting management. [Omitted] I am reporting the full details to the chairman in order to proceed steadily with a disposition plan agreed upon by the relevant executive officers that prioritizes above all the prevention of external leaks of internal risks, such as “leaks of internal information by former employees.”
>
> 1. <u>Approach to disposition (proposed)</u>
>   (1) <u>Prioritize the items</u> marked “Column No. ○,” which correspond to the black criteria for special audits.
>   (2) Formulate proposals for disposition <u>based on adherence to the business performance plan</u> and provide timely progress reports to the chairman.
>   (3) All items that will have a substantial impact on business, such as large impairment amounts, <u>will be reported to the chairman at the time of implementation in the future</u>.
>   (4) <u>Preventing external leaks</u> of internal risks will be given <u>the highest priority</u>, and <u>this matter will be handled by a limited number of executives</u>.

The NPCJ Legacy Liabilities were extensive, with the breakdown comprising 29 items attributable to the NPCJ headquarters and 38 items attributable to its overseas subsidiaries, and involved a wide range of issues, such as avoiding impairment of fixed assets, improper revenue recognition, and overstatement of work in progress inventory. In this section, we introduce details of the following items as examples.

(All amounts are based on the report prepared by Mr. A in January 2017)

➤ Avoidance of impairment of manufacturing equipment for small motors for Company α	Approx. 2.47 billion yen
➤ Non-implementation of impairment of equipment, etc., relating to Projects X and Y	Approx. 5.8 billion yen
➤ Recording revenue pursuant to technical support agreements not supported by actual services	Approx. 580 million yen
➤ Capitalization of labor expenses without substantiation	Approx. 630 million yen

b. Avoidance of Impairment of Manufacturing Equipment for Small Motors for Company α

(a) Background to Manufacturing Equipment for Small Motors for Company α Becoming Idle Assets

In fiscal 2015, the Nidec Group was advancing the business of supplying small motors to a major overseas company (referred to in this section as "**Company α**") as a cross-group project in which business units and domestic group companies participated. NPCJ also participated in this project; its subsidiary in Vietnam invested in manufacturing equipment for manufacturing small motors for use in 2015 models, and it achieved mass production of motors. (This manufacturing equipment is referred to as the "**Manufacturing Equipment.**")

However, as the expansion of NPCJ's manufacturing lines did not proceed smoothly, and with the emergence of competitors, the business for small motors for 2015 models peaked during the third quarter of fiscal 2015, and subsequent shipment volumes fell substantially below initial expectations. The Manufacturing Equipment was equipment for making 2015 models, and there was no prospect for a recovery of shipment volume in fiscal 2016 or thereafter.

In response to the substantial decline in the operation of the Manufacturing Equipment at its subsidiary in Vietnam, in August 2016, NPCJ purchased the Manufacturing Equipment, which had become idle assets, from the Vietnamese subsidiary. Although NPCJ was able to use some of the Manufacturing Equipment by repurposing it, a majority of the Manufacturing Equipment remained idle assets.

(b) Avoidance of Impairment of Manufacturing Equipment for Small Motors for Company α

As a result of the slowdown of the business for small motors for 2015 models, the avoidance of impairment of the Manufacturing Equipment became a major problem for the Nidec headquarters.

In order to avoid a large amount of impairment relating to the Manufacturing Equipment, the general manager of the Nidec headquarters' Accounting Department repeatedly requested that the person in charge at the subsidiary responsible for selling small motors for 2015 models prepare simulations using "aggressive" figures for the planned production volumes using this equipment, and instructed that the simulations prepared in this manner be provided to NPCJ and submitted to PwC Kyoto.

Starting in fiscal 2016, NPCJ repurposed some of the Manufacturing Equipment to other businesses, but the majority remained idle assets. As stated above, at the time that Mr. A reported in January 2017, the book value of the Manufacturing Equipment as idle assets was approximately 2.47 billion yen. NPCJ did not recognize an impairment loss on these idle assets, but continued to depreciate them as idle assets, and completed the depreciation process in fiscal 2023.

c. Non-implementation of Impairment of Equipment, etc., Relating to Projects X and Y

(a) Overview of Projects X and Y

Starting in fiscal 2014, NPCJ undertook a project relating to the manufacturing and supply of autofocus voice coil motors[173] for cameras embedded in the products of Company α (referred to in this section as "**Project X**"). However, mass production was not achieved, even in fiscal 2016.

In fiscal 2016, NPCJ also launched a project to manufacture and supply optical image stabilization components for cameras embedded in the products of Company α (referred to in this section as "**Project Y;**" and together with Project X, referred to as "**Projects X and Y**"). The competitors for both Projects X and Y were the same two companies, and with respect to Project X, these two competitors were able to achieve mass production successfully ahead of NPCJ. For this reason, NPCJ intended to make up ground through Project Y, which was expected to achieve mass production in fiscal 2017, and it was hoping to recoup the investment in Project X in a lump sum.

(b) Failure to Secure Orders for Projects X and Y

Whether Projects X and Y could achieve mass production successfully, and whether the substantial

[173] A motor that uses magnetic force (a magnetic field) to move a lens back and forth, automatically adjusting the focus.

investments could be recovered, were matters of considerable concern in the Nidec Group in fiscal 2016, but NPCJ was not able to achieve mass production with either project.

Under these circumstances, on October 21, 2016, NPCJ received notice from Company α that it would not be selecting NPCJ as a supplier for Projects X and Y. Subsequently, Mr. Nagamori negotiated with Company α, seeking withdrawal of the notice; however, Company α did not change its policy, and it became final that orders would not be secured for Projects X and Y.[174]

The following day, on October 22, Mr. Nagamori sent the email quoted below to Mr. Kobe, the Executive Officer Responsible for Group Companies, and NPCJ officers, expressing his concerns about the potential impact of equipment asset impairment arising from the loss of the orders for Projects X and Y. In this way, NPCJ and the Nidec headquarters became aware that the avoidance of massive impairment of equipment and other assets (the total amount invested in Projects X and Y at the time that the orders were lost was approximately 6.0 billion yen) was a problem, and they were considering repurposing the equipment for other projects or selling it.

> In essence, this might mean that we lacked the ability to do business with ● [Note: Company α]. If the status quo continues, a massive impairment awaits us, and unless methods of avoiding that can be found, I am concerned that NPCL will deteriorate steadily.

(c) Non-implementation of Impairment of Equipment, etc., Relating to Projects X and Y

NPCJ explained to PwC Kyoto, with regard to Projects X and Y, that the equipment and other assets relating to Projects X and Y would be repurposed for business with other companies, based on the assumption that achieving mass production of products for Company α would be difficult.

Considering that the equipment and other assets relating to the Projects X and Y were developed specifically to manufacture products for Company α, and other factors, NPCJ was able to repurpose only a portion of the equipment relating to Project X (approximately 300 million yen), and failed to repurpose or sell the other equipment.[175]

---

174 On November 1, 2016, a conference call was held between Nidec, including Mr. Nagamori, and representatives from Company α. The minutes of that call record Mr. Nagamori making remarks such as, "Is there really no chance at all?" and "Does this decision really have to be made at this stage?" Company α's representative responded, "We would like to ask that you understand this decision will not be reversed in the near term." The minutes also record that toward the end of the call, Mr. Nagamori said, "In the near term, we will redirect the resources allocated to ● (Note: Company α) to other companies, but in the medium to long term, we will return, and when that time comes, we would like to ask for your cooperation," which appears to express acceptance of the loss of Projects X and Y.

175 According to NPCJ personnel, it was believed that even if a proposal were made to sell the assets at below book value, Mr. Nagamori would not approve such a sale, and therefore resale was considered to be more difficult.

In fiscal 2018, two years had passed since the equipment relating to Projects X and Y had become idle assets (i.e., since October 2016, when NPCJ failed to secure orders), and impairment became necessary. On December 1, 2018, NPCJ reclassified the equipment and other assets relating to Projects X and Y (approximately 5.5 billion yen, excluding the equipment that had been repurposed, as discussed above), which had been recorded in construction in progress and other accounts, as fixed assets, notwithstanding the absence of any actual use, and it began depreciating the equipment without recognizing any impairment.

Starting in December 2018, NPCJ continued depreciating the equipment and other assets related to Projects X and Y, while it remained idle assets (with a useful life of eight years), and even as of the time that the Committee commenced its investigation, depreciation was not completed, and the undepreciated balance as of the end of fiscal 2024 was approximately 940 million yen.

d. Recording Revenue Pursuant to Technical Support Agreements Not Supported by Actual Services

In relation to transactions with an outside contractor on Project Y (referred to in this section as the "**Outside Contractor**"), NPCJ improperly recorded 580 million yen as "service revenue" from the Outside Contractor during the second quarter of fiscal 2016, as described below.

Around early October 2016, as a year-end accounting measure, NPCJ intended to enter into a memorandum of understanding to receive 580 million yen from the Outside Contractor as a "development cooperation payment" on the grounds that NPCJ had provided technical support and other assistance in connection with work that NPCJ had outsourced to the Outside Contractor regarding the equipment for Project Y, and thereby to recognize the 580 million yen in revenue. NPCJ sought to enter into a memorandum with the Outside Contractor relating to the "development cooperation payment," but the Outside Contractor indicated that this would be difficult, stating, "Based on discussions with our tax advisors, we have determined that the payment may constitute a donation," and "It is a high-amount transaction, but the substance of the transaction and the amount cannot be substantiated," and thus the memorandum was not executed. As a result of the Committee's investigation, we discovered materials (Excel files) that were circulated within NPCJ at the time to demonstrate that technical support (the dispatch of engineers) had been provided to the Outside Contractor. The Excel files contain notations, such as "The headcount figures are approximate" and "In order to reach 580 million, there is no choice but to inflate the headcount here," suggesting that the number of personnel dispatched and the man-hours were entered arbitrarily to match the amount to be recorded. In light of this, the Committee believes that NPCJ did not actually provide any technical support or other services.

Despite this, during the second quarter of fiscal 2016, NPCJ recorded 580 million yen in "service revenue" from the Outside Contractor without any substantiation.

In October 2016, NPCJ requested that the Outside Contractor enter into a services outsourcing agreement in place of the memorandum regarding the "development cooperation payment." The Outside Contractor initially refused to enter into the services outsourcing contract, stating, "Where the details of a transaction are unclear, there is a possibility that the amount of the payment will constitute a donation," and "If we were to be audited by the tax authorities, we would be unable to provide an explanation." However, after subsequent negotiations, around early January 2017, NPCJ and the Outside Contractor executed a services outsourcing agreement (hereinafter, "**Services Outsourcing Agreement**") that made no mention of the amount of consideration, and executed a "Supplemental Agreement Concerning Services Outsourcing Agreement" (hereinafter, "**Supplemental Agreement**") confirming that there was no relationship giving rise to claims or liabilities in relation to the consideration for the outsourced services.[176]

Subsequently, NPCJ added the amount of consideration (a total of 580 million yen) to a schedule to the Services Outsourcing Agreement and submitted the Services Outsourcing Agreement to PwC Kyoto as the basis for recording 580 million yen in revenue, but it did not submit the Supplemental Agreement to PWC Kyoto.

In this manner, the 580 million yen in service revenue from the Outside Contractor, which was recognized during the second quarter of fiscal 2016, was recorded with construction in progress as the offsetting account. That balance in construction in progress was later reclassified as fixed assets in December 2018, in the same manner as the construction in progress relating to the equipment for Projects X and Y, and it was processed through depreciation. NPCJ had not completed the depreciation of this amount as of the commencement of the Committee's investigation, and the undepreciated balance, as of the end of fiscal 2024, was approximately 90 million yen.

e. Capitalization of Labor Expenses Without Substantiation

NPCJ recorded labor expenses for its development and other departments by reclassifying these expenses to the construction in progress account on the grounds that they were development and other expenses relating to projects other than Company α projects like Projects X and Y. The construction in progress account represented amounts capitalized by multiplying the working hours of employees affiliated with the departments responsible for the relevant projects by an hourly rate. It was never verified whether those employees actually worked on those projects, and these development expenses

[176] Regarding the conclusion of the Services Outsourcing Agreement and Supplemental Agreement, the NPCJ Legal Department expressed an opposing opinion, stating, "We have heard from the Financial Planning Department that these agreements were prepared for the underlying purpose of accounting treatment, and if that accounting treatment is not lawful, these two agreements should not be concluded," but this type of contrary opinion was not accepted within NPCJ.

were not linked to any specific project and were unsubstantiated.

As of the end of the third quarter of fiscal 2016, approximately 630 million yen was recorded as construction in progress, and in fiscal 2017 and later, additional unsubstantiated amounts were recorded in the construction in progress account using the same methods as year-end accounting measures.

PwC Kyoto raised concerns about this method of recording construction in progress around October 2017, and NPCJ discontinued recording construction in progress using the methods described above from the third quarter of fiscal 2017 onward. At that time, however, NPCJ already had recorded approximately 1.1 billion yen in the construction in progress account, and rather than recognizing the losses immediately, it reclassified them as "machinery and equipment" in December 2018 and thereafter dealt with the assets through depreciation.

NPCJ had not completed depreciation of those assets at the time that the Committee commenced its investigation, and as of the end of fiscal 2024, the undepreciated balance was approximately 95 million yen.

f. Status of Reports by NPCJ to Mr. Nagamori and the Executive Officer Responsible for Group Companies

During fiscal 2016, NPCJ's Corporate Administration & Internal Audit Office conducted an investigation of the NPCJ Legacy Liabilities, discussed in sections b to e above, based on its suspicions about NPCJ's accounting practices, and around December 2016, the department reported its investigation findings to Mr. A with the following comments. Although somewhat lengthy, the text is quoted here as it is considered useful for understanding NPCJ's situation at the time.

> **Summary**
>
> The risks relating to the 19 items above are referenced, but we anticipate that there are many risks the department has not been able to identify. The Company's current status is one in which securing sales and profits for the current month, current quarter, and current fiscal year is treated as the top priority, and sales are being converted into assets on the balance sheet with abnormal increases that cannot be stopped. The issue is not only about the increases, and the details of those assets include unsubstantiated items, items that cannot be disposed of, and items for which impairment is being delayed despite prolonged stagnation. We cannot help but be concerned about the scope and abnormality of the amounts. Also, the company as a whole has become desensitized to the abnormal situation and lost its sense of guilt. Even when there is an awareness of these irregularities, each individual prepares excuses only within their own area of responsibility, resulting in a situation in which no overall checks are applied. There is truly no management of the whole.

Since the company was delisted and became a wholly-owned subsidiary of NCJ [note: Nidec headquarters], based on the "principle of materiality," the entire company has developed an optimistic view of problems that in the past would have been major issues, and this is believed to be leading to the laxity in the current responses, <u>including those of the auditing firm</u>. Even though the scale of revenue has declined since the time the company was listed, the sharp sense of tension about each individual problem has dissipated, and we feel that we are unable to break free from a situation in which decisions are made with little sense of responsibility.

If we may express our opinion on why the "cycle of loss" gets repeated and "legacy liabilities" are increasing at the company, we believe it is because of incorrect judgments about the direction of NCPL, as a subsidiary of NCJ [Note: Nidec headquarters]. It is certainly true that when NCPL was listed on the First Section of the Tokyo Stock Exchange, the company sought to expand its scale in an effort to survive. However, the reason for the company's existence as a part of NCJ's [note: Nidec headquarters] large corporate group should be to become a business that carries its weight in the group through world-leading product capabilities, technological strengths, and manufacturing power in certain fields (if you have products that are recognized throughout the world, extensive sales capability is not particularly necessary), and we should strive to be <u>a company that, even if small, can steadily secure sound profits</u>, and we feel that there is no need to pursue scale through risky businesses, such as the business with ● [Note: Company α]. We should reflect on the fact that, <u>**given the company's current scale, it already has created considerably larger "legacy liabilities" and a reserve of potential problems**</u>, and we believe that the company needs organizational reforms (business structure reforms: downsizing) that can give form to truly strong product capabilities (meeting the needs of the times, reliability, and cost), technological strengths (differentiating core technologies), and manufacturing power (the ability to achieve high reliability and low cost, not merely mass production capability).

The practice of pursuing short-term profit while ignoring rules, which is not suitable for a sound company, will leave behind deep-seated consequences that make any future resurgence increasingly difficult. We request that you stop any further accumulation of negatives. Under IFRS accounting, these matters cannot be handled as extraordinary losses. Also, impairments cannot be deferred based on "false dreams of the future." Executive employees need to share a sense of urgency about the current situation. While the spirit of each individual personally protecting their own company is necessary, isn't the way that protection is pursued misguided?

Also, as stated above, these "legacy liabilities" were organized in report materials prepared by Mr. A, and in January 2017, Mr. A reported them to Mr. Nagamori and the Executive Officer

Responsible for Group Companies.[177]

On February 12, 2017, NPCJ explained its policy on the disposition of the NPCJ Legacy Liabilities to Mr. Nagamori and the Executive Officer Responsible for Group Companies, and during that explanation, it was reported to the effect that during the fourth quarter of fiscal 2016, approximately 1.3 billion yen of those "legacy liabilities" were to be recognized as expenses and that the remainder would be dealt with during the next fiscal year and later. NPCJ also reported that "the manufacturing equipment for small motors for Company α," as well as "equipment and other assets relating to Projects X and Y" discussed above, which accounted for the bulk of the NPCJ Legacy Liabilities (at least 8.0 billion yen), would be repurposed or sold to avoid impairment thereof.

Thereafter, NPCJ reported periodically to Mr. Nagamori and the Executive Officer Responsible for Group Companies on the status of disposition of the NPCJ Legacy Liabilities, through reports by Mr. A and progress reports of the Asset Revitalization Project. It should be noted that, with regard to the equipment and other assets relating to Projects X and Y, which accounted for the majority of the NPCJ "legacy liabilities," there is no record of those assets being repurposed to other projects or sold (other than the partial repurposing of the approximately 300 million yen in equipment referenced above), nor is there any indication of NPCJ having reported this to Nidec headquarters. It must be concluded, therefore, that Mr. Nagamori and the Executive Officer Responsible for Group Companies approved the deferral of losses by leaving those assets idle without performing impairments.

In addition, as discussed in further detail in Part 8-3 below, when the Nidec Group decided to address the "legacy liabilities" during the fourth quarter of fiscal 2022, under the designation of "structural reforms," each Nidec Group company submitted information about its own "legacy liabilities" to the Nidec headquarters. NPCJ reported the remaining 2.45 billion yen in equipment relating to the Projects X and Y that had not been resolved at that time as " legacy liabilities." However, on the basis that the amount of impairment relating to Projects X and Y exceeded the budget for structural reforms that had been allocated to NPCJ (1.29 billion yen), the Group Companies Business Management Department instructed NPCJ to address the excess portion in a planned manner using its own budget (i.e., through "self-funding"). As a result, NPCJ was unable to recognize impairment losses on the equipment and other assets relating to Projects X and Y even in fiscal 2022, and as discussed above, at the time that the Committee commenced its investigation, NPCJ continued to defer the recognition of those losses through depreciation.

[177] Although the extent to which the details about each item were shared and reported is not clear, the "impact amount from the failure to obtain orders for Projects X and Y" was indicated as falling into "special audit criteria—black classification" and "must be addressed with priority."

(3) Recording Revenue Pursuant to Technical Support Agreements Not Supported by Actual Services

a. Accounting for Development Work in Progress

Starting around 2014, based on a suggestion from a Nidec headquarters officer, NPCJ generated profits by compressing expenses as a year-end accounting measure, specifically by capitalizing labor costs incurred by the development department for pre-mass production prototypes and similar items as "development work in progress."

With regard to this point, in principle, development work in progress requires capitalizing an equivalent amount of labor costs incurred by the development department responsible for the relevant development prototypes and similar items using customer purchase orders as evidence. However, in order to compress labor expenses to a greater extent, NPCJ capitalized labor costs incurred by the development department relating to mass-produced products as "development work in progress," using purchase orders issued after the commencement of mass production as evidence, instead of purchase orders for development prototypes and the like. As a result, whether or not the costs were associated with development prototypes and the like, the labor costs of the development department were recorded as "development work in progress," and recognition of expenses was deferred.

In addition, while in principle development work in progress should be expensed at the time of delivery of the relevant development prototypes and the like, with respect to the development work in progress recorded for mass-produced items as a year-end accounting measure, the associated costs sometimes were not expensed even after the delivery dates specified in the purchase orders had passed, resulting in some of the capitalized development work in progress becoming stagnant.

The amount of the impact of improper accounting relating to the recording of development work in progress from fiscal 2020 to fiscal 2025 is set forth below. (Figures are rounded to the nearest million yen. Due to the period subject to investigation, the figures cover the period through the first quarter of fiscal 2025. Note that ▲ denotes an improper reduction, and there will be an increase in profit at the time of revision.)

(Unit: million yen)

FY	Start of 2020	2020	2021	2022	2023	2024	2025 Q1	Cumulative total
Amount capitalized	—	2,655	1,391	2,104	2,065	1,845	488	—
Amount expensed	—	▲1,820	▲2,117	▲1,553	▲1,441	▲1,871	▲512	—
Net impact	579	834	▲726	550	625	▲27	▲23	1,812

b. Mold Capitalization Scheme

(a) Overview of Mold Capitalization Scheme

Starting in fiscal 2023, to achieve its performance targets, NPCJ falsely represented fixed assets, such as molds that had been fully depreciated[178] or purchased, as items that were newly manufactured or processed during the then-current fiscal year, thereby capitalizing an amount equivalent to the labor costs associated with this "manufacturing and processing" to compress expenses. (The scheme to reduce expenses by capitalizing molds in this manner is referred to hereafter as the "**Mold Capitalization Scheme.**") The molds and other assets that were capitalized in this manner were recorded on the balance sheet as fixed assets (mainly "tools, furniture and fixtures," with a useful life of two years), and expense recognition was deferred through depreciation.

The Mold Capitalization Scheme was implemented on a continuing basis as a year-end accounting measure from the first quarter of fiscal 2023 to the second quarter of fiscal 2025. The amount of the impact is set forth below.

The amount of assets recorded as "tools, furniture and fixtures" was approximately 160 million yen as of the end of fiscal 2022, and as a result of the implementation of the Mold Capitalization Scheme, this amount increased to approximately 5.6 billion yen at the end of fiscal 2024.

[178] Molds used to manufacture parts for manufactured products. At NPCJ, molds were produced mainly at the Koriyama Factory.

(Unit: million yen)

Fiscal Year	2023	2024	2025 Q1	Cumulative Total
Capitalized amount	4,693	5,261	1,946	11,900
Depreciated amount	▲867	▲3,392	▲1,255	▲5,514
Net impact	3,827	1,869	691	6,386

(b) Background to Commencement of Mold Capitalization Scheme

NPCJ's projected values for fiscal 2020 and later are set forth below. Since fiscal 2023, NPCJ has been assigned even more ambitious targets than in the past by the Nidec headquarters. (From fiscal 2020 to fiscal 2022, the operating profit margin target was between 6.5% and 11.5%, but since fiscal 2023, it has been in the range of 15.0% to 20.6%; actual values are rounded to the nearest million yen.)

(Unit for monetary amounts: million yen)

Fiscal Year	2020	2021	2022	2023	2024	2025
Net sales	41,500	50,000	57,500	53,400	50,000	55,500
(Actual result)	44,936	49,263	46,598	42,845	51,272	—
Operating profit	2,700	4,000	6,600	11,000	7,500	8,800
(Actual result)	2,910	3,917	4,118	5,810	7,141	—
Profit margin	6.5%	8.0%	11.5%	20.6%	15.0%	15.9%

During the first quarter of fiscal 2023, NPCJ's accounting department and production departments, acting under the leadership of the general manager of the accounting department and the executive officers responsible for production departments, consolidated costs into fixed assets, including molds, with deferred processing implemented through the capitalization of expenses and depreciation, and they commenced the Mold Capitalization Scheme during the first quarter of fiscal 2023.

(c) Types and Methods of Mold Capitalization Schemes

The different types of Mold Capitalization Schemes are broadly categorized in the table below. It should be noted that molds and similar items subject to a Mold Capitalization Scheme were consolidated and stored at the Koriyama Factory.

Use of molds at memorandum value	A method of improperly capitalizing molds that were almost fully depreciated and recorded at memorandum value in the NPCJ fixed asset ledger, by falsely claiming that they were newly manufactured or processed during the then-current period
Use of NPCJ's off-book molds	A method of improperly capitalizing molds that were not recorded in NPCJ's fixed asset ledger, such as molds that were overlooked at the time of asset transfers within the NPCJ Group, by falsely claiming that they were newly manufactured or processed during the then-current period
Use of loaned molds	A method of improperly capitalizing "loaned molds"[179] stored at NPCJ, for which manufacturing activities using the relevant molds were nearly complete, by falsely claiming that they were newly manufactured or processed during the then-current period
Use of purchased molds	A method of improperly capitalizing molds purchased overseas or otherwise acquired[180] by falsely claiming that they were newly manufactured or processed during the current period
Use of equipment and other assets other than molds	A method of improperly capitalizing equipment and other assets, other than molds that were almost fully depreciated and recorded at memorandum value in the NPCJ fixed asset ledger, by falsely claiming that they were newly manufactured or processed during the then-current period[181]

179 This refers to molds in NPCJ's possession that it used for manufacturing activities but for which the customer retained ownership pursuant to a contract.

180 NPCJ purchased molds for use in the Mold Capitalization Scheme from overseas and had them sent by ship to the Koriyama Factory.

181 It should be noted that the method that involved the repurposing of equipment and assets other than molds was used during the first and second quarters of fiscal 2023, which was during the early stage of the Mold Capitalization Scheme, but since the subject assets were limited, thereafter, only the methods using molds

The NPCJ production departments selected and listed the molds and other assets subject to capitalization (hereinafter, "**Subject Items**") in accordance with the capitalization methods described above, and performed the capitalization procedures on approximately a monthly basis using an approval document (referred to internally as a "*gyosaisho*"), with the NPCJ president as the final approver.[182]

When these procedures were completed, NPCJ's accounting department recorded fixed assets (molds and other equipment) with the offsetting entry (credit side) recorded to cost of goods sold, which had the effect of reducing the cost of goods sold. As noted above, the Subject Items that were recorded as fixed assets under the Mold Capitalization Scheme were expensed through depreciation with a depreciation period of two years (five or eight years for equipment and assets other than molds).

(d) Concealment of Subject Items and Preparation of Falsified Evidence as Audit Response Measures

As stated above, the molds that were the Subject Items of the Mold Capitalization Scheme included molds for which depreciation was nearly complete, as well as some loaned molds for which manufacturing activities were nearly concluded. Therefore, some were old in terms of their acquisition dates, including some that were rusted. (Among the molds designated as Subject Items, some had been acquired in the 1990s.)

It was under these circumstances that PwC Japan was scheduled to visit the Koriyama Factory at the end of fiscal 2023 (i.e., in March 2024) to attend the physical taking of inventory, and the Nidec headquarters Corporate Administration & Internal Audit Department was scheduled to visit in May for an internal audit.

To ensure that the Mold Capitalization Scheme would not discovered during the on-site visit, including through confirmation of molds and other equipment with old acquisition dates, NPCJ collected the molds that were designated Subject Items and put them in a room at the back of Building No. 3 at the Koriyama site. The room was "sealed," and a policy was set whereby PwC Japan and the Corporate Administration & Internal Audit Department would not be guided to that area. However, on

---

discussed above were used. Also, the useful life of equipment and assets other than molds was five or eight years.

182 On this point, the NPCJ president approved the approval documents, but during an interview with the Committee, the president stated that he had granted approval without scrutinizing the details and did not understand the specifics of the Mold Capitalization Scheme. Also, there were no officers or employees involved in the Mold Capitalization Scheme who stated that they explained the scheme to the president, and there was no objective evidence suggesting this. Therefore, the Committee did not find that the NPCJ president granted approval with an understanding of the details of the Mold Capitalization Scheme.

the day that PwC Japan was scheduled to attend the physical taking of inventory at the end of March 2024, the Shinkansen train service was interrupted due to a power outage, and the visit was conducted at a later time in a different format.

On the other hand, the on-site inspection by the Corporate Administration & Internal Audit Department was carried out in May 2024 as scheduled. When the Corporate Administration & Internal Audit Department conducted a physical examination of fixed assets, NPCJ's accounting department personnel provided guidance, using a route that did not pass in front of the "sealed" room at the back of Building No. 3 where the Subject Items were stored. Also, when the Corporate Administration & Internal Audit Department requested submission of vouchers relating to the Subject Items, NPCJ's accounting department personnel presented evidentiary documents that had been prepared in advance, including falsified records of man-hours that purported that work had been performed using the Subject Items, even though that work had not actually been performed.

2. Improper Recognition of Revenue by Appliance, Commercial & Industrial Motor Business Unit (ACIM)

(1) Overview

The Committee's investigation revealed that during the third and fourth quarters of fiscal 2021, the Global Appliance business (referred to in this section as the "**GA Business**"), which is under the umbrella of the Appliance, Commercial & Industrial Motor Business Unit (ACIM), issued additional invoices (referred to as the "**Additional Invoices**") to multiple customers to make up for amounts corresponding to profit shortfalls and the like (which were caused by rising costs, such as higher raw material prices) arising from transactions with those customers through the third quarter of fiscal 2021, and the invoice amounts were recorded as revenue. It was further discovered that each of those same customers was notified that amounts approximately equal to the invoiced amounts would either be deducted from future invoices or paid back in the form of rebates. This is evaluated as effectively constituting a promise to return to customers amounts equivalent to the additional invoice amounts.

In order to recognize revenue, it must be probable that the requested amount will be recovered,[183]

---

[183] IFRS 15 requires a five-step analysis for revenue recognition: (i) identification of the contract with a customer, (ii) identification of the performance obligations under the contract, (iii) determination of the transaction price, (iv) allocation of the transaction price to the performance of obligations under the contract, and (v) recognition of revenue when (or as) the entity satisfies its performance obligation. Of these, the first step, identifying the contract, requires that all of the following criteria be met, with the premise that collection from the customer is probable.

(a) the parties to the contract have approved the contract (in writing, verbally, or in accordance with other customary business practices) and are committed to perform their respective obligations;

(b) the entity can identify each party's rights with regard to the goods or services to be transferred;

and, therefore, in this type of situation, even if customers approved the Additional Invoices, it cannot be said that the customers actually intended to pay them, or that recovery was probable, and, therefore, the requirements for revenue recognition were not met. Consequently, the recognition of revenue based on the Additional Invoices did not satisfy the criteria for recording revenue.

The total amount of revenue that was improperly recognized was U.S. $22.5 million.

(2) Background Leading to Issuance of Additional Invoices

Where costs increase, for example, due to higher raw material prices, declines in profit can be avoided in transactions with customers if the sales contracts include price adjustment clauses that enable passing on of the increased costs to the sale price charged to those customers, but in transactions with customers in which the sales contracts do not include price adjustment clauses, it is necessary to negotiate separately with those customers to avoid reductions in profit caused by those rising costs, by reflecting the increased costs in future product prices or by receiving additional payments for the amount of the cost increases.

In fiscal 2021, raw material prices, transportation costs, and other costs soared due to lockdowns and other effects of the spread of the COVID-19 pandemic, which had broken out during the previous fiscal year. The GA Business was having difficulty negotiating with customers whose sales contracts did not include price adjustment clauses, and the GA Business's operating profit for fiscal 2021 was expected to fall substantially short of the target.

Under these circumstances, starting around late November 2021, Mr. Nagamori repeatedly expressed his strong concerns about the performance in the GA Business during meetings with the GA Business CEO and on other occasions, and he started strongly demanding a recovery in operating profit. In the course of these repeated meetings with Mr. Nagamori, the GA Business CEO sent the following emails to the GA Business CFO and others, showing that the CEO took the pressure from Mr. Nagamori very seriously.

(c) the entity can identify the payment terms for the goods or services to be transferred;

(d) the contract has commercial substance (i.e., the risk, timing, or amount of the entity's future cash flow is expected to change as a result of the contract); and

(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether the collectability of an amount of consideration is probable, the entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due.

December 18, 2021, email

> The pressure from Nagamori on "old ACIM" to deliver Q3 BP is increasing every day.
>
> You know that GA is creating the problem in Q3, and it seems MOEN is not getting the BP.
>
> As a consequence, Nagamori started to put pressure directly on me. (And you can imagine what it means.)

December 24, 2021, email

> Nagamori called me directly this morning at 7.30 a.m., and we had a F2F meeting for 1h.
>
> He asked to explain the situation of GA. I gave explanations highlighting the following points:
>
> [Omitted]
>
> At the end of the day, I was able to clarify to him the situation, but what is really disturbing me as a nightmare is the fact that we created this big damage in GA by ourselves through wrong decisions and a passive approach.
>
> We discussed for the last 15 minutes about another evaluation on the GA situation and possible consequences, but I cannot disclaim yet. Of course, the presentation we are preparing for him for Tuesday has to follow the track of the story described above.

(3) Additional Billing Premised on Future Price Reductions

Under these circumstances, in December 2021, GA Business sales personnel, with approval from the GA Business CFO and those responsible for internal controls, reached an agreement with one customer to deduct an amount equivalent to the additional invoiced amount from future sales invoices and then sent the Additional Invoices to that customer by email. On the same day, the CEO of the Commercial Appliance Department, which is under the GA Business, sent an email to the effect that the amount specified in the Additional Invoices would be deducted from sales prices in future invoices (the "**Price Reduction Promise Email**") with the GA Business CFO included as a recipient.[184]

In response to the email sending the Additional Invoices, the relevant customer sent a confirmation email to the effect that it had paid a portion of the amount stated in the Additional Invoices, and the GA Business treated this confirmation email as indicating that the customer acknowledged the obligations stated in the Additional Invoices and, based on the confirmation email, recognized the amount of the Additional Invoices (U.S. $3.9 million) as revenue.

Furthermore, that amount was actually paid by no later than January 2022, and the GA Business

[184] These emails included statements such as: "As per our previous agreement, this email can be considered as a Credit Note for your company ●● in the total amount of $3.953.958 (three million, nine hundred and fifty three thousand, nine hundred and fifty eight US dollars), to be applied during the December 2022 payments."

finance department performed accounting procedures, in the form of collection of accounts receivable, but in actuality, the amounts received were treated as funds to be applied to the reduction of future sales invoices.

(4) Additional Billing Premised on Monetary Payments Designated as Rebates

Later, from February to March 2022, sales personnel in the GA Business reached agreements with seven customers (including the customer discussed in section (3) above) to the effect that payments in amounts equivalent to the additional invoice amounts would be made under the name of rebates, and then sent the Additional Invoices by email to the seven customers sequentially. In addition, the GA Business Deputy CFO or sales personnel sent letters (hereinafter referred to as "**Rebate Letters**") signed by the GA Business Deputy CFO (later, the GA Business CFO) stating that amounts equivalent to the additional invoiced amounts would be paid as rebates. It should be noted that evidence[185] has confirmed that the Rebate Letters sent to two of the companies were sent to the customers with the knowledge and approval of the GA Business CFO and the person responsible for internal controls. Each of the seven customers sent emails confirming that they had received the Additional Invoices in response to the emails sent containing the Additional Invoices.

Moreover, the GA Business treated those confirmation emails as emails indicating that the respective customers had acknowledged the obligations stated in the Additional Invoices, and recognized revenue in the amounts stated in those Additional Invoices (a total of U.S. $18.6 million).

It also should be noted that the company discussed in section (3) above paid the full amounts stated in the Additional Invoices no later than November 2023. The finance department of the GA Business performed accounting procedures, in the form of collection of accounts receivable, but in actuality, the amounts received were treated as funds to be applied to the reduction of future sales invoices. The obligations of the other six customer companies pursuant to the Additional Invoices were not

[185] At the stage when sending Additional Invoices to two customer companies was being considered, drafts of the Rebate Letters were sent by GA Business sales personnel to the GA Business CFO and the personnel responsible for internal controls.

collected.[186]

(5) Special Investigations by the Corporate Administration & Internal Audit Department

As stated below, instances of improper accounting were discovered at Nidec Global Appliance Brasil Ltda. (NGAB), a subsidiary of the GA business, during the fourth quarter of fiscal 2021. The Corporate Administration & Internal Audit Department also investigated part of the Additional Invoices. However, the Reduction Promise Email and the Rebate Letters were not found.

3. Inappropriate Extension of Amortization Period for Cost Variances in Inventory at Nidec Drive Technology Corporation (NDTC)

(1) Overview

Nidec Drive Technology Corporation (NDTC), which manufactures and sells reducers and press machines, had long applied an accounting method under which the differences ("**Cost Variances**") between the standard cost[187] used in formulating its business plan and the actual cost of sales were allocated to inventory and the cost of sales every six months, and the Cost Variances allocated to inventory then was amortized over the following six months, using the straight-line method.

The Committee's investigation found that NDTC did not amortize the Cost Variances allocated to inventory or understated the Cost Variances that should have been amortized in and after the third quarter of fiscal 2019 for purposes of achieving the operating profits in its business plan. In addition, it was found that from the third quarter of fiscal 2021 onward, NDTC extended the amortization period for the Cost Variances allocated to inventory to 12 months, without a justifiable reason. From the first

186 Regarding the receivables that arose pursuant to the Additional Invoices that had not been collected at the time the Committee commenced its investigation, allowances for doubtful accounts were recorded against the receivables from only two of the seven companies, and no such allowances were recorded against the receivables for the remaining five companies. As a result of the Committee's investigation, it was discovered that in the GA Business, whenever a payment due date for a receivable arising pursuant to an Additional Invoice approached, the payment due date recorded on the system was revised and delayed on grounds like the fact that negotiations were ongoing with the customer so that the due dates recorded in the system would not lapse. Under the NIAP, if a receivable is not recovered before 365 days have lapsed from the initial payment due date (the scheduled collection date), recordation of a 100% allowance for doubtful accounts is required, but in the GA Business, by continually modifying and extending payment due dates in the system, receivables that in fact had remained uncollected for more than 365 days past their original due dates were made to appear in the system as not yet overdue, thereby avoiding recognition of allowances for doubtful accounts.

187 "Standard cost" refers to the standard cost predetermined by manufacturers or other companies when producing or providing products and services. It is set by reasonably estimating material costs, labor costs, expenses, etc. It also may be regarded as a target cost and is used for cost management and operational improvements by comparing it with actual costs.

quarter of fiscal 2025 onward, NDTC then extended the amortization period to 24 months, again without a justifiable reason.

(2) Failure to Amortize Cost Variances and Understatement of Cost Variances to Be Amortized

NIAP states that, in principle, the Cost Variances shall be allocated to inventory and the cost of sales in the same manner as the method used for allocation of costs normally incurred.

In this respect, since at least 2004, NDTC continuously used a method pursuant to which the Cost Variances recorded in inventory on the balance sheet every six months were amortized using the straight-line method over the six-month period beginning in the following month and recognized as profit or loss.[188]

However, to raise cost-cutting awareness at its manufacturing sites, NDTC set standard costs lower than the actual expected costs.[189] In addition, sluggish sales of reducers, for which production had been expanded since 2018, led to low operating rates at manufacturing sites. Combined with factors such as increases in actual costs, this resulted in larger Cost Variances, and, as a result, the amount of Cost Variances allocated to inventory also increased.

Under these circumstances, NDTC's then-CFO instructed the accounting personnel to adjust the amortization amount of Cost Variances for purposes of achieving the performance target. Following this instruction, in and after the third quarter of fiscal 2019, the accounting personnel either failed to amortize the Cost Variances allocated to inventory or understated the amount of Cost Variances that should have been amortized.

This failure to amortize Cost Variances allocated to inventory and understatement of Cost Variances that should have been amortized were performed to achieve the performance target and were not based on a reasonable accounting basis. Therefore, it constitutes improper accounting treatment.

NDTC's then-CFO and accounting personnel recognized that the failure to amortize Cost Variances allocated to inventory and the understatement of Cost Variances that should have been amortized constituted improper accounting treatment. However, they engaged in these practices to avoid being criticized harshly on a near-daily basis at performance review meetings and on similar occasions by the Executive Officer Responsible for Group Companies due to failure to meet performance targets. In addition, NDTC's then-CFO and accounting personnel reported to the then-executive general manager of the Finance & Planning Division that adjustment of the Cost Variances (including the

---

188 The NIAP contains no specific provisions concerning the appropriateness of amortizing Cost Variances allocated to inventory using a straight-line method over a certain period.

189 As mentioned above, standard cost consists of material costs, labor costs, and expenses. Standard cost was set low to instill awareness of the need to control material costs, labor costs, and other expenses incurred in manufacturing products.

failure to amortize Cost Variances allocated to inventory and the understatement of Cost Variances that should have been amortized) was performed as one of the measures implemented to achieve the performance targets.[190]

The balance of Cost Variances that should have been amortized but were not amortized reached approximately 1,902 million yen as of the third quarter of fiscal 2021.

(3) Extension of Amortization Period on Two Occasions

Due to the setting of low standard costs, as well as the failure to amortize Cost Variances allocated to inventory and the understatement of Cost Variances that should have been amortized, the carryforward amount of the Cost Variances allocated to inventory became substantial. Consequently, in the third quarter of fiscal 2021, it became difficult to achieve the monthly performance target if the Cost Variances were amortized using the straight-line method over six months, which had been the prior practice. Therefore, based on an instruction from the CFO to adjust the amortization of the Cost Variances, the accounting personnel changed the amortization period for the Cost Variances allocated to inventory from six months to 12 months, beginning in the third quarter of fiscal 2021, for purposes of achieving the performance target.

During the first quarter of fiscal 2025, achievement of the performance target was again in jeopardy. Therefore, NDTC's current CFO believed that further extending the amortization period for the Cost Variances allocated to inventory would reduce the near-term amortization amount and enable the performance target to be met. Around June 2025, he instructed the accounting personnel to change the amortization period from 12 months to 24 months, after reporting this to the current CEO.[191] These two extensions of the amortization period for Cost Variances allocated to inventory were carried out for purposes of achieving the performance target, were not based on a reasonable accounting basis,

---

190 During the Committee's interview, the then-executive general manager of the Finance & Planning Division (the current CEO) stated he had no recollection of receiving a report about the failure to amortize Cost Variances allocated to inventory or the understatement of Cost Variances that should have been amortized. However, both the then-CFO and the accounting personnel stated during interviews with the Committee that they reported to the then-executive general manager of the Finance & Planning Division that the Cost Variances were adjusted as one of the measures implemented to achieve the performance targets. Their statements are consistent. The executive general manager of the Finance & Planning Division oversaw the Accounting Department and was in a position to receive direct reports from the CFO and accounting personnel concerning the status of performance targets and the financial results. Therefore, it is reasonable to conclude that he also would have been informed about measures to achieve performance targets. Therefore, we believe the then-executive general manager of the Finance & Planning Division also was informed by the then-CFO and accounting personnel about the adjustments to the Cost Variances, including the failure to amortize Cost Variances allocated to inventory and the understatement of Cost Variances that should have been amortized.

191 During the interview with the Committee, NDTC's current CEO stated that the current CFO consulted him about extending the amortization period for Cost Variances allocated to inventory from 12 months to 24 months.

and therefore constitute improper accounting treatment.

(4) Amount of Impact From This Situation

As stated in sections (2) and (3) above, due to the failure to amortize Cost Variances allocated to inventory and the understatement of Cost Variances that should have been amortized, as well as the two extensions of the amortization period, the Cost Variances that should have been amortized over six months continued to be carried forward to subsequent periods. The balance of the carried-forward Cost Variances reached 1,902 million yen during the third quarter of fiscal 2021. Although amortization progressed to a certain extent thereafter, due to the continuing extension of the amortization period and other factors, 1,105 million yen remained allocated to inventory without being recognized as an expense as of the first quarter of fiscal 2025.

The following table shows a breakdown of the balance of the Cost Variances carried forward, by fiscal year of occurrence and by the period during which the balance should have been amortized, as of the first quarter of fiscal 2025.

(Unit: millions of yen, ▲: favorable variance, +: unfavorable variance)

Carried-forward Cost Variances for the first quarter of fiscal 2025	Fiscal year of occurrence	Period during which Cost Variances should have been amortized
▲5	Q3–Q4 of FY2022	Q1–Q2 of FY2023
+107	Q1–Q2 of FY2023	Q3–Q4 of FY2023
+429	Q3–Q4 of FY2023	Q1–Q2 of FY2024
+492	Q1–Q2 of FY2024	Q3–Q4 of FY2024
+71	Q3–Q4 of FY2024	Q1–Q2 of FY2025
+10	Q1 of FY2025	Q3–Q4 of FY2025
+1,105	Total	

4. Improper Recognition of Government Grants as Revenue by Foreign Subsidiary

(1) Case Overview

The Committee's investigation found that, in connection with the construction of a new factory at a foreign subsidiary ("**Country X Subsidiary**") (the country in which Country X Subsidiary is located is referred to as "**Country X**" in this section) under the Automotive Motor & Electronic Control Business Unit (AMEC), approximately 1,250 million yen (converted at the local currency exchange rate applicable at the time; the same applies hereafter in this section) in government grants ("**Government Grants**") received from the local government's development area relating to the economy and technology ("**Local Government**" in this section) in March and April 2022 were recognized in full as revenue, as a lump sum, in March 2022, although those grants should not have been recognized as revenue.

(2) Background of Receipt

Since 2020, AMEC has pursued a project aimed at establishing an integrated manufacturing facility for EV automotive products, based on a capacity-building strategy (known as the "standby strategy"[192]) designed to anticipate growing EV demand in Country X. The company selected a location for the proposed factory from among several candidate sites, in an area where the Executive Officer Responsible for Group Companies had established connections with local government officials. Subsequently, the Executive Officer Responsible for Group Companies served as the persons responsible for investment negotiations and began negotiations with the Local Government at the end of February 2022, with the goal of securing Government Grants from the Local Government. At that time, Nidec expected a shortfall of 10 billion yen against its fiscal 2021 operating profit target of 190 billion yen under its business plan. As one of the measures to achieve this target, Nidec proposed recognizing the 1 billion yen in Government Grants as revenue, an idea that came from Mr. Nagamori. Therefore, securing the Government Grants was of critical importance for Nidec to meet its operating profit target.

