



**> NEW MOMENTUM, NEW OPPORTUNITIES**

**Annual Report 2010** Year ended March 31, 2010



## > MISSION STATEMENT

NSK aims to contribute to the well-being and safety of society and to protect the global environment through its innovative technology integrating MOTION & CONTROL. We are guided by our vision of NSK as a truly international enterprise, and are working across national boundaries to improve relationships between people throughout the world.

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### Cautionary Statements with Respect to Forward-looking Statements

Statements made in this annual report with respect to plans, strategies, and future performance that are not historical facts are forward-looking statements. NSK cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

## > PROFILE

Since becoming the first company in Japan to manufacture bearings in 1916, NSK has developed and supplied many different types of bearings that contribute to industrial growth as well as convenience and safety in everyday life. At the beginning of the 1960s, we began globalizing operations while exploiting technological capabilities garnered from the production and development of bearings to launch forays into the fields of automotive products and precision machinery and parts. Subsequently, we have evolved steadily.

As set out in our Mission Statement, integrating MOTION & CONTROL forms the basis of our business activities. By providing products that control friction and curb energy loss, we contribute to global environment protection.

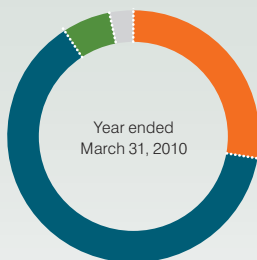
November 2009 saw NSK embark upon a new mid-term plan, which covers fiscal 2009 through fiscal 2012 and calls on the Company to adapt to the paradigm shift in the global economy and technological innovations. In addition to existing growth strategies and profitability enhancement measures, we will step up efforts to integrate production, sales, and technology to make our business management even more centered on customers and businesses, thereby consolidating our operational platform in readiness for our next phase of growth.



# > OVERVIEW OF OPERATIONS

## BUSINESS SEGMENT

### NET SALES BREAKDOWN (%)

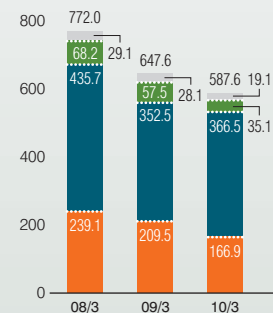


- Industrial Machinery Bearings.....28%
- Automotive Products.....63%
- Precision Machinery and Parts.....6%
- Others.....3%

### NET SALES

(¥ Billions)

1,000



- Industrial Machinery Bearings
- Automotive Products
- Precision Machinery and Parts
- Others

## INDUSTRIAL MACHINERY BEARINGS



As a comprehensive bearing manufacturer, NSK offers a varied lineup of miniature through to ultralarge products catering to needs across a broad spectrum of industries. This segment is steadily building NSK's presence in the general machinery sector, including steelmaking equipment, machine tools, wind turbines, and railcars; the electrical machinery and IT equipment sectors, including domestic appliances and personal computers; and the aftermarket sector, which provides these industries with maintenance and repair services.

> P.20

## AUTOMOTIVE PRODUCTS



This segment contributes to safety and comfort by providing automotive bearings, such as mainstay hub unit bearings and needle roller bearings, and automotive components, which include electric power steering (EPS) systems and automatic transmission (AT) components. Taking advantage of NSK's strong global network, the segment will reflect the needs of today's world by responding to growing environmental awareness as well as rising demand for small vehicles and increasing demand in emerging nations.

> P.22

## PRECISION MACHINERY AND PARTS



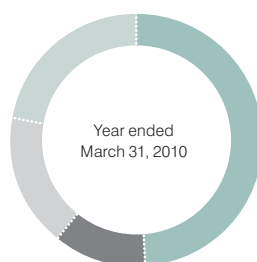
We advance progress in leading-edge fields by developing and marketing linear motion products, such as ball screws and linear guides; mechatronic products, including megatorque motors™ and XY tables; and exposure equipment for liquid crystal display (LCD) panel production. The segment's business scope is expanding from machine tools, industrial robots, semi-conductors and liquid crystal production equipment, and medical equipment to encompass clean energy areas with significant growth potential, including photovoltaic panels, lithium-ion battery production equipment, and nuclear power plants.

> P.24

## GEOGRAPHICAL SEGMENT

### NET SALES BY CUSTOMER LOCATION (%)

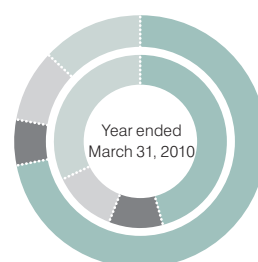
(%)



- Japan ..... 49%
- The Americas ..... 12%
- Europe ..... 17%
- Asia ..... 22%

### ASSETS AND WORKFORCE (%)

(%)



#### Assets (outer)

- Japan ..... 72%
- The Americas ..... 6%
- Europe ..... 9%
- Asia ..... 13%

#### Workforce (inner)

- Japan ..... 46%
- The Americas ..... 10%
- Europe ..... 12%
- Asia ..... 32%

## GLOBAL NETWORK

At the beginning of the 1960s, NSK began developing its overseas operating bases in earnest. Today, we rapidly and accurately cater to the diverse needs of customers around the world through a network that spans 28 countries and region including Japan, and comprises production bases, sales bases, and R&D centers at 195 sites, not including representative offices.

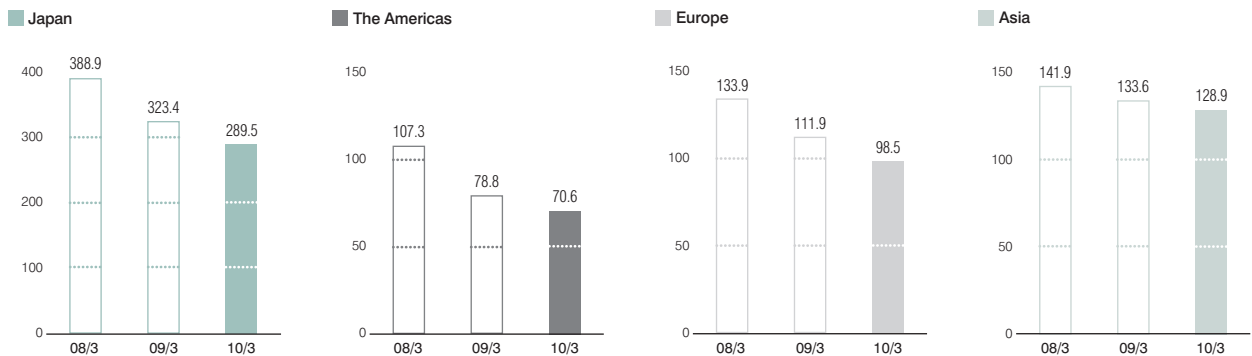
- Headquarters.....**6**
- Production site.....**63**
- Sales site.....**113**
- R&D center.....**13**
- Representative office.....**7**

EUROPE / AFRICA				
U.K.	1	5	2	1
Germany	1	3	1	2
France	1			
Italy	1	2		
Spain		1		
Poland	4	3	1	1
Norway				1
Turkey		1		
South Africa		1		
THE AMERICAS				
U.S.A.	1	7	6	1
Canada			3	
Mexico			1	
Brazil		1	5	1
Peru			1	
Argentina			1	

ASIA / OCEANIA				
Thailand	1	2	3	1
Singapore			2	
Indonesia		3	2	
Malaysia		2	4	
Philippines				1
Vietnam			1	1
India	1	3	5	
Australia			4	
New Zealand			1	
Japan	1	22	36	5
China	1	10	16	1
South Korea		2	2	1
Taiwan			6	

### NET SALES BY CUSTOMER LOCATION

(¥ Billions)



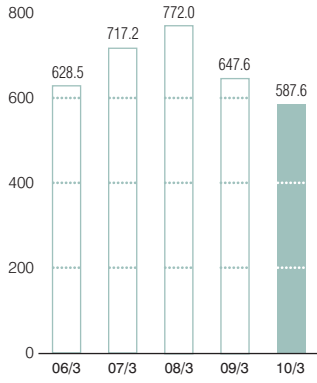
# > FINANCIAL HIGHLIGHTS

NSK Ltd. and Consolidated Subsidiaries

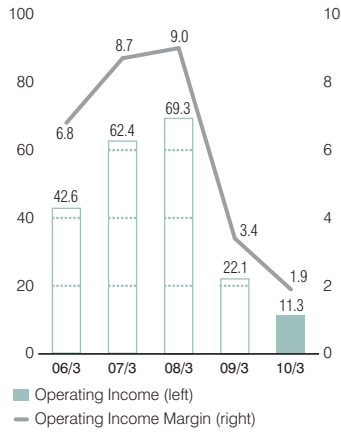
	Millions of yen Unless otherwise specified			Percent change	Thousands of U.S. dollars Unless otherwise specified
Years ended March 31	2010	2009	2008	2010 / 2009	2010
<b>FOR THE YEAR</b>					
Net sales	¥587,572	¥647,593	¥772,036	-9.3%	\$6,317,978
Gross profit	104,829	125,583	178,299	-16.5	1,127,194
Operating income	11,305	22,106	69,343	-48.9	121,559
Net income	4,765	4,561	42,613	4.5	51,237
Capital expenditures (excluding intangible assets)	19,829	41,915	51,971	-52.7	213,215
Depreciation and amortization	37,149	39,729	38,380	-6.5	399,452
R&D expenditures	8,794	10,691	10,240	-17.7	94,559
<b>AT YEAR-END</b>					
Total assets	789,624	744,229	828,580	6.1	8,490,581
Net assets	264,688	248,787	283,775	6.4	2,846,108
Interest-bearing debt	304,937	323,165	264,413	-5.6	3,278,892
Number of employees (persons)	24,633	24,050	25,069	—	—
<b>CASH FLOWS</b>					
Cash flows from operating activities	51,108	11,785	69,236	333.7	549,548
Cash flows from investing activities	(29,355)	(46,422)	(23,187)	—	(315,645)
Cash flows from financing activities	(24,956)	50,529	(5,923)	—	(268,344)
Cash and cash equivalents at end of the year	123,437	124,944	113,226	-1.2	1,327,280
<b>PER SHARE (Yen, U.S. dollars)</b>					
Net income	8.82	8.44	78.84	—	0.095
Net assets	458.65	431.74	495.61	—	4.932
Cash dividends	8.0	14.0	19.0	—	0.086
<b>RATIOS</b>					
Operating income margin	1.9%	3.4%	9.0%	—	—
ROA	0.6%	0.6%	5.2%	—	—
ROE	2.0%	1.8%	16.1%	—	—
Net D/E ratio (times)	0.73	0.85	0.56	—	—

Note: The amounts represented in dollars appearing in this annual report refer to U.S. currency. Yen amounts have been translated at the rate of ¥93=U.S.\$1.00, the approximate exchange rate on March 31, 2010, solely for the reader's convenience. For more detail, please refer to the Eleven-year Summary on page 34.

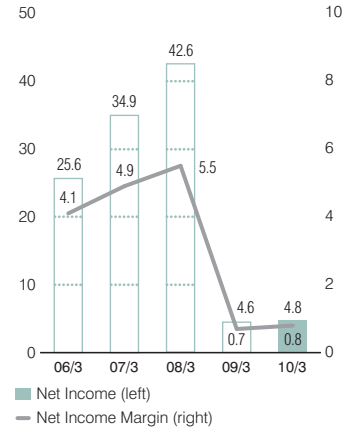
**NET SALES**  
(¥ Billions)



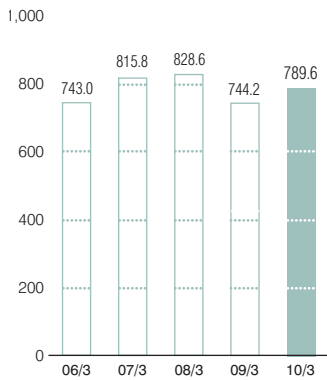
**OPERATING INCOME, OPERATING INCOME MARGIN**  
(¥ Billions / %)



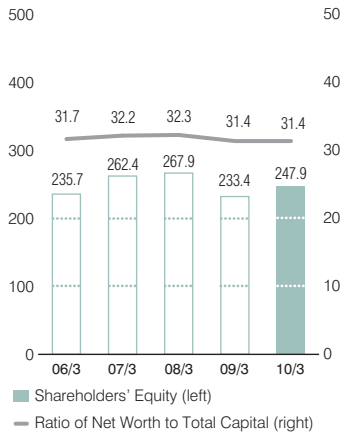
**NET INCOME, NET INCOME MARGIN**  
(¥ Billions / %)



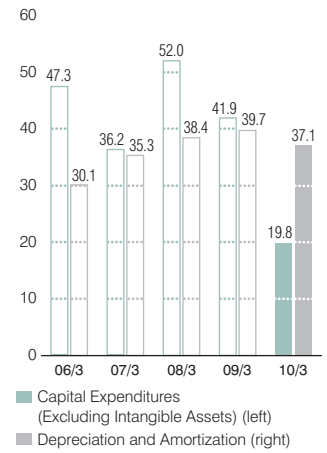
**TOTAL ASSETS**  
(¥ Billions)



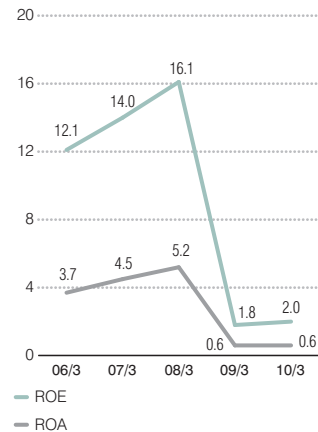
**SHAREHOLDERS' EQUITY, RATIO OF NET WORTH TO TOTAL CAPITAL**  
(¥ Billions / %)



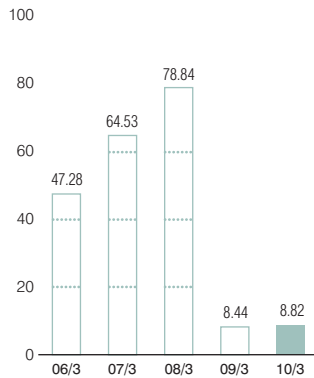
**CAPITAL EXPENDITURES, DEPRECIATION AND AMORTIZATION**  
(¥ Billions)



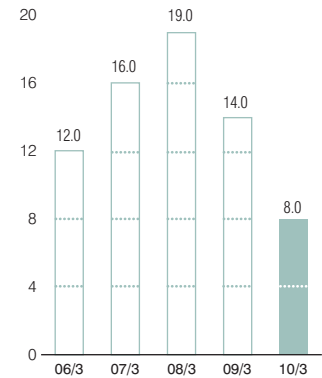
**ROE AND ROA**  
(%)



**NET INCOME PER SHARE**  
(Yen)



**CASH DIVIDENDS PER SHARE**  
(Yen)





## > TO OUR SHAREHOLDERS AND INVESTORS



**NORIO OTSUKA**  
President and Chief Executive Officer

In the year ended March 31, 2010, we were able to achieve profitability by taking rigorous measures to increase sales, secure earnings, and control cash flow in response to the adverse business conditions resulting from the global economic crisis. Our business divisions will take the lead as we respond rapidly to dramatically changing market structures to establish a platform for new growth.



## Continuing to Strengthen Profitability after Overcoming Adverse Conditions

In the year ended March 31, 2010, we took measures to counter adverse business conditions. In these efforts, our top-priority tasks were to reverse a significant downturn in sales stemming from the dramatic decrease in demand that accompanied the global economic crisis and improve earnings. In each business sector, we continued rigorous steps to increase sales and ensure sales volumes. At the same time, we sought to improve earnings and cash flow by lowering our break-even point. This entailed reorganizing our global production network, reducing capital investment and inventories, lowering external procurement costs, continuing hiring and personnel policies, and curbing expenses across the board. Thanks to these efforts together with the benefits of governments' economic stimulus measures and demand recovery driven by the economies of emerging countries, we were able to secure a profit for the year ended March 31, 2010, despite lower net sales.

In the current year, ending March 31, 2011, demand remains solid. Worldwide, however, fiscal and monetary authorities face the extremely difficult task of navigating a course for their economies going forward. Developed countries face the problem of balancing economic recovery and fiscal soundness. Although emerging countries are likely to continue expanding over the mid term, overheating is becoming evident in some sectors of China's economy and other emerging economies. Therefore, these countries must find ways to avoid economic bubbles if they are to realize stable growth. Meanwhile, the outlook for economies worldwide grows increasingly uncertain. This uncertainty stems from concern over a decline in demand that could accompany the phasing out of economic stimulus measures and the fiscal crises among countries in Southern Europe, such as Greece, as well as certain countries in Eastern Europe. Given such conditions, a key task for NSK is to learn the lessons of the fall 2008 economic crisis and improve its monitoring and analysis of shifts in economic trends.

## Taking on Two Paradigm Shifts under a New Mid-Term Plan

In November 2009, we announced a new mid-term plan covering the year ended March 31, 2010 through the year ending March 31, 2013. The economic crisis delayed preparation of the plan. Consequently, the new plan covers four years rather than the usual three. We expect that by the year ending March 31, 2013 overall global demand for automobiles and industrial machinery will only have

recovered to around the level of the previous peak. Full-fledged resumption of growth will likely begin in the years following. The plan's four-year period will see globalization advance even further as well as the emergence of two paradigm shifts in market structure.

The first paradigm shift will be characterized by an intensification of competition as huge high-volume markets take shape in emerging countries. Secondly, technological innovation will accelerate. The trend toward electrically driven automobiles is a representative example of this second paradigm shift. Whether or not we can respond to these changes and win out against competition will depend on how successfully we can renew and reform ourselves. Accordingly, an awareness of this urgent task lies at the heart of the new mid-term plan. In previous plans, our two basic strategies have been advancing growth strategy and strengthening profitability. Our latest mid-term plan adds a third basic strategy—reinforcing business-based management. Guided by this new basic strategy, we will step up the pace of existing basic strategies. Under the leadership of business divisions, we will study business conditions in depth, with a strong focus on markets, in order to achieve concrete results. In these initiatives, we intend to analyze developments in the growing markets of emerging countries as well as customer demand. Furthermore, we will examine the contributions that NSK's technology can make to technological innovation and how we can use such innovation to create new products.

## Approaching the 100th Anniversary of Our Foundation

In 2016, NSK will celebrate the 100th anniversary of its foundation. In the period leading up to this milestone, we will tackle immediate challenges with a view to maximizing our global presence. We will also use the management resources that we have developed to build a platform for new growth over the coming century.

As we take on these challenges, I would like to ask our shareholders and other investors for their continued support and understanding.

July 2010



Norio Otsuka  
President and Chief Executive Officer

## > AN INTERVIEW WITH THE PRESIDENT



**NORIO OTSUKA**  
President and Chief Executive Officer



**Q1** How do you evaluate NSK's business results for the year ended March 31, 2010?

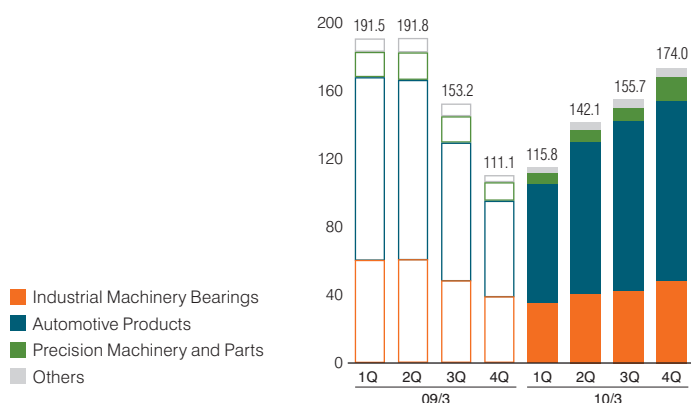
**Despite a dramatic worsening of the business climate due to the financial crisis, we managed to stay in the black thanks to a recovery in demand for automotive products and decisive steps to secure earnings.**

Although a pickup in demand due to governments' economic stimulus measures and the economic growth of emerging countries helped counteract the sudden deterioration in the business climate following the financial crisis that began in fall 2008, overall economic conditions remained tough.

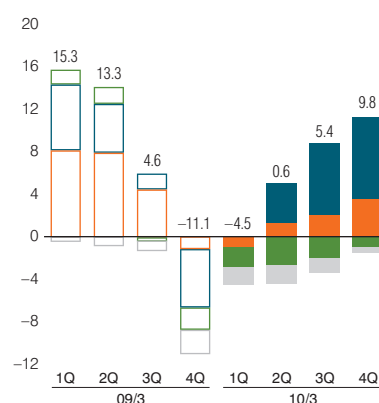
Sales to automotive manufacturers bottomed out in the fourth quarter of the previous fiscal year and began trending upward as major automotive manufacturers ended inventory adjustments and countries introduced preferential measures to encourage automobile sales. Sales of hub unit bearings and other automotive bearings rose thanks to an expansion of automotive markets in China and other emerging countries. Also, the automotive component business posted

### QUARTERLY BUSINESS RESULTS BY BUSINESS SEGMENT

**NET SALES**  
(¥ Billions)



**OPERATING INCOME**  
(¥ Billions)



solid results as automotive manufacturers responded to heightening environmental awareness by increasingly opting for the better fuel efficiency that electric power steering (EPS) systems offer.

In the industrial machinery business, recovery was slow due to the global economic downturn and prolonged inventory adjustments in the general industrial and aftermarket sectors. However, higher demand from the electrical machinery sector and the IT equipment sector in Asia helped put sales of industrial machinery bearings back on track for growth.

In response to these business conditions, NSK implemented emergency profitability countermeasures from the second half of the previous fiscal year. Furthermore, we continued measures through a newly established profitability improvement committee tasked with reorganizing production systems and reducing external procurement costs, personnel expenses, and selling, general and administrative (SG&A) expenses. We also worked to increase sales of industrial machinery bearings and precision machinery and parts. As a result of these efforts, we posted a profit for the year. Despite recording year-on-year decreases of 9.3% in net sales, to ¥587.6 billion; 48.9% in operating income, to ¥11.3 billion; and 55.2% in ordinary income, to ¥7.6 billion; we achieved a 4.5% expansion in net income, to ¥4.8 billion.

Looking at year-on-year net sales by segment, the industrial machinery bearings segment declined 20.4%, to ¥166.9 billion; the automotive products segment was up 4.0%, to ¥366.5 billion; and the precision machinery and parts segment decreased 39.0%, to ¥35.1 billion. In the industrial machinery bearings segment, operating income was down 70.2%, to ¥5.8 billion, while the automotive products segment posted a 168.4% increase in operating income to ¥18.3 billion. The precision machinery and parts segment recorded an operating loss of ¥7.5 billion.



## Can you sum up NSK's achievements under the previous mid-term plan?

**With favorable economic conditions providing a tailwind, our operations grew steadily until the year ended March 31, 2008. For four consecutive fiscal years, we posted new records for net sales and operating income. Regrettably, however, our response to the change in business conditions from fall 2008 was inadequate.**

Our previous mid-term plan, covering the year ended March 31, 2007, through the year ended March 31, 2009, called on NSK "To Become No. 1 in Total Quality" as a mid-term vision. Also, for the year ended March 31, 2009, it targeted net sales of ¥740.0 billion, an operating income margin of 10%, ROE of 15%, and a net D/E ratio of 0.4 times. Until the plan's second year, the year

## OVERVIEW OF THE PREVIOUS MID-TERM PLAN

	Previous Mid-Term Plan				
	Year ended March 31, 2006, result	Year ended March 31, 2007, result	Year ended March 31, 2008, result	Year ended March 31, 2009, result	Year ended March 31, 2009, target (under mid-term plan)
Net sales	¥628.5 billion	¥717.2 billion	¥772.0 billion	¥647.6 billion	¥740.0 billion
Operating income	42.6 billion	62.4 billion	69.3 billion	22.1 billion	74.0 billion
Ordinary income	38.9 billion	57.6 billion	64.9 billion	17.0 billion	71.5 billion
Net income	25.6 billion	34.9 billion	42.6 billion	4.6 billion	44.5 billion
Operating income margin	6.8%	8.7%	9.0%	3.4%	10.0%
ROE	12.1%	14.0%	16.1%	1.8%	15.0%
Net D/E ratio	0.73 times	0.69 times	0.56 times	0.85 times	0.4 times
Currency exchange rate	US\$=¥110.37 EURO=¥137.39	US\$=¥116.93 EURO=¥150.35	US\$=¥114.55 EURO=¥162.22	US\$=¥100.74 EURO=¥144.47	US\$=¥108 EURO=¥136

> AN INTERVIEW WITH THE PRESIDENT

ended March 31, 2008, a robust business climate worldwide and yen depreciation helped fuel the steady expansion of our operations. By the year ended March 31, 2008, NSK recorded net sales of ¥772.0 billion, an operating income margin of 9.0%, ROE of 16.1%, and a net D/E ratio of 0.56 times. Moreover, net sales and operating income had reached new highs for four fiscal years in a row. Operationally, many of our initiatives met with success. By advancing sector-oriented initiatives, the industrial machinery bearings business increased production capacity and sales of roller bearings and boosted aftermarket businesses. Furthermore, the automotive product business expanded operations globally and improved earnings while increasing its overseas earning power centered on Europe and Asia. We also expanded and enhanced our operational platforms in China and India.

However, the worldwide recession from fall 2008 dramatically altered business conditions. In the previous plan's final fiscal year, the year ended March 31, 2009, revenues and earnings decreased steeply, and we were unable to reach the plan's numerical targets. In response to the worsening business conditions, we launched emergency profitability countermeasures centered on production adjustment and fixed cost reduction, but these were not enough to absorb the impact of the downturn. It is extremely regrettable that we were unable to respond adequately to the change, even though signs of a shift in business trends appeared from comparatively early on. Consequently, we face pressing tasks. We must rapidly reestablish profitability in the precision machinery and parts business, where our efforts to improve profitability were incomplete. And we must build a robust operational platform that is less susceptible to demand fluctuations.



