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### Annual Report 2014

NSK has prepared this annual report to further understanding among shareholders, investors, and various other stakeholders of its business results for the year ended March 31, 2014, its future growth strategies, and other matters. The special feature focuses on the power steering business that is our growth leader.

For further information about the Company, its products, business activities, and financial position, please see NSK's web site. For further information about the Company's philosophy and initiatives relating to corporate social responsibility (CSR), please see the sustainability section of NSK's web site and NSK's CSR reports.



<http://www.nsk.com/>



<http://www.nsk.com/sustainability/>

### Outside Agency Assessments

Socially responsible investment (SRI) indexes include companies that promise long-term sustainable growth because they merit high evaluations for environmental and social contributions as well as financial performance. Moreover, a broad range of institutional investors are attributing greater importance to such companies. As of March 2014, NSK is included in four internationally recognized SRI indexes.

Dow Jones Sustainability Indices  
<http://www.sustainability-index.com>



FTSE4Good Index Series  
<http://www.ftse.com/products/indices/FTSE4Good>



Ethibel Investment Register  
[http://forumethibel.org/content/ethibel\\_sustainability\\_index.html](http://forumethibel.org/content/ethibel_sustainability_index.html)



Morningstar Socially Responsible Investment Index  
<http://www.morningstar.co.jp/sri/about.htm>

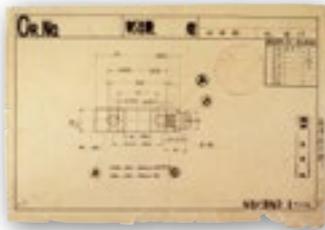


### Disclaimer

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.

This document is an English translation of "Annual Report 2014" dated August 1, 2014, that was originally prepared in the Japanese language, and it is provided for convenience purposes only. Therefore, this document does not include any event that has occurred, or has been found to have occurred, on or after August 1, 2014. NSK makes no representation or warranty that this document is a complete or accurate translation of the original Japanese text, and it is not intended to be relied upon. In the event that there is a discrepancy between the Japanese and English versions, the Japanese version shall prevail. This document is not intended and should not be construed as an inducement to purchase or sell stock in NSK.

# NSK IS



## 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.**

Since becoming the first company in Japan to manufacture bearings in 1916, for nearly a century NSK has spearheaded the development and supply of many different types of bearings, automotive components, and precision machinery while supporting industrial growth worldwide. Recognized the world over for their high performance and quality, NSK's products continue to be a trusted brand. The centerpiece of our Mission Statement, "MOTION & CONTROL," provides the platform for our business activities. By delivering products that control friction and curb energy loss, we contribute to the well-being and safety of society.

Guided by the vision identified under our mid-term management plan, we intend to establish corporate fundamentals appropriate for a company with net sales of ¥1 trillion by 2016, the 100th anniversary of the Company's founding. We will pursue business strategies and enhance our corporate fundamentals in a bid to secure further growth.



## Global Industrial Machinery Bearing Demand

# 9:1

Non-Japan

Japan

Used in the machines that form a part of people's daily lives from home appliances including personal computers, washing machines and air conditioners through railcars to construction machinery, steel plant facilities, wind turbines and satellites, bearings support the growth of global industry. Applied to the revolving parts of any and all machinery, friction-reducing bearings are often referred to as the "staple food of industry."

In the postwar era, advances in the development of bearings and related technologies, as well as their stable supply, have mirrored the substantial growth of industry in Japan. Bearings have played a central role in the development of business, serving as growth engines in such industrialized markets as North America and Western Europe. Today, bearing markets are continuing to expand in emerging and fledgling nations in line with infrastructure development and an increase in the middle class. In advanced markets, bearings are helping to create new demand in a variety of cutting-edge fields including the environment, robotics and medicine. The non-Japanese market accounts for 90% of global industrial machinery bearing demand compared to 10% within Japan, and opportunities outside of Japan are expected to expand even further.

## NSK's Industrial Machinery Business

# EXTENSIVE

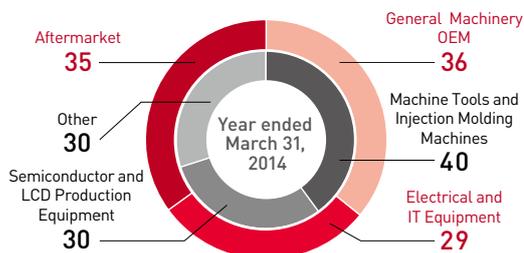
Used in All Areas of All Industries



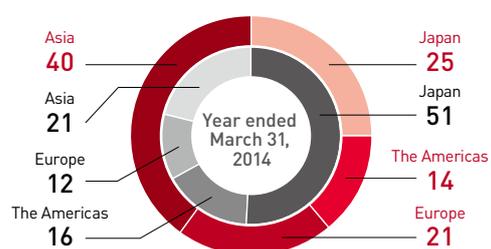
NSK's Industrial Machinery Business consists of industrial machinery bearings and precision machinery and parts. In the industrial machinery bearings field, NSK's products come in all sizes, from tiny bearings with an outside diameter of 2.0 mm to bearings with an outside diameter of 6.0 m. In the precision machinery and parts field, the Company manufactures and markets ball screws, linear guides and mechatronics products that draw on technologies acquired through the development of bearings. Building on the strengths of its broad product lineup and advanced technologies, the Company is addressing the wide-ranging needs of the machine tools, steel, home appliance, railcar, semiconductor and LCD panel manufacturing equipment, and medical instrument industries.

Currently, 70% of NSK's Industrial Machinery Business net sales are derived from outside of Japan with the remaining 30% generated in Japan. Business opportunities outside of Japan, which account for around 90% of bearing demand, are expected to increase mainly due to growth in the high-volume markets of infrastructure demand and an upswing in the middle class of emerging countries. NSK will redouble its efforts to expand its Industrial Machinery Business by cultivating end users and bolstering existing sales channels.

Industrial Machinery Business Net Sales Breakdown by Field (%)



Industrial Machinery Business Net Sales Breakdown by Region (%)



Outer circle: Industrial machinery bearings  
Inner circle: Precision machinery and parts

## Global Automobile Production Volume

# 93

million

Global automobile production is projected to increase to 89 million in fiscal 2014, 93 million in fiscal 2015 and 100 million soon thereafter. Over the past decade, emerging countries including China have experienced threefold growth and are expected to continue driving the market forward. In addition, the underlying strength of developed markets has been supported by robust sales in North America and a recovery throughout Europe. Taking into consideration the aforementioned factors, the automobile market should remain firm in the mid-term.

Meanwhile, the automobile industry needs to deliver enhanced technologies to the market. These needs are largely attributable to the upswing in such issues as traffic congestion and the environment, which are in turn linked to the rapid rise in vehicle ownership in developing countries and increasingly stringent safety and environmental regulations in industrialized nations. With the market close to realizing a fully automated driving experience, the increased sophistication and functionality of today's automobiles are sparking competition for the development of advanced technologies that deliver the ultimate in driving safety and comfort.

NSK's Automotive Business

# RESPONSIVE

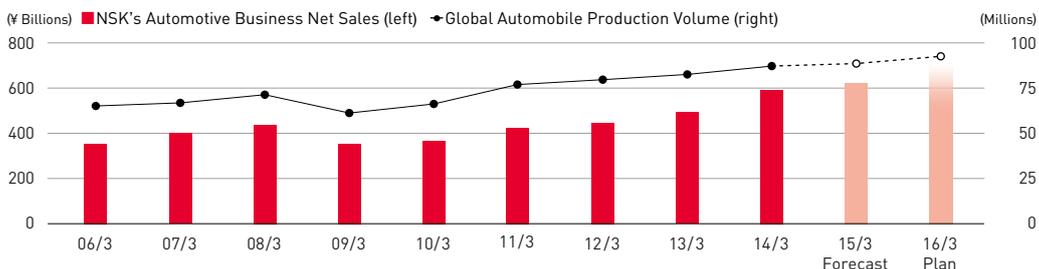
## Responding to Market Needs through Technological Capabilities



Approximately 100–150 bearings are used in each automobile produced, and NSK has a structure that can supply all of these bearings to our clients worldwide. The Company also provides a wide range of related products including electric power steering (EPS) systems, steering columns and joints, and automatic transmissions (ATs) for added driving safety and comfort.

NSK has been quick to address changes in the automobile market. These changes have been brought about by a variety of factors including the emergence of electric vehicles reflecting increased interest in the environment in recent years, the growing focus on fuel efficiency, and advances in technologies that support driving safety. As a result, the Company has channeled its energies toward addressing the various needs of automobile manufacturers through innovative technologies, thereby engaging in R&D in lockstep with its customers. Harnessing the strengths of its technologies and global network, NSK is expanding its Automotive Business at a pace that exceeds that of the global industry.

Trends in NSK's Automotive Business Net Sales and Global Automobile Production Volume (Source: NSK Ltd.)





## GDP Growth Rates in Emerging Countries

Source: World Economic Outlook, April 2014 (IMF)

# 5.3%

GDP growth in such emerging countries and regions as China, ASEAN, the Middle East, Russia and South America is expected to hover at an annual average rate of 5.3% from 2014 to 2019. Although GDP growth rates in emerging countries experienced a temporary decline in the aftermath of the financial crisis triggered by the collapse of Lehman Brothers in 2008 and 2009, and remained weak thereafter, this forecast indicates a steady, high rate of growth that roughly doubles the expected GDP growth rate of slightly above 2% for developed countries. Moreover, rates are anticipated to remain firm over the mid to long term mainly due to the increase in the middle class worldwide. From a GDP that accounted for less than 30% of the world's total output in 2007, the GDP of emerging countries made up approximately 40% of global GDP in 2013. Expected to account for around half of the world's GDP growth by 2019, the importance of emerging countries is steadily increasing.

## NSK's Efforts to Expand Business in Emerging Markets

# PROGRESSIVE

## Focusing on a Policy of Localization



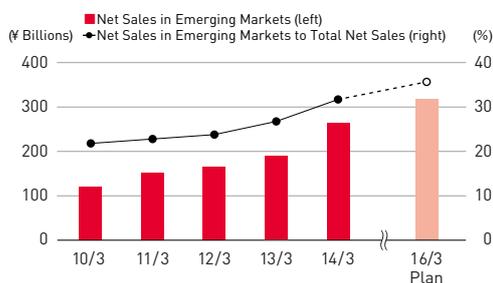
The growth of emerging markets holds the key to NSK's efforts to expand its business. Both emerging market net sales and the percentage of emerging market net sales to total sales continue to increase each year.

Endeavoring to become a truly global company, NSK is focusing on localizing its operations in each region.

The Company is actively recruiting local staff to its management ranks in emerging countries while striving to put in place a structure centered on local employees who are capable of swift management decision and action.

NSK has adopted an emerging market strategy focused largely on the Asian mainland region including China. In December 2012, the Company opened a new sales office in Dubai, United Arab Emirates, which was followed by the opening of a branch in Saint Petersburg, Russia, in March 2013. A new plant in Mexico also came online in spring 2014. NSK will promote a balanced approach as it expands business in growth regions worldwide.

NSK's Net Sales in Emerging Markets and the Composition of Net Sales in Emerging Markets to Total Net Sales



The new plant in Mexico that came online in April 2014

Net Sales Target for the  
Year Ending March 31, 2017

# DECISIVE

Toward a Management Structure  
Capable of Supporting ¥1 Trillion in Net Sales

trillion

## 2017

Year ending March 31

Under its fourth mid-term management plan, which began in April 2013 and covers the three-year period for the year ended March 31, 2014, to the year ending March 31, 2016, NSK has identified its vision of establishing corporate fundamentals appropriate for a company with net sales of ¥1 trillion. This vision focuses squarely on the Company's centenary celebrations in 2016. To achieve this vision, NSK has prioritized promoting safety, quality and compliance while striving to achieve growth with a focus on profitability and the development of management that is capable of handling ¥1 trillion in sales volume. Accordingly, the Company will work to strengthen both its business strategies and management base.

## 2016

Year ending March 31

Net Sales	<b>¥940.0 billion</b>
Operating Income	<b>¥86.0 billion</b>
Operating Income Margin	<b>9.1%</b>
ROE	<b>13.0%</b>

## 2015

Year ending March 31

Net Sales	<b>¥926.0 billion</b>
Operating Income	<b>¥83.0 billion</b>
Operating Income Margin	<b>9.0%</b>

## 2014

Year ended March 31

Net Sales	<b>¥871.7 billion</b>
Operating Income	<b>¥68.0 billion</b>
Operating Income Margin	<b>7.8%</b>
ROE	<b>9.2%</b>

# NSK's Strengths

## Leading market share products

NSK's high-performance, high-quality products draw on the Company's accumulated bearing technology platform and boast a high share of the global markets.



Bearings

Japan No. **1** Global No. **3**



Electric power steering systems

Global No. **2**



Ball screws

Global No. **1**

## Technological capabilities

NSK's technology and service platform is supported by the Company's four core technologies and an R&D structure that spans Japan, the Americas, Europe and mainland Asia.

**Proprietary technologies**  
developed over  
the Company's history



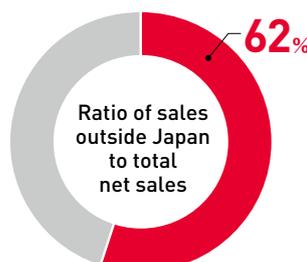
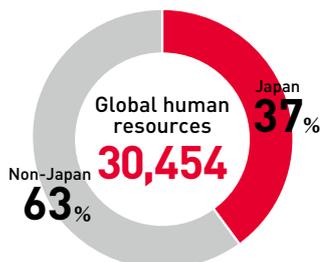
**Four core technologies**  
Tribology  
Material engineering  
Analysis technology  
Mechatronics



**NSK maintains 14 technology centers across the world**  
six bases in Japan,  
two in the Americas,  
three in Europe,  
and three in mainland Asia

## Global business development capabilities

A step ahead of its rivals, NSK ventured into markets outside of Japan in the early 1960s. Today, the Company has manufacturing, sales and R&D bases located throughout the world.



(Year ended March 31, 2014)

## To Our Shareholders and Investors

TO OUR SH



President and Chief Executive Officer  
Norio Otsuka

# AREHOLDERS & INVESTORS

## Overview of the Year Ended March 31, 2014

The year ended March 31, 2014, saw the continuation of a modest economic recovery in developed countries, contrasted by a lingering sense of uncertainty due to slowing economic growth in emerging markets. Under these circumstances, NSK reported an increase in both revenue and earnings for the year under review, the first year of its fourth mid-term management plan. Buoyed by favorable foreign currency exchange rates mainly owing to corrections to the strong yen, the Company achieved record highs in net sales and ordinary income. Thanks largely to growth in the Automotive Business, net sales climbed ¥138.9 billion, a 19.0% increase year on year, to ¥871.7 billion. In addition to the positive effect of movements in foreign exchange rates, earnings were bolstered by the upswing in sales volume and successful efforts to reduce costs. As a result, operating income jumped 110.3% to ¥68.0 billion, and ordinary income surged 120.3% to ¥66.8 billion. Although the Company incurred extraordinary losses relating to Antimonopoly Act rulings of ¥16.3 billion, net income almost doubled year on year to ¥31.2 billion, up 98.0%.

Looking at results by business segment, the Industrial Machinery Business reported sales of ¥243.0 billion, up 12.4%

year on year, while operating income rose 82.1% to ¥23.7 billion. This represented an operating income margin of 9.8%—a year-on-year improvement of 3.8 percentage points. In this segment, results picked up after bottoming around the third quarter of the year ended March 2013. The pace of this turnaround, however, was slow, with an increase in sales volumes, excluding the effects of foreign currency exchange rates, finally appearing from the second half of the year under review.

In the Automotive Business, the vehicle market continued to expand, led mainly by the United States and China. The electric power steering (EPS) business saw a substantial increase in sales, driven by the launch of several new models. By geographic segment, China experienced a significant upswing largely due to sound growth in automobile production and EPS systems. As a result, NSK marked record highs in sales, operating income and operating income margin in the Automotive Business during the year under review. Sales climbed 20.4% year on year to ¥590.5 billion, and operating income jumped 96.9% to ¥49.2 billion for an operating income margin of 8.3%, up 3.2 percentage points year on year.

## Entering the Second Year of the Fourth Mid-Term Management Plan

In May 2013, we announced the “establishment of corporate fundamentals appropriate for a company with net sales of ¥1 trillion” as the overarching vision of our fourth mid-term management plan. Although NSK maintains its goal of achieving ¥1 trillion in net sales for the year ending March 31, 2017—the year it celebrates its 100th anniversary in November 2016—the vision set under this management plan primarily focuses on improving management quality. Accordingly, putting in place the foundation necessary to manage net sales of ¥1 trillion is our highest priority of the current mid-term management plan, which covers the three-year period from March 2013 to March 2016. With an emphasis on “safety, quality and compliance,” we will continue to carry forward our current growth strategies and efforts to further strengthen our corporate fundamentals. By promoting “growth with a focus on profitability” while endeavoring to “develop the management capability to handle ¥1 trillion in sales volume,” we will work to achieve sustainable growth.