In March 2022, Nidec received a response from the Local Government, stating that it would provide Government Grants equivalent to approximately 1,250 million yen, subject to the execution of an investment agreement. After receiving this response, Nidec and the Local Government held discussions on the terms of the investment agreement. In late March 2022, Nidec and the Local Government reached an agreement on the content of the investment agreement, and it was decided that Government Grants equivalent to approximately 1,250 million yen would be provided to the Country X Subsidiary upon submission of an investment plan, which was to occur by March 31, 2022. (At the request of the Local Government, the equivalent of approximately 580 million yen was paid on March 31, 2022, and the remaining balance, equivalent to approximately 670 million yen, was paid on April 8 of the same year.) The Country X Subsidiary was not involved in the negotiations for receipt

---

192 The "standby strategy" is a strategy pursuant to which a company, in anticipation of future demand, builds production capacity that significantly exceeds the volume of orders currently expected, to capture future customers. This management strategy is based on the company's prior success in the HDD motor business, where, contrary to prevailing market forecasts as to the future prospects of HDD motors, the company made upfront investments to expand production capacity in anticipation of future order growth and, as a result, secured the top global market share.

of the Government Grants, and Nidec did not share the details of those negotiations with the Country X Subsidiary.

(3) Nature of Government Grants

Around March 2022, before receiving the Government Grants, the Accounting Department of the Nidec headquarters consulted with PwC Kyoto regarding the feasibility of recognizing the Government Grants as revenue and provided PwC Kyoto with draft and final versions of the investment agreement. At that point, the Accounting Department held the view that, although recognition of the Government Grants as revenue ultimately would be subject to the approval of the local audit firm responsible for reporting package auditing for local consolidated financial statements, this revenue recognition would be possible.

However, on April 6, 2022, the local audit firm notified the accounting manager of the Country X Subsidiary that the Government Grants were grants related to assets and that the approximately 580 million yen (equivalent) received by the end of March of that year should not be recognized as revenue, but instead should be recognized as a liability.[193] The accounting manager of the Country X Subsidiary shared the contents of the communication from the local audit firm with the general manager of Nidec headquarters Accounting Department. On April 7 of that same year, a meeting was held among AMEC personnel, including the accounting manager of the Country X Subsidiary, and it was decided to prepare materials to demonstrate to the local audit firm that the scope of the Government Grants was not limited to capital expenditures (i.e., that the Government Grants were not grants related to assets). The details of this meeting were shared with the Executive Officer Responsible for Group Companies by a member of the AMEC Business Planning Department who is also a member of the Group Companies Business Management Department (hereinafter, "**Group Companies Business Management Department Member**").

However, as of March 28, 2022, when the investment plan was prepared, the details of the plan had not been finalized, and only the total investment amount of 40 billion yen and the planned annual

---

[193] Nidec has established "NIAP 3070 Government Grants" as its accounting policy manual relating to government grants. In this manual, government grants are classified as grants related to assets and grants related to revenue. Grants related to assets are defined as "government grants for which the primary requirement is that the entity must purchase, construct, or otherwise acquire fixed assets," whereas grants related to revenue are defined as "government grants other than grants related to assets" (NIAP 3070, Sections 1.4 and 1.5). Government grants related to assets are to be recognized as a deduction from the cost of the relevant asset or as a liability (NIAP 3070, Section 5.6). Among grants related to revenue, those that are granted for the purpose of providing urgent financial support to an entity and do not involve related future costs must be recognized as revenue during the period in which they are received (NIAP 3070, Section 5.4). Therefore, if Government Grants that are provided for capital expenditures at a new factory qualify as grants related to assets, they should not be recognized as revenue; instead, they must be deducted from the acquisition cost of the equipment or recognized as a liability under deferred revenue.

investment amount for manufacturing facilities had been determined. Article 2.1 of the investment agreement provides that "Party A[194] shall provide Party B[195] with an incentive equivalent to 3% of Party B's actual total investment amount (excluding tax) under the Project," and "subject to Party B submitting its investment plan to Party A, Party A shall pay an incentive equivalent to approximately 1,250 million yen [Note: the original text specifies the amount in local currency] to Party B's ●● Project Company by March 31, 2022." Based on the wording of the agreement, it is natural and reasonable to interpret that it was agreed that the Government Grants would be provided in connection with investments in manufacturing facilities.[196] In addition, Article 1.3 of the investment agreement provides that "[t]he Project involves the construction of an integrated automotive product manufacturing plant, including, but not limited to, the automotive products for ●● [Note: EV vehicles], the assembly of parts used in those automotive products (omitted), and the production and processing of core components." Therefore, it is natural to conclude that Nidec's investment was focused primarily on capital expenditures for factory construction.

Considering the foregoing, and as pointed out by the local audit firm, the Government Grants should have been regarded as grants related to assets.

(4) Preparation of Draft Supplementary Notice for Recognition of Government Grants as Revenue

Based on the results of the meeting held on April 7, 2022, on April 9, 2022 the general manager of Nidec headquarters Accounting Department sent an email to a certified public accountant at PwC Kyoto stating: "While I agree that the judgment of ●● (the local audit firm) is generally the final decision, Nidec cannot accept the current approach, which fails to capture the actual situation. Therefore, we strongly request your in-depth support." The certified public accountant at PwC Kyoto responded that revenue recognition would be possible only if supporting documentation corroborating Nidec's explanation could be confirmed.

Following this response, the Country X Subsidiary prepared a memorandum for the local audit firm. The memorandum stated that in the section "Items Included in the Investment Plan," the plan involved not only capital expenditures but also expenditures not related to asset acquisition, such as recruitment

194 Refers to the Local Government

195 Refers to Nidec

196 On February 28, 2022, before execution of the investment agreement, a video conference was held between representatives of the Local Government and the Executive Officer Responsible for Group Companies. The minutes of that meeting include the following questions from the Local Government: (i) Of the 1.5 million units of ●● [Note: automotive products] for EVs in 2022, how many units are accounted for in ●● [Note: the Local Government]? (ii) What is the breakdown of the approximately 48 billion yen (equivalent)? (The original text specifies the amount in the local currency.) The minutes state that the Executive Officer Responsible for Group Companies responded as follows: "(i) Approximately 500,000 units and (ii) capital investment."

costs, the establishment of various departments associated with factory operations, and process preparation costs. This memorandum was submitted to the local audit firm around April 11, 2022. Around the same time, the general manager of Nidec headquarters Accounting Department shared the aforementioned memorandum with the certified public accountant at PwC Kyoto. However, the accountant responded that it would be difficult to accept the revenue recognition based on the contents of the memorandum, for the following reasons: The memorandum failed to demonstrate that the Government Grants constituted financial support that qualified for recognition as lump-sum revenue, it appeared to be nothing more than a retroactively prepared internal document, and it differed from the investment plan.

The local audit firm maintained its position that recognizing the entire amount of the Government Grants as revenue was not permissible, given the nature of Government Grants and the risk of having to repay them. As noted above, it was Mr. Nagamori who had the idea of recognizing the Government Grants as revenue. The general manager of Nidec headquarters Accounting Department, who was also under intense pressure[197] from the Executive Officer Responsible for Group Companies to recognize the Government Grants as revenue, sent an email to the certified public accountant at PwC Kyoto stating: “We’re on the brink. Could you please call me?” During the Committee’s hearing, the Accounting Department’s general manager stated that, following that email, he received a proposal from the certified public accountant at PwC Kyoto, taking into account the local audit firm’s findings, to have the Local Government issue a supplementary notice stating that the Government Grants would not be limited to the project specified in the investment agreement and to prepare a position paper summarizing Nidec’s views regarding its receipt of the Government Grants.

The general manager of Nidec headquarters Accounting Department prepared a draft supplementary notice to be issued by the Local Government and a position paper and submitted them to the local audit firm through the accounting manager of the Country X Subsidiary. However, the local audit firm’s position remained unchanged. Consequently, on April 22, 2022, the general manager of Nidec headquarters Accounting Department sent an email to the certified public accountant at PwC Kyoto stating as follows. (During the interview with the Committee, the general manager of Nidec headquarters Accounting Department stated that while he did not recall the exact timing clearly, he made this request because he had been told by the certified public accountant at PwC Kyoto that PwC

---

[197] On the same day that the email mentioned in the main text was sent, the Executive Officer Responsible for Group Companies sent an email to the Group Companies Business Management Department Member stating: “Last night, I confirmed the treatment of the grants with ●● (the general manager of Nidec headquarters’ Accounting Department), and what he said was not helpful at all. I ask that you immediately involve Executive Officer ●● and General Manager ●● today to finalize it. The efforts of those involved so far will go to waste, and since both the representative director and the president already included the grants in the Group’s consolidated performance, I ask for immediate and serious action.” This suggests that the general manager of Nidec headquarters’ Accounting Department also was under strong pressure from the Executive Officer Responsible for Group Companies to recognize the Government Grants as revenue.

Kyoto might consider making a request to the local audit firm that the Government Grants be excluded from the scope of the audit.)

Plan A is to proceed in the orthodox manner by persuading ●● [Note: the local audit firm] directly, but following today's meeting with ●● ([Note: the local audit firm], I would like to specifically consider Plan B, in which PwC Kyoto would handle the matter. I have heard that the following measures are necessary for Plan B: 1. Indicate that the audit specified in Article 2.1 of the investment agreement is merely a formality. 2. State in the supplementary notice that there is no deadline. 3. Submit the minutes of meetings. With regard to item 1 above, we received proposals, such as deleting the wording in Article 2.1, clarifying the contents of the audit to demonstrate that the audit is merely a formality, and demonstrating that the plan is firm. However, the first two items are not realistic because they require the involvement of ●● (the Local Government), so we intend to proceed by demonstrating that the plan is firm. [Omitted] Please confirm whether you can handle the matter.

In response, the certified public accountant at PwC Kyoto expressed the view that for PwC Kyoto to conduct an audit of the Government Grants, and for recognition of the Government Grants as revenue to be accepted, the following conditions must be satisfied: (i) There must be a sufficient degree of certainty in the future execution of business. (ii) A supplementary notice must be issued specifying that the use of the Government Grants was not limited to the project specified in the investment agreement. (iii) The minutes of the meetings between Nidec and the Local Government must be provided to PwC Kyoto.

Consequently, the general manager of Nidec headquarters Accounting Department decided to change his approach and have PwC Kyoto conduct the audit of the Government Grants. Starting in late April 2022, he shared a revised draft of the supplementary notice with the accountants at PwC Kyoto, and after several rounds of discussions regarding its contents, the draft was finalized on May 2 of that year.

The draft supplementary notice is as follows: (The original text is in the local language.)

To ●● [Note: Country X Subsidiary]
Nidec Corporation

The incentive of approximately 1,250 million yen equivalent [Note: the original text specifies the amount in the local currency], as specified in Article 2.1 Project Incentives of the Investment Agreement executed between ●● [Note: the Local Government] and Nidec Corporation in March 2022 is intended to provide an incentive to attract the project specified in “I. Basic Overview of the Investment Project” of the Investment Agreement to ●●. The use of this incentive is not limited to the contents of the Investment Plan presented in Article 2.1 Project Incentives of the Investment Agreement, and this incentive is permitted to be used for business activities related to the project within the jurisdiction.

The provision in Article 2.1 Project Incentives of the Investment Agreement stating “If Party B is unable to fulfill the investment plans specified in Articles 1.1 and 1.2 above, Party A and Party B shall resolve the matter through amicable consultations” includes consultations that take into account the reasons for any failure to fulfill the plans, such as consultations regarding extensions of the deadline for completing the investment specified in Article 1.1 Investment Scale.

Sincerely,

●● [Note: the Local Government]

On April 30, 2022, when discussions about the contents of the draft supplementary notice were under way, it was decided that the audit procedures for the transactions relating to the Government Grants would be carried out by PwC Kyoto rather than the local audit firm.

PwC Japan provided the Committee with an explanation of the aforementioned series of events, in which it summarized the following points as “matters that PwC Japan was able to confirm within a short period of time following an inquiry from the Committee in February 2026.”

PwC Kyoto had been informed by Nidec headquarters that the Government Grants provided by the Local Government to ●● [Note: Country X Subsidiary], which were formally granted pursuant to a contract that was contingent on investment, in substance were intended to attract Nidec. With regard to the Government Grants, due to domestic circumstances in ●● [Note: Country X], highly confidential documents, which Nidec headquarters deemed inappropriate to share with ●● [Note: Country X Subsidiary] or the local audit firm, were not disclosed to the local audit firm by Nidec headquarters. Consequently, the local audit firm was unable to perform audit procedures related to the transactions involving the Government Grants. Given this situation, the local audit firm requested that the audit procedures relating to the transactions involving the Government Grants be excluded from the scope of its audit, and PwC Kyoto performed audit procedures based on materials provided by Nidec Headquarters.

(5) Status of Accounting for Government Grants

As noted above, after the draft supplementary notice was finalized, the Group Companies Business Management Department Member negotiated with the Local Government regarding the issuance of the supplementary notice. As a result, on May 10, 2022, the Local Government responded that it would issue the supplementary notice provided that Nidec submitted a "Letter of Consent" stating that "the supplementary notice is to be used solely for Nidec's internal accounting purposes and will not be submitted to outside parties." The Local Government also sent the following draft of the Letter of Consent. (The original text is in the local language.) Given that the Letter of Consent states, "We hereby agree not to make any amendments to the Investment Agreement executed in March 2022," it appears that the Local Government held the view that, at a minimum, the content of the supplementary notice differed from the terms agreed upon at the time the Investment Agreement was drafted.

To: ●● [Note: the Local Government]
Letter of Consent
For accounting purposes, we kindly request your cooperation in providing an explanation of Document No. 2022-001 from ●● [Note: the Local Government]. This explanation will be used solely as supporting documentation for accounting purposes and will not be used for any other purposes. We hereby agree not to make any amendments to the Investment Agreement executed in March 2022.
Nidec Corporation

After consulting with the general manager of the Accounting Department at Nidec headquarters, the Group Companies Business Management Department Member further negotiated with the Local Government for the supplementary notice to be issued without submitting the Letter of Consent; however, as the Local Government did not agree to this, the general manager of the Accounting Department at Nidec headquarters decided to submit the Letter of Consent as requested by the Local Government. The Group Companies Business Management Department Member reported the decision to submit the Letter of Consent to the Executive Officer Responsible for Group Companies.

On May 11, 2022, the Local Government sent a supplementary notice bearing its seal and retroactively dated March 30 of the same year. Subsequently, Nidec submitted the Letter of Consent to the Local Government. It was retroactively dated the 29th of the same month.

In response, Nidec submitted the supplementary notice to PwC Kyoto, and the Country X Subsidiary recognized the full amount of the Government Grants, equivalent to approximately 1,250 million yen, as revenue, on March 31, 2022. However, the general manager of the Accounting Department at Nidec headquarters and others did not inform PwC Kyoto that the Letter of Consent was submitted to the Local Government.

During the interview with the Committee, the general manager of the Accounting Department at Nidec headquarters stated, with regard to the reason for concealing the existence of the Letter of Consent from PwC Kyoto, "I had hesitations about the very act of submitting a document, such as a side letter, to the Local Government. The existence of such a document was superfluous information, and I did not want to share it with PwC Kyoto; looking back now, it was not the appropriate course of action." This suggests that the action was taken out of concern that sharing the Letter of Consent would influence the audit conducted by PwC Kyoto.

PwC Japan provided the following explanation of the foregoing sequence of events to the Committee, stating that it covered "matters that PwC Japan was able to confirm within a short period following an inquiry from the Committee in February 2026."

> *We were not aware of the Letter of Consent dated March 29, 2022, issued in the name of Nidec at that time. We first became aware of it through the questions asked by the Third-Party Committee.*
>
> *Had we been aware of the existence of the Letter of Consent at that time, it would have been inconsistent with Nidec's explanation, and we believe that we would have concluded that Nidec's explanation was not reasonable.*

(6) Status of Investment Decisions at Nidec Following Revenue Recognition

On June 4, 2022, at a subsequent Nidec Board of Directors meeting attended by Mr. Nagamori, a proposal for a 45-billion-yen capital investment in the Country X Subsidiary was deliberated. However, the resolution was put on hold due to a lack of clarity as to whether the Government Grants constituted an investment incentive that was subject to a repayment risk or an attraction incentive without such a risk, as well as insufficient explanations about the method for recovering the capital increase. As noted above, PwC Kyoto had stated that there must be a high degree of certainty regarding future execution of business to recognize the Government Grants as revenue. However, Mr. Seki, the representative director and president and CEO, had approved the capital investment at Nidec on May 11, 2022, based on a prior consultation document. Nidec recognized the Government Grants as revenue on the basis of this approval by Mr. Seki, taking the view that there was a high degree of certainty with regard to future execution of business. This means that obtaining the approval of the Board of Directors for the capital investment was of significant importance to recognizing the Government Grants as revenue. Mr. Nagamori instructed the full-time Audit and Supervisory Committee members to verify the facts, and the full-time Audit and Supervisory Committee members requested that the Executive

Officer Responsible for Group Companies provide documents clarifying the nature of the Government Grants. In response, the Executive Officer Responsible for Group Companies shared the minutes of meetings with the Local Government and the supplementary notice with the full-time Audit and Supervisory Committee members; however, the Letter of Consent was not shared. On this topic, the Executive Officer Responsible for Group Companies stated during the interview with the Committee, "I had no intention of concealing the existence of the Letter of Consent; my intention was to make everything transparent and allow the full-time Audit and Supervisory Committee members to make their own judgment." However, considering the actual sequence of events when the Executive Officer Responsible for Group Companies shared the relevant materials with the full-time Audit and Supervisory Committee members, his testimony cannot be considered trustworthy. Specifically, first, the Group Companies Business Management Department Member sent an email to the Executive Officer Responsible for Group Companies containing the following: the minutes of the meeting with the Local Government, the supplementary notice, and the Letter of Consent. The body of the email explained, with regard to the meeting minutes and the supplementary notice, "These are documents submitted by ●● [Note: the Local Government], in accordance with instructions from Kyoto Audit Corporation. They already have been submitted to the Kyoto Audit Corporation." With regard to the Letter of Consent, it stated, "This is the consent regarding Item 2 above. It is to be treated as internal documentation and will not be submitted to outside parties." The Executive Officer Responsible for Group Companies sent only the meeting minutes and the supplementary notice by email to the full-time corporate auditors, and he excluded the Letter of Consent from the set of documents sent by the Group Companies Business Management Department Member. While that email quoted the text of the aforementioned email sent by the Group Companies Business Management Department Member, the section explaining the Letter of Consent was deleted. Given the above, it is natural to conclude that the Executive Officer Responsible for Group Companies did not venture to share the Letter of Consent with the full-time Audit and Supervisory Committee members, and, therefore, that the statements made by the Executive Officer Responsible for Group Companies cannot be trusted.

5. Avoidance of Recognition of Impairment Losses on Fixed Assets at Nidec Instruments Corporation (NIST)

As a result of the Committee's investigation, it was discovered that Nidec Instruments Corporation ("**NIST**"), a manufacturer and seller of various motors, such as stepping motors, failed to record an impairment loss on the company housing it owns ("**Company Residence**," in this section), even though all of the residents had vacated the Company Residence, with no future use planned, and despite the fact that the property was in a condition that required prompt demolition.

The Company Residence, which was constructed in 1968, had long been used as a company residence for employees; however, the last residents moved out in 2020. Since then, only a portion of the vacant space was used as a warehouse by the General Affairs Department. By around October 2021, at the latest, the Accounting Department of NIST was aware that all of the residents of the Company Residence already had left, at the latest. Consequently, in February 2022, NIST, acting through the Group Companies Business Management Department at Nidec headquarters, informed Mr. Nagamori that the land on which the Company Residence was not being used, was not scheduled for future use, and that the building was deteriorating and required early demolition. NIST requested his approval to proceed with the sale of the land and received his consent. At that time, Mr. Nagamori instructed, "This is where our negotiating skills come into play. We must strive to sell it at a price that, at a minimum, will not result in a loss." Subsequently, NIST engaged in repeated negotiations regarding the sale of the Company Residence with the local government where the property was located and with private companies; however, the offers received were in the 100 million yen range for the land alone, which was significantly lower than the book value of approximately 500 million yen for the land and the building that comprised the Company Residence, and as a result, no sale was concluded.

As detailed in Part 8 below, during the fourth quarter of fiscal 2022, the Nidec Group decided to dispose of "legacy liabilities" under the designation of "structural reforms," and each Nidec Group company submitted information about its own "legacy liabilities" to Nidec headquarters. As part of the structural reforms, NIST intended to proceed with recognition of impairment losses on the Company Residence,[198] and it reported the property to Nidec headquarters as a "legacy liability." NIST's report stated that the Company Residence had not been in use since fiscal 2021, that the company currently was seeking a buyer, that the impact on operating profit would be approximately 420 million yen, and that the matter needed to be addressed as a top priority.

However, as part of the structural reforms implemented during the fourth quarter of fiscal 2022, "legacy liabilities" were reclassified to achieve full-year operating profits of 100 billion yen or more for fiscal 2022. Consequently, the Company Residence was excluded from the scope of the structural reforms, and it was decided that NIST would address the Company Residence in a planned manner through "self-funding" (i.e., losses incurred from disposing of "legacy liabilities" would be covered by revenue, while still aiming to achieve performance targets) from and after fiscal 2023.

However, NIST's chairman, CEO, and CFO were concerned that recognizing an impairment loss on the Company Residence would reduce NIST's operating profit, which might prevent the company from meeting its operating profit target under the business plan or significantly increase the shortfall from that target. Consequently, they did not proceed with a review aimed at recognizing an impairment loss.

---

198 According to a real estate appraisal conducted in March 2023, the appraised value of the land and the building that comprised the Company Residence was approximately 95 million yen to 98 million yen.

In March 2024, NIST received the most favorable offer that it received in the course of the prior sale negotiations for the land on which the Company Residence was located, which included a subsidy from the local government to cover part of the demolition costs. Considering these circumstances, NIST submitted a new proposal for the sale of the Company Residence land to Mr. Nagamori in January 2025 and it obtained his approval.

In March 2025, NIST decided to sell the Company Residence land to the local government, and it recorded an impairment loss of 414 million yen during the fourth quarter of fiscal 2024; however, the impairment loss should have been recorded for the fourth quarter of fiscal 2020, when the last resident moved out and the company no longer had any plans to use the property.

6. Avoidance of Recognition of Inventory Write-downs at Nidec OKK Corporation (NOKJ)

As a result of the Committee's investigation, it was discovered that Nidec OKK Corporation (NOKJ),[199] which manufactures and sells machine tools, Nidec Ohtoyo Kiko Corporation (NOTK), a manufacturing subsidiary of NOKJ, and Nidec OKK USA Corporation (NOKA), NOKJ's U.S. sales subsidiary, failed to record inventory write-downs, despite the relevant inventory having no asset value ("**Bad Inventory**," in this section).

The Bad Inventory can be broadly categorized as follows: (i) raw materials, products, etc., for which there has been no warehouse entry or exit history for three years or more, and that have extremely low prospects for future use and sale and no asset value ("**Dead Inventory**," in this section), (ii) raw materials, etc., for obsolete models with no prospects of production ("**Inactive Inventory**," in this section), and (iii) raw materials, etc., that exceed the projected production volume for the last three years, with extremely low prospects for future use and no asset value ("**Excess Inventory**," in this section). Thus, despite the fact that the Bad Inventory had no asset value, the company treated it as having asset value, and by failing to record inventory write-downs, avoided recognizing the expense.

As of the end of June 2025, the total amount of inventory write-downs that should have been recognized for the inventory of NOKJ, NOTK, and NOKA was 2,437 million yen; a breakdown is shown in the following table:

(Unit: millions of yen)

	NOKJ	NOTK	NOKA	Total
Dead Inventory	385	17	656	1,058
Inactive Inventory	825	–	–	825
Excess Inventory	532	22	–	554

199 In 2022, NOKJ became a group company of Nidec, and in 2023 it became a wholly owned subsidiary of Nidec.

Total	1,742	39	656	2,437

The Bad Inventory occurred because products were manufactured before orders were received, based on the belief that it was necessary to maintain product inventory to respond promptly to customer orders (the "standby strategy" mentioned in Part 4, above); however, since no actual orders were placed, the products remained in inventory. It seems that Bad Inventory existed to a significant extent by at least the time of the structural reforms during the fourth quarter of fiscal 2022, as described below.[200] During the structural reforms that took place in the fourth quarter of fiscal 2022, NOKJ reported the Bad Inventory to Nidec headquarters as "legacy liabilities." However, as a result of the Nidec headquarters' CFO and Accounting Department's classification of Structural Reform Liabilities (as defined below) and Planned Disposition Liabilities (as defined below), the Bad Inventory was classified as Planned Disposition Liabilities. Consequently, no inventory write-downs were recorded during the fourth quarter of fiscal 2022. Since it was required that Planned Disposition Liabilities be handled through "self-funding" (i.e., losses incurred through disposal of "legacy liabilities" would be covered by revenue, while still aiming to achieve performance targets), no progress toward disposal of the Bad Inventory has been made since fiscal 2023, as the company struggled to meet its performance targets.

In March 2025, when formulating the business plan for fiscal 2025, NOKJ's CFO, who was concerned about the large amount of Bad Inventory remaining, submitted a draft business plan to the Group Companies Business Management Department that incorporated an impairment loss, including the disposal of the Bad Inventory as "structural reform expenses." Subsequently, at NOKJ's performance meeting held in March 2025, the Executive Officer Responsible for Group Companies asked NOKJ's CFO about the scale of the amount required to dispose of the Bad Inventory within "structural reform expenses." NOKJ's CFO explained that it would amount to several billion yen. The Executive Officer Responsible for Group Companies questioned how profits would be generated to fund the disposal of the Bad Inventory, and based on this, instructed that if there was no prospect of achieving the performance targets set for NOKJ by the Group Companies Business Management Department, the amount required to dispose of the Bad Inventory should not be included in the business plan as structural reform expenses.[201] After this performance meeting, the following email

---

200 Because NOKJ discontinued its core system and transitioned to a new system in August 2025, the Committee's investigation was unable to verify accurate, comprehensive data about NOKJ's past inventory. However, based on the details of the "legacy liabilities" reported to Nidec headquarters in the fourth quarter of fiscal 2022, during the structural reforms, it seems that a significant amount of the Bad Inventory existed by that time, at the latest.

201 During the interview with the Committee, the Executive Officer Responsible for Group Companies stated to the effect that, while he may have instructed that the disposal be handled through self-funding, such instruction was solely premised on a proper accounting treatment and did not constitute an instruction to exclude from the business plan the Bad Inventory that should have been subject to accounting treatment.

was sent by NOKJ's CFO to the Nidec headquarters' CFO:

> I have concerns about the self-funding for structural reforms mentioned by Executive Vice President ●● [Note: an Executive Officer Responsible for Group Companies] at today's performance meeting. OKK generated substantial profits from the sale of land, so it could have disposed of non-performing assets at that time. However, the company chose not to do so in order to contribute to the overall consolidated results. Given this, isn't it going too far to expect OKK to cover the expenses itself, that is, to require OKK to increase its planned profits by that amount?
> Maybe I am too optimistic, in addition to the impact of revising the progress criteria, if we are told to cover all expenses ourselves and are forced to accept an unrealistic plan, I'm certain everyone inevitably will become disengaged. I, for one, couldn't stand being pushed that far. Is such a plan really going to be imposed?

Consequently, the disposal of the Bad Inventory has not progressed, even in fiscal 2025, and as of the end of June 2025, a total of 2,437 million yen in Bad Inventory remains, without inventory write-downs having been recognized.

7. Improper Reversal of Provisions Related to Grant Repayments in Nidec's Consolidated Financial Statements

The Committee's investigation discovered that, for purposes of meeting performance targets, the Accounting Department of Nidec headquarters improperly reversed a provision in Nidec's consolidated financial statements concerning repayment of the government grants that Nidec GPM Hungary LLC (GPMH), a subsidiary in the Automotive Motor & Electronic Control (AMEC) Organic Business Unit, had recorded in its non-consolidated financial statements.

In September 2020, GPMH received a grant of 4.9 million euros from a Hungarian government agency to fund capital expenditures relating to the launch of production facilities for automotive pumps. The grant was contingent upon achieving total sales of 555 million euros over an eight-year period following the investment and maintaining an average annual workforce of 120 employees. Depending on the extent to which these conditions were not met, the company was required to repay the full amount of the grant and pay interest.

In fiscal 2022, GPMH recorded an impairment loss of 33.4 million euros on fixed assets related to several business segments, including the aforementioned automotive pump business, due to a decline in profitability across these segments. GPMH also recognized the provision of 4.9 million euros for potential repayment of the grant, anticipating an increased risk of having to return the grant due to its inability to meet the grant conditions.

As stated below, Nidec headquarters planned to implement structural reforms during the fourth quarter of fiscal 2022 to resolve “legacy liabilities,” but its policy was to carry out these reforms while maintaining a consolidated operating profit of 100 billion yen. Consequently, in preparation for the structural reforms, the Accounting Department of Nidec headquarters received reports from various business locations, including the AMEC Organic Business Unit, on matters such as operating profit forecasts, and also received reports about the recording of the aforementioned provision for repayment of the grant at GPMH.

Subsequently, while the Accounting Department of Nidec headquarters was preparing the consolidated financial statements for the fourth quarter of fiscal 2022, it was discovered that the financial statements of Nidec GPM GmbH (NGPM), a subsidiary in the AMEC Organic Business Unit, included an impairment loss of 12.13 million euros on capitalized development costs, an amount that had not been identified previously by the Accounting Department of Nidec headquarters.

At that time, in the Accounting Department of Nidec headquarters, it was understood that for purposes of Nidec’s consolidated financial statements, the need to recognize impairment losses would be assessed at the business unit level for the AMEC Organic Business Unit with respect to impairment losses on tangible fixed assets that had been recognized in the non-consolidated financial statements of the companies under the AMEC Organic Business Unit. Because impairment was to be assessed at that business unit level, recognition of impairment losses would not be required if so assessed, and it therefore was contemplated that impairment losses on multiple tangible fixed assets recognized in the non-consolidated financial statements of the companies in the AMEC Organic Business Unit would be reversed, collectively, in consolidation adjustment entries in Nidec’s consolidated financial statements. However, the impairment of capitalized development costs reported by NGPM related to intangible assets for which such a reversal was not possible. The Accounting Department personnel at Nidec headquarters were concerned that if the aforementioned impairment loss on NGPM’s capitalized development costs were left as is, it would result in a significant shortfall in the projected operating profit of the AMEC Organic Business Unit, potentially hinder achievement of the consolidated operating profit of 100 billion yen, and cause delays in the financial reporting schedule. Meanwhile, with respect to GPMH, the impairment loss on tangible fixed assets related to the automotive pump business was scheduled to be reversed. Consequently, the Accounting Department personnel at Nidec headquarters decided to reverse the provision for repayment of the aforementioned grant to GPMH, by disguising it as an impairment loss associated with impairment of GPMH’s tangible fixed assets. Although there were no grounds to reverse the provision for grant repayment recorded in GPMH’s non-consolidated financial statements, and therefore such a reversal was not permissible, the Accounting Department personnel at Nidec headquarters believed that because these items related to the same automotive pump business of GPMH, reversing it would be less conspicuous. Therefore, they listed the provision for repayment of the grant alongside the impairment loss on tangible fixed assets relating to the automotive pump business in the relevant journal vouchers and related details. They then posted a reversing entry for the provision for repayment of the grant recorded by GPMH in Nidec's consolidation adjustment entries, together with reversals of the impairment losses on the tangible fixed assets of companies in the AMEC Organic Business Unit, thereby canceling (i.e., reversing) the provision. By doing so, they offset a portion of the aforementioned impairment loss on NGPM's capitalized development costs.

As stated above, the provision for repayment of the grant recorded by GPMH was not related to the impairment of GPMH's tangible fixed assets, and accounting principles did not permit reversal of the provision for repayment of the grant in conjunction with the impairment of those tangible fixed assets. However, the supervisor in the Accounting Department who approved the vouchers for the aforementioned consolidation adjustment entries did so without sufficiently verifying their contents.

8. Improper Revenue Recognition Through a Special Cooperation Fund Scheme at Nidec Techno Motor (Zhejiang) Co., Ltd. (NTMZ)

(1) Improper Revenue Recognition Through Special Cooperation Fund Scheme

As a result of the Committee's investigation, it was discovered that Nidec Techno Motor (Zhejiang) Co., Ltd. (NTMZ), a Chinese subsidiary of Nidec Techno Motor Corporation (NTMC), received "special cooperation funds" from multiple suppliers starting around May 2022, on the premise that the company would repay those funds in the future. However, the company failed to recognize these amounts as liabilities, and instead recorded the amount of the special cooperation funds as a reduction in the cost of sales, thereby overstating its profits (in this section, for convenience, we refer to this type of improper accounting involving these special cooperation funds as the "**Special Cooperation Fund Scheme**").

This improper accounting was carried out by disguising "cooperation funds" (also referred to as "one-time purchase incentives") received from suppliers. When NTMZ negotiates price reductions for parts and other items with suppliers as part of its cost-cutting initiatives, some suppliers may agree to settle the matter not by lowering the unit prices of the parts but by paying a fixed amount to NTMZ as a cooperation fund.[202] In these situations, the accounting treatment is to record a reduction in the cost of sales equal to the amount of the cooperation funds, which results in an increase in profit. This accounting treatment is permissible under accounting standards and the NIAP.

However, in the Special Cooperation Fund Scheme, the company agreed with suppliers to treat the

202 If unit prices for parts and other items are reduced, the price for subsequent transactions will be determined based on the lower unit price; however, in the case of cooperation funds, the reduction is only temporary, making this easier for suppliers to accept than a permanent price reduction.

amounts received as discounts in the form of special cooperation funds, and it recorded an equivalent reduction in the cost of sales. In addition, the company agreed with the suppliers to repay the special cooperation funds by adding them to the standard unit prices of subsequent purchases. Since the repayment was a precondition, the special cooperation funds should not have been treated as discounts under accounting standards, and recording a reduction in the cost of sales was not permitted. Nevertheless, NTMZ recorded a reduction in the cost of sales, just as it would have if it had received ordinary cooperation funds, and as a result, it overstated its profits.

During its investigation, the Committee found documents maintained by NTMZ's purchasing department relating to the status of repayments of special cooperation funds. These documents contain information like the names of suppliers who participated in the Special Cooperation Fund Scheme, the amount of the special cooperation funds received, and the dates on which the special cooperation funds were received.

The earliest special cooperation funds listed in the documents were received in May 2022. No special cooperation funds were received in 2023, but the receipt of special cooperation funds resumed in January 2024. According to the documents, the total amount of special cooperation funds received by NTMZ from suppliers was 65.3 million yuan.

The Special Corporation Fund Scheme is believed to have begun in 2022. The individual who was serving as the Japanese general manager[203] of NTMZ at that time has since retired. Although the Committee requested his cooperation with an interview, we were unable to obtain it. However, the people who worked as purchasing personnel in 2022 stated during interviews with the Committee that the Special Cooperation Fund Scheme was initiated on the instructions of the then-Japanese general manager in 2022. Furthermore, a report dated November 8, 2022,[204] which was submitted by the then-Japanese general manager of NTMZ to the then-president of NTMC, states: "In March 2022, we received advance payments from eight suppliers in the name of cooperation funds as a measure to increase revenue for the fourth quarter of fiscal 2021." Based on the foregoing, it is believed that the then-Japanese general manager of NTMZ initiated the Special Cooperation Fund Scheme to achieve performance targets.

Further, the Special Cooperation Fund Scheme was resumed in 2024. The individual who was serving as the Japanese general manager of NTMZ at that time has since retired and did not respond

---

203 A general manager is a person who oversees the company's day-to-day operations based on decisions made by the board of directors, and this role is often explained, in the Japanese context, as being equivalent to that of a company president.

204 This report explains the circumstances under which, in 2022, the Japanese general manager of NTMZ sold machinery and equipment without following the required approval procedures. The report states that the reason the then-Japanese general manager of NTMZ sold the machinery and equipment without following the required approval procedures was to generate profits. In addition, the report mentions the Special Cooperation Fund Scheme as another measure implemented by the Japanese general manager of NTMZ in 2022 to generate profits.

to the Committee's request for cooperation in the interview. That said, the people who worked as purchasing personnel in 2024 stated during interviews with the Committee that the then-president of NTMC and the then-Japanese general manager of NTMZ had decided to resume the scheme, and the then-president of NTMC also stated during an interview with the Committee that while he did not clearly recall the circumstances surrounding the resumption in January 2024, he remembered that in July of that year, he approved implementation of the Special Cooperation Fund Scheme to achieve the performance targets for the first quarter of fiscal 2024.

(2) Improper Recognition of Revenue From Special Cooperation Funds by Falsely Representing That Agreements Had Been Reached with Suppliers

As a result of the Committee's investigation, it was discovered that during the second quarter of fiscal 2024, despite the fact that no agreements for the payment of special cooperation funds actually had been reached, NTMZ falsely represented that agreements for payment of special cooperation funds had been reached with three suppliers and recorded a reduction in the cost of sales. As a result, NTMZ overstated its profits.

In early October 2024, the then-Japanese general manager of NTMZ instructed personnel in the purchasing department to request that three suppliers cooperate with the Special Cooperation Fund Scheme, which amounted to a total of 10 million yuan, in order to achieve the performance targets for the second quarter of fiscal 2024. However, as no agreement was reached with the three suppliers, the then-Japanese general manager of NTMZ instructed the purchasing department personnel to prepare written agreements with the three suppliers dated September 27, 2024, setting forth the receipt and repayment of the special cooperation funds, as well as written agreements dated October 8 of the same year rescinding the aforementioned agreements. Following instructions from the person who was the Japanese general manager of NTMZ in 2024, personnel in the purchasing department negotiated with the three suppliers and ultimately exchanged both written agreements with all three of them. (It is believed that the suppliers agreed to this because they ultimately would no longer be required to pay the special cooperation funds.) Subsequently, only the written agreements dated September 27, 2024 were submitted to NTMZ's accounting department, and based on these agreements, a reduction in the cost of sales of 10 million yuan was recorded. Since no agreements in fact had been reached with the suppliers, recording a reduction in the cost of sales was not permitted by the accounting standards; nevertheless, NTMZ recorded a reduction in the cost of sales, which resulted in the overstatement of profits by a total of 10 million yuan in the second quarter of fiscal 2024.[205]

[205] Even if the written agreement dated September 27, 2024, is used as the basis, as stated in (1) above, where repayment is a precondition, recording the special cooperation funds as a reduction of cost of sales is not permitted.

(3) Report to Management Executives at Nidec Headquarters About Special Cooperation Fund Scheme

While investigating the factors behind NTMZ's stagnant revenue growth, the Japanese general manager of NTMZ who took office in November 2024 became aware that NTMZ held numerous "legacy liabilities," including repayment of the aforementioned special cooperation funds. With a view to reporting to Nidec headquarters and proceeding with disposition of these "legacy liabilities," the Japanese general manager of NTMZ prepared a document titled "Disposition of NTMZ Legacy Liabilities" and reported on it to the Executive Officer Responsible for Group Companies and Mr. Kobe, who concurrently served as chairman of NTMZ at that time, between mid- and late January 2025. This report stated that the remaining balance of the special cooperation funds was 488 million yen.

At the same time, the Japanese general manager of NTMZ also reported the special cooperation funds issue to the Corporate Administration & Internal Audit Office of NTMC, which resulted in an audit by the Corporate Administration & Internal Audit Department of Nidec headquarters and an investigation by the Corporate Administration & Internal Audit Office of NTMC. In mid-July 2025, NTMC's Corporate Administration & Internal Audit Office reported the findings of its investigation of the Special Cooperation Fund Scheme to the Corporate Administration & Internal Audit Department of Nidec headquarters, and the Corporate Administration & Internal Audit Department shared those findings with the Audit and Supervisory Committee. After this, the Audit and Supervisory Committee decided to engage outside law firms and others to conduct an investigation, which was subsequently carried out. During the course of the investigation conducted by outside law firms and others, documents related to the Nidec Group's "legacy liabilities" were discovered, which led to the establishment of the Committee.

9. Failure to Record Provisions for Overdue Receivables at Mexico Office of Automotive Organic Business (AMEC Organic Business)

As a result of the Committee's investigation, it was discovered that receivables totaling 29 million U.S. dollars, which had been outstanding for more than one year, remained unresolved at the Mexico site operated under the AMEC Organic Business.[206] (The Mexico plant[207] serves as a contract manufacturer for Nidec Automotive Motor Americas LLC (NAMA), a U.S. subsidiary of Nidec.)[208] In principle, receivables that have been outstanding for more than one year should be deemed to constitute evidence of credit impairment, and an allowance for loss valuation must be recognized in the full amount of the receivables. Failure to recognize such an allowance is contrary to the NIAP, except where the overdue receivables are understood to be collectable.

(1) Discovery of Overdue Receivables at NAMA and Nidec's Response

The existence of overdue receivables at NAMA came to be recognized as an issue by the management of Nidec headquarters in March 2024.

In March 2024, the Automotive Motor & Electronic Control Business Unit (AMEC) submitted a request to Nidec headquarters to establish a credit line[209] for subsidiaries in the AMEC Organic Business, which was deliberated on by Nidec's Management Committee. However, Mr. Kobe, who served as Nidec's chairman at that time, noted that the meeting materials stated that NAMA held overdue receivables valued at 20 million U.S. dollars. He pointed out that a collection plan for those overdue receivables should be clarified, and the request was approved on the condition that the collection plan be clearly stated in the materials to be submitted to the Board of Directors.[210]

After Mr. Kobe's comment at the Management Committee meeting, in May 2024, the Internal Audit Department of Nidec Americas Holding Corporation (NAHC), NAMA's parent company, investigated the overdue receivables. On June 21 of the same year, at a monthly briefing session[211] attended by

---

206 The Automotive Organic Business Unit, which was previously part of the Automotive Motor & Electronic Control Business Unit (AMEC), was transferred to the newly established Appliance Automotive Division (AAD) effective January 1, 2025, and renamed the AMEC Organic Business Unit. Hereinafter, regardless of the time period, the unit will be referred to in this section as the "**AMEC Organic Business**."

207 Strictly speaking, the Mexico plant is operated by Nidec Automotive Motor Americas LLC (NAMM), a Mexican subsidiary in the AMEC Organic Business; however, since NAMA in the United States sells the products manufactured at NAMM's Mexico plant, Nidec regarded them as a single business unit. For this reason, NAMA and NAMM were referred to collectively as "NAMA" at Nidec.

208 We currently are investigating the causes and other circumstances of the outstanding receivables mentioned above.

209 This refers to the maximum amount of loans that Nidec headquarters may extend to its subsidiaries.

210 At the Board of Directors' meeting held on June 8, 2024, the Board of Directors of Nidec approved the establishment of a credit line for subsidiaries under the AMEC Organic Business, including NAMA, for the period from April to October of that year. Subsequently, at the Board of Directors' meeting held on October 5, 2024, the Board of Directors of Nidec approved the establishment of a credit line for the period from October 2024 to April 2025.

211 The monthly briefing sessions began after Mr. Kobe became the president of Nidec in September 2022. At the monthly briefing sessions, the administrative bases reported on the Nidec Group's issues to the executives, including Mr. Kobe, on a monthly basis. President Kishida also attended the May 2024 monthly briefing session.

Mr. Kobe, Mr. Kishida, and others, it was reported that the value of NAMA's overdue receivables was 32 million U.S. dollars.

In August 2024, at Mr. Kishida's instruction, the Deputy CFO and General Manager of the Accounting & Corporate Management Department at Nidec headquarters inspected NAMA's Mexico plant. As a result, he identified that there were overdue receivables with a total value of 32.1 million U.S. dollars, of which 16.3 million U.S. dollars' worth was uncollectible and had become non-performing receivables. He reported these findings to Mr. Kishida, Mr. Kobe, and the CFO of Nidec headquarters.

Concurrently with these actions, starting around October 2024, the management of the Appliance, Commercial & Industrial Motor Business Unit (ACIM) conducted its own investigation into the risk assets present at each location of the AMEC Organic Business, and identified related issues. This was because it was decided that, effective January 1, 2025, the AMEC Organic Business and ACIM would be placed under the umbrella of the newly established Appliance Automotive Division (AAD), and that ACIM's management would assume management roles within AAD and oversee the AMEC Organic Business.

(2) Discussion About Recognition of Structural Reform Expenses During Fourth Quarter of Fiscal 2024

In early February 2025, Mr. Kishida, the CFO and CPO of the Nidec headquarters, and others discussed how to handle the risk of one-time losses[212] in the AMEC Organic Business while considering measures to achieve the publicly announced performance target of operating profit of 240 billion yen for fiscal 2024. At this point, based on the results of the aforementioned independent investigation conducted by the management of ACIM, it had been identified that the AMEC Organic Business had one-time loss risks that totaled approximately 24.7 billion yen. Mr. Kishida and others adopted a policy to ensure that an operating profit of 240 billion yen would be "achieved through normal business operations" while treating the total one-time loss risks of approximately 24.7 billion yen as being "outside the scope of normal business operations."[213] Materials for the NKK meeting[214] that was held on the third of that month included pages reflecting this policy. In addition, the materials

[212] At Nidec, the term "one-time" refers to one-time gains and losses other than those arising from normal business operations. At that time, the one-time loss risks in AMEC Organic Business included not only the issue of NAMA's non-performing receivables but also quality issues, impairment losses, and restructuring costs.

[213] This means that while achieving the publicly announced FY 2024 performance target of 240 billion yen by using operating profit generated from normal business activities, Nidec would record one-time losses separately, as structural reform expenses.