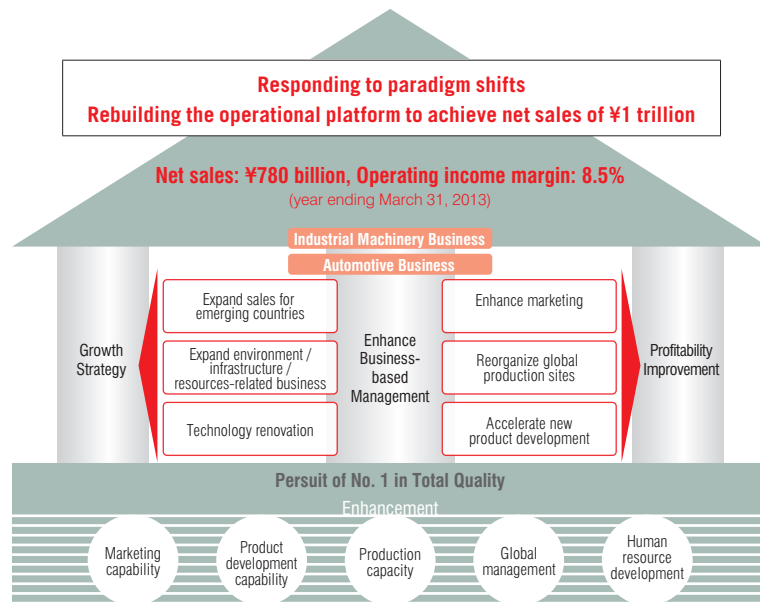
Can you provide an overview of the new mid-term plan?

Emerging countries and technological innovation are likely to become the key drivers of two paradigm shifts. NSK will respond to these changes by emphasizing business-based management in its efforts to advance growth strategies and strengthen profitability. Through these initiatives, we aim to build an operational platform from which to target net sales of ¥1 trillion.

SUMMARY OF THE NEW MID-TERM PLAN

NUMERICAL TARGETS OF THE NEW MID-TERM PLAN

	Year ending March 31, 2013
Net sales	¥780.0 billion
Operating income	¥66.0 billion
Ordinary income	¥62.0 billion
Net income	¥37.0 billion
Operating income margin	8.5%
ROE	14.0%
Net D/E ratio	0.5 times
Assumed currency exchange rate	US\$=¥90 EURO=¥120



Announced in November 2009 and covering the four-year period from the year ended March 31, 2010, our new mid-term plan sets out management targets and priority tasks. Our basic view is that, having sustained considerable damage during the worldwide economic crisis, the global economy is in the process of moving toward the light at the end of the tunnel. Therefore, we see the current phase as a period for building platforms that will determine winners and losers in the coming period. We believe that emerging countries and technological innovation will be the key factors driving the two major paradigm shifts. With this in mind, our new mid-term plan focuses mainly on responding to these changes in order to build an operational platform that will enable us to target net sales of ¥1 trillion.

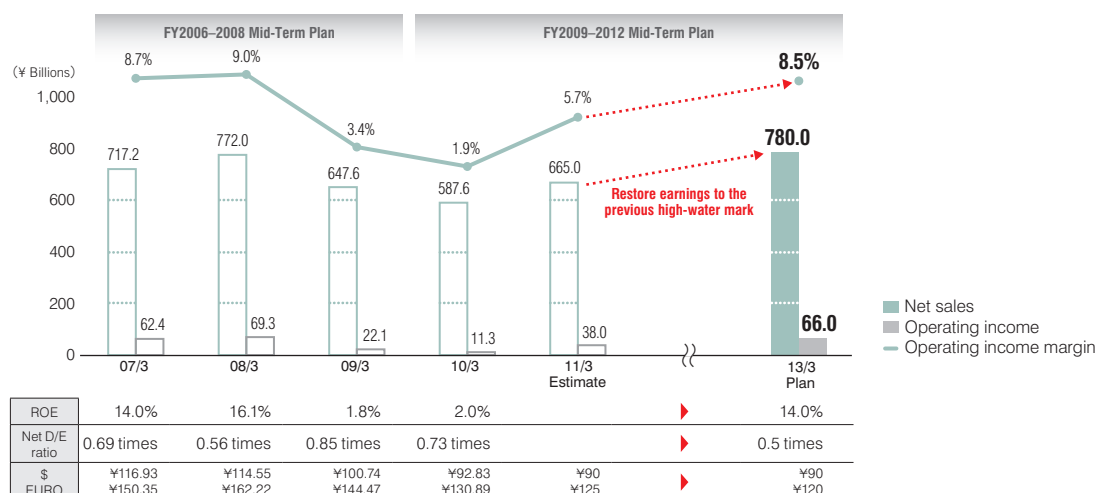
As for numerical targets, we aim to realize net sales of ¥780.0 billion, an operating income margin of 8.5%, ROE of 14%, and a net D/E ratio of 0.5 times by the year ending March 31, 2013. These targets are at roughly the same level as the high-water mark of our business results, reached in the year ended March 31, 2008. Taking into consideration currency exchange rate fluctuations, however, the targets are actually set higher than our previous records.

In order to reach the numerical targets of the new mid-term plan, we will pursue three basic strategies: advancing growth strategy, strengthening profitability, and reinforcing business-based management, which is a new strategy.

Until now, NSK has developed operations around three product categories: industrial machinery bearings, automotive products, and precision machinery and parts. Aiming to better reflect the customer's standpoint, we have consolidated these operations into two business segments: the industrial machinery business and the automotive business. The aim of this initiative is to organize our management of operations around businesses. Accordingly, we will integrate production, sales, and technology functions under two business divisions. This new structure will speed up decision making, facilitate global growth strategies, and strengthen profitability so that we prevail in tough competitive conditions.

Our main growth strategies will include further strengthening our presence in growing regions with emerging markets; penetrating business areas that promise sustained growth, such as the environment, infrastructure, and resources; and responding to technological innovation such as the trend toward electrically driven automobiles and environment-related technologies. Also, in order to strengthen our profitability, we will heighten cost competitiveness and lower our exposure to currency exchange rate risk by reorganizing our global production network and increasing overseas production capacity. Furthermore, we intend to deepen relationships with customers in

## GOAL OF THE NEW MID-TERM PLAN



> AN INTERVIEW WITH THE PRESIDENT

order to bolster our ability to provide solutions and thereby achieve more aggressive sales strategies. In another initiative, we aim to take advantage of our overseas technology centers—which we have been expanding and improving—to anticipate market demand, accelerate new product development, and strengthen our ability to penetrate markets.

At the same time, in accordance with the vision set out in our previous mid-term plan, we will continue heightening the quality not only of products and services but also of overall operations “To Become No. 1 in Total Quality.” In these efforts, we will further strengthen the foundations of our operations: sales capability, technological development capability, production capacity, global business management capability, and personnel development capability.



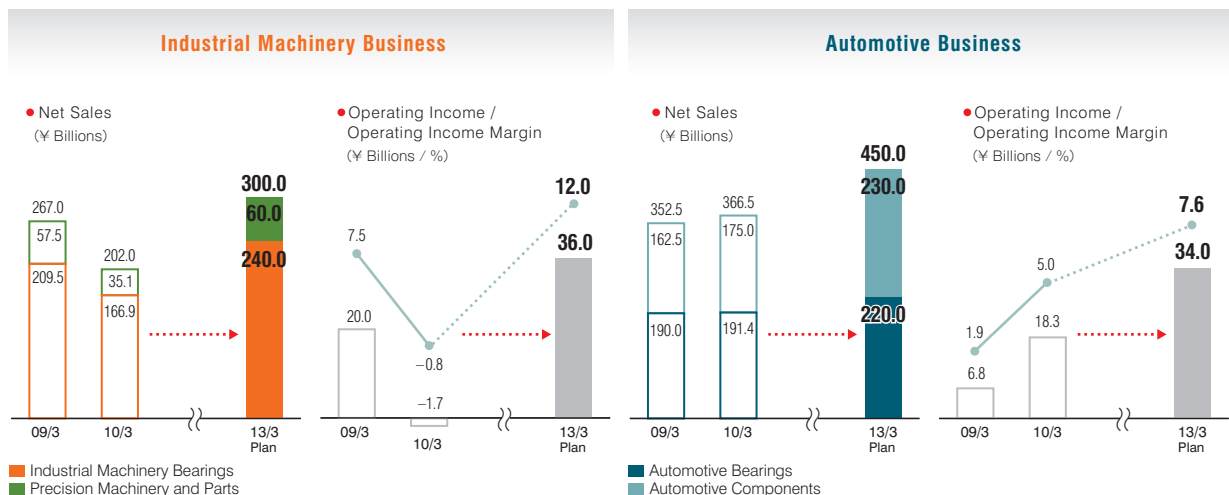
**Q4** What growth strategies will you pursue in each business division?

**We intend to grow sales in emerging countries by localizing production, sales, and technology while increasing operating bases and personnel in order to heighten our ability to offer solutions that reflect local needs. Also, drawing on our technological capability, NSK will focus efforts on benefiting from growing demand in the industrial machinery sector and strengthening its ability to win orders based on responsiveness to innovations in automotive technology.**

In the industrial machinery business, our growth strategy centers on actively increasing sales in emerging countries and growing business areas. In particular, in businesses targeting emerging countries, we will localize production, sales, and technology, while expanding or increasing operating bases and increasing personnel in step with these initiatives. This will enhance our ability to provide solutions based on technology, products, and services, which will boost sales. As for original equipment manufacturers (OEMs), NSK will continue sector-oriented initiatives as well as strategies aimed at expanding the aftermarket business. Concentrating on heightening our presence and brand power in respective markets, we intend to continue strengthening our network of sales distributors. Further, in the industrial machinery business, we aim to tap demand in growing sectors. In the environmental, infrastructural, and resource sectors, we will target such areas as wind power generation, railcars, mining machinery, and construction machinery. We will also focus on such growth areas as photovoltaic power generation, light-emitting diodes (LEDs), lithium batteries, nuclear power generation, healthcare, food, and biotechnology.

Meanwhile, in the automotive business, NSK’s growth strategy will focus on responding to such technological innovation as the trend toward hybrid vehicles and electrically driven automobiles

**RESULT TARGETS BY BUSINESS**





and expanding sales in emerging countries. Compared with gasoline or diesel vehicles, electric cars require fewer bearings. However, we intend to compensate for this by marketing bearings for hybrid vehicles, an area in which we have particular strength, and catering to new demand for different types of motors and actuators that is stemming from the trend toward electrically driven automobiles. Regarding EPS systems, the United States and emerging countries, where the percentage of vehicles incorporating these systems has been comparatively low, are seeing demand expand rapidly as automotive manufacturers increasingly include EPS systems in new models as part of efforts to improve fuel efficiency. With our sights set on this growing demand, we intend to further extend operations by improving and expanding our lineup of lighter, more compact products while further upgrading our control technology to enhance safety and drivability. Also, aiming to increase sales by exploiting the burgeoning growth potential of emerging countries, we will concentrate on integrating design, procurement, and production and heightening cost competitiveness.



#### Q5 What type of measures do you plan to take in the year ending March 31, 2011?

**We intend to step up efforts to strengthen profitability, accelerate responses to changes in demand, and implement capital investment in strategic sectors from a mid-to-long-term perspective.**

For the year ending March 31, 2011, the outlook is unclear due to the discontinuation of preferential measures to encourage sales of automobiles and electric appliances, and the deteriorating profitability of exports as the yen appreciates against the euro due to unfolding financial crises in Europe. Faced with these business conditions, we will take three priority measures.

First, we will continue and intensify efforts to improve profitability. We will strengthen existing initiatives to improve profitability and continue building an earnings structure that is highly resistant to fluctuations in the economic climate and business conditions. Specifically, we will complete the reorganization and development of our global production network and clearly link the deployment of production capacity to growth potential. Also, our plans call for expanding local sourcing of materials and components for products manufactured overseas while comprehensively reducing external procurement costs. Moreover, we aim to continue curbing SG&A expenses by further improving the operational efficiency of back-office operations.

Under our second priority measure, we will tackle the task of responding more quickly to changes in demand. Reflecting the lessons of the fall 2008 economic crisis, we aim to realize business management that rapidly detects changes in the business climate, takes steps that anticipate changes in demand, and responds flexibly to them. For industrial machinery bearings, we will fine-tune our response based on differing paces of demand recovery among industrial sectors. In conjunction with these efforts, for precision machinery and parts we intend to strike a balance between reorganizing production and maintaining production capabilities that can cater to dramatic upturns in demand. As for the automotive business, we will ensure that production accurately reflects near-term demand while continuing to improve profitability. In addition, both business segments will give priority to responding to demand in growing sectors. Accordingly, NSK will concentrate resources on increasing sales in China, India, and other emerging markets while expanding and improving operational platforms in these regions to secure further growth.

NSK's third priority measure is to implement capital investment based on the mid-term plan. For the year ending March 31, 2011, we have earmarked ¥35.0 billion for capital investment, which is within the scope of depreciation. Carefully selecting capital investments with a view to maximizing returns, we will give priority to investments in emerging countries as the drivers of future growth as well as equipment and facilities that further environmental friendliness and automation.

#### PRIORITY MEASURES FOR THE YEAR ENDING MARCH 31, 2011

- Step up measures to improve profitability
- Accelerate response to changes in demand
- Implement capital investment based on the mid-term plan



Q6

What is your approach to increasing corporate value?

**In addition to growing and developing our core businesses, we will heighten corporate value by enriching initiatives that meet society's expectations and taking advantage of the unique features of our products to benefit the environment.**

Generally speaking, corporate value represents the economic value that a company is expected to generate in the future. Factors affecting this value expectation include a company's overall assets, earning power, stability, efficiency, and growth potential. We are also seeing growth year by year in the importance of management structures that facilitate corporate governance, internal control, environmental management, and corporate social responsibility (CSR) as well as frameworks that enable companies to respond to society's expectations, in addition to facets that directly link to operational value creation—such as brand power, technological development capability, human resources, and intellectual property rights.

Under its mid-term plan, NSK will pursue global growth and stronger profitability based on business-based management. These efforts will maximize economic value while further improving management structures and our ability to meet the expectations of society.

In our efforts to heighten our economic value, we will increase our market presence by expanding businesses in the emerging countries and growth sectors set out in the mid-term plan. Moreover, we will continue efforts to improve the quality of our products and operations in order "To Become No. 1 in Total Quality" and thereby raise customer satisfaction and further strengthen brand power. Other initiatives will increase the standardization and efficiency of the business management and operations of Group companies and further globalize management personnel and systems for operational implementation. We will also continue efforts to enhance CSR initiatives while strengthening compliance and crisis management.

As well as pursuing the overriding goal of growing and developing its core businesses, NSK must boost the sophistication of the business management structures that support these efforts. At the same time, we must improve and expand initiatives to meet our responsibilities as a good corporate citizen.

NSK's greatest differentiating factor is that energy-saving products form the foundation of its businesses. As a result, NSK can heighten its contribution to the environment by improving the performance and efficiency of product lineups in its core businesses. In 2009, NSK won the highest award at the Eco-Efficiency Awards 2009, hosted by the Japan Environmental Efficiency Forum. The official title of the commendation is the Award of the Director-General of the Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry (METI). We received the award in recognition of our introduction of NSK eco-efficiency indicators (Neco) for use in the design of new products. Neco expresses environmental friendliness based on the relationship between product value and the environmental burden.

In this way, NSK will expand its economic value and social contribution. Furthermore, these efforts will enable an even more advanced environmental management system that leverages NSK's unique capabilities and increases the Company's contribution to environmental preservation. Through such initiatives, our goal is to raise corporate value and grow sustainably.

## &gt; SPECIAL FEATURE

# NEW MOMENTUM, NEW OPPORTUNITIES

The key areas of focus for our mid-term plan's growth strategies are emerging countries; the environment, infrastructure, and resources; and technological innovation. Touching on these key areas, this special feature offers a close-up of two of our main growth drivers—China and electric power steering systems—to reveal the source of our competitive strength.

## Introduction

### CHINA



#### SINCE THE 1960s

China is becoming ever more important as a growth driver in the global economy. NSK's involvement with China began in the first half of the 1960s, before Japan and China normalized diplomatic relations. We started with exports to China based on the "Japan-China Memorandum on Overall Long-Term Trade" (commonly known as the LT (Liao-Takasaki) Agreement) and technology exchanges since 1965. Based on long-standing relationships of trust built with China's government and machinery industry, we became the first overseas manufacturer to establish a manufacturing company in China in 1995. Since then, we have steadily developed manufacturing, sales, and technology systems to establish an unshakable position in China. We intend to further expand our business in China, the most important region for our growth going into the future.

> P.16

### EPS



#### SINCE THE 1980s

Given the range of new hybrid vehicles and electric cars that debuted, we could justifiably call 2009 the first year of the eco car. The trend toward electrically driven automobiles is increasingly affecting not only systems related to vehicles' power sources but also other components. Steering systems, which enable vehicles to turn, are no exception to these changes. Normally, steering systems include power assisted steering, enabling women or the elderly to park in garages or readily steer vehicles at low speeds. Until now, these have generally been hydraulic power steering systems, but electric power steering (EPS) systems are rapidly replacing them.

NSK has a long history of developing EPS systems. Toward the end of the 1980s, we began mass producing such systems for compact vehicles. Since then, the number of models incorporating EPS systems has grown steadily in step with increasing awareness of these systems' superiority. Moreover, higher outputs, advancements in control technologies, and heightening environmental awareness have become decisive factors in the changeover from hydraulic to EPS systems. Consequently, demand for EPS systems is growing rapidly. Against the backdrop of this paradigm shift in technology, one of the growth strategies set out in NSK's mid-term plan is to exploit the burgeoning demand for EPS systems to further enhance business results.

> P.18

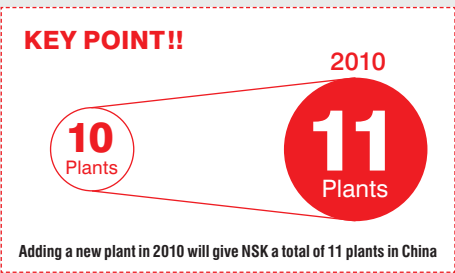
> SPECIAL FEATURE: NEW MOMENTUM, NEW OPPORTUNITIES

# DEVELOPING BUSINESS IN CHINA



## MANUFACTURING SYSTEM: STEPPING UP EXPANSION OF OUR OPERATIONAL PLATFORM

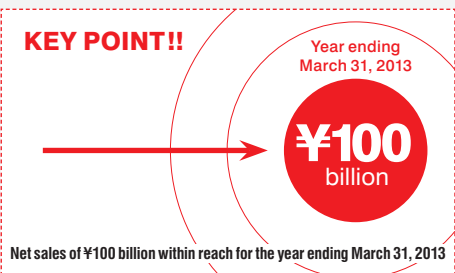
At present, NSK has 10 plants supporting its growth in China, and we are currently preparing to start up operations at our 11th plant. In 1995, we established our first manufacturing company in China, producing standard ball bearings. Since then, we have steadily expanded our range of products to include automotive bearings, steering columns, automatic transmission components, steel balls, and electric power steering (EPS) systems. At our 10th plant, we began manufacturing precision machinery and parts, starting with ball screws, in spring 2010. Production of large roller bearings is slated to begin at our 11th plant by the end of 2010. In stages, the large roller bearings plant will extend its lineup of products to give NSK a full lineup production system in China. Geographically, our development of operations has concentrated on China's coastal area. However, siting a plant for the production of ball screws and a plant for large roller bearings in Shenyang in northeastern China, a center of heavy industry and machinery industry, will enable us to reach regions further inland.



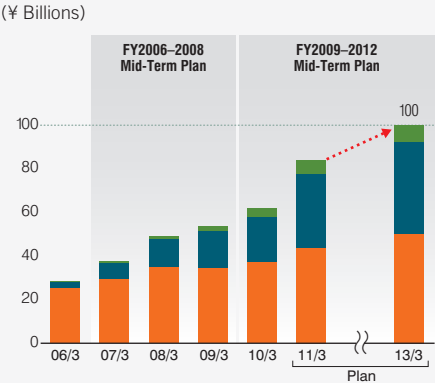
## NET SALES OUTLOOK: ADVANCING TOWARD ¥100 BILLION

Over the past four years NSK's net sales in China have more than doubled. For the year ended March 31, 2010, the Company posted net sales of ¥61.8 billion, while for the year ended March 31, 2006 they were ¥28.5 billion. Excluding Japan, net sales in China for the year ended March 31, 2010 were the largest from any single country.

Until now, industrial machinery bearings, centered on ball bearings for electrical machinery from the Kunshan Plant, have accounted for about 60% or 70% of overall net sales in China. In the future, however, as overall net sales increase in China, EPS systems and automotive products will generate a larger share of net sales. With this in mind, we have set our sights on net sales in China of ¥100.0 billion for the final year of our mid-term plan, ending March 31, 2013.



### CHINA NET SALES TARGET



- Precision Machinery and Parts
- Automotive Products
- Industrial Machinery Bearings

Note: Net sales are sales to customers in China, including exports from Japan.

### Strategic Base: Targeting the Global Market through the Shenyang Ball Screw Plant

China's precision machinery and parts market promises significant demand growth due to the increasing introduction of numerically controlled machine tools and electric-powered injection molding machines as well as the development of high-tech machinery. In August 2009, NSK established a ball screw manufacturing company, Shenyang NSK Precision Co., Ltd., in Shenyang, Liaoning Province, northeastern China, as its 10th plant in China. One of our aims was to boost sales by catering to growing demand in China with locally produced products. A further reason was to restructure costs to strengthen our ability to withstand fluctuations in demand for precision machinery and still post solid earnings. To this end, we curbed capital expenditure by transferring equipment to the new plant from NSK Precision Co., Ltd., the Maebashi Plant, and NSK Kyushu Co., Ltd. In addition, we intend to take



NSK's ball screw plant in Shenyang, China

advantage of the plant as a strategic base in our precision machinery and parts business from which to target the global market. Accordingly, our plans call for increasing product exports to realize even stronger growth.

### The Shenyang Bearing Plant: Heightening Our Presence in China by Establishing a Production Base for Large Roller Bearings

In May 2010, NSK announced plans to establish its 11th plant in China. Our second plant in the Shenyang region, where we currently operate a ball screw plant, this latest plant will manufacture large roller bearings. Demand for large roller bearings for industrial machinery comprises small-lot orders for a wide variety of products. Because large roller bearings require advanced technology, until now we have catered to overseas demand by concentrating production in Japan. We decided on this move because we want to cater to growing infrastructural and environmental demand in China. We aim to realize

further growth by consolidating our leading position from within the Chinese market. Initially, we will manufacture product types for which demand is comparatively high and steady. Subsequently, the plant will steadily extend its product range to establish a manufacturing system covering a full lineup of products. In China's industrial machinery bearings market, NSK's locally manufactured products have mainly been for use in electrical machinery. Launching local manufacturing of large roller bearings will enable us to cater to local demand more precisely and further boost our presence.

### The China Technology Center: Catering to Unique Market Demand

In October 2009, we completed construction of the China Technology Center and began operations in earnest. This new base will provide technical support for further expansion and strengthening of our operations in China. Until now, our technology-related activities have been restricted mainly to testing and evaluating bearings at the China Technology Division of production company Kunshan NSK Co., Ltd. Recently, however, we have greatly expanded and improved our R&D functions by establishing an independent R&D corporation, NSK (China) Research and Development Co., Ltd., and transferring the China Technology Division to the China Technology Center. Based on the China Technology Center, we aim to establish a self-contained system within China that provides technology-related services covering all NSK product lineups: industrial machinery bearings, automotive products, and precision machinery and parts. The center's activities will range from development, design, and survey analysis through to the development of production technology and the provision of technical support to



NSK's headquarters in China and the China Technology Center

customers. With this new system, we intend to cater to growing demand in the high-volume market, which reflects the rapid expansion of China's middle-income group. By strengthening R&D functions, we will realize products and technologies that meet the unique demands of China's market.



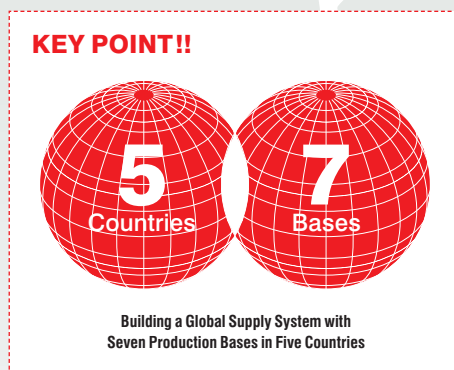
> SPECIAL FEATURE: NEW MOMENTUM, NEW OPPORTUNITIES

# ELECTRIC POWER STEERING SYSTEMS



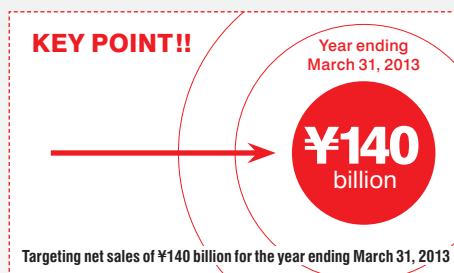
## PRODUCTION NETWORK: EXPANDING TOWARD A GLOBAL SYSTEM

NSK's network of production bases for steering systems has expanded steadily. In 1988, we established production bases in the United States and the United Kingdom for steering column joints, components that connect steering wheels, steering systems, and gears. Subsequently, we established production bases in Thailand, India, and China. Moreover, for electric power steering (EPS) systems we have developed a global supply system covering Japan, the Americas, Europe, and Asia. Initially, our production network was based in Japan and Europe, where a large percentage of vehicles include EPS systems. In 2009, we began production in China and the United States as part of an effort to expand our network of production bases and cater to a widening spectrum of new vehicle models and business projects. Today, in addition to two production bases in Japan, we mass produce at bases in the United States, Poland, China, and India, while plans call for the start-up of production in Thailand in 2011. These production bases will play a key role in the expansion of NSK's operations in the future.



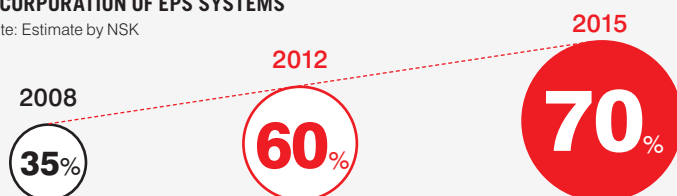
## NET SALES OUTLOOK: INCREASING SIGNIFICANTLY ON HEAVIER DEMAND

Demand for EPS systems began to increase in earnest from the beginning of this century. Automotive manufacturers began switching over from hydraulic to EPS systems when changing models, because the superiority of EPS systems had become clear and the difference in cost compared with hydraulic power steering systems had shrunk due to higher productivity. This trend has been particularly pronounced for compact vehicles. Looking ahead, the percentage of vehicles using EPS systems is likely to rise even further. The main contributors to this continuing growth are the increasing incorporation of EPS systems in compact vehicles in emerging countries, stronger demand accompanying growing environmental awareness, and the spread of EPS systems for medium-sized and large vehicles thanks to the resolution of technical issues. In 2008 worldwide, approximately 35% of vehicles incorporated EPS systems. This is expected to grow to roughly 60% in 2012 and 70% in 2015. Spurred by this growing demand, NSK's EPS system sales are up significantly. For the year ended March 31, 2009, they reached ¥66.8 billion. In the following year, they rose to ¥82.1 billion. By the year ending March 31, 2013, we hope to grow sales to ¥140.0 billion. To reach this target, we will ensure the adoption of our EPS systems by automotive manufacturers and advance preparations for specifications and manufacturing requirements that will enable us to realize mass production of systems for respective vehicle models.