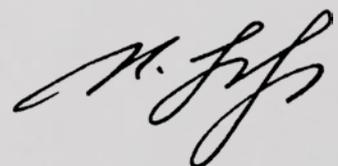
For this reason, further reinforcement of NSK’s foundation of “safety, quality and compliance” is the foremost priority for our management team. With respect to compliance, we are under investigation by relevant authorities in relation to the antitrust laws for sales of bearing products. In September 2013, the Company and its subsidiaries agreed to plead guilty and to pay a fine. In January 2014, the Company was ordered to pay a fine by the Quebec Superior Court of Justice in Canada, and, in March, the European Commission has imposed a fine on the Company. In May 2014, the Company was ordered by the Federal Court of Australia to pay a pecuniary penalty, and the Competition Commission of Singapore has imposed a fine on the Company. I would like to take this opportunity to express my sincere regret for the concern these matters have caused our shareholders, investors and other stakeholders. For purposes of addressing this situation and strengthening our compliance, we have strengthened our compliance system by implementing a variety of measures, including the establishment of new compliance-related organizations. Additionally, we have revised and established internal rules related to compliance, while also expanding our education and training programs. Specifically, we have established the Compliance Committee, and have held a series of Global Compliance Meetings and Compliance Conferences, where we shared our challenges and information regarding compliance, and enhanced compliance awareness. Furthermore, we have revised the NSK Code of Corporate Ethics and the Compliance Rules, and also established the Rules for Compliance with the Competition Law. As part of our compliance education initiatives, 96 training sessions are held annually, on a worldwide basis. NSK also conducts e-learning courses, produces a regular compliance newsletter, selects and displays compliance slogans in the workplace, and distributes pocket-sized compliance cards to employees.

The year ending March 31, 2015 is the second year of NSK’s fourth mid-term management plan, and serves as a bridge that will carry the Group through to the plan’s conclusion in the year to March 2016. The year under review is also a vital year in which I believe our true ability will be put to the test. Although the positive flow-on effects of the previous period’s correction to the strong yen have dissipated, I feel confident in our ability to absorb the increase in personnel expenses in Japan and emerging markets through internal efforts and to further bolster our profitability. As we announced in July 2014, net sales are forecast to grow 6.2% year on year to ¥926.0 billion. From a profit perspective, we project operating income to climb 22.0% to ¥83.0 billion, ordinary income to increase 20.5% to ¥80.5 billion and net income to improve 81.3% to ¥56.5 billion. This will once again represent record highs in sales and earnings. In terms of our operating environment, the Industrial Machinery Business is expected to remain in a recovery phase. The overall strength and pace of this recovery, however, will likely be weak with low levels of demand growth forecast. Despite these weak conditions, NSK will continue to work towards a scenario of market expansion in the medium term and maintain its focus on growth strategies overseas in fields such as infrastructure and new energies. In the Automotive Business, global automobile production is projected to remain firm on the underlying strength of sales in the United States and China, despite concerns surrounding the impact of the hike in Japan’s consumption tax rate. The business faces several challenges, however, including intense competition among automobile manufacturers in emerging markets, the need to develop new technologies in the environmental and safety fields, and the growing demands placed on component manufacturers. NSK will adopt mid-to long-term measures to address these issues.

## Towards Our 100th Anniversary

As I mentioned earlier, NSK will celebrate its 100th anniversary in November 2016. As we look back on the path that we have traveled while looking ahead to the next century, we have established the NSK 100th Anniversary Committee as well as a project team tasked with implementing commemorative events, envisioning a future NSK that can grow and contribute to society on a sustainable, ongoing basis. Rekindling the spirit of our foundation 100 years ago, we will search for opportunities to create new dreams and aspirations. As a statement of our intentions, we will draw up and publicly announce details of our Centenary Vision. At the same time, we will establish commemorative programs that best represent what NSK stands for, and convey our appreciation and future aspirations through these events. We kindly request the continued support and understanding of all stakeholders including shareholders and investors as we work towards our goals.

August 2014



# An Interview with the President

# INTERVIEW



## Q1

Please tell us about the Company's achievements in the first year of its fourth mid-term management plan, and the tasks you will face during the second year.

During our fourth mid-term management plan, we have set an overarching vision of “establishing corporate fundamentals appropriate for a company with net sales of ¥1 trillion.” To implement the plan and realize this vision, we will place the foremost priority on “safety, quality, and compliance.” With this as our base, we will endeavor to promote growth with a focus on profitability and strive to develop the management capability to handle ¥1 trillion in sales volume. Over the three-year period of the plan commencing the year ended March 31, 2014, we will therefore push forward with our business strategies while strengthening our corporate fundamentals as we work towards the next stage of growth.

I am convinced that we have made significant strides in the first year of the plan. After upwardly revising our business forecasts on two occasions during the year under review, both net sales and operating income were substantially higher than our initial estimates (¥790.0 billion and ¥49.0 billion, respectively). The figure for net sales set a new record for NSK and surpassed our previous historic high of ¥772.0 billion, recorded prior to the global financial crisis triggered by the collapse of Lehman Brothers. In the Automotive Business, we achieved the plan's final-year targets two years ahead of schedule. Net sales, operating income and the operating income margin all exceeded the previous historic highs of ¥435.7 billion, ¥30.7 billion, and 7.0%, respectively, recorded in the year ended March 31, 2008. Although these results include the positive effects of corrections to the strong yen and the recovery in sales volume, I am convinced that they reflect the success of the measures we have put forward to date. Given a difficult business environment and intensifying

competition, however, the issue for the Automotive Business going forward will be our ability to continue implementing measures that will maintain and improve profitability. In the Industrial Machinery Business, our results show an upswing in both revenue and earnings. Looking at demand, however, the pace of growth is slow and there remains a substantial gap between performance and the targets set in our mid-term management plan. A defining feature of the Industrial Machinery Business is the considerable impact that an increase in sales volume has on profits. On this basis, expanding sales is vital to achieving our goals. Despite low growth, we will work to lift our market position in regions and industry sectors where demand is expanding, and enhancement of our fundamental competitive strength will remain a priority.

Turning to efforts to enhance our corporate fundamentals—a major task of our fourth mid-term management plan—we believe a measure of progress has been made in the first year of the plan. It is imperative, however, that we step up our efforts. Focusing on the compliance side of our efforts to pursue “safety, quality, and compliance,” we are looking to strengthen our organization and systems, reinforce our structure of rules and regulations, and bolster education and training. More importantly, we must foster a greater awareness of legal requirements across our business activities and nurture a high sense of morality and ethics. Recognizing the importance of safety and quality to our corporate activities, we will also take steps to boost initiatives in each area. I would like to reconfirm our emphasis on promoting three specific measures: We will enhance corporate governance and compliance, reform our business structure and advance global management.

### Outline of the Fourth Mid-Term Management Plan

**[VISION]**  
Establishing corporate fundamentals appropriate for a company with net sales of ¥1 trillion



### The Fourth Mid-Term Management Plan Quantitative Targets

(Year ending March 31, 2016)

Net sales	¥940.0 billion
Operating income	¥86.0 billion
Ordinary income	¥80.0 billion
Net income	¥52.0 billion
Operating income margin	9.1%
ROE	13.0%
Net D/E ratio	0.40 times
Assumed exchange rates	US\$1 = ¥90 €1 = ¥120

# Q2

## Regarding business strategies aimed at promoting growth with a focus on profitability, please tell us about the progress you have made and the tasks remaining.

Expanding sales and sales volume in the Industrial Machinery Business and improving profitability in the Automotive Business are priority issues that must be addressed if we are to achieve our mid-term management plan.

In the Industrial Machinery Business, NSK reported net sales of ¥216.1 billion and operating income of ¥13.0 billion for the year ended March 31, 2013, the final year of the previous mid-term management plan. We plan to increase net sales and operating income to ¥300.0 billion and ¥48.0 billion, respectively, for the year ending March 31, 2016, the final year of the fourth mid-term management plan. In the year ended March 31, 2014, the first year of the plan, net sales in this business were ¥243.0 billion and operating income was ¥23.7 billion. On a year-on-year basis, net sales and operating income climbed ¥26.9 billion and ¥10.7 billion, respectively. At first look, this would appear to be a satisfactory result. Our performance in the Industrial Machinery Business, however, was substantially buoyed by movements in foreign exchange rates. If we remove this factor, the recovery in sales volume in this business is slow. Recognizing that this trend will continue for the foreseeable future, we must accept that this is the current “normal” pace of growth in industrial machinery demand. Under these circumstances, it is important that we advance a solid policy grounded in the fundamentals of quality, cost, delivery and service. Doing so will allow us to lay the foundation to secure a competitive advantage. In the short term, we are best served by developing new products and technologies, and shortening delivery times on the production side. Over the medium term, we will focus our expansion on Asia and ensure that we maximize each business opportunity. In fields where our presence has not always been strong, we will utilize our technological advantage to gain a foothold in the market, and subsequently work to expand sales volume through standard products. The recently upgraded and expanded High-

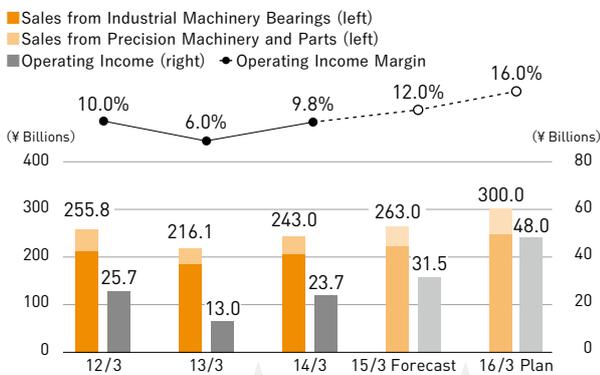
Performance Standard (HPS) bearing series lineup will play a key role in this endeavor.

As I mentioned earlier, NSK reported historic highs in net sales, operating income and operating income margin in the Automotive Business for the year under review, thereby achieving the final-year targets of the current mid-term management plan in the first year. These record results were largely attributable to the surge in electric power steering (EPS) system sales, the firm recovery in the automobile market in the United States and the growth in sales in Asia, particularly in China. From a profit perspective, the Automotive Business benefitted from favorable exchange rate movements, high operating rates at plants owing mainly to the increase in sales volumes and successful cost-reduction efforts. Recognizing that the automobile sector is a growth field, we anticipate that production volume will continue to rise steadily. The challenge that the Automotive Business therefore faces is its ability to expand business commensurate with profits. The selection of a component supplier is generally made 2-3 years before the release of a new model. Activities subsequently enter a development and mass production preparation phase, which when completed translates into sales. On the earnings front, profitability is determined by cost structure, which is in turn decided between the period that a supplier is selected and high-volume production begins through factors including the adequacy of design, evaluation and confirmation of the competitiveness of the finished product, processing specifications and component procurement, as well as factors in the production phase such as productivity improvement and cost-reduction activities. As for capital expenditures, decisions are made based on a series of stringent hurdles including a study of appropriateness and efficiency, anticipated benefits and the time required to recoup each investment. Looking ahead, we will endeavor to increase profitability through persistent efforts at each project stage.

### Progress by Business Segment and Pending Issues

#### Industrial Machinery Business

(Priority Issue ▶ Increase Sales and Sales Volume)



#### First-year results

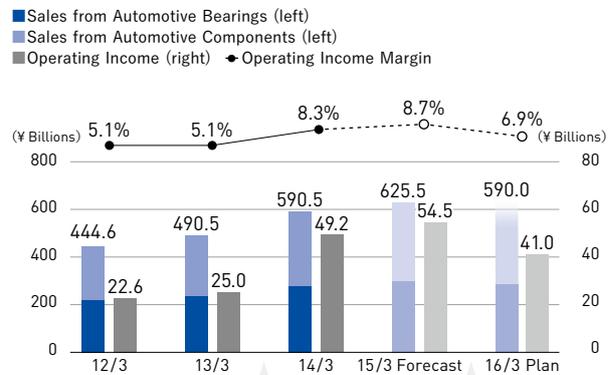
Revenue and earnings increased mainly due to the effect of exchange rates while sales volume recovered slowly

#### Focus in the future

- Launch new products and technology
- Gain business opportunities in Asia
- Expand sales of High-Performance Standard (HPS) products

#### Automotive Business

(Priority Issue ▶ Maintain and Improve Profitability)



#### First-year results

Reported historic highs in net sales and operating income, thereby achieving the numerical targets in the first year due to U.S. market recovery and Asian market growth

#### Focus in the future

Reinforce efforts to maintain profitability through adequate design, cost controls and capital expenditures

# Q3

## In light of future growth prospects, what policies do you plan to adopt in emerging markets?

During the third mid-term management plan, we took steps to bolster our business base in Asia, with a particular focus on China. We will continue to channel our growth strategies toward emerging markets. Moreover, we will develop strategies to move beyond Asia and China and look to other growth regions to expand our business.

In the Americas, we recently opened a new plant in Mexico. Although the site's mother plant is in Otsu, Japan, this project, conducted under the supervision of our regional headquarters in the United States, is NSK's first genuinely multinational venture, with participation by plants in Brazil, South Korea and China. We will work to expand sales by ensuring stable production and contributions through new projects. The Company's Suzano plant in Brazil has a history that spans more than four decades. We will endeavor to overcome Brazil's current economic difficulties and implement measures aimed at strengthening our operations and securing definitive growth.

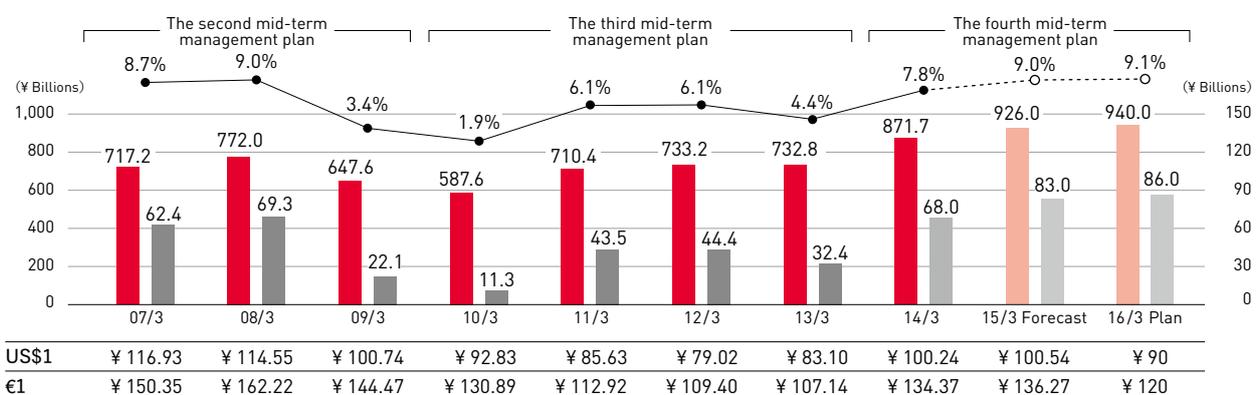
In Europe, NSK opened a new sales office in Saint Petersburg, Russia, in March 2013. To supplement the activities of its existing office in Turkey, the Company bolstered its network in the Middle East with additional sales offices in Dubai in the United Arab Emirates. Leveraging these offices as a base, we will further expand sales and reinforce our lineup of technological services.

Under the supervision of our three regional headquarters in China, Singapore—and India, we maintain 25 production sites, 49 sales offices and three technology centers in the region, all working to ensure the growth and development of our business. Looking at the Group's sales by region, Asia accounted for 33% of the NSK Group's total net sales for the year ended March 31, 2014. This was the largest contribution of all regions other than Japan, which came in at 38%. For the year ending March 31, 2015, we

expect the Asia region and Japan each to contribute around 35%. Asia is a difficult region to describe in a few words. It is home to a diverse range of ethnicities, languages, cultures and religions. Each country in the region is at a different stage of economic development and has distinct market attributes. Under these circumstances, it is vital that we promote individual strategies tailored to each market if we are to realize growth. To date, Asia has remained a priority region with resources allocated on a selective basis. As a result, we have forged a strong presence in the market as a whole. The most important issue that we will face in putting forward new strategies and promoting growth is the localization of management. In China, we have made progress with localization, appointing Chinese staff to several divisional general manager posts. Moreover, we established an advisory board made up of external experts in August 2013. This allows us to incorporate knowledge and wisdom from diverse sources. Steps to localize management were also taken at an early stage in South Korea. Through these and other initiatives, we will continue to promote the localization of management as a part of efforts to address the diverse needs of the Asian market. Localization will allow the NSK Group to fine-tune its activities and pursue strategies that balance growth with risk management.

With regard to growth in emerging countries, it is important to closely examine our approach toward high-volume markets. We have taken minority interests in local manufacturers in China with a view to obtaining knowledge about the market. We have now moved beyond this fact-finding function and established a local presence in some markets. We will work to clarify our definition of high-volume markets and take steps to put in place a range of strategies and structures, including our approach to business in these markets.