[214] As stated in Part 2-6(3) above, this refers to a meeting attended by Mr. Nagamori, Mr. Kobe, and Mr. Kishida.

for the NKK meeting on that day included a page setting out a breakdown of the one-time loss risks faced by the AMEC Organic Business. This breakdown included non-performing receivables of 15.9 million U.S. dollars, which were part of NAMA's overdue receivables. With regard to the "action" to be taken on NAMA's overdue receivables, the materials stated that "extension beyond Q4 would be difficult." The page in question was prepared by the Nidec headquarters CFO. During an interview with the Committee, he stated that, in light of the series of investigation results, NAMA's overdue receivables had reached a situation in which recovery was not possible, and that there was no rationale for deferring the provision, and therefore he believed that they should be disposed of during the fourth quarter of fiscal 2024. During the interview with the Committee, Mr. Kishida stated that, while he left decisions about accounting treatment to experts, such as the Nidec headquarters CFO, he was aware that the one-time loss risks related to NAMA's overdue receivables were an issue.

In late March 2025, Mr. Kishida, the CFO and the CPO at Nidec headquarters, and others decided on a policy to dispose of the "legacy liabilities" by recognizing a total of approximately 49.2 billion yen as structural reform expenses for the entire Nidec Group, including the one-time loss risks of approximately 25.8 billion yen of the AMEC Organic Business that had been identified at that time. Subsequently, at the NKK meeting on March 24, 2025, Mr. Kishida proposed this policy to Mr. Nagamori and others. However, Mr. Nagamori argued that "legacy liabilities" should be disposed of through "self-funding," and did not approve the "legacy liabilities" being handled separately. The minutes of the NKK meeting contain the following statement:

> (1) Measures to achieve the operating profit target for Q4 FY24
> (2) FY24➞25 operating profit by business unit
> (3) Overall policy for structural reforms (key directions)
> President Kishida provided an explanation on these three items. (Details omitted)
> FDR Nagamori: The operating profit must not fall below 240 billion yen even by 1 yen this fiscal year. Raising the stock price is the top priority.
> * With respect to the structural reforms for FY24, actions have already been initiated by a limited group of members.

Following the NKK meeting, Mr. Kishida shared the minutes above with the Nidec headquarters CFO, CPO, and other executives, and requested that they consider measures to achieve an overall operating profit of 240 billion yen while disposing of "legacy liabilities." In response to this request, the Nidec headquarters' CFO and other executives began examining ways to increase operating profit, including through the sale of idle real estate, and also initiated reviews aimed at minimizing structural reform expenses.

The results of the series of reviews were reported at the NKK meeting held on March 31, 2025. The report stated that following a detailed review of "legacy liabilities," the total amount of "legacy liabilities" to be disposed of during fiscal 2024 had been reduced to 3.5 billion yen (of which a total of 3.0 billion yen related to the AMEC Organic Business). The report also stated that the costs required to dispose of these "legacy liabilities" would be covered by total profits of 3.7 billion yen generated through "recovery measures," such as the sale of land, and that the company was expected to achieve a full-year operating profit of 240 billion yen while disposing of these "legacy liabilities." However, NAMA's overdue receivables were not included in the "legacy liabilities" to be disposed of during fiscal 2024, and as a result, no allowance for these overdue receivables was recorded in fiscal 2024 (nor was any allowance recorded in fiscal 2025).

During the interview with the Committee, the Nidec headquarters' CFO stated that, because achieving an operating profit of 240 billion yen was the top priority, the company had narrowed the scope of the "legacy liabilities" to be disposed of during fiscal 2024 to only those that had to be disposed of, at a minimum. He further stated that while the company recognized the need to set aside an allowance for NAMA's overdue receivables, the amount available for disposing of "legacy liabilities" was limited and there were other "legacy liabilities" that needed to be disposed of with higher priority, so the company decided to defer disposing of the overdue receivables.

During the interview with the Committee, Mr. Kishida stated that he had been informed that NAMA's overdue receivables were difficult to collect and needed to be disposed of. However, he also stated that he had not paid particular attention to the existence of NAMA's overdue receivables, given other significant issues the AMEC Organic Business was facing, such as quality issues. Mr. Kishida also stated that after Mr. Nagamori rejected the proposal to account for structural reform expenses in a separate category, he asked the Nidec headquarters' CFO and others to consider measures to increase operating profit from "normal business operations" and to consider ways to minimize "legacy liabilities." However, he also stated that he did not expect that this would result in a situation in which "legacy liabilities" that should have been disposed of during fiscal 2024 would not be disposed of. In connection with this, during the interview, the Committee asked Mr. Kishida, "Did you not consider the possibility that, once an operating profit of 240 billion was set as a non-negotiable, 'legacy liabilities' that should have been disposed of might not be disposed of?" Mr. Kishida reflected, "At that time, I did not consider the possibility that items that should have been disposed of might be overlooked. Looking back now, even though Mr. Nagamori, as the ultimate decision-maker, had determined that an operating profit of 240 billion yen was non-negotiable, I believe I should have personally scrutinized the details of the 'legacy liabilities,' including NAMA's overdue receivables, and engaged in a frank and open discussions with Mr. Nagamori."

10. Avoidance of Impairment of Fixed Assets Related to Traction Motor Business of Automotive Motor & Electronic Control Business Unit (AMEC)

The Committee's investigation discovered that, in connection with the financial statements for fiscal 2024, the Automotive Motor & Electronic Control Business Unit (AMEC) avoided recognizing an impairment loss on fixed assets related to its traction motor business by including a project with a low probability of being realized ("**Project A**," in this section) in the sales plan that was used as the basis for the impairment test. In addition, the sales plan included a project that already had been lost and therefore was impossible to realize ("**Project B**," in this section), as well as multiple projects that the Sales Department of the Traction Business Unit[215] had determined were unlikely to result in orders and for which there was no rational basis for their inclusion in the sales plan ("**Project C**" in this section). In addition, no one dared to share with PwC Japan the fact that Project A had a low probability of being realized.

(1) Overview of Status of Traction Business Unit and Projects in Question During Fourth Quarter of Fiscal 2024

Through Project A, Guangzhou Nidec Auto Drive System Co., Ltd. (GNAD), a subsidiary of Nidec, would manufacture traction motor systems that an electric vehicle manufacturer currently manufactured in-house through its subsidiary, in place of that subsidiary, pursuant to a commission from the electric vehicle manufacturer. Around the end of 2024, Nidec received an inquiry regarding the possibility of commencing production of the systems around June 2025. However, around March 2025, the Traction Business Unit assessed that that the likelihood of Project A being realized was low for the following reasons: (i) the compensation offered by the electric vehicle manufacturer (the final customer for the contract) was low, (ii) sales of the vehicles manufactured by the electric vehicle manufacturer were not favorable, and (iii) whether the customer would outsource manufacturing to GNAD instead of its in-house subsidiary depended on its procurement policy.[216, 217] There also were concerns that if PwC Japan was informed of this, it would assess that an impairment loss would need to be recorded for part or all of the book value of the fixed assets related to the traction motor business,

---

215 This is the department within the Automotive Motor & Electronic Control Business Unit (AMEC) responsible for the traction motor business.

216 As of March 2025, the Traction Business Unit had prepared a medium-term plan based on two scenarios: one excluding Project A and one including it. However, since Project A was assessed as having a low probability of realization, the scenario excluding Project A was adopted as the base scenario.

217 The only supporting documentation indicating the quantity and other details of Project A consists of GNAD's internal documents that list the projected annual production volume for the relevant electric vehicles.

of which the book value equals to approximately 14.6 billion yen.[218]

The traction motor business recorded a loss of approximately 9.2 billion yen during the fourth quarter of fiscal 2022, due to structural reform expenses. Subsequently, the business was forced to undergo a strategic shift, and during the fourth quarter of fiscal 2023, it recorded a loss of approximately 59.8 billion yen due to structural reform expenses. During fiscal 2024, there was a shared understanding in the Traction Business Unit that the recognition of additional impairment losses had to be avoided. An email sent by the general manager to executives in the Traction Business Unit in early February 2025 expressed a sense of urgency concerning impairment losses, as follows:

> If the PwC audit identifies a need for recognition of additional impairment losses, this business will be over. It will have no future. We therefore must operate everything based on a plan that ensures we can avoid impairment losses at all costs.

In late February 2025, the general manager of the Traction Business Unit and the general manager of the Business Accounting Department of the Traction Business Unit reported to the CFO and CPO at Nidec headquarters on the Traction Business Unit's outlook for fiscal 2025 and the status of impairment testing. The report listed "key points for the TRM Business"[219] as "no recognition of impairment losses" and "deferment of risks as much as possible," and stated that the "execution plan" for FY 2025 sales was 24.1 billion yen and the "impairment avoidance plan" was 35.14 billion yen. The difference of 11.04 billion yen between the "execution plan" and the "impairment avoidance plan" was due primarily to the inclusion of sales from Project A (10.3 billion yen) in the sales assumptions for the "impairment avoidance plan."[220]

(2) Discussions Regarding the Recognition of Structural Reform Expenses at Nidec During the Fourth Quarter of Fiscal 2024

As stated in Part 6-9 above, in late March 2025, Mr. Kishida, the CFO, and the CPO of Nidec headquarters decided on a policy to resolve "legacy liabilities" by recognizing a total of approximately 49.2 billion yen as structural reform expenses for the entire Nidec Group; this amount included an

218 The carrying amount used in the impairment test conducted in fiscal 2024 was approximately 10.1 billion yen, which was derived by applying adjustments based on the International Financial Reporting Standards (IFRS) to the carrying amount of approximately 14.6 billion yen related to the traction motor business.

219 This refers to the traction motor business.

220 200 million yen was included in the sales assumptions for fiscal 2025 with regard to Project B. (As of late February 2025, the loss of the contract had not yet been confirmed; it was confirmed in March of that year.) Production and sales for Project C were scheduled to begin in or after fiscal 2026, so sales for fiscal 2025 were projected to be 0 yen.

impairment loss on fixed assets related to the traction motor business. At the NKK meeting on March 24, 2025, Mr. Kishida proposed this policy to Mr. Nagamori and others; however, Mr. Nagamori argued that the resolution of "legacy liabilities" should be conducted through "self-funding," and he did not approve of resolving "legacy liabilities" separately.

(3) Status of Impairment Testing for Fixed Assets Related to Traction Motor Business

On March 25, 2025, after the decision by Nidec headquarters in the fourth quarter of fiscal 2024 not to account for "legacy liabilities" separately, the general manager of the Traction Business Unit and the general manager of the Business Accounting Department of the Traction Business Unit reported to the CFO and the CPO of Nidec headquarters about the policy for conducting impairment tests on fixed assets related to the traction motor business. In the report, under the heading "Impairment Avoidance Plan (Audit Firm Response)," Project A was classified as "order not yet received; quantity at risk," and Projects B and C were classified as "projects expressly deemed impossible by the sales department." However, these projects also were included in "sales assumptions" for fiscal 2025 through fiscal 2027, and their projected sales volumes and revenue figures were listed. Since no specific objections were raised by the CFO and CPO of Nidec headquarters, the general manager of the Business Accounting Department of the Traction Business Unit understood that it had been decided, as the policy of Nidec headquarters and the Traction Business Unit, to avoid the impairment of fixed assets related to the traction motor business by explaining a sales plan to PwC Japan that incorporated these projects that had a low likelihood of being realized.

On March 27, 2025, a meeting was held between PwC Japan, the general manager of the Business Accounting Department of the Traction Business Unit, and others regarding impairment testing of fixed assets related to the traction motor business. The explanatory materials provided to PwC Japan stated, with regard to the outlook for Project A from and after fiscal 2025, that "Vehicle sales (by the electric vehicle manufacturer, which is the customer in Project A) are uncertain," and "These conditions are expected to become clearer in April or later." However, the Traction Business Unit did not venture to explain that the likelihood of Project A being realized was low. It also did not dare to explain that Projects B and C already had been lost and therefore were impossible to realize, and that its Sales Department had determined that there was no prospect of receiving orders for them.

Subsequently, the Business Accounting Department of the Traction Business Unit prepared a sales plan that included Projects A, B, and C and submitted it to PwC Japan.

Ultimately, the Traction Business Unit explained to PwC Japan that it planned to set the sales targets for Project A at 8.9 billion yen in fiscal 2025 and 8.7 billion yen for fiscal 2026.[221] As a result, an impairment of fixed assets related to the traction motor business in fiscal 2024 was avoided.

Subsequently, Nidec recorded an impairment loss of approximately 6.6 billion yen on fixed assets related to its traction motor business in its consolidated financial statements for the first quarter of fiscal 2025, which it released on November 14, 2025. However, as stated above, despite the low likelihood of Project A being realized, as of fiscal 2024, the Traction Business Unit did not venture to inform PwC Japan. It also did not dare disclose that Project B already had been lost and that there was no rational basis for the sales plan for Project C. If an impairment test had been performed in fiscal 2024 that excluded the sales plans for these projects,[222] the fair value of fixed assets would have been determined to be approximately 1.4 billion yen, and it would have been acknowledged that an impairment loss of approximately 8.6 billion yen[223] should have been recorded.

11. Avoidance of Impairment of Fixed Assets Related to Inverter Business of Automotive Motor & Electronic Control Business Unit (AMEC) and Avoidance of Recognition of Provision for Contract Losses

The Committee's investigation discovered that the sales plan used as the basis for the impairment test for fixed assets related to the Automotive Motor & Electronic Control Business Unit's (AMEC) inverter business, carried out in connection with the financial settlement for fiscal 2024, included sales plans for products for which there was a mutual agreement with a customer for development to be discontinued, and as a result, it avoided recognizing an impairment loss on those fixed assets. The investigation also discovered that no provision for contract losses stemming from the discontinuation of development of those products had been recognized. In addition, no one dared to inform PwC Japan of the fact that development of those products had been discontinued.

Nidec Elesys Corporation ("**NESJ**")[224] entered into a project agreement with a customer in June

---

221 In addition, the Traction Business Unit explained to PwC Japan that it planned to set the sales targets for Project B at 0.2 billion yen in fiscal 2025 and 1.9 billion yen for fiscal 2026 and the sales targets for Project C at 0 yen for fiscal 2025 and 2.4 billion yen for fiscal 2026.

222 In addition to Projects A, B, and C, an impairment test was later performed, excluding the sales plans for another project that was confirmed lost in July 2025, as a revised subsequent event.

223 As stated above, the carrying amount that should have been used in the impairment test conducted in fiscal 2024 was approximately 10.1 billion yen, which is derived by applying adjustments based on the International Financial Reporting Standards (IFRS) to the carrying amount of approximately 14.6 billion yen related to the traction motor business. Therefore, the impairment loss amounts to the remaining balance of approximately 8.6 billion yen after deducting the fair value of approximately 1.4 billion yen from the carrying amount.

224 As stated in Part 2-2(2)B above, Nidec Mobility Corporation merged with Nidec Elesys Corporation effective April 1, 2025, and subsequently, on May 1, 2025, Nidec assumed the inverter business of Nidec Mobility Corporation.

2021 regarding the development and supply of a certain inverter product ("**Product A**," in this section) and another inverter product ("**Product B**," in this section). Product B could be manufactured on the same production line as Product A and was functionally backward compatible with it.

In December 2024, when both Product A and Product B were still under development, the customer requested that NESJ immediately halt development of Product B and focus exclusively on Product A for the following two reasons: first, NESJ failed to meet the target price the customer proposed, and second, NESJ had expressed concerns about whether it could develop both Product A and Product B simultaneously. This matter also was reported at the Executive Management Meeting held at Nidec headquarters in December 2024, and the Executive Management Meeting materials stated, with regard to Product B: "Price reduction request rejected" and "as a result, Product B is expected to have zero sales volume."

Then, in February 2025, a meeting was held between NESJ and the customer, and it was agreed to discontinue the development of Product B. The president of NESJ at that time shared the minutes of the meeting with the general manager of NESJ's accounting department via email.

In addition, Nidec headquarters Accounting Department personnel who were consulted by the general manager of NESJ's accounting department regarding the audit response were aware that there were no longer any sales volume projections for Product B at the time of the impairment test for fixed assets related to the inverter business in fiscal 2024. The personnel anticipated that it would be necessary to recognize an impairment loss for the fixed assets if the sales plan were formulated based on this fact.

In May 2025, the general manager of the Management Department of AMEC's Inverter Business Unit, which had taken over NESJ's inverter business (who is also the general manager of NESJ's accounting department, mentioned above) and the personnel in the Nidec headquarters Accounting Department established the following policy for discussions with PwC Japan: "Discuss matters on the assumption that Product B is still in production, use June 2024 figures for quantities and other metrics, and avoid any negative comments." Based on this policy, the general manager of the Management Department of AMEC's Inverter Business Unit and Nidec headquarters Accounting Department personnel explained to PwC Japan, with regard to the projected sales ratio between Product A and Product B, "On the basis of the ratio (Product A: 3 and Product B: 7), we allocate sales volume based on the contract volume by taking into account other factors at the time of planning in response to customer requests." They also submitted the profit and loss plan (a combined plan for Product A and B) that had been formulated in June 2024, before the cancellation of development of Product B. Based on that explanation, an impairment test was conducted, and as a result, an impairment loss on fixed assets related to the inverter business was avoided. Furthermore, although the discontinuation of development of Product B normally would have required recognition of a provision for contract losses,[225] as stated above, PwC Japan was not informed of the discontinuation of development of Product B, and, therefore, no provision for contract losses was recognized.

In this regard, Nidec headquarters Accounting Department personnel stated during the Committee interview that although they had been informed at the time of the impairment test that the projected sales volume for Product B was dwindling, they were concerned that if an impairment decision were made, AMEC employees would be forced to work around the clock to address the situation to meet performance targets, so to avoid this, they explained to PwC Japan that sales of Product B were expected to continue.

Subsequently, Nidec recorded an impairment loss on fixed assets of 24.3 billion yen and a provision for contract losses of 35.9 billion yen in connection with the development projects for Product A and Product B in its consolidated financial statements for the first quarter of fiscal 2025, which were released on November 14, 2025. However, under normal circumstances, Nidec should have recognized an impairment loss of approximately 21 billion yen on the full amount of fixed assets related to the development of Product A and Product B, and also should have recorded approximately 43 billion yen as a provision for contract losses, during the third quarter of fiscal 2024.

The increase in impairment losses on fixed assets during the first quarter of fiscal 2025, compared to the third quarter of fiscal 2024, is attributable to additional capital expenditures and development activities carried out during that period. In addition, the provision for contract losses of approximately 43 billion yen that should have been recorded during the third quarter of fiscal 2024 includes development costs expected to be incurred from the fourth quarter of fiscal 2024 through the first quarter of fiscal 2025.

12. Avoidance of Recognition of Gain on Bargain Purchase Related to Takisawa Machine Tool Co., Ltd. (NTKS) in Consolidated Financial Statements

(1) Overview of Situation

The Committee's investigation discovered that Nidec improperly avoided recognizing a gain on a bargain purchase in its consolidated financial statements relating to Takisawa Machine Tool Co., Ltd. (NTKS), which it acquired in fiscal 2023.

Under the International Financial Reporting Standards (IFRS), when acquiring a company, it is

---

[225] Under NIAP, if a company enters into an onerous contract (a contract in which the unavoidable costs of fulfilling the contractual obligations exceed the economic benefits expected to be received under the contract), it must recognize a provision for the obligations under that contract. Prior to such recognition, it must recognize any impairment loss of assets related to that contract. In this case, if the sales plan includes only Product A and it excludes Product B, a loss is anticipated; therefore, a provision for contract losses should have been recognized for the losses associated with the development and supply of Product A under the project contract with the customer.

necessary to revalue assets and liabilities at fair value for financial reporting purposes and to perform consolidated financial procedures to allocate Nidec's acquisition cost (purchase price) ("**PPA**," in this section). When Nidec performed the PPA in fiscal 2024, it recognized a significant valuation gain on land owned by Taiwan Takizawa Technology Co., Ltd., a Taiwanese subsidiary of NTKS ("**Land**," in this section). In this case, Nidec was required to assess the fair value of the Land and record a gain on the bargain purchase in its consolidated financial statements for fiscal 2023. However, Nidec arbitrarily excluded the Land from the assets subject to valuation and inappropriately avoided recording a gain on the bargain purchase of 3.34 billion yen.

(2) Background to Excluding Land from Assets Subject to Valuation for PPA

In November 2023, Nidec acquired 86.14% of the common stock of NTKS through a tender offer, and in February 2024, it made NTKS a wholly owned subsidiary through a stock consolidation. Nidec consolidated NTKS starting in the third quarter of fiscal 2023, and as provisional accounting treatment, it consolidated the Land and other assets at book value prior to performing a fair value evaluation. However, IFRS 3 requires that identifiable assets acquired in a business combination be measured at fair value as of the acquisition date and that such measurements be completed within one year of the acquisition, which means Nidec should have completed the PPA by November 2024.

On June 14, 2024, Nidec engaged an outside advisor to perform a valuation of the identifiable assets of NTKS that Nidec had acquired. The engagement agreement clearly stated that the Land was included in the assets to be valued.

On June 28, 2024, at the request of Nidec, the outside advisor sent a report specifying the appraised values of the assets subject to valuation as "preliminary figures currently being calculated." In response, Nidec headquarters Accounting Department personnel recognized that an appraisal gain of approximately 9.3 billion yen could arise due to the Land and that, as a result, significant retroactive adjustments to certain items, such as the operating profit in Nidec's consolidated financial statements for fiscal 2023, would be required.

On this topic, Nidec headquarters Accounting Department personnel stated during the Committee interview: "For the current fiscal year 2024, our goal was to achieve record-high operating profit in the second half. If a retroactive adjustment were to cause the operating profit for fiscal 2023 to surpass the previous record, it would raise the bar for achieving our target, so we wanted to avoid the retroactive adjustment." They also stated, "We also wanted to avoid the retroactive adjustment because an increase in book value would reduce profits upon future sale." Nidec headquarters Accounting Department personnel examined whether there were ways to lower the valuation of the Land or to avoid the retroactive adjustment to the consolidated financial statements, and they consulted with outside advisors. The outside advisors responded that it would be difficult to avoid the retroactive adjustment.

On September 20, 2024, the CFO, Accounting Department managers and Accounting Department personnel at Nidec headquarters held a meeting to discuss the policy to address the appraisal gain on the Land.[226] During this meeting, an Excel spreadsheet prepared by Accounting Department personnel was used. This spreadsheet contained two worksheets for the scenarios of (i) the Land being included in the PPA and (ii) the Land being excluded from the PPA. Each worksheet detailed the financial impact on Nidec's consolidated financial statements for fiscal 2023 under the relevant scenario. The Accounting Department's personnel explained to the Nidec headquarters' CFO that, due to retroactive adjustments in scenario (i) above, both full-year and quarterly operating profits for fiscal 2023 would reach record highs, whereas in scenario (ii) above, those operating profits would not reach record highs. Following this meeting, the decision was made to exclude the Land from the scope of the PPA.

In this regard, during the Committee interview, the Nidec headquarters CFO stated that he felt uneasy about the fact that the retroactive adjustment resulting from the PPA would cause the operating profit for fiscal 2023 to reach a record high and that he had hoped to avoid this if possible. However, he also stated that while he was not well-versed in the IFRS rules relating to PPAs, he believed that since the Accounting Department's personnel, who were experts, had presented the option of scenario (ii) above as well, selecting it would not violate accounting rules.

Subsequently, the Nidec headquarters Accounting Department managers and personnel instructed the outside advisor to prepare a fair value appraisal report covering only movable assets. This excluded the valuation of real estate, such as the Land. Following these instructions, a fair value appraisal report provided by the external advisor, which covered only movable assets, was submitted to PwC Japan, and real estate, such as the Land, was excluded from the PPA. For the financial results for the second quarter of fiscal 2024, they revised the consolidated accounting treatment that had been applied as a provisional accounting measure during the third quarter of fiscal 2023.

The Nidec headquarters Accounting Department managers and personnel believed that if they informed PwC Japan that a significant appraisal gain had been identified for the Land, they would be forced to make retroactive adjustments. Consequently, they did not inform PwC Japan, either when submitting the aforementioned report or at any time thereafter, that a significant appraisal gain had been identified for the Land or that the real estate, including the Land, had been excluded from the scope of the PPA.

---

226 Even in the most recent report, which had been updated with the latest provisional figures sent by the external advisor shortly before that meeting, an appraised gain of approximately 8.75 billion yen was still identified for the Land.

(3) Assessment of This Case

As stated above, IFRS 3 requires that identifiable assets acquired in a business combination be measured at their fair value, as of the acquisition date. Therefore, at least for assets such as the Land, where a significant difference between the carrying amount and the fair value is expected, it is necessary to calculate its fair value as an asset subject to the PPA and reflect it in the consolidated financial statements for fiscal 2023.

Nevertheless, in order to avoid retroactive adjustments to the consolidated financial statements for fiscal 2023, the Accounting Department at Nidec headquarters arbitrarily excluded the Land from the assets subject to valuation under the PPA, thereby avoiding the recognition of a gain on a bargain purchase that totaled 3.34 billion yen.

13. Other Issues Identified (Regarding Note on Contingent Liabilities Related to Claims for Indemnification from Suppliers)

As a result of the Committee's investigation, it was discovered that Nidec PSA eMotors SAS ("**NPe**"),[227] a subsidiary of the Motion & Energy Business Unit (MOEN), failed to disclose contingent liabilities in a note to its consolidated financial statements for fiscal 2024 regarding claims for indemnification from suppliers, as was required. Although this issue cannot be classified as improper accounting, it reveals issues with Nidec's internal controls over financial reporting and therefore is addressed in this report.

(1) Status of Claims for Indemnification From Suppliers and Related Accounting Treatment

The contract ("**Contract**," in this section) entered into by NPe with a specific major supplier ("**Supplier**," in this section) stated that if NPe's annual order volume fell below 50% of the predetermined order volume (the estimated demand), the Supplier could terminate the Contract and would be entitled to claim specified compensation from NPe.

After execution of the Contract, starting in 2023, the first contract year, NPe's annual order volume fell below 50% of the estimated demand, and as of early October 2024, it was expected that the annual order volume for that year would fall far short of 50% of the estimated demand. Then on the tenth of that month, the Supplier gave NPe a notice of termination of the Contract, based on the reasons that the annual order volume for 2023 had fallen below 50% of the estimated demand and that it was certain the annual order volume for 2024 also would fall below 50% of the estimated demand. The Supplier

[227] This is a joint venture between Nidec Leroy-Somer Holding and its customer.

also requested that a Steering Committee Meeting be convened.[228] At the Steering Committee Meeting held on the 29th of that month, the Supplier requested 465.3 million U.S. dollars in compensation from NPe, pursuant to the Contract.

In response, NPe tried to negotiate with the Supplier to avoid paying the compensation by placing an additional order with the Supplier as of November 28, 2024 with a delivery date set for late February 2025 to ensure that the order volume for 2024 would account for at least 50% of the estimated demand. However, the Supplier rejected this proposal, and they failed to reach an agreement ("**Indemnification Issue**," in this section).

On November 1, 2025, after approximately one year of negotiations, NPe and the Supplier entered into a settlement agreement ("**Settlement Agreement**," in this section) in which NPe agreed to pay the Supplier a total of 137 million euros[229] as compensation and for other expenses. After execution of the Settlement Agreement, Nidec recognized a liability of 19,001 million yen as a revised subsequent event in its consolidated financial statements for the first quarter of fiscal 2025, which were released on November 14, 2025.

(2) Omission of Note on Contingent Liabilities

In October 2024, when NPe received a notice from the Supplier regarding the termination of the Contract, it contested the Supplier's claims and continued negotiations with the goal of avoiding indemnification. NPe also evaluated the amount of compensation proposed by the Supplier as extremely high and unrealistic, and believed it was highly likely to fluctuate significantly depending on the outcome of the negotiations. Therefore, NPe did not record a provision on the contingent liabilities, arguing that it was difficult to calculate the reasonable amount of the provision until the execution of the Settlement Agreement. While it cannot be said that this judgment was unreasonable, given that the Supplier had claimed compensation of 465.3 million U.S. dollars in October 2024, we believe that, at the very least, Nidec should have included a note on contingent liabilities in its consolidated financial statements for fiscal 2024.

There was no evidence that MOEN, to which NPe belongs, or Nidec headquarters had considered the necessity for such a note. In addition, while the Nidec Group has established a system whereby subsidiaries were required to list pending litigation in their consolidated financial reporting packages and report them to Nidec headquarters on a quarterly basis, the Indemnification Issue was not included

[228] This is a committee established pursuant to the Contract for the purpose of supporting the performance of obligations under the Contract, the amicable resolution of disputes, etc. The committee is comprised of representatives selected by NPe and the Supplier.

[229] However, due to price revisions for the products that occurred prior to execution of the Settlement Agreement, the actual payment amount was 116 million euros.

in NPe's reporting package. Consequently, until the settlement was reached on November 1, 2025, Nidec headquarters did not review the impact of the Indemnification Issue on financial figures, including the need to record a provision, and it failed to report this to PwC Japan.

It is believed that the failure to include information about the Indemnification Issue in the reporting package stemmed from several factors, including the fact that Nidec had not provided NPe with a systematic explanation or adequate notification regarding the reporting package, a lack of integration between NPe's accounting system and Nidec's accounting system for consolidated settlements, and issues such as the vulnerabilities in NPe's personnel structure and the lack of knowledge and understanding among local staff.

Part 7. Amount of Impact on Consolidated Financial Statements

1. Overview

As stated in Section I, Part 4-4 above, the Committee conducted an investigation to determine whether there were any other issues involving similar schemes, through (1) examination of relevant documents, (2) investigative interviews, (3) forensic investigations, (4) questionnaire surveys, (5) establishment of a special hotline, and (6) a review of self-inspections.

In this section, we explain the provisionally calculated amount of the impact on the Nidec Group's consolidated net assets as of the end of the first quarter of fiscal 2025, based on information available to the Committee at the time of submission of this report and broken down by issue and segment. (The final investigation report is scheduled to include the amount of the impact by fiscal year.) It should be noted that the figures may be refined through future investigative procedures, or new matters may be discovered, and accordingly the amounts presented in this section are subject to change in the final investigation report.

The following points should be noted with regard to calculation of the amount of the impact reported in this section:

- The amount of the impact included in this section comprises not only the impacts identified through the Committee's investigation but also those identified through the Nidec Group's self-inspection, as described in Section I, Part 4-4(6) above. With regard to each item discovered during the self-inspection process, numerous cases were identified in which misconduct[230] and errors[231] were intermingled. Since it was difficult to distinguish between them strictly when aggregating the impact amounts, they were aggregated together without distinction ("**Improper Accounting**" in this section).

- Even where corrections relate to corporate income taxes, deferred tax accounting, goodwill, or the impairment of fixed assets, those corrections were included in the amount of the impact reported in this section if the corrections themselves were suspected of constituting Improper Accounting. For example, the impairment of idle tangible fixed assets, which does not constitute a derivative issue, was included in the amount of the impact reported in this section. On the other hand, the amount of the impact arising from derivative issues, such as the impact on corporate income taxes that require revision as a result of corrections relating to Improper Accounting, the application of deferred tax accounting, or the review of impairments of goodwill and fixed assets, were not taken into account.
- The amount of the impact by segment was aggregated based on the segment disclosure categories as of the end of the first quarter of fiscal 2025. While there are situations in which sites that gave rise to an impact belong to multiple segments, the amount of the impact reported in this section was aggregated separately, by segment, to the extent practicable.

2. Amount of Impact by Issue and Overview of Improper Accounting

The amount of the impact on net assets, by issue, in the consolidated financial statements as of the end of the first quarter of fiscal 2025 are summarized as follows.

(Unit: 100 million yen)

Issue	Amount of Impact
(1) Inventory	
Avoidance of recognition of write-downs	(160)
Overstatement of inventory	(93)
Other	(31)
(2) Fixed assets	

[230] As stated above, this refers to intentional acts by management, directors, auditors, etc., employees, or third parties that involve deceiving others to obtain unjust or unlawful gains (ASCS 240, Misconduct in an Audit of Financial Statements, paragraph 10).

[231] As stated above, this refers to the cause of misstatements in financial statements other than misconduct. ASCS 240, Misconduct in an Audit of Financial Statements, paragraph 2 states, "Misstatements in financial statements can arise from either misconduct or error. The distinguishing factor between misconduct and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.."

Avoidance of impairment	(493)
Capitalization of expenses	(196)
Other	(12)
(3) Provisions and liabilities	
Understatement of provisions and liabilities	(152)
Other	(31)
(4) Accounts receivable	
Overstatement of accounts receivable (recording of fictitious sales; early recognition of sales)	(95)
Understatement of allowance for doubtful accounts	(37)
Other	(22)
(5) Other	
Other	(75)
Total	(1,397)

The following is an overview of Improper Accounting identified through the investigation, presented by issue. This overview includes matters that occurred prior to the first quarter of fiscal 2025 that already had been resolved, and therefore did not affect the net assets reported in the consolidated financial statements as of the end of the first quarter of fiscal 2025.

(1) Inventory

a. Avoidance of Recognition of Write-downs

With regard to the avoidance of recognition of write-downs, in addition to the incident discovered at Nidec OKK Corporation (NOKJ), as described in Part 6-6 above, where write-downs were not recognized for inventory with no asset value, thereby avoiding expense recognition, the following cases of Improper Accounting also were identified:

- In situations in which a project was discontinued or production prospects were lost, inventory write-downs were not recognized, even though the prospects for sale had significantly diminished, on the basis that the company was still evaluating the possibility of sale or alternative uses.
- With regard to defective products arising during the manufacturing process, the fact that the products constituted bad inventory was intentionally concealed, despite being recognized as such. In addition, since inventory under quality inspection is not subject to write-downs, the reporting

of quality inspection results was delayed intentionally and the products were categorized to be still under inspection. Thereby recognizing write-downs was avoided.

- Long-term inventory was transferred within the same business group to make it appear as though the inventory was moving. The fact that the inventory was slow-moving was concealed, and recognition of write-downs was avoided.
- In carrying out individual valuations of long-term inventory, the valuation of inventory was not reflected appropriately because perpetual inventory records were not maintained properly, making it impossible to identify the dates of receipt and shipment of inventory.

b. Overstatements

With regard to the overstatement of inventory, in addition to the situation discovered at Nidec Drive Technology Corporation (NDTC), as described in Part 6-3 above, where the company failed to amortize Cost Variances allocated to inventory or understated the amount of Cost Variances that were required to be amortized, the following cases of Improper Accounting also were identified:

- By inflating the quantity of products in process, fictitious products in process were recorded, thereby intentionally understating the cost of sales.
- When the physical inventory count revealed a balance lower than the book balance, the inventory difference was underreported intentionally, to avoid recognizing inventory shrinkage losses.
- Costs corresponding to sales remained recorded as products in process, and expenses that should have been recorded as sales costs were not recorded.
- Under the International Financial Reporting Standards (IFRS), while it may be appropriate in certain conditions to include non-manufacturing overhead and product design costs incurred for specific customers in inventory, production preparation costs and other expenses that were deemed inappropriate for inclusion in inventory intentionally were recognized as inventory to defer the timing of expense recognition.
- When spare parts removed from old equipment were repaired, they were capitalized excessively, by using the market replacement cost, which was higher than the actual repair cost, as the valuation basis, instead of capitalizing them at the actual repair cost.
- Write-downs on inventory for which write-downs already had been recognized were reversed, either by falsely claiming that the inventory, which already had been disposed of and therefore was fictitious, was being repurposed or reused, or in the absence of any clear and reasonable evidence.
- With regard to contract development work-in-progress, although depreciation expenses were recorded based on estimated sales volume, the estimates were not revised in a timely manner to

reflect a decline in that volume, and as a result, depreciation expenses were intentionally understated.

c. Other

In addition to the situation discovered at Nidec Techno Motor (Zhejiang) Co., Ltd. (NTMZ), as discussed in Part 6-8 above, where the company received "special cooperation funds" from suppliers on the premise that those funds would be repaid in the future, but failed to recognize the corresponding liability and recorded a reduction in the cost of sales equal to the amount of those funds, thereby overstating profits, the following cases of Improper Accounting also were identified:

- With regard to a transaction with a supplier carried out pursuant to an agreement that the purchase price would be reduced in advance and the reduced amount would be repaid by adding it to the purchase price in the following month or thereafter, although the cost of sales should not have been reduced at the time the purchase price was reduced, a reduction in cost of sales was recognized.
- With regard to the purchase of raw materials, on the pretext of preparing for an early settlement of accounts, the recognition of accounts payable was suspended intentionally at a specific point in time prior to the fiscal year-end, thereby understating expenses relating to purchases.
- With respect to insurance claims for losses to inventory resulting from accidents, the relevant losses to inventory were not recognized, on the grounds that receipt of the insurance proceeds was virtually certain, even though there was no documentation, such as a written agreement with the insurance company regarding the amount of the insurance proceeds.

(2) Fixed Assets

a. Avoidance of Impairment

With regard to the avoidance of impairment, in addition to the situation discovered at the traction motor business of the Automotive Motor & Electronic Control Business Unit (AMEC), as stated in Part 6-10 above, in which impairment was avoided by including projects with a low probability of being realized in the sales plan used as the basis for impairment test of fixed assets, the situation discovered at Nidec Instruments Corporation (NIST), as described in Part 6-5, in which impairment losses were not recorded despite the continuing non-use of company housing, and the situation discovered at Nidec Copal Corporation (NCPL), as stated in Part 6-1 above, in which false explanations were provided regarding fixed assets that were difficult to repurpose to avoid recognizing impairment losses, and the timing of expense recognition was deferred by methods that included expensing those assets through depreciation, the following cases of Improper Accounting also were identified:

- With regard to fixed assets that had become idle, recognition of impairment losses was avoided either by concealing the fact that the relevant assets were idle or by failing to actively identify those assets as idle.
- With regard to assets that had been capitalized as development costs in connection with a specific project, despite the fact that a letter terminating the project contract had been received from the customer, impairment losses were not recognized and those assets remained capitalized.
- With regard to development costs, despite the fact that the project had become unlikely to be realized after the development costs were capitalized, impairment losses were not recognized and the development costs remained capitalized.
- With regard to development costs, impairment tests were conducted, with the development costs included in the cash-generating unit of a new product that was clearly identified as a separate cash-generating unit so that the recognition of impairment losses related to the development costs were avoided.
- With regard to fixed assets for which impairment losses already had been recognized, a reversal of those impairment losses was recorded after re-selling those fixed assets within the Group for purposes of reuse; however, those fixed assets subsequently were determined to be difficult to utilize within a short period of time, and as a result, the reversal of the impairment losses was inappropriate.

b. Capitalization of Expenses

The following cases of Improper Accounting were identified with regard to the capitalization of expenses:

- Expenses incurred as labor costs and repair costs that were not appropriate for capitalization as incidental costs were recognized as fixed assets and expensed through depreciation, thereby deferring the timing of expense recognition.
- Expenses for quality improvement activities and research and development that had been deemed not to contribute to future economic benefits were capitalized intentionally, thereby deferring the timing of expense recognition.

c. Other

In addition to the situation described in Part 6-12 above, in which, during acquisition of NTKS, land with significant valuation gain arbitrarily was excluded from the assets subject to valuation in the course of revaluing assets and liabilities at fair value for financial reporting purposes, thereby avoiding the recognition of a gain on a bargain purchase, the following cases of the Improper Accounting were identified:

- Fixed assets were transferred from the construction-in-progress account to the main account upon completion of payment rather than upon acceptance, thereby delaying the commencement of recognition of depreciation expenses.
- For fixed assets constructed on land leased under a fixed-term lease agreement, a useful life was set that exceeded the term of the lease, thereby intentionally understating depreciation expenses.
- When manufacturing equipment was sold to multiple suppliers that manufacture Nidec products, the equipment was sold at prices exceeding their book value, and gains were recognized on the sale of the equipment. At the same time, memoranda of understanding were executed, pursuant to which returning amounts equivalent to the relevant gains through markups to the unit processing fees was undertook, and thereafter, the amounts equivalent to the gains were returned through markups to the unit processing fees.

(3) Provisions and Liabilities (Understatement of Provisions and Liabilities)

With regard to the understatement of provisions and liabilities, in addition to the case discovered at the inverter business of the Automotive Motor & Electronic Control Business Unit (AMEC), as described in Part 6-11, in which the sales plan used as the basis for impairment test of fixed assets included sales plans for projects for which development had been mutually agreed to be discontinued with customers, thereby avoiding the recognition of impairment losses on fixed assets and also resulting in the failure to recognize provisions for contract losses arising from discontinuation of development of the relevant products, and the situation described in Part 6-7 above, in which, during the preparation of Nidec's consolidated financial statements, provisions related to the repayment of Government Grants that had been recorded by a subsidiary in its non-consolidated financial statements were improperly reversed and included in the consolidated financial statements, the following cases of Improper Accounting were identified:

- Despite the fact that a claim for indemnification had been made by a supplier due to failure to meet the purchase volume agreed upon in the contract, the recognition of a provision was intentionally deferred.

- Although a contract was entered into with a customer pursuant to which the company would bear a portion of the expenses for market quality improvement activities carried out by the customer, the recognition of those expenses was deferred by recording them at the time of actual payment, based on invoices received from the customer, rather than at the time the amount of the company's share was determined by agreement with the customer.
- Despite the fact that, following negotiations with a customer regarding a claim for indemnification in connection with quality defect filed by the customer, the likelihood of a settlement payment had increased, the recognition of a provision was deferred, or despite the fact that the company was aware of a claim for indemnification filed by the customer, the recognition of a provision was deferred.
- A provision was not recognized for future expenses expected to be borne by the company in connection with returns, exchanges, and claims for indemnification arising from defects in products already sold.
- The costs of sales and accounts payable were reduced with respect to losses incurred as a result of anti-dumping measures imposed on suppliers, even though an agreement had not yet been reached for the suppliers to bear the company's losses.

(4) Accounts Receivable

a. Overstatement of Accounts Receivable (Recording of Fictitious Sales, Early Recognition of Sales)

With regard to the recognition of fictitious sales and the early recognition of sales, in addition to the case discovered at the Appliance, Commercial & Industrial Motor Business Unit (ACIM), described in Part 6-2 above, in which the unit issued additional invoices to customers and recognized the invoiced amounts as sales while simultaneously notifying the customers separately that the amounts would be deducted from future invoices or that amounts equal to the invoiced amounts would be paid to them as rebates, thereby effectively constituting a promise to return amounts equal to the full invoiced amounts to the customers, and the situation discovered at the Country X Subsidiary, described in Part 6-4 above, in which grants that by their nature should not have been recognized as profit were falsely represented and recorded as profit, the following cases of Improper Accounting were identified:

- Although order forms and product storage engagement letters were exchanged with customers, sales were recognized despite the absence of any custody of products on behalf of the customers.
- In transactions in which sales were recognized for goods stored in warehouses and not yet shipped,

sales were recognized despite the absence of substantive characteristics of bill-and-hold sales, for example, situations in which payments from the customer had been deferred, the delivery schedule to the customer was unclear, or no invoices were issued to the customer for storage costs.

- Sales from safety stock held at an outside warehouse to ensure the customer's stable operations were recognized at the time of receipt at the warehouse, rather than at the time of shipment from the warehouse.
- Sales were recognized based on the issuance of invoices and other documents despite the absence of any payment agreement with the customer.
- Sales were recognized for the portion of rising material costs passed on to customers, despite the fact that no payment agreements had been reached with the customers and it was not an appropriate time to recognize sales.
- Sales were recognized for customers' share of inspection costs, despite the fact that no payment agreement had been reached with the customers and it was not an appropriate time to recognize sales.
- Sales were recognized for amounts subject to compensation due to a decline in customer orders, despite the fact that no agreement with the customer had been reached and it was not an appropriate time to recognize that compensation for sales.
- Sales were recognized even though products could not be delivered to a customer due to the failure to meet the customer-specified acceptance criteria or due to logistical constraints.
- Sales were recognized even though the performance obligation arising from the transfer of control over the assets had not been fulfilled, for example, in cases in which, with respect to sales contracts, the company retained responsibility for accepting orders and selling to end customers to whom the purchasers subsequently would resell the products.
- Sales were recognized on transactions in which products were sold to end customers through intermediaries, despite the fact that, even after entering into sales contracts with the intermediaries, the company continued to bear responsibility for accepting orders from and selling the products to end customers, and that the performance obligation arising from the transfer of control over the assets had not been fulfilled.
- Sales were recognized for transactions with trading companies in which products were sold to end customers through the trading companies, despite the fact that the products remained stored at the company's own factory and there existed a certain possibility that the transactions could be canceled if the trading companies failed to secure end customers.
- In sales transactions with distribution intermediaries that did not bear inventory risk or the risk of non-payment of debts associated with the transactions, sales should have been recognized at the time the downstream parties beyond the distribution intermediaries performed the acceptance inspection relating to transfer of risk; however, sales were recognized at the time of shipment to

the distribution intermediaries.

- Service revenue was recognized even though no services were provided pursuant to a technical support contract under which services were to be provided.
- Sales were recognized at the time special cooperation funds were received from customers, despite the fact that those funds had to be repaid in the future.
- In cases where customers made claims for indemnification on the grounds that the company failed to satisfy its performance obligations due to product quality defects, the company did not reverse the recognized sales at the time those claims were made, despite the fact that it should have done so.
- Although the consideration in transactions with customers was subject to potential variability, sales were recognized by adding a clearly excessive amount to the estimate of variable consideration.
- In cases where accounts receivable were recognized at provisional unit prices based on assumption of future negotiations with customers, timely revisions were not made to reflect the subsequent status of negotiations with the customer. As a result, despite the fact that the accounts receivable remained outstanding for an extended period, the company failed to revise the recognized sales appropriately.

b. Understatement of Allowance for Doubtful Accounts

The following cases of Improper Accounting were identified in connection with the understatement of the allowance for doubtful accounts:

- Although the company was aware that the collection of receivables had been delayed for an extended period, it failed to recognize an appropriate allowance for doubtful accounts.
- When the scheduled collection date was changed through negotiations with a customer, the company, using the system, deleted the original scheduled collection date and did not record the update thereto, thereby leaving only the new scheduled collection date on record. As a result, the receivable was made to appear, as a matter of form, not to be one for which an allowance for doubtful accounts should be recognized, and consequently, no such allowance was recognized.