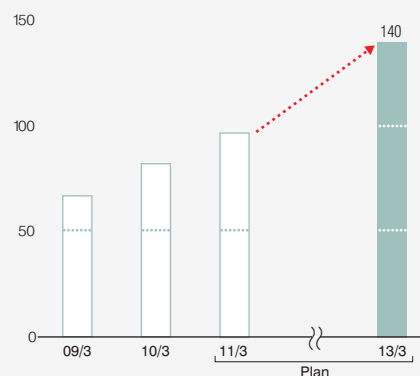
## INCORPORATION OF EPS SYSTEMS

Note: Estimate by NSK



## EPS SYSTEM SALES

(¥ Billions)





### The Superiority of EPS Systems: Matching the Needs of the Times

The greatest advantage of EPS systems is fuel efficiency, which is improved between 3% and 5% compared with hydraulic power steering systems. While hydraulic power steering systems use power from the engine to drive pumps constantly, EPS systems only use power from the engine to drive motors when needed. Furthermore, EPS systems do not use power from the engine when it is idling. Moreover, EPS systems enable the creation of lighter vehicles, because they have 30% to 50% fewer components than hydraulic power steering systems. Apart from fuel efficiency, other advantages include outstanding quietness, fewer assembly processes for automotive manufacturers to deal with, and the elimination of the need to process waste oil when disposing of vehicles. In addition, EPS systems use computers for control, which give better steering responsiveness and feel and enable active control of vehicle behavior. This achieves handling that is safer and more comfortable.

### The Advantages of EPS Systems over Hydraulic Power Steering Systems

1. Improvement of fuel efficiency from 3–5%
2. Outstanding quietness
3. Simple assembly
4. Environmentally friendly because no oil is used
5. Better steering responsiveness and feel thanks to control software of electric control units

### EPS Technology: Expanding Compatibility Due to Resolution of Technical Issues

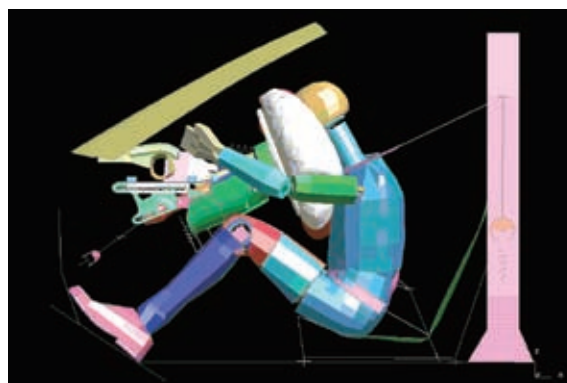
EPS systems come under three overall categories depending on the component that provides power assisted steering via a motor: column-type, pinion-type, and rack-type. Not including in-house production by automotive manufacturers, NSK is the world's No. 1 supplier of steering columns and steering column joints, and column-type EPS systems are its particular forte. Steering columns enable drivers to adjust the position of the steering wheel to suit their physique. In addition, they are important safety components that mitigate the impact if a driver collides with the steering wheel due to a crash. Column-type EPS systems are systems in which the motor and the electric control unit (ECU) are integrated in the steering column. These systems are suited to compact vehicles because they are light, small-sized, and easy to install in vehicles. To begin

with, however, increasing the output of these systems presented a technological hurdle. We overcame this problem by using brushless motors. This enabled the installation of EPS systems in automobiles in the 3,000 cc to 3,500 cc class. Furthermore, we added to our lineup EPS systems that integrate the motor, the ECU, and automotive manufacturers' components into a single unit to achieve weight reduction and greater compactness. This led to the increased use of our systems for small vehicles. For the mass production of EPS systems incorporating these new technologies, we always employ analysis technology to realize comprehensive performance for collision safety. At the same time, we enhance the active safety levels of automobiles by upgrading control technology.

> P.27



The mechatronic EPS system that combines a motor and the ECU into a single unit



Analyzing collision safety performance using a computer simulation



> REVIEW OF OPERATIONS

# Industrial Machinery Bearings

We will build our presence in emerging countries with strong growth potential and strategic sectors while establishing structures that make possible efforts to comprehensively improve profitability.

## MARKET CONDITIONS AND BUSINESS RESULTS FOR THE YEAR ENDED MARCH 31, 2010

Despite a second-half pickup in demand, falling sales volume in the first half led to lackluster business results.

In the first half of the year ended March 31, 2010, orders from the general industry, electrical machinery, and aftermarket sectors slumped as inventory adjustments and depressed investment continued from the second half of the previous fiscal year. In the second half, orders from the electrical machinery and IT equipment sectors staged a recovery centered on Asia and remained solid. However, orders from the general machinery and aftermarket sectors recovered only modestly, and efforts to promote sales did not fully offset the first-half fall in demand. Consequently, the industrial machinery bearings segment recorded a 20.4% year-on-year drop in net sales, to ¥166.9 billion.

As for earnings, although the segment continued measures to reduce personnel expenses and a range of other costs as well as external procurement costs, the significant downturn in sales volume resulted in operating income decreasing 70.2% year on year, to ¥5.8 billion, while the operating income margin was 3.5%, down from 9.3% for the previous fiscal year.

## OUTLOOK AND PRIORITY MEASURES FOR THE YEAR ENDING MARCH 31, 2011

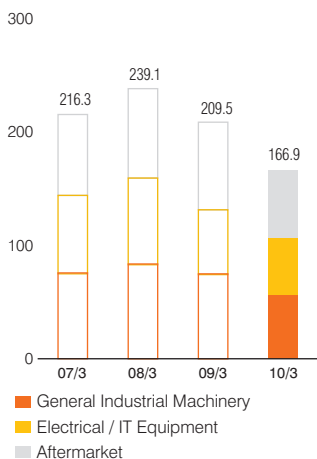
Improved profitability is likely to benefit business results.

As part of measures to strengthen businesses under its current mid-term plan, NSK reorganized its businesses in June 2009. In this initiative, we reorganized the existing three businesses, which were oriented around products, to create two businesses centered on customers: the industrial machinery business and the automotive business. Accordingly, from the year ending March 31, 2011, we will change from the previous three-segment classification to a classification comprising two segments: the industrial machinery segment and the automotive products segment.

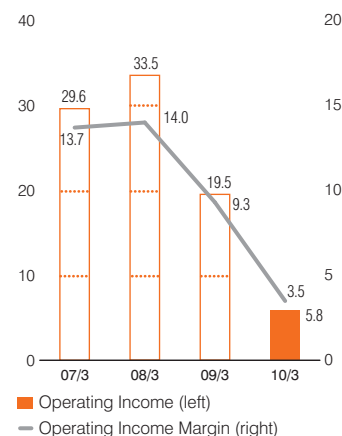
In the industrial machinery segment, demand for industrial machinery bearings will likely grow in China, India, and other emerging countries and remain steady in the environmental and infrastructural sectors. Further, demand from the electrical machinery and IT equipment sectors, which picked up markedly from the year ended March 31, 2010, is expected to remain on a recovery track. As a result, we anticipate that the former industrial machinery bearings segment will record a 12.3% year-on-year increase in net sales, to ¥187.5 billion, and that the new industrial machinery segment will post a 19.1% year-on-year expansion in net sales, to ¥240.5 billion.

Due to the reclassification of business segments, from the year ending March 31, 2011, NSK will only present operating income for

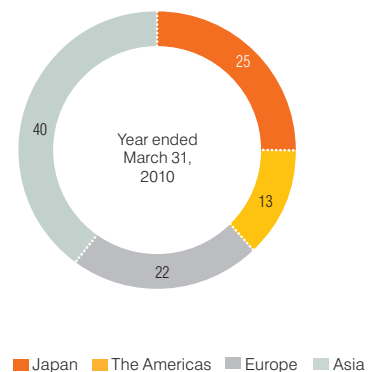
**NET SALES**  
(¥ Billions)



**OPERATING INCOME / OPERATING INCOME MARGIN**  
(¥ Billions / %)



**NET SALES BY REGION**  
(%)



## MAIN PRODUCTS



Large tapered roller bearings  
for wind turbine gearboxes



Four-row tapered roller bearings  
for steelmaking equipment



Spherical roller bearings for  
mining machinery, CA-VS series

the industrial machinery segment. This represents total operating income from the former industrial machinery bearings segment and the former precision machinery and parts segment. We expect the industrial machinery segment to achieve operating income of ¥15.0 billion and an operating income margin of 6.2%—significant improvements—as better profitability due to higher sales volume and lower external procurement costs counteracts yen appreciation.

### Strengthening Profitability Further, Catering to Higher Demand

In the year ending March 31, 2011, we will step up measures we have been taking since fall 2008 to strengthen profitability so that it does not depend on sales volume. Also, by rapidly and flexibly adjusting production in response to demand recovery, we intend to

steadily increase earnings. Furthermore, we aim to tap demand in sectors promising vigorous growth, primarily in emerging countries. These sectors include the environment, infrastructure, and resources. A particular focus of such efforts will be wind power generation, railcars, steelmaking, mining machinery, and construction machinery. Meanwhile, we will develop our network of sales distributors in order to increase sales in the aftermarket sector. At the same time, we intend to respond to rising demand by reorganizing production facilities. As part of these efforts to expand and improve our production platform in order to grow businesses, NSK will start up production of roller bearings in China and raise production capacity for ball bearings in China and the ASEAN region.

## IN FOCUS

### Developing Sales Channels for the Aftermarket Business



A symposium NSK jointly hosted in Italy  
with a sales distributor

NSK aims to heighten the presence of its aftermarket business, particularly overseas. To this end, NSK will continue extending its customer base to earn further trust as a brand and developing and extending sales channels based on its network of sales distributors. Sales distributors are our partners in efforts to expand the aftermarket business, with strengths in particular sectors differentiating each distributor. In Europe and North America, major sales distributors have networks of branches covering entire regions or countries and roll out multiple brands to wide customer bases. In emerging markets, on the other hand, many sales distributors have strengths in particular sectors, specializing, for example, in steel mill maintenance or involving themselves heavily in the mining sector. Alternatively, some sales distributors have maintenance contracts for plant production lines that span several years and cover a group of components, such as belts, chains, or reducers, that includes bearings. Drawing on the strengths, specialization, and location of each sales distributor, NSK aims to expand its network of sales distributors in a way that fosters complementary relationships and thereby advances the development of its sales channels.



> REVIEW OF OPERATIONS

# Automotive Products

NSK plans to strengthen its platform for growth through new product development reflecting technological innovation and strategic increases in production capacity.

## MARKET CONDITIONS AND BUSINESS RESULTS FOR THE YEAR ENDED MARCH 31, 2010

### A recovery in orders underpinned overall business results.

In the year ended March 31, 2010, the automotive products segment saw an upturn in demand, which had bottomed out in the fourth quarter of the previous fiscal year, as automotive manufacturers completed a cycle of inventory adjustments. In the first half of the fiscal year, although countries' preferential measures to encourage automobile sales produced benefits, recovery trends remained weak, and the unit production of automotive manufacturers fell year on year. From the second half of the fiscal year, however, market expansion in China and other emerging countries led to a conspicuous recovery in demand. Among automotive bearings, sales of hub unit bearings were brisk in China, while in the automotive components category electric power steering (EPS) systems sold well in Asia and Europe. As a result, the segment's net sales rose 4.0% year on year, to ¥366.5 billion.

Regarding earnings, operating income was up a sharp 168.4% year on year, to ¥18.3 billion, and the operating income margin rose to 5.0%, from 1.9% for the previous fiscal year. This improvement was attributable to higher sales volume and the benefits of lowering personnel expenses, SG&A expenses, and external procurement costs as part of emergency profitability countermeasures, which canceled the effect of a worsening of export profitability due to the strong yen.

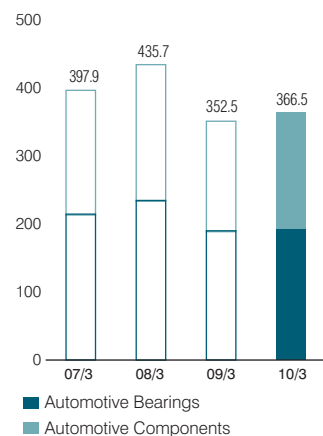
## OUTLOOK AND PRIORITY MEASURES FOR THE YEAR ENDING MARCH 31, 2011

### Growth is expected to center on emerging countries and EPS systems.

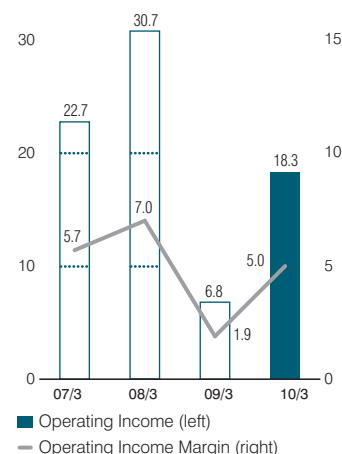
We anticipate that demand for automotive products will decline year on year. Although this demand underpinned our business results for the year ended March 31, 2010, the discontinuation of preferential measures to encourage automobile sales in countries worldwide is likely to affect automotive unit production adversely, particularly in Europe. However, growth seems set to continue in emerging countries. Moreover, mass production, which we launched in China and the United States in the year ended March 31, 2010, to cater to increasing demand for EPS systems spurred by the shift toward small vehicles, will contribute to business results over the full fiscal year. Consequently, we forecast that the segment's net sales will expand 10.1% year on year, to ¥403.5 billion.

We also expect a 47.5% year-on-year rise in operating income, to ¥27.0 billion, and an operating income margin of 6.7%, as higher sales volume, lower external procurement costs, and improved productivity offset less profitable exports due to yen appreciation.

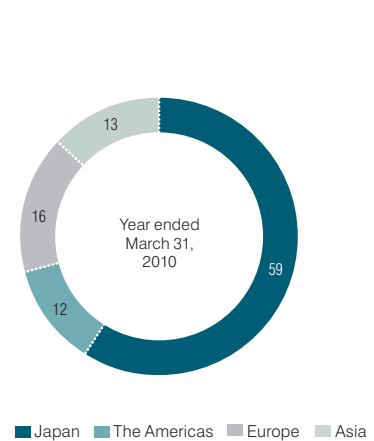
**NET SALES**  
(¥ Billions)



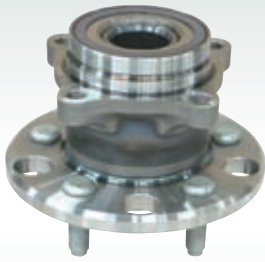
**OPERATING INCOME / OPERATING INCOME MARGIN**  
(¥ Billions / %)



**NET SALES BY REGION**  
(%)



## MAIN PRODUCTS



Hub unit bearings with plastic magnetic encoders



Column-type electric power steering (EPS) systems



Ultra-high-speed ball bearings for motors and power generators in next-generation hybrid vehicles

### Concentrating Investment on Growth Sectors, Stepping Up Efforts to Tap Demand

For the year ending March 31, 2011, NSK's priority measures will focus on increasing sales in emerging countries with growth potential, implementing aggressive capital investment to cater to heavier demand for EPS systems, and developing new technology in response to technological innovations resulting from trends such as the growing popularity of hybrid vehicles and electrically driven automobiles.

In China, India, and other emerging countries that are enjoying continued growth, we will increase sales by developing technology and products that match local needs. Having highlighted EPS systems in

our mid-term plan as a priority sector likely to generate net sales of ¥140.0 billion by the year ending March 31, 2013, we will continue capital investment in this sector aimed at ramping up production capacity in readiness for future increases in demand and expanding our existing production platform for further growth. Another important measure is building new platforms for growth. We will build such new business platforms for the future by bringing to market bearings for hybrid vehicles and catering to new demand for different types of motors and actuators being generated by the trend toward electrically driven automobiles. These initiatives should compensate for lower demand for bearings likely to result from the increasing commercialization of electric cars, which need fewer bearings than gasoline vehicles.

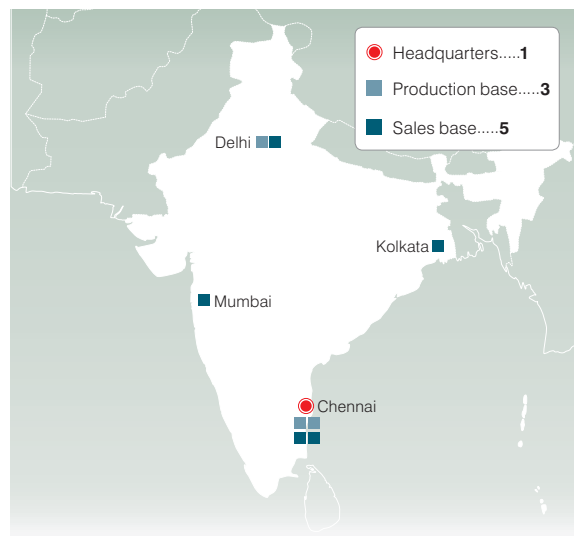
## IN FOCUS

### Establishing a Platform for Expansion in India's Rapidly Growing Automotive Market

Currently 1.2 billion, India's population is set to reach 1.5 billion by the mid-2020s and become the largest national population in the world. As a market, India continues to grow at a pace second only to that of China.

Our first local production in India came in 1997, when we began manufacturing steering columns at a jointly established production base, Rane NSK Steering Systems Ltd. Subsequently, in 2007 we established a production company for automotive bearings, NSK-ABC Bearings Ltd. We plan also to extend local production to encompass industrial machinery bearings. Further, Rane NSK Steering Systems established a second plant, which started up EPS system production from 2008. At present, orders for automotive products mainly come from Japanese, South Korean, and local automotive manufacturers and comprise various bearings and steering components.

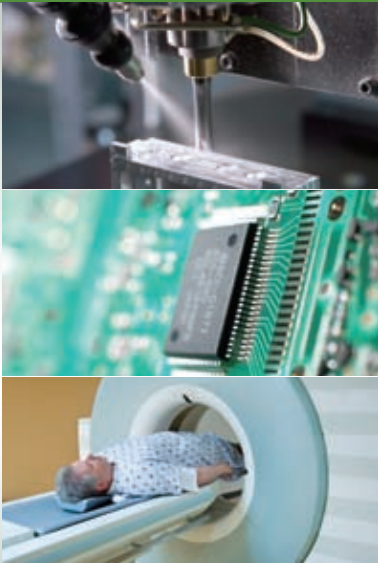
India's automotive market is very challenging, requiring manufacturers to meet two preconditions. First, costs must be very low. This is best illustrated by the marketing of ultra-low-price vehicles, which have attracted considerable media coverage. Second, automotive technologies must be able to withstand extreme driving conditions. Aiming to expand its businesses in India's rapidly developing market, NSK has



NSK's network of production bases in India

established a headquarters in India in 2010. This new organization will have overall control of operations in the region and determine strategies.





> REVIEW OF OPERATIONS

# Precision Machinery and Parts

NSK aims to raise earnings by continuing stringent measures to improve profitability while ensuring production responds rapidly to demand recovery.

## MARKET CONDITIONS AND BUSINESS RESULTS FOR THE YEAR ENDED MARCH 31, 2010

**Business results were unfavorable due to a significant decrease in sales volume.**

In the year ended March 31, 2010, demand for precision machinery and parts continued a downward trend that began in the second half of the previous fiscal year. Particularly in the fiscal-year first half, demand was sluggish for linear motion products, mechatronic products, and other products used in machine tools as well as for products used in semiconductors. Although the second half of the fiscal year saw an upturn in orders from the machine tool sector and the semiconductor sector, over the full fiscal year demand was limited. As a result, despite efforts to counteract declining demand by promoting sales, net sales decreased 39.0% year on year, to ¥35.1 billion.

The segment recognized an operating loss of ¥7.5 billion, compared with operating income of ¥0.5 billion for the previous fiscal year, because reductions in personnel expenses and SG&A expenses were insufficient to compensate for the drop in sales volume. However, after bottoming out in the second quarter of the year ended March 31, 2010, orders began improving from the second half. The benefits of emergency profitability countermeasures also began to emerge, and quarterly earnings improved.

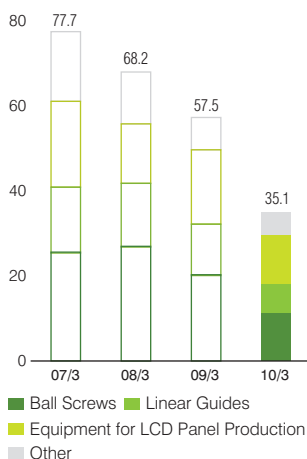
## OUTLOOK AND PRIORITY MEASURES FOR THE YEAR ENDING MARCH 31, 2011

**Our goal is to return the segment to stable profitability from the second half.**

As part of measures to strengthen businesses under its current mid-term plan, NSK reorganized its businesses in June 2009. In this initiative, we reorganized the existing three businesses, which were oriented around products, to create two businesses centered on customers: the industrial machinery business and the automotive business. Accordingly, from the year ending March 31, 2011, we will change from the previous three-segment classification to a classification comprising two segments: the industrial machinery segment and the automotive products segment.

In the industrial machinery segment, precision machinery and parts will likely see continuing recovery in demand for products used in semiconductor and LCD panel production equipment. In addition, we expect a pickup in demand centered on China for products used in machine tools. Consequently, sales of linear motion products and mechatronic products are likely to rise. In addition, demand for exposure equipment for LCD panel production is expected to grow, mainly in Asia. As a result, we forecast that the former precision machinery and parts segment will achieve a 51.0% year-on-year increase in net sales, to ¥53.0 billion, and

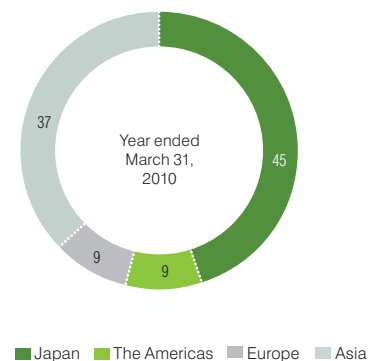
**NET SALES**  
(¥ Billions)



**OPERATING INCOME / OPERATING INCOME MARGIN**  
(¥ Billions / %)

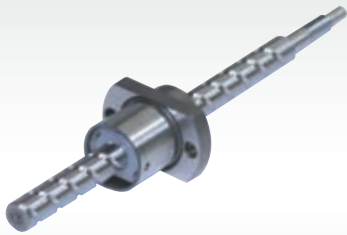


**NET SALES BY REGION**  
(%)





## MAIN PRODUCTS



Miniature large-lead series high-speed low-noise ball screws



Random matching products with high load capacity for the PU/PE miniature NSK Linear Guide™ series



Toughcarrier™ single-axis actuator for ultra-high load applications

that the new industrial machinery segment will post a 19.1% year-on-year expansion in net sales, to ¥240.5 billion.

Due to the integration of the former industrial machinery bearings segment and the former precision machinery and parts segment, classifying SG&A expenses based on the former segments has become difficult. Therefore, from the year ending March 31, 2011, NSK will only present operating income for the industrial machinery segment. This represents total operating income from the former industrial machinery bearings segment and the former precision machinery and parts segment. We expect the industrial machinery segment to achieve operating income of ¥15.0 billion and an operating income margin of 6.2%, which are significant improvements.

### Reorganizing Production to Heighten Competitiveness and Profitability

We have integrated the sales systems of the former industrial machinery bearings segment and the precision machinery and parts segment to create a sales system that can offer a full lineup of NSK products and fully capitalize on their advantages.

As for production, we intend to complete reorganization of ball screw plants. Specifically, in Japan we plan to concentrate our ball screw production at a single site. To this end, we aim to finish transferring production equipment from the Maebashi Plant of NSK Precision Co., Ltd., to NSK Kyushu Co., Ltd., by March 2011. Meanwhile, in Shenyang, China, we have established a ball screw manufacturing company, Shenyang NSK Precision Co., Ltd., which began production from April 2010. This global reorganization of our production network will heighten our competitiveness and earning power by enabling us to benefit further from growing demand in China while reducing costs through aggregation of production capacity in Japan.

## IN FOCUS

### Consolidating Domestic Ball Screw Production Bases to Strengthen Profitability



NSK Kyushu Co., Ltd.

Worldwide, NSK boasts the largest share of the market for ball screws, one of the flagship products among the Company's lineup of precision machinery and parts. With our sights set on China's increasing demand for machine tools and injection molding machines, we established a ball screw manufacturing company, Shenyang NSK Precision Co., Ltd., in Shenyang, China, in August 2009. This new company's plant has been operational since April 2010. Furthermore, plans call for aggregating ball screw production capabilities in Japan at a single site. Accordingly, we will transfer the ball screw production capabilities of NSK Precision's Maebashi Plant to NSK Kyushu, which will become a full-lineup plant for ball screws in Japan and serve as a mother plant. This redeployment of existing facilities will realize higher efficiency, strengthen the earning power of the ball screw business, and boost sales globally.

# > RESEARCH AND DEVELOPMENT

## NSK's Research and Development



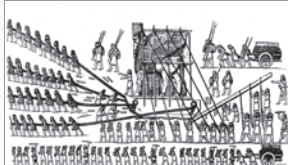
NSK was established in 1916 and was the first company to produce ball bearings in Japan. Since then, NSK has consistently strived to develop new technologies and to achieve ever higher quality. As a result of these efforts, and our continued commitment to our "Four Core Technologies," which include tribology, material engineering, analysis technology, and mechatronics, we have grown into a leading company for bearings, automotive products, and precision machinery and parts. Our unrivaled technologies, which we have formed on the basis of these four core technologies, have made significant contributions to a wide range of industries in Japan and the world over. Capitalizing on 13 technology centers strategically positioned around the globe, we can cater rapidly and flexibly to customer needs while concentrating on efforts to develop leading-edge technologies.

- A:** The Fujisawa Technology Center manages the overall R&D of NSK, and is responsible for matters ranging from commercializing items for mass production to developing platform technologies and next-generation technologies.
- B:** The China Technology Center was established in China as a fully functional technical organization capable of providing services and customer support ranging from development design to technical support.