**Mid-Term Management Plan: Performance Targets** ■ Net Sales (left) ■ Operating Income (right) ◆ Operating Income Margin



### Efforts in Emerging Markets

1. Expand the strategies to move beyond Asia and China to other growth regions  
(a plant in Mexico came online; new sales offices in Dubai, the United Arab Emirates, and Saint Petersburg, Russia)
2. Localization of management
3. Setting up an advisory board in China
4. Taking steps to cultivate high-volume markets (took minority interests in local manufacturers in China)

## Q4

### What actions will you take and what issues do you expect to face in the development of management capability to handle ¥1 trillion in sales volume, a key component of the mid-term management plan?

Developing the necessary management capability that will enable us to handle ¥1 trillion in sales volume as a components manufacturer is a priority issue of our mid-term management plan. This recognizes the importance of acquiring the essential management capabilities that will allow us to operate efficiently on a global scale—a more important objective than any numerical sales target. We have identified three specific core strategies: enhancement of corporate governance and compliance, reform of our business structure, and advancement of global management.

As part of our efforts to enhance corporate governance and compliance, we will first review our existing systems. NSK adopted and introduced an executive officer system in 1999. Independent directors were subsequently appointed to the Company's Board of Directors and steps were taken to establish the Compensation Committee. In 2003, NSK established the Audit Committee, which was followed by the Nomination Committee in 2004 and later the transition to a committee governance structure. In 2006, the Company became a "company with committees" in accordance with the Companies Act of Japan. With the Board of Directors adopting a supervisory function, a structure of operational organizations was introduced to ensure that business activities are conducted in an efficient, open and fair manner. From 2004, steps were also taken to ensure that independent directors comprise a majority of the Audit, Compensation and Nomination committees. Since 2005, one-third of our 12-member Board of Directors has consisted of independent directors. This structure ensures that external perspectives are incorporated into the Company's management. All of these efforts have focused on our corporate governance capabilities in Japan. Amid the continued expansion of our business overseas, strengthening of the Group's global management audit and monitoring structure and systems is a key task.

Triggered by the recent cartel incident, in order to strengthen compliance, all officers and employees across the Group have submitted oaths that they will maintain the highest possible awareness of legal requirements and will work to ensure full compliance. At the same time, we have strengthened our organization, taken steps to share and ensure a thorough awareness of compliance issues and information, established internal regulations, and upgraded education and training. I will lead the way in developing a new corporate culture that emphasizes behavior with the highest ethical standards. As a good corporate citizen, it is imperative that we regain the trust and confidence of society.

In terms of reforms to our business structure, we must look closely at the structural changes occurring as a result of global development. It is vital that we reform our business structure to optimize management resources. For example, we must confront head-on issues relating to a business structure that must cope

with a weak Japanese market as the country's population declines. We must also consider production capabilities and the optimal allocation of resources in the Automotive Business, which is experiencing growth in overseas emerging regions, from a medium- to long-term perspective. Although these are challenging tasks, it is critical that we engage in vigorous internal debate.

Finally, regarding the advancement of global management, implementation of all policies and measures must be completed from a global perspective, and further globalization of our management system is essential. To optimally and efficiently operate under the three axes of business, region and function, we are pushing ahead with the internationalization of management. We have bolstered our head office management with the appointment of five non-Japanese members to executive officer and Group officer positions. We have also identified global posts in each region and put in place a mechanism to appoint talented global employees to these positions regardless of nationality. Appointment via this system is now underway. In addition, we took steps to renew IT systems for production, sales and management as part of efforts to improve management tools. The switch to new sales and operational systems was completed in January 2014, with ongoing efforts to promote global integration. New production systems are currently being introduced, with considerable progress being made. Existing projects related to systems for managerial purposes have been completed. We are now looking to standardize management processes across a wide area including the calculation of costs and budget formulation.

#### Initiatives Aimed at Establishing Corporate Fundamentals Appropriate for a Company with Net Sales of ¥1 Trillion

##### Enhance Corporate Governance and Compliance

- ▶ Strengthen Management Auditing and Monitoring Systems on a Global Scale

##### Reform the Business Structure

- ▶ Strengthen Measures Aimed at the Optimal Medium- and Long-Term Allocation of Management Resources

##### Advance Global Management

- ▶ Put in Place a Structure and Systems in order to Advance the NSK Group's Policies and Measures from a Global Perspective and on a Global Scale

TO THE NEXT

## Q5

**Interest continues to grow regarding dialog between investors and operating companies. Standing at the helm of the organization, what are your thoughts on dialog with capital markets?**

Engaging in constructive dialog with stakeholders is important from the perspective of sustainable corporate development. Communication with capital markets relates to the formulation of the Japanese version of the Stewardship Code. While there are numerous newspaper articles that address the issue of dialog with operating companies, it remains clear that investors, who provide essential funds, and the businesses that manage these funds through their ongoing activities, both play an equally important role in contributing to social and economic growth and development. I am therefore convinced that constructive dialog from each viewpoint is essential. Operating companies employ a variety of social capital from funds to human resources. When conducting their business activities, it is vital that operating companies obtain insight into external viewpoints in order to maximize value. In addition, amid the global development of business, the perspectives of overseas investors are a key point of reference. From the Company's perspective, it is important that we properly convey details of management's direction, business strategies and our governance structure. In this regard, efforts to disclose information and engage in dialog that allow investors to gain a true understanding of the Company and its activities are essential. There will, of course, be times when the opinions of investors will differ from those of the Company, and in fact when opinions will differ even from investor to investor. For example, opinions on the use of funds can be split among reinvestment aimed at further growth, the return of profits to shareholders through the payment of dividends and purchase of treasury stock, and the reduction of interest-bearing debt. Maintaining a proper balance is important. In this context, we must place equal priority on operating conditions, properly conveying the rationale behind management's decisions and listening carefully to investor opinions. To date, we have placed considerable weight on creating opportunities for dialog, and will continue to actively promote the constructive exchange of views.





## Growth Leader— NSK's Electric Power Steering Business

Dating back to 1959, when a ball screw-type steering gear was launched onto the market, NSK's steering business has extended its product range to include steering columns, intermediate shafts and joints. The Company commenced mass production of electric power steering (EPS) units in Japan in 1989. Since starting overseas production of steering columns in the United States and the United Kingdom in the latter half of the 1980s, NSK has continued the global development of its steering business. Currently, the Company produces steering products and responds to customer needs at 11 plants in six countries, including Japan. Global sales in the steering business have reached the ¥250 billion level, and EPS products are driving this expansion with sales of more than ¥200 billion. The EPS market is forecast to continue expanding due to the growth in automobile production and the increasing ratio of EPS-equipped vehicles. Automobiles are becoming increasingly sophisticated in terms of safety, comfort and environmental performance.

In this special feature, we introduce how NSK delivers solutions to such market needs, the special characteristics and role of the EPS business in the Company's ongoing growth, and expectations for the future.

### What Does a Steering System Involve?

Of the functions required of a car—propulsion, navigation and braking—the steering system fulfills the role of navigation. The act of steering expressed by the term “handling” is not only simply changing a car's direction—it is “course management,” the process of continuous communication involving the driver's intentions and the car's response. Steering also influences the quality of travel comfort. The craftsmanship involved in a steering system is an important element that affects the entire performance of a car as well as traveling comfort—not just for the driver, but

also the passengers.

Steering is necessary to generate steering “feel” in response to driving conditions experienced in a variety of situations: making the operation of a heavy steering wheel lighter when traveling at slow speeds; to operate smoothly when frequent changes of direction are required, such as in cities or on mountain roads; and to operate firmly and stably when traveling at high speed.

NSK's EPS enables these functions, with a higher level of performance.

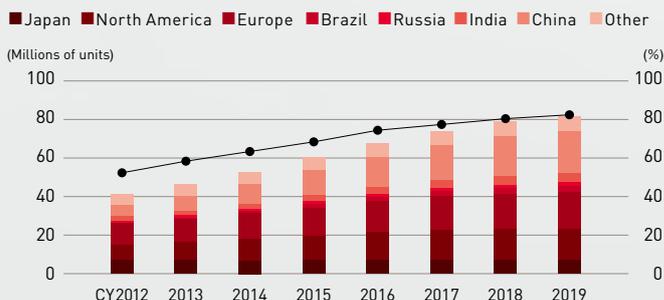
## Growth in Automobile Production Volume and Expansion of EPS Adoption

The first mass-production vehicle to be fitted with NSK's EPS was a small Japanese car in 1989. While EPS was adopted in small British sports cars in the 1990s and spread to small cars popular in Germany, at that time the system was only fitted to a small number of models. Following a subsequent evolution in technology and cost, full-fledged expansion of EPS ensued from the 2000s. Compared to hydraulic power steering, EPS offered a number of benefits, being more fuel efficient, lighter, quiet and easy to install, as well as bringing long-awaited improvements in cost and steering feeling. In addition, changes of automobile models that normally took place every 2-3 years were at three- or four-year intervals, and there was a need to synchronize new adoptions with the market entries of new models. Initially, installations of EPS systems were primarily advanced through installation in small cars for reasons of output, but the conquering of technical problems subsequently led to rapid adoption, and installation now extends to both medium-sized and large automobiles.

Global automobile production volume is set to increase and reach 100 million vehicles within a few years. The ratio of vehicles equipped with EPS reached approximately 60% of all automobiles produced in 2013, and is forecast to rise to 80% in 2018. The context behind this increase is the growing number of small vehicles in emerging markets and the full-scale penetration of EPS into the North American market, where the ratio of large automobiles remains relatively high.

The column-type EPS unit is regarded as NSK's strength, and the Company will work to achieve further adoption in the small car market, which continues to grow.

Number of EPS-Equipped Automobiles by Region (left) / Ratio of EPS-Equipped Automobiles (right)



Column-type EPS

## Chronology of NSK's Steering Business

- 1959** Launches ball screw-type steering gear onto market
- 1968** Enters steering column market
- 1975** Starts production of steering products at Soja Plant, a branch plant of the Maebashi Plant in Maebashi, Gunma Prefecture
- 1988** Establishes steering column manufacturing and sales subsidiary as a joint venture in the state of Vermont, United States  
Completes steering column plant in County Durham, UK
- 1989** Starts EPS production at the Soja Plant
- 1995** Establishes steering column production and sales company in Chachoengsao province, Thailand
- 1997** Establishes steering column production and sales company in the state of Tamil Nadu, India
- 1998** Starts EPS production in County Durham, UK
- 2003** Starts steering column production in Dongguan, China
- 2005** Starts EPS production in Walbrzych, Poland
- 2006** Fiscal 2006 EPS sales exceed ¥50 billion
- 2008** NSK-Wanda Electric Power Assisted Steering Systems Co., Ltd. (NWSS) established through a joint venture as second overseas steering subsidiary in China  
Starts EPS production in India
- 2009** Starts EPS production in Dongguan, China  
Starts EPS production in the state of Tennessee, United States
- 2010** R&D company ADTech Corporation established as a joint venture with Toshiba Corporation  
Start of EPS high-volume production at NWSS  
Fiscal 2010 EPS sales exceed ¥100 billion
- 2011** Celebrates 50th anniversary of start of steering production in Maebashi
- 2012** Start of EPS production in Chachoengsao province, Thailand  
Fiscal 2013 net sales exceed ¥200 billion

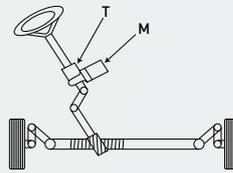
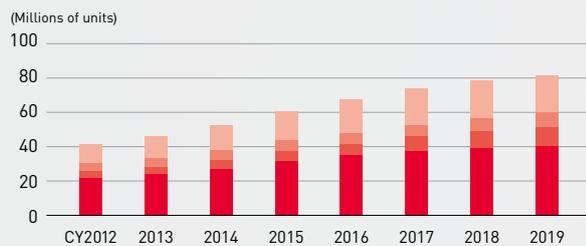
## Types of EPS

EPS products can be divided into three types: column, pinion and rack—the main difference being the location of the motor that provides power assistance.

In column-type EPS, the motor is attached to the steering column. As the component that conveys the turning motions of the steering wheel to the steering gear, the steering column has the function of adjusting the position of the steering wheel and absorbing the impact during a collision. In the pinion-type EPS system, a motor assists movements of the pinion gear, a steering gear component that picks up turns of the steering wheel and converts them into directions conveyed to the tires. The rack-type EPS assists movements in the direction of the tires by means of the steering gear's rack and pinion component.

### EPS Demand by Type

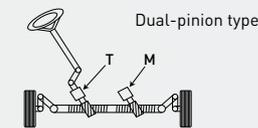
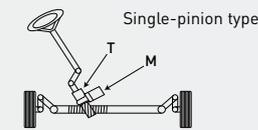
■ Column ■ Dual-pinion ■ Pinion ■ Rack



### Column-Type EPS

#### Features

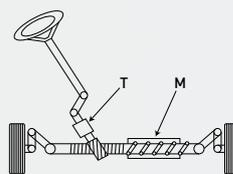
- Motor located in the passenger compartment
- Close to occupants
- Motor's environmental conditions (heat, dust, water, etc.) those of the vehicle's interior
- Far from front wheels



### Pinion-Type EPS

#### Features

- Motor located in the engine compartment
- Located separate from occupants
- Motor's environmental conditions (heat, dust, water, etc.) those of the engine compartment
- Close to front wheels
- Power assistance provided to pinion gear



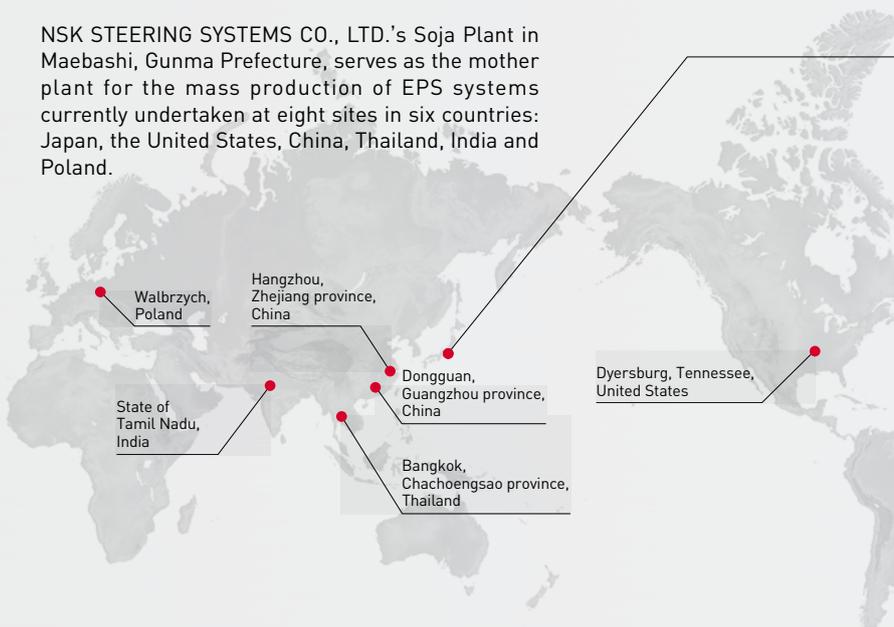
### Rack-Type EPS

#### Features

- Motor located in the engine compartment
- Located separate from occupants
- Motor's environmental conditions (heat, dust, water, etc.) those of the engine compartment
- Close to front wheels
- Power assistance provided to rack and pinion

## NSK's Global Production Sites for Steering Products

NSK STEERING SYSTEMS CO., LTD.'s Soja Plant in Maebashi, Gunma Prefecture, serves as the mother plant for the mass production of EPS systems currently undertaken at eight sites in six countries: Japan, the United States, China, Thailand, India and Poland.



The production frontline: NSK's Soja Plant (Maebashi, Gunma Prefecture)

Fulfilling the role of the mother plant, this plant's current 1,100-strong workforce is engaged in the manufacture of steering products.

## Conditions in the Steering Business

The environment surrounding the steering business is undergoing rapid change. Amid global competition, automotive manufacturers are focusing on how and whether to introduce, efficiently and at low cost, models that match the segmented needs of each market. The typical automaker intends to move toward such modularization, but the projects for key component steering systems are growing in size due to rising commonality. As a result, the decisions NSK makes on whether to accept an order for a certain project has a major effect on production volume and sales. Furthermore, the global spread of the projects requires local action in each part of the world to handle production and supply, and consideration of the balance between the customer's need for localized procurement with the investment costs involved. Meanwhile on the technology side, manufacturers are facing increasing requirements for safety and reliability. For example, active safety-driven steering control is becoming increasingly complicated due to several factors, including the software side, and the pursuit of a safer system is becoming more focused due to the advance of computerization. On the other hand, there is constant demand for systems to be lighter and more compact, one instance of which is the integration of the motor and the electronic control unit (ECU). Looking at the form of EPS power assistance, the column- and rack-type trends are increasing. NSK will work to strengthen its initiatives for column-type EPS, an inherent strength, while efficiently applying its resources. On the technological front, we are reaching the level where automobiles can be given the ability to, for example, automatically park in a garage or stay in a lane. Beyond this level, advances are also being made in the sophistication of automatic driving, and the role demanded of EPS is therefore becoming increasingly important.