3. Amount of Impact by Segment

The following summarizes the amount of the impact of each segment on net assets in the consolidated financial statements as of the end of the first quarter of fiscal 2025:

(Unit: 100 million yen)

Segment	Amount of Impact
1. Small Platform Motor & Solutions Business Unit (SPMS)	(13)
2. Automotive Motor & Electronic Control Business Unit (AMEC)	(574)
3. Motion & Energy Business Unit (MOEN)	(86)
4. Appliance, Commercial & Industrial Motor Business Unit (ACIM)	(152)
5. Machinery and Automation Business Unit	(172)
6. Group Companies Business	(393)
Other	(7)
Total	(1,397)

Part 8. Circumstances Under Which "Legacy Liabilities" Were Incurred and Accumulated, as Well as Efforts to Resolve Them

As disclosed by Nidec, the Committee was established following the discovery, in a prior internal investigation, of multiple documents suggesting that the timing of write-downs for certain assets with risks in terms of their asset value had been examined in an arbitrary manner. These "assets with risk in terms of their asset value" were assets that had accumulated as a result of actions taken to meet performance targets, such as avoiding asset impairments. At Nidec, these assets are referred to as "legacy liabilities," and efforts to resolve them had been undertaken intermittently in the past.

While a significant portion of the "legacy liabilities" would not be assessed as misconduct immediately, some of the "legacy liabilities" included "legacy liabilities" generated via accounting treatments that normally would not be permitted, as well as "legacy liabilities" that should have been disposed of in the past. The improper accounting recently discovered can be characterized as misconduct that occurred in the course of incurring and accumulating "legacy liabilities" at Nidec.

A typical example of the circumstances under which "legacy liabilities" were incurred and accumulated was described in Part 6-1 above, in the discussion of the improper accounting that occurred at Nidec Precision Corporation (NPCJ). This section further explains how these "legacy liabilities" were incurred and accumulated, as well as the efforts that Nidec has undertaken to resolve them.

1. Circumstances Under Which "Legacy Liabilities" Were Incurred and Accumulated

As the end of the quarter and the fiscal year approached, a number of business units and domestic group companies that had not met their performance targets sought to achieve those targets through accounting treatment, such as the early recognition of sales, the avoidance or revision of inventory write-downs and impairment losses on fixed assets, changes in asset valuation methods, and the capitalization of costs. In addition, at times the CFO and Accounting Department at Nidec headquarters took the lead in implementing this accounting treatment in order to achieve group-wide performance targets. However, some of this accounting treatment exceeded the range of accounting treatment generally considered permissible.

Even if an asset temporarily avoided a write-down or impairment loss, unless there was a subsequent change in circumstances, such as a recovery in business performance, it became necessary to continue examining whether a write-down or impairment was required for the relevant asset. However, the processing of those assets would entail the recognition of losses, and in an environment in which performance targets were regarded as non-negotiable, business units and domestic group companies that had not met those targets tended to defer the relevant processing, which resulted in the accumulation of these assets.

Assets with questionable asset value that were accumulated without being disposed of appropriately were referred to as "legacy liabilities." Moreover, among these accumulated "legacy liabilities" were assets that should have been disposed of in the past.

The Committee's forensic investigation also uncovered numerous emails suggesting that some business units and domestic group companies were in positions in which they were unable to dispose of "legacy liabilities" that they originally planned to dispose of in order to achieve performance targets. Illustrative examples are provided below:

> Given the extremely challenging profit outlook for Q1, we have no choice but to minimize the disposition of "legacy liabilities."
>
> We received your current estimates of dispositions, as attached, but please review them with a view to limiting the dispositions to the minimum necessary. Please enter the revised estimates in Column Z and return the document to us.

> As you have heard in today's Executive Management Meeting, we are in a situation in which profits must be generated by any means necessary. We also have been instructed to reduce the disposition of "legacy liabilities" to zero; accordingly, please make the necessary closing adjustments for Q3 toward zeroing out that disposition.

Some business units and domestic group companies were prepared to accept that they might fail to meet their performance targets, but they nevertheless chose to proceed with the disposition of "legacy liabilities." However, even when these business units or group companies submitted proposals to dispose of “legacy liabilities,” their proposals sometimes were rejected by Nidec headquarters’ management executives on the grounds that doing so would prevent the companies from meeting their performance targets.

For example, as a result of the Committee’s investigation, it was discovered that at Nidec Precision Corporation (NPCJ) (formerly Nidec Copal Corporation (NCPL)), the existence of “legacy liabilities” had emerged as an issue from a relatively earlier period, yet the company remained unable to dispose of them immediately. A former employee who served as NPCJ’s CFO from October 2012 to December 2014 stated during an interview with the Committee that shortly after assuming the role of CFO, he was consulted by another employee about improper accounting. Upon investigating the matter, he discovered that there were “legacy liabilities” with a total impact on profit and loss of approximately 10 billion yen across NPCJ’s various business units. These “legacy liabilities” were assets generated through improper accounting, such as the improper avoidance of impairment and the inappropriate capitalization of expenses. The aforementioned former employee stated that misconduct, such as capitalizing empty cardboard boxes, also had taken place. (When PwC Kyoto attended physical inventory counts, they were not taken to the warehouse where the empty cardboard boxes were stored.)

In early December 2012, the former employee reported the details of the confirmed improper accounting to Nidec’s management executives, beginning with Mr. Nagamori. An audit was subsequently conducted by the Corporate Administration & Internal Audit Department (in which Mr. A also participated), and it was decided that the “legacy liabilities” would be disposed of during the third and fourth quarters of fiscal 2012; however, only a portion of the identified “legacy liabilities” actually were disposed of. During the interview with the Committee, the former employee stated, “I don’t clearly recall whether it was the Nidec headquarters CFO or the Executive Officer Responsible for Group Companies, but I was told that, given the impact on Nidec’s consolidated financial results, it would not be possible to dispose of everything.” According to documents from that time that were discovered during the investigation, the amount of “legacy liabilities” disposed of during the third and fourth quarters of fiscal 2012 was approximately 5.5 billion yen, and it is surmised that the disposition of the remaining “legacy liabilities” was carried over to the following fiscal year. Documents dated at the end of September 2013 indicate that the outstanding balance of NPCJ’s “legacy liabilities” (the amount of the outstanding “legacy liabilities” to be disposed of) was approximately 3.5 billion yen.[232]

In addition, the Committee’s investigation identified a case involving a subsidiary of the Appliance, Commercial & Industrial Motor Business Unit (ACIM), in which it was discovered that a fictitious

[232] In the financial results announcement for the third quarter of fiscal 2012, Nidec revised its full-year earnings forecast downward, stating the following reasons: “Sales declined due to a sharp contraction in the Chinese market from the latter half of the third quarter. Operating profit also decreased due to the sharp drop in sales, in addition to increased fixed costs associated with a significant expansion of R&D and manufacturing for future growth,” and “We are promoting structural reforms to further strengthen our earnings base,” but it made no mention of the disposition of “legacy liabilities.”

inventory overage had been recorded during the first half of fiscal 2019 due to data entry errors in the system, and the executive general manager of the business unit was preparing a report to Mr. Nagamori to correct the fictitious inventory overage in consultation with the Accounting Department of Nidec headquarters; at that point, the Nidec headquarters' CFO requested that the losses that would be recorded as a result of the correction be recovered during the second half of fiscal 2019. However, the consent of the foreign CEO and CFO of the global appliance (GA) business, which was the platform overseeing that subsidiary, to recover the losses during the second half of fiscal 2019 was not be able to obtained. Under these circumstances, the general manager of the Accounting Department of Nidec headquarters, without the consent of the executive general manager of the business unit of ACIM, added a handwritten note to the consultation document addressed to Mr. Nagamori that stated, in the name of the executive general manager of the business unit: "Regarding the shortfall of 7 million euros in the first half of fiscal 2019 caused by the disposition of "legacy liabilities" from previous fiscal years, we intend to recover this amount across the entire ACIM from and after Q3." This was done to obtain the approval of Mr. Nagamori. During the interview with the Committee, the then-general manager of the Accounting Department stated, "While fictitious inventory overages must be addressed immediately, Mr. Nagamori never would have approved recognition of the losses without the promise to recover the recorded losses; instead, he would have pressed me, saying, 'Were the internal reports on past performance false? What on earth have you been doing?' Therefore, with no time to spare before the financial results were announced, I decided to use the name of the executive general manager of the business unit to promise recovery during the second half."

As a matter of course, the determination of write-downs or impairment depends on factors such as how business prospects are assessed and how the potential for asset repurposing is evaluated; accordingly, there is no single correct answer, and a certain range of judgment exists. Executives of the business units and domestic group companies stated that, under performance pressure, they engaged in "aggressive" accounting treatment within the bounds of what is permitted by accounting standards. However, it goes without saying that even if accounting treatment is "aggressive," the relevant decisions must be based on reasonable grounds. Since the starting point for the "aggressive" accounting treatment adopted by the Nidec Group was not how to reflect the company's financial condition accurately, but instead whether there were accounting measures that could be used to generate operating profits, the CFO and others often struggled to explain the reasonable grounds for this accounting treatment to the accounting auditors.

During the forensic investigation conducted by the Committee, numerous emails were discovered that clearly demonstrate how the executives and general managers of the accounting departments at business units and domestic group companies struggled over how to explain the rationality of accounting treatment to the accounting auditors during each reporting period.

Examples are as follows:

An email sent by the executive vice president of a subsidiary in the Automotive Motor & Electronic Control Business Unit (AMEC) to AMEC's CFO

> During the conference call earlier with Mr. ●● B, Mr. ▲▲ K, and Mr. ■■, we were instructed to explain to PwC that the 15 million yuan of safety stock can be recognized as sales, and to obtain the approval of PwC.
>
> However, my understanding is that "although the goods have been delivered to the customer and we have a receipt, the customer has not yet inspected them, and therefore the goods cannot be recognized as sales," (i.e., recognition based on delivery or arrival is not permitted). Accordingly, as I do not know of any precedents or grounds under which safety stock may be recognized as sales, I am unable to explain this to PwC.

Below is an email sent by the general manager of the accounting department at a subsidiary of a domestic group company to the general manager of the Accounting Department at Nidec headquarters.

> As discussed during our conference call, I believe that the issue that will be raised by our accountant regarding inventory (raw materials) that has been held for more than one year is the basis on which it can be concluded that no impairment loss should be recognized.
>
> Currently, we are struggling because we do not have a solution for this issue.

Furthermore, as exemplified by the instances of improper accounting discovered during the Committee's investigation, in many cases no one dared to share with PwC Kyoto facts that were critical to assessing the reasonableness of accounting treatment or the explanations provided did not reflect the facts.

As such, it is not hard to imagine that each time a reporting period approached, the executives of business units and group companies faced significant stress, as they repeatedly had to devise methods of accounting treatment to generate operating profits and, with difficulty, explain the rationale for that treatment to the accounting auditors. During the interview with the Committee, one of Nidec's former executive officers stated, "CFOs at companies that failed to meet performance targets either would be held accountable for the shortfall and fired, resign voluntarily because they could not withstand the pressure, or engage in misconduct and get caught, leading to their dismissal—in any case, they would leave Nidec." In fact, CFOs and general managers of the accounting departments at domestic group companies were replaced frequently.[233]

The following is an excerpt from an email sent by the CFO of a domestic group company to the Executive Officer Responsible for Group Companies at the time of his resignation:

> Until now, I have been struggling internally and pushing myself to the limit just to make it to work, but my mind and body can no longer allow me to go to the office… I am truly sorry.
>
> [Omitted]
>
> I imagine that general managers ▲▲ and ★★ at ■■ [Note: the domestic group company for which this CFO works] are also struggling internally, but they have been faithfully following my instructions. It is extremely painful for me to give them such unreasonable instructions, and when I think about their future, I am deeply conflicted about whether it is right to make them do this—I truly hate myself for it.
>
> [Omitted]
>
> I have had the opportunity to speak with Mr. Nagamori briefly during training sessions and on other occasions, and I believe that what he says is entirely reasonable and correct. I regard him as an outstanding business leader, who represents Japan, and have great respect for him. During the training, we were told that it would be better to allow profits to decline than to generate profits through improper conduct. However, when I prepared and rehearsed a presentation on the CFO's policy in line with ■■'s management philosophy, I could not stand myself for attempting to make a presentation that misrepresented my own actions in front of Mr. Nagamori, whom I respect, using phrases such as "royal road of business management" and "legitimate accounting procedures." I am so sick of making false reports to Mr. Nagamori in the CFO weekly report that I could not even bring myself to write them anymore.
>
> I have been telling myself that the current treatment at ■■ falls within a gray area that somehow can be justified from an accounting perspective, and I have acted accordingly. However, deep down, I truly believe that anything that cannot be recovered in the future and will affect subsequent fiscal years should be regarded as "black"—a practice that delays structural reforms and ultimately ruins the business (and the company).
>
> [Omitted]

[233] There was even a situation in which a general manager of the accounting department of a domestic group company resigned just one week after assuming the position. An employee of the Group Companies Business Management Department sent an email to an executive at that domestic group company stating, "The newly hired general manager of the accounting department resigned after one week, but I can understand how he feels. I believe it is painful, not only for him but for all the executives involved to have to clean up the mess left by past improper transactions they had no part in, despite wanting to engage in forward-looking work. I am also concerned that the fact that the people who have increased the "legacy liabilities" put pressure on the executives to dispose of the "legacy liabilities" quickly could lead to moral hazards."

If I continue down this path, my mental health will continue to deteriorate, and I fear that I will no longer be able to laugh, even at home. I am sorry, but I am resigning from Nidec. Even if I try to go to work, my mind and body refuse, and there is nothing I can do about it.

During the interview with the Committee, one of Nidec's former executive officers stated, "CFOs who join the Nidec Group mid-career tend to be relatively older and have cut off their options for retreat by joining the company. After joining, they face the rigors of Nidec's performance management, but there are quite a few who find themselves unable to resign even if they wish to do so, and some have even suffered physical and mental breakdowns." He also stated, "I have even been told by recruitment agencies, 'We no longer want to refer candidates to your company.'"

2. Asset Revitalization Project and Structural Reforms

(1) Commencement of Asset Revitalization Project

The Committee's investigation found that the initiative to resolve "legacy liabilities" was carried out starting in November 2016. The initiative derived from a proposal by an executive officer who joined Nidec in July 2016 (and has since left the company) and was supervising the Corporate Administration & Internal Audit Department. Soon after he took office, the executive officer came across an audit report by the Corporate Administration & Internal Audit Department and became aware that Nidec group companies had large amounts of long-term inventory, idle equipment, capitalized costs, and other assets about which there were asset value concerns. The executive officer came to believe that it was necessary to understand the whole picture with regard to assets about which there were asset value concerns and to deal with those assets, and through consultations with the CFO of Nidec headquarters, who was the director and executive vice president, and the Executive Officer Responsible for Group Companies, decided to commence an initiative called the "Asset Revitalization Project" to identify and resolve "legacy liabilities" at all group companies.[234, 235]

The Corporate Administration & Internal Audit Department, the Accounting Department, the CFO Strategy Department, and the Group Companies Business Management Department served as the administrative office for the project and requested that business units and domestic group companies

[234] In an interview with the Committee, the former executive officer referenced above explained the reason for deciding to commence the Asset Revitalization Project after consultation with the CFO of Nidec headquarters and the Executive Officer Responsible for Group Companies, stating, "I thought I would not able to get information without cooperation from the CFO and the Accounting Department. For the same reason, I thought I needed cooperation from the Executive Officer Responsible for Group Companies. Therefore, I decided to involve both of them in the project."

[235] In the Asset Revitalization Project, "concerned assets," "unsound assets," and other terms were used for "legacy liabilities," but this Report uses the term "legacy liabilities."

report their "legacy liabilities." Moreover, the executive officer supervising the Corporate Administration & Internal Audit Department believed that it was essential to obtain information on special audits carried out by Mr. A, and in November 2017, when he reported to Mr. Nagamori on the progress in the Asset Revitalization Project, he explained to Mr. Nagamori that it was necessary to receive information on the results of special audits carried out by Mr. A, and obtained Mr. Nagamori's approval to do so. After that, the executive officer supervising the Corporate Administration & Internal Audit Department received information from Mr. A about "legacy liabilities" Mr. A had ascertained through special audits and included those liabilities in the Asset Revitalization Project (after that, he received periodic updates from Mr. A).

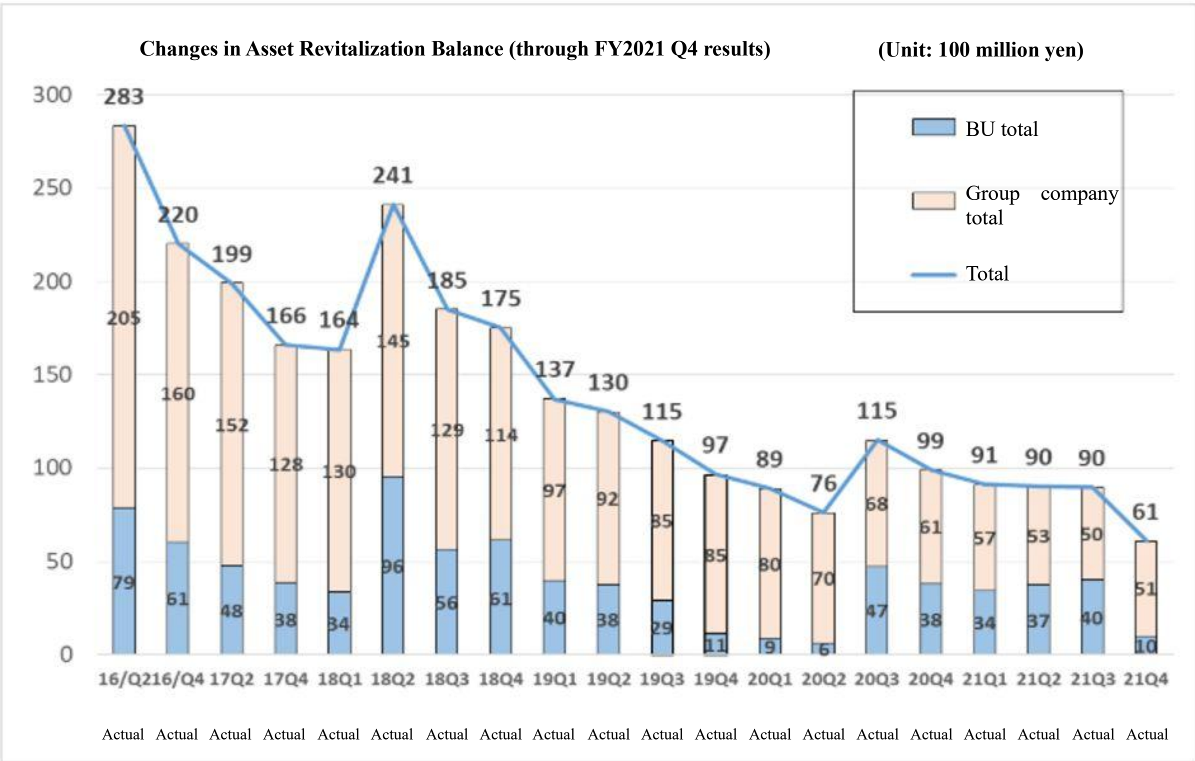
(2) Progress of Asset Revitalization Project

The progress of the Asset Revitalization Project was reported on a quarterly basis to management executives, beginning with Mr. Nagamori. "Legacy liabilities" were categorized in one of three classifications: "high risk," "medium risk," and "low risk." According to materials from the time, "high risk" liabilities were defined as "shell assets" and were to be written down immediately as soon as they were found. "Medium risk" liabilities were defined as "assets that actually exist but for which write-downs or other methods of periodic elimination have not been decided," with an example being "equipment, etc., which has been considered to be repurposed or sold because of production discontinuation or lost orders but for which these steps are difficult." Finally, "low risk" liabilities were defined as "assets that actually exist and are written down periodically, but still are at risk of impairment in the future," with an example being "equipment, etc., which has an undepreciated balance in conjunction with discontinuation of production or lost orders, and is being considered for repurposing or sale as write-downs continue."

"Legacy liabilities" were supposed to be written down using "self-funding," with those write-downs to be incorporated into the performance of each business unit or group company. For that reason, business units and domestic group companies were required to write down "legacy liabilities" using their own earned profits as the funding source and concurrently achieve their aggressive performance targets. This was illustrated by the following comment Mr. Nagamori handwrote in a progress report for the Asset Revitalization Project.

> Since the management policy takes it for granted that new challenges also create risky assets, earning a 15% profit [Note: operating profit] is key. The nature of Nippon Densan Corporation's aggressive management is to earn high profits, and at the same time, ensure that past business risks are addressed without fail.

The Asset Revitalization Project was based on “self-funding,” and the assumption was to generate high profits while at the same time disposing of “legacy liabilities” and achieving performance targets; for this reason, business units and domestic group companies struggling to achieve their performance targets were not able to proceed with disposals as planned and, furthermore, in parallel with the revitalization initiative, new “legacy liabilities” were created on occasion. However, reports of a general downward trend in the amount of “legacy liabilities” were made to Mr. Nagamori and other executives. For example, as seen in the following excerpt from the June 23, 2022 report, changes in “legacy liabilities” since the commencement of the project were reported.



With respect to “legacy liabilities” categorized as “high risk,” which were shell assets and thus were to be written down immediately after they were discovered, 1.39 billion yen worth of liabilities was recognized at the end of fiscal 2016, and the plan was to eliminate them entirely by the end of fiscal 2017. In fact, the “legacy liabilities” categorized as “high risk” were written down in fiscal 2017, but it was reported that during fiscal 2017, new assets categorized as “high risk” totaling 1.34 billion yen were recognized. By the end of the first half of fiscal 2018, “legacy liabilities” categorized as “high risk," including new assets, increased to 11.55 billion yen,[236] but it was reported that all of these were disposed of during the second half of fiscal 2018.[237] Since then, new "high risk" "legacy liabilities" occasionally were recognized during a term, but it was reported that all of those liabilities were disposed of by the end of the relevant fiscal year.

As such, the initiative to ascertain and dispose of "legacy liabilities" was carried out from November 2016, but the "legacy liabilities" ascertained through the Asset Revitalization Project basically were ascertained on the basis of self-reporting by business units and domestic group companies, and thus the relevant information was not necessarily guaranteed to be comprehensive. A document titled "Matters Concerning the Asset Revitalization Project" prepared in July 2020 by the Corporate Administration & Internal Audit Department also discusses this point, and describes concerns such as, "[t]he reporting of concerned assets is based on voluntary reports from each business unit and group company, and if any company did not intentionally report an asset, or if there were any omissions in their voluntary reports, those assets are not included in the report," and "[a]lthough internal audits were conducted, the comprehensiveness thereof has not been fully evaluated."

(3) Disposal of "Legacy Liabilities" and Structural Reforms

Externally, "legacy liabilities" were disposed of under the name of "structural reform."

For example, on January 17, 2019, Nidec revised its full-year earnings forecasts for fiscal 2018 downward, and explained in a press release that the revision was due to a downward revision of sales amidst economic uncertainty deriving from trade friction between the U.S. and China, and further stating, "We will record structural reform expenses of 24 billion yen in this second half. With the aim of achieving the fiscal 2020 target, we are staying ahead of rapid market changes and resolutely

---

236 The CFO of the Automotive Motor & Electronic Control Business Unit (AMEC) who took office in June 2018 was informed by the person in charge of accounting at a Chinese subsidiary under the umbrella of AMEC that "on the instructions of the former CFO of AMEC, as book-closing measures, expenses (labor costs, utilities costs, rents, etc.) have been deferred, etc.," and subsequently collected information on "legacy liabilities" accumulated at each location under the umbrella of AMEC; as a result, "legacy liabilities" with a total impact on profit and loss of approximately 6.3 billion yen were identified. The CFO of AMEC disposed of "legacy liabilities" of approximately 1.8 billion yen during the third quarter of fiscal 2018 and reported the remaining "legacy liabilities" of approximately 4.5 billion yen to the Asset Revitalization Project, under whose framework the remaining liabilities were to be disposed of.

237 The CFO of AMEC, mentioned in the preceding footnote, stated in an interview with the Committee that his plans for the "legacy liabilities" of approximately 4.5 billion yen that remained as of the end of the third quarter of fiscal 2018 were to dispose of them in the fourth quarter, but the CFO of Nidec headquarters instructed him to "dispose of the liabilities within the scope that enables achievement of AMEC's performance target." As explained below, however, during the second half of fiscal 2018, instances of improper accounting were found at the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and the Automotive Motor & Electronic Control Business Unit (AMEC), which were investigated by an outside law firm. Under these circumstances, it was decided that all "high risk" "legacy liabilities" would be disposed of during fiscal 2018, and AMEC's "legacy liabilities" of approximately 4.5 billion yen were disposed of also.

recording impairment of equipment resulting from plant consolidations and closures, early disposal of inventory of older models, and M&A expenses.” However, most of the 24 billion yen in “structural reform expenses” were expenses required for disposal of “legacy liabilities.”

An email reporting a summary of the meeting held at Nidec headquarters on January 18, 2019 includes the following comment by the CFO of Nidec headquarters.

> Yesterday, we revised our consolidated earnings forecasts for the full fiscal year. I have to ask you to keep this off the record, but I would like to explain the background leading up to where we are now, including my request for thorough and proper implementation of operations going forward.
> [Omitted]
> As a result of a decrease in sales, profits will go down by about 25% of 150 billion yen, or by 40 billion yen, and in addition, structural reform expenses of 24 billion yen also have been included. Although we call these expenses structural reform expenses, a major portion of these expenses involves current disposal of inventory accumulated in the past, numerical valuations, and fixed assets that should be disposed of or written down. By business unit, 10.2 billion yen is at SPMS, 6.3 billion yen at AMEC, 5.3 billion yen at ACIM, and 2 billion yen at others. Structural reform expenses will be recorded, including expenses for disposing of these old liabilities. Externally, we have explained this in a positive manner, saying that, because of market changes, we will consolidate and close plants ahead of schedule, and to that end, we will dispose of inventory.

(4) Sharing Information on Asset Revitalization Project with Board of Directors and Board of Corporate Auditors

The existence of the Asset Revitalization Project was not shared with the Board of Directors and the Board of Corporate Auditors for a long time. The existence of the Asset Revitalization Project was reported to the Board of Corporate Auditors for the first time at the Board of Corporate Auditors meeting on March 6, 2019. As explained below, at that time, an outside law firm entrusted by the Board of Corporate Auditors was investigating instances of improper accounting found at the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and the Automotive Motor & Electronic Control Business Unit (AMEC), and among the emails discovered during the forensic investigation by the outside law firm were emails concerning the Asset Revitalization Project. For this reason, the CFO of Nidec headquarters provided an explanation to the Board of Corporate Auditors containing a summary of the Asset Revitalization Project. On the other hand, no particular explanation was given to the Board of Directors about the existence of the Asset Revitalization Project.

In this context, in August 2017, the executive officer in charge of the Corporate Administration & Internal Audit Department suggested to the CFO of Nidec headquarters, who was the director and executive vice president, that the CFO report the content of the Asset Revitalization Project to the Board of Directors and the Board of Corporate Auditors and implement an investigation of facts by a Third-Party Committee from an unbiased perspective.

The following is an excerpt from an email sent by the executive officer to the CFO of Nidec headquarters.

> 1. Awareness of issues
>
> (1) Unsound assets (long-term inventory, non-performing assets, etc.) found through the Asset Revitalization Project are the result of various improper accounting practices in the past, and I believe they pose a significant risk to the company. We should dispose of them at once as soon as possible.
>
> (2) In the most recent examination during the Asset Revitalization Project, improper accounting practices were found ranging from black to gray, and combining all of those practices, the unsound assets total 21 billion yen. [Omitted] If the authorities come to know of this through whistleblowing and conduct an investigation, black area practices will be found to be unacceptable without a doubt, and it is even possible that gray area practices also will be deemed black. I would determine that Copal's improper accounting of 2.5 billion yen in the past clearly falls within a black area.
>
> [Omitted]
>
> (6) In my understanding, disclosure in a timely manner means proper disclosure of the actual situation of the company as of the present time. The very approach of "taking time to dispose of unsound assets" under consideration in the Asset Revitalization Project constitutes concealment of the issues. [Omitted]
>
> [Omitted]
>
> 3. How to handle the situation
>
> (1) The following three actions are possible options for you [Note: the CFO of Nidec headquarters] to fulfill the duty of due care as a director.
>
> (i) Report to the Board of Directors
>
> ・ I believe it is essential that you report the results of the examination by the Asset Revitalization Project to the Board of Directors in your name and share information and awareness of issues with all officers.
>
> (ii) Report to the Board of Corporate Auditors
>
> ・ If it is impossible to report to the Board of Directors, submit a report in your name to all corporate auditors.
>
> (iii) Establish a Third-Party Committee

- If it is determined to be necessary to conduct a further investigation from an unbiased standpoint

I have made some severe statements, but I am certain that if you diligently fulfill your duty of due care as director and executive vice president of the company, you ultimately will save the company and protect yourself and your family. Please consider this and push through these options.

Also at the meeting held in November 2017, at which the Asset Revitalization Project was explained to Mr. Nagamori, the executive officer referenced above suggested the establishment of an investigative committee, including outside experts, and reporting to the Board of Directors and the Board of Corporate Auditors to Mr. Nagamori, but Mr. Nagamori rejected both suggestions. The minutes of this meeting include the following.

Executive Officer:

I would like to ensure transparency about the Asset Revitalization Project by establishing an internal investigation committee that includes outside experts (attorneys, accountants other than Kyoto Audit Corporation) and carrying out an investigation across the company. In this way, even if there is an internal complaint or whistleblowing case, I believe we can fulfill our accountability obligations.

Mr. Nagamori:

If we look at other companies, their third-party committees that included experts ended up doing superficial investigations. There is no need to establish an internal committee at this stage. Let the Asset Revitalization Project continue to investigate.

Executive Officer:

From the perspective of improving our risk management system and governance system, I believe the Asset Revitalization Project should be reported to the Board of Directors and the Board of Corporate Auditors and discussed by them, including outside officers, and we should formulate response policies.

Mr. Nagamori:

Why don’t we report the project when unsound assets are decreased by about half?

CFO of Nidec headquarters:

I would like to consider reporting the project to the Board of Directors and the Board of Corporate Auditors after progress in the Asset Revitalization Project is summarized at the end of this fiscal year.

According to the meeting minutes above, the CFO of Nidec headquarters stated that after progress in the Asset Revitalization Project was summarized at the end of fiscal 2017, he would consider reporting the project to the Board of Directors and the Board of Corporate Auditors, but in the end, no such report was made to the Board of Directors and the Board of Corporate Auditors, and as explained above, it was not until March 6, 2019 when it was reported to the Board of Corporate Auditors for the first time.

The Board of Corporate Auditors meeting minutes state, "●● [Note: the CFO of Nidec headquarters] reported the state of management in the fourth quarter, asset revitalization measures, and the like, and then opinions were exchanged, including questions and answers." What specifically was reported, and what questions were asked and answered, is not clear from the objective documents, but a then full-time corporate auditor stated, in an interview with the Committee, "At the Board of Corporate Auditors meetings, only a brief explanation was provided about the Asset Revitalization Project to the extent that it is 'a project to manage, and proactively dispose of, assets which may require provisions in the future,' and issues such as Nidec's problem with 'legacy liabilities' were not explained;" accordingly, it is inferred that what the Asset Revitalization Project means, including what "legacy liabilities" means, was not explained in a substantial manner. The Committee also asked a then-outside corporate auditor about his/her awareness of the Asset Revitalization Project, and the former outside corporate auditor stated that he/she had no recollection of receiving any explanation about the project.

(5) Termination of Asset Revitalization Project

As described above, the Asset Revitalization Project was an initiative to ascertain "legacy liabilities" on the basis of voluntary reports from business units, etc. Because "legacy liabilities" were to be disposed of using "self-funding," it was unlikely that business units, etc., that were struggling to achieve their performance targets would provide candid reports, and the comprehensiveness of reports was questionable. For this reason, in fiscal 2022, the Corporate Administration & Internal Audit Department concluded that the Asset Revitalization Project lacked effectiveness and terminated the project. In fact, no progress in the Asset Revitalization Project has been reported since progress for the second quarter of fiscal 2022 was reported in January 2023.

3. Structural Reforms During the Fourth Quarter of Fiscal 2022

(1) Background Leading up to Structural Reforms

Around the time the Asset Revitalization Project initiative ended, in the fourth quarter of fiscal 2022, at the initiative of the CFO of Nidec headquarters and in the name of “structural reform,” an initiative to identify and dispose of the “legacy liabilities” of all group companies was carried out. This initiative was developed by the CFO of Nidec headquarters, who took office in May 2022, proposed to Mr. Nagamori, and implemented with his approval. Unlike the Asset Revitalization Project, which had been carried out until then, under this initiative, expenses for disposing of “legacy liabilities” were not incorporated into the performance of business units and domestic group companies. In an interview with the Committee, the CFO stated that after witnessing that the overriding imperative at Nidec was to achieve performance targets, he felt “ there is a strong incentive to choose not to expose bad assets rather than accounting for them in a sound manner ahead of schedule,” and felt the need to identify and account for assets for which impairment had not been recognized.

In the announcement of fiscal 2021 earnings on April 24, 2022, Nidec released full-year fiscal 2022 forecasts, projecting sales of 2.1 trillion yen and an operating profit of 210 billion yen. However, as the company prepared to close the books for the third quarter of fiscal 2022, it was expected that it would be difficult to achieve the operating profit of 210 billion yen for the full 2022 fiscal year. Under these circumstances, thinking that if the full-year operating profit target could not be achieved, it would be better to take this opportunity to clean up “legacy liabilities” for which impairment had not been recognized, the CFO of Nidec headquarters presented this idea to Mr. Nagamori and obtained his approval. The CFO of Nidec headquarters also thought, after consultations with the CPO, that considering the impression that disposition of “legacy liabilities” would give investors, it would be necessary to ensure that the company earned an operating profit of no less than 100 billion yen for the full 2022 fiscal year, and he reported this policy to Mr. Nagamori and obtained his approval.

The CFO of Nidec headquarters also thought that in order to encourage business units and domestic group companies that were under pressure to achieve the performance targets to candidly report their “legacy liabilities,” it would be necessary not to incorporate expenses for disposition of “legacy liabilities” into the performance of the business units and domestic group companies, that is to say, not to handle disposition of those “legacy liabilities” through “self-funding,” and he made a proposal to Mr. Nagamori to that effect, and eventually obtained his approval.

In return, Mr. Nagamori instructed to the CFO to map out a story involving a V-shaped performance recovery after disposition of “legacy liabilities.”[238]

On January 13, 2023, Mr. Nagamori instructed the CFO and CPO of Nidec headquarters to dispose of “legacy liabilities” during the fourth quarter.

On January 24, 2023, after the policy to dispose of “legacy liabilities” during the fourth quarter of fiscal 2022 was finalized, Nidec released its earnings for the third quarter of fiscal 2022, stating, “Given the deteriorating market environment, a drastic profit structure reform is underway through the WPR-X Activity. We seek to reduce fixed costs significantly, with the aim of achieving a V-shaped recovery in fiscal 2023,” and also announced that its operating profit forecast for the full fiscal year 2022 had been revised downward from 210 billion yen to 110 billion yen, and that for the fourth quarter of fiscal 2022 it now was expecting an operating loss of 14.4 billion yen. The operating profit forecast of 110 billion yen for the entire 2022 fiscal year was calculated on the assumption that structural reform expenses for the fourth quarter of fiscal 2022, that is, expenses required for disposition of “legacy liabilities,” would amount to 54.4 billion yen.[239]

In parallel with these actions, the Performance Management Department, which received instructions from the CFO of Nidec headquarters, requested that business units and domestic group companies report their “legacy liabilities” (this request was made twice), and as a result, business units and domestic group companies reported “legacy liabilities” in a total of approximately 166.2 billion yen (approximately 47.6 billion yen was reported after the first request, and approximately 118.6 billion yen was reported after the second request).

(2) Allocation of “Legacy Liabilities”

As described above, the CFO of Nidec headquarters thought, after consultations with the CPO, that even if the company disposed of “legacy liabilities,” it would be necessary to ensure that it earned an operating profit of no less than 100 billion yen for the entire 2022 fiscal year, reported this policy to Mr. Nagamori, and obtained his approval. Given this policy, the CFO of Nidec headquarters concluded that it was not possible to dispose of the “legacy liabilities” totaling approximately 166.2 billion yen

238 The January 8, 2023 email sent by the CFO of Nidec headquarters to Mr. Kobe, representative director and president, and the CPO reported the conversation with Mr. Nagamori, including Mr. Nagamori’s instructions that “an explanation of L-shaped performance to investors is unacceptable, and it needs to be a V-shaped recovery. We need to determine when it will hit the bottom and create a story. We should be looking not only at the third quarter of fiscal 2022 but also at a longer period, probably through the first quarter of fiscal 2023.” At that time, it had not been decided whether the structural reforms would be carried out in the third or fourth quarter of fiscal 2022, and it was left to Mr. Nagamori to make the decision.

239 At the time of announcement of the earnings for the third quarter of fiscal 2022, in order to achieve operating profits of 110 billion yen for the full 2022 fiscal year, it was necessary to limit the operating loss for the fourth quarter of fiscal 2022 to 14.4 billion yen. Because the normal operating profit for the fourth quarter of fiscal 2022 was expected to be 40 billion yen, losses from structural reform expenses needed to be no greater than 54.4 billion yen.

reported by business units and domestic group companies as part of structural reforms all at once, and decided to sort the "legacy liabilities" into (i) "legacy liabilities" to be disposed of as part of structural reforms in the fourth quarter of fiscal 2022 ("**Structural Reform Liabilities**") and (ii) "legacy liabilities" not to be disposed of in the fourth quarter of fiscal 2022 but to be disposed of in a planned manner by each business unit and domestic group company, with its own budget (that is, through self-funding), starting in fiscal 2023 ("**Planned Disposition Liabilities**"), so as to proceed with disposition of "legacy liabilities" while ensuring an operating profit of no less than 100 billion yen for the entire 2022 fiscal year.

In sorting "legacy liabilities," the Nidec CFO decided to categorize those that would contribute to the envisioned V-shape recovery in fiscal 2023 and those Nidec expected that PwC Kyoto would ask it to dispose of during the fourth quarter of fiscal 2022, preferentially, as Structural Reform Liabilities, and the Accounting Department conducted interviews with business units and domestic group companies and proceeded with the sorting of "legacy liabilities." The results of the sorting were reported to Mr. Nagamori on February 20, 2023. The following is an excerpt from the document used for the report to Mr. Nagamori.

2023-02-20

Structural Reform Expenses: Second Investigation Findings and Response Policy (Draft)

1. Fundamental approach

The result of the thorough identification of risks performed at this time, as a second investigation, was a **request for an additional 118.6 billion yen**, which will be allocated to the structural reform budget with priority on **items that will contribute to a V-shaped recovery in fiscal 2023** and **items that are mandatory pursuant to audits**, and other items will be adjusted as “Planned Disposition Liabilities” and will be dealt with in a planned and continuous manner.

(Unit: 100 million yen)

	First Investigation		Second Investigation		Total	
	Amount	Return	Amount	Return	Amount	Return
SPMS	60.5	2.9	110.6	34.2	171.1	37.1
AMEC (Organic)	220.7	119.2	436.7	80.1	657.4	199.3
AMEC(TRM)	33.5	8.4	200.4	25.5	233.9	33.9
ACIM	41.8	0.0	159.2	139.3	201.0	139.3
MOEN	9.0	9.7	74.2	1.3	83.2	11.0
Group companies	110.8	43.4	194.0	33.9	304.8	77.3
Shared expenses	0.0	0.0	10.9	5.5	10.9	5.5
Total	476.3	183.6	1,186.1	319.7	1,662.4	503.3

(1) Structural Reforms		(2) Planned Disposition	
Amount	Return	Amount	Return
30.6	34.6	140.5	2.5
232.0	127.0	425.5	72.3
103.9	29.0	129.9	4.9
44.4	39.0	156.7	100.3
24.4	6.6	58.8	4.4
120.1	30.7	184.8	46.6
10.9	5.5	0.0	0.0
566.3	272.4	1,096.1	230.9

Q3 Closing Adjustments

		Q1 Actual	Q2 Actual	Q3 Actual	Q4 (External)	Total
Sales		5,404	5,904	5,690	5,003	22,000
Operating Profit	Ordinary potion	480	535	408	400	1,823
		8.9%	9.1%	7.2%	8.0%	8.3%
	Structural reform	△33	△18	△128	△544	△723
	Total	447	517	280	△144	1,100
		8.3%	8.8%	4.9%	△2.9%	5.0%

Breakdown by Category

Category	Amount	Return
(1) Priority Liabilities	197.3	112.7
(2) Required in Auditing	90.1	9.8
(3) Restructuring etc. (Advance Decision Required)	69.8	71.8
(4) Adjustable	209.0	78.2
Total	566.3	272.4

Note: 40 billion yen of the ordinary portion and the structural reform budget are linked. The structural reform budget can be modified within an adjustable allocation amount depending on the variation of the ordinary portion.

As indicated in the document above, as of February 20, 2023, Structural Reform Liabilities amounted to a total of approximately 56.6 billion yen, and Planned Disposition Liabilities were a total of approximately 109.6 billion yen.[240]

While confirming anticipated earnings figures for the entire 2022 fiscal year, the CFO of Nidec headquarters and the Accounting Department communicated with business units and group companies, and proceeded with the sorting of Structural Reform Liabilities and Planned Disposition Liabilities to ensure that operating profits for the entire term would not be below 100 billion yen, ultimately deciding to record structural reform expenses of approximately 56.6 billion yen in the fourth quarter of fiscal 2022 on the assumption that operating profit for the entire term would be 100.1 billion yen, and they obtained the approval of Mr. Nagamori.

(3) Earnings Announcement and Report to Audit and Supervisory Committee

On April 24, 2023, Nidec announced its earnings for the full 2022 fiscal year. In the announcement, the company reported sales of 2.2243 trillion yen and operating profits of 100.1 billion yen, explaining, "As the Company will celebrate its 50th anniversary in July 2023, given the deteriorating market environment, in order to carry out a drastic profit structure reform through the "WPR-X" Activity (pursuant to the concept that "costs are built by technology," the goal is to develop products that can win overwhelmingly, with technological strength, and to achieve substantial reductions in fixed costs) and significantly reduce fixed costs with the aim of achieving a V-shaped recovery during fiscal 2023, the Company recorded structural reform expenses of approximately 75.7 billion yen[241] for the term under review."[242]

Mr. Nagamori instructed the Company to achieve a V-shaped recovery in fiscal 2023, and in fact, Nidec has achieved a V-shaped recovery in operating profits since fiscal 2023.

No trace of any particular report being made during the structural reforms was found in meeting minutes of the Board of Directors and the Audit and Supervisory Committee, but at the Audit and

---

240 Structural Reform Liabilities were categorized as "Priority Liabilities," "Required in Auditing," "Restructuring, etc. (Advance Decision Required)," and "Adjustable." "Priority Liabilities" meant liabilities that were expected to contribute to the V-shaped recovery during fiscal 2023, and "Required in Auditing" meant liabilities for which PwC Kyoto was highly likely to demand disposal during the fourth quarter of fiscal 2022. "Restructuring, etc. (Advance Decision Required)" meant expenses required for employee layoffs, and because those expenses would result in reduced labor costs and thus contribute to the V-shaped recovery during fiscal 2023, they were categorized as Structural Reform Liabilities, but it was decided that those expenses would be managed as a category different from "Priority Liabilities." "Adjustable" referred to liabilities that could be switched to Planned Disposition Liabilities, depending on the anticipated level of operating profit for the full 2022 fiscal year. "Return" in the document above meant amounts indicating how much the operating profit for fiscal 2023 would improve as a result of disposition of "legacy liabilities," that is, the degree to which would contribute to the V-shaped recovery during fiscal 2023.

241 Of which, 57.9 billion yen was announced as structural reform expenses that had been recorded for the fourth quarter of fiscal 2022.

242 A similar statement is included in the securities report for the term ended in March 2023.

Supervisory Committee meeting held on October 3, 2023, the CFO of Nidec headquarters explained the performance during the second quarter of fiscal 2023, indicating that a significant downward revision and the structural reforms were carried out during fiscal 2022. According to the meeting minutes, "During the Q&A session, there was a question about the structural reforms carried out during the term ended in March 2023, and in response to that question, it was explained that, as a breakdown of the structural reform, the impairment of production equipment was large in terms of amount, and it was decided that, for investment decisions to be made going forward, a structure would be introduced to check the reliability of prospective orders, etc., that serve as the basis for making equipment investment decisions." There is no sign that the problem of "legacy liabilities," which led to the structural reforms, and planned disposition, were reported or discussed.

(4) Planned Disposition Liabilities and Instances of Improper Accounting Found During Committee Investigation

As explained in Part 6 above, the Committee's investigation discovered a wide range of instances of improper accounting. Among them, assets such as equipment relating to Projects X and Y that had not been treated as impairment at Nidec Precision Corporation (NPCJ), corporate housing that improperly avoided impairment at Nidec Instruments Corporation (NIST), and inventory that improperly avoided write-downs at Nidec OKK Corporation (NOKJ) were reported to Nidec headquarters as "legacy liabilities" during the structural reforms in the fourth quarter of fiscal 2022.

However, these "legacy liabilities" were classified as Planned Disposition Liabilities and no disposition was made as a result.