## NSK's Four Core Technologies

### ① Tribology

This science of lubrication addresses the friction and abrasion that arises when material surfaces move in contact with each other. Lubrication technology meets the demands of bearings that support rotational or liner motion applications. Furthermore, the principles of tribology trace their origins to ancient Mesopotamia, which is illustrated in a relief that shows how a heavy stone statue was transported with relative ease.



From a mural unearthed at Nineveh, the capital of ancient Assyria

#### ◎POINT 1: Energy Conservation

Bearings use rollers or other rolling elements to minimize friction that would normally arise where sliding surfaces would be in continuous contact with each other. With less energy loss from friction, machinery operates more smoothly and reduces energy consumption.

#### ◎POINT 2: Durability

Sliding surfaces that generate friction always produce abrasion. Bearings reduce friction generated in rotating parts, which lessens abrasion and extends machine service life. Longer-lasting machinery also helps to save resources.

#### ◎POINT 3: Reliability

Friction is always accompanied by heat. Excessive frictional heat causes the sliding surfaces of machinery to seize up. By reducing the frictional heat, bearings prevent seizure and help machinery achieve a greater degree of reliability and help prevent malfunctions.

### ② Material Engineering

Materials are critical for bearings. NSK develops technologies used to create materials with high levels of cleanliness in order to produce highly durable bearings for a wide range of environments and operating conditions. By designing material constituents and applying heat treatment processes, we are able to increase bearing durability and reliability. Moreover, we are developing technologies that combine various technologies in order to create or enhance functionality.



Heat treatment technologies improve bearing durability

### ③ Analysis Technology

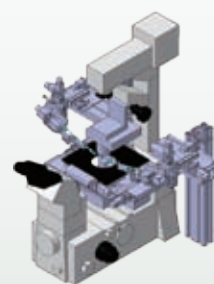
In recent years, end-users and manufacturers have demanded that rolling bearings be capable of operating at higher speeds, function at higher degrees of accuracy, and help reduce energy consumption. NSK applies computer simulation and analysis to achieve such goals. In a computer simulation, the bearing rotates in a virtual environment where engineers are able to develop an optimum design that provides high-speed functionality, a higher degree of precision, and helps applications to reduce energy consumption.



Screenshot of a bearing created using computer simulation

### ④ Mechatronics

NSK has fostered the development of specialized mechanical-electronic technologies called mechatronics. Mechatronics reflect the combination of mechanical technologies that NSK has developed for bearings and the electronic technologies we have developed for sensors, motors, and control systems. Mechatronics exemplify NSK's initiatives to integrate MOTION & CONTROL.



Nano-order positioning equipment for biological cell manipulation

## Leading-Edge R&D

### Helping Improve Fuel Efficiency—Low-Torque Ball Bearings for Hybrid Vehicles

Growing environmental awareness is leading to the rapid spread of hybrid vehicles. In order to achieve better fuel efficiency and lower emissions, automotive manufacturers are seeking highly efficient components that do not waste the drive power of motors and engines. In developing bearings for use in hybrid vehicles, our first priority was to create bearings with less friction loss than that of existing products. We achieved this challenging task—long viewed as difficult due to structural problems—by optimizing the internal design of bearings and upgrading bearing cages.

Taking advantage of analysis technology, we optimized the dimensions of the internal structure, including rolling elements, grooves, and clearance. At the same time, we reduced the number of rolling elements (balls), something that used to be difficult because of fabrication challenges. As a result, we reduced rolling friction a significant 20% compared with existing products. In conjunction with these efforts, we improved the shape of bearing cages to dramatically reduce torque loss that occurs due to the agitation of lubricant during rotation.

The finished product was a ball bearing for hybrid vehicles that reduced friction loss between 50% and 65% compared with its predecessors. This product promises to make a large contribution to improving the fuel efficiency of vehicles even further.



A ball bearing for hybrid vehicles that achieves between 50% and 65% lower friction loss than existing products

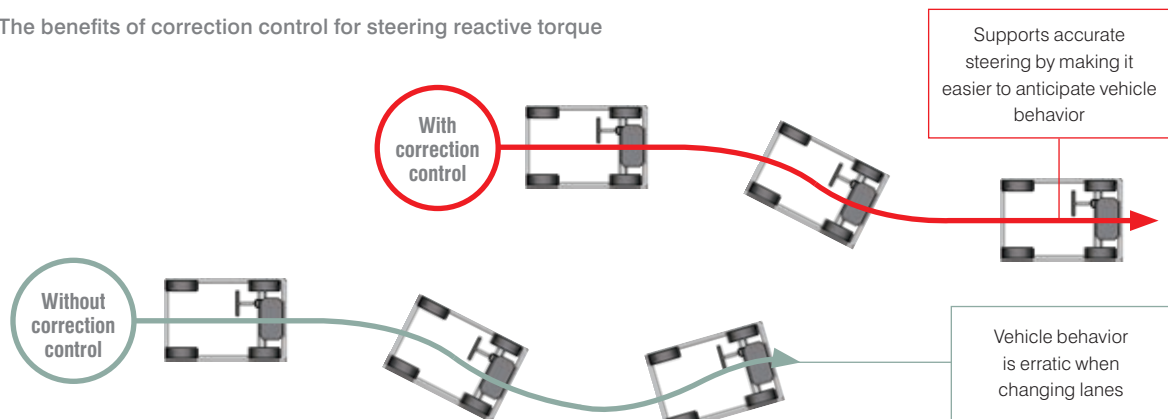
### Giving Small Vehicles the Steering Feel of High-End Vehicles—Electric Power Steering



Demand for small vehicles is burgeoning, particularly in emerging nations. Most such vehicles are front engine, front-wheel drive (FF) vehicles. The heaviness at the front of FF vehicles causes an increase in inertia, making it difficult to create the linear, unified steering feeling of high-end vehicles that have front engine, rear-wheel drive (FR).

Aiming to overcome this problem, NSK developed electric power steering that measures steering reactive torque transmitted from the tires to the steering system and linearly corrects the relationship between vehicle behavior and steering reactive torque. Enabling more appropriate steering of FF vehicles, this innovation has earned high acclaim among automotive manufacturers. A range of new-model vehicles that have entered mass production since 2009 incorporate NSK's electric power steering, which is contributing to the safety and peace of mind of drivers around the world.

The benefits of correction control for steering reactive torque



# > CORPORATE GOVERNANCE

## Corporate Governance

### Basic Philosophy

NSK defines corporate governance as a structure by which the executive organization focuses on business expansion and profitability improvement under the supervision of the Board of Directors. This philosophy is the essence of our Corporate Governance Code, under which we are reinforcing our governance systems through the implementation of the following policies. Firstly, the Board of Directors has delegated more authority to the executive organization to improve management flexibility. Secondly, the supervisory and executive organizations are working closely to strengthen supervisory functions. Thirdly, performance monitoring of business operations is being strengthened.

### Corporate Governance Structure

NSK has strengthened its governance structure by adopting the "Company with Committees" system. We have established a sound and highly transparent management structure based on clearly defined executive and supervisory roles.

#### Operational Executive Functions

The CEO makes decisions with the assistance of the Operating Committee. The executive officers in charge put these decisions into action.

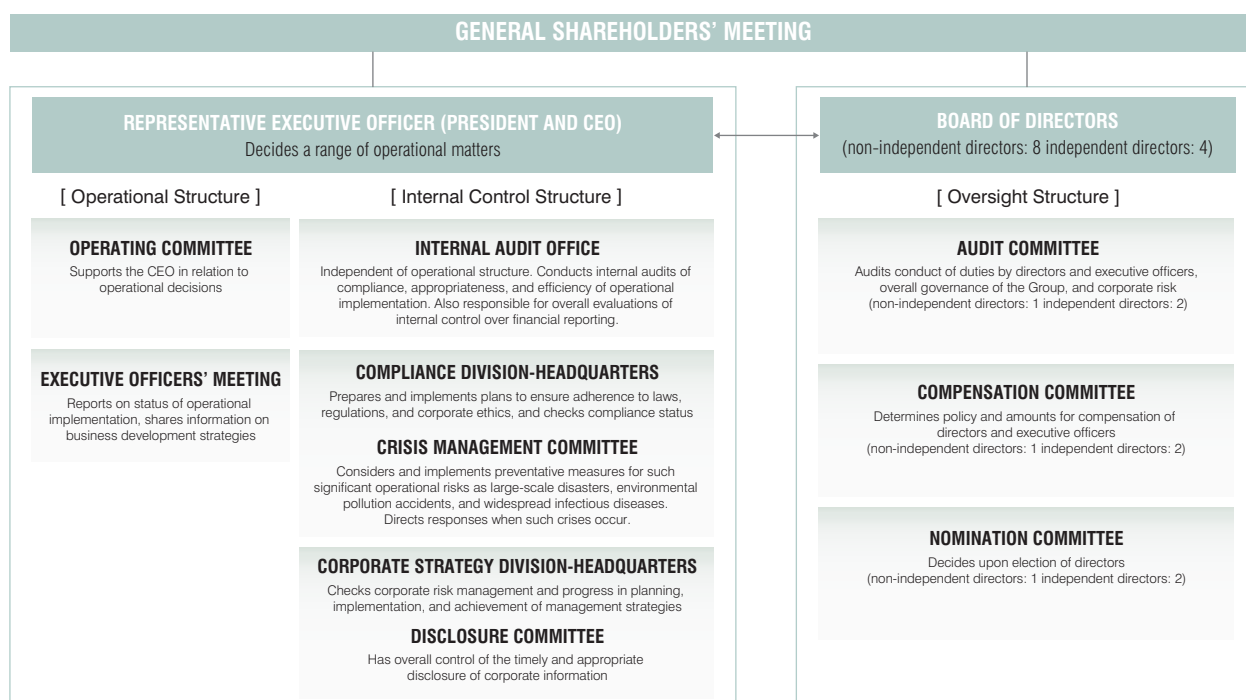
#### Supervisory Functions

The Board of Directors makes decisions on fundamental management policies and supervises the activities of executive officers. It maintains an Audit Committee, a Compensation Committee, and a Nomination Committee, each consisting of two independent directors and one non-independent director.

#### Specific Measures to Strengthen Governance

1999	<ul style="list-style-type: none"> <li>Introduced executive officer system, appointed independent directors</li> <li>Established the Compensation Committee</li> </ul>
2003	<ul style="list-style-type: none"> <li>Established the Audit Committee</li> </ul>
2004	<ul style="list-style-type: none"> <li>Established the Nomination Committee</li> <li>Adopted the "Company with Committees" system</li> <li>Established the Internal Audit Office</li> </ul>
2006	<ul style="list-style-type: none"> <li>Became a "Company with Committees" pursuant to the Companies Act, and the Audit Committee, Compensation Committee, and Nomination Committee each became comprised of two independent directors and one non-independent director</li> <li>Established the Internal Control Project Team in accordance with enactment of the Financial Instruments and Exchange Act</li> </ul>
2008	<ul style="list-style-type: none"> <li>Evaluated the development/operational status of Group companies' internal control</li> </ul>
2009	<ul style="list-style-type: none"> <li>Merged the Internal Control Project Team into the Internal Audit Office</li> </ul>

### NSK's Corporate Governance Structure



## Internal Control Systems

Each business division is responsible for the global operations of the NSK Group in its assigned areas. At the same time, we are reinforcing the group-wide internal control structure by establishing NSK Group Management Rules that apply across the entire NSK Group. Basic principles are set forth in the Management Rules to serve as the framework of Group management and internal control systems. The Internal Audit Office audits the legality, appropriateness, and efficiency of business operations, proposes improvement measures and provides guidance based on the audit results. The Compliance Division-Headquarters plans and implements policies to ensure compliance with laws, regulations, and corporate ethics and monitors the progress in the implementation of these policies. The Corporate Strategy Division-Headquarters enhances internal control systems across the entire NSK Group by planning and implementing management strategies, monitoring progress in the implementation of these strategies, and conducting risk management.

## Risk Management

### Basic Philosophy

In risk management for international operations, identifying risk, evaluating the degree of effect, and taking preventative measures is critical. Accordingly, "Risk Management Rules" stipulate principles of action for risk that apply to the entire NSK Group. Specifically, we categorize risk and determine which organization is responsible for each type of risk, as shown below. We also conduct overall management of preventative measures for risk and countermeasures when risks actualize. In addition, the Internal Audit Office receives monthly risk reports from Group companies around the world and identifies, evaluates, and routinely monitors significant risks. Further, in order to share awareness about risk and measures in response to risk, every year the Internal Audit Office identifies potential / existing risks jointly with Group companies and offices and prepares a company-wide "risk heat map." Based on the significance of each risk, internal audits are conducted.

### Risk Management System

- Overall control of risk management: Corporate Strategy Division-Headquarters
- Operating risk associated with the research & development, production, sales of products: Corporate Planning Division-Headquarters
- Risk related to earthquakes, disasters, infectious diseases: Crisis Management Committee
- Compliance risk related to infringement of laws and regulations, contracts, standards: Compliance Division-Headquarters
- Risk related to reliability of financial reports (risk related to the Japanese version of the U.S. Sarbanes-Oxley (SOX) Act): Finance Division-Headquarters/Internal Audit Office

## Compliance

### Basic Philosophy

To continue to be a company that is trusted by society, NSK believes that complying with laws, regulations, and corporate ethics is one of the most important management tasks that we should undertake. The foundation of compliance at NSK is the NSK Code of Corporate Ethics, which stipulates universal principles that must be followed by all executives and employees. Taking into account new social needs that have arisen in recent times, we added "Respect of Fundamental Rights at Work" and "Global Environmental Protection" to the "NSK Code of Conduct concerning Compliance" in the NSK Code of Corporate Ethics, and began implementing them in January 2009. We also introduced these changes to overseas Group companies.

### Compliance Promotion Structure and Initiatives

At NSK, the Compliance Division Headquarters performs the central role in promoting the development of regulations, education, audits, and correction activities. In order to ensure that all members of the NSK Group are fully informed about the content of the NSK Code of Corporate Ethics that underlies the Company's compliance initiatives, we regularly provide educational programs for personnel at specific levels from new employees to senior management, and provide training for all executives and employees of NSK Group companies in Japan via e-learning. Further, we conducted e-learning for managers at overseas Group companies in the year ended March 31, 2010. Also, we actively provide worksite seminars addressing specific subjects, including insider trading, antitrust laws, security export control, and trade issues.

NSK has also established a whistle blower system "Hotline" to ensure early detection and appropriate action regarding any violations of laws, regulations or corporate rules. Employees of NSK Group companies and of NSK's component parts suppliers and subcontractors in Japan can use this system to report noncompliance to either the Compliance Division-Headquarters or to the independent attorney outside of the corporate organization by e-mail or post. Reports can be made anonymously, and the system is designed to ensure that no whistle blower will suffer any unreasonable loss.

### Examples of Our Main Initiatives in the Year Ended March 31, 2010

Education	E-learning: December 17, 2009–February 7, 2010 Target: All executives/employees (number of participants: 7,314, percentage completing program: 99%) Theme: Corporate social responsibility, compliance, information security, internal control
	In-house seminar for the year ended March 31, 2010 Target: New employees, employees promoted to managerial positions, engineers at the Fujisawa Technology Divisions, employees at Osaki Headquarters, trainees of NSK Manufacturing Center Theme: Overall compliance, prevention of insider trading, compliance with antitrust law, compliance with subcontracting law
Hotline	Number of reports made in the year ended March 31, 2010: 2 (number of reports made in the year ended March 31, 2009: 5)



# > SOCIAL AND ENVIRONMENTAL ACTIVITIES

## Corporate Social Responsibility

### Basic Philosophy

Established in 1991, NSK's Mission Statement unequivocally states the Company's commitment to helping develop society and protect the environment: "NSK aims to contribute to the well-being and safety of society and to protect the global environment through its innovative technology integrating MOTION & CONTROL. We are guided by our vision of NSK as a truly international enterprise and are working across national boundaries to improve relationships between people throughout the world." Furthermore, our Management Principles guide our efforts to realize this Mission Statement.

In accordance with our Mission Statement and Management Principles, catering to customer needs by providing high-quality products and services and responding sincerely to the expectations of local communities forms the basis of our corporate activities.

NSK's products enable the smooth operation of a wide variety of machines and equipment, which improves their reliability and safety and helps save energy. Our products are incorporated in many everyday objects such as domestic appliances, automobiles, and railcars as well as less familiar industrial machinery, wind power generation equipment, and satellites.

At NSK, we believe that benefiting society by providing products and services and respecting the many stakeholders involved in our business activities worldwide is a fundamental part of our corporate social responsibility. We aim to achieve sustained corporate growth while bearing this responsibility in mind.

## NSK Supplier CSR Guidelines

Corporate social responsibility is indispensable for the sustained growth of companies. Accordingly, not only NSK but also its entire supply chain must give due consideration to compliance, environmental protection, human rights, and health and safety. Since fiscal 2007, we have held presentations to explain our procurement policies to suppliers, and sought cooperation on specific issues. From fiscal 2009, however, we began developing a more all-encompassing approach based on "NSK Supplier CSR Guidelines." At present, we are still preparing those guidelines. Upon completion in fiscal 2010, in stages, we will encourage suppliers at home and abroad to adopt the guidelines.



Explaining NSK's procurement policies to suppliers in January 2010

## As a Member of the Local Community

NSK aims to be a company rooted in local communities. Therefore, as members of their local communities, our operating bases around the world undertake social contribution activities that include helping educate the next generation and participating in local initiatives.




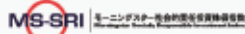
For example, employees at our operating facilities take part in and support local events, promote tree planting, donate blood, clean up the areas around their facilities, and donate to welfare organizations. In regions worldwide, we support the education of the next generation by holding science classes for children, dispatching technical instructors to high schools and universities, providing scholarships, and accepting interns.



NSK employees visit an orphanage (NSK Korea Co., Ltd.).

## Highly Rated by the Financial Sector

Companies with sound reputations not only for financial results but also for environmental and social contributions promise long-term sustainable growth. Consequently, institutional investors tasked with socially responsible investment (SRI) are increasingly focusing on such companies. As of March 2010, NSK is included in four well-known SRI indexes: the Dow Jones Sustainability Asia Pacific Index, the Ethibel EXCELLENCE Investment Register, FTSE4Good, and the Morningstar Socially Responsible Investment Index.

<p><b>Dow Jones Sustainability Indexes</b></p>  <p><a href="http://www.sustainability-indexes.com">http://www.sustainability-indexes.com</a></p>	<p><b>Ethibel Investment Register</b></p>  <p><a href="http://www.ethibel.org/index.html">http://www.ethibel.org/index.html</a></p>
<p><b>FTSE4Good Sustainability Indexes</b></p>  <p><a href="http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp">http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp</a></p>	<p><b>Morningstar Socially Responsible Investment Index</b></p>  <p><a href="http://www.morningstar.co.jp/sri/index.htm">http://www.morningstar.co.jp/sri/index.htm</a></p>



## NSK and the Global Environment

### Promoting Environmental Protection through Our Products

Curbing advancing climate change has become a pressing global task. Against this backdrop, NSK's products, used as components in an array of machines and equipment, respond to society's need to protect the environment by helping customers create products that save energy and resources. In fiscal 2008, we established NSK eco-efficiency indicators, known as "Neco," as an original tool for quantitatively evaluating the environmental friendliness of products under development. Neco is playing a key role in our efforts to step up the development of environmentally friendly products.

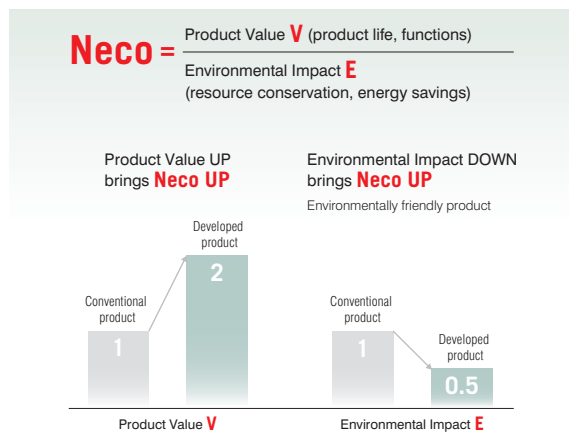
At the same time as saving energy and resources in manufacturing processes and distribution, NSK will make a concerted effort to realize environmentally friendly business management.

### Claiming the Top Prize at the Eco-Efficiency Awards 2009

Reflecting high evaluation of its introduction of unique indicators, known as Neco, for measuring the environmental friendliness of products, NSK took first prize at the Eco-Efficiency Awards 2009, winning the Award of the Director-General of the Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry (METI).

Hosted by the Japan Environmental Efficiency Forum, the Eco-Efficiency Awards recognize outstanding corporate initiatives that reduce the environmental burden while boosting socioeconomic activity. NSK received the prize because it used Neco to promote environment-oriented R&D and to communicate the merits of its products to customers.

#### Neco: NSK Eco-Efficiency Indicators



◎ Please see CSR Report 2010 for further details of NSK's social and environmental initiatives. (to be released in October)  
URL: [www.nsk.com/sustainability/reports.html](http://www.nsk.com/sustainability/reports.html)



### An Example of Neco in Action

#### Improving Automotive Production Lines

Having introduced the NSK eco-efficiency indicators (Neco), which determine levels of environmental friendliness based on the relationship between product value and the environmental burden, NSK is capitalizing on Neco when designing new products.

Production systems in which a single automotive production line manufactures several different types of vehicle are becoming increasingly common. However, such mixed production lines present automotive manufacturers with the problem of how to further improve efficiency given the different production equipment movements and approach distances needed for each type of vehicle body. When manufacturers attempt to increase the flexibility of production lines, electrically driven equipment is better suited than traditional hydraulic equipment. Consequently, demand for NSK's precision machinery and parts is growing. For use in production lines, NSK has developed and launched a new single-axis actuator, Toughcarrier™, that has a load capacity more than four times higher and a service life more than 10 times longer than those of previous products. As well as contributing to the upgrading of production lines, this new product's high load capacity and long service life improve product value and lessen the environmental burden.



applications



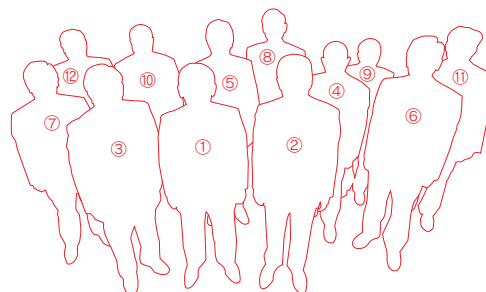
# > MANAGEMENT TEAM

As of June 25, 2010



## Board of Directors

- |                  |   |
|------------------|---|
| ① Seiichi Asaka  | ⑨ Toyohiko Sanari<br>Independent Director:<br>Certified Public Accountant                 |
| ② Norio Otsuka   | ⑩ Michio Ueno<br>Independent Director:<br>Chairman, Avanti Staff Corp.                    |
| ③ Michio Hara    | ⑪ Yoshikazu Sashida<br>Independent Director:<br>Adviser, Nisshinbo Holdings Inc.          |
| ④ Kazuo Matsuda  | ⑫ Toshitaka Hagiwara<br>Independent Director:<br>Councilor & Senior Adviser, Komatsu Ltd. |
| ⑤ Yukio Takebe   |   |
| ⑥ Tsutomu Komori |   |
| ⑦ Yoshio Shoda   |   |
| ⑧ Masami Tazawa  |   |



## Executive Officers

### PRESIDENT AND CHIEF EXECUTIVE OFFICER

Norio Otsuka\*

### SENIOR EXECUTIVE VICE PRESIDENT

Michio Hara\*

### EXECUTIVE VICE PRESIDENTS

Kazuo Matsuda\*  
Ryoichi Saito  
Yukio Takebe  
Tsutomu Komori  
Yoshio Shoda

### SENIOR VICE PRESIDENTS

Toshihide Shimbo  
Hideyuki Shibamoto  
Shinichiro Takahashi  
Yoshio Saito  
Naoki Mitsue  
Keisuke Takagawa  
Takashi Tonotsuka  
Kazuo Nagatake  
Norbert Schneider  
Masakazu Aijima  
Katsumi Kuwabara  
Toshihiro Uchiyama

### VICE PRESIDENTS

Tatsuo Ichikawa  
Kunio Kawashima  
Kihichi Isogai  
Masahide Matsubara  
Toshiyuki Nagashima  
Masaru Watari  
Hideki Doi  
Hiroshi Suzuki  
Yasutsugu Hada  
Yasuhiro Kamio  
Hirotohi Aramaki  
Nobuo Goto  
Koji Inoue  
Shigeyuki Suzuki  
Naoki Sugimoto

## Group Officers

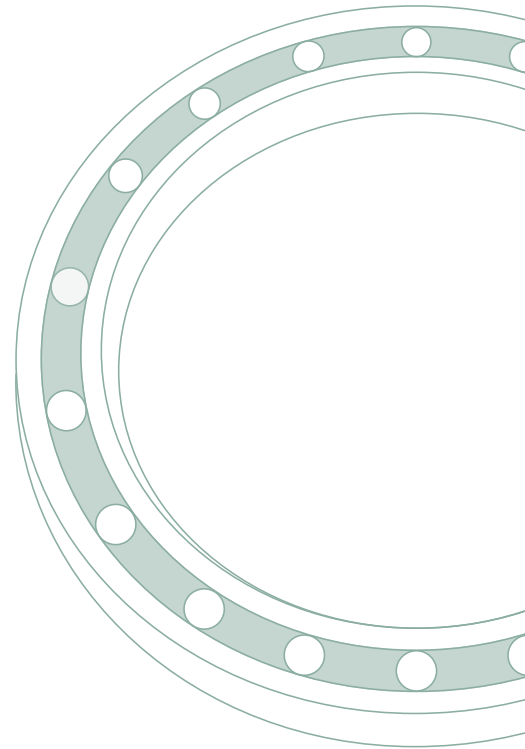
Yoichi Uyama  
Toyoaki Yano  
Toshiyuki Nakayama  
Yujiro Otsubo