### Project Trends

- Projects growing in size through modularization
- Global development of projects

### Evolution of Technical Needs

- Increasing requirement for safety, reliability
- Ongoing need for steering systems to be lighter, more compact
- Polarization of power assistance type classifications
- Evolution of automotive technologies

## Strengths of NSK's Steering Business

### 1. Strength in Column-Type EPS

Leveraging its technological, production and safety expertise nurtured over many years as a supplier of steering columns, NSK is further bolstering its strength in column-type EPS, focusing mainly on compact vehicles where demand continues to expand. At the same time, the Company is endeavoring to boost its competitive advantage through the efficient application of resources.

### 2. Global System

NSK is devoted to serving customer needs through its global supply system. With the Soja Plant as its mother plant, NSK's production system encompasses nine plants in five countries and a global technical system that enables design correspondence and evaluation testing at five overseas locations close to customers, under the control of two technical centers in Japan.

### 3. Technical Response/ Product Development Capabilities

NSK has refined its technical response capabilities to provide high-level solutions to its customers' sophisticated technical needs, and possesses superior development capability that allows products to be designed and ready for installation in mass-production models with limited lead times.

### 4. Global Management

Starting with the development and marketing departments that determine the basic concepts of each model, each department, including those responsible for designing the mass-production model, as well as purchasing, and each high-volume production plant and site work to provide a fine-tuned response across every facet of NSK's operations. These operations extend from models built on common platforms or modules that are mass produced for worldwide sale, to models produced to meet the specific market needs of each global region.

### 5. Project Management

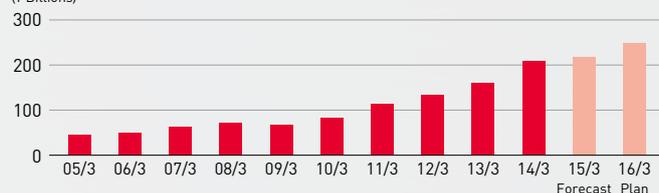
NSK carefully manages projects from the pre-planning stage through to mass production, including monitoring of the project schedule, the handling of advance preparations, initial design and estimates, order screening, the progress of post-nomination development, cost evaluations when a design changes, prototype support, and the ordering of mass-production facility and production tools. The Company will continue working to increase its competitiveness by assuring its mass-produced products are designed to deliver outstanding quality and cost performance.

## Future Prospects for the EPS Business

Looking at sales trends since the mid-2000s, when the adoption of EPS started to gain traction, sales in the year to March 31, 2005 were more than ¥40 billion, in the year to March 2007 they had surpassed ¥60 billion, and in the year to March 2011 they topped ¥110 billion, reaching ¥113 billion. In the year ended March 31, 2014, sales amounted to ¥209 billion, a significant increase—almost doubling in the space of three years. As the next step, we are working to extend EPS sales to the ¥250 billion level.

### EPS Sales

(¥ Billions)



# Review of Operations

## Segment Overview and Market Trends

### Overview by Business Segment

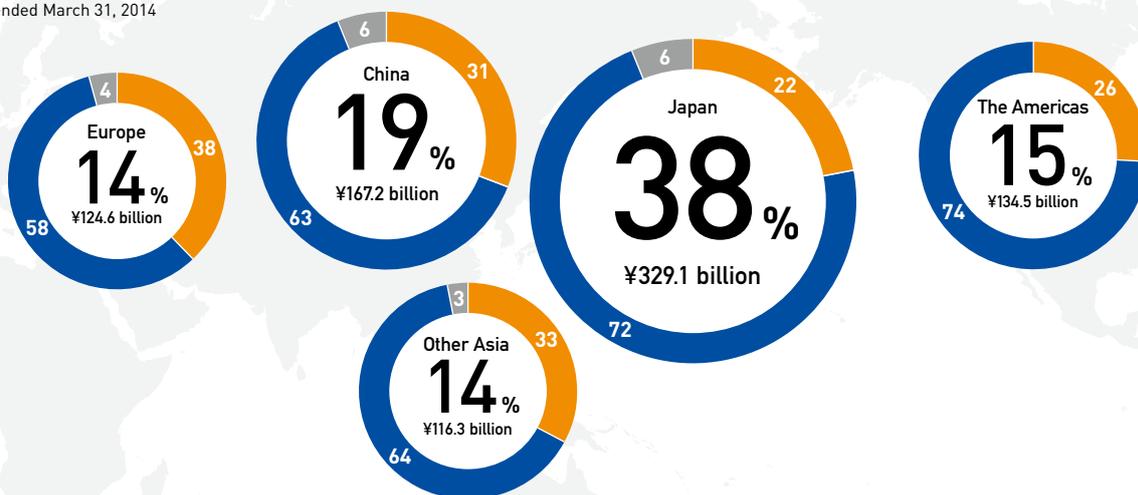
Industrial machinery-related demand continued the modest recovery seen from the second half of the previous fiscal year. Meanwhile, strong demand in China and the United States drove the automotive sector forward, despite variance between regions. From an overall global perspective, the market continued to grow. Under these circumstances, NSK reported strong results. By segment, net sales in the Industrial Machinery Business climbed 12.4% year on year to ¥243.0 billion and operating income surged 82.1% to ¥23.7 billion. In the Automotive Business, NSK reported record high results, with net sales increasing 20.4% to ¥590.5 billion and operating income jumping 96.9% to ¥49.2 billion.

### Overview by Geographical Segment

Looking at market trends by geographic region, the Japanese economy continued to enjoy an overall modest recovery. In addition to the positive flow-on effects of the correction to the strong yen, favorable conditions were largely attributable to improvements in personal consumption and production, which were triggered by the rush in demand in the lead-up to Japan's consumption tax rate hike. In the United States, the economy enjoyed a prolonged period of growth. Despite a slow pace, there were also signs of a pickup in economic conditions in Europe. In contrast, business conditions throughout the ASEAN region remained flat. China, on the other hand, continued to exhibit stable economic growth. Under these circumstances, net sales in Japan totaled ¥329.1 billion, a year-on-year decrease of 1.3%. Net sales in the Americas climbed 30.1% to ¥134.5 billion. In Europe, net sales increased 21.4% to ¥124.6 billion. Net sales in Asia advanced 46.5% to ¥283.5 billion including an upswing of 82.9% to ¥167.2 billion in China. As a result, total overseas net sales improved 35.8% year on year to ¥542.6 billion. In overall terms, the percentage of total sales made outside Japan was 62.2%, 7.7 percentage points higher than a year earlier. Of this amount, Asia accounted for 32.5% of overall net sales, up 6.1 percentage points year on year.

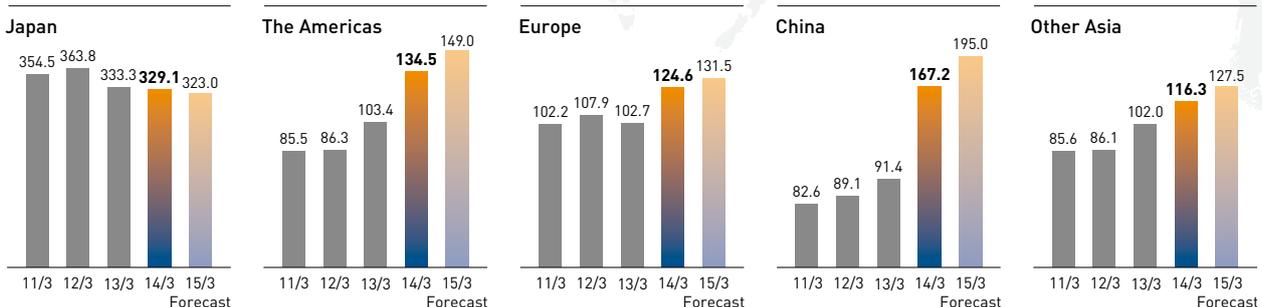
### Sales by Segment (%)

- Industrial Machinery Business (Industrial Machinery Bearings / Precision Machinery and Parts)
  - Automotive Business (Automotive Bearings / Automotive Components)
  - Others
- Year ended March 31, 2014



### Sales by Customer Location

(¥ Billions)



## Industrial Machinery Business

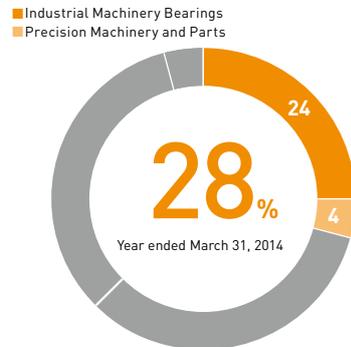
### Net Sales (¥ Billions)

Year Ended March 31, 2014      Year Ending March 31, 2015

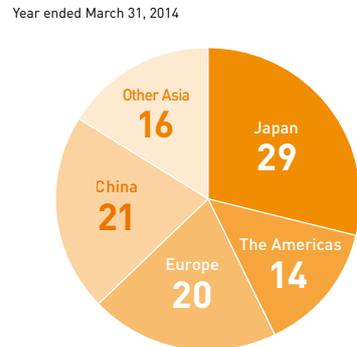
**243.0**      **263.0**

↑ 12.4%      ↑ 8.2%

### Sales by Segment (¥ Billions)



### Sales by Customer Location (%)



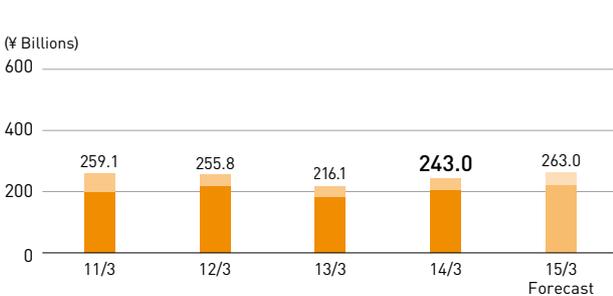
### Operating Income (¥ Billions)

Year Ended March 31, 2014      Year Ending March 31, 2015

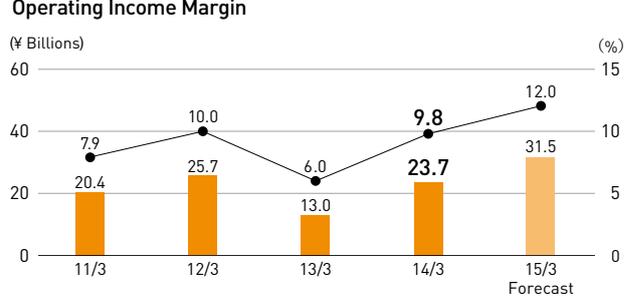
**23.7**      **31.5**

↑ 82.1%      ↑ 32.8%

### Net Sales



### Operating Income / Operating Income Margin



## Automotive Business

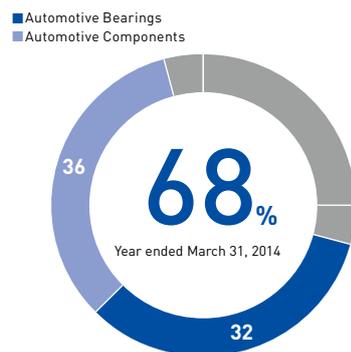
### Net Sales (¥ Billions)

Year Ended March 31, 2014      Year Ending March 31, 2015

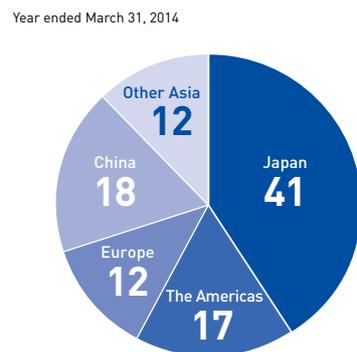
**590.5**      **625.5**

↑ 20.4%      ↑ 5.9%

### Sales by Segment (¥ Billions)



### Sales by Customer Location (%)



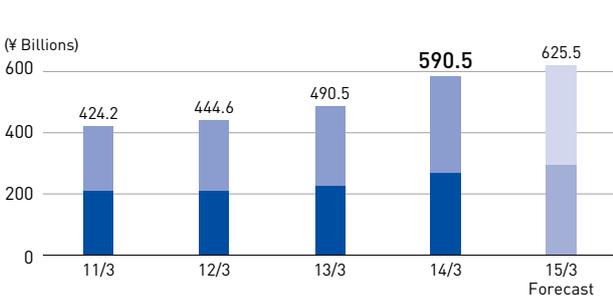
### Operating Income (¥ Billions)

Year Ended March 31, 2014      Year Ending March 31, 2015

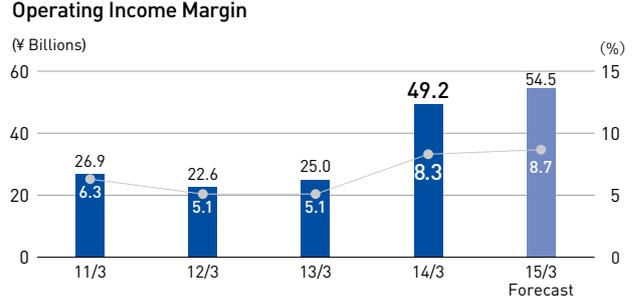
**49.2**      **54.5**

↑ 96.9%      ↑ 10.8%

### Net Sales



### Operating Income / Operating Income Margin



# Industrial Machinery Business

Industrial Machinery Bearings/  
Precision Machinery and Parts

## Mid-Term Management Issues

### Reinforce Sector-Based Strategies

Implement Leader and Challenger Strategies

Develop New Products and Technologies;  
Shorten Lead Times

### Strengthen Aftermarket Strategies

Cultivate End-Users; Upgrade and Expand the  
Distributor Network

Boost Maintenance Services

## Business Overview

The industrial machinery bearings business comprises the general machinery sub-segment, which manufactures bearings for applications in a wide range of industries, such as machine tools, construction machinery, wind turbines and steelmaking; the electrical and IT equipment sub-segment, which includes bearings for home appliances, office equipment, hard disk drives (HDDs) and general purpose motors; and the aftermarket business, which provides maintenance and repair services. The precision machinery and parts business manufactures linear motion products and mechatronics products used in machine tools, injection molding machines, production equipment for semiconductors and LCD panels, and transfer machines. We intend to reinforce fields in which the Company already has a leading position, including machine tools and home appliances, and focus on improving our efforts in such growth fields as mining machinery, pumps, compressors and wind turbines. In the aftermarket business, we will broaden our customer base, expand and improve sales channels, and reinforce maintenance services and automobile repair services. With these measures, we plan to expand our Industrial Machinery Business in a market environment currently undergoing a modest pickup in demand.

## Business Results and Main Initiatives for the Year Ended March 31, 2014

### Achieved an increase in revenues and earnings amidst a modest market recovery

Demand has continued to exhibit a modest recovery from the second half of the previous period. Looking at results by geographic region, in Japan demand for general machinery showed signs of recovering, while net sales also increased, particularly in the electrical equipment and aftermarket sectors. In the Americas, sales rose due to the impact of foreign exchange rate movements and a gradual recovery in demand. In Europe, sales in the electrical equipment sector increased, and demand in the machine tool sector showed signs of a turnaround. In Asia, sales in China increased due to a steady upswing in demand in the machine tool and electric equipment sectors. There were also signs of a recovery in the aftermarket sector. In the ASEAN region, sales increased due to the impact of foreign exchange rate movement, despite a slowdown in economic conditions. As a result, net sales in the Industrial Machinery Business totaled ¥243.0 billion, up 12.4% year on year. Thanks largely to a reduction in external procurement costs and improvements in productivity, operating income rose 82.1% year on year to ¥23.7 billion, while the operating income margin climbed 3.8 percentage points to 9.8%.

## Outlook and Priority Measures for the Year Ending March 31, 2015

### Expand sales volume and secure earnings by introducing new products and technologies and shortening lead times

Demand across such fields as machine tools, pumps, compressors and railcars is expected to exhibit a moderate recovery trend compared with the previous year, primarily in regions outside Japan. Under these circumstances, NSK will place considerable emphasis on Asia, where demand is anticipated to expand. The NSK Group will utilize its Shenyang plant in China and work to expand its market share in large volume standardized products while switching increasingly to localized procurement. The NSK will also step up its initiatives in the maintenance business. In addition to existing business fields, including the steelmaking sector, we intend to enter new fields such as railcars and papermaking. At the same time, we will place additional weight on upgrading and expanding aftermarket channels in emerging markets in Asia. After forging a position within each new market on the strength of its technologies, the Group will work to increase sales of standardized products, focusing primarily on its high performance series (HPS). The Group already boasts an expansive HPS lineup of approximately 6,000 product numbers which contribute significantly to maintenance cost reduction and downsizing initiatives. Looking at sector-based strategies, we are expanding electrical equipment and ball bearing activities in leader fields, and cultivating opportunities in roller bearings in challenger fields. The Group is committed to expanding sales volume and securing earnings by supporting sales through new products and technologies and shorter lead times. Based on these factors, we project net sales to expand 8.2% year on year to ¥263.0 billion and operating income to increase 32.8% to ¥31.5 billion in the year ending March 31, 2015. These forecasts translate to an operating income margin of 12.0%, 2.2 percentage points higher than the fiscal year under review.