In the first place, whether or not to dispose of "legacy liabilities" should be considered from the perspective of their accounting treatment. Setting an upper limit of disposition and then classifying "legacy liabilities" is nothing but a reversal of the logical order of reasoning, and it has to be said that, for this reason, "legacy liabilities" categorized as planned disposition assets ended up including liabilities that should have been disposed of immediately. The CFO of Nidec headquarters was not found to have been aware that "legacy liabilities" that should have been disposed of immediately were categorized as assets for planned disposition. That said, it cannot be denied that the CFO of Nidec headquarters was partly responsible for causing this situation.

However, with the awareness that "legacy liabilities" must be resolved, the CFO of Nidec headquarters convinced Mr. Nagamori, whose principle was to insist on "self-funding," to agree, and managed to implement the structural reforms, and in this regard, he deserves a certain degree of recognition. With respect to the fact that he established the condition of securing operating profits of 100 billion yen, it also should be noted that without this condition, there was a high likelihood that Mr. Nagamori would not have approved the structural reforms.

4. 2023 Project to Prevent Recurrences of Structural Reform Expenses and Implementation of Dispositions in Planned Manner

In March 2023, pursuant to a suggestion made by an executive consultant in charge of 3Q6S,[243] a project to consider measures to ensure that a situation involving recognition of high losses as structural reform expenses would not occur again and to prevent recurrences of such a situation ("**Project to Prevent Recurrence of Structural Reform Expenses**") was initiated. The executive consultant in charge of 3Q6S and members of the Accounting Department, Finance Department, Performance Management Department, and Corporate Administration & Internal Audit Department were selected as project members.

The Project to Prevent Recurrence of Structural Reform Expenses summarized the analysis of the causes and recurrence prevention measures by collecting information from the business units and domestic group companies and taking other actions. The compiled results were reported at the executive vice presidents' meeting held in early June 2023, which was attended by Mr. Kobe, the president, and Nidec's five executive vice presidents (the executive general managers of business units and Executive Officer Responsible for Group Companies), among others.

This report separates the "legacy liabilities" into the categories of equipment, inventory, development assets, and credits. The main causes and recurrence prevention measures are organized by category. For example, it was reported that a cause of the "legacy liabilities" for equipment was the recognition of insufficient depreciation due to extending the useful life of the equipment, in a manner which deviated from reality. The recommendation for this was to comply with the accounting rules thoroughly and monitor the status of compliance. It also was reported that another cause related to equipment was deferred recognition of impairment, despite having identified indicators that impairment should have been recognized, so review of the accounting rules and the requiring approval of the Nidec headquarters management officer for exceptional accounting treatment were recommended.

The status of discussion about the Project to Prevent Recurrence of Structural Reform Expenses at the executive vice presidents' meeting also was reported to Mr. Nagamori, who added the following comment to the minutes of the executive vice presidents' meeting, which were circulated for approval.

243 "3Q" means a Quality Worker, Quality Company, and Quality Products; "6S" means SEIRI (sorting), SEITON (straightening), SEIKETSU (systematic cleaning), SEISOU (standardizing), SAHO (behavior), and SHITSUKE (service).

As I also gave instructions the other day, I believe we need to become aware that future audits by accountants will be quite strict, and we should make every effort to ensure Nidec can be audited with a clean record. Moreover, we should assume that a lax attitude about trying to persuade the accountants to sign off on questionable matters could lead to serious consequences.

Coincidentally, on June 1, 2023, PwC Kyoto and PwC Aarata announced that they had begun discussions about a merger. Mr. Nagamori's comment above was based on this fact. He stated at the Committee interview, "There was a sense of crisis that Nidec's accounting practices up to that point would no longer be acceptable if the merger with PwC Aarata went through."

After the executive vice presidents' meeting, the members of the Project to Prevent Recurrence of Structural Reform Expenses requested that the business units and domestic group companies prepare reports about their plans for disposition of Planned Disposition Liabilities, and the Project members compiled a summary of the results ("**Summary of Planned Dispositions**"). Thereafter, from time to time, the Project members conducted interviews with the business units and domestic group companies, confirming the status of the planned dispositions, and updated the Summary of Planned Dispositions as needed.

Information about the "legacy liabilities" that were not processed via the structural reforms during the fourth quarter of fiscal 2022 and the plan for their planned disposition were not shared with PwC Kyoto.

The following appears in the minutes of the August 2023 interview held with the general manager of the Group Companies Business Management Department by members of the Accounting Department and the general manager of the Corporate Administration & Internal Audit Department, who were members of the Project to Prevent Recurrence of Structural Reform Expenses.

The general manager of the Group Companies Business Management Department:
Will this list [Note: Summary of Planned Dispositions] also be provided to the audit firm?
Accounting Department member: No.
The general manager of the Corporate Administration & Internal Audit Department:
If the audit firm were to find about this list, it would become a serious problem—or we would be told to dispose of the "legacy liabilities." I don't think we will share the list with them going forward. The idea is that we have identified the risks internally and will carry out planned dispositions.

In an interview with the Committee, the relevant member of the Accounting Department said, with regard to the above exchange, "Nidec believed that it was not inappropriate. However, the intent of the comment was to avoid causing unnecessary discussions by going to the trouble of reporting the list, which then could be questioned by the audit firm." In addition, at the Committee interview, the general manager of the Corporate Administration & Internal Audit Department explained, "The comment was intended to mean that, although we eventually would need to explain the situation to the audit firm, the list consisted merely of figures based on reports from the business units at the time. If we had explained the situation to the audit firm while it was still uncertain, Nidec would have had to perform unnecessarily excessive accounting, and the problem would have remained unresolved. From this perspective, I believed it was necessary to gather all the accounting data internally first, carry out the planned dispositions, and then explain the situation to the audit firm only after we were able to provide a clear explanation."

Next, at the executive vice presidents' meeting held on December 4, 2023, based on the Summary of Planned Dispositions, it was confirmed that planned dispositions in the sum of 66.4 billion yen for the unprocessed "legacy liabilities" as of December 1, 2023 (Planned Disposition Liabilities), and for newly incurred "legacy liabilities" would be carried out starting in the second half of fiscal 2023 and in fiscal 2024 and fiscal 2025.[244] Mr. Kobe, the president, made the following comment about the situation.

> Basically, I want everything to be transparent, including making the legacy liabilities transparent. Although I imagine there are some unrecoverable receivables and dead inventory, we should make these transparent too. Once everything is transparent, we can discuss it. Transparency is impaired when discussions are limited to a small number of people, as has been the case in the past. In addition, after making everything transparent, certain items might be kept confidential from our accountant for specific reasons; however, we need to make everything transparent so we can discuss which items should or should not be kept confidential.

In an interview with the Committee, Mr. Kobe explained the purpose of the comment above. "The point of my comment was to convey the importance of making everything clear to the company, including information we did not wish to provide to the accounting auditor. My focus was on ensuring that all of the problems were made clear, and it was not my intention to hide information from the accountants. Of course, had we provided all of the information to the accountants, we would have felt a lot of pressure to handle it all, so I planned to organize it and have it sorted."

Planned dispositions of the "legacy liabilities" were to be carried out by self-funding; in other words, the expenses necessary for the disposition were to be incorporated into the performance of business units and group companies. Therefore, given that achieving performance targets was still

[244] The traction motors business of the Automotive Motor & Electronic Control Business Unit showed an increase of 31.2 billion yen as new "legacy liabilities" for fiscal year 2023 (as of December 1, 2023), and unlike other business units and group companies, it planned to process these "legacy liabilities" by fiscal year 2026.

required, the dispositions did not proceed as planned.

5. Status in Fiscal 2023 and Thereafter

During the fourth quarter of fiscal 2023, 59.8 billion yen in losses were recorded as structural reform expenses for the traction motor business of the Automotive Motor & Electronic Control Business Unit (AMEC), but structural reforms were not implemented for the entire Nidec Group, as they were during the fourth quarter of fiscal 2022.

The development of traction motors started around 2018, and mass production began in April 2019. However, Nidec suffered a significant loss due to price competition caused by the rise of Chinese players, as well as problems related to quality and high costs.[245] Mr. Kishida joined Nidec in 2022, to be employed as the general manager of the Automotive Motor & Electronic Control Business Unit. Soon after his appointment, he determined that it was necessary to shift the business to focus on parts supply instead of developing and manufacturing traction motor systems. After persuading Mr. Nagamori of this, Mr. Kishida changed the business. The structural reforms for the traction motor business consisted of the impairment of parts and equipment, as well as other measures associated with the business shift.[246]

In an interview with the Committee, Mr. Kishida said, "I determined that, at this rate, there could be no exit plan for the traction motor business, so we decided to change the direction of the business, after discussing the topic internally many times." He added, "Up to that point, no report was made to Mr. Nagamori that the traction motor business was going nowhere. I had to explain the actual situation surrounding the traction motor business to Mr. Nagamori many times, and I finally obtained his understanding."

On the other hand, since achieving performance targets was required even after the structural reforms made during the fourth quarter of fiscal 2022, the Nidec headquarters CFO received complaints from Nidec Group company CFOs who struggled to dispose of the "legacy liabilities."

For example, in late May 2023, a group company CFO sent an email to the Nidec headquarters CFO indicating the following. The background was that the Group Companies Business Management Department requested that the group company achieve an operating profit target of 800 million yen.

---

[245] A Nidec management executive said, "This was caused by Mr. Nagamori's belief that the EV market would grow, his call to lay the groundwork for annual production of six million vehicles, and his subsequent move toward large-scale equipment investment. He made an investment decision without considering the business risks, including the existence of Chinese competitors and the significant expenses related to developing traction motors," and "We simply were not given enough time and resources to develop a complicated system like traction motors."

[246] These structural reforms were carried out by not incorporating the costs necessary for the disposition into the business unit's performance evaluation.

To be honest, 800 million yen is impossible with our current XX ability while also repaying the loan [Note: disposition of "legacy liabilities"]. Before repaying the loan, we would need operating profits of 1.03 billion yen (an operating profit margin of 21.9%).
Should we prioritize repaying the loans or achieving this month's operating profit? I cannot decide because I am only an officer at a subsidiary.
At the very least, continuing to defer repayment of a loan would be accounting misconduct.

An email sent from a group company CFO to the Nidec headquarters CFO in April 2024 includes the following:

Although the first quarter just started, there is even more pressure to achieve the planned profits. [Omitted] During the Business Report Meeting, sarcastic comments were made to me, and the Group Performance Management Department even told me to hold performance meetings during the holidays. Executive General Manager XX also instructed me to do whatever I could so that the profit figures for April match the internal plan. I really started to hate working at this company. I am so stressed that recently I have not been able to sleep for many nights. I started visiting a psychosomatic clinic, but I am truly reaching my limit.[Omitted] My request and consultation are whether consideration could be given for performance management purposes to treat the increasing cost as structural reform expenses to avoid the increasing costs arising from FY24Q1 due to the sale of the YY having an impact on our performance?

As explained in Part 6-9 above, Mr. Kishida and the Nidec headquarters CFO repeatedly explained the need to carry out structural reforms during the fourth quarter of fiscal 2024 to Mr. Nagamori, but he insisted that achieving an operating profit of 240 billion yen was essential, and he refused to approve the structural reforms. Therefore, the structural reforms were not carried out.[247]

Part 9. Previously Discovered Instances of Improper Accounting

In the past, instances of improper accounting were discovered repeatedly at various sites within Nidec Group. The improper accounting was discovered by audits performed by the Corporate Administration & Internal Audit Department, internal whistleblower reports, and other methods, in addition to special audits by Mr. A. Among the instances of improper accounting that were discovered, the misconduct discovered as a result of the special audits by Mr. A was shared only with

[247] Nidec headquarters Accounting Department collected information looking ahead to carrying out the structural reforms in fiscal 2025; however, in the midst of this process, the Committee was established.

Mr. Nagamori and a limited number of management executives. The information was not provided to PwC Kyoto and the Corporate Administration & Internal Audit Department. On the other hand, some of the misconduct instances discovered through audits by the Corporate Administration & Internal Audit Department and internal whistleblower reports were investigated by the Corporate Administration & Internal Audit Department in collaboration with PwC Kyoto, and some of them were subject to an investigation by an outside law firm. However, Nidec's financial closing schedule was not delayed, and none of these instances of improper accounting were made public.

Recently, various instances of improper accounting have been discovered by the Committee's investigation. In analyzing why these instances of improper accounting were not discovered or rectified, a review of the response to the previously discovered instances of improper accounting can be regarded as useful; therefore, we have added the following explanation:

1. Instances of Improper Accounting Identified from Fiscal 2015 through the First Half of Fiscal 2018

According to the materials prepared by the Corporate Administration & Internal Audit Department, the number of instances of improper accounting discovered from fiscal 2015 through the first half of fiscal 2018, which were subject to special investigation by the Corporate Administration & Internal Audit Department, is as follows:

First Half of Fiscal 2015	Second Half of Fiscal 2015	First Half of Fiscal 2016	Second Half of Fiscal 2016	First Half of Fiscal 2017	Second Half of Fiscal 2017	First Half of Fiscal 2018
4	4	0	1	2	1	1

For example, during the first half of fiscal 2017, instances of improper accounting were discovered at Nidec Sole Motor Hungary K.F.T. (NSMH) under the umbrella of the Appliance, Commercial & Industrial Motor Business Unit and Nidec GPM GmbH (NGPM) under the umbrella of the Automotive Motor & Electronic Control Business Unit (AMEC). It was discovered that a significant extension of the useful life of fixed assets was made at NSMH during the fiscal year without obtaining approval from the Nidec headquarters Accounting Department. Meanwhile, it was discovered that the Japanese CEO and the local German CFO at NGPM capitalized development costs and other related costs without sufficient supporting documents.

2. Instances of Improper Accounting Identified During Second Half of Fiscal 2018 in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and the Automotive Motor & Electronic Control Business Unit (AMEC)

During the second half of fiscal 2018, instances of improper accounting were discovered in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and the Automotive Motor & Electronic Control Business Unit (AMEC), and were investigated by an outside law firm. Although a series of instances of improper accounting were discovered at the Nidec Group up to this point, this was the first instance in which a case was investigated by an outside law firm, as far as the Committee is aware. As explained above, the financial closing schedule was not delayed, and the discovery of these instances of improper accounting and the investigation conducted by the outside law firm were not made public. An employee with experience in the Corporate Administration & Internal Audit Department who was responsible for the response at the time stated in an interview with the Committee, "Mr. Nagamori insisted on announcing the financial results earlier than any other company. Delaying the financial closing schedule is unthinkable at Nidec, and it was clear that this would anger Mr. Nagamori, so action was taken with the highest priority on meeting the financial closing schedule."

(1) Background to Investigation Conducted by Outside Law Firm

a. Reversal of Allowances for Inventory Valuation and Allowances for Doubtful Accounts in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) As Carried Out by Nidec Headquarters Accounting Department

In mid-October 2018, Nidec's director and executive vice president, who also served as ACIM's executive general manager, informed the Nidec headquarters Accounting Department that the executive general manager was considering changing the method of estimating allowances for inventory valuation and allowances for doubtful accounts, starting in the second quarter of fiscal 2018, to reverse these allowances. However, because a foreign executive in the U.S. had strong objections to changing the method of estimation, ACIM's executive general manager requested that consolidated journal entries be recorded at Nidec headquarters. At the request of ACIM's executive general manager, the Nidec headquarters Accounting Department recorded the consolidated journal entries to reverse the allowances for inventory valuation and allowances for doubtful accounts on October 14, 2018. The Accounting Department reported the reversal of ACIM's allowances for inventory valuation and allowances for doubtful accounts to PwC Kyoto. On October 17, 2018, PwC Kyoto pointed out that PwC U.S. needed to examine the rationale behind the new method of estimation and whether it was reasonable to change the estimation method in the middle of the fiscal year, and also requested that data supporting the rationale behind the reversal of these allowances be provided.

ACIM's executive general manager and others requested that the foreign executive in the U.S. provide the necessary data, and some of the data was sent by the foreign executive, but the data requested by PwC Kyoto remained incomplete.

Under these circumstances, PwC U.S., acting through ACIM's foreign executive in the U.S., became aware of the change in the method of estimation of these allowances, led by ACIM's executive general manager and others, and PwC Kyoto informed the Accounting Department that it would not agree to the rationale for the change unless the foreign executive in the U.S. and PwC U.S. agreed that changing the estimation method was reasonable. Even after that, however, the foreign executive in the U.S. did not agree to change the estimation method.

b. Internal Investigation by Corporate Administration & Internal Audit Department

The foreign executive in the U.S. continued to refuse to change the estimation method, and on October 26, 2018, PwC Kyoto told the Accounting Department that it was concerned about ACIM's Japanese management overriding internal controls; as a result of discussions, it was decided that the Corporate Administration & Internal Audit Department would conduct an internal investigation. On the same day, the Accounting Department, Corporate Administration & Internal Audit Department, and PwC Kyoto had a meeting about the investigation methods and related matters. According to the meeting minutes, PwC Kyoto stated, "It was most important to learn whether this instance was misconduct or an error," and requested confirmation that no other similar instances of improper accounting existed at ACIM and that there were no other situations in which the foreign executive in the U.S. was asked by Japanese executives to perform improper accounting. Furthermore, PwC Kyoto stated that if it were concluded that the Japanese executives overrode internal controls, an investigation by outside attorneys would need to be conducted, with the corporate auditors' involvement.

The investigation by the Corporate Administration & Internal Audit Department moved forward, in order to meet the deadline for the quarterly report for the second quarter of fiscal 2018, and on November 12, 2018, the Corporate Administration & Internal Audit Department submitted its investigation report to PwC Kyoto.

The investigation report prepared by the Corporate Administration & Internal Audit Department found as follows: [i] ACIM's Japanese executives, including ACIM's executive general manager, considered changing the allowances' estimation method and reversing the allowances for inventory valuation and allowances for doubtful accounts for the financial closing of the second quarter of fiscal 2018, [ii] a local foreign CFO asserted that they could not reverse the allowances unless Nidec headquarters changed the standards, [iii] at the request of ACIM's executive general manager, the Nidec headquarters CFO signed a letter to change the estimation method (the body of the letter was prepared by ACIM's general manager and others), but notwithstanding the foregoing, the cooperation of the foreign executive in the U.S. was not obtained, and [iv] for these reasons, ACIM's executive general manager requested that the general manager of the Nidec headquarters Accounting Department record the consolidated journal entries.

Based on these findings, the investigation report concluded, "Based on interviews with the individuals involved and other evidence, the Japanese managers of NCJ and ACIM and the local managers had different understandings about the instructions from NCJ headquarters about consideration of unreasonable accounting treatment, and it was determined it could not be conclusively stated that the details of the instructions to consider the proposed accounting treatment were unreasonable. Accordingly, it was determined that, in this case, an improper adjustment to the accounting was not intended; rather it was an error." With regard to the investigation as to whether there were other similar instances, it was concluded, "We conducted interviews, checked emails and relevant documents, and analyzed whether similar instances occurred, but we did not find anything suggesting that improper adjustments to accounting occurred. As a result of our investigation, we confirmed that this was the only instance in which an error arose with a material profit/loss impact on the consolidated journal entries."

Subsequently, PwC Kyoto submitted a quarterly review report containing its unqualified conclusions regarding the financial closing for the second quarter of fiscal 2018.

On this point, during the Committee interview, a person who was involved in the internal investigation made the following statements: "There was a concern that if it was concluded that the internal controls were overridden, there would be a decision to carry out an investigation by outside attorneys, and the financial closing would be delayed. Therefore, there was a desire to reach the conclusion that the matter constituted an error rather than misconduct, if possible," and "Looking back, I believe the facts revealed as a result of the investigation should have been evaluated as indicating that the internal controls were overridden."

c. Investigation Conducted by Outside Law Firm

As explained above, doubts about improper accounting at ACIM that were discovered during the second quarter of fiscal 2018 were concluded to be an "error" for a time, but the problem arose again during the third quarter of fiscal 2018.

First, in December 2018, a person responsible for the Internal Audit Department of Nidec Americas Holding Corporation (NAHC), the management company for the Americas, reported to PwC U.S. that it was possible that an improper valuation of surplus inventory was carried out at AMEC's Mexico site. Furthermore, when PwC U.S. conducted an interview with ACIM's foreign executive, the executive explained that the executive was instructed by ACIM's Japanese executive to perform improper accounting during the third quarter of fiscal 2018 as well.

PwC Kyoto learned about this situation through PwC U.S., and informed Nidec that an investigation by an independent third party was needed. Nidec's Board of Corporate Auditors decided to request that an outside law firm conduct an investigation. Although the investigation was conducted by an outside law firm, it was not completely independent from Nidec, and the details about how to proceed with the investigation (for example, the scope of the investigation, including who would be subject to interviews and forensic investigation) were decided after discussions between the outside law firm and the executive officer who was responsible for the Corporate Administration & Internal Audit Department, who was working as the contact with Nidec.

The outside law firm carried out the investigation and submitted an investigation report to the Board of Corporate Auditors on March 28, 2019 (the investigation conducted by the outside law firm, the "**2019 Investigation**").

(2) Facts Revealed as a Result of 2019 Investigation

a. Overview

The subjects of the 2019 Investigation were the U.S. businesses of ACIM and AMEC, and Nidec. The results, which contained a total of 11 instances of problematic accounting, are as follows:

(i) ACIM's allowances for inventory valuation and allowances for doubtful accounts were improperly reversed to improve the operating profit for the second quarter of fiscal 2018 (17 million U.S. dollars)[248];

(ii) AMEC's allowances for inventory valuation may have been recorded improperly on a continuing basis, to inflate operating profits (1 to 4 million U.S. dollars);

(iii) ACIM's bonus allowances were reversed arbitrarily, to improve the operating profit for the fourth quarter of fiscal 2017 (4.2 million U.S. dollars);

(iv) ACIM's allowances for litigation losses and allowances for product warranties were reversed improperly, to achieve the performance targets for the first quarter of fiscal 2018 (14 million U.S. dollars);

(v) ACIM's allowances for bonuses and allowances for doubtful accounts may have been reversed improperly to improve the operating profit for the fourth quarter of fiscal 2017 (380,000 U.S. dollars);

---

[248] This instance was the subject of the internal investigation by the Corporate Administration & Internal Audit Department, referenced above.

(vi) The method of calculation of ACIM's allowances for inventory valuation may have been revised without following proper procedures, to improve the operating profit for the first quarter of fiscal 2018 (2.8 million U.S. dollars);

(vii) Nidec headquarters deputy CFO and the person in charge of the Performance Management Department requested that ACIM's local management ask its business partners to postpone issuing their invoices until the next fiscal year, or thereafter, to improve operating profit during the second quarter of fiscal 2018 (however, ACIM's local management refused to comply with this request);

(viii) Nidec headquarters deputy CFO and ACIM's executive general manager requested that ACIM's local management defer disposition of scrap products to improve operating profit during the second quarter of fiscal 2018, but ACIM's local management refused to comply with this request;

(ix) From August 2018 to December 2018, although no agreement had been reached that customers would bear amounts equivalent to the customs duties on imports from China, AMEC improperly recorded sales and receivables on the assumption that customers would bear those amounts (4.3 million U.S. dollars);

(x) In late October 2018, when ACIM's local management proposed to the Nidec headquarters Accounting Department that an impairment be recorded for intangible fixed assets, the Nidec headquarters Accounting Department rejected the proposal due to the fact that it would have a substantial impact on operating profit and other matters, but proper consideration was not given to the accounting basis to conclude that the impairment was unnecessary; and

(xi) The local management of ACIM's Global Appliance Business Unit (GA) may have deferred expense recognition during the first and second quarters of fiscal 2018 to achieve performance targets. Although the deferred expense items have not been confirmed, the deferral of expense recognition may have been carried out without a reasonable basis (9.5 million U.S. dollars).

The problematic instances discovered above include cases in which ACIM's executive general manager was directly involved in the misconduct, where the Nidec headquarters CFO was found to be involved, and where Mr. Yoshimoto (Nidec's representative director and president at the time) was suspected to be involved. One example of these instances is as follows:

b. Improper Reversal of ACIM's Allowances for Inventory Valuation and Allowances for Doubtful Accounts (Item (i) Above)

This instance of improper accounting was subject to the initial internal investigation. ACIM's executive general manager and others received a proposal from the Nidec headquarters deputy CFO to change the method of estimation of the allowances for inventory valuation and allowances for doubtful accounts to improve operating profit during the second quarter of fiscal 2018. They instructed the local CEO, CFO, and others in the U.S. to do this, but those parties refused the request. ACIM's executive general manager and others then requested that the Nidec headquarters CFO sign a letter changing the standards for the allowances, and he did so (the letter was prepared by ACIM's executive general manager and others). Based on the letter, the executive general manager and others then requested that the local CEO, CFO, and others recalculate the reversed amounts for allowances for inventory valuation and allowances for doubtful accounts. However, the local CEO, CFO, and others again refused to comply with this request. Nidec's CFO signed the letter without confirming whether there was reasonable cause to change the standards for allowances.

Because the local CEO, CFO, and others in the U.S. refused to perform the recalculation, ACIM's executive general manager and others obtained the simplified data for the remaining inventory needed to calculate the allowances from the local CFO and recalculated the reversed amounts based on this data. Although the executive general manager and others then instructed the U.S. subsidiary's CFO, who was responsible for preparing the reporting package for consolidated accounting, to record the journal entries, based on the results of this calculation. the CFO refused to record the journal entries. For this reason, ACIM's executive general manager and others requested that Nidec Accounting Department record the journal entries as consolidated adjustments, and the Nidec Accounting Department recorded the journal entries in accordance with this request. With regard to this matter, the investigation report concluded, "We cannot deny that this improper accounting treatment was led by ACIM's Japanese management to improve the operating profit."

c. Improper Reversal of ACIM's Allowances for Litigation Loss and Allowances for Product Warranty (Item (iv) Above)

In May 2018, ACIM's executive general manager instructed the local European CFO to reverse the allowances for litigation loss and product warranty without sufficiently considering the basis for this reversal, in order to achieve the performance targets for the first quarter of fiscal 2018. Although the local person responsible for accounting objected to reversing the allowances, ACIM's executive general manager and others persuaded them to implement the reversal of the allowances.

The investigation report concluded that, with regard to the reversal of the allowances during the first quarter of fiscal 2018, "We cannot deny that this is improper accounting treatment, which was carried out to improve ACIM's operating profit."

Furthermore, the investigation report contained the following description from an email exchange between ACIM's executive general manager and the deputy executive general manager: "It was the instruction of EVP Yoshimoto to fill the remaining shortfall using OBS,[249]" and pointed out that it could be suggested that Mr. Yoshimoto, who was Nidec's representative director and president at the time, gave instructions to use the allowances to achieve performance targets. However, Mr. Yoshimoto was not interviewed while the investigation report was being prepared, and no definitive findings of fact were made (Mr. Yoshimoto's emails also were not subject to the forensic investigation).

d. ACIM's Deferral of Expense Recognition (Item (xi) Above)

ACIM's Global Appliance Business (GA) deferred recognition of expenses of 4.5 million U.S. dollars and 5 million U.S. dollars during the first and second quarters of fiscal 2018, respectively, to the third quarter of fiscal 2018 to achieve performance targets (since a new CFO joined ACIM during the third quarter of fiscal 2018, these deferred expenses were recognized during the third quarter of fiscal 2018).

In the process of the investigation, an email was discovered which indicated that the local management of ACIM's Global Appliance Business (GA) had informed Mr. Yoshimoto, the representative director and president at the time, that the expenses were being deferred. Moreover, a weekly report was discovered which indicated that the amount of the deferred expenses had been presented to Mr. Yoshimoto.

The investigation report stated that the types of expenses that had been deferred remained unconfirmed, and the expenses may have been deferred without a reasonable basis. As explained above, Mr. Yoshimoto was not interviewed while the investigation report was being prepared, so the facts regarding Mr. Yoshimoto's involvement and understanding were not confirmed.

(3) Matters Identified as "Latent Issues"

The U.S. businesses of ACIM and AMEC were the subject of the 2019 Investigation. As a result of the forensic investigation, however, emails were discovered which suggested the existence of similar problems in other businesses (referred to in the investigation report as "**Latent Issues**").

The outside law firm shared 50 emails it deemed representative examples of the emails regarded as "Latent Issues" ("**50 Latent Issues**") with Nidec's corporate auditors and PwC Kyoto, and Nidec confirmed the facts and reported the results to PwC Kyoto. The other Latent Issues were categorized as "Hot" or "Relevant," depending on their importance (of these, just over 4,000 emails were

[249] This is an abbreviation of "Opening Balance Sheet." Based on the context, it refers to the reversal of the allowances included in the opening balance.

considered "Hot" and just over 10,000 emails were considered "Relevant.").[250] The emails categorized as "Hot" were shared with Nidec's corporate auditors and PwC Kyoto, and a list of the emails categorized as "Relevant" was shared.

The details of the "50 Latent Issues" varied; however, they can be categorized broadly into the following: [i] emails suggesting that arbitrary accounting treatment may have been carried out for the purpose of managing financial results, such as early recognition of sales, deferral of expense recognition, asset recognition of development expenses without a reasonable basis, the reversal of allowances through changes to estimation standards without a reasonable basis, the premature recognition of material cost reduction effects, and the intentional extension of the timing of invoice receipts, and [ii] emails suggesting that the timing of impairment, write-downs, or expense treatment of non-performing assets was adjusted arbitrarily. In addition, the "50 Latent Issues" were related to various business units and domestic group companies, including the Automotive Motor & Electronic Control Business Unit (AMEC)'s Chinese business and the Small Platform Motor & Solutions Business Unit (SPMS), as well as Nidec Copal Corporation (NCPL) and Nidec Seimitsu Corporation. Furthermore, the "50 Latent Issues" also included emails related to the Asset Revitalization Project Nidec conducted starting in November 2016 and emails related to the special audits by Mr. A.

The circumstances that lead to the establishment of the Committee arose from the discovery, in the course of an internal investigation into improper accounting discovered at Nidec Techno Motor (Zhejiang) Co., Ltd., of materials suggesting that the timing of disposition of so-called "legacy liabilities" held by various Nidec Group sites was considered arbitrarily, with the involvement or awareness of the management of Nidec headquarters and its subsidiaries. The "Latent Issues" discovered as a result of the 2019 Investigation were emails suggesting a similar situation, and therefore, it can be said that the individuals involved in the investigation at the time saw a situation similar to what the Committee saw at the outset of the investigation.

(4) Investigation of Mr. Yoshimoto

According to the investigation by the outside law firm, Mr. Yoshimoto, who was the representative director and president at the time, was not interviewed, nor was a forensic investigation of Mr. Yoshimoto's emails and related materials carried out before submission of the investigation report on March 28, 2019.

Immediately after commencement of the investigation by the outside law firm, on January 9, 2019,

---

[250] The terms "Hot" and "Relevant" are generally used in forensic investigations. The specific category details vary depending on the situation; for example, an email directly suggesting the existence of misconduct is categorized as "Hot," while an email suggesting the possibility of being related to misconduct (although it does not directly suggest the existence of misconduct) is categorized as "Relevant."

the full-time corporate auditor, the executive officer responsible for the Corporate Administration & Internal Audit Department, the outside law firm, PwC Kyoto, etc., held a meeting. The topic of whether to hold interviews with Mr. Yoshimoto and to carry out a forensic investigation of his emails was brought up at the meeting, but they decided that Mr. Yoshimoto would not be interviewed, nor would a forensic investigation be carried out, for the time being. However, they would reconsider whether he should be a subject of the interviews or forensic investigation if his name came up during interviews with other individuals.

On January 28, 2019, the outside law firm told the executive officer responsible for the Corporate Administration & Internal Audit Department and others that it was difficult to say that the issue was limited to specific regions and specific companies, based on the results of the investigation up to that point. Therefore, in addition to pointing out that it might request that Mr. Yoshimoto be interviewed in the future, the outside law firm reported in early March that Mr. Yoshimoto was suspected of being involved in the improper accounting. Nevertheless, the investigation by the outside law firm ultimately was completed without interviewing Mr. Yoshimoto and without his emails and other related documents being subject to a forensic investigation.

A concerned person at the Corporate Administration & Internal Audit Department who was involved in the investigation stated in an interview with the Committee, "I thought we should have carried out an investigation of Mr. Yoshimoto as a matter of course. Nidec, however, had a long-standing succession issue, and when Mr. Yoshimoto became the president, it was the first time a person other than Mr. Nagamori became president. Many people had expectations that the succession issue would be resolved, and there was a shared understanding that no harm could be done to Mr. Yoshimoto."

In April 2019, after the outside law firm submitted the investigation report, a U.S. certified public accountant supporting PwC Kyoto's quality management asked many questions about the details of the investigation report, and it was decided that the outside law firm would respond to the questions. The relevant accountant raised doubts about the fact that Mr. Yoshimoto was not interviewed. In response, the outside law firm held an interview with Mr. Yoshimoto on May 8, 2019. The minutes of the interview were not provided to PwC Kyoto. Instead, the details of the minutes were read out loud and explained at a meeting with PwC.[251] In addition, a report to the Board of Corporate Auditors was provided, stating that, "As a result of the interview, no event was discovered that required changing the contents of the matters discovered, the analysis of the causes, and the corrective measures/recurrence prevention measures in our law firm's 'Investigation Report on Improper Accounting,' dated March 28, 2019."

Mr. Yoshimoto acknowledged in an interview with the Committee that he instructed ACIM's executive general manager and others to reverse the allowances and that he was shown the amounts

---

[251] The minutes of the interviews with other interviewees also were explained in the same manner.

of the deferred expenses by ACIM's local management, as pointed out above, but he explained that he merely gave instructions about reversing the allowances as an acceptable "aggressive" accounting practice and that he was not aware that deferral of expenses was an unacceptable accounting practice.[252] The Committee did not find objective evidence disproving this claim in its investigation.

However, the forensic investigation by the Committee discovered emails suggesting that Mr. Nagamori instructed Mr. Yoshimoto to rehabilitate ACIM and that he imposed strong performance pressure on him, as well as emails suggesting that after receiving these emails, Mr. Yoshimoto gave strict instructions to ACIM's executive general manager and others to achieve the performance targets.[253]

The investigation report prepared by the outside law firm pointed out that ACIM's executive general manager, acting under their leadership, attempted to make improper adjustments to the amounts of the allowances for inventory valuation and the allowances for doubtful accounts in order to improve operating profit for the second quarter of fiscal 2018. However, we believe that, in the background, there existed a structure in which Mr. Nagamori exerted strong pressure on Mr. Yoshimoto to achieve ACIM's performance targets, and Mr. Yoshimoto, in response, gave strict instructions to ACIM's executive general manager and others to achieve the performance targets.[254]

In an interview with the Committee, Mr. Yoshimoto stated, "I believed we should improve ACIM's earning power by eliminating waste at its manufacturing sites and developing its abilities, and ACIM had much room for improvement. On the other hand, Mr. Nagamori strongly demanded we achieve ACIM's short-term performance targets, so we needed to do so while simultaneously doing improvement activities to develop our true abilities" (the fact that Mr. Yoshimoto was tirelessly making efforts to increase ACIM's abilities also was confirmed in this investigation by the

---

252 The Committee reviewed the minutes of Mr. Yoshimoto's interview prepared by the outside law firm; he gave an answer to the same effect during his interview with the outside law firm.

253 One person with experience as an ACIM executive stated that ACIM's business plan for fiscal 2018 was unrealistic from the start. An email sent from an ACIM executive to the Nidec headquarters' Performance Management Department during the planning stage for the fiscal 2018 business plan (this email also was mentioned in Part 5-1 above) included statements such as, "The figures that we communicated to you seek to overcome the low growth rate of the market overall, or any headwinds involving individual customers, aiming for growth that's double or triple the market's, but the figures that the CFO Strategy Department presented far exceed that," and "We will continue submitting figures to the extent possible, but we'd like to have your department show the rationale behind your figures, as it would seem necessary to confirm that both sides are on the same level. What does your department think we need to do to be able to achieve a plan that's dozens of times higher than the market growth? Could you explain your basis for thinking that's reasonable?" Furthermore, one person with experience as an ACIM executive stated, "Nidec headquarters had absolutely no intention to revise the target values based on supporting materials submitted by ACIM, and there was no room for negotiation." Mr. Yoshimoto also commented during the Committee interview that the fiscal 2018 business plan was unrealistic.

254 ACIM's executive general manager at the time also stated during the Committee interview that he took the lead in the accounting procedures later concluded by the outside law firm to be inappropriate because he had been strongly instructed by Mr. Yoshimoto to improve the operating profit in the second quarter of fiscal 2018.

Committee).

(5) Status of Confirmation of "Latent Issues"

a. Overview

As explained above, in the process of the investigation by the outside law firm, emails were found suggesting similar problems ("Latent Issues") existed in businesses other than U.S. businesses of ACIM and AMEC, which were subject to the investigation.

The outside law firm reported the existence of the "Latent Issues" to the Corporate Administration & Internal Audit Department and PwC Kyoto in late February 2019. Accordingly, the confirmation of these facts proceeded in parallel with the outside law firm's investigation.

The facts about the representative "50 Latent Issues" among the "Latent Issues" were confirmed mainly by the Corporate Administration & Internal Audit Department, and the status of confirmation was shared with PwC Kyoto on an ongoing basis. In addition, taking the audit deadline pursuant to the Companies Act into account, the Corporate Administration & Internal Audit Department proceeded with confirming the facts after consulting with PwC Kyoto, and it aimed to complete this by May 14, 2019. Furthermore, PwC Kyoto reviewed the emails categorized as "Hot" among the "Latent Issues" other than the aforementioned "50 Latent Issues," and requested that the Corporate Administration & Internal Audit Department confirm the facts, as necessary.

b. Sharing Information with PwC Kyoto About Asset Revitalization Project and Special Audits

(a) Emails Shared With PwC Kyoto

As explained above, the "50 Latent Issues" discovered as a result of the forensic investigation include an email about the Asset Revitalization Project that Nidec implemented starting in November 2016 and an email about Mr. A's special audits. These emails also were shared with PwC Kyoto. For example, the following was included in a report dated December 22, 2018 titled "First Half of Fiscal 18 Status Update About the Asset Revitalization Project," which was attached to an email shared with PwC Kyoto.

- During the first half of fiscal 2018, at AMEC, ACIM, NCPL, and NSTJ, it has became apparent that the following assets needed to be revitalized, and a total of **13.72 billion yen has been**

added. The majority of these assets are high risk.

AMEC: 8.81 billion yen (details in the attached)

<Risk: high, 5.98 billion yen>

・Profit of 2.37 billion yen related to sales of 4.31 billion yen with insufficient basis for recognition

・Accumulation of accelerated profit recognition arising from the deferral of costs and other related amount: 3.61 billion yen

<Risk: medium, 2.83 billion yen>

・Lost projects ([Note: customer's name]): Equipment, 2.83 billion yen

ACIM: 1.93 billion yen

<Risk: high, 1.93 billion yen>

・Changes to the estimation of allowances and consolidation treatment identified by PwC Kyoto: 1.93 billion yen

NCPL: 980 million yen (which already was reported in 18Q1)

・Assets newly identified by the audit on all NCPL sites due to the special audits

<Risk: high, 410 million yen> Shiojiri (inventory): 410 million yen

<Risk: medium, 570 million yen>; Koriyama (fixed assets and related items): 180 million yen; Vietnam (construction in progress and related items): 230 million yen; Thailand (construction in progress and related items): 160 million yen

NSTJ: 1.98 billion yen

<Risk: high, 1.98 billion yen>

・Identified by the special audits, 1.98 billion yen

The emails shared with PwC Kyoto also included an email dated July 20, 2018, in which the general manager of the accounting department of Nidec Copal Corporation (NCPL) and others reported on the status of disposition of NCPL's "legacy liabilities." A special audit report on NCPL's "legacy liabilities" was attached to this email. The status of the disposition of NCPL's "legacy liabilities" continued to be monitored in Mr. A's special audits, and the body of the email stated, "I had a meeting with General Manager XX [Note: Mr. A] today, and these are the materials I will report to the representative."

The beginning of the report includes the following statement, which is believed to have been written by Mr. A.

Following the issue of NCSC's illegitimate accounting procedures, we carried out a special investigation of "all legacy liabilities" in the NCPL group (it was a collaborative investigation with a limited number of NCPL executives after the report to the Chairman in January 2017). We report the following: "Undiscovered Matters in Internal and External Audits, Appendix 1." Under NCPL's XX new framework, we intend to formulate, carry out, and achieve an amortization plan, placing the highest priority on preventing recurrences and eliminating the risk of external leaks, by sharing more information and increasing the visibility of "legacy liabilities."

[Omitted]

(i) Investigation results → The "legacy liabilities" identified in this investigation were valued at 11,351,100,000 yen at the end of March and will total 11,017,000,000 yen at the end of June (see the table below), representing an increase of 1,127,300,000 yen compared with the value reported in the Asset Revitalization Project and a decrease of 3,117,000,000 yen compared to the value reported to the Chairman in January 2017.

[Omitted]

(iii) We intend to formulate, formulate, and achieve an amortization plan (see the table below), placing the highest priority on eliminating the risk of external leaks.

[Omitted]

The report also mentioned the status of amortization up to that point and the planned amortization of NCPL's "legacy liabilities." Of the "legacy liabilities," 11 assets constitute "special audit standards: black," and "priority processing required." Although not indicated in this report, the category "special audits standards: black" refers to situations such as "intentionally deferring write-downs," "intentionally failing to recognize allowances," "intentionally deferring recognition of expenses," and "intentionally accelerating recognition of sales,"[255] according to a different version of the report saved in the Corporate Administration & Internal Audit Department's shared folder.

(b) Status of Explanation of Asset Revitalization Project and Related Matters to PwC Kyoto

After the emails about the Asset Revitalization Project that were discovered as a result of the outside law firm's forensic investigation were shared with PwC Kyoto, the Nidec headquarters CFO and the general manager of the Accounting Department determined that it was necessary to explain an overview of the Asset Revitalization Project to PwC Kyoto, and in late February 2019, they started to

[255] The special audit standards include the category "special black," and the "special black" category is comprised of situations that include "intentionally recognizing sales without supporting orders," "intentionally recognizing revenue without a basis for recognition," and "intentionally recognizing non-existing assets."

provide explanations of the Asset Revitalization Project to PwC Kyoto. It should be noted that they did not explain the positioning and actual circumstances of Mr. A's special audits to PwC Kyoto.[256]

NCPL's CFO and others explained the special audit report on NCPL's legacy liabilities to PwC Kyoto on March 7 and 14, 2019, but some of the explanations were not based on the facts.

For example, with regard to the inventory of the Shiojiri Factory, which is one of the assets deemed to constitute "special audit standards: black," the inventory unit price was inflated as a measure to improve profits.[257] The special audit report also included a note stating "inflation of unit price." However, looking at the minutes of the meeting with PwC Kyoto held on March 14, 2019, NCPL's CFO gave an explanation as to the meaning of the note stating "inflation of unit price" to the effect that "the unit prices increased due to the relocation of the manufacturing site from the Philippines to China," which is not based on the facts.

This response by NCPL's CFO and others to PwC Kyoto was in accordance with the policy discussed by the Nidec headquarters Accounting Department, NCPL's CFO, and others.

Mr. A also reported separately to Mr. Nagamori about NCPL's responses to PwC Kyoto. The following was in Mr. A's weekly report to Mr. Nagamori.

March 17, 2019 Report on support for NCPL's audit response: [Omitted] NCPL's response to the detailed investigation by PwC Kyoto concerning "legacy liabilities." (i) The company found errors and revised them within the fiscal year. Accordingly, it was not a matter of overriding internal controls. (ii) All of the matters were not identified by the outside audit, and as a result of the company's review, they were treated as errors and revised by the company within the fiscal year.[258] (iii) The term "black standards" means the priority order for making revisions. While adhering to the above basic explanation, these individual matters were explained by XX B on March 7 and March 14. The

256 However, on March 11, 2019, the Corporate Administration & Internal Audit Department explained the auditing activities for fiscal 2018, the audit plan for fiscal 2019, and other matters to PwC Kyoto. The Corporate Administration & Internal Audit Department's organizational chart, included in the explanation materials, stated that Mr. A was not incorporated into the organization of the Corporate Administration & Internal Audit Department, but instead was positioned as a "general manager of special audit" reporting directly to Mr. Nagamori.

257 A report dated July 29, 2018, from NCPL's president to the Executive Officer Responsible for Group Companies and others, titled "Investigation Report Regarding Problematic Inventory at Shiojiri Factory and Proposal for Disciplinary Action against Concerned Individuals," which was discovered as a result of the Committee's investigation, contained various statements, including the fact that from March 2014 to June 2018, the inventory unit price was inflated as a measure to improve profit (about 10 times on average) and that the inflation of prices started based on instructions from the already-retired general manager of the factory.

258 As explained above, a determination is made that a matter constitutes "special audit standards: black" in certain situations, for example, when "intentionally deferring write-downs," and therefore, the explanation that this is "an error" is inconsistent with the facts.

auditors accepted the explanations, and I understand that confirmation of revised results at the end of Q4 will be the final step. I believe that this was achieved through taking the time to provide support and repeatedly aligning the phases with the individuals at NCPL who were responding to the audit. I will continue to offer my full support if additional related matters arise.

On March 20, 2019, a meeting was held between the Corporate Administration & Internal Audit Department, the Accounting Department, and PwC Kyoto. At that time, a draft list showing the overall picture of the "legacy liabilities" identified through the Asset Revitalization Project, which was prepared by Nidec's Corporate Administration & Internal Audit Department and Accounting Department, was shared with PwC Kyoto.

This draft list indicated the following: various Nidec sites, including the Automotive Motor & Electronic Control Business Unit (AMEC) and NCPL, were carrying "legacy liabilities," the total number of "high risk" assets, which Nidec considered to lack substance and to need immediate treatment, had reached 130, and the total amount thereof was approximately 9.3 billion yen as of the second quarter of fiscal 2018, and reached approximately 6.3 billion yen as of the third quarter. The draft list also indicated that a considerable number of the "legacy liabilities" were described as "intentional," as "the determination regarding the reasonableness of accounting treatment" based on the results of confirmation by Nidec's Corporate Administration & Internal Audit Department and Accounting Department at the time. According to the emails exchanged between members of Nidec's Corporate Administration & Internal Audit Department and members of the Accounting Department in the process of preparation of this material, "intentional" was a term used to mean "instances in which the accounting treatment lacked a reasonable basis and could not be determined to be an error," i.e., situations in which the existence of intentional misconduct could not be denied. Moreover, many of the "legacy liabilities" in the draft list had not been identified as Latent Issues.