\* Representative Executive Officers

## > FINANCIAL SECTION

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# > ELEVEN-YEAR SUMMARY

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31	2010	2009	2008	2007
<b>FOR THE YEAR</b>				
Net sales	¥587,572	¥647,593	¥772,036	¥717,225
Cost of sales and SG&A expenses	576,267	625,487	702,692	654,842
Operating income	11,305	22,106	69,343	62,383
Other income (expenses)	(4,970)	(11,776)	(5,730)	(5,346)
Income (loss) before income taxes and minority interests	6,335	10,330	63,613	57,037
Income taxes	819	4,887	19,173	20,198
Net income (loss)	4,765	4,561	42,613	34,853
Capital expenditures (excluding intangible assets)	19,829	41,915	51,971	36,216
Depreciation and amortization	37,149	39,729	38,380	35,316
R&D expenditures	8,794	10,691	10,240	10,100
Cash flows from operating activities (A)	51,108	11,785	69,236	64,153
Cash flows from investing activities (B)	(29,355)	(46,422)	(23,187)	(64,600)
Free cash flows (A)+(B)	21,753	(34,637)	46,049	(447)
<b>AT YEAR-END</b>				
Current assets	411,167	369,590	404,412	389,067
Non-current assets	378,456	374,638	424,167	426,721
Total assets	789,624	744,229	828,580	815,788
Current liabilities	257,706	210,322	294,318	297,489
Long-term liabilities	267,229	285,119	250,486	241,571
Net assets	264,688	248,787	283,775	276,727
Total liabilities and net assets	789,624	744,229	828,580	815,788
Number of employees (persons)	24,633	24,050	25,069	23,413
<b>PER SHARE (Yen)</b>				
Net income (loss)	¥ 8.82	¥ 8.44	¥ 78.84	¥ 64.53
Net assets	458.65	431.74	495.61	485.62
<b>RATIOS</b>				
Gross profit margin	17.8%	19.4%	23.1%	23.2%
Operating income margin	1.9	3.4	9.0	8.7
SG&A expenses/net sales	15.9	16.0	14.1	14.5
Net income margin	0.8	0.7	5.5	4.9
Return on average assets (ROA)	0.6	0.6	5.2	4.5
Return on average shareholders' equity (ROE)	2.0	1.8	16.1	14.0
Ratio of net worth to total capital	31.4	31.4	32.3	32.2
Asset turnover (times)	0.77	0.82	0.94	0.92
Inventory turnover (times)	5.5	6.2	7.5	7.0
Net D/E ratio (times)	0.73	0.85	0.56	0.69
Interest coverage ratio (times)	9.2	2.0	11.0	11.3

Millions of yen  
(Unless otherwise specified)

	2006	2005	2004	2003	2002	2001	2000
	¥628,474	¥580,989	¥522,217	¥522,820	¥480,902	¥533,144	¥486,539
	585,922	542,706	496,245	504,972	476,954	507,303	471,837
	42,552	38,283	25,972	17,847	3,947	25,841	14,701
	516	(3,251)	479	(19,974)	(14,271)	(2,528)	(6,101)
	43,068	35,031	26,451	(2,127)	(10,324)	23,312	8,599
	16,412	11,601	11,473	970	7,181	11,132	4,932
	25,586	22,349	14,293	(2,670)	(17,696)	11,425	2,798
	47,293	36,912	25,502	23,010	36,183	33,872	26,701
	30,099	27,435	26,909	28,812	27,536	26,210	26,349
	9,728	9,806	8,722	8,307	8,036	9,268	8,777
	66,332	57,987	37,889	30,961	30,331	24,444	20,371
	(62,386)	(31,638)	(16,958)	(16,223)	(34,372)	(19,714)	15,244
	3,946	26,349	20,931	14,738	(4,041)	4,730	35,615
	313,569	278,678	295,491	285,749	291,490	321,575	392,459
	429,462	349,905	326,386	307,349	351,332	358,881	247,631
	743,032	628,583	621,877	593,098	642,823	680,457	640,090
	266,834	234,300	245,588	227,314	239,378	261,952	282,719
	228,373	194,420	175,548	183,481	182,455	179,749	160,951
	247,823	199,861	200,739	182,302	220,989	238,755	196,419
	743,032	628,583	621,877	593,098	642,823	680,457	640,090
	22,639	20,737	19,772	20,351	22,337	23,283	24,295
	¥ 47.28	¥ 41.35	¥ 26.12	¥ (5.22)	¥ (31.79)	¥ 20.35	¥ 4.98
	436.48	349.07	349.83	316.27	378.03	405.12	333.57
	22.4%	22.5%	21.5%	19.6%	18.1%	19.7%	19.1%
	6.8	6.6	5.0	3.4	0.8	4.8	3.0
	15.6	15.9	16.5	16.2	17.3	14.8	16.1
	4.1	3.8	2.7	(0.5)	(3.7)	2.1	0.6
	3.7	3.6	2.4	(0.4)	(2.7)	1.7	0.4
	12.1	11.9	8.0	(1.4)	(8.1)	5.5	1.5
	31.7	30.0	30.3	28.8	32.4	33.4	29.3
	0.92	0.93	0.86	0.85	0.73	0.81	0.76
	6.9	7.4	6.6	5.8	4.8	5.2	4.6
	0.73	0.89	0.99	1.22	1.04	0.88	1.07
	15.0	11.3	6.1	4.1	4.2	2.5	2.0

# > SIX-YEAR SEGMENT INFORMATION

NSK Ltd. and Consolidated Subsidiaries

Millions of yen / %

Year ended March 31	2010	2009	2008	2007	2006	2005
<b>SALES BY BUSINESS SEGMENT</b>						
Industrial machinery bearings	¥166,873	¥209,530	¥239,056	¥216,338	¥195,556	¥185,473
Automotive products	366,463	352,453	435,705	397,863	353,124	316,169
Precision machinery and parts	35,089	57,491	68,186	77,719	65,831	64,186
Others	19,145	28,118	29,087	25,303	13,962	15,160
Total	587,572	647,593	772,036	717,225	628,474	580,989
<b>INCREASE/DECREASE FROM PREVIOUS YEAR</b>						
Industrial machinery bearings	-20.4%	-12.4%	10.5%	10.6%	5.4%	5.2%
Automotive products	4.0	-19.1	9.5	12.7	11.7	10.6
Precision machinery and parts	-39.0	-15.7	-12.3	18.1	2.6	36.4
Others	-31.9	-3.3	15.0	81.2	-7.9	16.5
Total	-9.3	-16.1	7.6	14.1	8.2	11.3
<b>SALES BY REGION</b>						
<b>(Based on Customer Location)</b>						
Japan	¥289,540	¥323,375	¥388,929	¥364,395	¥330,062	¥310,247
The Americas	70,609	78,754	107,321	105,111	92,367	82,279
Europe	98,504	111,866	133,853	121,698	98,165	93,625
Asia	128,918	133,596	141,933	126,021	107,880	94,838
Total	587,572	647,593	772,036	717,225	628,474	580,989
<b>INCREASE/DECREASE FROM PREVIOUS YEAR</b>						
Japan	-10.5%	-16.9%	6.7%	10.4%	6.4%	11.3%
The Americas	-10.3	-26.6	2.1	13.8	12.3	9.9
Europe	-11.9	-16.4	10.0	24.0	4.8	9.6
Asia	-3.5	-5.9	12.6	16.8	13.8	13.9
Total	-9.3	-16.1	7.6	14.1	8.2	11.3



# > MANAGEMENT'S DISCUSSION AND ANALYSIS OF BUSINESS RESULTS AND FINANCIAL POSITION

## ANALYSIS OF BUSINESS RESULTS FOR THE YEAR ENDED MARCH 31, 2010

### 1. Scope of Consolidation

The consolidated financial statements reflect the financial performance of NSK Ltd. and its 91 consolidated subsidiaries (23 in Japan and 68 overseas). NSK's investments in 16 affiliates (9 in Japan and 7 overseas) are accounted for by the equity method.

In the year ended March 31, 2010, NSK established two new companies, including a production company of precision machinery and parts in China. In addition, due to a change in the Company's ownership stake, an equity-method affiliate became a consolidated subsidiary. Furthermore, the Company merged with and absorbed a domestic industrial machinery bearings sales subsidiary. As a result, the number of consolidated subsidiaries increased by two from the previous fiscal year-end. The number of equity method affiliates decreased by one due to the said transfer that accompanied a change in the Company's ownership stake.

### 2. Overview of the Year Ended March 31, 2010

During the year ended March 31, 2010, economies worldwide faced difficult conditions overall. Nevertheless modest recovery trends emerged from the dramatic economic downturn that started in the second half of the previous fiscal year triggered by the global financial crisis, on the back of the economic stimulus measures of respective governments and the economic growth of Asia's emerging nations.

Among business segments, orders from automakers moved onto a recovery track thanks to respective government incentive measures to encourage automobile sales and other economic stimulus measures. Meanwhile, recovery in orders from the industrial machinery sector was weak as overcapacity curbed investment.

In response to these business conditions, the Group continued the emergency profitability countermeasures that it had begun from the second half of the previous fiscal year. Even after signs of recovery appeared in economies worldwide, the Group established a profitability improvement committee; achieved reductions in labor costs, SG&A expenses, and external procurement costs; reorganized production systems; and worked to increase sales of industrial machinery bearings and precision machinery and parts.

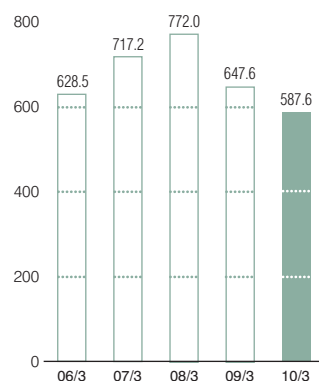
Consolidated net sales decreased 9.3% year on year, to ¥587.6 billion (US\$6,318 million). Operating income was down 48.9% year on year, to ¥11.3 billion (US\$122 million), as reductions in labor costs, SG&A expenses, and external procurement costs did not fully offset lower sales volumes and a worsening in the profitability of exports due to the appreciation of the yen. Ordinary income was ¥7.6 billion (US\$82 million), a year-on-year decline of 55.2%.

After recognizing cost related to business restructuring of ¥1.3 billion (US\$14 million) in extraordinary losses and deducting tax expenses and minority interests in earnings of consolidated subsidiaries, net income after tax expenses and minority interests was ¥4.8 billion (US\$51 million), a year-on-year increase of 4.5%.

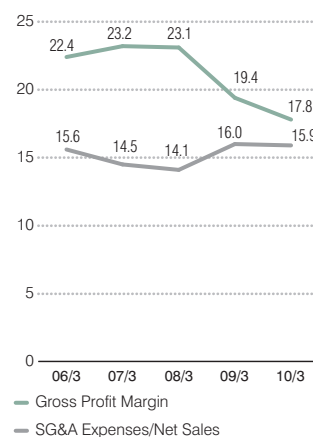
### 3. Net Sales

Net sales decreased ¥60.0 billion, or 9.3% year-on-year, to ¥587.6 billion (US\$6,318 million). Excluding the effect of exchange rate fluctuations, the decline was ¥35.4 billion, or 5.5%. Sales in Japan showed a year-on-year decrease of ¥33.8 billion, or 10.5%, to ¥289.5 billion (US\$3,113 million). Overseas sales fell ¥26.2 billion, or 8.1%, to ¥298.0 billion (US\$3,205 million). Excluding the influence of exchange rates, the decrease was ¥1.6 billion, or 0.5%.

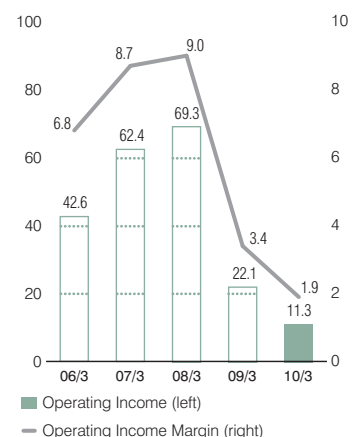
#### NET SALES (¥ Billions)



#### GROSS PROFIT MARGIN, SG&A EXPENSES/NET SALES (%)



#### OPERATING INCOME, OPERATING INCOME MARGIN (¥ Billions / %)



## > MANAGEMENT'S DISCUSSION AND ANALYSIS OF BUSINESS RESULTS AND FINANCIAL POSITION

### 4. Cost of Sales, and Selling, General and Administrative (SG&A) Expenses

The cost of sales decreased from ¥522.0 billion in the previous fiscal year to ¥482.7 billion (US\$5,191 million). The ratio of cost of sales to net sales increased 1.6 percentage points, to 82.2%.

SG&A expenses amounted to ¥93.5 billion (US\$1,006 million), down from ¥103.5 billion in the previous fiscal year. The ratio of SG&A expenses to net sales improved 0.1 percentage point, to 15.9%.

Consolidated operating income fell ¥10.8 billion, or 48.9%, year on year to ¥11.3 billion (US\$122 million). The consolidated operating income margin declined 1.5 percentage points, to 1.9%.

### 5. Business Segment Information

#### (a) Industrial Machinery Bearings

In the first half of the fiscal year, sales to general industrial and electrical machinery manufacturers, as well as the aftermarket sector, declined due to lower global demand. In the second half of the fiscal year, however, sales recovered thanks to higher IT-related demand in Asia. Net sales in the industrial machinery bearings business fell 20.4% year on year, to ¥166.9 billion (US\$1,794 million), despite efforts to increase sales in response to declining demand from the first half of the year. Operating income decreased 70.2% year on year, to ¥5.8 billion (US\$62 million), because reductions in labor costs, SG&A expenses, and external procurement costs were unable to completely offset the significant drop in sales volumes.

#### (b) Automotive Products

Sales in the automotive bearing and component businesses declined in the first half of the year as lower sales of automobiles worldwide offset benefits from government incentive to encourage automobile sales in several countries, and the end of inventory adjustments by automotive manufacturers. However, demand

picked up in the second half of the year due to the aforementioned government incentive and growth in the automotive markets in China and other emerging countries. In the automotive bearing business, sales of hub unit bearings in China were favorable, while in the automotive component business, sales of electric power steering (EPS) systems in Asia and Europe were robust.

As a result, net sales of the automotive products business increased 4.0% year on year, to ¥366.5 billion (US\$3,940 million). Operating income rose 168.4% year on year, to ¥18.3 billion (US\$197 million), thanks to reductions in labor costs, SG&A expenses, and external procurement costs, which absorbed a deterioration in export profit margins due to the appreciation of the yen.

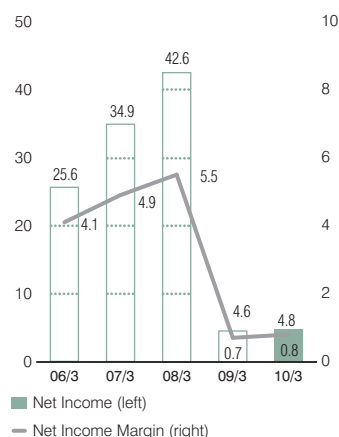
#### (c) Precision Machinery and Parts

Sales of linear motion products and exposure equipment for LCD panel production decreased due to lower demand from machine tool and semiconductor production equipment manufacturers. Despite efforts to increase sales in response to declining demand, net sales in the precision machinery and parts business fell 39.0%, to ¥35.1 billion (US\$377 million). The precision machinery and parts business recorded an operating loss of ¥7.5 billion (US\$80 million), compared with operating income of ¥0.5 billion in the previous fiscal year, because reductions in labor costs and SG&A expenses did not fully compensate for the significant drop in sales volume.

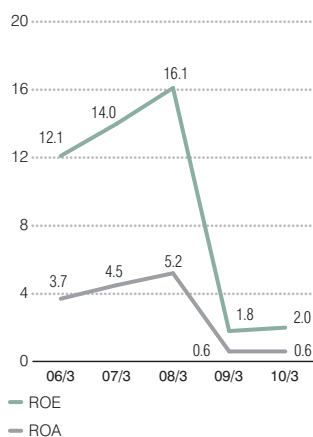
#### (d) Others

Other sales totaled ¥34.9 billion (US\$375 million), a year-on-year decrease of 31.1%, due to lower sales of steel balls to third parties. The segment recorded an operating loss of ¥0.2 billion (US\$2 million) compared with operating income of ¥0.8 billion in the previous fiscal year.

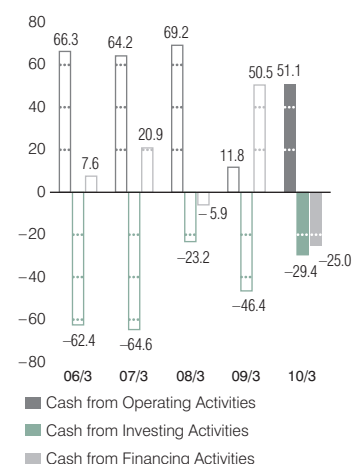
### NET INCOME, NET INCOME MARGIN (¥ Billions / %)



### ROE AND ROA (%)



### CASH FLOWS (¥ Billions)



## 6. Geographical Segment Information

### (a) Japan

In the industrial machinery bearings business, sales to general industrial and electrical machinery manufacturers and the aftermarket sector decreased due to stagnant demand. In the automotive products business, sales increased thanks to government incentive measures to encourage automobile sales, such as tax credits for purchasing eco-friendly cars and subsidies for customers replacing older vehicles. In the precision machinery and parts business, sales of linear motion products to machine tool manufacturers decreased.

As a result, net sales in Japan totaled ¥429.2 billion (US\$4,615 million), a year-on-year drop of 10.5%. Operating income declined 39.6% year on year to ¥4.0 billion (US\$43 million), because reductions in labor costs, SG&A expenses, and external procurement costs did not completely offset lower sales volumes and a deterioration in export profit margins due to the appreciation of the yen.

### (b) The Americas

In the industrial machinery bearings business, sales to general industrial and electrical machinery manufacturers and the aftermarket sector decreased due to lower demand. In the automotive products business, sales expanded thanks to moderate economic recovery. In the precision machinery and parts business, sales of linear motion products to machine tool manufacturers declined.

Consequently, net sales in the Americas decreased 11.3% year on year to ¥69.4 billion (US\$746 million). Operating income rose 139.9% to ¥2.2 billion (US\$24 million), thanks to reductions in labor costs and SG&A expenses.

### (c) Europe

In the industrial machinery bearings business, sales to general industrial and electrical machinery manufacturers and the

aftermarket sector declined due to stagnant demand. In the automotive product business sales of EPS systems increased due to incentive schemes to encourage automobile sales. In the precision machinery and parts business, sales of linear-motion products to machine tool manufacturers decreased.

As a result, net sales in Europe fell 12.2% year on year, to ¥100.6 billion (US\$1,082 million). Operating income dropped 66.0% year on year to ¥3.2 billion (US\$34 million), reflecting a decline in sales volume, which offset reductions in labor costs, SG&A expenses, and external procurement costs.

### (d) Asia

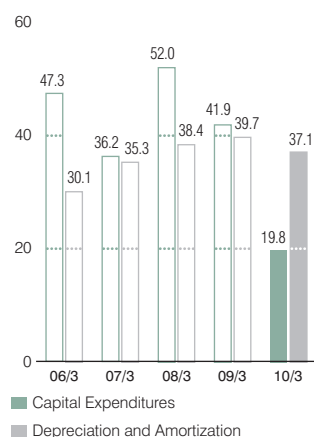
In the industrial machinery bearings business, although sales to general industry, electrical machinery manufacturers, and the aftermarket sector increased in ASEAN countries, overall sales declined. In the automotive products business, sales of hub unit bearings rose due to the growing automotive market in China that has accompanied the country's economic development. In the precision machinery and parts business, although overall sales expanded due to demand recovery in the semiconductor industries, sales to machine tool manufacturers and sales of exposure equipment for LCD panel production decreased.

Consequently, net sales in Asia declined 2.2% year on year, to ¥106.1 billion (US\$1,141 million). Operating income decreased 20.9% year on year, to ¥7.6 billion (US\$81 million) due to a shift in product mix, which offset reductions in labor costs and SG&A expenses.

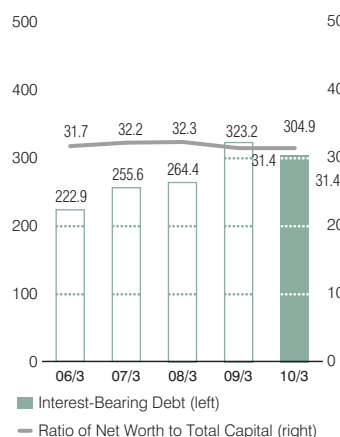
## 7. Non-Operating Income and Expenses

Non-operating expenses net of non-operating income amounted to ¥3.7 billion (US\$40 million), compared with ¥5.1 billion for the previous fiscal year. This result reflected an improvement in earnings of equity-method affiliates and favorable foreign exchange rates, which offset higher product compensation expenses.

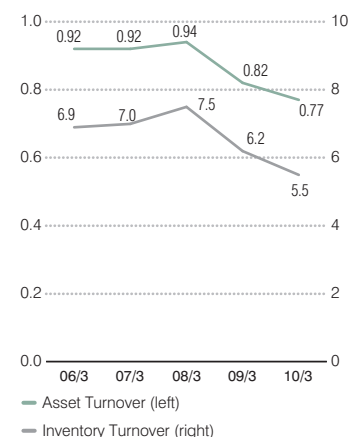
### CAPITAL EXPENDITURES, DEPRECIATION AND AMORTIZATION (¥ Billions)



### INTEREST-BEARING DEBT, RATIO OF NET WORTH TO TOTAL CAPITAL (¥ Billions / %)



### ASSET TURNOVER, INVENTORY TURNOVER (Times)



## > MANAGEMENT'S DISCUSSION AND ANALYSIS OF BUSINESS RESULTS AND FINANCIAL POSITION

### 8. Extraordinary Income and Loss

Extraordinary loss net of extraordinary income decreased from ¥6.6 billion in the previous fiscal year to ¥1.3 billion (US\$14 million). In the previous fiscal year, the Company recorded a ¥0.5 billion gain on sales of property, plant and equipment, a ¥3.9 billion loss on devaluation of investment securities, and costs related to business restructuring of ¥3.3 billion. For the fiscal year under review, the Company recognized an extraordinary loss of ¥1.3 billion (US\$14 million) in costs related to business restructuring.

### 9. Income before Income Taxes and Minority Interests

Income before income taxes and minority interests decreased ¥4.0 billion, or 38.7%, to ¥6.3 billion (US\$68 million), because a deterioration in operating income offset improvements in non-operating expenses and extraordinary loss.

### 10. Tax Expenses

Tax expenses (current and deferred income taxes) amounted to ¥0.8 billion (US\$9 million), down ¥4.1 billion, or 83.2%, compared with the previous fiscal year. The tax burden ratio (income tax divided by income before income taxes and minority interests) was 12.9%; this reflects the recording of earnings by overseas subsidiaries that are subject to lower tax rates than in Japan and the partial reversal of the provision of a valuation reserve—established as a result of the deteriorating performance of group companies in Japan in the previous fiscal year—that accompanied an improvement in results in the fiscal year under review.

### 11. Minority Interests

Minority interests, consisting mainly of the interests of minority shareholders in subsidiaries, decreased ¥0.1 billion, or 14.9% year on year, to ¥0.8 billion (US\$8 million).

### 12. Net Income

Net income improved ¥0.2 billion, or 4.5%, to ¥4.8 billion (US\$51 million). Net income per share was ¥8.82 (US\$0.095), up from ¥8.44 in the previous fiscal year. The rate of return on shareholders' equity (ROE) improved from 1.8% in the previous fiscal year to 2.0%.

### 13. Cash Flows and Financial Position

#### (a) Cash Flows

Net cash provided by operating activities amounted to ¥51.1 billion (US\$550 million), up ¥39.3 billion compared with ¥11.8 billion for the previous fiscal year. This increase was attributable to income before income taxes and minority interests of ¥6.3 billion (US\$68 million), an increase in notes and accounts payable of ¥41.1 billion (US\$442 million), depreciation and amortization of ¥37.1 billion (US\$399 million), and a decrease in inventories of ¥2.2 billion (US\$23 million), which absorbed the effect of a ¥36.5 billion (US\$393 million) increase in notes and accounts receivable.

Net cash used in investing activities was ¥29.4 billion (US\$316 million), a decrease of ¥17.1 billion from ¥46.4 billion for the previous fiscal year. Net cash used in investing activities was attributable to payments for acquisitions of property, plant and equipment of ¥22.1 billion (US\$237 million) and payments for acquisitions of marketable securities of ¥4.8 billion (US\$52 million).

Net cash used in financing activities was ¥25.0 billion (US\$268 million), a difference of ¥75.5 billion compared with net cash provided by financing activities of ¥50.5 billion for the previous fiscal year when the Company endeavored to increase cash on hand in the face of the global financial crisis and credit crunch. Net cash used in financing activities was attributable to a net decrease in short-term loans of ¥11.9 billion (US\$128 million), payments for redemption of corporate bonds of ¥7.0 billion, (US\$75 million) and dividends paid of ¥4.3 billion (US\$47 million).

As a result, cash and cash equivalents as of March 31, 2010, amounted to ¥123.4 billion (US\$1,327 million), a decrease of ¥1.5 billion from ¥124.9 billion at the previous fiscal year-end.

#### (b) Financial Position

Total assets at the end of the fiscal year under review stood at ¥789.6 billion (US\$8,491 million), up ¥45.4 billion from the previous fiscal year-end. This increase was principally attributable to increases of ¥36.5 billion in notes and accounts receivable accompanying a recovery in sales in the second half of the fiscal year, ¥17.0 billion in investment securities reflecting a recovery in stock market prices, and ¥3.1 billion in marketable securities, which offset a decrease of ¥12.0 billion in total property, plant and equipment after keeping new investments below the level of depreciation and amortization. Total liabilities stood at ¥524.9 billion (US\$5,644 million), up ¥29.5 billion from the previous fiscal year-end. This result primarily reflected an increase of ¥40.5 billion in notes and accounts payable accompanying the recovery in production in the second half of the fiscal year, which offset decreases of ¥12.6 billion in short-term debt and ¥6.7 billion in corporate bonds. Total net assets stood at ¥264.7 billion (US\$2,846 million), up ¥15.9 billion from the previous fiscal year-end, due to net income of ¥4.8 billion, an ¥8.2 billion increase in unrealized holding gain on securities, and a ¥5.9 billion increase in translation adjustments.

Total current assets increased ¥41.6 billion year-on-year to ¥411.2 billion (US\$4,421 million) due to an increase in notes and accounts receivable accompanying higher net sales. Total current liabilities increased ¥47.4 billion to ¥257.7 billion (US\$2,771 million), due to a rise in notes and accounts payable stemming from higher production. Net interest-bearing debt, interest-bearing debt net of cash and cash equivalents, was down ¥16.7 billion to ¥181.5 billion (US\$1,952 million). The net debt-equity ratio decreased from 0.85 in the previous fiscal year to 0.73. Net assets per share rose from ¥431.74 to ¥458.65 (US\$4.932). The ratio of net worth to total capital amounted to 31.4%, the same as for the previous fiscal year. As a result, the current ratio declined from 1.76 times in the previous fiscal year to 1.60 times.