## NSK's Competitive Advantages

- The extensive product lineup of a comprehensive manufacturer
- Technological capabilities based on our four core technologies
- Accumulated expertise in customer needs and technology for a wide range of industries and applications
- Manufacturing, supply and technical support capabilities based on a global network

## NSK Products Play an Active Part in a Wide Variety of Industries



### Machine Tools

From the home appliances and smartphones around us to automobiles and aircraft, machine tools help to create a variety of industrial products. High, nano-level working accuracy is demanded of the machine tools that process precision components from such materials as steel and aluminum in the required molds. NSK is the only manufacturer in the world offering a complete development and supply service for the bearings, ball screws, linear guides and spindles that meet the specifications demanded for machine tools—namely high speed, high accuracy and high rigidity.



### Steelmaking Facilities

High loads, high temperatures, high speeds, environments contaminated with water and debris. These are just some of the extreme conditions at iron and steel plant facilities in which bearings are used—making high reliability and long service life a must. While contributing to stable operation and productivity improvements in the steel industry through its technologies spanning advanced design, material engineering, lubrication, and analysis, NSK will strengthen its position as the world's No. 1 supplier of bearings to the steel industry.



### Railcars

Shinkansen bullet trains safely cover long distances at high speed. NSK has been supplying bearings for more than 50 years, from the bullet train's initial development to today. Use on bullet trains traveling at high speeds of more than 300 km/h requires bearings able to withstand the impact from the rails and rotate without losing energy, even at high speeds. By developing and supplying bearings that are compact, lightweight, able to tolerate high-speed operations and have extended maintenance intervals, NSK continues to support safe and comfortable operation of bullet trains.



### Pumps and Compressors

Used to adjust the pressure of liquids or gases, pumps and compressors are employed in a variety of fields: pumps in dams and water purification systems, water-related businesses such as hydroelectric power stations, petrochemicals, papermaking, and compressors in household and industrial air conditioners and refrigerators. Pumps and compressors must be environmentally friendly, highly reliable, energy efficient, and offer savings in maintenance costs. NSK supplies a wide lineup of bearings that help save energy and reduce maintenance costs.

# Automotive Business

Automotive Bearings /  
Automotive Components

Mid-Term Management Issues

## Automotive Bearings

Develop New Technologies and Products to Meet the Needs of High-Volume Markets, Electric Vehicles, and Energy-Efficiency

## Automotive Components

Expand the EPS Business  
Strengthen Next-Generation Technology Development

### Business Overview

The automotive market is forecast to continue growing, spurred by demand from emerging markets. At the same time, the pace of technological innovation in the development of hybrid vehicles, electric cars and fuel-efficient vehicles, as well as the commonality of components and units, is rising. NSK's automotive business consists of two categories: automotive bearings, such as hub unit bearings and needle roller bearings, and automotive components, including electric power steering (EPS) systems and automatic transmission components. Business relationships with all Japanese automobile manufacturers, most of the North American and European automobile manufacturers, and a wide range of first-tier automotive component manufacturers have enabled NSK to reflect customers' latest needs and technological trends during product development. We will continue to cater to automakers' increasingly advanced and diverse requirements by accelerating technological development with a view to the mid to long term.

### Business Results and Main Initiatives for the Year Ended March 31, 2014

#### Achieved record high net sales and operating income due to a robust EPS market

In overall terms, the global automotive market continues to expand. Looking at results by geographic region, sales in Japan declined. Despite strong sales as consumers rushed to beat the consumption tax rate hike, this downturn in sales was largely attributable to the partial shift of automobile production overseas. In the Americas, the automotive market performed strongly due to steady demand from consumers replacing older vehicles. The European automotive market trended toward recovery from the summer months, with sales of automotive bearings increasing owing to the launch of new projects. In China, sales of automotive bearings improved due to steady growth in automotive production. Moreover, sales of EPS systems rose significantly with the release of new models. Although growth in each ASEAN market varied, overall sales of automotive bearings increased. This largely reflected the positive flow-on effect of new orders. Due to these factors, the NSK Group reported record high revenues and earnings. Net sales in the Automotive Business were ¥590.5 billion, a year-on-year increase of 20.4%. From a profit perspective, operating income surged 96.9% to ¥49.2 billion. The operating income margin was 8.3%, 3.2 percentage points higher than the previous period.

### Outlook and Priority Measures for the Year Ending March 31, 2015

#### Higher sales with accompanying earnings growth in regions of continuing demand expansion, including Asia and the robust EPS market

In the year ending March 31, 2015, global automobile production volumes are expected to reach 89.4 million vehicles. This is 2%–3% higher than the 87.1 million vehicles produced during the period under review. Production volumes of Japanese automobile manufacturers are projected to rise approximately 4% year on year to 28.4 million vehicles on a global basis, with overseas production accounting for the majority of this increase. Accordingly, growth by Japanese automobile manufacturers is estimated to outpace that of non-Japanese manufacturers. In these circumstances, the NSK Group will work to expand sales of its automotive bearings at a rate that exceeds growth in automobile production, focusing mainly on Asia and China where demand is forecast to expand. In the Americas, plans are in place for the Group's plant in Mexico to commence full-fledged operations in 2014. In addition to upgrading and expanding production, the Group will continue to promote localized procurement. In the automotive component business, demand for EPS products continues to expand, primarily in China and the United States. Recognizing the importance of expanding its business in line with earnings growth, the NSK Group will focus on lifting sales by increasing the rate of column-type EPS installation, while further expanding technology to regions outside Japan. These measures will channel energy toward further growth. In addition, we will prioritize the development of next-generation technologies in safety-related and environmental fields. In the year ending March 31, 2015, NSK will strive to expand in growing regions and sectors, while maintaining and improving profitability. Accounting for these factors, we forecast net sales of ¥625.5 billion, a year-on-year increase of 5.9%, and operating income of ¥54.5 billion, up 10.8%, for an operating income margin of 8.7%, essentially unchanged from the period under review.

## NSK's Competitive Advantages

- Diverse business relationships/customer base among finished vehicle and first-tier automotive component manufacturers
- Global supply capabilities
- Developmental capabilities/technological response capabilities for advances in driving, steering and braking functions
- Global management systems to focus efforts on catering to non-Japanese customers

## NSK Products Are Used in a Wide Variety of Automotive Parts

### Hub Unit Bearings

Shutting out muddy water in a variety of driving environments, the hub unit bearing that supports an automobile's wheels is a key component with long service life and reduced weight. Boasting superior durability, NSK hub unit bearings meet demands for further reductions in weight, better fuel efficiency and modularization, and also contribute to stable driving performance.

### Engine Parts and Electrical Accessories

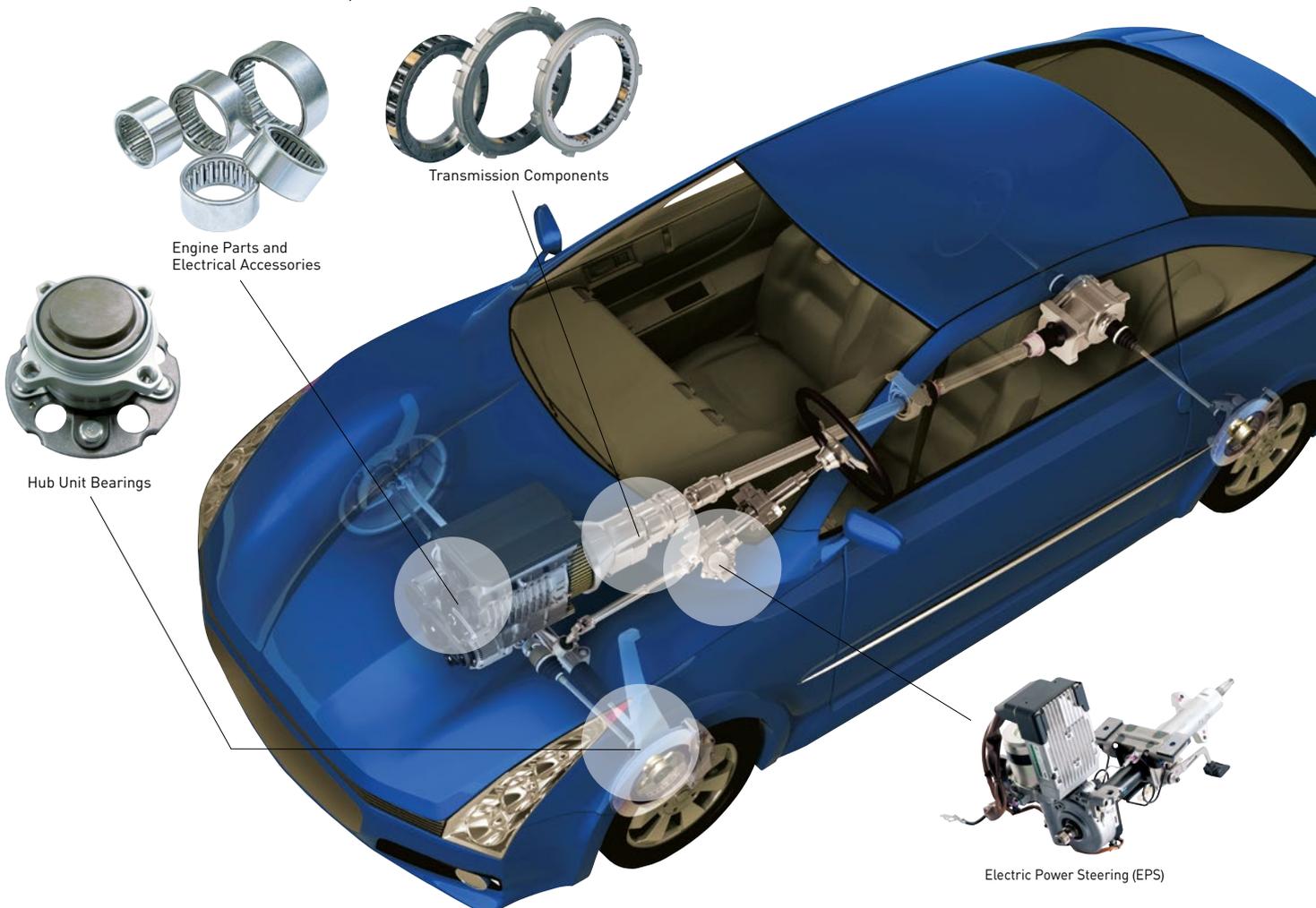
Engines are known as the "heart of an automobile." Operating under extreme temperatures and vibration, engine-related components need to be highly reliable and durable. In addition, the development of highly efficient engines is gaining pace to meet needs for higher fuel efficiency in gasoline and diesel-powered vehicles. NSK is expanding its lineup of high-efficiency products to meet these customer requirements.

### Transmission Components

Efficient transmission of the power from an engine and smooth shifts between gears are key requirements of automatic transmission (AT) systems. Making full use of advanced tribology technologies, NSK's AT-related components enable friction control and smooth operation with little friction loss.

### Electric Power Steering (EPS)

NSK has been mass-producing EPS systems since the late 1980s. Adoption of EPS systems has spread rapidly with the rise in environmental awareness. Their outstanding features include superior fuel efficiency, quiet operation, ease of installation, the elimination of waste from conventional hydraulic fluids, and safety improvements due to software control. Leveraging its strengths in small vehicles, NSK is helping increase the adoption of EPS.



# Research and Development

## NSK's Research and Development

For nearly a century since its founding in 1916, NSK has focused efforts on R&D, developing new technologies and raising product quality. Having grown into a leading company in the fields of bearings, automotive products, and precision machinery and parts, NSK's technological capabilities are based on four core technologies: tribology, material engineering, analysis technology, and mechatronics.

From technology centers in Japan, Europe, the Americas, and mainland Asia, our experts from a range of fields work to

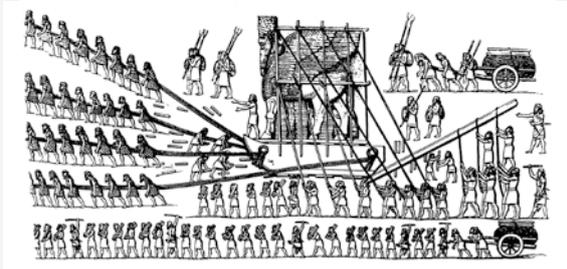
develop platform technologies and next-generation products. NSK also opened the new Future Technology Development Center to advance research and development into cutting-edge technologies to address growing needs for safety and environmental conservation in the fields of new energy sources, medicine, and bio-technology.

Based on these four core technologies, NSK will continue to develop new technologies and contribute to the advancement of industry worldwide.

### NSK's Four Core Technologies

#### Tribology

Tribology is a technology that controls friction and wear of sliding surfaces in relative motion. This is a key technology for bearings that support rotational or linear motion applications. The principle of bearings traces its origin to ancient Mesopotamia, where gigantic stones were transported with relative ease by placing logs underneath them.



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

#### Material Engineering

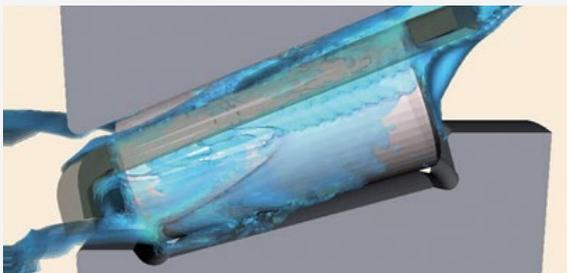
Materials play a key role as technologies that affect the performance of products. Optimal compositions and heat treatment processes under optimal conditions for metal and high polymeric materials, as well as the utilization of ceramics technologies, are key contributors to increasing the durability, reliability, and performance of bearings.



Ceramic ball bearings

#### Analysis Technology

We use computer simulations to test and assess the performance of bearings in virtual environments. Taking advantage of advanced analysis technology enables us to assess performance in extreme conditions, under which testing in actual machinery is difficult. This helps us speed up the creation of optimal designs and product development for bearings.

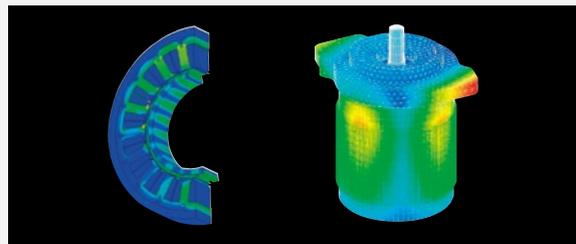


Computational fluid dynamics (CFD) analysis of tapered roller bearings

#### Mechatronics

NSK has honed proprietary mechatronics technologies that fuse control technologies with mechanical technologies—which the Company has fostered through product development and at production sites—and motor, sensor, and circuit technologies.

Mechatronics contribute to the development of new products by giving NSK's products movement, and creating new functions and performance.



3D magnetic analysis of a direct drive (DD) motor (left) and magnetic vibration analysis of an EPS motor (right)

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**FOCUS:1** **NSKHPS™ Series of Industrial Machinery High-Performance Standard Bearings**

Industrial machinery used across many fields, such as pumps, compressors, gear boxes and robots, must be able to operate reliably under strenuous conditions, be easy to maintain, have low running costs, and help conserve energy. In turn, bearings used in industrial machinery must be able to deliver long service life, high speed, and low torque.

NSK has developed the groundbreaking NSKHPS™ series of high-performance standard bearings to satisfy these requirements of industrial machinery, by combining its proprietary engineering technologies with sophisticated analysis technology, cutting-edge material engineering technologies based on its long history of research into basic materials, and the latest in manufacturing technologies.

Since the series' launch in 2004, NSK has worked to expand variations to feature six main varieties and more than 30,000 types of bearings. NSK will continue to contribute to reduced maintenance costs and equipment size for our customers by offering the NSKHPS™ series of bearings.



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**FOCUS:2** **Development of Monitoring System for Wind Turbine Generators**

As environmental issues become more serious and greater attention becomes focused on renewable energy sources, many are looking to wind energy as a possible solution. In addition to onshore wind turbine installations, the number of offshore and large-size turbine installations is expected to increase in the future. However, reducing the cost of power generation and improving turbine performance remain issues to be overcome.

NSK participates in an R&D project for advanced wind turbines promoted by the New Energy and Industrial Technology Development Organization (NEDO). Through this project, NSK is researching ways to both improve power generation efficiency in next-generation wind turbines as well as ways to reduce power generation costs. Through experiments using already-installed wind turbines, this project aims to improve the equipment life by increasing maintenance efficiency, as well as to develop monitoring systems to detect malfunctions and measure the service life of parts. NSK is focusing efforts on developing wind power to expand the use of environment-friendly renewable energy.



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**FOCUS:3** **A New Kind of Practical Manipulation System for Minute Operations**

In the practical medical application, bio-technology, semiconductor, and electronics industries, manipulation systems are widely used to perform minute operations at the micro- and nano-order\* level. In 2008, NSK developed a manipulation system combining its precision positioning technologies with the latest in image processing technology. In the past, minute operations for manipulating cells, for example, had depended on the skills of expert operators, but NSK's manipulation system makes it easy for anyone to perform these sorts of operations.

NSK has made practical a new type of manipulation system that is more compact, offers greater accuracy, and is easier to operate. In collaboration with the Central Institute for Experimental Animals, we succeeded in the micro-insemination of laboratory animals. NSK will continue to strive to meet diverse needs in the bio-technology and precision electronics industries.



\*Nano-order: One one-billionth

# Social and Environmental Activities

## Basic Philosophy for Corporate Social Responsibility

NSK's Mission Statement expresses unequivocally our commitment to helping develop society and protect the global environment. Furthermore, our Management Principles guide our efforts to realize this Mission Statement.