The "legacy liabilities" contained in the special audit report on NCPL's legacy liabilities also were incorporated into this draft list. However, the Shiojiri Factory's inventory, referenced above, were categorized as "high-risk" assets that lacked substance and needed immediate treatment, whereas the accounting procedures carried out at the time were deemed "appropriate." All of the other "legacy liabilities" discovered at NCPL were considered "errors."

The following is an excerpt from the draft list.

					JPY 100 million		
List of Asset Revitalization Project Items				(ii) Timing of accounting processing (timing that unprocessed items should be processed)	Balance as of 9/2018	(i) Detailed description of project item	(v) Results of determination concerning accounting reasonableness
High Risk		NAMS	31	Suspension of scrap voucher processing	18Q2	0.3		Intentional
			32	Personnel expenses (direct employees): salaries and bonuses	18Q2	0.8		Intentional
			33	Personnel expenses (indirect employees): salaries and bonuses	18Q2	0.5		Intentional
			34	Personnel expenses (general employees): salaries and bonuses	18Q2	0.1		Intentional
			36	Suspension of utility expense voucher processing	18Q2	0.4		Intentional
			37	Suspension of transportation & duty expense voucher	18Q2	0.3		Intentional
			38	Suspension of expense voucher processing	18Q2	0.6		Intentional
			49	Non-allocation of dispatch salary allowances	18Q2	0.6		Intentional
			46	Non-processing of XX one-off expenses (2016)	16Q3	1.4		Intentional
			50	Non-processing of XX one-off expenses (2018)	18Q2	2.2		Intentional
			39	XX invoices (FY2017 Q2)	17Q2	0.8		Error
			41	Carry-over of fixed expenses	17Q2	2.7		Appropriate at the time (if supporting evidence is present)
			42	Non-processing of XX receivables	16Q2	0.6		Error (confirmation required)
			43	XX Molds	16Q4	0.5		Appropriate at the time (if supporting evidence is present)
			47	XX (FY 2018 Q2)	18Q2	0.3		Error

Subsequently, during the fourth quarter of fiscal 2018, Nidec carried out the disposition of all of the assets identified as "high risk" via the Asset Revitalization Project. However, Nidec did not report the corrections from the second to the third quarters of fiscal 2018. An employee, who responded to the audit as, and was, a member of the Corporate Administration & Internal Audit Department at the time, stated in an interview with the Committee, "I believe it was determined that the 'high-risk' assets were not material enough to make corrections on the assumption that they all would be disposed of at the end of fiscal 2018."

The "legacy liabilities" identified through the Asset Revitalization Project were based solely on self-reports from the business units and others, and it hardly could be said that the circumstances leading to their occurrence and their specific details had been confirmed sufficiently. As explained above, the draft list indicated that a considerable number of the "legacy liabilities" were deemed "intentional" by Nidec at the time, but thereafter, the Corporate Administration & Internal Audit Department did not completely confirm whether these "legacy liabilities" deemed "intentional" arose due to intentional misconduct. The general manager of the Corporate Administration & Internal Audit Department, who was involved in the investigation at the time, stated in an interview with the Committee, "It was not realistic to reconfirm whether all the matters identified via the Asset Revitalization Project actually arose due to intentional misconduct when the financial closing schedule was taken into account."

c. Results of Confirmation of "50 Latent Issues"

Confirmation of the "50 Latent Issues" was intended to be completed by May 14, 2019, taking the audit deadline in the Companies Act into account, and it was completed by May 13, 2019. As a result, seven instances were identified as deficiencies, and the total impact was calculated to be 1.066 billion yen. However, with respect to these deficiencies, it was concluded that corrective measures had been implemented by the end of fiscal 2018, and that all the matters requiring accounting treatment already had been disposed of.

d. Full-Year Financial Results for Fiscal 2018

At the time of the full-year financial results for fiscal 2018, Nidec concluded that the issues discovered as a result of the 2019 Investigation, the deficiencies discovered as a result of the investigation of the "Latent Issues," and the matters separately discovered in the course of the accounting audit had an impact of less than 5% on the profit before income taxes and the net profit for the accounting period from the first to the third quarters of fiscal 2018 and for the full fiscal year. Furthermore, Nidec also concluded that, from the perspective of quality, these issues had not resulted in achievement of the performance forecasts announced externally and the impact on the users of these consolidated financial statements was low; therefore, the issues were not material enough to require corrections to past quarterly consolidated financial statements and other consolidated financial statements.

Subsequently, PwC Kyoto submitted an audit report with its unqualified opinion regarding the full-year financial results for fiscal 2018.

(6) Initiatives to Prevent Recurrences Based on Recommendations From the Outside Law Firm

a. Outside Law Firm's Analysis of Causes and Recommendations

In its investigation report, the outside law firm identified the following three causes for the issues discovered as a result of its investigation: (i) the existence of the pressure to achieve the performance targets, (ii) the lack of awareness regarding proper accounting practices, and (iii) the existence of issues relating to internal control organizations. With regard to item (i), the outside law firm pointed out that Nidec's performance targets were decided in a top-down manner and that the top managers monitored how they were achieved in detail, and that in the corporate culture, there was "strong encouragement and severe criticism when the performance targets were not achieved, on the assumption of proper accounting treatment." With regard to item (ii), in addition to pointing out the fact that the emphasis on achieving the performance targets resulted in a decline in the compliance awareness of the officers and employees with regard to accounting procedures, the outside law firm concluded that Mr. Nagamori, that is, the "top management," "continuously sent messages to the officers and employees about 'royal road of business management (healthy growth and contribution to society) and legitimate accounting (appropriate accounting procedures and proper accounting reporting)', but that mentality might not have pervaded the organization sufficiently." With regard to item (iii), the outside law firm pointed out that there is an issue of independence, stating that there was a group that fulfilled the supporting function for management of performance within Nidec's Accounting Department, and that the accounting departments of the business units or subsidiaries were mainly under the control of their respective business units, the Group Companies Performance Management Department, or their respective subsidiaries' management. In addition, it pointed out that Nidec's Accounting Department did not exercise its authority adequately in its relationships with the business units.

Based on the foregoing analysis of the causes, the outside law firm recommended, in relation to item (i), that Nidec establish a framework through which each business unit and subsidiary could evaluate the performance targets set by each business unit and subsidiary appropriately, as well as a framework through which they can revise these performance targets in a flexible manner when the business environment changes. In addition, the outside law firm recommended setting performance targets and KPIs that would not be affected by financial accounting and establishing a framework to evaluate the financial results from multiple perspectives. It also requested that measures be implemented through which the pressure to achieve performance targets would become more reasonable. As a recommendation related to the analysis of causes in item (ii), the outside law firm requested that the top management communicate clearly throughout the company that it prioritized proper accounting procedures over achieving budgeted performance targets, as a top message. As a recommendation related to the analysis of causes in item (iii), the outside law firm requested a separation of the Global Performance Management Group from the Accounting Department to ensure that the accounting departments were independent and to strengthen their authority, as well as the construction of an organizational framework to ensure that the Accounting Department would not be affected by the business units and Performance Management Department. Also, the outside law firm recommended that certain authority (including approvals) be granted to Nidec's Accounting Department over the business units and subsidiaries' accounting procedures and that a reporting framework be established that enabled the accounting departments of the business units and subsidiaries to report directly to Nidec's Accounting Department.

In addition to the foregoing, the outside law firm requested that rules be established regarding implementation of a one-off action item called "One Timer" as a specific measure to prevent the recurrence of improper accounting. It also requested that a rule be established, requiring that when changing the accounting treatment methods or accounting estimates used by a business unit or a subsidiary, the change be made under the leadership of the accounting department of the relevant business unit or subsidiary, after prior consultation with Nidec's Accounting Department and consultation with the local audit firm.

b. Recurrence Prevention Measures Taken by Nidec

On February 28, 2019, as a measure taken by Nidec to ensure the independence of accounting departments and to strengthen their authority, Nidec sent an accounting notice requesting that the NIAP be complied with and that "each company's CFO confirm with NCJ's Accounting Department before its financial closing if any unprecedented accounting treatment occurs."

In addition, on March 27, 2019, as part of Mr. Nagamori's top management message, the following was sent to the accounting departments' employees and the officers of the business units and group companies (English and Chinese versions of the message were provided also).

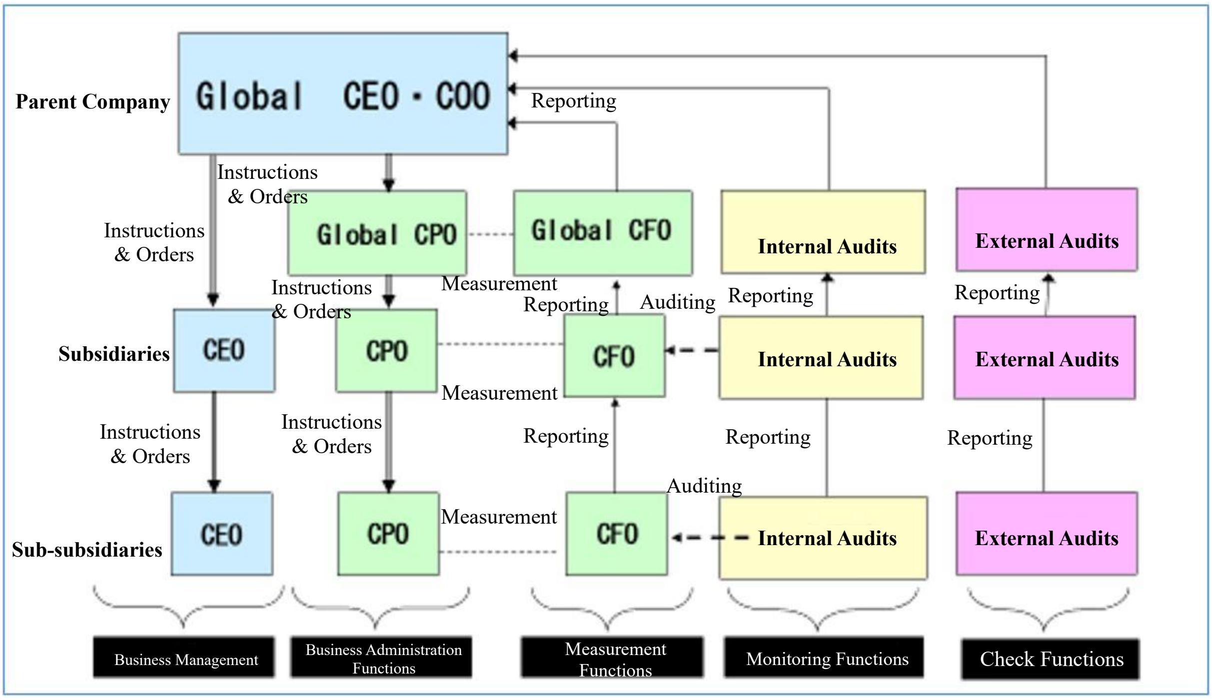
> Nippon Densan Group presents "royal road of business management" and "legitimate accounting procedures" as one of its management philosophies for healthy growth as a company and contribution to society. We aim to continue being a corporate group that the society cannot do without, even a hundred years from now.
>
> Therefore, no matter how challenging the business environment surrounding us may be, please place priority on proper management (royal road of business management) and correct accounting procedures (legitimate accounting procedures), above all else.
>
> [Omitted]
>
> To the executives of all businesses and group companies, please bear in mind that improper accounting is serious misconduct that undermines our company's foundation. In every aspect, please once again ensure that royal road of business management and legitimate accounting procedures are given top priority, above all else.
>
> Not achieving the performance targets is acceptable if achieving or surpassing the business plan requires misconduct. Pushing yourself too hard will take its toll. Seeking short-term, one-off gains, or easy speculative money constitutes neglect of management responsibility.
>
> With a firm commitment to "royal road of business management" and "legitimate accounting procedures," please make every effort to follow Nagamori's three main management methods and three major management attitudes, and continue management in which exceeding our business plans is the norm.

With respect to establishment of rules regarding implementing a one-off action item called "One Timer," on March 25, 2019, Nidec issued an accounting notice stating, "Whether a suspicious accounting item is appropriate must be confirmed in advance by NCJ's Accounting Department, including recognition of profits and deferral of expenses in a one-off (One Timer) instance."

In addition, as a measure to ensure the accounting departments' independence, Nidec decided to separate its reporting line for performance management from its reporting line for accounting. The organizational structure pursuant to which the CFO was responsible for both the Performance Management Department and the Accounting Department was revised, and a new position of Chief Performance Officer (CPO) was established, creating a structure in which the CPO was responsible for performance management work.

On the other hand, the outside law firm recommended establishing a framework in which each business unit and group company appropriately evaluates the bottom-up performance targets set by each business unit and group company, as well as a framework that would allow performance targets to be revised in a flexible manner when the business environment changes. Other recommendations included setting performance targets and KPIs that would not be affected by operating profit under financial accounting and establishing a framework for evaluating the financial results from multiple perspectives. The outside law firm also requested that measures be taken whereby the pressure to achieve performance targets would become more reasonable. However, no specific measures were carried out with respect to these recommendations.

The outside law firm also recommended that a reporting framework be established that enabled the accounting departments of business units and subsidiaries to report directly to Nidec's Accounting Department. In response to this, the executive officer responsible for the Corporate Administration & Internal Audit Department, after obtaining Mr. Nagamori's consent, considered establishing a structure through which a chief performance officer (CPO) would be placed at each subsidiary and positioned in the reporting line of the Nidec headquarters CPO who would be in charge of carrying out the performance management work, and a CFO at a subsidiary would be positioned in the reporting line of the Nidec headquarters CFO. The following is an excerpt from materials used by the relevant executive officer when explaining the image of the new organization to Nidec Group's CFOs and the people concerned in the accounting departments.



This proposal was extremely similar to the organizational change that Nidec intends to implement as a recurrence prevention measure in response to the instances in question, as described below. However, at that time in 2019, this organizational change had not been implemented. The relevant executive officer, who already left Nidec, stated in an interview with the Committee, "I intended to implement the organizational change after gaining Mr. Nagamori's support, but ultimately it could not be realized due to a lack of personnel at the subsidiaries."

3. Instances of Improper Accounting Discovered After 2019 Investigation

A series of instances of improper accounting was discovered at Nidec after the 2019 Investigation by the outside law firm. An overview of the main instances follows.[259]

[259] Instances other than the instances described in the main text of this report also were discovered; for example, (i) in the fourth quarter of fiscal 2020, and from fiscal 2018 to fiscal 2020, misconduct involving the overstatement of inventory and sales was discovered at Copal Yamada Corp. (CYCJ), based on the president's instructions, and (ii) in the third quarter of fiscal 2021 inflated orders were placed in order to recover accounts receivable from customers, and the proceeds were applied to outstanding receivables at Nidec Automotive Motor (Zhejiang) Corporation (NAMS). Furthermore, facts were discovered that (iii) during the third quarter of fiscal 2022, at Nidec Sankyo CMI Corporation (NSCM), the physical inspection results for fixed assets (unidentified asset amounts and physical inventory results) were falsified under the leadership of the CFO, and the fixed assets were inflated. Lastly, facts also were revealed that (iv) during the first quarter of fiscal 2023, a circular transaction was carried out at Nidec Material Technology (Zhejiang) Co., Ltd. (NMZC). The Corporate Administration & Internal Audit Department conducted special investigations of all these occurrences.

(1) Instances of Improper Accounting at Nidec Servo Corporation (NSRV)[260] (Discovered During Fourth Quarter of Fiscal 2019)

a. Overview of Occurrences

This situation arose in February 2020 when an internal whistleblowing report that had been submitted to PwC Kyoto was shared by PwC Kyoto, which triggered an investigation. PwC Kyoto requested an investigation by the full time corporate auditor to ensure the investigation was carried out independently. The full time corporate auditor thus instructed the Corporate Administration & Internal Audit Department to carry out the investigation, and the Corporate Administration & Internal Audit Department carried out the investigation in collaboration with PwC Kyoto from February to around May 2020.

The facts about the occurrences revealed as a result of the investigation were wide-ranging, and an example is provided below. All of these were improper acts carried out by the executives of Nidec Servo Corporation (NSRV) under performance pressure.

- Fictitious sales and sales presuming a reversal were recorded, using distributors, for purposes of achieving performance targets;
- Double recognition of inventory for purposes of achieving performance targets;
- Early recognition of sales, deferral of recognition of expenses, and lowering of various allowances, for purposes of achieving performance targets.

b. Analysis of Causes by Corporate Administration & Internal Audit Department

The investigation report dated March 30, 2020 provided to the Board of Corporate Auditors by the Corporate Administration & Internal Audit Department pointed out, as the causes for the improper accounting that occurred at NSRV, that NSRV's executives strayed from Nidec's most important management philosophies: "royal road of business management" and "legitimate accounting," and performed improper accounting, placing the highest priority on achieving performance targets. Furthermore, the person responsible for accounting, the general manager of the Sales Administration Department, and the office managers of the Internal Audit Department, did not rectify the occurrences despite being aware of the improper accounting. The investigation report also pointed out that NSRV's check framework did not fulfill its intended function. Finally, the investigation report also pointed out that Nidec headquarters management executives dispatched a part-time officer to NSRV, and so on,

[260] Currently, Nidec Advanced Motor Corporation (NAMC).

but the guidance and monitoring was insufficient; as a result, NSRV was unable to prevent the improper accounting from occurring.

c. Background to Preparation of Report for Board of Corporate Auditors

As explained above, in its investigation report, the Corporate Administration & Internal Audit Department indicated the guidance and monitoring by the Nidec headquarters executives was insufficient, but did not mention that there was performance pressure from the Nidec headquarters' executives.

Nevertheless, according to investigation materials from that time, it is obvious that the individuals involved in the improper accounting candidly described the existence of strong pressure from the Executive Officer Responsible for Group Companies at the interviews conducted by the Corporate Administration & Internal Audit Department.

For example, the following was contained in the minutes of the interview with NSRV's general manager of the Sales Administration Department carried out by the Corporate Administration & Internal Audit Department.

> Meetings with NCJ [Note: Nidec headquarters] (Group management) were held weekly to achieve the performance targets, and they were attended by ●●, ●●, ●●, and ●●. When it was bad, four meetings a day were held, at 8:00, at noon, at 15:00, and at 23:00. Each meeting lasted one hour or more (the time of AS YY [Note: the former executive officer responsible for group companies]). Everyone was unmotivated. AS YY hit the table repeatedly, and I lost 10kg around that time.
>
> [Omitted]
>
> After that, fictitious sales increased again when the new president took over. When P ZZ [Note: the president of NSRV] first joined, he said this is bad, let's reduce inventory, and everyone had high expectations. And yet, in August 2019, his personality completely changed after he attended the group companies' Executive Management Meeting, accompanying Mr. AA [the Executive Officer Responsible for Group Companies], and he started saying, "Not achieving our performance targets is unacceptable to Nippon Densan." (Around the time, Mr. BB [Note: the general manager of the Sales Administration Department] was sobbing.)

In addition, the following was contained in the minutes of the interview with the deputy executive general manager of the Sales Division.

Is it considered unavoidable to engage in misconduct to achieve the performance targets? → Ideally, it should be avoided, but we cannot make a living that way. We have to be 100% committed. Monthly sales are a matter of our livelihood.

[Omitted]

What was the reason for this happening this time? → The Sales Department's job is to have performance targets and achieve them. So I tended to fall back on achieving those targets. This was my own weakness. I was unable to have discussions on how to stop the misconduct. I would like to take the recent discoveries in a positive light and bring out ideas that could fill the shortfall. I would like to return to the mindset I had when I first joined the company.

Next, the following was contained in the minutes of the interview with the acting general manager of the Sales Department.

In August 2019, B XX [Note: the president of NSRV] said not achieving the performance targets was unacceptable. When he joined NSRV, he felt there was a sense of urgency about the high inventory, but he suddenly changed his mind after attending the group companies' Executive Management Meeting.

[Omitted]

Four years earlier, YY & AA's framework [Note: NSRV's other president and the Executive Officer Responsible for Group Companies' framework] began to be implemented, and telephone conferences were held daily and hourly. Every day, continuously, I did not get home until midnight, and started work at 8 a.m.; I worked on Saturdays, too. I also had to prepare the weekly report on Sundays, and so my weekly time off was only one half-day. To make matters worse, Mr. AA started holding morning and evening meetings, which deprived me of even more time.

[Omitted]

The turning point was clearly P YY [Note: the former president of NSRV]. He took what Mr. AA [the Executive Officer Responsible for Group Companies] said seriously.

Based on all of the interview minutes above, it is strongly suggested that strong pressure to achieve performance targets, imposed by the Executive Officer Responsible for Group Companies, was the background for the misconduct.

With regard to this instance, a PwC Kyoto partner sent the following email to the full-time corporate auditor and others based on internal discussions with a U.S. certified public accountant, who was supporting PwC Kyoto's quality management.

According to PwC [Note: meaning a U.S. certified public accountant], in order to confirm whether NCJ headquarters really was not involved or did not provide instructions, an analysis of the causes and true causes needs to be performed, to confirm the following:

1) In the current investigation, and in particular, during the interviews with the four people who were dismissed:
   (1) What kind of emails and materials were presented? What kind of answers were obtained?
   (2) For each instance, were questions asked and answered regarding whether Mr. A gave instructions or was involved?
2) While reviewing other emails, was it confirmed whether NCJ gave instructions or was involved?

In this regard, the situation likely will not be resolved simply by conducting an interview, if matters are revealed that support the possibility of instructions being given or involvement. (That is, reviewing emails and other actions also will be required.)

I would appreciate it if you could summarize the minutes of the interviews and the like, and share them with me. (I would also like you to consider whether I can look at the draft at least once.)

Thank you for your assistance.

In line with the requests indicated at the end of the email above, the Corporate Administration & Internal Audit Department prepared the minutes of the interviews and shared them with PwC Kyoto. The PwC Kyoto engagement partner added his comments to the minutes of the interviews and sent them to the Corporate Administration & Internal Audit Department. With regard to the statements, "AS YY hit the table repeatedly, and I lost 10kg around that time" and "his personality completely changed after he attended the group companies' Executive Management Meeting, accompanying Mr. AA," his comment was "These items and comments seem to suggest that inappropriate and excessive pressure from NCJ may be a fundamental cause of the occurrence of improper treatment of sales and other data, but it is acceptable to you to leave this description as is?" With regard to another statement, "We have to be 100% committed," his comment was "Does '100% committed' mean committed to achieving the sales plan? Who is the commitment to? If it's NCJ, inappropriate pressure from NCJ can be regarded as a fundamental cause." With regard to the statement, "The Sales Department's job is to have performance targets and achieve them. So, I tended to fall back on achieving those targets," his comment was "It is understood that 'performance targets' means sales targets, and if sales targets were set by instructions from NCJ, the inappropriate and excessive pressure from NCJ could be regarded as a fundamental cause; but is it correct that NSRV had the final say about setting the targets?" Another comment the PwC Kyoto engagement partner made was about the statement "He suddenly changed his mind after attending the group companies' Executive

Management Meeting," specifically, that, "It appears that a fundamental reason for this instance can be considered inappropriate and excessive pressure from NCJ. Is my understanding correct?" With regard to the statement, "YY & AA's framework began to be implemented, and telephone conferences were held daily and hourly," PwC Kyoto's comment was "This appears to suggest that Managing Director AA imposed inappropriate and excessive pressure on NSRV, which became the fundamental cause for this instance. Is my understanding correct?" With regard to the statement, "He took what Mr. AA said seriously," PwC Kyoto's comment was "According to this statement, it can be regarded that Managing Director AA imposed inappropriate and excessive pressure on NSRV, and it suggests this was the fundamental cause of this occurrence. Furthermore, it also appears that further investigation may be required, in addition to the interviews, to determine whether a similar situation has occurred at other group companies. Is my understanding of this statement correct?"

As a result of the Committee's investigation, the minutes of the interviews finalized by the Corporate Administration & Internal Audit Department on the basis of the comments by PwC Kyoto's engagement partner were discovered also, but the above-referenced statements, showing the Executive Officer Responsible for Group Companies imposed intense pressure to achieve performance targets, had been deleted from these minutes.

Moreover, the minutes of the interview with the president and other executives of NSRV by the Corporate Administration & Internal Audit Department also were shared with PwC Kyoto, and the PwC Kyoto engagement partner made additions and revisions to the minutes and sent the updated versions to the Corporate Administration & Internal Audit Department. For example, the PwC Kyoto engagement partner made additions to the statement, "I understood that the accounting treatment needed to be performed within the fiscal year, but there was a profit commitment, so the only option was to eliminate the improper accounting treatment while addressing the issue in a planned manner within the fiscal year," which appears in the minutes of the interview with the president of NSRV, and revised it to, "I understood that the accounting treatment needed to be performed within the fiscal year, but there was a profit commitment <u>that I had planned as the president</u>, so the only option was to <u>remove</u> ~~eliminate~~ the improper treatment while addressing the issue in a planned manner within the fiscal year.[261]" The PwC Kyoto engagement partner also added the comment, "This refers to a profit commitment, but if this were a compulsory order from NCJ, it could be taken as pressure and could be seen as a causal factor, so further confirmation (in addition to the interviews) from personnel involved at NCJ may be necessary. I believe there were discussions but is the understanding 'that I had planned as the president' correct?" Next, in the minutes of the interview with the CFO of NSRV, there was a question: "To what extent did the group company's Management Department understand Servo's management conditions?" And the reply was "None at all, I believe. They merely gave us

261 The added sections are underlined, and the deleted sections are shown with a strike-out line. The same applies below.

instructions to achieve the numbers, and I felt it was inevitable given its function. Targets were simply allocated in aggregate, and this did not resolve the issue." However, the PwC Kyoto engagement partner made additions and revised this reply to "None at all, I believe. They merely gave us strong encouragement or severe criticism ~~gave us instructions~~ to achieve the target numbers decided by NSRV, and I felt it was inevitable given its function. It ~~merely~~ resulted in simple target management~~Targets were simply allocated in aggregate~~ at the consolidated level, and this did not resolve the issue." In addition, in the minutes of the interview with the executive vice president of NSRV, the PwC Kyoto engagement partner made an addition to the statement, "In the background to the occurrence of the improper accounting, there is the fact that requests were made to all operating bases to boost profitability in order to meet high revenue targets," as follows: "In the background to the occurrence of the improper accounting, there is the fact that requests were made to all operating bases to boost profitability in order to meet high revenue targets determined by NSRV headquarters." Lastly, in the minutes of the interview with NSRV's general manager of the Sales Division, the PwC Kyoto engagement partner made an addition to the statement, "These excessive strains arise from the sales-first culture, under which the sales department had no choice but to be committed to achieving the target numbers as the minimum requirements," specifically, "These excessive strains arise from the sales-first culture within NSRV, under which the sales department had no choice but to be committed to achieving the target numbers as the minimum requirements."

A member of the Corporate Administration & Internal Audit Department offered feedback to the general manager of the Corporate Administration & Internal Audit Department that "All of the corrections were made to statements that could be interpreted as coercive involvement by NCJ and were made to prevent any misunderstanding, and I believe that these are well-considered and appropriate corrections."

After receiving this feedback, the Corporate Administration & Internal Audit Department finalized the minutes, deleting the statements about the intense performance pressure from the Executive Officer Responsible for Group Companies. Moreover, the Corporate Administration & Internal Audit Department submitted the investigation report to the Board of Corporate Auditors, but, as explained above, the report did not contain statements about the intense pressure placed on the group companies by the Executive Officer Responsible for Group Companies.

An employee involved in the investigation as a then-member of the Corporate Administration & Internal Audit Department stated in the Committee interview, "I truly understood that a fundamental cause of the improper accounting was the excessive pressure by the Executive Officer Responsible for Group Companies. However, as Mr. Nagamori liked this officer, I felt that indisputable evidence would be required if I were to challenge this officer. I thought that if we were to raise an issue involving this executive officer in a careless manner, we would be the ones who suffered the repercussions." In addition, a former executive officer then responsible for the Corporate Administration & Internal Audit

Department said in the Committee interview, "The Executive Officer Responsible for Group Companies applied excessive pressure on the group companies by faithfully following Mr. Nagamori's management style. I felt that making an issue of the conduct of this executive officer would be negating Mr. Nagamori's management style, and it would be difficult to directly indicate it as a problem."

The Committee made an inquiry to PwC Japan about the circumstances of the revision of and the addition of comments to the interview minutes by the relevant engagement partner, and received the following response, designated as "matters that PwC Japan was able to confirm within a short period of time upon receipt of an inquiry from the Committee in February 2026":

> *Regarding the investigation, it had been explained in advance during daily conference calls with NCJ First Senior Vice President XX and General Manager XX that the actions in question had been taken to meet targets set by NSRV itself, but the interview minutes contained sections that appeared to differ from or be inconsistent with what was discussed during those conference calls. Thus, considering the time constraints at the time, the aforementioned series of facts were confirmed by directly revising the minutes of interviews to quickly confirm this discrepancy in understanding.*
>
> *Furthermore, prior to the factual confirmation of the content of the aforementioned minutes, the engagement partner conveyed to the corporate auditors via email about the need for digital forensics, in order to confirm that there had been absolutely no inappropriate or excessive pressure from NCJ headquarters, nor any setting of overly high targets."*

d. Interview with Mr. A

With respect to the instances of improper accounting discovered at NSRV, there was suspicion that as of September 2018, Mr. A, the general manager in charge of special audits, who was employed as NSRV's non-full-time corporate auditor, knew about the misconduct, including recognition of sales presuming reversals, that was taking place at NSRV but failed to correct it. In addition, there was suspicion that in December 2019, immediately before the Corporate Administration & Internal Audit Department conducted an investigation of NSRV, Mr. A, with knowledge of the upcoming investigation, instructed NSRV's executives to destroy the relevant materials. The executive officer in charge of the Corporate Administration & Internal Audit Department and Nidec's full-time corporate auditor interviewed Mr. A on March 27, 2020. Mr. A denied both of the aforementioned suspicions and in the end they were not established as facts.

Separately, on March 20, 2020, before the interview with Mr. A, the PwC Kyoto engagement partner shared the internal whistleblowing report about Mr. A, which PwC Kyoto previously received from an officer of NSRV's subsidiary, with the full-time corporate auditor and the executive officer responsible for the Corporate Administration & Internal Audit Department at Nidec. The shared internal whistleblowing report contained statements that Mr. A was trying to twist the results of the investigation regarding compliance violations, including the following:

> Of course, the corporate auditor [Note: Mr. A] does not give instructions for improper accounting and detests it. However, considering the above-described relationship, when responding after audits by NCJ and Kyoto Audit Corporation, he would give instructions like, "Prepare these materials, respond in this manner, and absolutely do not acknowledge misconduct" behind the scenes. I have also heard that, in responding to the audit of the Sales Department by Kyoto Audit Corporation, he made people work during golden week, gave them detailed instructions, and compelled them to follow the instructions. In other words, while he does not give instructions for improper accounting and does not want to acknowledge it, he is aware of the nature of almost all of the instances of improper accounting.

e. Forensic Investigation of Emails of Mr. Kobe and Executive Officer Responsible for Group Companies

The instances of improper accounting at NSRV were discovered soon after the 2019 Investigation, and PwC Kyoto requested that Nidec's Corporate Administration & Internal Audit Department not only conduct an investigation of NSRV, but also interview Mr. Kobe, who was also serving at the time as NSRV's representative director and chairperson (part-time), and the Executive Officer Responsible for Group Companies, to ask whether Nidec headquarters executives gave instructions to perform improper accounting. PWC Kyoto also requested that the Corporate Administration & Internal Audit Department carry out a forensic investigation of the emails of both people. The Corporate Administration & Internal Audit Department received these requests, and from the beginning of April to the end of May 2020, it conducted a forensic investigation of the emails of Mr. Kobe and the Executive Officer Responsible for Group Companies. Thereafter, it shared 71 relevant emails with PwC Kyoto. Subsequently, once the content of these emails had been confirmed within the Corporate Administration & Internal Audit Department, it was concluded that Mr. Kobe and the Executive Officer Responsible for Group Companies did not give instructions for improper accounting or receive reports thereof. PwC accepted this conclusion and the forensic investigation was concluded.

Nevertheless, the Corporate Administration & Internal Audit Department arbitrarily selected the emails provided to PwC Kyoto in order to complete the financial reporting on schedule. The relevant people in the Corporate Administration & Internal Audit Department exchanged emails during the forensic investigation which contained the following statements:

Among the emails containing the keyword, “fictitious sales,” there is an email in which a weekly report from XX [Note: Mr. A] to the chairperson was forwarded to YY [Note: the Executive Officer Responsible for Group Companies].

The content was related to an investigation of NSPI’s (Sankyo Precision Indonesia) legacy liabilities and reported updates made in September 2019 on inflated inventory, fictitious sales, and the amount of improprieties from prior fiscal years. The statements included:

1. These matters have not been discovered by the internal and outside audits; and
2. There was an attempt to avoid a KAC audit.

This email was unrelated to the pressure imposed by YY [Note: the Executive Officer Responsible for Group Companies], which is at the core of the present email investigation. At yesterday morning’s meeting, it was discussed that this email would not be treated as a “problematic email,” given the premise that the instances of the Asset Revitalization Project have not been reported to KAC until now, but instead, it would be placed among the “examined emails.” However, even if this type of email were placed among the examined emails, had KAC requested the emails be provided and the revisions had not been completed as of March 2020, a new problem could have arisen.

In addition to the above, there are emails sent from XX [Note: Mr. A] to YY [Note: the Executive Officer Responsible for Group Companies] referring to individual matters. Should these emails be excluded from the examined emails?

I completed entering Mr. Kobe’s data [Note: data compiling the results of checking Mr. Kobe’s emails] into the form you specified and hereby submit it.

In preparing the data, I reviewed the points confirmed at yesterday’s meeting, including the following:

・Not to include asset revitalization matters

・Not to include internal audits

・Not to include special audits

As a result, 56 examined emails (with 1 problematic email) were reduced to 37 examined emails (with 0 problematic emails).

(2) Instances of Improper Accounting Discovered at Nidec GPM GmbH (NGPM) (Discovered During the Third Quarter of Fiscal 2021)

a. Overview of Occurrences

In November 2021, PwC Germany interviewed Nidec GPM GmbH's (NGPM) CFO regarding the background to the accounting errors previously pointed out by PwC Germany. The CFO explained that the accounting errors pointed out by PwC Germany during the fourth quarter of fiscal 2020 and the first quarter of fiscal 2021 were in accordance with instructions from NGPM's Japanese CEO. After PwC Germany reported this background to PwC Kyoto, it discussed the matter with the full-time members of the Audit and Supervisory Committee and the general manager of the Corporate Administration & Internal Audit Department, which led the Corporate Administration & Internal Audit Department and the Legal & Compliance Department to conduct an investigation. NGPM is a subsidiary under the umbrella of the Automotive Motor & Electronic Control Business Unit (AMEC), and it falls within the AMEC Organic Business manufacturing automotive parts other than traction motor systems.

As a result of the investigation, it was revealed that the failure to recognize inventory write-down (2.13 million euros) and the capitalization of incurred expenses were both instances of improper accounting, as PwC Germany pointed out during the fourth quarter of fiscal 2020. Moreover, it was revealed that NGPM's Japanese CEO gave instructions to the CFO to carry out this improper accounting. In addition, the investigation acknowledged that the early recognition of the reimbursement claims, in line with the reductions in customers' order quantities, also was improper accounting, as PwC Germany pointed out during the first quarter of fiscal 2021, but neither the Japanese CEO nor the CFO had any intent to carry out improper accounting. On the other hand, an investigation by the Corporate Administration & Internal Audit Department and others revealed that the Japanese CEO instructed the CFO to carry out the following improper accounting: the improper failure to recognize inventory write-downs (465,000 euros), the inappropriate capitalization of incurred expenses (710,000 euros), and inappropriate revenue recognition (2 million euros).

The investigation report dated March 2022 prepared by the Corporate Administration & Internal Audit Department and the Legal & Compliance Department states that NGPM's Japanese CEO said, during his interview, "Among the companies for which I was responsible for the financial reporting for the fourth quarter of fiscal 2020, NGPM group's performance was not doing well, and I felt strong pressure from my superior [Note: AMEC's deputy executive general manager of the business unit and CFO] to improve the results," and, "In these circumstances, my mental state was that I had to achieve the target numbers that I reported to headquarters even if I had to perform inappropriate processing by financial reporting measures, and so I decided to defer the expense recognition." Next, when carrying out the inappropriate capitalization of the incurred expenses during the first quarter of fiscal 2021, the Japanese CEO received an email from the director of the Finance Department protesting that his actions constituted improper accounting, to which the Japanese CEO replied, “I am fully aware what I did was improper accounting, but I felt that NCJ’s top management had lost almost all confidence in me, and I ask you to understand the company’s risk status.” The Japanese CEO further explained at his interview that these were his true feelings at the time.

Separately, AMEC’s deputy executive general manager of the business unit and CFO said at his interview, “I did not give any instructions to the degree of carrying out improper accounting to achieve the revenue targets,” and “I believed that everyone was acting with an understanding of how far they could go within the rules.” The investigation report concluded that no evidence was found that AMEC’s deputy executive general manager of the business unit and CFO gave instructions to carry out improper accounting, and while he also requested that other companies within the AMEC Organic Business achieve the difficult revenue targets, it can be believed the possibility is low that the other companies carried out improper accounting similar to that which occurred at NGPM.

b. Analysis of Causes in Investigation Report Prepared by Corporate Administration & Internal Audit Department and Legal & Compliance Department

In its analysis of the causes for the improper accounting, the investigation report prepared by the Corporate Administration & Internal Audit Department and the Legal & Compliance Department stated, first, “It is believed the main cause of this instance of improper accounting is Mr. XX’s [Note: NGPM’s Japanese CEO’s] management attitude, which places priority on meeting the superficial alignment of figures (profit) while disregarding the accounting basis; that is, a lack of awareness of proper accounting practices.” Moreover, as to the performance pressure that the Japanese CEO claimed to have felt, the investigation report concluded that “Although Mr. XX stated there was strong profit pressure, any operating base manager with profit responsibility had that pressure, and so this cannot justify the performance of improper accounting,” and, “NCJ’s management carried out strict profit management – daily, weekly, and monthly, but it strongly requested that the highest priority be placed on legitimate accounting procedures.”

Next, NGPM’s Japanese CEO joined Nidec mid-career, and the analysis in the investigation report found, “It is believed that the background for Mr. XX’s error included the fact that Mr. XX focused only on Nidec-style strict profit management, because he had just joined the NCJ Group,” and “When dispatching a mid-career joiner to be the general manager of an overseas operating base, NCJ should have evaluated not only his management ability but also whether he would be able to fully practice the Nidec Way.”

The investigation report also pointed out only that AMEC’s monitoring was insufficient, and the manner in which performance pressure was imposed by Nidec headquarters was not seen as any problem at all.

c. Emails Exchanged Between Persons in the Corporate Administration & Internal Audit Department During the Investigation

As explained above, the report prepared by the Corporate Administration & Internal Audit Department and the Legal & Compliance Department concluded that the existence of the performance pressure imposed by Nidec headquarters was not any problem at all, but according to the emails exchanged between the general manager and members of the Corporate Administration & Internal Audit Department in the course of the investigation, from the outset of the investigation the Corporate Administration & Internal Audit Department was concerned that the scope of the investigation would be broadened if focusing on the existence of performance pressure. Therefore, it appears that efforts were made not to reach this conclusion. Emails between the general manager and members of the Corporate Administration & Internal Audit Department in early January 2022 contained the following statements.

Even if there was no management override, the explanation that consideration of the accounting practices was insufficient due to the strong profit pressure may be acceptable to PwC Kyoto, but PwC Germany may not be convinced. If the profit pressure is taken as an environmental cause, a concern will arise as to whether any other instances of improper accounting exist.

If the explanation to PwC Germany were that "There was no management override, but because the entire company bowed to the strong performance pressure placed on it, we all moved in the direction of improper accounting," then it might be determined that there is a deficiency in our company-wide controls, which form the foundation for our internal controls. And I believe this finding could lead to a conclusion that all of our internal controls related to accounting and financial reporting are deficient, and thus, the risk will be high that the subject of the investigation could be broadened to our accounting practices overall. From this perspective, I believe the way the situation is explained needs to be considered carefully.

The facts are, under the extremely strong pressure to achieve performance targets, the president took strong control over accounting, equivalent to management override, but the CFO's proper assessment and division of responsibilities, which should have prevented the above from happening, did not function properly. Therefore, it will be difficult to provide a clean explanation of this situation.

It is unclear how far a vague expression, like "We just messed things up " would be accepted. Would it be better to have Mr. XX [Note: NGPM's CEO], who is quitting, take all the blame? Limiting the instances to an individual actually might be better, as it would help limit the scope of the investigation.

(3) Instances of Improper Accounting Discovered at Nidec Global Appliance Brasil Ltda. (NGAB) (Discovered During Fourth Quarter of Fiscal 2021)

a. Overview of Occurrences

This instance was discovered in March 2022; it was triggered by an internal whistleblowing report to PwC Brazil and Nidec's Compliance Hotlines. In the internal whistleblowing report, it was alleged that improper accounting was carried out during the financial closing for fiscal 2021, on instructions from top management, at Nidec Global Appliance Brasil Ltda. (NGAB), which falls under the umbrella of the Global Appliance business, which is a business platform within ACIM. Specifically, allowances for inventory valuation were reversed inappropriately, allowances for quality valuation were reversed inappropriately, expenses were adjusted inappropriately, and revenue was recognized without any basis for doing so.

Through discussions with PwC Kyoto, it was decided an investigation would be performed, led by the Audit and Supervisory Committee, and the Audit and Supervisory Committee instructed the Corporate Administration & Internal Audit Department and the Legal & Compliance Department to conduct an investigation. Furthermore, given the content of the internal whistleblowing report, PwC Kyoto pointed out that a forensic investigation needed to be conducted by an outside expert in order to issue an audit opinion, due to the circumstances that needed particular attention because there was a high possibility of a material misstatement. For this reason, a forensic investigation was carried out, after engaging an outside expert.

The investigation report dated May 13, 2022 prepared by the Corporate Administration & Internal Audit Department confirmed the facts that the accounting was carried out as the whistleblower described, but said that these instances were related to figures in the monthly performance reports, that is, at the management accounting figures, and the investigation report did not reveal any facts impacting the financial accounting figures. In sum, the investigation report said the financial report was carried out properly. Next, although two instances of improper accounting were discovered in the financial report, the investigation report concluded that neither was acknowledged to be intentional misconduct. As an aside, the investigation by the Corporate Administration & Internal Audit Department also covered additional invoices sent to customers, as discussed in Part 6-2 above. Nevertheless, the investigation by the Corporate Administration & Internal Audit Department did not find any facts showing improper recognition of revenue based on these additional invoices, because, as discussed in Part 6-2 above, no rebate letters or emails promising reduced amounts were found.

PwC Kyoto accepted the results of the Corporate Administration & Internal Audit Department's investigation, and provided its audit report with its unqualified opinion regarding the full-year financial statements for fiscal 2021.

b. Allocation of Forensic Investigation Costs

As per the above, in accordance with PwC Kyoto's request, a forensic investigation was conducted about the instances of improper accounting discovered at NGAB, after an outside expert was engaged. Per Mr. Nagamori's instructions, PwC Kyoto was made to cover half of the approximately 51.4 million yen in forensic investigation costs paid to the outside expert. The approval request document dated June 8, 2022 for payment of the forensic investigation costs, drafted by the Corporate Administration & Internal Audit Department, contained the following comment from Mr. Nagamori: "Negotiate to have Kyoto Audit Corporation cover half."

With regard to this, the employees of the Corporate Administration & Internal Audit Department and the employees of the Accounting Department stated during the Committee interview, "Mr. Nagamori sent instructions to have PwC Kyoto cover half the forensic investigation costs because no instance of improper accounting was found, although a forensic investigation, which involved engaging an outside expert, was carried out at PwC Kyoto's request. Although we felt uncomfortable making the audit firm cover the costs, we negotiated with PwC Kyoto because it was in accordance with Mr. Nagamori's instructions."

As a result of the negotiations, PwC Kyoto agreed to lower the remuneration for its audit by an amount equivalent to half the forensic investigation costs (Half the forensic investigation costs came to 25.7 million yen, and it was divided into two installments (12.85 million yen each), reducing the amounts of the remuneration for the audits for both fiscal 2021 and fiscal 2022.).[262] Mr. Nagamori's comments below were contained in the document, requesting approval for PwC Kyoto to cover half the forensic investigation costs.

[262] The audit report performed pursuant to the Companies Act for the period ending March 2022 was made public on May 13, 2022, before this round of negotiations.

We should have had [PwC Kyoto] cover the costs 100% in the first place, but we have no choice but to accept it. Nonetheless, I believe this will be a good warning [for PwC Kyoto] to prevent poorly considered instructions in the future.

The Committee asked PwC Japan about the background to reducing the amount of the remuneration for the audit by an amount equivalent to half the forensic investigation costs, and it received the following response.

PwC Kyoto believed handling the forensic investigation costs was part of the negotiations for remuneration for the audit, and it agreed to cover the costs, taking into account the remuneration for the group's audit as a whole.

(4) Instances of Improper Accounting Discovered at Small Platform Motor & Solutions Business Unit (SPMS) (Discovered During Fourth Quarter of Fiscal 2023)

a. Overview of Occurrences

These instances of improper accounting were discovered at Nidec (Shenzhen) Co., Ltd. (NCHZ) and Nidec (Shanghai) Co., Ltd. (NCHS), which are Chinese subsidiaries under the umbrella of the Small Platform Motor & Solutions Business Unit (SPMS).