## BUSINESS RISKS AND OTHER RISK FACTORS

Listed below are the principal risk factors that have the potential to affect the NSK Group, including its business development, performance and financial position. Any forward-looking statements in the following section are the NSK Group's judgments as of June 25, 2010.

### 1. Economic Conditions in Countries, Regions and Industries

The business performance and financial position of the NSK Group could be adversely affected by deterioration in the economic environment resulting from fluctuations in economic conditions in the specific countries and regions in which it sells and manufactures products, or from fluctuations in business conditions in the industries to which its customers and suppliers belong.

### 2. Market Changes and Competition

Competition for sales has intensified on a global scale, and the pace of change in the business environment has accelerated. The NSK Group is strengthening its non-price competitiveness on various levels, including the expansion of its activities in the market for high-quality bearings and the improvement of technical services. However, it is possible that the Group's business performance and financial position will be adversely affected by a rapid increase in sales of low-priced bearings supplied by bearing manufacturers in China and elsewhere. In some business segments and regions, loss of sales opportunities due to delays in entering overseas markets, or a failure to respond quickly enough to demand fluctuations, may adversely affect the business performance and financial position of the NSK Group.

### 3. Reliance on Specific Industries

There is a risk that the business performance and financial position of the NSK Group could be adversely affected by sudden declines in demand from the industries on which it is heavily reliant, especially bearings and automotive products for the automotive sector, which accounts for over one-half of its sales, as well as precision machinery and parts for the semiconductor industry and machine tools industry.

### 4. Credit Risks

The NSK Group sells a high percentage of its products to large and relatively stable customers, and recoverability risk relating to trade receivables and other claims is believed to be negligible. Doubtful claims are covered by reserves based on the likelihood of recovery.

The Group systematically monitors the credit status of customers on a day-to-day basis. Sales divisions and purchasing divisions primarily undertake such monitoring. However, there is a risk that environmental changes and other factors will result in unforeseen bad debt problems. It is possible that the NSK Group's business performance and financial position will be adversely affected in some circumstances, such as if the economic recession and the global escalation of competition create an environment in which the capital positions of customers in Japan or overseas are weakened.

### 5. Business Alliance Risks

The NSK Group realizes the benefits of business alliances with multiple companies through mutually effective use of management resources, technology development, and production activities. However, an inability to realize the benefits of a business alliance due to a disagreement between the policies of parties to an alliance concerning the purpose of the alliance, the methods used, or other matters could adversely affect the business performance and financial position of the NSK Group.

### 6. Reliance on Specific Suppliers

The NSK Group's basic strategy is to avoid reliance on a single supplier by procuring components and materials from multiple suppliers. However, the Group could become unable to source necessary items due to a supplier's lack of production capacity, poor quality products, fire disaster, bankruptcy, damage due to natural disasters, or other reasons, which in turn could impede the Group's supply of products to customers or lead to the Group incurring higher costs as a result of alternative components and materials that have higher prices or quality problems. Such a contingency could adversely affect the business performance and financial position of the NSK Group.

### 7. Rising Prices of Raw Materials

Economic trends in China and other emerging countries have caused major fluctuations in the prices of steel, crude oil, copper, and other raw materials. Upward trends in raw material prices create the risk of rises in the prices of materials and parts used in the products of the NSK Group. The Group is working to reduce costs through Value Engineering (VE) campaigns and other initiatives and to pass on cost increases through higher product prices. However, there is a risk that the NSK Group will not be able to recover cost increases fully and that business performance will be adversely affected as a result.

### 8. Quality Risks

The NSK Group has an established quality assurance system for its products. However, if a serious quality problem goes undetected, leading to major accidents, product recalls, the interruption of customers' production operations or other consequences, the business performance and financial position of the Group could be adversely affected by the consequences of this situation, including substantial costs and reputational damage, or the cost of product-related compensation payments under the terms of contracts. Although the NSK Group has obtained global product liability insurance and product recall insurance, there is a risk that this may not be sufficient to cover all compensation payments and other losses.

### 9. Product Development Risks

The purpose of product development is to bring new products to the market, which is an important priority from an income expansion viewpoint. However, because of the diversity of product

## > MANAGEMENT'S DISCUSSION AND ANALYSIS OF BUSINESS RESULTS AND FINANCIAL POSITION

development needs in the market and the accelerating pace of change in these needs, product development activities involve exposure to a variety of risks, including the risk that new products or new technologies will not be supported in the market, that competitors will be able to develop and mass produce similar products ahead of the NSK Group, or that other companies will introduce new products or new technologies that can be used as alternatives to those developed by the Group. Such a contingency could adversely affect the business performance and financial position of the NSK Group.

### 10. Intellectual Property Risks

Risks relating to the increasing importance of intellectual property include the risk of invalidity claims concerning the intellectual property of the NSK Group, the risk that the Group will not be able to obtain permission to use the intellectual property of other parties, the risk of intellectual property infringement claims by third parties and the risk that the Group will not be able to eliminate counterfeit products effectively in certain countries or regions.

### 11. Overseas Expansion Risks

The NSK Group conducts businesses in regions worldwide. Entry into overseas markets brings with it the risk that the Group will not be able to recover the capital invested according to the original plan and the risk that it will become necessary to consolidate or close production sites or withdraw from a market. There are also unavoidable risks relating to business conditions and systems that are specific to countries and regions into which the NSK Group has expanded.

### 12. Disaster and Terrorist Risks

The production and sales activities of the NSK Group could be adversely affected if its business sites or those of its suppliers and customers are hit by disasters, such as earthquakes, floods, fires, heavy snow or outbreaks of new infectious diseases, by terrorist attacks, or by physical and human damage resulting from social unrest caused by changes in the political situation. Further, given that insurance does not completely cover damage resulting from fire disasters and natural disasters, countermeasures for natural disasters and terrorism are one of the Group's important management tasks, and the Group will do its utmost in this regard. However, the NSK Group cannot completely eliminate such risks.

### 13. Compliance Risks

To ensure full compliance with laws, regulations and ethical standards, the NSK Group has established a code of business ethics and adopted behavior guidelines. However, there is still a risk that individual employees will commit compliance violations for various reasons, including inappropriate judgments resulting from an excessive emphasis on sales and profits and that such actions will result in criminal prosecutions, civil suits or official actions against the NSK Group, as well as reputational damage, or that economic losses will be incurred.

### 14. Litigation Risks

The NSK Group has obtained insurance cover for lawsuits and compensation claims relating to product liability. While this insurance cover will be applicable in some cases, it does not provide unlimited and unconditional indemnity for all compensation costs incurred by the Group.

There have been no lawsuits relating to matters other than production transactions with the potential to have a serious impact on the business performance of the NSK Group. However, the possibility that the Group's business performance will be seriously affected by such litigation in the future cannot be ruled out.

### 15. Information Management Risks

The NSK Group handles substantial amounts of important data and personal information in the course of its business activities and has adopted a security policy designed to prevent external disclosure of this information or its use for unauthorized purposes. Despite management's efforts to disseminate and effectively administer this policy, the possibility of leaks resulting from unforeseen circumstances cannot be ruled out. There is a risk of damage to the Group's reputation and incurrence of substantial costs if such situations arise.

### 16. Information Disclosure and Shareholder Income Risks

The NSK Group has established timely disclosure systems and strives to ensure the fair disclosure of corporate information and the accuracy of financial data. However, if the Group is unable to adapt its systems effectively to reflect the establishment or amendment of laws and regulations, changes in stock exchange rules, or changes in prevailing conditions, there is a possibility that its information disclosure will be inadequate and that this will cause a decline in the market price of its shares and adversely affect the interests of shareholders.

There is also a possibility that effectiveness assessments or audits of internal control systems relating to financial statements under the Financial Instruments and Exchange Law will lead to the identification of major errors or omissions.

### 17. Environmental Risks

The NSK Group has identified environmental protection activities as an important aspect of its management policies and has worked to improve its environmental management systems. To date, there have been no major environmental problems. However, there is a risk that environmental problems will occur in the future, leading to costs relating to compensation payments, product recalls, the suspension of production and clean-up operations, as well as fines and other official penalties and reputational damage. It is also possible that the introduction of new regulations will result in substantial costs.

An environmental safety countermeasures reserve has been provided to cover expenditure on actions relating to the disposal of PCB.



### 18. Information System Risks

There is a possibility that failures will occur in on-line systems and networks used in supply chain operations, including production, sales and logistics and that the restoration of these systems will require substantial amounts of time. In such situations, there is a risk that production operations, warehouse management and sales activities will be impeded and that the disruption of product shipments will affect customers' production plans, leading to compensation claims and loss of customer confidence in the NSK Group.

### 19. Recruitment Risks

The NSK Group recognizes that to maintain its competitiveness, it needs to recruit, appoint and train people with excellent technical knowledge and skills. Some NSK Group companies have imbalances in the age profiles of their work forces, and the number of workers retiring in Japan is expected to increase rapidly over the next few years. However, there is increasing competition for skilled personnel in the fields in which the Group is involved. If the NSK Group is unable to recruit and train the personnel that it needs, the resulting inability to pass on skills could have an adverse impact on the Group's business activities.

### 20. Labor Dispute Risks and the Labor Environment

NSK considers that there is little risk of deterioration in labor relations because it holds labor management council meetings regularly to discuss improvement of the labor environment and labor conditions. However, there is a risk that differences in labor practices in overseas countries and regions, or unforeseeable contingencies, such as changes in the legal, economic or social environments, may cause labor relations to deteriorate, leading to

labor disputes and other problems. In such cases, there is a possibility that the NSK Group's business operations will be curtailed.

The NSK Group is taking initiatives to provide a safe and ideal labor environment, but there is also a risk of industrial accidents caused by malfunctioning equipment or improper operation by workers. In particular, serious industrial accidents may adversely affect its operations.

### 21. Foreign Exchange and Interest Rate Risks

There is a risk that the business performance and financial position of the NSK Group could be adversely affected by foreign currency-denominated commodity transactions and investment or interest rate increases. The NSK Group seeks to reduce the effects of exchange rate and interest rate fluctuations by balancing its foreign currency credits and debts and by using hedging when required, as stipulated in internal regulations. However, the risk of adverse effects cannot be entirely eliminated.

### 22. Retirement Benefit Liabilities

NSK Ltd. and its consolidated subsidiaries in Japan have established defined-benefit pension plans, including qualified requirement pension plans and lump-sum payment plans. Overseas subsidiaries in the United Kingdom and certain other locations have also established defined-benefit pension plans. There is a risk that the business performance and financial position of the NSK Group could be adversely affected by retirement benefit costs and liabilities if there are changes in the assumptions on which the plans are based, a decline in returns on the investment of pension assets, a fall in the value of shares held in trust, or changes in accounting standards.

## MANAGEMENT'S VIEWS ON KEY ISSUES AND FUTURE POLICIES

In October 2009, the NSK Group prepared a mid-term plan, which covers the period through March 2013 and sets out a mid-term vision that calls on the Group to "Become No. 1 in Total Quality." This means realizing quality not only in products, which is the most fundamental requirement of a manufacturer, but also in all services we provide. In addition to our existing basic strategies of advancing its growth strategies and strengthening profitability, we aim to build an operational foundation for future growth amid dramatically changing business conditions. To this end, we will step up efforts to strengthen customer-oriented and business-oriented management by further integrating technology, production and sales.

Regarding the external environment in the fiscal year, ended March 31, 2010, although there were signs of modest recovery globally, the outlook remains uncertain due to a variety of risks including the conclusion of government incentive to encourage sales in respective nations and fluctuations in foreign currency exchange rates due to financial uncertainty. Based on the leadership of business divisions, the Group will pursue its two basic strategies of advancing its growth strategies and strengthening profitability and heighten its ability to respond to these risks.

At the same time, we will increase the quality of our products and operations.

Regarding sales and marketing, we intend to take steps to expand sales in such emerging nations as China and India as well as stepping up initiatives for businesses related to the environment, infrastructure and resources. Regarding technology, we will accelerate the creation and development of new products catering to such technological innovations as hybrid vehicles and electric vehicles. Regarding production, we will reinforce production capabilities by reorganizing our global production system.

Further, NSK recognizes that contributing globally to energy-saving through its business activities is one of its social responsibilities. Accordingly, we will steadily improve our environmental management levels to contribute to global environmental protection and the sustainable development of society. Through such efforts, our goal is to build relationships of trust with all of our stakeholders.

In this way, by making a concerted effort to boldly tackle a range of tasks, the NSK Group will work continuously to increase its corporate value.

# > CONSOLIDATED BALANCE SHEETS

NSK Ltd. and Consolidated Subsidiaries

As of March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	¥ 123,437	¥124,944	\$ 1,327,280
Short-term investments (Note 3)	6,422	2,068	69,054
Notes and accounts receivable, trade	134,409	97,890	1,445,258
Less allowance for doubtful receivables	(1,237)	(1,543)	(13,301)
Inventories (Note 4)	105,529	106,669	1,134,720
Deferred tax assets (Note 7)	10,258	7,872	110,301
Other current assets	32,347	31,688	347,817
<b>Total current assets</b>	<b>411,167</b>	<b>369,590</b>	<b>4,421,151</b>
Non-current assets:			
Property, plant and equipment, at cost (Notes 5, 9 and 15):			
Land	37,581	36,831	404,097
Buildings and structures	187,951	182,920	2,020,978
Machinery, vehicles and equipment	565,060	554,012	6,075,914
Construction in progress	7,225	10,167	77,688
	797,818	783,932	8,578,688
Less accumulated depreciation	(560,067)	(534,210)	(6,022,226)
Property, plant and equipment, net	237,750	249,721	2,556,452
Goodwill	2,548	3,245	27,398
Investments in non-consolidated subsidiaries and affiliates	17,642	16,136	189,699
Investment securities (Notes 3 and 9)	58,191	42,705	625,710
Deferred tax assets (Note 7)	2,917	2,953	31,366
Prepaid pension cost (Note 11)	44,247	45,191	475,774
Other non-current assets	15,159	14,684	163,000
<b>Total non-current assets</b>	<b>378,456</b>	<b>374,638</b>	<b>4,069,419</b>
<b>Total assets</b>	<b>¥ 789,624</b>	<b>¥744,229</b>	<b>\$ 8,490,581</b>

As of March 31,	Millions of yen	2009	Thousands of U.S. dollars (Note 2)
	<b>2010</b>		<b>2010</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Short-term debt (Notes 6 and 9)	¥ 65,191	¥ 77,796	\$ 700,978
Current portion of long-term debt (Note 9)	31,175	19,378	335,215
Notes and accounts payable (Note 9)	114,552	74,006	1,231,742
Accrued income taxes (Note 7)	4,347	1,915	46,742
Accrued expenses and other current liabilities (Notes 8 and 10)	42,439	37,225	456,333
<b>Total current liabilities</b>	<b>257,706</b>	<b>210,322</b>	<b>2,771,032</b>
Long-term liabilities:			
Long-term debt (Note 9)	208,570	225,990	2,242,688
Accrued employees' retirement benefits (Note 11)	22,948	25,170	246,753
Accrued officers' retirement benefits	1,541	1,439	16,570
Deferred tax liabilities (Note 7)	22,811	19,116	245,280
Other long-term liabilities (Note 10)	11,356	13,402	122,108
<b>Total long-term liabilities</b>	<b>267,229</b>	<b>285,119</b>	<b>2,873,430</b>
Net assets:			
Shareholders' equity (Notes 12, 18 and 22):			
Common stock, without par value:			
Authorized:			
2010 – 1,700,000,000 shares			
2009 – 1,700,000,000 shares			
Issued:			
2010 – 551,268,104 shares	67,176	—	722,323
2009 – 551,268,104 shares	—	67,176	—
Additional paid-in capital	78,330	78,324	842,258
Retained earnings	134,902	134,455	1,450,559
Less treasury stock, at cost	(4,160)	(4,149)	(44,731)
<b>Total shareholders' equity</b>	<b>276,248</b>	<b>275,807</b>	<b>2,970,409</b>
Valuation, translation adjustments and other:			
Unrealized holding gain on securities	13,701	5,528	147,323
Translation adjustments	(42,007)	(47,940)	(451,688)
<b>Total valuation, translation adjustments and other</b>	<b>(28,306)</b>	<b>(42,412)</b>	<b>(304,366)</b>
Share subscription rights	423	289	4,548
Minority interests	16,323	15,102	175,516
<b>Total net assets</b>	<b>264,688</b>	<b>248,787</b>	<b>2,846,108</b>
<b>Total liabilities and net assets</b>	<b>¥789,624</b>	<b>¥744,229</b>	<b>\$8,490,581</b>

See accompanying notes to the consolidated financial statements.

# > CONSOLIDATED STATEMENTS OF INCOME

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
Net sales	¥587,572	¥647,593	\$6,317,978
Cost of sales (Notes 5 and 13)	482,743	522,010	5,190,785
Gross profit	104,829	125,583	1,127,194
Selling, general and administrative expenses (Notes 5, 13 and 21)	93,524	103,476	1,005,634
Operating income	11,305	22,106	121,559
Other income (expenses):			
Interest and dividend income	1,936	3,209	20,817
Interest expense	(5,441)	(6,117)	(58,505)
Equity in earnings of affiliates	2,984	2,200	32,086
Product compensation	(4,516)	(2,126)	(48,559)
Net foreign exchange losses	—	(1,949)	—
Gain on sales of property, plant and equipment	—	528	—
Loss on devaluation of investment securities	—	(3,851)	—
Restructuring charges	(1,263)	(3,310)	(13,581)
Other, net	1,331	(359)	14,312
	(4,970)	(11,776)	(53,441)
Income before income taxes and minority interests	6,335	10,330	68,118
Income taxes (Note 7):			
Current	5,030	6,013	54,086
Deferred	(4,211)	(1,125)	(45,280)
	819	4,887	8,806
Minority interests in income of consolidated subsidiaries	750	881	8,065
Net income (Note 18)	¥ 4,765	¥ 4,561	\$ 51,237

See accompanying notes to the consolidated financial statements.

# > CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
<b>COMMON STOCK</b>			
Beginning balance	¥ 67,176	¥ 67,176	\$ 722,323
Ending balance	¥ 67,176	¥ 67,176	\$ 722,323
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Beginning balance	¥ 78,324	¥ 78,304	\$ 842,194
Disposition of treasury stock	5	19	54
Ending balance	¥ 78,330	¥ 78,324	\$ 842,258
<b>RETAINED EARNINGS</b>			
Beginning balance	¥134,455	¥154,846	\$1,445,753
Effect of application of ASBJ Practical Issues Task Force No. 18	—	(17,378)	—
Net income	4,765	4,561	51,237
Cash dividends applicable to the year	(4,327)	(7,574)	(46,527)
Effect of changes in fiscal year-end of certain consolidated subsidiaries (Note 1)	9	—	97
Ending balance	¥134,902	¥134,455	\$1,450,559
<b>TREASURY STOCK</b>			
Beginning balance	¥ (4,149)	¥ (4,134)	\$ (44,613)
Net change during the year	(11)	(14)	(118)
Ending balance	¥ (4,160)	¥ (4,149)	\$ (44,731)
<b>TOTAL SHAREHOLDERS' EQUITY</b>			
Beginning balance	¥275,807	¥296,193	\$2,965,667
Effect of application of ASBJ Practical Issues Task Force No. 18	—	(17,378)	—
Net change during the year	441	(3,007)	4,742
Ending balance	¥276,248	¥275,807	\$2,970,409
<b>UNREALIZED HOLDING GAIN ON SECURITIES</b>			
Beginning balance	¥ 5,528	¥ 18,216	\$ 59,441
Net change during the year	8,172	(12,687)	87,871
Ending balance	¥ 13,701	¥ 5,528	\$ 147,323
<b>TRANSLATION ADJUSTMENTS</b>			
Beginning balance	¥ (47,940)	¥ (21,586)	\$ (515,484)
Net change during the year	5,932	(26,354)	63,785
Ending balance	¥ (42,007)	¥ (47,940)	\$ (451,688)
<b>UNFUNDED RETIREMENT BENEFIT OBLIGATIONS OF CERTAIN FOREIGN SUBSIDIARIES</b>			
Beginning balance	¥ —	¥ (24,909)	\$ —
Effect of application of ASBJ Practical Issues Task Force No. 18	—	24,909	—
Net change during the year	—	—	—
Ending balance	¥ —	¥ —	\$ —
<b>TOTAL VALUATION, TRANSLATION ADJUSTMENTS AND OTHER</b>			
Beginning balance	¥ (42,412)	¥ (28,279)	\$ (456,043)
Effect of application of ASBJ Practical Issues Task Force No. 18	—	24,909	—
Net change during the year	14,105	(39,042)	151,667
Ending balance	¥ (28,306)	¥ (42,412)	\$ (304,366)
<b>SHARE SUBSCRIPTION RIGHTS</b>			
Beginning balance	¥ 289	¥ 170	\$ 3,108
Net change during the year	133	118	1,430
Ending balance	¥ 423	¥ 289	\$ 4,548
<b>MINORITY INTERESTS</b>			
Beginning balance	¥ 15,102	¥ 15,690	\$ 162,387
Net change during the year	1,221	(588)	13,129
Ending balance	¥ 16,323	¥ 15,102	\$ 175,516
<b>TOTAL NET ASSETS</b>	<b>¥264,688</b>	<b>¥248,787</b>	<b>\$2,846,108</b>

See accompanying notes to the consolidated financial statements.

# > CONSOLIDATED STATEMENTS OF CASH FLOWS

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
<b>OPERATING ACTIVITIES</b>			
Income before income taxes and minority interests	¥ 6,335	¥ 10,330	\$ 68,118
Depreciation and amortization	37,149	39,729	399,452
Decrease in provision for retirement benefits	(943)	(4,262)	(10,140)
Amortization of goodwill	866	701	9,312
Interest expense	5,441	6,117	58,505
(Increase) decrease in notes and accounts receivable, trade	(36,523)	34,159	(392,720)
Decrease (increase) in inventories, net	2,178	(14,590)	23,419
Increase (decrease) in notes and accounts payable	41,112	(55,167)	442,065
Other, net	(4,713)	6,176	(50,677)
Subtotal	50,902	23,193	547,333
Interest and dividends received	3,276	10,494	35,226
Interest paid	(5,554)	(6,023)	(59,720)
Income taxes paid	2,483	(15,878)	26,699
Net cash provided by operating activities	51,108	11,785	549,548
<b>INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment	(22,053)	(50,795)	(237,129)
Proceeds from sales of property, plant and equipment	930	1,207	10,000
Acquisition of minority interests	(413)	—	(4,441)
(Increase) decrease in investment securities, net	(1,255)	883	(13,495)
Other, net	(6,564)	2,283	(70,581)
Net cash used in investing activities	(29,355)	(46,422)	(315,645)
<b>FINANCING ACTIVITIES</b>			
(Decrease) increase in short-term debt, net	(11,874)	10,496	(127,677)
Repayment of bonds	(7,000)	(10,000)	(75,269)
(Decrease) increase in long-term debt, net	(1,528)	61,378	(16,430)
Cash dividends paid	(4,335)	(10,816)	(46,613)
Acquisition of treasury stock	(22)	(64)	(237)
Other, net	(196)	(464)	(2,108)
Net cash (used in) provided by financing activities	(24,956)	50,529	(268,344)
Effect of exchange rate changes on cash and cash equivalents	1,219	(4,175)	13,108
Net (decrease) increase in cash and cash equivalents	(1,984)	11,718	(21,333)
Cash and cash equivalents at beginning of the year	124,944	113,226	1,343,484
Increase in cash and cash equivalents resulting from changes			
in fiscal year-end of certain consolidated subsidiaries	477	—	5,129
Cash and cash equivalents at end of the year	¥123,437	¥ 124,944	\$ 1,327,280

See accompanying notes to the consolidated financial statements.



# > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NSK Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

NSK Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile. With regard to foreign subsidiaries, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18) has been applied, effective from the year ended March 31, 2009, and as a result certain adjustments have been made to the consolidated financial statements.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Financial Instruments and Exchange Law of Japan and have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

### (b) Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Significant companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant inter-company balances and transactions have been eliminated in consolidation.

Investments in subsidiaries which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

Effective from the year ended March 31, 2010, 2 consolidated subsidiaries changed their fiscal year-ends from December 31 to March 31.

Certain subsidiaries are still consolidated on the basis of fiscal periods ending December 31, which differs from the year end of the Company; any significant effects of this difference in fiscal periods have been adjusted appropriately in consolidation.

Goodwill is being amortized by the straight-line method over a period of 10 years except for immaterial amounts which have been charged or credited to income in the year incurred.

In consolidating the financial statements of NSK Brasil Ltda. ("NSK Brazil"), the amount of the Company's investment in NSK Brazil has been offset against the adjusted amount of NSK Brazil's shareholders' equity as of March 31, 1997 based on the indexation accounting system.

### (c) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates, except for assets and liabilities hedged by forward foreign exchange contracts.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains and losses are credited or charged to income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding minority interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year.

### (d) Cash Equivalents

The Company and its consolidated subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### (e) Securities

In general, securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Securities held by the Company and its subsidiaries are classified as either held-to-maturity or other securities. Held-to-maturity securities are carried at amortized cost. Other securities with a determinable market value are stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Other securities without a determinable market value are stated at cost. Cost of securities sold is determined by the moving average method.

### (f) Inventories

Finished products are stated at cost, cost being determined principally by the weighted average method (the book value stated on the balance sheet is based on valuation for decreased profitability). Work in process is stated at cost determined principally by the weighted average method (the book value stated on the balance sheet is based on valuation for decreased profitability). Supplies are stated at cost determined by the moving average method (the book value stated on the balance sheet is based on valuation for decreased profitability). Raw materials are stated at cost determined principally by the weighted average method (the book value

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

stated on the balance sheet is based on valuation for decreased profitability).

### **(g) Property, Plant and Equipment and Depreciation**

Depreciation of property, plant and equipment is determined mainly by the declining-balance method at rates based on the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are summarized as follows:

Buildings	20 to 50 years
Machinery, vehicles and equipment	3 to 10 years

### **(h) Leases**

Non-cancelable leases, excluding leases which stipulate the transfer of ownership of the leased assets to the lessee (regardless of whether such leases are classified as operating or finance leases) are accounted for by the straight-line method, using the lease term as the useful life and recognizing zero residual value.

The finance lease transactions, where the ownership of the leased asset does not move to the lessee, and which started on and before the start of the initial year of the new accounting rule's application, are accounted for according to the previous accounting rules.