By facilitating the smooth operation of all kinds of machinery, NSK's products play a key role in improving the reliability, safety, and energy-saving performance of machines. NSK's basic approach to corporate activities is to contribute to the well-being and safety of society, the protection of the global environment and the realization of a sustainable society. Everyone at NSK, from our top leaders to our regular employees, is acutely aware of our mission in society, and we do our utmost to advance our business and contribute to society from the perspective of our customers and other stakeholders. Through these efforts, we aim to increase our corporate value and achieve sustainable growth.

### 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.

### Management Principles

1. To serve our customers through innovative and responsive solutions, taking advantage of our world-leading technologies
2. To provide challenges and opportunities to our employees, channeling their skills and fostering their creativity and individuality
3. To identify the needs of the times and of the future and to use all of NSK's resources to meet those needs by being versatile, responsive, and dynamic
4. To work together with our employees and contribute to the communities in which we operate
5. To manage our business from an international perspective and to develop a strong presence throughout the world

## As a Member of Society

### Social Contribution Activities

To assist with the development of countries and regions around the world, NSK participates in a variety of social contribution activities. It aims to become a company that is required, trusted, and respected in each region by focusing on:

1. Promoting science and technology to support the prosperity of society
2. Fostering development of the next generation
3. Engaging in activities designed to build mutual harmony and benefit with communities

### Fostering a Global Workforce and Promoting Diversity

As the globalization of NSK's business continues, we must create workplaces where people with diverse values and working styles can excel. NSK has worked hard to create a more diverse workforce by employing persons with disabilities, talented personnel regardless of nationality, rehiring people after they reach mandatory retirement age, and providing assistance in childrearing and caregiving. Through our global training system aimed at enhancing employee skills and knowledge, and our Global Management College aimed at grooming personnel for top management positions. NSK is working to foster a workforce with a global perspective.

### Fostering the Next Generation in Indonesia

Fostering talented people to lead the next generation is a way of encouraging growth in industry and developing society. Recently, in Indonesia, the government has been reassessing traditional ways of training human resources, which have tended to focus on higher education such as colleges, and has begun encouraging younger generations to learn advanced technical skills through vocational training.

Involved in this initiative, PT. NSK Bearings Manufacturing Indonesia offers several months of hands-on training and plant visits, helping local trainees improve their knowledge and learn new skills. The participating students listened attentively to the presentations by our employees, occasionally asking questions as well.



Students listening to employees talk

### Related Employee Data\*1

	(FY)				
	2009	2010	2011	2012	2013
Average years of employment	17	18	18	18	18
Average age	41	41	41	41	41
Proportion of female employees	6.6%	6.5%	6.7%	6.5%	6.6%
Rate of child-care leave taken*2	93%	100%	100%	100%	100%

\*1 NSK and main group companies in Japan \*2 Excluding short-term child-care leave taken

### Number of Reemployed Persons

	(FY)				
	2009	2010	2011	2012	2013
Seniors	227	272	325	383	441
Others (part-time employees, etc.)	42	42	34	29	29
Total	269	314	359	412	470

### Rate of Employment of Persons with Disabilities

	(FY)				
	2009	2010	2011	2012	2013
Rate of employment of persons with disabilities	1.83%	1.85%	1.97%	1.99%	2.04%

## The Global Environment and NSK

### Contributing to the Environment through Our Products

To contribute to the well-being and safety of society and to protect the global environment, NSK is evaluating the needs of customers and society and developing products and technologies that contribute to the environment through the use of the Company's four core technologies: tribology, material

engineering, analysis technology, and mechatronics. By promoting the widespread use of our products and technologies, we aim to help reduce society's impact on the environment through the advancement of machines that use NSK products and the development of environment-friendly industry.

### Basic Policy for the Development of Environmentally Friendly Products

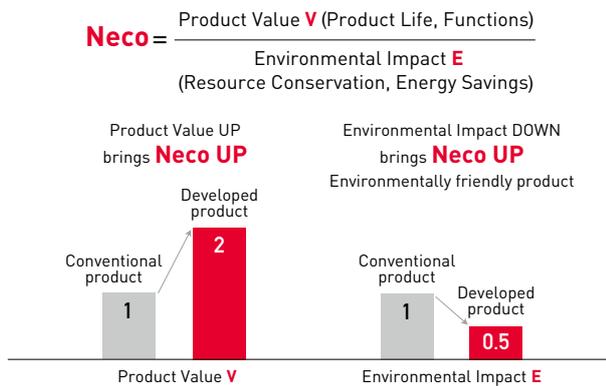
To provide environmentally friendly products, NSK develops products with the intention of minimizing their impact on the environment throughout their life-cycle, from R&D and design to production, use and final disposal.

NSK has created the NSK Eco-Efficiency Indicators (Neco) as a yardstick to assess the degree of environmental friendliness of the products it develops. Neco has been useful as an indicator of the relationship between product value and environmental load with regard to the development of environment-friendly products.

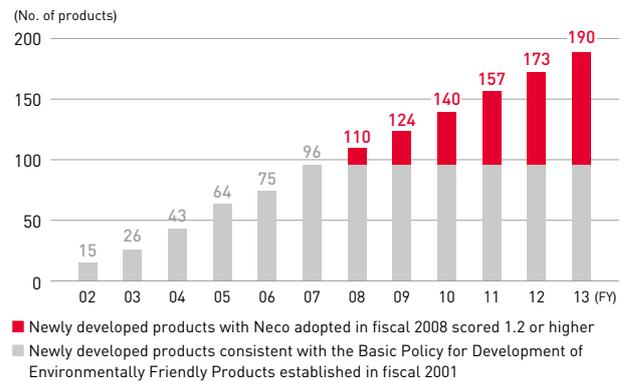
#### Basic Policy

1. Each product should contribute to the energy and resource conservation of the machine in which it is installed.
2. The amount of energy and resources required during product manufacturing should be minimal.
3. Environmentally harmful substances should not be used in products or manufacturing processes.
4. Products should contribute to the health and safety of end users by minimizing emissions of vibration, noise, and dust.

#### Neco: NSK Eco-Efficiency Indicators



#### Number of Environmentally Friendly Products Developed



#### Environmentally Friendly Product:

##### High-Performance Cartridge Bearing for Automotive Turbochargers

Turbochargers increase the horsepower of engines and improve fuel economy by allowing a smaller engine to power a large automobile. Demand for turbochargers is anticipated to increase in light of heightened attention to the environment in recent years.

Bearings used in turbochargers must withstand high temperatures and be reliable at high rotational speeds because they are directly in the way of hot exhaust gases. NSK has developed a high-performance cartridge bearing for turbochargers that reduces friction loss by approximately 50% compared to sliding bearings, owing to the use of steel with superior heat resistance and ceramic balls that are lighter, tougher, and perform better at high speeds. This product contributes to greater efficiency and reduced the size of engines by enhancing turbocharger performance.



High-performance cartridge bearing for turbochargers

# Corporate Governance

## Corporate Governance

### Basic Philosophy

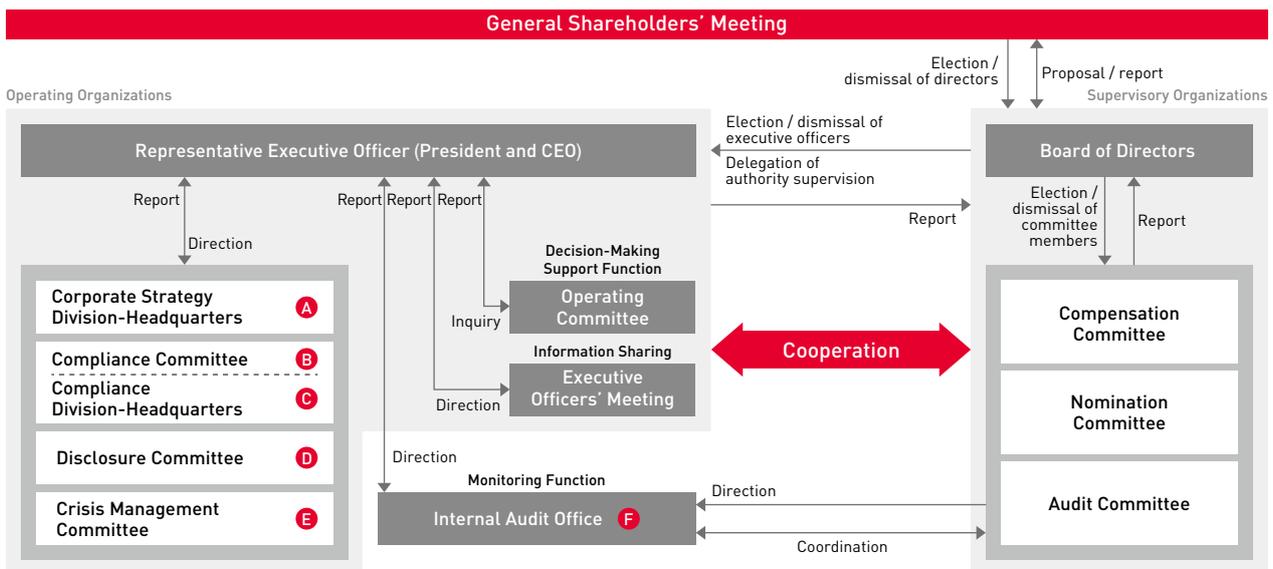
NSK regards corporate governance as a structure that enables the operational organizations to realize efficient and fair management under the supervision of the Board of Directors. The Company defines Corporate Governance Rules in line with four policies: to (1) improve management flexibility by delegating more authority from the Board of Directors to the operational organizations; (2) ensure the supervision of the operational organizations by the supervisory organizations by separating the former and the latter; (3) strengthen the supervision of the operational organizations by the supervisory organizations through close cooperation between the former and the latter; and (4) increase management fairness by strengthening the compliance system.

### Corporate Governance Structure

NSK operates under a “Company with Committees” system in which executive and supervisory roles are clearly defined, with the aim of maintaining and enhancing management soundness and transparency. In the case of executive functions, the CEO makes final management decisions, while the specific operational functions are overseen by the executive officers in charge. In addition to making decisions on fundamental management policies, the Board of Directors supervises the activities of executive officers. The Company has also established an Audit Committee, a Compensation Committee, and a Nomination Committee (each consisting of two independent directors and one non-independent director).

In fiscal 2014, the Board of Directors and the Audit Committee each met 14 times, while the Compensation Committee and Nomination Committee each met four times.

### NSK’s Corporate Governance Structure



**A Corporate Strategy Division-Headquarters**  
Coordinates with each business, functional and regional headquarters to support the CEO and oversee and manage general risks related to management of the NSK Group. Responsible for maintaining and enhancing the internal control systems necessary for the operation of the NSK Group’s global business.

**B Compliance Committee**  
Creates policies designed to strengthen the compliance of the overall NSK Group, sets and promotes compliance enhancement measures to realize these policies, and monitors and supervises their implementation. Periodically reports to the Board of Directors on the progress of these activities.

**C Compliance Division-Headquarters**  
Responsible for enacting measures to strengthen compliance, based on the policies set by the Compliance Committee. Conducts educational initiatives to ensure that the Company acts as a good corporate citizen with a sense of social responsibility in all situations, and plans, proposes, enacts, and monitors measures to ensure compliance with laws, rules, and corporate ethics. Also reports periodically to the Compliance Committee on the progress of compliance enhancement measures.

**D Disclosure Committee**  
Responsible for ensuring appropriate and timely disclosure of important corporate information that is likely to influence investors’ investment decisions, in line with relevant laws and regulations.

**E Crisis Management Committee**  
Responsible for preparing and strengthening response systems to major risks to the company, such as natural disasters, pandemics, or major accidents, in order to prevent such risks from eventuating or to minimize damage. Also responsible for leading a swift and appropriate response in the event of a disaster.

**F Internal Audit Office**  
As the division responsible for internal auditing of operations, responsible for conducting audits to determine the legitimacy, adequacy, and efficiency, etc. of operations, and monitoring performance of operations. Also responsible for overseeing the evaluation of the effectiveness of internal controls over financial reporting.

### Independence of Independent Directors

NSK believes that the participation of independent directors in meetings of Board of Directors and the three committees, and having independent directors play a role in deciding fundamental management policies and supervising executive officers, raises management soundness and transparency, and helps ensure that no conflicts of interest occur with general shareholders. The Company has set internal standards for independence when appointing an independent director. He or she must possess exceptional, wide-ranging experience as a senior executive or specialist, and have no conflict of interest with those of general shareholders. All four of the Company's independent directors meet the standards for independence.

### Internal Control Systems

In addition to managing the Group's business on a global scale, NSK's business divisions work to strengthen Groupwide internal controls based on the NSK Group Management Rules. These rules define the basic principles that serve as the framework of Group management and control systems. The Company has established internal audit offices at each regional headquarters with a view to building and strengthening the foundations of global internal auditing. In August 2013, the Company also strengthened the functions of its Internal Audit Office, upgrading it to the Internal Audit Department in order to address key issues in its mid-term management plan: (1) enhancing compliance; (2) strengthening monitoring; (3) improving audit effectiveness; and (4) promoting operational efficiency.

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## Response Measures to Large-Scale Purchases of the Company's Shares

The Company had previously introduced response measures to large-scale purchases of its shares in 2008. Subsequently, at the expiration of the three-year period in which those measures were in force, the Company obtained shareholder approval at the annual general shareholders' meeting held on June 24, 2011, and renewed the former response measures to large-scale purchases of Company shares (the "Former Plan").

As the effective period of the Former Plan was due to expire at the conclusion of the annual general shareholders' meeting to be held on June 25, 2014, the Company had been considering whether to preserve the anti-takeover measures, taking into account such factors as social and economic changes, various discussions over takeover defenses, and amendments to laws and regulations.

As a result, at the Board of Directors' meeting held on May 23, 2014, the decision was made to renew the Former Plan and to introduce the response measures to large-scale purchases of Company shares ("the Plan"), on condition of the agreement of all shareholders being obtained and their approval being granted at that same annual general shareholders' meeting to be held on June 25, 2014. Having received approval at that annual general shareholders' meeting, the Plan has been introduced.

### Basic Policy Regarding Large-Scale Purchases of the Company's Shares

As NSK is a listed company, the free trading of its stocks by all of its shareholders and investors is recognized. The Company believes that judgments on who will be the person that controls decisions on its financial and business policies should ultimately be left to all the shareholders.

However, taking into account recent capital market conditions in Japan, the possibility cannot be denied that a large-scale purchase of shares could be suddenly forced through, without the necessary and sufficient information being disclosed, without the opportunity to consider the proposal being given to all shareholders and investors, or

without the target company's board of directors being provided with the information or time to express its opinion and present an alternative proposal.

In the case where the Company receives a proposal for a large-scale purchase of its shares, it would be difficult for the shareholders to sufficiently understand in a short period of time (i) the corporate value of the Company, taking into account, for example, the mutual relationships between the Company group and its various stakeholders and the mission of the Company group as well as the special endeavors contributing to the realization of the Basic Policy Regarding Persons Controlling the Company's Decisions Concerning Financial and Business Policies (the "Basic Policy") and (ii) the specifics of the proposal for the large-scale purchase of shares, or on whether to accept the proposal. In addition, some of these large-scale purchases of shares may result in damage to the Company's corporate value and, by extension, undermine the common interests of its shareholders. The Company believes that any person who makes a large-scale purchase of its shares that damages the Company's corporate value and the common interests of its shareholders is not an appropriate person to control decisions concerning financial and business policies.