These instances were discovered when SPMS conducted an internal investigation in January 2024, which was triggered by a newly appointed Japanese general manager at NCHZ, who was skeptical that the net sales progress for January 2024 was odd. During the same period, an internal whistleblowing report was submitted to the global hotline indicating, "Unrealized sales were recognized on the instructions of SPMS's top management to achieve operating profit."

As a result of the SPMS internal investigation, facts were revealed showing sales were recognized at NCHZ although no customers made orders, as well as facts confirming similar inappropriate recognition of sales occurred at NCHS, as pointed out in the internal whistleblowing report.

The Corporate Administration & Internal Audit Department and the Legal & Compliance Department received the investigation report from the Small Platform Motor & Solutions Business Unit (SPMS), and after consulting with Mr. Kobe, the then representative director and president (COO), a separate investigation led by those two departments was conducted, for a more objective investigation.

b. Investigation Results

According to the investigation report dated May 10, 2024 prepared by the Corporate Administration & Internal Audit Department and the Legal & Compliance Department, as a result of the investigation, it was found that the deputy general manager of the SPMS Sales Division, who was also served as the vice-chairman for NCHZ and NCHS, gave instructions to the general manager of NCHZ to recognize certain sales in April 2023, even though the products were not yet shipped and the customers' agreements were not yet obtained. In addition, according to the investigation report, the vice-chairman specified above admitted in the course of the investigation, he gave instructions for the inappropriate sales recognition to achieve the sales plan. Furthermore, he stated, "I felt strong pressure to exceed the planned targets from the executive officer[263] employed as the executive general manager of the business unit at SPMS." At NCHS as well, the same vice-chairman acknowledged the facts that his subordinates carried out inappropriate recognition of sales similar to the aforementioned instances, but this inappropriate recognition of sales was not rectified in order to achieve the sales plan.

The excessive sales recognized from the first to fourth quarters of fiscal 2022 totaled approximately 6.248 billion yen. The impact on operating profit was approximately 694 million yen.

The following statements were contained in the minutes of the interview (dated March 5, 2024) with the vice-chairman who gave the instructions for the misconduct, concerning the pressure from the aforementioned executive officer.

> In the situation in which I was being told sales figures that I could not accept at all and being forced to achieve them, I was repeatedly told to work all night until I could achieve them, work until I achieve them, which was far beyond a reprimand. It was the same under the previous executive general manager of the business unit and the current one, too. Thus, my situation was that I could not handle any more pressure.
> [Omitted]
> I was yelled at every day, and told I'd be fired and that I should quit. Every single day, on repeat.
> [Omitted]
> On the other hand, Mr. XX never yelled or got angry, he just said let's find a way to make it work, but the executive general manager after him yelled at me loudly, and I was subjected to severe power harassment, which led to my mental condition being what it is.

In addition, the exchange below was recorded in the minutes of the interview (dated April 5, 2024)

---

263 This executive officer was the Executive Officer Responsible for Group Companies, and from April 2023, he was also responsible for SPMS. He assumed the role of executive general manager for the same business unit in June 2023.

with the executive officer serving as the SPMS executive general manager of the business unit.

(Interviewer)
Can you recall saying, for example, "You'll be fired if you cannot achieve the sales. You should quit"?
(Executive Officer)
I often say such things, and so does everyone, and they say that to me, too. The fact is low performers are unacceptable and we have to win against China. I do not say such things to ordinary workers, but only to people who are executives, because they are management executive. Someone in a management executive position must feel some tension, to the extent that they should not assume they will still have their position the next day. Especially because China is a major market for us.
[Omitted]
(Interviewer)
Do you mean you would not have actually made someone quit, but rather they should do their work with that kind of mindset?
(Executive Officer)
That is correct. As I also say it at briefings, Nidec sets high expectations, but it also gives employees raises and improves their benefits. In other words, we have to think carefully about which type of company shows real care — one like Nidec, or one that says nice things to its employees while encouraging many employees to retire early.

As explained above, this occurrence strongly suggested that one cause of the misconduct that occurred was the performance pressure imposed by the executive officer employed as the SPMS executive general manager of the business unit. The investigation report contained the following conclusion in the section titled "Pressure From the Japanese Headquarters," and the performance pressure imposed by the executive officer serving as the executive general manager of the business unit was not seen as directly problematic.

It cannot be ruled out that strong pressure was exerted on the overseas operating bases by the Japanese headquarters because Nidec set high performance target values.

The SPMS Business Unit was managed by Mr. XX (the current executive consultant) until March 2022, by Mr. YY (already retired) starting in April 2022, and EVP ZZ [Note: the executive officer specified above] starting in April 2023, as the executive general manager. A little before Mr. XX left the executive general manager position, the performance was stable, but the performance deteriorated when the business with [customer name] was cancelled, and from the time of Mr. YY, the pressure on the SPMS employees became more intense.

During the interviews with the managers, while strict guidance about performance targets was expected, there were statements that it went beyond the normal scope of guidance. On one hand, there was an opinion that we needed to work proactively by getting ahead, instead of being chased by the figures, in order not to buckle under the pressure. Each person reacts differently to strict guidance.
[Omitted]
Nevertheless, through the interviews and checking the emails below, it could not be confirmed that any of Mr. XX, Mr. YY, or executive general manager ZZ gave instructions to carry out the misconduct.

On this point, from the outset of the investigation, it was suggested that the Corporate Administration & Internal Audit Department and the Legal & Compliance Department hesitated to get to the heart of the problem that related to excessive performance pressure imposed by the executive general manager of SPMS. As explained above, the interview with the vice-chairman who was subjected to pressure from the executive general manager of the business unit was held on March 5, 2024, but the first interview with the executive general manager of the business unit was not held until April 5, 2024. During this period, PwC Japan repeatedly asked why interviews were not held with the executive general manager of the business unit. Based on an email dated April 1, 2024, which was sent from a member of the Corporate Administration & Internal Audit Department to the general manager of that department and others, it was suggested that they were struggling with how to explain the reason why interviews were not held with the executive general managers of the business unit.

The reason why an interview with SVP XX [Note: executive general manager of the business unit] was not held is as follows (in blue). They are somewhat difficult to justify, and so I would appreciate it if you have any advice.
[Omitted]
We found indirect evidence that EVP XX gave his subordinates relatively strong encouragement and severe criticism sometimes, but as an NCJ officer responsible for the business, his domain was limited to acting as President Nagamori's spokesperson, and we found no direct inappropriate instructions from him. Accordingly, we decided that confirming the facts again in an interview was not necessary (or that holding an interview would be ineffective).

The general manager of the Corporate Administration & Internal Audit Department sent the following email in response to the foregoing, and instructed that the part that referred to Mr. Nagamori be deleted.

Thank you for preparing the comments. Sending it out with CMN Nagamori's name could cause a misunderstanding on PwC's side, so kindly consider revising it as follows:

Indirect testimony indicated that EVP XX gave his subordinates relatively strong encouragement and severe criticism sometimes, but since no evidence of direct inappropriate instructions from him was found after checking his emails (including his chats), we therefore decided that the necessity to confirm the facts again in an interview was limited.

Nevertheless, PwC Japan requested again that an interview with the executive general manager of the business unit be held, and the Corporate Administration & Internal Audit Department and the Legal & Compliance Department ultimately held an interview with him.

An former executive officer responsible for the Legal & Compliance Department said, during the Committee interview, "I understood that a reason for the repeated instances of improper accounting was the overly-high performance targets and the intense performance pressure, which even could be perceived as exceeding normal limits. On the other hand, negating Mr. Nagamori's management style was not possible at Nidec. If you tried to, you immediately would be told 'You should quit.'"

4. Information About Instances of Improper Accounting Shared With Board of Corporate Auditors and Audit and Supervisory Committee

As described in Part 2-7(5) above, if a suspicious instance of improper accounting arose, the Corporate Administration & Internal Audit Department also reported it, at that stage, to the full-time members of the Audit and Supervisory Committee (the full-time corporate auditors, as the company was a company with a board of corporate auditors at the time). In addition, the results of the investigation would be compiled in the format of an investigation report and also shared with the full-time members of the Audit and Supervisory Committee (corporate auditors).

Thereafter, the situation would be reported to the outside members of the Audit and Supervisory Committee (corporate auditors) at a meeting of the Audit and Supervisory Committee (Board of Corporate Auditors).

The minutes of the meeting of the Audit and Supervisory Committee (Board of Corporate Auditors) of Nidec contain only extremely simple statements, and because the audio recordings of the proceedings cannot be found, it is difficult to perceive from objective materials what kind of reports were made and what kind of discussions were held among the members of the Audit and Supervisory Committee (corporate auditors) at the meeting of the Audit and Supervisory Committee (Board of Corporate Auditors). According to the minutes, however, the following four instances (discussed in section 3 above) were reported after March 2019 when a report was made in connection with the investigation report related to the 2019 Investigation: [i] the instance of improper accounting discovered at Nidec Servo Corporation (NSRV), [ii] the instance of improper accounting discovered at Nidec GPM GmbH (NGPM), [iii] the instance of improper accounting discovered at Nidec Global Appliance Brasil Ltda. (NGAB), and [iv] the instance of improper accounting discovered at the Small Platform Motor & Solutions Business Unit (SPMS). Finally, the instances of improper accounting discovered at Nidec Material Technology (Zhejiang) Corporation (NMZC) during the first quarter of fiscal 2023 were reported also.

Persons with experience as outside corporate auditors and members of the Audit and Supervisory Committee (including former members) interviewed by the Committee did receive reports about the instances of improper accounting that arose at Nidec Group at the meeting of the Board of Corporate Auditors and meeting of the Audit and Supervisory Committee, but the reports contained only summaries, and materials were not handed out. Accordingly, those experienced outside corporate auditors and members of the Audit and Supervisory Committee said they did not discuss the background to the causes of the occurrences in depth. Furthermore, instances of improper accounting were discovered one after the other within Nidec Group, after the instances that were the subject of the 2019 Investigation. Nevertheless, no one among the experienced outside corporate auditors and members of the Audit and Supervisory Committee (including former members) interviewed by the Committee indicated that they felt a sense of concern about instances of improper accounting being discovered one after the other, or that they suspected the fundamental reasons why the improper accounting occurred had not been rectified.

As already explained, the previously discovered instances of improper accounting arose due to the excessive performance pressure in the background. The experienced outside corporate auditors and members of the Audit and Supervisory Committee (including former members) also stated they acknowledged, through their communications at the Board of Directors meetings, the strong requests to achieve performance targets at Nidec, but they indicated they did not go so far as to think the setting of performance targets that could be considered unrealistic and the strong requests to achieve them would lead to improper accounting.[264]

On the other hand, after receiving the shared information from the Corporate Administration & Internal Audit Department regarding the repeated occurrences of instances of improper accounting, a full-time member of the Audit and Supervisory Committee said that he thought the background to the repeated discovery of improper accounting at various operating sites was that performance targets were set too high from the outset and that achieving those performance targets was considered to be

[264] In fact, even looking at the minutes of the meeting of the Audit and Supervisory Committee (Board of Corporate Auditors), it was not possible to confirm even traces of discussions between the members of the Audit and Supervisory Committee (corporate auditors) about the setting of performance targets and the performance management method within Nidec.

non-negotiable at Nidec. However, the relevant full-time Audit and Supervisory Committee member stated, “Setting high targets and making every possible effort to achieve them was the management style of the founder, Mr. Nagamori, and I thought it would be difficult to call that into question directly.”

If disciplinary action were taken due to involvement in the instances of improper accounting, the nature of the disciplinary action and an overview of the occurrences would be reported to the Board of Directors, but there was no particular report about the instances of improper accounting other than the above. Among the outside directors (including former outside directors) interviewed by the Committee, none said there were particular discussions about the instances of improper accounting at a Board of Directors meeting.

Part 10. Legal & Compliance Department

The Committee believes the actions carried out by the Accounting Department, which functions as a second line of control, and the actions taken by Corporate Administration & Internal Audit Department, which functions as a third line of control, respectively, with regard to the instances of improper accounting discovered as a result of the Committee’s investigation and the instances of improper accounting discovered previously, are obvious based on what has been described until now. However, this section supplements the explanation that focuses on the Legal & Compliance Department, which functions as a second line of control, similar to the Accounting Department.

As described so far, Nidec imposed excessive pressure on its business units and domestic group companies to achieve performance targets, which was the cause that led to the instances of improper accounting. Members of the Legal & Compliance Department also said they acknowledged the existence of the excessive performance pressure at Nidec was a problem in their responses to the internal whistleblowing reports.

Next, as explained above, the Compliance Team in Nidec’s Legal & Compliance Department conducted compliance seminars, starting in fiscal 2018, targeting the all domestic group companies. After the seminars were completed, the members of the Legal & Compliance Department carried out initiatives in response to individual consultations with each company. There were also consultations from officers and employees of domestic group companies regarding excessive performance pressure.

For example, according to a compliance seminar report, at a compliance seminar presented to a domestic group company in December 2023, the attendees from the domestic group company made comments such as, “The pressure from headquarters is intense. Since we are pushed to do things in the gray area, and the focus is only on operating profit, anything can be done. There are other indicators we should be considering, but pursuing only operating profit is problematic,” and “There are even employees who develop adjustment disorders, and the company’s atmosphere is very dark. I think we should do something about it.”

Next, at a compliance seminar presented to another domestic group company around the same time, non-management employees of the domestic group company gave opinions that, “There are many employees that have questions about the late-night meetings called ‘marathon meetings.’ Everyone knows about these meetings. During these meetings, the conference room lights are turned off and people work with only the light of a computer monitor. The purpose of these meetings is to come up with ideas, and we are not allowed to leave the room unless we present an idea to achieve the targets,” and “I don’t know if it’s because of the pressure applied from above after being promoted to management, but people resign after their promotions, and currently, we don’t have a manager, so everyone is doing double duty. I absolutely do not want to become a manager.” In addition, a manager said, “‘Marathon meetings’ probably refers to the meetings for 124% item generation. Officers with the seniority of general manager or above attend, and even the president attends…these meetings are held every day. The meetings have been going on for about a year, ever since last year, when performance dropped. Some continue until around 23:00 at night. It’s an excuse but the pressure from NCJ is strong.”

Furthermore, in the compliance seminar report presented to the Small Platform Motor & Solutions Business Unit (SPMS) in January 2025, there were comments in the post-seminar questionnaire indicating, “A few people wrote that ‘I feel I’m subjected to power harassment as I was told by an executive (no name given) ‘Quit (the company) if you don’t like it’ and ‘self-demote (from your position) if you don’t like it.’”

The situation about the compliance seminars described above was reported to the Compliance Committee at a meeting held on February 15, 2025, but all that was mentioned was “Many comments were received from participants (non-management) at the seminars indicating ‘Previously, things were terrible, but now, the people who yell loudly have decreased, relatively,’” There was no indication that concerns had been raised about power harassment by an SPMS management executive.

Based on the foregoing, through these activities, the Legal & Compliance Department became aware of the excessive pressure to achieve the performance targets imposed on business units and domestic group companies by Nidec headquarters. However, the Legal & Compliance Department had never raised the issue in order to rectify the excessive performance pressure. Although it was discussed in Part 9-3(4) above, a former executive officer responsible for the Legal & Compliance Department said during the Committee interview, “I understood that a reason for the repeated instances of improper accounting was the overly-high performance targets and the intense performance pressure, which even could be perceived as exceeding normal limits. On the other hand, negating Mr. Nagamori’s management style was unheard of at Nidec. If you tried to, you would immediately be told ‘You should quit.’”

On the other hand, among those who have experience working in the Legal & Compliance

Department, there was a person who claimed not to have gotten any sense that something was wrong, and took the existence of the "excessive performance pressure" as a given matter of course.

The Legal & Compliance Department was involved in the investigation of some of the instances of improper accounting, and also participated in the interviews with the relevant parties at group companies who felt pressure from the Nidec headquarters' management executives. In the investigation report about these instances, however, the existence of performance pressure from Nidec headquarters executives was not pointed out as a problem. A person formerly in the Legal & Compliance Department said, "The sense of value at the time was misguided," and "Even if the Executive Officer Responsible for Group Companies imposed strong performance pressure, they should let it go in one ear and out the other and say no when something could not be achieved. I believe the person who engaged in the misconduct was at fault."

Mr. Nagamori's management style was to demand the achievement of performance targets after setting them high, and even at a level called unrealistic, and to demand "legitimate accounting," as well. Although this episode clearly illustrates that Mr. Nagamori's thinking was deeply communicated to the members of the Legal & Compliance Department, this mentality also influenced the Legal & Compliance Department's response to internal whistleblowing reports.

For example, in September 2018, an employee of a domestic group company reported to the internal whistleblowing hotline that "An executive in the Affiliates Management Department at NCJ is threatening the first senior vice-president in charge of finance and sales at XX [Note: a group company] and is pressuring him to give instructions to carry out improper recognition of sales." The "executive in the Affiliates Management Department at NCJ" can be regarded as being the "Executive Officer Responsible for Group Companies," but the Legal & Compliance Department gave guidance to the group company's executive, and completed its response to the whistleblowing report. The email the member of the Legal & Compliance Department sent as feedback to the whistleblower indicated, "We responded immediately to the content of your report, and we provided detailed instructions to the executive of XX [Note: group company] about the royal road of business management and legitimate accounting. [Omitted] Thanks to your report, we were able to take corrective measures before improper accounting was carried out. We are very grateful to you. Thank you very much."

Part 11. Participation by and Awareness of Nidec Top Management in Improper Accounting

No facts have been discovered indicating that Mr. Nagamori instructed or directed the improper accounting that has been revealed at this time. Through reports from the employee who conducted special audits, Mr. Nagamori was aware that there were situations in which improper accounting that should have been corrected immediately was handled in a planned manner, and he accepted this. For example, as described above, although Mr. Nagamori acknowledged that some equipment and other assets at Nidec Precision Corporation (NPCJ) (formerly Nidec Copal Corporation (NCPL)) were in a state requiring impairment, he permitted the impairment not to be recognized immediately and instead allowed it to be handled "in a planned manner." This is equivalent to delaying the rectification of improper accounting and itself is considered to be improper accounting. Therefore, the evaluation that Mr. Nagamori condoned some improper accounting cannot be avoided.

In addition, all of the improper accounting uncovered through the Committee's investigation was caused by excessive performance pressure. The origin of that performance pressure was Mr. Nagamori. Mr. Nagamori was well aware of this (the fact that Mr. Nagamori created a unit dedicated to conducting accounting audits within the Internal Audit Department indicates his awareness of the risks), and in fact, improper accounting within the Nidec Group due to this performance pressure was discovered repeatedly. Despite this, Mr. Nagamori continued to demand that excessively high performance targets be met. Furthermore, in fiscal 2024, Mr. Kishida and others repeatedly recommended that structural reforms be implemented by excluding the expenses necessary to process "legacy liabilities" from the performance evaluations of business units and subsidiaries, but Mr. Nagamori rejected this recommendation, and as a result, "legacy liabilities" that should have been processed were left unaddressed.

In light of the above, it must be said that Mr. Nagamori should bear the greatest responsibility for the instances of improper accounting discovered at this time.

No facts were discovered indicating that Mr. Kishida instructed, directed, or condoned the improper accounting discovered at this time. On the contrary, in fiscal 2024, Mr. Kishida can be considered to have made reasonable efforts to rehabilitate Nidec's financial status by repeatedly recommending that structural reforms be implemented by excluding the expenses necessary to deal with "legacy liabilities" from the performance evaluations of business units and subsidiaries. However, even though Mr. Nagamori had final decision-making authority, instances of improper accounting occurred because structural reforms were not implemented in the manner described above. Given that dealing with "legacy liabilities" was an important management issue for Nidec, the Committee believes that Mr. Kishida should have examined the details of those "legacy liabilities" personally and, if there were any "legacy liabilities" that required disposition, he should have recommended moving forward with that disposition, even if that action was contrary to Mr. Nagamori's intentions.

Mr. Kobe served for a period as the representative director and president; however, he had long been in charge of sales and was never responsible for accounting work. No facts were found indicating that Mr. Kobe directed or led the improper accounting discovered at this time. In addition, no evidence was found to establish that Mr. Kobe specifically was aware of the improper accounting and condoned it. Although not to the same extent as Mr. Nagamori in terms of frequency or details, Mr. Kobe did receive special audit reports from Mr. A, and thus, Mr. Kobe was aware that Mr. A was dealing with the misconduct, including instances of improper accounting, in secret, and it is reasonable to recognize that Mr. Kobe, at least generally, was aware of and condoned the planned disposition of instances of improper accounting that needed rectifying immediately.

No facts were discovered indicating that Mr. Yoshimoto and Mr. Seki, both of whom were once considered to be Mr. Nagamori's successors and served as representative director and president, ever instructed, directed, or condoned the improper accounting discovered at this time.

Part 12. Outside Officers' Awareness

No facts were discovered suggesting that an outside director or outside corporate auditor was aware of the existence of the improper accounting discovered as a result of the Committee's investigation.

Rather, the Committee's investigation brought to light that information that suggested the existence of improper accounting or could have triggered awareness of this problem was not dared to be shared with outside officers, beginning with outside members of the Audit and Supervisory Committee (corporate auditors).

The improper accounting occurred due to the strong background performance pressure imposed by the Nidec headquarters management, including Mr. Nagamori. On one hand, the Corporate Administration & Internal Audit Department explained an overview of the instances of improper accounting that had been discovered to the outside members of the Audit and Supervisory Committee (corporate auditors), but of the outside members interviewed by the Committee, none was aware that the cause of the misconduct occurring was attributable to the existence of the strong performance pressure at Nidec.

Furthermore, the existence of "legacy liabilities" that constituted a major problem for Nidec was not reported to the Board of Directors or the Audit and Supervisory Committee (Board of Corporate Auditors), and thus, none of the outside members of the Audit and Supervisory Committee (corporate auditors) was aware that Nidec had long had an issue involving "legacy liabilities."

Next, it was confirmed that the Asset Revitalization Project to eliminate the "legacy liabilities" was reported to the Board of Corporate Auditors in March 2019 while the investigation by the outside law firm into the instances of improper accounting was ongoing. However, it is unclear what kind of report was made based on objective materials, but the then-full-time corporate auditor stated in the Committee interview, "At the Board of Corporate Auditors meetings, only a brief explanation was provided about the Asset Revitalization Project, to the extent that it is 'a project to manage, and proactively dispose of, assets which may require provisions in the future,' and issues such as Nidec's problem with 'legacy liabilities' were not explained." Therefore, it was suggested that introducing the true nature of the problem was avoided, and only a superficial explanation was provided. In fact, a then outside corporate auditor stated in the Committee interview that he/she has no recollection of receiving an explanation about the Asset Revitalization Project.

The situation surrounding the structural reforms carried out during the fourth quarter of fiscal 2022 was similar. It was an initiative to eliminate "legacy liabilities," which could be described as long-standing issues that had festered within Nidec. However, as far as can be determined from the minutes of the meetings, no particular explanation was provided at meetings of the Board of Directors or the Audit and Supervisory Committee when the structural reforms were carried out. At the Audit and Supervisory Committee meeting held on October 3, 2023, the Nidec headquarters' CFO explained the results for the second quarter of fiscal 2023, including introducing the major downward revision and structural reforms carried out in fiscal 2022, and this triggered a question-and-answer session about the details of the structural reforms. According to the minutes of the meeting, however, the only relevant statement was "It was explained that, as a breakdown of the structural reform, the impairment of production equipment was large in terms of amount, and it was decided that, for investment decisions to be made going forward, a structure would be introduced to check the reliability of prospective orders, etc., that serve as the basis for making capital investment decisions." There was no trace of a report on or discussions about the "legacy liabilities" problem or the planned dispositions that were behind the structural reforms. Moreover, among the outside members of the Audit and Supervisory Committee interviewed by the Committee, none had the understanding that the structural reforms were an initiative to eliminate the "legacy liabilities" during the fourth quarter of fiscal 2022.

Finally, all of the outside members of the Audit and Supervisory Committee (corporate auditors) and other outside officers stated in the Committee interviews that they were aware high performance targets were set, which reflected Mr. Nagamori's management philosophy, and that achieving them was strongly demanded. Nevertheless, no one was identified who believed that the performance targets were unrealistic from the outset and this was what caused the improper accounting. At the Committee's interviews, they each stated, "I felt that making efforts to achieve the high targets was beneficial for Nidec's growth, and I was unaware this was problematic."

III. Analysis of Causes and Prevention of Recurrences

Part 1. Analysis of Causes

1. Excessive Performance Pressure (Breakdown of Mr. Nagamori's Management Philosophy)

The primary cause of the improper accounting identified in this instance is excessive performance pressure. This performance pressure stemmed from the setting of unrealistic targets, followed by the application of extremely intense pressure to achieve those targets.

Setting targets that everyone perceives as unrealistic and striving to achieve those targets lies at the very core of Mr. Nagamori's management philosophy. In an interview with the Committee, Mr. Nagamori explained that this approach was how he built Nidec, in his own generation, into a global general motor manufacturer. He also repeatedly stated that if this approach was rejected, no one trillion yen company could emerge from Japan.

The Committee agrees that setting high targets—at times targets that may appear impossible—and making every effort to achieve them is necessary for corporate growth, and in this sense does not dispute Mr. Nagamori's management philosophy. Nor does the Committee intend to dispute that Mr. Nagamori sought to pursue the "royal road of business management." However, as the scale of Nidec Group expanded, it must be said that there was a limit to Mr. Nagamori's ability to conduct "hands-on" management single-handedly. What the Committee observed in the course of its investigation was a situation in which performance targets set in a top-down manner with an eye towards stock prices were significantly misaligned with the actual capabilities of the business units and domestic group companies, and with the business environment. Nevertheless, in order to achieve those targets, extremely strong pressure—amounting to what could fairly be described as relentless—was applied to the business units and domestic group companies on a daily basis by executives at Nidec headquarters, beginning with Mr. Nagamori.

At first glance, it may appear questionable for the Committee, which is not directly involved in Nidec's business operations, to discuss whether the performance targets were realistic. However, the Committee must conclude that the performance targets set by Nidec were "unrealistic," based on the following considerations:

- The performance targets were not established with reference to the actual capabilities of each business, but rather on the basis of "what performance should be from the investors' perspective;"
- Executives of the business units and domestic group companies unanimously characterized the performance targets as unrealistic; and
- Numerous business units and domestic group companies regularly failed to achieve the performance targets despite being subjected to relentless pressure and at times even engaging in improper accounting.

The pressure imposed by management executives at Nidec headquarters on executives of business units and domestic group companies to achieve performance targets was extremely strong. In particular, the pressure placed on executives of domestic group companies was such that it should be described as relentless. When performance targets were not achieved, meetings were held late into the night on consecutive days, during which executives of domestic group companies were harshly reprimanded by management executives of Nidec headquarters for failing to achieve the targets and, at times, were compelled to work through the night to devise measures to generate operating profit. There was no exception to this even after the end of the reporting period. Where preliminary operating profit figures fell short of expectations, instructions were issued to build up the figures by the accounting closing date. As one executive of a domestic group company stated, "At Performance Review Meetings, the Executive Officer Responsible for the Group Companies did not provide concrete advice on how to achieve performance targets, but merely demanded strongly that the targets be achieved." In this manner, the relentless pressure to achieve performance targets focused exclusively on attaining numerical targets, and, unable to withstand the pressure, executives of domestic group company executives came to engage in improper accounting.

Nidec has established a rare organizational structure, uncommon at many other companies, under which a unit dedicated specifically to accounting audits is placed within its internal audit function called the Corporate Administration & Internal Audit Department. The Corporate Administration & Internal Audit Department includes employees with specialized expertise, such as those with experience at auditing firms, and carries out accounting audits at approximately 60 sites a year. From the perspective of what is commonly referred to as the "fraud triangle," Nidec could be regarded as an organization in which the "opportunity" to engage in improper accounting was constrained in comparison with other companies. Nevertheless, it must be stated that there existed "pressure (or motivation)" within Nidec that far outweighed this deterrent function.

While Mr. Nagamori's management philosophy of setting high targets and achieving them in and of itself is not to be disputed, the evaluation must be that Mr. Nagamori's management philosophy failed in actual management practice.

2. Absoluteness of Mr. Nagamori

Nidec could fairly be described as "Mr. Nagamori's company," and, in practice, far and wide authority was concentrated in his hands. Mr. Nagamori held authority over personnel and compensation decisions relating to management executives of the Nidec Group, which continued until August 2025, immediately before the establishment of the Committee. In June 2018, Mr. Yoshimoto became the representative director and president, and thereafter Mr. Seki and Mr. Kishida were appointed as president. However, the decision-making authority granted to Mr. Yoshimoto, Mr. Seki, and Mr. Kishida was limited.

Among the powers held by Mr. Nagamori, his personnel authority over management executives of the Nidec Group could have created reasons for those executives to cause improper accounting, to achieve performance targets and at times imposing extremely severe pressure on subordinates, Mr. Nagamori exerted pressure on management executives of the Nidec Group while frequently hinting at his authority over personnel matters. This was not a matter of a "figure of speech" but in practice, management executives of Nidec Group repeatedly were demoted or forced to leave Nidec for taking responsibility for failures to achieve performance targets. The improper accounting discovered in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) during the second half of fiscal year 2018 arose against this backdrop. In particular, Mr. Yoshimoto, who assumed the position of representative director and president in June 2018, was subjected to intense performance pressure from Mr. Nagamori. In turn, he placed strong pressure on the executive general manager of ACIM. It is not difficult to imagine that, for Mr. Yoshimoto, who was in his first year as representative director and president, ACIM's failure to achieve its performance targets would have been perceived as jeopardizing his position as the first representative director and president other than Mr. Nagamori.

Behind the improper accounting in this instance lay the issue of Nidec's long-standing "legacy liabilities." Although intermittent efforts were made to address this issue, none amounted to a thorough or comprehensive initiative. As a result, no fundamental countermeasures were implemented, and the "legacy liabilities" remained unaddressed. This outcome also can be attributed to the pressure placed on the Nidec Group management executives to achieve the performance targets demanded by Mr. Nagamori. The backdrop to this pressure was Mr. Nagamori's absolute authority, beginning with his authority over personnel decisions.

The disposition of the "legacy liabilities", which was carried out under the designation of "structural reforms" and led by the Nidec headquarters CFO during the fourth quarter of fiscal year 2022, lacked thoroughness, in that the initiative was implemented on the premise of securing an operating profit target of 100 billion yen, which resulted in some "legacy liabilities" that should have been disposed promptly being deferred to "planned disposition." At the same time, it is not difficult to imagine that securing an operating profit of 100 billion yen would have been an essential condition for obtaining Mr. Nagamori's approval to proceed with the structural reforms. Under circumstances in which the CFO of Nidec headquarters was subjected to intense direct pressure from Mr. Nagamori to achieve performance targets, it also is possible to view the CFO's actions as an effort to rehabilitate Nidec's financial status, to the extent feasible.

Mr. Kishida acted in a similar manner in this respect. During the fourth quarter of fiscal year 2024, he repeatedly proposed to Mr. Nagamori that the "legacy liabilities" be resolved by achieving the publicly announced performance targets through operating profit generated from ordinary business activities, while separately disposing of the "legacy liabilities" under the designation of "structural reforms." However, these proposals were rejected by Mr. Nagamori, with the result that certain "legacy liabilities" that should have been disposed of remained unresolved. In an interview with the Committee, Mr. Kishida said, "From fiscal year 2025 onward, I had been considering reforming Nidec's organizational structure and transforming it into a more resilient company, and I formulated a plan to that end. In order to realize this plan, I needed to gain Mr. Nagamori's trust in fiscal year 2024, my first year as president. As a result, rather than disposing of the 'legacy liabilities' separately, I had no choice but to aim to achieve operating profit of 240 billion yen while absorbing those liabilities." While it can be said that, in principle, Mr. Kishida should have personally examined whether any "legacy liabilities" requiring disposition had been overlooked and exercised judgement on a fair and unbiased basis, his concerns are understandable to some extent in light of the fact that both Mr. Yoshimoto and Mr. Seki, each of whom was regarded as potential successors to Mr. Nagamori, ultimately were forced to leave Nidec after being held responsible for deteriorating performance.

Under Mr. Nagamori's strong leadership, Nidec achieved rapid growth, and there is no doubt that the concentration of authority in Mr. Nagamori enabled decisive decision-making, which served as a driving force behind that growth. On the other hand, as the Group expanded in scale, it also appears to be the case that there was strain in Mr. Nagamori's position itself of using "micro-management" to manage business. It cannot be denied that these strains contributed to the expansion of "legacy liabilities," delaying their disposition, and the occurrence of new instances of improper accounting.

3. Failure of Check Function

As discussed above, within Nidec, Mr. Nagamori had authority that could be described as absolute, and the achievement of unrealistic performance targets set top-down by Mr. Nagamori was demanded under pressure that could be described as relentless. This became the cause of the occurrence of the series of improper accounting instances discovered recently. Furthermore, the check function that should have served as a restraint to this failed to function.

(1) Accounting Department

A significant number of instances of improper accounting discovered through the Committee's investigation involved the accounting departments of business units and domestic group companies. In addition, the Committee identified instances of improper accounting involving the Accounting Department of Nidec headquarters .

Despite its role in serving a check function as the second line of defense, the background to the accounting department's own involvement in improper accounting, lies in what can be described as being in an unreasonable situation, in which the CFOs and the accounting departments under the CFOs' supervision were held responsible for achieving performance targets. In circumstances where the achievement of performance targets was at risk, it was commonplace for Mr. Nagamori to make strong demands that the CFO and the Accounting Department at Nidec headquarters, as well as the CFOs and the accounting departments of the business units and domestic group companies, achieve the performance targets. It also was commonplace for him to criticize these CFOs severely via email and by other methods when performance targets were not met.

While being exposed to this strong pressure, the Nidec accounting departments became involved in improper accounting in order to generate operating profits, and they were not placed in an environment in which they could function as the second line of defense. The outside law firm that conducted an investigation into the instances of improper accounting in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and the Automotive Motor & Electronic Control Business Unit (AMEC) discovered in the second half of fiscal year 2018 (2019 Investigation) pointed out that the accounting departments lacked independence. They were primarily subordinate to their respective business units, the Group Companies Business Management Department, or the management of their respective subsidiaries. The firm also noted that the Nidec accounting departments were unable to exercise sufficient authority over business units, and recommended establishing a direct reporting line from the accounting departments of the business units and subsidiaries to the Accounting Department of Nidec headquarters. In response to these recommendations, Nidec considered a framework under which the subsidiaries' CFOs would have a reporting line to the CFO of Nidec headquarters. In addition, a chief performance officer (CPO) would be appointed at each of the subsidiaries, and the subsidiaries' CPOs would handle performance management and have a reporting line to the CPO of Nidec headquarters. However, this framework was not realized due to a lack of human resources.

With respect to the Accounting Department of Nidec headquarters, it also is necessary to point out the weakness of its cross-sectional role as a department responsible for overseeing the Group.

For example, it was discovered that the consolidated financial statements for fiscal year 2024 should have noted a contingency liability about a supplier's indemnification claims against the subsidiaries under the umbrella of the Motion & Energy Business Unit (MOEN), but lacked such a description. The background to this situation includes a lack of creating a general awareness or systematic explanations of the reporting package from Nidec headquarters to the relevant subsidiary. In addition, the subsidiary's accounting system was not linked with the accounting system used by Nidec for its consolidated financial reporting.

Moreover, although initiatives have been undertaken at Nidec over time to identify "legacy liabilities" across the Group as a whole, it has been extremely difficult for the Accounting Department of Nidec headquarters to grasp the full content of the "legacy liabilities" that existed internally at each site of the Group. This indicates that, in the first place, the Accounting Department of Nidec headquarters was not able to understand the accounting and financial conditions internally at each site of the Group in an appropriate manner, and it must be said that there was a lack of the prerequisites to prepare proper consolidated financial reports.

The fact that, lying in the background, the Nidec Group had not advanced the integration or consolidation of domestic and overseas entities after their acquisition may have contributed to the inability of the Accounting Department of Nidec headquarters to appropriately understand the accounting and financial conditions internally at each site of the Group. While maintaining an acquired subsidiary in their existing form was a policy of Mr. Nagamori, the Nidec Group consisted of a total of 354 subsidiaries and affiliates as of the end of September 2025. In some cases a single subsidiary belonged to more than one business unit. This complex, wide-ranging group structure may have made it difficult for the Accounting Department of Nidec headquarters to exercise its cross-sectional role across the Group.

(2) Corporate Administration & Internal Audit Department

As explained above, the Corporate Administration & Internal Audit Department, which serves as Nidec's internal audit department, is staffed with specialized personnel, including individuals with experience at audit firms, and conducts accounting audits at the various sites. In addition, when instances of improper accounting are identified, the department carries out special investigations in cooperation with the accounting auditors. The Committee carefully examined the materials relating to the accounting audits and special investigations carried out by the Corporate Administration & Internal Audit Department, and these materials indicated that the department was exercising its expertise while carrying out these accounting audits and special investigations.

On the other hand, it must be said that the Corporate Administration & Internal Audit Department deliberately avoided addressing the fundamental cause behind the frequent occurrence of improper accounting within the Nidec Group.

For example, although the Asset Revitalization Project was not comprehensive in certain aspects, it was clear that various sites had "legacy liabilities," and the Corporate Administration & Internal Audit Department had assessed that a significant number of "legacy liabilities" existed for which the possibility of intentional misconduct could not be ruled out. In light of this situation, it would have been natural to believe that the issue was not confined to individual sites and that Nidec headquarters could have created the underlying causes. There should have been additional in-depth investigation to determine how the "legacy liabilities" for which intentional misconduct could not be ruled out had arisen and further fact-finding, and, if they were confirmed to constitute improper accounting, why the improper accounting occurred at various sites and whether the fundamental cause lay with Nidec headquarters. However, the Corporate Administration & Internal Audit Department did not undertake those investigations.

In fact, through its special investigations, the Corporate Administration & Internal Audit Department became aware that the fundamental cause of the frequent occurrence of improper accounting in Nidec Group lay in the strong performance pressure exerted by Nidec headquarters, but it should be said that the department deliberately refrained from addressing this issue.

For example, an investigation report was prepared that downplayed the responsibility of domestic group company executives, with regard to the instances of improper accounting discovered at Nidec Servo Corporation (NSRV). Although it was known that some officers and employees of NSRV stated feeling strong performance pressure from the Executive Officer Responsible for Group Companies, the statements that made such suggestions were deleted from the interview memoranda.

In addition, when conducting the investigation into the instances of improper accounting discovered at Nidec GPM GmbH (NGPM), the Corporate Administration & Internal Audit Department proceeded with the investigation, but was concerned that focusing on the existence of performance pressure from Nidec headquarters might lead to an expansion of the scope of the investigation, and did not address the manner in which this performance pressure was exerted by Nidec headquarters as an issue in its investigation report.

The officers and employees of the Corporate Administration & Internal Audit Department made statements like the following during their interviews with the Committee: "I understood well that the fundamental cause for the misconduct was the excessive pressure exerted by the Executive Officer Responsible for Group Companies. However, because this officer was favored by Mr. Nagamori, I felt that indisputable evidence would be required in order to raise issues concerning this officer. There also was a concern that if issues involving this executive officer were raised carelessly, we would be the ones who suffered the repercussions," and "The Executive Officer Responsible for Group Companies applied excessive pressure on the group companies in accordance with Mr. Nagamori's management style. I felt that treating this executive officer's conduct as an issue would amount to challenging Mr. Nagamori's management style, and that therefore it would be difficult to point it out as a problem directly." Accordingly, it appears that concerns about opposing Mr. Nagamori's management philosophy lay behind the fact that the investigation was carried out in a manner that downplayed the relevant facts.

In addition, the special investigations conducted by the Corporate Administration & Internal Audit Department were carried out with the highest priority placed on avoiding any delay to the financial closing schedule. Accordingly, investigations into the identified instances of improper accounting were also carried out with the financial closing schedule as the paramount consideration, and in-depth investigations that would have expanded the scope of the investigations were avoided.

A former executive officer responsible for the Corporate Administration & Internal Audit Department stated, "Mr. Nagamori insisted on announcing the financial results earlier than any other company. Given that delaying the financial closing schedule was unthinkable for Nidec and given that it was clear that this would anger Mr. Nagamori, we moved with the highest priority on meeting the financial closing schedule." Emails exchanged between the members of the Corporate Administration & Internal Audit Department at the time of the investigation into the instances of improper accounting discovered at Nidec Servo Corporation (NSRV) also included statements such as: "If we were not being held hostage by the financial reporting schedule, we could conduct a more thorough investigation. I would like to bring out all the bad stuff in one go." This suggests that the investigation was forced to be carried out under the constraint of the financial reporting schedule, and the situation did not allow investigations to be carried out in a way that would bring all the bad stuff to light.

All of these issues can be said to demonstrate Mr. Nagamori's absoluteness, as described in Section

2 above. However, it must be said that the Corporate Administration & Internal Audit Department was unable to perform its check function with respect to the fundamental problems Nidec was facing.

(3) Legal & Compliance Department

The same observations that apply to the Corporate Administration & Internal Audit Department also apply to the Legal & Compliance Department. Through its handling of internal whistleblowing reports, internal compliance seminars, and investigations into instances of improper accounting, personnel in the Legal & Compliance Department were aware of the fact that Nidec headquarters imposed excessive pressure on business units and domestic group companies to achieve performance targets. However, as a former executive officer responsible for the Legal & Compliance Department said, "I understood that a reason for the repeated instances of improper accounting was the overly-high performance targets and the intense performance pressure, which even could be perceived as exceeding normal limits. On the other hand, negating Mr. Nagamori's management style was not possible at Nidec. If you tried to, you immediately would be told 'You should quit." As such, out of hesitation to challenge Mr. Nagamori's management style, there was no attempt to delve into the fundamental problem.

In addition, in the course of the Committee's investigation, situations also were observed in which personnel from the Legal & Compliance Department failed to develop a sense that the existence of strong performance pressure was problematic. For example, the Legal & Compliance Department was involved in investigations into certain instances of improper accounting and participated in interviews with group company personnel who raised concerns about pressure exerted by executives at Nidec headquarters. The investigation reports relating to these matters did not identify the existence of performance pressure by Nidec headquarters executives as an issue. A former member of the Legal & Compliance Department stated, "The sense of value at the time was misguided," and "Even if the Executive Officer Responsible for Group Companies imposed strong performance pressure, they should let it go in one ear and out the other and say no when something could not be achieved. I believe the person who engaged in the misconduct was at fault."

(4) Audit and Supervisory Committee (Board of Corporate Auditors)

In this situation, a significant number of instances of improper accounting were discovered at various sites within the Nidec Group. These instances arose as a result of strong performance pressure exerted by management executives at Nidec headquarters, beginning with Mr. Nagamori, and there were also cases in which the misconduct involved the management executives at Nidec headquarters. With respect to the issues that originated with Nidec headquarters management executives, the Audit and Supervisory Committee (Board of Corporate Auditors) was required to perform its check function. However, as described below, Nidec's Audit and Supervisory Committee (Board of Corporate Auditors) failed to function as a check. It should be noted that although the discussion below refers to the outside members of the Audit and Supervisory Committee (corporate auditors), the same issues also apply to the outside directors, who are not members of the Audit and Supervisory Committee.

a. Full-Time Members of Audit and Supervisory Committee (Corporate Auditors)

Within the Nidec Group, instances of improper accounting were discovered repeatedly, and special investigations were carried out on each occasion by the Corporate Administration & Internal Audit Department and other departments. Among these were cases in which the Audit and Supervisory Committee (Board of Corporate Auditors) served as the body overseeing the investigation, with the full-time members of the Audit and Supervisory Committee (corporate auditors) involved in handling the case.

Some of these full-time members of the Audit and Supervisory Committee (corporate auditors) normally performed their duties in close proximity to the Corporate Administration & Internal Audit Department. In the course of gaining an understanding of the investigations carried out by the Corporate Administration & Internal Audit Department, they understood that the fundamental cause of the improper accounting lay in the severe performance pressure from Nidec headquarters. However, these full-time members of the Audit and Supervisory Committee (corporate auditors) did not raise the issue of the severe performance pressure imposed by Nidec headquarters at meetings of the Audit and Supervisory Committee (Board of Corporate Auditors) or the Board of Directors, nor did they take any steps aimed at rectifying the situation.

As clearly represented by the following statement made by a full-time member of the Audit and Supervisory Committee during an interview with the Committee, the full-time members of the Audit and Supervisory Committee (corporate auditors) failed to perform their check function: "Setting high targets and making every possible effort to achieve them was exactly the management style of the founder, Mr. Nagamori, and I thought it would be difficult to call that into question directly."

b. Information Shared with Outside Members of the Audit and Supervisory Committee (Corporate Auditors)

For many years, the existence of "legacy liabilities" constituted an important management issue at Nidec, and initiatives aimed at resolving these liabilities had been carried out intermittently. During this period, instances of improper accounting were uncovered repeatedly, and responses were made on each occasion by the Corporate Administration & Internal Audit Department, the Legal &

Compliance Department, and other relevant departments. On the other hand, throughout this series of developments, it can be said that the presence of the outside members of the Audit and Supervisory Committee (corporate auditors) was virtually nonexistent.

To begin with, the existence of the “legacy liabilities,” which constituted a significant issue for Nidec, was not reported at the meetings of the Board of Directors or the Audit and Supervisory Committee (Board of Corporate Auditors), and none of the outside members of the Audit and Supervisory Committee (corporate auditors) interviewed by the Committee realized that the existence of “legacy liabilities” had been a long-standing issue for Nidec.

With respect to the Asset Revitalization Project aimed at eliminating the “legacy liabilities,” it was confirmed that the project was reported to the Board of Corporate Auditors in March 2019, while an investigation into the instances of improper accounting by an outside law firm (the 2019 Investigation) was ongoing. However, it is believed that the explanation provided was limited to a superficial level and avoided addressing the essential nature of the problem.