### **(i) Retirement Benefits**

Accrued employees' retirement benefits or prepaid pension cost are recorded mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized, primarily by the straight-line method and principally over 10 years. Certain foreign subsidiaries adopt the corridor approach for the amortization of actuarial gain and loss. Prior service cost is amortized as incurred by the straight-line method principally over 10 years.

Members of the Board of Directors and executive officers of the Company are customarily entitled to severance payments. Provisions for retirement benefits for them are made at estimated amounts.

### **(j) Accrual for Environmental Safety Measures Expenses**

Accrual for environmental safety measures expenses is provided for at an estimated amount of disposal of polychlorinated biphenyl (PCB).

### **(k) Income Taxes**

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

### **(l) Research and Development Costs**

Research and development costs are charged to income when incurred.

### **(m) Distribution of Retained Earnings**

Dividends and other distributions of retained earnings are resolved by the Board of Directors held subsequent to the end of the fiscal year, and are reported to the shareholders at a meeting. The accompanying consolidated financial statements reflect the applicable distributions of retained earnings as resolved by the Board of Directors subsequent to the fiscal year end.

### **(n) Derivative Financial Instruments and Hedging Activities**

All derivatives are stated at fair value with any changes in fair value included in net income for the period in which they arise, except for derivatives which meet the criteria for hedged accounting under which realized gain or loss, net applicable income taxes, is deferred as a component of net assets. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

### **(o) Changes in Accounting Standards**

#### **(Application of the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)")**

Effective from the year ended March 31, 2010, the "Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19) as issued on July 31, 2008 has been applied.

This application has no impact on income.

**(Application of the new “Accounting Standard for Measurement of Inventories”)**

Effective from the year ended March 31, 2009, the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9) as issued on July 5, 2006 has been applied.

The effect of this application on income for the year ended March 31, 2009 was immaterial.

**(Application of the new “Accounting Standard for Lease Transactions”)**

Effective from the year ended March 31, 2009, the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 (as issued by the First Subcommittee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guideline No. 16 (as issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised on March 30, 2007) have been applied. As a result, lease transactions from the effective date are accounted for according to accounting methods for typical purchase transactions.

This application had no impact on income for the year ended March 31, 2009.

**(Application of the new “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”)**

Effective from the year ended March 31, 2009, the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18) has been applied, and accordingly some revisions have been made to consolidated accounts as necessary.

The effect of this application on income for the year ended March 31, 2009 was immaterial.

This application caused a decrease in retained earnings of ¥17,378 million due mainly to a transfer of unfunded retirement benefits obligations of overseas subsidiaries, which was previously stated as “valuation, translation adjustments and other”.

**2. U.S. DOLLAR AMOUNTS**

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at the rate of ¥93 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2010. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

**3. SECURITIES**

(a) Information regarding marketable securities classified as held-to-maturity, which were included in Short-term investments and Investments securities, as of March 31, 2010 and 2009 is as follows:

As of March 31, 2010	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:						
Government bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Corporate bonds	2,496	2,521	24	26,839	27,108	258
Other debt securities	—	—	—	—	—	—
Subtotal	2,496	2,521	24	26,839	27,108	258
Securities whose carrying value exceeds their fair value:						
Government bonds	—	—	—	—	—	—
Corporate bonds	500	499	(0)	5,376	5,366	(0)
Other debt securities	—	—	—	—	—	—
Subtotal	500	499	(0)	5,376	5,366	(0)
Total	¥2,996	¥3,020	¥24	\$32,215	\$32,473	\$258

> NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2009	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ —	¥ —	¥ —
Corporate bonds	896	905	8
Other debt securities	499	500	0
Subtotal	1,396	1,405	9
Securities whose carrying value exceeds their fair value:			
Government bonds	—	—	—
Corporate bonds	3,887	3,734	(152)
Other debt securities	—	—	—
Subtotal	3,887	3,734	(152)
Total	¥5,283	¥5,140	¥ (142)

(b) Information regarding marketable securities classified as other securities, which were included in Short-term investments and Investments securities, as of March 31, 2010 and 2009 is as follows:

As of March 31, 2010	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥ 46,879	¥17,924	¥28,955	\$ 504,075	\$192,731	\$311,344
Bonds:						
Government bonds	—	—	—	—	—	—
Corporate bonds	45	45	0	484	484	0
Other debt securities	—	—	—	—	—	—
Other	9	9	0	97	97	0
Subtotal	46,934	17,978	28,956	504,667	193,312	311,355
Securities whose acquisition cost exceeds their carrying value:						
Stock	5,367	6,775	(1,407)	57,710	72,849	(15,129)
Bonds:						
Government bonds	8,007	8,007	—	86,097	86,097	—
Corporate bonds	9,995	9,995	—	107,473	107,473	—
Other debt securities	11	11	—	118	118	—
Other	30,191	30,195	(4)	324,634	324,677	(43)
Subtotal	53,574	54,986	(1,412)	576,065	591,247	(15,183)
Total	¥100,508	¥72,964	¥27,543	\$1,080,731	\$784,559	\$296,161

Millions of yen			
As of March 31, 2009	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥31,621	¥15,028	¥16,593
Bonds:			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other debt securities	—	—	—
Other	—	—	—
Subtotal	31,621	15,028	16,593
Securities whose acquisition cost exceeds their carrying value:			
Stock	6,376	9,137	(2,761)
Bonds:			
Government bonds	9	9	—
Corporate bonds	42	45	(2)
Other debt securities	11	11	—
Other	54	71	(17)
Subtotal	6,494	9,275	(2,781)
Total	¥ 38,116	¥24,304	¥13,812

Acquisition cost in the tables above represents the book value after the devaluation of certain securities.

(c) Information regarding sales of securities classified as other securities for the years ended March 31, 2010 and 2009 is as follows:

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Proceeds from sales	¥23	¥1,860	\$247
Gains on sales	17	—	183
Losses on sales	—	15	—

(d) The redemption schedule for securities with maturity dates classified as held-to-maturity securities and other securities at March 31, 2009 are summarized as follows.

Please refer to "17. Financial Instruments" for the redemption schedule for securities with maturity dates classified as held-to-maturity securities and other securities at March 31, 2010.

As of March 31, 2009	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Government bonds	¥ 10	¥ —	¥ —	¥ —
Corporate bonds	1,299	2,539	488	500
Other debt securities	500	—	—	—
Total	¥1,810	¥2,539	¥488	¥500

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. INVENTORIES

Inventories at March 31, 2010 and 2009 are as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished products	¥ 59,356	¥ 60,965	\$ 638,237
Work in process	35,341	34,926	380,011
Raw materials and supplies	10,831	10,777	116,462
<b>Total</b>	<b>¥105,529</b>	<b>¥106,669</b>	<b>\$1,134,720</b>

### 5. DEPRECIATION

Depreciation of property, plant and equipment for the years ended March 31, 2010 and 2009 amounted to ¥35,627 million (\$383,086 thousand) and ¥38,452 million, respectively.

### 6. SHORT-TERM DEBT

At March 31, 2010 and 2009, short-term debt consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Bank loans	¥65,191	¥77,796	\$700,978
<b>Total</b>	<b>¥65,191</b>	<b>¥77,796</b>	<b>\$700,978</b>

Short-term bank loans are unsecured and the interest rates applicable to the loans at March 31, 2010 and 2009 ranged principally from 0.55 percent to 9.75 percent and from 0.63 percent to 15.75 percent, respectively.

### 7. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 40.5 percent for both 2010 and 2009. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2010 and 2009 differ from the statutory tax rate for the following reasons:

Year ended March 31,	2010	2009
Statutory tax rates	40.5%	40.5%
Effect of:		
Expenses not deductible for income tax purposes	18.5	15.0
Income not recognizable for income tax purposes	(22.1)	—
Elimination of dividend income	7.2	14.7
Unrecognized losses of subsidiaries	16.4	19.7
Different tax rates applied to income of foreign subsidiaries	(30.0)	(20.9)
Equity in earnings of affiliated companies	(19.9)	(8.7)
Undistributed earnings	—	(25.6)
Inventories	—	15.4
Other, net	2.3	(2.8)
<b>Effective tax rates</b>	<b>12.9%</b>	<b>47.3%</b>



The significant components of deferred tax assets and liabilities as of March 31, 2010 and 2009 are as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
<b>Deferred tax assets:</b>			
Accrued retirement benefits	¥ 12,103	¥ 10,185	\$ 130,140
Property, plant and equipment	1,892	2,135	20,344
Accrual payroll expenses	2,223	3,344	23,903
Net loss carried-forward	17,597	13,118	189,215
Accrued bonuses	3,802	3,533	40,882
Inventories	1,355	1,211	14,570
Loss on devaluation of investment securities	580	515	6,237
Other	7,464	7,444	80,258
Valuation allowance	(20,379)	(18,932)	(219,129)
<b>Total deferred tax assets</b>	<b>26,640</b>	<b>22,556</b>	<b>286,452</b>
<b>Deferred tax liabilities:</b>			
Depreciation	(949)	(1,754)	(10,204)
Reserve for advanced depreciation of fixed assets	(2,529)	(2,573)	(27,194)
Unrealized holding gain on securities	(10,623)	(5,076)	(114,226)
Gain on contribution of securities to employees' retirement benefit trust	(13,010)	(13,010)	(139,892)
Other	(9,209)	(8,477)	(99,022)
<b>Total deferred tax liabilities</b>	<b>(36,323)</b>	<b>(30,893)</b>	<b>(390,570)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>¥ (9,683)</b>	<b>¥ (8,336)</b>	<b>\$(104,118)</b>

## 8. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

At March 31, 2010 and 2009, accrued expenses and other current liabilities consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Accrued bonuses	¥11,120	¥ 9,650	\$119,570
Dividends payable	2,197	2,204	23,624
Other	29,121	25,369	313,129
<b>Total</b>	<b>¥42,439</b>	<b>¥37,225</b>	<b>\$456,333</b>

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 9. LONG-TERM DEBT

At March 31, 2010 and 2009, long-term debt consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Secured loans from banks, insurance companies and others, due through 2023 at interest rates ranging from 1.55 percent to 8.5 percent	¥ 187	¥ 108	\$ 2,011
Unsecured loans from banks, insurance companies and others, due through 2020 at interest rates ranging from 1.16 percent to 5.18 percent	119,258	118,260	1,282,344
Unsecured yen bonds:			
At interest rates ranging from 1.28 percent to 2.26 percent, due through 2017	120,300	127,000	1,293,548
	239,746	245,369	2,577,914
Less current portion	(31,175)	(19,378)	(335,215)
Total	¥208,570	¥225,990	\$2,242,688

The aggregate annual maturities of long-term debt subsequent to March 31, 2010 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 31,175	\$ 335,215
2012	46,485	499,839
2013	42,855	460,806
2014	41,260	443,656
2015 and thereafter	77,968	838,366
Total	¥239,746	\$2,577,914

The assets pledged as collateral for notes and accounts payable, short-term debt and long-term debt at March 31, 2010 are as follows:

As of March 31, 2010	Millions of yen	Thousands of U.S. dollars
Investment securities	¥ 95	\$1,022
Property, plant and equipment, at net book value	499	5,366
Total	¥594	\$6,387

### 10. LEASE OBLIGATIONS

At March 31, 2010 and 2009, lease obligations consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current portion of lease obligations	¥ 514	¥ 230	\$ 5,527
Lease obligations, less current portion, due through 2016	1,027	1,290	11,043
Total	¥1,541	¥1,521	\$16,570

The aggregate annual maturities of lease obligations subsequent to March 31, 2011 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥ 201	\$ 2,161
2013	621	6,677
2014	157	1,688
2015	41	441
2016	5	54
<b>Total</b>	<b>¥1,027</b>	<b>\$11,043</b>

## 11. RETIREMENT BENEFIT PLANS

The Company and its domestic subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain foreign subsidiaries also have defined benefit pension plans.

The following tables set forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2010 and 2009 for the Company's and the subsidiaries' defined benefit plans:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Retirement benefit obligation	¥(145,582)	¥(132,278)	\$(1,565,398)
Plan assets at fair value	143,853	123,775	1,546,806
Unfunded retirement benefit obligation	(1,728)	(8,503)	(18,581)
Unrecognized actuarial loss	26,645	33,022	286,505
Unrecognized prior service cost	(3,618)	(4,499)	(38,903)
Net retirement benefit obligation	21,298	20,020	229,011
Prepaid pension cost	44,247	45,191	475,774
Accrued retirement benefits	¥ (22,948)	¥ (25,170)	\$ (246,753)

The components of retirement benefit expenses for the years ended March 31, 2010 and 2009 are outlined as follows:

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 3,913	¥ 4,534	\$ 42,075
Interest cost	4,742	2,631	50,989
Expected return on plan assets	(4,430)	(3,230)	(47,634)
Amortization of actuarial gain or loss	3,394	79	36,495
Amortization of prior service cost	(419)	(549)	(4,505)
Net period retirement benefit costs	7,200	3,466	77,419
Contribution to defined contribution plans	629	622	6,763
<b>Total</b>	<b>¥ 7,829</b>	<b>¥ 4,088</b>	<b>\$ 84,183</b>

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

Year ended March 31,	2010	2009
Discount rate	Mainly 2.2%	Mainly 2.2%
Expected rate of return on plan assets	Mainly 2.2%	Mainly 2.2%

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 12. SHAREHOLDERS' EQUITY

The Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve

and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

### 13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2010 and 2009 amounted to ¥8,794 million (\$94,559 thousand) and ¥10,691 million, respectively.

### 14. COMMITMENTS AND CONTINGENCIES

(a) At March 31, 2010, the Company and its subsidiaries had the following contingent liabilities:

As of March 31, 2010	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness of:		
Employees	¥ 46	\$ 495
Affiliated companies	103	1,108
<b>Total</b>	<b>¥149</b>	<b>\$1,602</b>

(b) Factored receivables for the years ended March 31, 2010 and 2009 amounted to ¥9,373 million (\$100,785 thousand) and ¥6,222 million, respectively.

### 15. LEASES

#### (a) Finance Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2010 and 2009, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition costs:			
Machinery, vehicles and equipment	¥3,499	¥4,462	\$37,624
Other assets	318	437	3,419
<b>Total</b>	<b>¥3,817</b>	<b>¥4,899</b>	<b>\$41,043</b>
Accumulated depreciation:			
Machinery, vehicles and equipment	¥2,667	¥2,861	\$28,677
Other assets	219	250	2,355
<b>Total</b>	<b>¥2,887</b>	<b>¥3,112</b>	<b>\$31,043</b>
Net book value:			
Machinery, vehicles and equipment	¥ 831	¥1,600	\$ 8,935
Other assets	98	187	1,054
<b>Total</b>	<b>¥ 929</b>	<b>¥1,787</b>	<b>\$ 9,989</b>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥717 million (\$7,710 thousand) and ¥938 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the lease terms, for the years ended March 31, 2010 and 2009, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥393	\$4,226
2012 and thereafter	536	5,763
Total	¥929	\$9,989

### (b) Operating Leases

Future minimum lease payments subsequent to March 31, 2010 for noncancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 949	\$10,204
2012 and thereafter	2,725	29,301
Total	¥3,675	\$39,516

## 16. DERIVATIVE TRANSACTIONS

The Company and certain subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates.

The Company is exposed to credit risk in the event of nonperformance of the counterparties to its derivatives positions, but any such loss would not be material because the Company enters into such transactions only with financial institutions with high credit ratings.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding at March 31, 2010 and 2009:

### (a) Derivative transactions which have not been accounted for as hedges

#### (1) Currency-related transactions

As of March 31, 2010	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Transactions, excluding market transactions						
Forward foreign exchange contracts						
Sell:						
US\$	¥ 111	¥ (0)	¥ (0)	\$ 1,194	\$ (0)	\$ (0)
STG£	76	(2)	(2)	817	(22)	(22)
YEN	350	(6)	(6)	3,763	(65)	(65)
Buy:						
US\$	¥ 120	¥ (0)	¥ (0)	\$ 1,290	\$ (0)	\$ (0)
STG£	45	(0)	(0)	484	(0)	(0)
A\$	47	(0)	(0)	505	(0)	(0)
YEN	3,799	(111)	(111)	40,849	(1,194)	(1,194)
Total	¥4,552	¥(121)	¥(121)	\$48,946	\$(1,301)	\$(1,301)

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2009	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Transactions, excluding market transactions			
Forward foreign exchange contracts			
Sell:			
US\$	¥ 82	¥ 82	¥ 0
STG£	9	9	(0)
YEN	19	19	0
Buy:			
US\$	¥ 27	¥ 26	¥ (1)
STG£	104	102	(1)
A\$	32	34	1
YEN	2,322	2,256	(65)
<b>Total</b>	<b>¥2,598</b>	<b>¥2,531</b>	<b>¥(66)</b>

The notional amounts of the forward foreign exchange contracts presented above exclude those entered into hedge receivables and payables denominated in foreign currencies, which have been translated and are reflected at their corresponding contracted rates in the accompanying consolidated balance sheets.

### (2) Interest-related transactions

As of March 31, 2010	Millions of yen			
	Notional amount	Notional amount due after one year	Fair value	Unrealized gain (loss)
Transactions, excluding market transactions				
Interest swap transactions				
Fixed interest payment / Floating interest receivable	¥1,115	¥1,115	¥(22)	¥(22)
<b>Total</b>	<b>¥1,115</b>	<b>¥1,115</b>	<b>¥(22)</b>	<b>¥(22)</b>

As of March 31, 2010	Thousands of U.S. dollars			
	Notional amount	Notional amount due after one year	Fair value	Unrealized gain (loss)
Transactions, excluding market transactions				
Interest swap transactions				
Fixed interest payment / Floating interest receivable	\$11,989	\$11,989	\$(237)	\$(237)
<b>Total</b>	<b>\$11,989</b>	<b>\$11,989</b>	<b>\$(237)</b>	<b>\$(237)</b>

### (b) Derivative transactions which have been accounted for as hedges

#### (1) Currency-related transactions

As of March 31, 2010	Millions of yen		Thousands of U.S. dollars	
	Notional amount	Fair value	Notional amount	Fair value
Transactions, excluding market transactions				
Allocation method				
Forward foreign exchange contracts				
Sell:				
US\$	¥12,455	(Note)	\$133,925	(Note)
EUR	7,679	(Note)	82,570	(Note)
C\$	218	(Note)	2,344	(Note)
A\$	501	(Note)	5,387	(Note)
Buy:				
US\$	911	(Note)	9,796	(Note)
<b>Total</b>	<b>¥21,766</b>	<b>—</b>	<b>\$234,043</b>	<b>—</b>

(Note) Forward foreign exchange contracts accounted for by the allocation method are included in the respective accounts receivable and accounts payable, so the fair value is included in the fair value of the corresponding receivables and payables.



## 17. FINANCIAL INSTRUMENTS

### 1. Matters relating to financial instruments

The Company and its consolidated subsidiaries (collectively, the "Group") mainly raises necessary operating funds and funds for equipments by bank loans and bond issuances. The Group manages temporary cash surpluses through low-risk financial assets.

Notes and accounts receivable are affected by the credit risk of its customers. To quickly identify and mitigate the risk, the sales division regularly monitors the financial position of its customers.

Investment securities are mainly stocks and held-to-maturity securities. Regarding the market price risk of investment securities, the Group monitors the fair value of such securities periodically.

In order to mitigate the foreign currency exchange fluctuation risk, the Group manages the balances of receivables and payables denominated in foreign currencies, and enters into forward foreign exchange contracts in accordance with the internal rules. In order to mitigate the interest rate risk for loans at variable interest rates, the Group also enters into interest rate swap transactions.

### 2. Matters relating to fair values, etc. of financial instruments

Carrying value of financial instruments on the consolidated balance sheet as of March 31, 2010 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (please refer to Note 2).

As of March 31, 2010	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
(1) Cash and cash equivalents	¥ 78,421	¥ 78,421	¥ —	\$ 843,237	\$ 843,237	\$ —
(2) Notes and accounts receivable	133,172	133,172	—	1,431,957	1,431,957	—
(3) Securities and investment securities						
1) Held-to-maturity securities	2,996	3,020	24	32,215	32,473	258
2) Other securities	100,508	100,508	—	1,080,731	1,080,731	—
<b>Total assets</b>	<b>¥315,099</b>	<b>¥315,123</b>	<b>¥ 24</b>	<b>\$3,388,161</b>	<b>\$3,388,419</b>	<b>\$ 258</b>
(1) Notes and accounts payable	¥114,552	¥114,552	¥ —	\$1,231,742	\$1,231,742	\$ —
(2) Short-term loans	65,191	65,191	—	700,978	700,978	—
(3) Bonds <sup>1</sup>	120,300	123,070	2,770	1,293,548	1,323,333	29,785
(4) Long-term loans <sup>1</sup>	119,446	120,727	1,281	1,284,366	1,298,140	13,774
<b>Total liabilities</b>	<b>¥419,490</b>	<b>¥423,542</b>	<b>¥4,052</b>	<b>\$4,510,645</b>	<b>\$4,554,215</b>	<b>\$43,570</b>
Derivatives <sup>2</sup>	¥ (144)	¥ (144)	¥ —	\$ (1,548)	\$ (1,548)	\$ —

1 Bonds and long-term loans include debts due within one year.

2 Derivative transactions are shown at the net value of assets and liabilities. When the net value is a liability, the amount is shown in parentheses.

(Note 1) The calculation method of the estimated fair value of financial instruments and securities and derivative transactions

#### Assets

(1) Cash and cash equivalents and (2) Notes and accounts receivable

Since these items are settled in a short term, their carrying value approximates fair value.

(3) Securities and investment securities

The carrying value of securities settled in a short term approximates fair value. The fair value of stocks is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities.

#### Liabilities

(1) Notes and accounts payable and (2) Short-term loans

Since these items are settled in a short term, their carrying value approximates fair value.

#### (3) Bonds

The fair value of bonds is based on either the quoted market price or present value of the total of principal and interest discounted by an interest rate determined taking into account the remaining period of each bond and current credit risk.

(4) Long-term loans

The fair value of long-term loans is based on the present value of the total of principal and interest discounted by an interest rate determined taking into account the remaining period of each loan and current credit risk.

For the fair value of long-term loans at variable interest rates, as the market value are nearly identical to the carrying value, the carrying value is used.

#### Derivatives

The fair value of derivatives is based on prices provided by the financial institutions making markets in these derivatives. Forward foreign exchange contracts accounted for by the allocation method are included in accounts receivable, so the fair value is included in the corresponding receivables.

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Note 2) Financial instruments for which it is extremely difficult to determine fair value as of March 31, 2010

As of March 31, 2010	Millions of yen	Thousands of U.S. dollars
	Carrying value	Carrying value
Investments in non-consolidated subsidiaries and affiliated companies	¥17,642	\$189,699
Unlisted stocks	¥ 4,124	\$ 44,344

As these items do not have market value and their future cash flows cannot be estimated, determining their estimated fair value was deemed to be extremely difficult. Therefore, they are not included in "(3) Securities and investment securities."

(Note 3) Redemption schedule for financial receivables and securities with maturity dates after March 31, 2010

As of March 31, 2010	Millions of yen				Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 78,402	¥ —	¥ —	¥ —	\$ 843,032	\$ —	\$ —	\$ —
Notes and accounts receivable	134,409	—	—	—	1,445,258	—	—	—
Securities and investments securities								
Held-to-maturity securities (Corporate bonds)	1,299	1,196	—	500	13,968	12,860	—	5,376
Other securities with maturities (Government bonds)	7,997	—	9	—	85,989	—	97	—
Other securities with maturities (Corporate bonds)	9,995	45	—	—	107,473	484	—	—
Other securities with maturities (Other)	21,801	10	—	—	234,419	108	—	—
<b>Total</b>	<b>¥253,907</b>	<b>¥1,251</b>	<b>¥ 9</b>	<b>¥500</b>	<b>\$ 2,730,183</b>	<b>\$13,452</b>	<b>\$97</b>	<b>\$5,376</b>

(Note 4) Redemption schedule of corporate bonds and long-term loans after March 31, 2010

As of March 31, 2010	Millions of yen						Thousands of U.S. dollars					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bonds	¥25,000	¥30,300	¥30,000	¥ —	¥15,000	¥20,000	\$268,817	\$325,806	\$322,581	\$ —	\$161,290	\$215,054
Long-term loans	6,175	16,185	12,855	41,260	15,417	27,551	66,398	174,032	138,226	443,656	165,774	296,247
<b>Total</b>	<b>¥31,175</b>	<b>¥46,485</b>	<b>¥42,855</b>	<b>¥ 41,260</b>	<b>¥30,417</b>	<b>¥47,551</b>	<b>\$335,215</b>	<b>\$499,839</b>	<b>\$460,806</b>	<b>\$443,656</b>	<b>\$327,065</b>	<b>\$511,301</b>

(Additional information)

Effective from the year ended March 31, 2010, the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19) as issued on March 10, 2008 have been applied.

## 18. AMOUNTS PER SHARE

Year ended March 31,	Yen		U.S. dollars
	2010	2009	2010
Net income:			
Basic	¥ 8.82	¥ 8.44	\$0.095
Diluted*	—	8.44	—
Net assets	458.65	431.74	4.932
Cash dividends applicable to the year	8.00	14.00	0.086

\* Diluted EPS for the year ended March 31, 2010 has not been presented because no potentially dilutive shares of common stock were outstanding.

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds and the exercise of stock options.

Amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends resolved by the Board of Directors as applicable to that year together with the interim cash dividends paid.

## 19. RELATED PARTY TRANSACTIONS

The Company purchased goods for resale in the amounts of ¥46,551 million (\$500,548 thousand) and ¥47,485 million from NSK-Warner K.K., its major affiliate, which was accounted for by the equity method for the years ended March 31, 2010 and 2009, respectively. The related payable balances at March 31, 2010 and

2009 amounted to ¥10,107 million (\$108,677 thousand) and ¥5,323 million, respectively. The purchase prices were negotiated on an arm's-length basis based on the final retail prices of the Company.