### Aim of the Plan

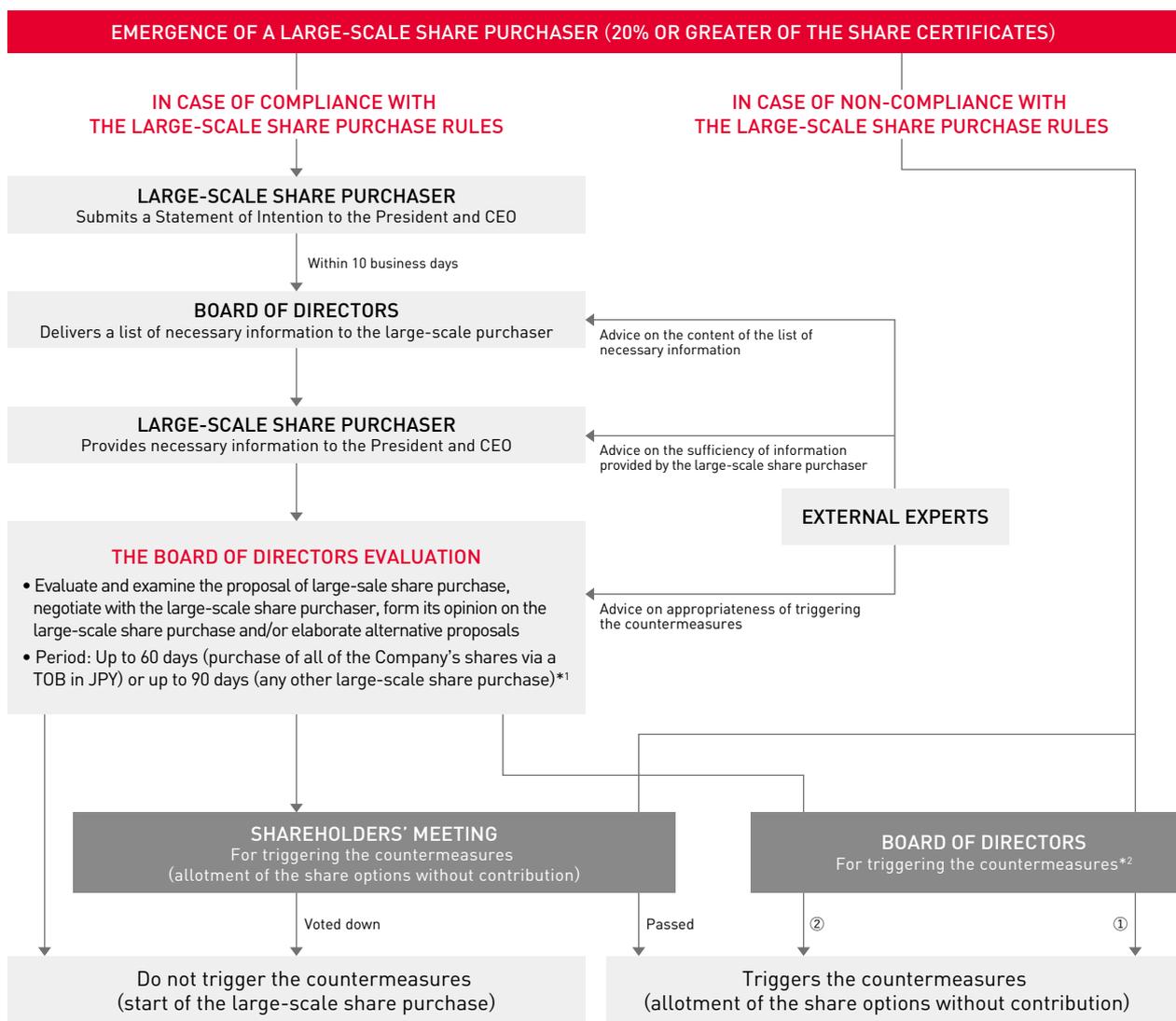
In order for all its shareholders, who will make the final decision, to examine a proposal for a large-scale purchase of shares, the Company believes it necessary for them to have the necessary and sufficient information and a substantial amount of time to fully understand the content of the proposal before they would be able to make an appropriate judgment. In order to protect and enhance the Company's corporate value and, by extension, the common interests of all of its shareholders, the Company has in light of the Basic Policy introduced the Plan as an endeavor to prevent decisions on the Company's financial and business policies being controlled by inappropriate persons.

**Summary of the Plan**

Not intended to prevent all large-scale purchases of shares, the Plan defines certain rules should a large-scale purchase of shares be undertaken, including a request to follow a predetermined set of procedures. With the exception of any case of a large-scale purchase of the Company's shares being undertaken that does not adhere to these rules, a large-scale purchase that falls into a certain category, and those cases that can be reasonably recognized to be damaging to the

Company's corporate value and, by extension, detrimental to the common interests of its shareholders, in principle, a shareholders' meeting will be held and the decision on whether to take countermeasures made by the shareholders. The Company believes that these countermeasures fully respect the will of all shareholders and investors and provide for both transparency and objectivity.

**Flow Chart of the Procedures Related to the Plan**



\*1 Provided, however, that the period may be extended up to an additional 30 days by unanimous resolution of the Board of Directors including the outside directors (provided that the extension may, as a general rule, be made only once).

\*2 The Board of Directors may trigger the countermeasures in the following cases, provided, however, that the determination to trigger the countermeasures shall be made by unanimous resolution of the Board of Directors including the outside directors:

- ① When the large-scale share purchaser does not comply with the large-scale share purchase rules;
- ② When the large-scale share purchase falls under any of the categories set forth in a designated type and such large-scale share purchase is reasonably considered to materially harm the Company's corporate value and the shareholders' common interests.

**Note:** Except for the cases of \*1 and \*2, the resolution of the Board of Directors shall be made by a majority of the directors who are present at the meeting.

For more information regarding the Response Measures to Large-Scale Purchases of the Company's Shares, please refer to the investor News Archive on the Company's website.  
> [www.nsk.com/investors/archives/index.html](http://www.nsk.com/investors/archives/index.html)

## Compliance

### Basic Philosophy

To continue to be a company trusted by society, NSK believes that complying with laws and observing a high ethical standard while conducting business 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 officers and employees. In light of the demands from society, NSK is working to ensure thorough awareness of the content of this Code by producing and distributing the NSK Compliance Guidebook which contains detailed explanations of the Code.

### Initiatives to Strengthen the Compliance Structure

NSK and the NSK Group are under investigation by relevant authorities in relation to the antitrust laws for sales of bearing products. In September 2013, NSK and its subsidiaries agreed to plead guilty and to pay a total of a fine of US\$68.2 million. In January 2014, NSK was ordered to pay a fine of CA\$4.5 million by the Quebec Superior Court of Justice. In March 2014, the European Commission has imposed a fine of €62,406,000. In May 2014, NSK was ordered by the Federal Court of Australia to pay a pecuniary penalty of A\$3 million, and the Competition Commission of Singapore has imposed a fine of S\$1,286,375 on NSK.

In January 2014, NSK's subsidiary Amatsuji Steel Ball Mfg. Co., Ltd. was investigated by the Japan Fair Trade Commission in relation to the Japan Antimonopoly Act for sales of its products. NSK and the NSK Group are cooperating fully with any relevant authorities in their investigations.

We express our sincere regret for the concern these matters has caused our shareholders, customers, and other stakeholders.

NSK regards this matter with the utmost solemnity and sincerity, and while seeking to ascertain the causes the Company is promptly implementing a range of measures to further strengthen its compliance system. As a part of these measures to bolster compliance, NSK is holding training and education sessions for the officers and employees of NSK and Group companies, convening meetings for compliance reporting and deliberation, and conducting compliance inspections and audits of each business site. Moreover, starting in 2013, NSK has designated October of each year as Compliance Month, and holds various events to raise awareness of compliance.

NSK is making every effort to conduct business operations observing full compliance with the law throughout the Company, based on its social responsibility as a corporation. Our main policies for strengthening compliance that have been drawn up or implemented as of the time of writing are as follows.

### Policies for Strengthening Compliance

#### Compliance Committee Meetings

Compliance Committee Meetings were held 10 times between the committee's establishment in March 2012 and May 2014.

#### Global Compliance Meetings

In November 2013, the second Global Compliance Meeting was held with personnel in charge of compliance from regional headquarters in attendance. NSK plans to hold this meeting once a year.

#### Compliance Conferences

Compliance Conferences were held in December 2012 as well as in July and December 2013 with personnel in charge of compliance attending from each division in Japan and from Group companies.

#### Compliance Education

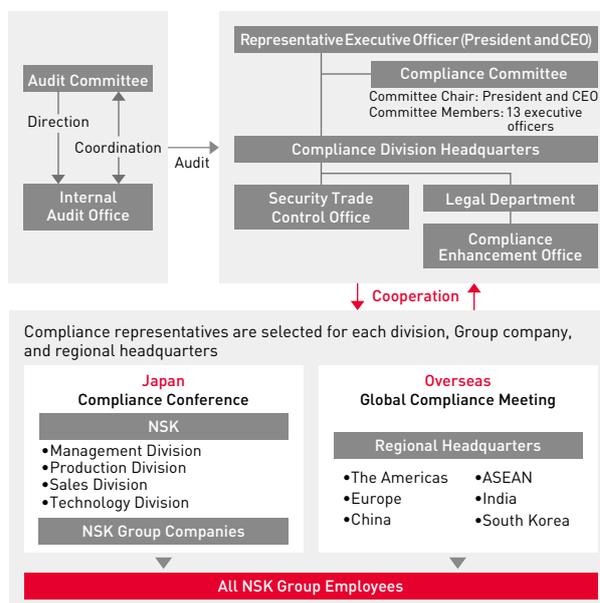
In continuation from last year, NSK conducted the following compliance education and training for officers and employees of the NSK Group.

1. Training for Antimonopoly Act  
Number of training sessions: 97 in FY2013 (58 in Japan, 39 overseas)
2. E-learning  
Topics: NSK Code of Corporate Ethics, Antimonopoly Act of Japan, insider trading, etc.

#### Activities to Raise Awareness of Compliance

1. Activities during Compliance Month
  - Compliance slogan contest  
Of the 6,329 submissions received, two slogans were selected as winners and three slogans were selected as runner-ups. Posters using the two winning slogans were made and put on display at all business sites.
  - Distribution of the Compliance Card  
All employees received a card with "five questions to ask about compliance" and "the internal reporting system" written on them.
2. Compliance newsletter  
Since the inaugural edition in November 2012, a total of 22 editions have been published.

### NSK Group Compliance System



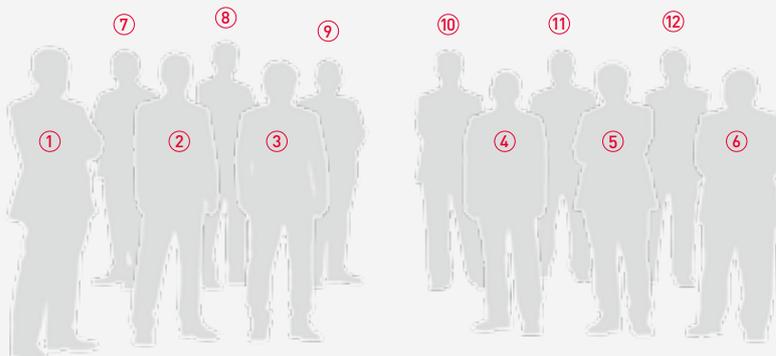
# Management Team

As of June 25, 2014



## Board of Directors

- |                      |  |
|----------------------|--|
| ① Norio Otsuka       | ⑦ Saimon Nogami                        |
| ② Toshihiro Uchiyama | ⑧ Tatsuo Ichikawa                      |
| ③ Masahide Matsubara | ⑨ Kazuo Suzuki<br>Independent Director |
| ④ Naoki Mitsue       | ⑩ Yukio Obara<br>Independent Director  |
| ⑤ Hideyuki Shibamoto | ⑪ Kazuaki Kama<br>Independent Director |
| ⑥ Shigeyuki Suzuki   | ⑫ Ichiro Tai<br>Independent Director   |





## Executive Officers

### President and Chief Executive Officer

Norio Otsuka\*

### Executive Vice Presidents

Toshihiro Uchiyama\*  
Masahide Matsubara\*  
Naoki Mitsue\*  
Hideyuki Shibamoto  
Shigeyuki Suzuki

### Senior Vice Presidents

Norbert Schneider  
Hirotohi Aramaki  
Yasutsugu Hada  
Nobuo Goto  
Naoki Sugimoto  
Yasuhiro Kamio  
Koji Inoue  
Bernard M. Lindsay  
Yukio Ikemura  
Hideo Nakajima

Saimon Nogami  
Masatada Fumoto  
Hiroshi Suzuki  
Minoru Arai

### Vice Presidents

Fumio Ogiso  
Tamotsu Matsumoto  
Hiroya Miyazaki  
Issei Murata  
Adrian Browne

Hiroyuki Itou  
Shin Ikeda  
Masami Shinomoto  
Katsumi Kobayashi  
Toshihiko Enomoto  
Hiromasa Orito  
Juergen Ackermann  
Kazunori Iritani  
Masaru Takayama  
Seiji Ijuin

## Group Officers

Kihichi Isogai  
Takashi Tonotsuka  
Seong-Il Jo  
Yoshinori Sugimoto

\*Representative Executive Officers

# Eleven-Year Summary

NSK Ltd. and Consolidated Subsidiaries

Years ended March 31	2014	2013	2012	2011
<b>For the Year</b>				
Net sales	¥ 871,742	¥ 732,842	¥ 733,192	¥ 710,431
Cost of sales and SG&A expenses	803,692	700,480	688,775	666,907
Operating income	68,049	32,361	44,417	43,524
Other income (expenses)	(13,708)	(7,065)	(3,157)	(5,284)
Income (loss) before income taxes and minority interests	54,341	25,296	41,259	38,239
Income taxes	20,528	7,709	11,881	10,805
Net income	31,167	15,739	28,514	26,110
Capital expenditures	45,448	48,025	54,619	41,294
Depreciation and amortization	35,086	34,598	35,807	34,943
R&D expenditures	9,919	10,432	10,373	10,515
Cash flows from operating activities (A)	70,342	53,797	57,158	64,973
Cash flows from investing activities (B)	(42,402)	(45,262)	(56,090)	(33,348)
Free cash flows (A) + (B)	27,940	8,534	1,068	31,625
<b>At Year-End</b>				
Current assets	¥ 520,614	¥ 448,187	¥ 454,631	¥ 418,584
Non-current assets	480,317	434,359	390,442	370,042
Total assets	1,000,932	882,547	845,073	788,626
Current liabilities	331,445	289,462	308,501	293,881
Long-term liabilities	287,330	252,272	237,506	219,475
Net assets	382,155	340,812	299,066	275,269
Total liabilities and net assets	1,000,932	882,547	845,073	788,626
Number of employees (persons)	30,454	28,487	27,444	26,334
<b>Per Share (Yen)</b>				
Net income	¥ 57.70	¥ 29.14	¥ 52.75	¥ 48.30
Net assets	664.74	591.36	518.56	475.45
<b>Ratios</b>				
Gross profit margin	21.3%	18.6%	20.2%	20.8%
Operating income margin	7.8	4.4	6.1	6.1
SG&A expenses / net sales	13.5	14.2	14.1	14.7
Net income margin	3.6	2.1	3.9	3.7
Return on average assets (ROA)	3.3	1.8	3.5	3.3
Return on average shareholders' equity (ROE)	9.2	5.2	10.6	10.3
Ratio of net worth to total capital	35.9	36.2	33.2	32.6
Asset turnover (times)	0.93	0.85	0.90	0.90
Inventory turnover (times)	6.9	6.2	6.5	6.5
Net D/E ratio (times)	0.41	0.51	0.58	0.60
Interest coverage ratio (times)	14.4	11.4	11.8	14.0

Millions of yen  
Unless otherwise specified

	2010	2009	2008	2007	2006	2005	2004
¥	587,572	¥ 647,593	¥ 772,036	¥ 717,225	¥ 628,474	¥ 580,989	¥ 522,217
	576,267	625,487	702,692	654,842	585,922	542,706	496,245
	11,305	22,106	69,343	62,383	42,552	38,283	25,972
	(4,970)	(11,776)	(5,730)	(5,346)	516	(3,251)	479
	6,335	10,330	63,613	57,037	43,068	35,031	26,451
	819	4,887	19,173	20,198	16,412	11,601	11,473
	4,765	4,561	42,613	34,853	25,586	22,349	14,293
	21,818	44,138	53,905	37,689	48,784	38,160	26,313
	37,149	39,729	38,380	35,316	30,099	27,435	26,909
	8,794	10,691	10,240	10,100	9,728	9,806	8,722
	51,108	11,785	69,236	64,153	66,332	57,987	37,889
	(29,355)	(46,422)	(23,187)	(64,600)	(62,386)	(31,638)	(16,958)
	21,753	(34,637)	46,049	(447)	3,946	26,349	20,931
¥	411,167	¥ 369,590	¥ 404,412	¥ 389,067	¥ 313,569	¥ 278,678	¥ 295,491
	378,456	374,638	424,167	426,721	429,462	349,905	326,386
	789,624	744,229	828,580	815,788	743,032	628,583	621,877
	257,706	210,322	294,318	297,489	266,834	234,300	245,588
	267,229	285,119	250,486	241,571	228,373	194,420	175,548
	264,688	248,787	283,775	276,727	247,823	199,861	200,739
	789,624	744,229	828,580	815,788	743,032	628,583	621,877
	24,633	24,050	25,069	23,413	22,639	20,737	19,772
¥	8.82	¥ 8.44	¥ 78.84	¥ 64.53	¥ 47.28	¥ 41.35	¥ 26.12
	458.65	431.74	495.61	485.62	436.48	349.07	349.83
	17.8%	19.4%	23.1%	23.2%	22.4%	22.5%	21.5%
	1.9	3.4	9.0	8.7	6.8	6.6	5.0
	15.9	16.0	14.1	14.5	15.6	15.9	16.5
	0.8	0.7	5.5	4.9	4.1	3.8	2.7
	0.6	0.6	5.2	4.5	3.7	3.6	2.4
	2.0	1.8	16.1	14.0	12.1	11.9	8.0
	31.4	31.4	32.3	32.2	31.7	30.0	30.3
	0.77	0.82	0.94	0.92	0.92	0.93	0.86
	5.5	6.2	7.5	7.0	6.9	7.4	6.6
	0.73	0.85	0.56	0.69	0.73	0.89	0.99
	9.2	2.0	11.0	11.3	15.0	11.3	6.1