The disposition of the “legacy liabilities” carried out under the designation of “structural reforms” during the fourth quarter of fiscal year 2022 followed a similar pattern. At the meeting of the Audit and Supervisory Committee held on October 3, 2023, a question-and-answer session was held regarding the structural reforms. However, according to the minutes, the only entry recorded was: “It was explained that, as a breakdown of the structural reform, the impairment of production equipment was large in terms of amount, and it was decided that, for investment decisions to be made going forward, a structure would be introduced to check the reliability of prospective orders, etc., that serve as the basis for making capital investment decisions.” There is no indication that any report or discussion took place with regard to the issue of the “legacy liabilities” underlying the structural reforms or the “planned disposition” of those liabilities, and none of the outside members of the Audit and Supervisory Committee interviewed by the Committee understood that the structural reforms implemented during the fourth quarter of fiscal 2022 were initiatives aimed at eliminating the “legacy liabilities.”

With respect to the instances of improper accounting that occurred at Nidec’s various sites, summaries of the main cases were reported at a meeting of the Audit and Supervisory Committee (Board of Corporate Auditors). However, these reports were presented only in a general manner. Given that no materials were distributed, discussions did not go so far as to address the underlying causes in depth. Moreover, the understanding of the Corporate Administration & Internal Audit Department and the full-time members of the Audit and Supervisory Committee that the fundamental cause of the instances of improper accounting lay in performance pressure from Nidec headquarters, was not communicated to the outside officers. Consequently, all of the outside officers interviewed by the Committee regarded these instances of improper accounting merely as cases arising from circumstances specific to the individual sites.

Many of the outside members of the Audit and Supervisory Committee (corporate auditors) were aware that Nidec was a company that set high performance targets and strictly pursued its achievement. However, all of the outside members of the Audit and Supervisory Committee (corporate auditors) interviewed by the Committee believed that the pressure did not exceed what could be regarded as healthy levels, and they did not have an adequate understanding of the actual extent of it.

As is clear from the overview above, the information provided to Nidec's Audit and Supervisory Committee (Board of Corporate Auditors) did not convey the true nature of the problems Nidec was facing, and it can only be said that Nidec's challenges were not communicated to the outside members of the Audit and Supervisory Committee (corporate auditors). Accordingly, in the course of the Committee's investigation, the fact that the outside members of the Audit and Supervisory Committee (corporate auditors) had virtually no presence can be seen as understandable.

What needs to be pointed out with regard to the foregoing is that Nidec did not create a forum like a three-way audit liaison committee in which the Audit and Supervisory Committee (Board of Corporate Auditors), the Corporate Administration & Internal Audit Department, and accounting auditors could gather to share updates about their activities and awareness of problems. It also did not create an opportunity for the outside officers to exchange opinions amongst themselves. Outside members of the Audit and Supervisory Committee (corporate auditors) have limited opportunities to access Nidec's internal information. In a forum like a three-way audit liaison committee, there is an opportunity to develop a deeper understanding of the company and hold an accurate awareness of the problems. It facilitates receiving status updates from other auditing bodies and sharing their respective understandings of the problems, in addition to exchanging honest opinions from their respective viewpoints regarding the issues the company was facing. Furthermore, when an outside member of the Audit and Supervisory Committee (corporate auditor) develops such awareness of the problems and exchanges honest opinions with other outside directors, it can lead to deeper mutual understanding and more collaboration among the outside officers.

At Nidec as well, opportunities were created for the accounting auditors and the Corporate Administration & Internal Audit Department to attend the Audit and Supervisory Committee (Board of Corporate Auditors) and to provide explanations about the status of their respective activities. However, it appears, based on the results of the Committee's interviews with the outside members of the Audit and Supervisory Committee (corporate auditors), that at the meeting there was only a unilateral explanation and a short question-and-answer session. It is hard to conclude that there was an opportunity for honest opinions to be exchanged.

c. Diversity of Outside Officers

As explained above, it can only be concluded that, as an initial matter, not enough information was provided to the outside members of the Audit and Supervisory Committee (corporate auditors) for them to be able to understand accurately the issues Nidec was facing. The fact that improper accounting occurred repeatedly at various sites every year can only be described as an abnormal situation. What was surprising to the Committee at first, when it began its investigation, was the fact that repeated instances of improper accounting had been discovered previously at Nidec. Each of the outside members of the Audit and Supervisory Committee (corporate auditors) interviewed by the Committee said they "felt no sense of concern about the instances of improper accounting being discovered one after another." Looking at the situation from the perspective of the outside members of the Audit and Supervisory Committee (corporate auditors), however, Nidec was a company with a strong commitment to achieving its performance targets. Instances in which improper accounting was committed in order to achieve performance targets occurred one after another, and this was widely reported. Among these instances, there also were situations in which the management executives led the misconduct. Based on the premise that instances of improper accounting occurred repeatedly within the Nidec Group, it would have been reasonable to suspect that the fundamental cause lay not in the individual business units or domestic group companies but with the management executives at Nidec headquarters.

Nidec's outside members of the Audit and Supervisory Committee (corporate auditors) were all former government officials, academics, and lawyers who were highly capable and knowledgeable, and thus the Committee has no objection whatsoever to their qualifications. However, it cannot be ruled out that individuals with different knowledge and experience might have viewed the situation differently.

4. Dishonesty to Accounting Auditors Is Equivalent to Dishonesty to Investors and Markets

In the course of the investigation by the Committee, it was observed on numerous occasions that Nidec's officers and employees provided inaccurate and misleading information to the accounting auditors in an attempt to elicit favorable opinions.

In addition, numerous pieces of evidence were discovered that indicated that Nidec's officers and employees perceived PwC Kyoto as "easy to persuade" and "easy to handle." For example, while looking toward the merger between PwC Kyoto and PwC Arata, Mr. Nagamori commented, "We need to be aware that future audits by accountants will be quite strict, and we should make every effort for Nidec to have a completely clean audit. Moreover, we should assume that adopting a complacent attitude, such as relying on accountants to approve matters at our request, could lead to serious consequences." Mr. Nagamori stated during an interview with the Committee, "There was a sense of urgency that the accounting Nidec had performed until now no longer would be accepted once the merger with PwC Arata took place." To put it another way, this indicates that Mr. Nagamori believed that previous audits by PwC Kyoto were not so strict. Furthermore, emails were discovered that further suggest PwC Kyoto was perceived as a party that could be controlled easily, such as one email stating, "PwC Kyoto: we can manage them perfectly on our side."

The misconduct revealed at this time is varied, but there are also more than a few instances that are extensions of so-called "aggressive" accounting practices. As PwC Kyoto was seen as "easy to persuade" and "easy to handle," the possibility cannot be ruled out that these perceptions resulted in a situation in which effective restraints on "aggressive" accounting practices were lacking. Moreover, among the instances of misconduct discovered at this time, Nidec's officers and employees engaged in dishonest conduct toward PwC Kyoto, such as providing false explanations and concealing necessary documentary evidence. This conduct is necessarily not unrelated to the perception that PwC Kyoto was "easy to handle."

However, even if the approval from the accounting auditors was obtained and if there was improper accounting, it would by no means justify improper accounting, and in any event the party that bears that responsibility is Nidec. Nidec is obligated to prepare financial statements that can be presented openly and fairly to investors and the market. It is necessary to present those financial statements openly and fairly to the accounting auditors and undergo an audit.

It must be understood that improperly obtaining the accounting auditors' approval and disclosing inaccurate financial statements constitutes not only the act of deceiving the accounting auditors but also the act of deceiving investors and the market.

In this regard, it must be said that Nidec's officers and employees lacked awareness that Nidec itself was accountable for reporting its financial results.

Part 2. Recommendations

On October 28, 2025, Nidec was designated by Tokyo Stock Exchange, Inc. as a Security on Special Alert, on the grounds that there was a strong need to improve its internal control systems and related matters. In an attempt to have the Security on Special Alert designation removed, Nidec prepared an improvement plan and status report ("**Improvement Plan**") for purposes of dramatically improving the internal control systems and related matters, and submitted it to Tokyo Stock Exchange, Inc. on January 28, 2026.

According to the Improvement Plan, the Nidec Rehabilitation Committee was formed to formulate and implement remedial measures. It included the representative director and president, as the chairman. The Nidec Rehabilitation Committee conducted interviews with 26 Nidec directors and executive officers, including seven outside directors, as well as officers and employees of Nidec Group companies in Japan and abroad. It also carried out cause analyses and formulated remedial measures to prevent recurrences. These remedial measures were based on the candid opinions of officers and employees of Nidec Group companies. The Committee considers it meaningful to articulate the Committee's own observations and provide an overview of such measures .

In making the Committee's recommendations, the Committee first will review and give its opinion on the remedial measures described in Nidec's Improvement Plan that address the suspected improper accounting that was discovered recently.[265] It then will explain matters that it believes that also should have been recommended. For details about Nidec's own remedial measures, the Committee asks readers to refer to the Improvement Plan. Only the key points are discussed in this report.

1. Remedial Measures Formulated by Nidec

(1) "Reestablishment of the Process for Formulating Mid-Term Management Plans" and "Reestablishment of the Process for Formulating Business Plans"

Nidec points out that it fell into "excessive share price obsession," whereby performance targets that business units and domestic group companies considered difficult to achieve were set forth in annual business plans, and there was strong pressure to achieve the targets, as described in section (2) below. It also states that lying in its background there was a corporate culture that prioritized short-term profits above all else and accorded priority to Mr. Nagamori's intentions. With regard to mid-term management plans, Nidec publicly presented a vision that placed strong emphasis on exceeding market expectations, and it set performance targets in a top-down fashion from Mr. Nagamori that reflected this vision.

With regard to formulating annual business plans and mid-term management plans, one point of Nidec's remedial measures is to establish a structure in which each business unit and domestic group company could be responsible for setting its own targets from a medium-to-long-term perspective in light of each business's characteristics and environment, rather than in a top-down fashion. To that end, it has decided to create a system in which a team at each business unit and domestic group company would be created to consider its respective annual business plans and mid-term management plans, and would cooperate with employees that serve a cross-sectional functionality such as the CFO of Nidec headquarters. To prevent top-down, arbitrary changes to plans, it has also decided to strengthen the processes by including institutional deliberations at the Executive Management Meeting or the Board of Directors.

---

265 The Improvement Plan includes remedial measures in response to the violation of country of origin labeling for customs purposes found at the Nidec Fir International S.R.L. under the umbrella of the Appliance, Commercial & Industrial Motor Business Unit (ACIM) of the Appliance Automotive Division (AAD). However, this report only refers to these remedial measures on an as-needed basis, instead of explaining them in a comprehensive manner. Also, the order of descriptions of remedial measures herein may not follow the order of descriptions in the Improvement Plan.

Nidec's awareness of issues is consistent with the Committee's analysis of the causes and background. The cases of improper accounting that were discovered recently were caused by the setting of aggressive performance targets that could be regarded as fundamentally unrealistic. These performance targets were not based on the actual capabilities and business environments of the business units and domestic group companies. Instead, they were decided by Mr. Nagamori in a top-down fashion, with an eye towards investors .

The Committee has determined that Nidec's remedial measures, mentioned above, are effective to correct the situation, but if the Committee were to point out matters worthy of particular attention, they are as follows.

First, as Nidec may be aware, it should be noted that for many years Nidec's business units and domestic group companies had been placed in an environment where performance targets were given in a top-down fashion, and every year they were forced to achieve performance targets that were not feasible. The Committee believes it is necessary to perform a careful evaluation as to whether the business units and domestic group companies have the awareness and capability to formulate realistic mid-term management plans and business plans on their own.

It is critical to cooperate with the cross-sectional function such as the CFO at Nidec headquarters, but it also should be noted that the cross-sectional function of Nidec headquarters is not necessarily strong. For example, contingent liabilities relating to a supplier's claim for indemnification against a subsidiary should have been noted in the consolidated financial statements for fiscal year 2024. This omission resulted from circumstances in which Nidec headquarters did not provide systematic explanations or adequate notice about reporting packages to the subsidiary, and the subsidiary's accounting system and Nidec's accounting system for consolidated settlements did not communicate with one another. In addition, the CFO and Accounting Department of Nidec headquarters did not understand and manage the whole picture of the "legacy liabilities" at the business units and domestic group companies. As shown in these examples, the Committee considers it necessary to review whether the Nidec headquarters' cross-sectional function is adequate and whether it has in place a structure in which the function can fully operate. (Remedial measures for "Ensuring Independence of Accounting Function From Business Units," as explained below, can be understood as measures for strengthening the cross-sectional function.)

Nidec must be able to formulate realistic and practical mid-term management plans and business plans on its own. Needless to say, achieving this objective requires adequate human resources. Ideally, these personnel already would have been secured at this stage, or there would be a clear prospect for developing them. However, whether Nidec is in such a state requires careful, open-minded analysis and evaluation. If that is in doubt, it is worth considering actively drawing on outside professional expertise.

(2) "Optimization of Budget-to-Actual Management Process," "Revision of Performance Evaluation Standards," and "Revision of Officer Compensation Evaluation Standards and Improvement of Effectiveness of Compensation Decision Process"

Nidec has explained that excessive micromanagement, with respect to budget-to-actual management, resulted in creating strong pressure at every level and cultivating a corporate culture under which short-term profits were the top priority and failure to achieve targets was unacceptable. Because of this corporate culture in which short-term profits were the top priority, performance was evaluated by overemphasizing the rate of achieving operating profit targets, creating serious pressure. In this regard, Nidec also used officer compensation evaluation standards that focused on performance for a single fiscal year, which cultivated a corporate culture that placed the highest priority on short-term results.

In light of these concerns and as a remedial measure, Nidec has decided to modify its performance management practices, under which monthly forecasts were reported daily, and shift to a system in which business operations for the upcoming months are considered on the basis of actual monthly financial results. Nidec also has decided to discontinue the practice in which any deficit of satisfying the business plan in a given month was added to the business plan for subsequent months. Instead, it has decided to formulate a reasonable and feasible plan after analyzing the causes of the relevant deficit. It has decided to establish multifaceted performance evaluation standards that consider not only operating profits but also cash flow and balance sheets, but also include non-financial indicators, such as process-related metrics in its performance evaluations. Further, it has decided to create evaluation standards for officer compensation that reflect non-financial factors, such as medium-to-long-term perspectives, overall optimization, and compliance, and establish a structure in which the Compensation Committee would be increasingly involved in the process of determining officers' compensation.

As explained in "Part 1. Analysis of Causes" above, the main cause of the improper accounting that the Committee discovered was excessive pressure to meet performance targets. In this regard, the Committee is aligned with Nidec in its awareness of the issues involved. While this excessive pressure arose from Mr. Nagamori's management style, it should be noted that this pressure will not necessarily be remedied immediately by Mr. Nagamori's retirement from business operations. For years, Mr. Nagamori's management style had been thoroughly instilled in Nidec's officers and employees. It is likely that a significant number of current officers and employees have adopted his management style as their own. In this regard, as stated in the remedial measures, the Committee considers it critically important to change the mindset of officers and employees by changing the structures for budget-to-actual management and performance evaluation, as well as the determination of compensation.

(3) "Ensuring Independence of Accounting Function From Business Units," and "Clarification of Accounting Policy and Optimization of Operations"

Nidec has explained that there were situations during the preparation of financial figures, in which business units consulted accounting departments about the extent of accounting treatments allowable under accounting standards that would support the achievement of profit targets. This gave rise to incentives to consider arbitrary accounting practices, not only within the business units but also within the accounting departments. As the accounting departments and the business units collaborated in pursuit of profit targets, the accounting departments may have come under the influence of the business units. It is possible that expansive interpretations of the NIAP were adopted or accounting treatments that deviated from the NIAP were permitted, in line with the intentions of the business units.

With such an awareness of the issues, Nidec has decided to separate accounting functions from business management functions under the supervisory accounting officer. Along with placing the accounting functions of the business units and domestic group companies under the supervision of the Nidec headquarters' accounting function, authority over matters concerning personnel would be held by the supervisory accounting officer. Through these measures, Nidec has decided to dismantle the structure under which the accounting departments and business units collaborated in pursuit of profit targets.

In addition, the accounting departments were not provided with additional staff, in line with Nidec's expansion, and there had been a high turnover rate among mid-level personnel. Given the recognition that there is a need to strengthen resources, Nidec intends to reinforce resources through measures such as the engagement of external professionals for the time being, while over time developing in-house accounting personnel and promoting the internalization and autonomous operation of accounting functions.

Furthermore, Nidec intends to raise the readiness of the accounting departments' role as a second line of defense through training targeting officers and employees of the accounting departments and through other initiatives. Recognizing the issue that the check functions were insufficient to oversee the more than 300 companies in the Nidec Group, it plans to raise awareness of NIAP and implement other measures through efficient and effective communication.

Additionally, recognizing that the NIAP did not provide sufficient guidance regarding specific judgment standards that reflect individual business characteristics and that this creates a risk of non-compliance with the NIAP, Nidec intends to revise NIAP and ensure its thorough dissemination within the Nidec Group.

Nidec's awareness of issues is largely consistent with the Committee's analysis of the causes and background. However, Nidec's accounting departments were not merely involved in arbitrary accounting practices when they were consulted by the business units. The Committee's investigation has discovered situations in which the accounting departments of Nidec headquarters, the business units, and the domestic group companies were proactively involved and took the lead in improper accounting practices. Underlying this situation was the fact that the CFO of Nidec's headquarters and the CFOs of the business units and domestic group companies were held responsible for performance targets, and therefore were subject to intense performance pressure. One of the reasons for the shortage of resources in the Nidec accounting departments was a high turnover of mid-level employees. Based on the results of the investigation, the Committee believes that many individuals left after becoming tired of being placed under intense pressure that left them with little alternative but to engage in arbitrary accounting practices, or after suffering from physical and mental exhaustion.

Therefore, to start, it is important to design a system in which the CFO of Nidec headquarters does not receive excessive performance pressure. As explained earlier, it is important to carry out initiatives steadily, such as the reestablishment of the process for formulating the mid-term management plans and optimizing the budget−to−actual management process. Then, as Nidec currently is considering, it is necessary to create a structure in which the accounting functions of the business units and domestic group companies are subject to the supervision of Nidec headquarters' accounting functions, with the CFO of Nidec headquarters being granted authority over personnel matters.

Enhanced cooperation with Nidec Group companies also is essential. As suggested by the fact that Nidec headquarters is struggling to understand the "legacy liabilities" within the Nidec Group, the Committee believes that Nidec headquarters does not have a strong cross-sectional function. However, a cross-sectional function cannot be reinforced without first strengthening the organizational structure of the Accounting Department at Nidec headquarters. The reinforcement of the cross-sectional function is expected to take a considerable amount of time. The Committee's investigation also confirmed an incident of improper accounting in the Appliance, Commercial & Industrial Motor Business Unit (ACIM) and the Automotive Motor & Electronic Control Business Unit (AMEC), which was discovered during the second half of fiscal 2018. In this incident, a foreign CFO at a location outside Japan adamantly insisted on proper accounting treatments and refused to comply with the demands of executives from Nidec headquarters. The Nidec Group already has individuals who possess a high level of professionalism and a strong sense of pride as accounting professionals, and the Committee believes it also is important to draw on these existing internal personnel to strengthen accounting and cross-sectional functions.

(4) "Improvement of Internal Audit System"

Nidec has explained that the Nidec Group is comprised of more than 300 corporations, many of which were not monitored fully through internal audits, and that an internal audit system to manage all of those corporations as a group had not been established in a satisfactory manner. As an internal auditor, the internal audit group of the Corporate Administration & Internal Audit Department audited accounting work at approximately 60 sites within the Nidec Group each year. However, the Corporate Administration & Internal Audit Department only reported to the president and did not report to the Audit and Supervisory Committee other than on important matters on an irregular basis. As a result, the required risk information was not escalated to the Audit and Supervisory Committee. Necessary risk responses, as well as instructions and orders to the Corporate Administration & Internal Audit Department, were not given in a sufficient manner from the perspective of group governance.

With awareness of these issues, Nidec has decided to periodically report internal audit results to the Audit and Supervisory Committee and the president, and to provide opportunities for the Audit and Supervisory Committee and the Corporate Administration & Internal Audit Department to cooperate on a regular basis. It also intends to improve audit functions through a three-way audit framework by holding communication meetings with the Audit and Supervisory Committee, the Corporate Administration & Internal Audit Department, and the accounting auditors, to contribute to strengthening the third line of defense with the expectation to serve as a monitoring function. To make this reporting structure substantive, it intends to require the Audit and Supervisory Committee to give prior approval for appointing and transitioning the general manager of the Corporate Administration & Internal Audit Department. In this way, it is to strengthen the independence of the Corporate Administration & Internal Audit Department.

Reflecting on the fact that the number of internal audit staff was insufficient, Nidec has also decided to increase the number of personnel of the internal audit group of the Corporate Administration & Internal Audit Department from 12 to around 20–30 individuals. It intends to increase the number of sites subject to annual audits, establish an internal audit system that ensures the effective performance of internal audits, and add an administration and planning group in the Corporate Administration & Internal Audit Department, to improve internal audit capabilities and strengthen quality management.

In addition, Nidec is to monitor the state of operations of the internal whistleblowing reporting system to confirm governance of the entire group in a comprehensive manner.

Nidec's awareness of the issues is largely consistent with the Committee's analysis of the causes and background. The Corporate Administration & Internal Audit Department of Nidec has a group that specializes in accounting audits, which is a feature that many other companies do not have. When viewed from the perspective of accounting audits, it can be said that Nidec's audit system was more developed than those of other companies. In addition, when investigating instances of improper accounting, Nidec scrutinized relevant documents and materials, conducted interviews with the parties involved, and performed forensic investigations. It can be seen that, as a company conducting its own investigations, it carried out investigations at a deep level.

The Committee agrees with increasing the number of staff in the Corporate Administration &

Internal Audit Department, as well as enhancing audit capabilities and quality management. However, the Committee believes that the fundamental issue lies in the failure of the Corporate Administration & Internal Audit Department to pursue the root causes of the improper accounting, despite having been aware of them due to deference to Mr. Nagamori, hesitation to delay the financial closing schedule to which Mr. Nagamori attached importance, and other factors. For example, with regard to the improper accounting incident discovered at Nidec Servo Corporation (NSRV), the parties involved in the improper accounting spoke with raw candor about the intense pressure from the Executive Officer Responsible for the Group Companies during their interviews with the Corporate Administration & Internal Audit Department. While the Corporate Administration & Internal Audit Department was well aware that the root cause of the improper accounting derived from excessive pressure from the Executive Officer Responsible for Group Companies, it deliberately avoided addressing this root cause in the investigation report, due to its deference to Mr. Nagamori. Furthermore, with regard to the improper accounting incident discovered at Nidec GPM GmbH (NGPM), the Corporate Administration & Internal Audit Department was concerned that focusing on the existence of performance pressure would cause the scope of the investigation to expand. The Corporate Administration & Internal Audit Department concluded in its investigation report that the lack of awareness of proper accounting practices of the then-NGPM CEO was the cause of the improper accounting, and deliberately refrained from identifying pressure from Nidec headquarters as the problem.

These examples raise concerns with respect to the functions of an internal audit department. On the other hand, it is true that it was not easy for the Internal Audit Department to fulfill check functions on its own at Nidec, where Mr. Nagamori had absolute power. It is not an exaggeration to say that if a person questioned Mr. Nagamori's management style or caused a delay in the financial closing schedule, that person's position at Nidec would be jeopardized.

In this regard, and as Nidec currently is considering, it is important to set up a forum like a communication meeting for the Corporate Administration & Internal Audit Department, the Audit and Supervisory Committee, and the accounting auditors. The Committee believes that it is essential, when confronting a strong-willed business owner, for each check function to share information closely about incidents and issues of concern, to engage in frank discussions about solutions, and to cooperate in order to operate effectively as a check function.

(5) "Improvement of Internal Whistleblowing Reporting System" and "Strengthening of Report Response System"

Nidec has decided to impose a duty to report suspected compliance breaches on all its officers and employees, in order to prevent reporting parties to hesitate, delay, or fail to make a report via the regular reporting line. It is to clarify that those who breach this duty may be subject to disciplinary action. It is to also reinforce knowledge of the internal whistleblowing reporting system throughout the Nidec Group companies.

Nidec has further explained that it had insufficient resources and expertise in the investigation framework after the internal whistleblowing report, together with a shared understanding among employees of Nidec Group companies that internal reports would not be handled adequately. This became one of the reasons in developing a culture that discouraged employees from speaking up. Therefore, it has decided to enhance the investigation framework by creating manuals for investigation measures after the whistleblowing report and by cooperating with outside law firms and other professionals that have expertise in investigative work.

Nidec's response, as described above, can be appreciated from the perspective of establishing and improving a general internal reporting system. However, a problem revealed by the Committee's investigation was that although the Legal & Compliance Department, which was in charge of responding to internal reports, was aware that the excessive pressure from Mr. Nagamori and the Executive Officer Responsible for Group Companies was causing improper accounting, the department did not specifically point to the existence of this pressure due to deference to that executive officer and, ultimately, Mr. Nagamori. In addition, there were some staff members who were unable to see it as a problem that the Executive Officer Responsible for Group Companies was placing intense pressure on domestic group companies.

As explained in section (4) above with regard to the internal audit system, the Committee believes that the Legal & Compliance Department should cooperate closely with the Audit and Supervisory Committee to fulfill check functions appropriately, as the second line of defense. At Nidec, in principle, the details of each internal report are not shared with the Audit and Supervisory Committee, but it is worth considering setting up a system in which the details of internal reports, response policies, and response results are reported and discussed on a regular basis. This provides an opportunity for outside members of the Audit and Supervisory Committee to have firsthand insight into the actual situation at Nidec. Through discussions with outside members of the Audit and Supervisory Committee, the Legal & Compliance Department is also provided with opportunities to gain exposure to common practices outside the company, leading to an improvement in the quality of responses to internal reports.

(6) "Improvement of Effectiveness of Board of Directors and Audit and Supervisory Committee"

Nidec has discovered situations in which executives who worked with Mr. Nagamori were too conscious of Mr. Nagamori's power and failed to provide the Board of Directors with risk information in a sufficient manner, as a result of prioritizing the directions of Mr. Nagamori when making important decisions, which resulted in an adverse effect on supervisory organizations like the Board of Directors. Nidec has also confirmed that progress in the business plan, risk information, and other matters were not fully reported to the Board of Directors and the Audit and Supervisory Committee.

Nidec has also noted that since its outside directors historically have consisted mainly of academics or former government officials, there is room to consider a composition that includes accounting experts and persons with experience managing listed companies.

In light of these concerns, Nidec has decided to implement the following measures.

In the past, when a business plan was formulated, it was not referred to the Board of Directors, and as a result, the Board of Directors could not confirm or deliberate on the reasonableness of the targets set. Accordingly, going forward, Nidec is to have the Board of Directors deliberate on the business plan, regularly monitor progress against the plan, and discuss whether target revisions are necessary.

Given that the duty to report critical risk information to the Board of Directors was not clearly defined except for “lawsuits material to business” and “disputes material to business,” critical risk information was not fully reported to or deliberated on by the Board of Directors. Nidec is to establish a system in which critical risk information is reported to the Board of Directors, among other measures, by defining critical risk information to be reported to the Board of Directors and establishing standards for determining whether reporting is required.

In the past, the Corporate Administration & Internal Audit Department reported to the Audit and Supervisory Committee with the internal control audit results once a year as well as important matters such as the results of special investigations when they occurred. There were also regular meetings between the Audit and Supervisory Committee and the accounting auditors to discuss annual audit results and the like. However, the three parties of the Audit and Supervisory Committee, the Corporate Administration & Internal Audit Department, and the accounting auditors did not periodically gather together to sufficiently communicate with each other on a regular basis. Nidec has decided that, in the future, it is to have the Corporate Administration & Internal Audit Department report the internal audit results to the Audit and Supervisory Committee twice a year and have three-party meetings in which the Audit and Supervisory Committee, the Corporate Administration & Internal Audit Department, and the accounting auditors would exchange opinions on a regular basis. In addition, the Audit and Supervisory Committee is to exchange opinions with business executive directors and executive officers. In this way, it is to improve the effectiveness of the Audit and Supervisory Committee.

In the past, Nidec’s outside directors were academics, former government officials, and attorneys, rather than accounting experts or people with experience managing listed companies. Therefore, to ensure the Board of Directors can fulfill its supervisory functions from a wider perspective, it has decided that, in the future, the composition of the Board of Directors would be defined, and candidates would be elected on the basis of these requirements.

Nidec's awareness of the issues is largely consistent with the Committee's analysis of the causes and background.

The Committee believes it is particularly important to organize communication meetings among the Corporate Administration & Internal Audit Department, the Audit and Supervisory Committee, and the accounting auditors, as Nidec is considering, and that a structure also is needed in which outside directors can fulfill governance functions appropriately.

Although it is important to provide the Board of Directors and the Audit and Supervisory Committee with sufficient information, it should be noted that this does not mean that outside directors can make appropriate determinations as long as sufficient information is provided. It also should be noted that the more information that is provided to the Board of Directors and the Audit and Supervisory Committee, the less time outside directors can spare to consider and decide matters for each case and this all too often falls into a situation where outside directors do not (or cannot) make any considerations and decisions.

A prime example of this is determining the reasonableness of business plans. Without knowing the details, the business environment, and the prospects of the many businesses of Nidec, it is impossible for outside directors to determine the reasonableness of business plans. This leaves a high possibility that a business plan may be approved by the Board of Directors after only superficial questions and answers. However, it is also not practical to provide outside directors with a prodigious amount of information to determine the reasonableness of a business plan. (Regardless of how talented the outside directors are, it is obvious that this will exceed their processing capacity.)

To improve the provision of information to the Board of Directors, Nidec's management and departments that possess check functions and audit functions need to organize and refine what needs to be considered and decided on by the outside directors.

Of course, there exists much risk that such matters are refined under arbitrary decisions. Therefore, it is important to ensure that a diversity of information is provided to the Board of Directors and the Audit and Supervisory Committee. It is necessary to not only provide information from management, but also from the second line of defense like the CFOs, accounting departments, and the Legal & Compliance Department, as well as from the third line of defense like the auditing departments. The most important thing is that these diverse departments organize and candidly explain matters about which they are concerned, instead of providing superficial overviews. In reality, there are no companies without concerns. Management and departments performing audit and check functions should have their own point of view on the concerns of their company. After those concerns are organized, information should be provided to the Board of Directors and the Audit and Supervisory Committee from the perspective of the relevant department. The Committee's understanding is that Nidec already has been doing this, in part, but it also is important to create an opportunity for outside directors to exchange opinions not only with Nidec's management and the departments performing audit and check functions, but also with other departments' executives and staff. It is envisioned that, for example, by exchanging opinions with staff, outside directors may become aware that the measures explained to the Board of Directors by the management have not taken root in the company, or are causing unreasonable demands.

Therefore, to improve the quality and increase the quantity of information provided to the Board of Directors and the Audit and Supervisory Committee, it appears that what is most needed is that management and departments at Nidec that perform audit and check functions become aware of the need to use outside directors. The roles of outside directors are to supervise and evaluate management, as well as to appoint and dismiss those top management executives. It is the outside directors who have the power, backed by law, to challenge top management executives. It is necessary to understand that the act of precisely delivering the concerns of the company to outside directors and causing them to occasionally "give a helping hand" and take proactive action, results in protecting the company in an emergency.

(7) "Revision of Standards for Appointing Executive Officers and Improvement of its Effectiveness "

While it is important to secure the qualifications of management executive officers, who are the core of business operations in improving the Nidec Group, there is awareness that no common standards for appointing executive officers at the Nidec Group had been developed. Nidec has decided to create standards to uniformly apply to appointing its global executives[266] and presidents of domestic group companies, and to have those standards to include ethics, compliance, and other perspectives.

In the past, only limited information about candidates was provided to the Nomination Committee, which nominated management executive officers, and that the scope of deliberations by the Nomination Committee was limited to Nidec's directors and some management executive officers (presidents, executive vice presidents, etc.). Nidec has decided that, in the future, internal information, external assessment results, and other multi-faceted information on nominated candidates would be shared with the Nomination Committee. It would secure the transparency and consistency of the management executive officer appointment process by having Nomination Committee confirm whether Nidec's global management executives are appointed in accordance with the uniform appointment standards referenced above. In the case of the CEO of a major domestic group company,

[266] "Global management executives" means the executive general managers of the Appliance and Automotive Division (AAD), the Small Platform Motor & Solutions Business Unit (SPMS), the Automotive Motor & Electronic Control Business Unit (AMEC), the Motion & Energy Business Unit (MOEN), and the NIDEC Machinery and Automation Business Unit (NMAB), who directly report to Nidec's president.

Nidec's human resources department would confirm the process.

Many cases of improper accounting instances that were discovered in the Committee's investigation were the result of intense performance pressure placed on the business units and domestic group companies by the Nidec headquarters' executive officers who were supervising them. Behind the fact that these executive officers exerted intense performance pressure on executive officers in the business units and domestic group companies lies the circumstance that Mr. Nagamori, who held the ultimate decision-making authority over personnel matters relating to these executive officers, was himself exerting intense performance pressure on these executive officers, by hinting at personnel changes among the executives. The Committee believes that by clarifying the standards for appointing executive officers, as well as incorporating ethics, compliance, and other perspectives in the appointment standards, and making the appointment process transparent, top executives can be prevented from making arbitrary decisions on personnel matters relating to executive officers. This would prevent executive officers from engaging in inappropriate business practices because they are under pressure.

(8) "Transformation of Corporate Culture," "Enhancement of Compliance Education," "Revision of Personnel Evaluation System," and "Tougher Application of Disciplinary Actions"

Since establishing the Committee and to change its corporate culture, Nidec has communicated a top message of transforming its corporate culture. Nidec has decided to create a new organization called the Culture Transformation Lab, which would create a system through which the opinions of employees will be communicated to managers without fail.

To cultivate awareness that compliance is a basic premise of business activities and is a top priority, it has also decided to enhance compliance education during its onboarding process of new employees and during its periodic training sessions. Further, it has decided to conduct compliance training with Nidec's executive officers and officers of domestic group companies.

Furthermore, to correct the mentality of giving top priority to short-term profits, Nidec has decided to revise the personnel evaluation system. It would add evaluation items from the perspective of compliance. It would also provide training to evaluators and evaluatees to ensure the operation of appropriate personnel evaluations.

In addition, Nidec has decided to clarify disciplinary standards and the process of implementing disciplinary actions. Information on disciplinary actions would be shared within Nidec and domestic group companies to enhance awareness.

It is not an exaggeration to say that, since its founding, Nidec has been "Mr. Nagamori's company," and his management philosophy has been thoroughly enforced, not only among executives but also among staff employees. Based on the Committee's interviews with the Nidec Group management executives and executive employees in the finance and accounting departments, the Committee believes that Mr. Nagamori had an absolute presence in the Nidec Group. It is clear that there was no way to challenge his management philosophy.

The Committee does not intend to reject Mr. Nagamori's management philosophy. But, the Committee believes that for Nidec to start afresh, it is necessary to break away from Mr. Nagamori's management philosophy and develop a new one. In that sense, it is extremely important to listen to the voices of employees who would support Nidec going forward and to strive to create a new culture and environment for Nidec.

2. Recommendations from the Committee

The remedial measures formulated by Nidec are consistent with the Committee's awareness of the issues, and as explained above, although some caution is required when implementing these measures, the Committee believes that these measures will be effective in preventing the recurrence of instances of improper accounting that were discovered recently. Therefore, instead of needlessly repeating the same recommendations, the Committee will explain the recurrence prevention measures that it determines are necessary.

(1) Break Away From Being "Mr. Nagamori's Company"

Since its founding, Nidec has been "Mr. Nagamori's company". It is not too much to say that Mr. Nagamori's management philosophy has been thoroughly enforced across the group, and all business operations have been executed in accordance with his management philosophy. However, given that the root cause of the recently discovered instances of improper accounting was the collapse of Mr. Nagamori's management style and the failure to keep Mr. Nagamori in check, the Committee believes that it is important, when revitalizing Nidec going forward, for Nidec to break away from being "Mr. Nagamori's company" That is, Nidec should move away from the influence of Mr. Nagamori.

Mr. Nagamori vacated his position as CEO to Mr. Kishida in April 2024, and he resigned as director and became Chairman Emeritus in December 2025. Then he resigned as Chairman Emeritus and completely left Nidec on February 26, 2026. In an interview with the Committee after he became Chairman Emeritus, Mr. Nagamori repeatedly stated, "I do not intend to rule from behind the scenes," in which statement the Committee believes it can trust. But it is necessary to keep in mind that Mr. Nagamori, who founded Nidec, led the company to growth. In addition, he still owns approximately 12% of the Nidec shares, directly and through his asset management company. As such, he still has strong influence. Nidec is the embodiment of Mr. Nagamori's life, and it is not difficult to imagine that Mr. Nagamori is most concerned about the future of Nidec. Therefore, the possibility of Mr. Nagamori trying to influence the operations of Nidec cannot be ruled out.

In this regard, to remove Mr. Nagamori's influence as a shareholder, there could be discussions about disposing his shares or restricting him from exercising his rights by some sort of agreement, but these are matters that would require judgment or decisions by Mr. Nagamori in the first place. This is beyond the control of any initiative by Nidec, and it appears inappropriate to discuss it as a recurrence prevention measure that should be implemented by Nidec. At a glance, these ideas look like fundamental measures to break away from the influence of Mr. Nagamori, but in fact, they appear to be reactive and superficial solutions by a company in which a variety of stakeholders are involved.

A variety of stakeholders are involved in a company, in particular a listed company like Nidec. Management is required to make the right business decisions, in view of stakeholders making a variety of demands, each having different backgrounds in values and interests. It may be Mr. Nagamori, as the founder and largest shareholder of Nidec, who stands in the way of the management of Nidec today, but another powerful stakeholder may emerge in the future.

What is necessary for Nidec is to put a structure in place to prevent the influence of certain stakeholders, including Mr. Nagamori, from distorting appropriate business operations.

(2) Strengthening Functions of Outside Directors

Outside directors are key in this regard. Even if certain stakeholders, including Mr. Nagamori, try to exert influence over management, this will not be problematic if management is able to respond appropriately. But the problem here is that management is affected by these actions and proper business operations are distorted. The body that can take a firm stand against these influences is not the internal supervisory and check functions that are under the command of the management, but outside directors with authority backed by the law. As people in a position to speak for the common interests of all shareholders, outside directors must supervise business management in an effective manner, and if proper business operations are distorted, they should exercise their authority as needed, including through the appointment and dismissal of top executives.

That said, there is an aspect of "easier said than done" in the foregoing. In various corporate scandals, there are many cases in which the actions of outside directors are criticized, for example, by saying, "What were the outside directors doing?" But it is not easy for an outside director to identify the issues faced by a company by attending a Board of Directors' meeting once a month and occasionally participating as an observer in other internal meetings. Moreover, even if an outside director becomes aware of issues within a company, it is not easy to raise those issues at the Board of Directors' meeting and to confront management, which is more familiar with the company's business, on an equal footing.

This is even more true when the issues faced by a company concern matters that relate to the core of its business operations, and it appears to require considerable “courage” for an outside director, who does not have a detailed understanding of the business, to raise issues relating to the core of business operations. The series of improper accounting cases that were discovered recently were caused, at the root, by Mr. Nagamori’s management style. Some of the outside directors interviewed by the Committee realized that intense performance pressure was in the background of the improper accounting conduct, but they did not raise the issue of Mr. Nagamori’s management style, which was the source of that performance pressure, at meetings of the Board of Directors or elsewhere. These outside directors stated, for example, “I did not think that Mr. Nagamori’s management style reached the level of causing problems.” The Committee also believes that even if they had regarded it as problematic, it may have been difficult for outside directors who were not directly involved in the business and did not have a firsthand understanding of the business to question Mr. Nagamori’s management style, which has been a core value that has defined Nidec and served as the driving force for its rapid growth.

Given the above, even if persons with management experience and accounting experts are appointed as outside directors to ensure more diversity, it cannot be denied that asking them to “supervise and evaluate management without deference and on a fair and unbiased basis” is an unreasonable demand to some extent. For outside directors to perform their functions as originally planned by the system, it is necessary to put safeguards in place that make it possible.

What is important for outside directors to perform their original functions is to improve the quality of information provided to outside directors, to provide the support necessary for outside directors to take action, and to establish a structure under which outside directors, in particular those who serve as Audit and Supervisory Committee members, can collaborate with internal and external supervisory and check functions.

The need to improve the quality of information provided to outside directors already has been discussed, and it is necessary for Nidec’s management and the departments that perform supervisory and check functions to provide outside directors with candid information about the issues each of them face. As pointed out in “Part 1. Analysis of Causes” above, Nidec’s published evaluation of the effectiveness of its Board of Directors states that “outside directors are provided with information sufficient to fully understand the Company’s corporate philosophy, business environment, management strategies, and management issues.” While this appears to be true, it is necessary to recognize the fact that the Corporate Administration & Internal Audit Department did not share with the Audit and Supervisory Committee, what it thought was the root cause of the improper accounting, in responding to the series of instances of improper accounting. What is important is the quality of the information provided to outside directors. Issues that management and the departments performing the supervisory and check functions truly regard as issues and are struggling to resolve are exactly the issues that should be organized and shared with outside directors. Outside directors possess legally backed authority to save a company in the event of a crisis. Nidec's officers and employees, beginning with its top executives, must be aware that conveying the issues and challenges faced by the company to outside directors, in turn, will contribute to saving the company in such a situation.

It is also important to provide the support necessary for outside directors to perform their activities. Even if Nidec's true challenges are understood, if the subsequent response is "left entirely" to the outside directors, it will be difficult for them to fulfill their roles completely. In this regard, the presence of staff to support their activities is indispensable, who can act as the "hands and feet" of outside directors, and deliver information needed by the outside directors to the outside directors. It is understood that currently at Nidec, the General Affairs Department provides support to outside officers, and that the Corporate Administration & Internal Audit Department provides support to outside directors who serve in the Audit and Supervisory Committee. However, this personnel arrangement does not appear to be structured on the premise that those staff will act as the "hands and feet" of the outside directors. While it is not necessarily required to assign dedicated staff, it is considered necessary to establish a personnel structure that enables timely support to be provided whenever outside directors need it (and it is also believed that establishing such a structure would help motivate outside directors to engage more proactively in understanding Nidec's issues.)

In terms of support for outside directors, it also appears beneficial to establish a structure pursuant to which outside directors themselves can seek opinions from attorneys and other experts as needed. Although outside directors possess extensive insight and knowledge backed by their experience, there may be situations in which they are uncertain about what decision should be made depending on the nature of the issue. In these types of situations, management would have a dedicated department of the company examine the matter, and if it still cannot be resolved, would consult outside experts. The same approach also can be applied to outside directors. It is worth considering having Nidec provide outside directors with access to experts with whom they can consult.

Finally, it should be noted that the outside directors' understanding of the issues faced by Nidec, and of what should be done to resolve them, does not mean that all issues will be resolved. Although outside directors have strong legal authority, there are more than a few cases in which the reality is different. Outside directors are also human, and it is inevitable that consideration or deference toward management may cause them to hesitate to raise issues on a fair and unbiased basis. It is easy to say, "Outside directors should not have such considerations or deference," or "the system does not envisage outside directors having such considerations or deference," but these comments are not practical opinions in light of reality. It also is necessary to have a structure that takes into account the fact that outside directors, as human beings, may at times reveal their vulnerabilities.

In this regard, as included in Nidec's remedial measures, it appears essential to provide opportunities for those who perform audit functions to come together and candidly exchange their awareness of issues. While the Audit and Supervisory Committee alone or the Internal Audit Department alone may be hesitant to "jump on the grenade", if a system can be established pursuant to which these three parties, including the accounting auditors, share their awareness of issues and work collaboratively to address them, it should become possible to respond to issues on a fair and unbiased basis. In that sense, members in the field of the Audit and Supervisory Committee and the Internal Audit Department should adopt a mindset of making effective use of one another in getting other auditing functions to understand its awareness of the issues and seek their assistance in addressing those issues.

(3) Ensuring Integrity toward Investors and the Market

In the course of the investigation by the Committee, it often was observed that Nidec's officers and employees provided inaccurate or misleading information to the accounting auditors in an attempt to elicit favorable opinions. As mentioned in "Part 1. Analysis of Causes" above, it is necessary to understand that the act of improperly obtaining the approval of the accounting auditors and disclosing inaccurate financial statements not only deceives the accounting auditors but also deceives investors and the market.

This dishonest conduct toward the accounting auditors was not limited to certain CFOs or those in charge of accounting. It also was observed at the level of the CFO of Nidec headquarters and its Accounting Department, as well as among the CFOs and accounting departments of various sites within the Nidec Group. Furthermore, this conduct was not temporary in nature but can be said to have been carried out on an ongoing basis for years. In that sense, it even should be considered that there may have been individuals for whom a lack of integrity toward the accounting auditors had become an established pattern of conduct.

Simply put, the reason Nidec has lost the confidence of investors and the market is that its true condition and capabilities are not visible. The first step toward restoring confidence in Nidec is to present an accurate picture of Nidec to investors and the market in an open and forthright manner. It goes without saying that top executives must demonstrate their determination and stance clearly, and that this determination and stance must be thoroughly enforced in the CFOs and accounting departments of the Nidec Group.

(4) Closing Comments

The Committee believes that the recent series of instances of improper accounting do not call Nidec's capabilities as a manufacturing company into question. The issues identified in this matter are accounting issues that were caused by an excessive focus on achieving numerical targets presented to the market. While issues relating to the foundation of Nidec's management underlie these issues, Nidec's undeniable capabilities as a manufacturing company remain. Although this may be different from the vision envisaged by Mr. Nagamori, the Committee believes that Nidec will steadily restore market confidence if Nidec is able to present its true capabilities as a manufacturing company.

End