For the year ended March 31, 2010, NSK-Warner K.K. has been designated as a significant affiliate, and its summarized financial information is as follows:

NSK-Warner K.K. As of March 31, 2010	Millions of yen	Thousands of U.S. dollars
Total current assets	¥26,270	\$282,473
Total non-current assets	16,524	177,677
Total current liabilities	12,875	138,441
Total long-term liabilities	3,181	34,204
Total net assets	26,738	287,505
<hr/>		
Year ended March 31, 2010		
Net sales	¥49,265	\$529,731
Income before income taxes and minority interests	7,292	78,409
Net income	4,659	50,097

## 20. SEGMENT INFORMATION

The Company and its subsidiaries are primarily engaged in the manufacture and sales of products in the industrial machinery bearings segment, the automotive products segment and the precision machinery and parts segment. The main products in each segment are as follows:

- Industrial machinery bearings segment: includes standard ball bearings (miniature and small-sized ball bearings, normal-sized ball bearings) and bearings for general industrial use (large-sized ball bearings, tapered and cylindrical roller bearings, self-aligning roller bearings, and super precision bearings)

- Automotive products segment: includes hub unit bearings, needle roller bearings, small-sized tapered roller bearings, standard ball bearings, steering columns, electric power steering systems, and automatic transmission components
- Precision machinery and parts segment: includes ball screws, linear guides, XY tables, megatorque motors, and exposure equipment for LCD panel production
- Other segment: includes plant and equipment, steel balls and other products.

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 is summarized as follows:

Millions of yen

Year ended March 31, 2010	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥166,873	¥ 366,463	¥35,089	¥19,145	¥587,572	¥ —	¥587,572
Intersegment sales and transfers	—	—	—	15,753	15,753	(15,753)	—
Total	166,873	366,463	35,089	34,898	603,326	(15,753)	587,572
Operating expenses	161,066	348,182	42,557	35,070	586,876	(10,609)	576,267
Operating income (loss)	¥ 5,806	¥ 18,281	¥ (7,467)	¥ (171)	¥ 16,449	¥ (5,144)	¥ 11,305
Total assets	¥209,279	¥320,036	¥61,264	¥72,276	¥662,858	¥126,766	¥789,624
Depreciation	¥ 14,721	¥ 16,895	¥ 3,412	¥ 2,982	¥ 38,011	¥ (862)	¥ 37,149
Capital expenditures	¥ 7,123	¥ 11,218	¥ 2,198	¥ 1,278	¥ 21,818	¥ —	¥ 21,818

Thousands of U.S. dollars

Year ended March 31, 2010	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	\$1,794,333	\$3,940,462	\$377,301	\$205,860	\$6,317,978	\$ —	\$6,317,978
Intersegment sales and transfers	—	—	—	169,387	169,387	(169,387)	—
Total	1,794,333	3,940,462	377,301	375,247	6,487,376	(169,387)	6,317,978
Operating expenses	1,731,892	3,743,892	457,602	377,097	6,310,495	(114,075)	6,196,419
Operating income (loss)	\$ 62,430	\$ 196,570	\$ (80,290)	\$ (1,839)	\$ 176,871	\$ (55,312)	\$ 121,559
Total assets	\$2,250,312	\$3,441,247	\$658,753	\$777,161	\$7,127,505	\$1,363,075	\$8,490,581
Depreciation	\$ 158,290	\$ 181,667	\$ 36,688	\$ 32,065	\$ 408,720	\$ (9,269)	\$ 399,452
Capital expenditures	\$ 76,591	\$ 120,624	\$ 23,634	\$ 13,742	\$ 234,602	\$ —	\$ 234,602

Millions of yen

Year ended March 31, 2009	Industrial machinery bearings	Automotive products	Precision machinery and parts	Other	Total	Eliminations and other	Consolidated
Sales to third parties	¥209,530	¥352,453	¥57,491	¥28,118	¥647,593	¥ —	¥647,593
Intersegment sales and transfers	—	—	—	22,568	22,568	(22,568)	—
Total	209,530	352,453	57,491	50,687	670,162	(22,568)	647,593
Operating expenses	190,064	345,641	56,963	49,854	642,523	(17,036)	625,487
Operating income (loss)	¥ 19,466	¥ 6,812	¥ 527	¥ 832	¥ 27,638	¥ (5,531)	¥ 22,106
Total assets	¥215,403	¥280,787	¥63,300	¥73,863	¥633,353	¥110,876	¥744,229
Depreciation	¥ 15,339	¥ 18,241	¥ 3,928	¥ 3,153	¥ 40,662	¥ (932)	¥ 39,729
Capital expenditures	¥ 18,728	¥ 18,679	¥ 2,214	¥ 4,797	¥ 44,419	¥ (281)	¥ 44,138

The geographical segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 is summarized as follows:

Millions of yen

Year ended March 31, 2010	Japan	The Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥333,717	¥68,820	¥98,685	¥ 86,349	¥587,572	¥ —	¥587,572
Interarea sales and transfers	95,516	535	1,943	19,772	117,767	(117,767)	—
Total	429,233	69,355	100,629	106,121	705,340	(117,767)	587,572
Operating expenses	425,275	67,132	97,423	98,549	688,380	(112,113)	576,267
Operating income (loss)	¥ 3,958	¥ 2,223	¥ 3,205	¥ 7,572	¥ 16,959	¥ (5,653)	¥ 11,305
Total assets	¥649,696	¥57,223	¥76,388	¥118,932	¥902,240	¥(112,616)	¥789,624

Thousands of U.S. dollars

Year ended March 31, 2010	Japan	The Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	\$3,588,355	\$740,000	\$1,061,129	\$ 928,484	\$6,317,978	\$ —	\$6,317,978
Interarea sales and transfers	1,027,054	5,753	20,892	212,602	1,266,312	(1,266,312)	—
Total	4,615,409	745,753	1,082,032	1,141,086	7,584,301	(1,266,312)	6,317,978
Operating expenses	4,572,849	721,849	1,047,559	1,059,667	7,401,935	(1,205,516)	6,196,419
Operating income (loss)	\$ 42,559	\$ 23,903	\$ 34,462	\$ 81,419	\$ 182,355	\$ (60,785)	\$ 121,559
Total assets	\$6,985,978	\$615,301	\$ 821,376	\$1,278,839	\$9,701,505	\$(1,210,925)	\$8,490,581

Millions of yen

Year ended March 31, 2009	Japan	The Americas	Europe	Asia	Total	Eliminations and other	Consolidated
Sales to third parties	¥374,318	¥77,313	¥110,040	¥ 85,921	¥647,593	¥ —	¥647,593
Interarea sales and transfers	105,089	915	4,599	22,550	133,155	(133,155)	—
Total	479,408	78,229	114,640	108,471	780,749	(133,155)	647,593
Operating expenses	472,858	77,302	105,206	98,903	754,271	(128,783)	625,487
Operating income (loss)	¥ 6,550	¥ 926	¥ 9,433	¥ 9,568	¥ 26,478	¥ (4,371)	¥ 22,106
Total assets	¥625,095	¥54,933	¥ 75,425	¥101,112	¥856,566	¥(112,337)	¥744,229

## > NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, for the years ended March 31, 2010 and 2009 are summarized as follows:

Year ended March 31, 2010	Millions of yen			
	The Americas	Europe	Asia	Total
Overseas sales	¥70,609	¥98,504	¥128,918	¥298,032
Consolidated net sales				¥587,572

Year ended March 31, 2010	Thousands of U.S. dollars			
	The Americas	Europe	Asia	Total
Overseas sales	\$759,237	\$1,059,183	\$1,386,215	\$3,204,645
Consolidated net sales				\$6,317,978
Overseas sales as a percentage of consolidated net sales	12.0%	16.8%	21.9%	50.7%

Year ended March 31, 2009	Millions of yen			
	The Americas	Europe	Asia	Total
Overseas sales	¥78,754	¥111,866	¥133,596	¥324,217
Consolidated net sales				¥647,593
Overseas sales as a percentage of consolidated net sales	12.2%	17.3%	20.6%	50.1%

## 21. STOCK OPTION

Information regarding stock option plans of the Company at March 31, 2010 is as follows :

Date of approval	June 29, 2004	June 29, 2005	June 27, 2006	June 26, 2007	June 25, 2008	June 25, 2009
Date of grant	August 18, 2004	August 18, 2005	August 25, 2006	August 28, 2007	August 26, 2008	August 25, 2009
Grantees	11 directors and 28 executive officers, 34 employees, 16 directors of subsidiaries specified by the NSK Board of Directors Total 89	12 directors and 28 executive officers, 34 employees, 16 directors of subsidiaries specified by the NSK Board of Directors Total 90	12 directors and 28 executive officers, 37 employees, 18 directors of subsidiaries specified by the NSK Board of Directors Total 95	12 directors and 28 executive officers, 35 employees, 20 directors of subsidiaries specified by the NSK Board of Directors Total 95	12 directors and 28 executive officers, 45 employees, 19 directors of subsidiaries specified by the NSK Board of Directors Total 104	12 directors and 28 executive officers, 56 employees, 20 directors of subsidiaries specified by the NSK Board of Directors Total 116
Type of shares to be issued upon exercise of share subscription rights	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares to be issued upon exercise of share subscription rights	613,000 shares	639,000 shares	667,000 shares	743,000 shares	785,000 shares	828,000 shares
Exercise price (yen)	¥531	¥615	¥928	¥1,312	¥932	¥603
Exercise period	August 18, 2004–August 17, 2009	August 18, 2005–August 17, 2010	August 25, 2006–August 24, 2011	August 28, 2007–August 27, 2012	August 26, 2008–August 25, 2013	August 25, 2009–August 24, 2014
Stock options outstanding as of March 31, 2009	27,000 shares	413,000 shares	662,000 shares	743,000 shares	785,000 shares	—
Exercised in this period	8,000 shares	15,000 shares	—	—	—	—
Expired in this period	19,000 shares	—	—	—	—	—
Stock options outstanding as of March 31, 2010	—	398,000 shares	662,000 shares	743,000 shares	785,000 shares	828,000 shares
Weighted average exercise price (yen)	¥589	¥653	—	—	—	—
Weighted average fair value per stock at the granted date	—	—	¥240	¥146	¥146	¥207

Stock option expense included in selling, general and administrative expenses for the year ended March 31, 2010 amounted to ¥133 million (\$1,430 thousand). The fair value of the stock options granted for the fiscal year ended March 31, 2010 is estimated based on the following preconditions:

Date of approval	June 25, 2009
Valuation model	Binominal model
Expected volatility	49%
Expected holding period	4.1 years
Expected dividend	1.92%
Risk-free rate	1 year: 0.17% 2 year: 0.24% 3 year: 0.34% 4 year: 0.50% 5 year: 0.64%

## 22. TREASURY STOCK

Treasury Stock the Company and affiliates owned for the years ended March 31, 2010 and 2009 were 10,682,916 common stocks and 10,671,192 common stocks, respectively.



# > MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

## Basic Framework of Internal Control over Financial Reporting

Norio Otsuka, President and CEO of NSK Ltd. (the "Company"), is responsible for designing and operating adequate internal control over financial reporting for consolidated financial statements of the Company and its consolidated subsidiaries (the "NSK Group").

The NSK Group has designed and operates adequate internal control over financial reporting in accordance with the basic framework set forth in the "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" issued by the Business Accounting Council.

Internal control achieves its objectives to an appropriate extent given that all individual components of internal control are integrated and function as a whole. Internal control over financial reporting for consolidated financial statements may not completely prevent or detect misstatements in financial reporting.

## Scope of Assessment, Assessment Date and Assessment Procedure

We assessed the effectiveness of the NSK Group's internal control over financial reporting for the accompanying consolidated financial statements as of March 31, 2010 in accordance with the assessment standards for internal control over financial reporting generally accepted in Japan.

For this assessment, we first evaluated the company-level controls based on the "Rules for Internal Control over Financial Reporting" and the "Regulations for Management of Internal Control," both established by the Company on April 1, 2008. For the business processes in the assessment scope of internal control that were selected based on the assessment result of company-level control, we identified the risks which may affect the reliability of financial reporting and selected key controls over the risks. By assessing the design and operation of these key control items, we evaluated the effectiveness of the internal control over the processes included in the scope of evaluation.

We decided the reasonable scope of assessment in the light of their degree of quantitative and qualitative impact on the reliability of financial reporting. The Company and 41 of its consolidated subsidiaries and affiliates accounted for by the equity method were included in the scope of our company-level controls and financial reporting processes to be assessed from a company-level viewpoint. These companies contributed approximately to the top 95% of net sales. We excluded 51 consolidated subsidiaries from the scope of the company-level control assessment since their impacts were deemed insignificant.

For the purpose of determining the scope of process-level control assessment, we selected the 13 companies which contributed approximately to the top two thirds of the NSK Group's net sales on a consolidated basis for the fiscal year ended March 31, 2010 as "Significant Business Locations."

For the Significant Business Locations, we included business processes related to sales, accounts receivable, and inventory in the scope of assessment, as the aforementioned accounts were recognized as being closely associated with the Company's business objectives. In addition, we separately included certain business processes related to accounts involving estimates and management's judgments, identified as having material impacts on financial reporting, in the scope of assessment not only from those "Significant Business Locations" but from all consolidated business locations.

## Assessment Result

Based on the results of our assessment within the above mentioned scope, date and procedures, we concluded that the Company's internal control over financial reporting for the accompanying consolidated financial statements at March 31, 2010 was effective.

NSK Ltd.

President and Chief Executive Officer



June 25, 2010

## > REPORT OF INDEPENDENT AUDITORS



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### Report of Independent Auditors

The Board of Directors  
NSK Ltd.

We have audited the accompanying consolidated balance sheets of NSK Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NSK Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

We also have audited the accompanying Management's Report on Internal Control Over Financial Reporting for the consolidated financial statements as of March 31, 2010 of NSK Ltd. and consolidated subsidiaries (the "Management's Report"). NSK Ltd. and consolidated subsidiaries' management is responsible for designing and operating internal control over financial reporting and preparing the Management's Report. Our responsibility is to express an opinion on the Management's Report based on our audit. Internal control over financial reporting may not prevent or detect misstatements.

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Management's Report is free of material misstatement. An internal control audit includes examining, on a test basis, the overall presentation of the Management's Report, including disclosures on scope, procedures and conclusions of management's assessment of internal control over financial reporting. We believe that our internal control audit provides a reasonable basis for our opinion.

In our opinion, the Management's Report referred to above, which represents that internal control over financial reporting of the consolidated financial statements as of March 31, 2010 is effective, presents fairly, in all material respects, management's assessment on internal control over financial reporting for the consolidated financial statements in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

June 25, 2010

# > NSK GROUP

As of March 31, 2010

Region	Company Name	Consolidated Equity	Outline of Business
Japan	NSK MICRO PRECISION CO., LTD.	55.00%	Manufacture and sales of bearings
	NSK MICRO PRECISION CO., LTD. (NAGANO)	100.00%	Manufacture of bearings
	NSK FUKUSHIMA CO., LTD.	100.00%	Manufacture of bearings
	NSK NEEDLE BEARING LTD.	98.06%	Manufacture of bearings
	NSK STEERING SYSTEMS CO., LTD.	100.00%	Manufacture of automotive components
	NSK PRECISION CO., LTD.	100.00%	Manufacture of precision machinery & parts
	NSK KYUSHU CO., LTD.	100.00%	Manufacture of precision machinery & parts
	ASAHI SEIKI CO., LTD.	73.75%	Manufacture of bearing parts and automotive components
	AMATSUJI STEEL BALL MFG. CO., LTD.	100.00%	Manufacture and sales of steel and ceramic balls, etc.
	AKS EAST JAPAN CO., LTD.	100.00%	Manufacture of steel balls
	NOMURA TEKKOSHO CO., LTD.	100.00%	Manufacture of bearing parts
	SHINWA SEIKO CO., LTD.	82.42%	Manufacture of bearing parts
	KURIBAYASHI SEISAKUSHO CO., LTD.	73.51%	Manufacture of bearing parts
	NSK MACHINERY CO., LTD.	100.00%	Manufacture and sales of machine tools and precision machinery & parts
	NSK REAL ESTATE CO., LTD.	100.00%	Real estate management and rental
	NISSEI BLDG. MANAGEMENT LTD.	70.00%	Management of Nissei Building
	NSK-CHUGAI, LTD.	45.00%	Insurance agent and sales of machine components, etc.
	NSK-SAYAMA, LTD.	100.00%	Insurance agent
	NSK HUMAN RESOURCE SERVICES LTD.	100.00%	Provision of personnel support services and consulting
	NSK CAREER SUPPORT CO., LTD.	100.00%	Provision of personnel assignment and job placement services
NSK LOGISTICS CO., LTD.	100.00%	Distributor of NSK Group products and manufacturing contractor of machine components	
NSK NETWORK AND SYSTEMS CO., LTD.	100.00%	Provision of consulting, design, development, sales and maintenance services for computer systems and networks	
INOUE JIKUJKE KOGYO CO., LTD.	40.00%	Manufacture and sales of bearings	
NSK-WARNER K.K.	50.00%	Manufacture of automotive components	
CHITOSE SANGYO CO., LTD.	50.00%	Manufacture of automotive components	

## THE AMERICAS

U.S.A.	NSK AMERICAS, INC.	100.00%	Control of American subsidiaries and affiliates
	NSK CORPORATION	100.00%	Manufacture of bearings and sales of bearings, automotive components and precision machinery & parts
	NSK PRECISION AMERICA, INC.	100.00%	Manufacture and sales of precision machinery & parts
	NSK LATIN AMERICA, INC.	100.00%	Sales of bearings and precision machinery & parts
	NSK STEERING SYSTEMS AMERICA, INC.	100.00%	Manufacture and sales of automotive components
	NSK-AKS PRECISION BALL COMPANY	100.00%	Manufacture and sales of steel balls
	NSK-WARNER U.S.A., INC.	50.00%	Sales and technical services of automotive components
Canada	NSK CANADA INC.	100.00%	Sales of bearings and precision machinery & parts
Mexico	NSK RODAMIENTOS MEXICANA, S.A. DE C.V.	100.00%	Sales of bearings and precision machinery & parts
Brazil	NSK BRASIL LTDA.	100.00%	Manufacture of bearings and sales of bearings and precision machinery & parts
Argentina	NSK ARGENTINA S.R.L.	100.00%	Sales of bearings and precision machinery & parts
Peru	NSK PERU S.A.C.	100.00%	Sales of bearings and precision machinery & parts

## EUROPE

U.K.	NSK EUROPE LTD.	100.00%	Control of European subsidiaries and affiliates
	NSK UK LTD.	100.00%	Sales of bearings, automotive components and precision machinery & parts
	NSK BEARINGS EUROPE LTD.	100.00%	Manufacture of bearings
	NSK STEERING SYSTEMS EUROPE LTD.	100.00%	Manufacture of automotive components
	NSK PRECISION UK LTD.	100.00%	Manufacture of precision machinery & parts
	AKS PRECISION BALL EUROPE LTD.	100.00%	Manufacture and sales of steel balls
Germany	NSK EUROPA HOLDING GMBH	100.00%	Holding company of subsidiaries in Germany
	NSK DEUTSCHLAND GMBH	100.00%	Sales of bearings and automotive components
	NSK PRECISION EUROPE GMBH	100.00%	Sales of precision machinery & parts
	NEUWEG FERTIGUNG GMBH	100.00%	Manufacture of bearings
France	NSK FRANCE S.A.S	100.00%	Sales of bearings, automotive components and precision machinery & parts
Italy	NSK ITALIA S.P.A.	100.00%	Sales of bearings, automotive components and precision machinery & parts
	INDUSTRIA CUSCINETTI S.P.A.	36.19%	Manufacture and sales of bearings

Region	Company Name	Consolidated Equity	Outline of Business
Spain	NSK SPAIN S.A.	100.00%	Sales of bearings, automotive components and precision machinery & parts
Netherlands	NSK EUROPEAN DISTRIBUTION CENTRE B.V.	100.00%	Warehousing and distribution of bearings and automotive components
Poland	NSK BEARINGS POLSKA S.A.	93.20%	Manufacture of bearings
	NSK POLSKA SP. Z O.O.	100.00%	Sales of bearings
	NSK NEEDLE BEARING POLAND SP. Z O.O.	100.00%	Manufacture of bearings
	NSK STEERING SYSTEMS EUROPE (POLSKA) SP. Z O.O.	100.00%	Manufacture of automotive components
	AKS PRECISION BALL POLSKA SP. Z O.O.	100.00%	Manufacture and sales of steel balls
Turkey	NSK RULMANLARI ORTA DOGU TIC. LTD. STI (NSK BEARINGS MIDDLE EAST TRADING CO., LTD.)	100.00%	Sales of bearings and precision machinery & parts
South Africa	NSK SOUTH AFRICA (PTY) LTD.	100.00%	Sales of bearings and precision machinery & parts

## ASIA

Singapore	NSK INTERNATIONAL (SINGAPORE) PTE LTD.	100.00%	Sales of bearings
	NSK SINGAPORE (PRIVATE) LTD.	70.00%	Sales of bearings and precision machinery & parts
Indonesia	PT. NSK BEARINGS MANUFACTURING INDONESIA	100.00%	Manufacture of bearings
	PT. NSK INDONESIA	100.00%	Sales of bearings
	PT. AKS PRECISION BALL INDONESIA	100.00%	Manufacture of steel balls
	PT. NSK-WARNER INDONESIA	50.00%	Manufacture of automotive components
Thailand	NSK BEARINGS MANUFACTURING (THAILAND) CO., LTD.	74.90%	Manufacture and sales of bearings
	SIAM NSK STEERING SYSTEMS CO., LTD.	74.90%	Manufacture and sales of automotive components
	NSK ASIA PACIFIC TECHNOLOGY CENTRE (THAILAND) CO., LTD.	100.00%	Technological support and development of bearings
	NSK BEARINGS (THAILAND) CO., LTD.	49.00%	Sales of bearings, automotive components and precision machinery & parts
Malaysia	NSK BEARINGS (MALAYSIA) SDN. BHD.	51.00%	Sales of bearings, automotive components and precision machinery & parts
	NSK MICRO PRECISION (M) SDN. BHD.	100.00%	Manufacture of bearings
	ISC MICRO PRECISION SDN. BHD.	100.00%	Manufacture of bearings
China	NSK (CHINA) INVESTMENT CO., LTD.	100.00%	Holding company of Chinese subsidiaries and affiliates
	NSK (SHANGHAI) TRADING CO., LTD.	100.00%	Sales of bearings, automotive components and precision machinery & parts
	KUNSHAN NSK CO., LTD.	85.00%	Manufacture and sales of bearings
	CHANGSHU NSK NEEDLE BEARING CO., LTD.	100.00%	Manufacture and sales of bearings
	NSK CHINA SALES CO., LTD.	100.00%	Sales of bearings, automotive components and precision machinery & parts
	NSK STEERING SYSTEMS DONGGUAN CO., LTD.	100.00%	Manufacture and sales of automotive components
	ZHANGJIAGANG NSK PRECISION MACHINERY CO., LTD.	100.00%	Manufacture of bearing parts
	SUZHOU NSK BEARINGS CO., LTD.	100.00%	Manufacture of bearings
	AKS PRECISION BALL (HANGZHOU) CO., LTD.	100.00%	Manufacture and sales of steel balls
	NSK (CHINA) RESEARCH AND DEVELOPMENT CO., LTD.	100.00%	Technological support and development of bearings, automotive components and precision machinery & parts
	NSK-WARNER (SHANGHAI) CO., LTD.	50.00%	Manufacture of automotive components
NSK-WANDA ELECTRIC POWER ASSISTED STEERING SYSTEMS CO., LTD.	90.00%	Manufacture of automotive components	
	NSK-YAGI PRECISION FORGING (ZHANGJIAGANG) CO., LTD.	70.00%	Manufacture of bearing parts
SHENYANG NSK PRECISION CO., LTD.	100.00%	Manufacture and sales of precision machinery & parts	
Hong Kong	NSK HONG KONG LTD.	70.00%	Sales of bearings, automotive components and precision machinery & parts
Taiwan	TAIWAN NSK PRECISION CO., LTD.	70.00%	Sales of precision machinery & parts
	TAIWAN NSK TECHNOLOGY CO., LTD.	100.00%	Sales of precision machinery & parts
South Korea	NSK KOREA CO., LTD.	100.00%	Manufacture of bearings and sales of bearings, automotive components and precision machinery & parts
	NSK NEEDLE BEARING KOREA CO., LTD.	100.00%	Manufacture of bearings
Vietnam	NSK VIETNAM CO., LTD.	100.00%	Sales of bearings
India	NSK INDIA SALES CO. PVT. LTD.	100.00%	Sales of bearings and automotive components
	NSK-ABC BEARINGS LTD.	86.70%	Manufacture of bearings
	RANE NSK STEERING SYSTEMS LTD.	50.00%	Manufacture and sales of automotive components
Australia	NSK AUSTRALIA PTY. LTD.	100.00%	Sales of bearings, automotive components and precision machinery & parts
New Zealand	NSK NEW ZEALAND LTD.	100.00%	Sales of bearings, automotive components and precision machinery & parts

# > INFORMATION FOR INVESTORS

As of March 31, 2010

## Corporate Address

NSK Ltd.  
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## Contact Information

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Tokyo 141-8560, Japan  
Tel: +81-3-5487-2564  
Fax: +81-3-3779-7442  
E-mail: [ir@nsk.com](mailto:ir@nsk.com)

## NSK's Web Site

NSK has established a corporate web site to provide information on earnings and other data, including Annual Reports.  
<http://www.nsk.com>

## Annual Meeting of Shareholders

The Annual Meeting of Shareholders was held on June 25, 2010 at the Company's headquarters in Tokyo.

## Common Stock

Authorized: 1,700,000,000 shares  
Issued: 551,268,104 shares

## Number of Shareholders

26,046

## Transfer Agent

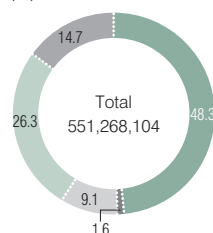
Mizuho Trust & Banking Co., Ltd.  
1-2-1 Yaesu, Chuo-ku, Tokyo 103-8670, Japan

## Listings

Tokyo, Osaka

## Breakdown of Shareholders

(%)



Number of Shares

Financial Institutions	265,962,060
Securities Companies	8,646,800
Other Japanese Corporations	50,374,146
Foreign Investors	144,976,317
Individuals / Others	81,308,781

## Share Price Movement



The TOPIX (Tokyo Stock Price Index) is the stock price index calculated and published by the Tokyo Stock Exchange in order to express the changes of the Tokyo Stock Market. The TOPIX is calculated by aggregated market value listed in the 1st Section of the Tokyo Stock Exchange to denominate the base market value (January 4, 1968) 100. The TOPIX (Tokyo Stock Price Index) is the intellectual property owned by the Tokyo Stock Exchange and the Tokyo Stock Exchange owns all rights relating to the TOPIX Index such as calculating, publishing and use of the TOPIX Index Value and relating to the TOPIX Trademarks.





NSK used environmentally friendly paper and printing methods for this publication.

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