Eleven-Year Summary

Six-Year Segment Information

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Auditor's Report

# Six-Year Segment Information

NSK Ltd. and Consolidated Subsidiaries

	Millions of yen / %					
Years ended March 31	2014	2013	2012	2011	2010	2009
<b>Sales by Segment</b>						
Industrial Machinery Business	¥ 242,969	¥ 216,142	¥ 255,835	¥ 259,095	¥ 201,963	—
Automotive Business	590,545	490,545	444,585	424,157	366,463	—
Others	38,226	26,154	32,772	27,178	19,145	—
<b>Total</b>	<b>871,742</b>	<b>732,842</b>	<b>733,192</b>	<b>710,431</b>	<b>587,572</b>	<b>—</b>
<b>Sales by Segment (Previous Segments)</b>						
Industrial machinery bearings	—	—	—	—	¥ 166,873	¥ 209,530
Automotive products	—	—	—	—	366,463	352,453
Precision machinery and parts	—	—	—	—	35,089	57,491
Others	—	—	—	—	19,145	28,118
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>587,572</b>	<b>647,593</b>
<b>Increase / Decrease from the Previous Year</b>						
Industrial Machinery Business	12.4%	-15.5%	-1.3%	28.3%	—	—
Automotive Business	20.4	10.3	4.8	15.7	—	—
Others	46.2	-20.2	20.6	42.0	—	—
<b>Total</b>	<b>19.0</b>	<b>-0.0</b>	<b>3.2</b>	<b>20.9</b>	<b>—</b>	<b>—</b>
<b>Increase / Decrease from the Previous Year (Previous Segments)</b>						
Industrial machinery bearings	—	—	—	—	-20.4%	-12.4%
Automotive products	—	—	—	—	4.0	-19.1
Precision machinery and parts	—	—	—	—	-39.0	-15.7
Others	—	—	—	—	-31.9	-3.3
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>-9.3</b>	<b>-16.1</b>
<b>Sales by Region (Based on Customer Location)</b>						
Japan	¥ 329,136	¥ 333,348	¥ 363,754	¥ 354,542	¥ 289,540	¥ 323,375
The Americas	134,482	103,352	86,267	85,466	70,609	78,754
Europe	124,590	102,667	107,958	102,176	98,504	111,866
Asia	—	—	—	—	128,918	133,596
China	167,239	91,442	89,068	82,587	—	—
Other Asia	116,293	102,030	86,143	85,658	—	—
<b>Total</b>	<b>871,742</b>	<b>732,842</b>	<b>733,192</b>	<b>710,431</b>	<b>587,572</b>	<b>647,593</b>
<b>Increase / Decrease from the Previous Year</b>						
Japan	-1.3%	-8.4%	2.6%	22.5%	-10.5%	-16.9%
The Americas	30.1	19.8	0.9	21.0	-10.3	-26.6
Europe	21.4	-4.9	5.7	3.7	-11.9	-16.4
Asia	—	—	—	—	-3.5	-5.9
China	82.9	7.8	2.7	—	—	—
Other Asia	14.0	0.6	18.4	—	—	—
<b>Total</b>	<b>19.0</b>	<b>-0.0</b>	<b>3.2</b>	<b>20.9</b>	<b>-9.3</b>	<b>-16.1</b>

Systemized products were moved from the "Industrial Machinery Business" to the "Others" segment from April 1, 2011. The "Asia" region was categorized as "China" and "Other Asia" from April 1, 2010.

# Management's Discussion and Analysis of Business Results and Financial Position

## Analysis of Business Results for the Year Ended March 31, 2014

### 1. Scope of Consolidation

The consolidated financial statements reflect the financial performance of NSK Ltd. and its 93 consolidated subsidiaries. NSK's investments in 16 affiliates are accounted for by the equity method.

In the year ended March 31, 2014, NSK established a subsidiary in Mexico to produce automotive bearings increasing the number of consolidated subsidiaries by one compared with the previous fiscal year. There was no change in the number of equity-method affiliates.

### 2. Overview of the Year Ended March 31, 2014

Reviewing the global economic environment during the year ended March 31, 2014, the Japanese economy continued its gradual recovery, backed by higher consumer spending and production due to the rush to beat the scheduled consumption tax rise, as well as the effect of the weaker Japanese yen. The U.S. economy also continued to expand steadily, while the European economy began to show signs of a mild recovery. In Asia, although there were signs of economic slowdown in the ASEAN region, the Chinese economy continued to show stable growth.

In this economic environment, the NSK Group launched its new mid-term management plan for the three years beginning April 2013, aiming to achieve net sales of ¥1 trillion in 2016—the 100th anniversary of the Company's foundation. The Group is implementing a business strategy of “growth with a focus on profitability,” and is implementing measures to “develop the management capability to handle ¥1 trillion in sales volume” in order to enhance its corporate foundations.

As a result, consolidated net sales for the year under review totaled ¥871.7 billion (US\$8,464 million), a year-on-year increase of 19.0%, and operating income came to ¥68.0 billion (US\$661 million), a year-on-year increase of 110.3%. Ordinary income was ¥66.8 billion (US\$648 million), a year-on-year increase of 120.3%. Net income after adjusting for tax expenses and minority interests was ¥31.2 billion (US\$303 million), a year-on-year increase of 98.0%, including extraordinary income of ¥2.8 billion (US\$28 million) on sales of investment securities and ¥1.0 billion (US\$10 million) on sales of fixed assets, and extraordinary losses of ¥16.3 billion (US\$158 million) related to the Antimonopoly Act.

### 3. Net Sales

Net sales increased ¥138.9 billion, or 19.0% year on year, to ¥871.7 billion (US\$8,464 million). Sales in Japan declined ¥4.2 billion, or 1.3%, to ¥329.1 billion (US\$3,195 million). Overseas sales were up ¥143.1 billion (US\$1,389 million), or 35.8%.

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

The cost of sales increased from ¥596.3 billion in the previous fiscal year to ¥686.1 billion (US\$6,661 million). The ratio of cost of sales to net sales deteriorated 2.7 percentage points, to 78.7%.

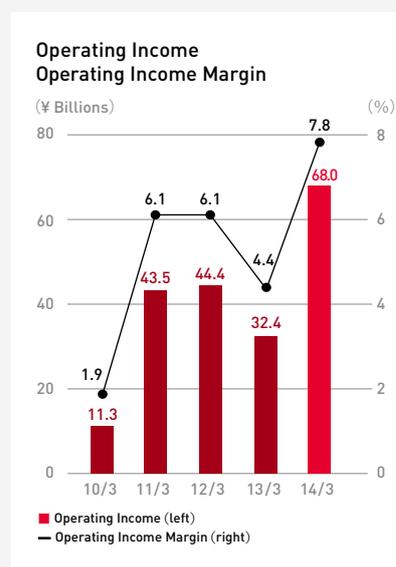
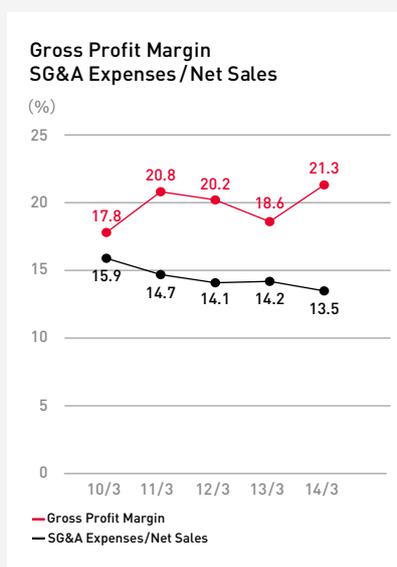
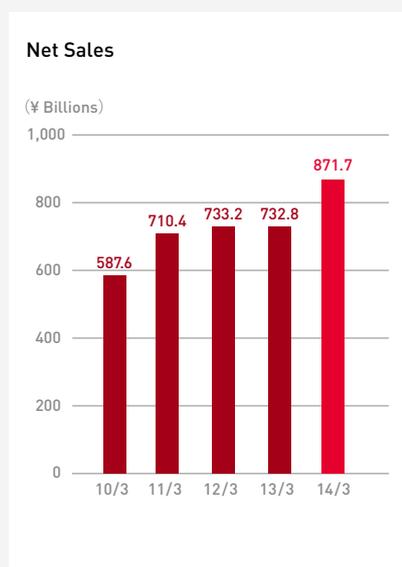
SG&A expenses increased from ¥104.2 billion in the previous fiscal year to ¥117.6 billion (US\$1,142 million). The ratio of SG&A expenses to net sales decreased 0.7 percentage point, to 13.5%.

### 5. Business Segment Information

#### a. Industrial Machinery Business

Demand in the Industrial Machinery Business has continued to recover since the third quarter of the previous fiscal year. Looking at results on a regional basis, in Japan demand for general machinery showed signs of recovery, and sales increased, particularly in the aftermarket and IT/electrical sectors. In the Americas, sales rose due to the impact of currency rates in addition to the gradual recovery in demand. In Europe, sales in the IT/electrical sector increased and demand in the machine tool sector showed signs of recovery. In Asia, Chinese sales increased due to a steady increase in demand in the machine tool and IT/electrical sectors and a recovery trend in the aftermarket sector. In ASEAN, sales increased due to the impact of currency rates, despite a slowdown in the economy. Production picked up across all regions focusing mainly on Japan.

As a result, net sales in the Industrial Machinery Business totaled ¥243.0 billion (US\$2,359 million), a year-on-year increase of 12.4%. Operating income was ¥23.7 billion (US\$230 million), a year-on-year increase of 82.1%.



### b. Automotive Business

Strong demand in China and the U.S. drove the global automotive market, which continues to expand. Looking at the geographic breakdown, sales in Japan declined as automakers shifted production overseas, despite a boost as consumers rushed to beat the consumption tax rise. In the Americas, the automotive market performed strongly due to steady demand from consumers replacing older vehicles. The European automotive market trended toward recovery from summer onward, and sales of automotive bearings increased with the launch of new projects. In China, in addition to the sales increase of automotive bearings caused by steady automotive production expansion, sales of electric power steering (EPS) systems rose significantly due to the launch of new models. Although growth in each ASEAN market varied, overall sales of automotive bearings increased due to the impact of winning new projects. The overall amount of production increased. Despite a decrease in Japan, this increase in production was largely attributable to substantial growth overseas and particularly in China.

As a result, net sales in the Automotive Business totaled ¥590.5 billion (US\$5,733 million), a year-on-year increase of 20.4%. Operating income totaled ¥49.2 billion (US\$478 million), a year-on-year increase of 96.9%.

### 6. Other Income and Expenses

Other expenses net of other income amounted to ¥1.3 billion (US\$12 million), compared with ¥2.1 billion for the previous fiscal year. This decrease in other expenses net of other income was mainly due to increases in interest and dividend income as well as equity in earnings of affiliates.

### 7. Extraordinary Income and Expenses

Extraordinary income and expenses came to extraordinary expenses net of ¥12.4 billion (US\$121 million), compared with ¥5.0 billion for the previous fiscal year. In the year ended March 31, 2013, the Company recorded extraordinary income including gain on sales of fixed assets of ¥1.1 billion and gain on sales of investment securities totaling ¥0.3 billion. Major extraordinary expenses, on the other hand, were loss related to the Antimonopoly Act of ¥6.0 billion and loss on devaluation

of investment securities of ¥0.4 billion. In the fiscal year under review, principal extraordinary income were gain on sales of investment securities of ¥2.8 billion (US\$28 million) and gain on sales of fixed assets of ¥1.0 billion (US\$10 million). Extraordinary expenses for the year ended March 31, 2014 was loss related to the Antimonopoly Act of ¥16.3 billion (US\$158 million).

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

Income before income taxes and minority interests increased ¥29.0 billion, or 114.8%, to ¥54.3 billion (US\$528 million). Despite the recording of extraordinary expenses, this substantial growth was mainly due to the increase in operating income.

### 9. Tax Expenses

Tax expenses (current and deferred income taxes) amounted to ¥20.5 billion (US\$199 million), up ¥12.8 billion compared with the previous fiscal year. The tax burden ratio (income tax divided by income before income taxes and minority interests) was 37.8%. While the abolition of the special corporate tax for reconstruction one year in advance led to a partial reversal of deferred tax assets, and the recording of valuation reserves at certain companies served to drive up the tax rate, the change in the tax burden rate mainly reflected the recording of earnings by overseas subsidiaries subject to lower tax rates than in Japan.

### 10. Income before Minority Interests

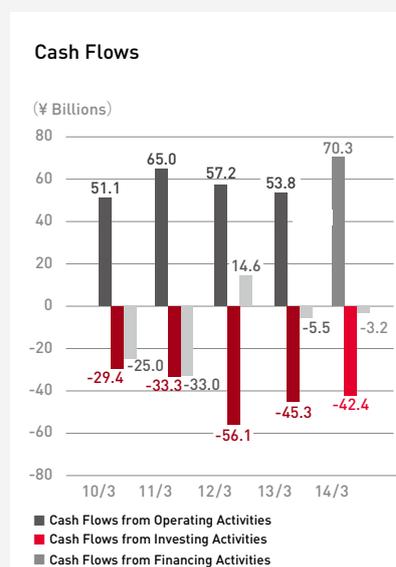
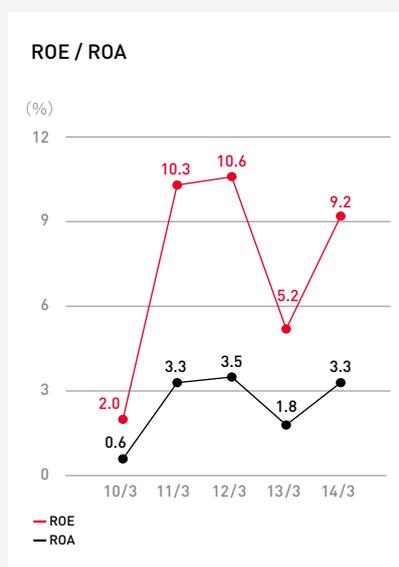
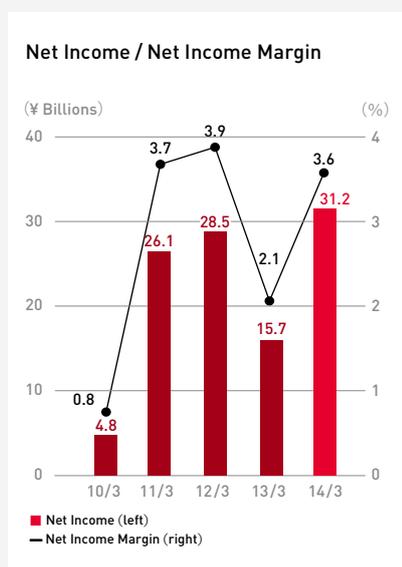
Income before minority interests increased ¥16.2 billion, or 92.3% year on year, to ¥33.8 billion (US\$328 million).

### 11. Minority Interests

Minority interests, which mainly consist of the interests of minority shareholders in subsidiaries, increased ¥0.8 billion, or 43.2% year on year, to ¥2.6 billion (US\$26 million).

### 12. Net Income

Net income climbed ¥15.4 billion, or 98.0%, to ¥31.2 billion (US\$303 million). Net income per share was ¥57.70 (US\$0.56), up from ¥29.14 in the previous fiscal year. Return on shareholders' equity (ROE) increased from 5.2% in the previous fiscal year to 9.2%.



### 13. Cash Flows and Financial Position

#### a. Cash Flows

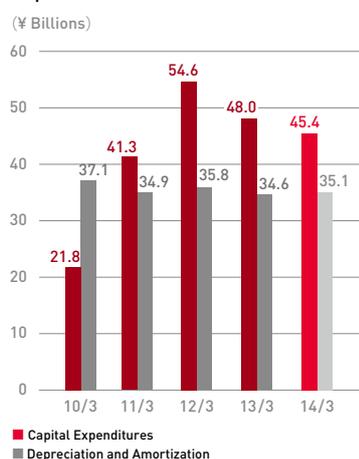
Net cash provided by operating activities totaled ¥70.3 billion (US\$683 million), an increase of ¥16.5 billion, compared to the same period of the previous year. This includes ¥54.3 billion (US\$528 million) in income before income taxes and minority interests, ¥35.1 billion (US\$341 million) provided by depreciation and amortization, and an increase of ¥16.3 billion (US\$158 million) in loss related to the Antimonopoly Act, which offset an increase of ¥16.3 billion (US\$159 million) in notes and accounts receivable, trade, ¥6.4 billion (US\$62 million) in Antimonopoly Act related loss paid, and ¥8.7 billion (US\$85 million) in income taxes paid. Net cash used in investing activities totaled ¥42.4 billion (US\$412 million), a decrease of ¥2.9 billion compared to the same period of the previous year. This includes ¥42.9 billion (US\$417 million) for additions to property, plant and equipment. Net cash used in financing activities totaled ¥3.2 billion (US\$31 million), a decrease of ¥2.3 billion compared to the same period of the previous year. This includes a net increase of ¥49.6 billion (US\$482 million) in long-term loans, which was offset by a net decrease of ¥2.6 billion (US\$25 million) in short-term debt, ¥42.7 billion (US\$415 million) of repayment of long-term debt, and ¥6.5 billion (US\$63 million) of cash dividends paid. Total cash and cash equivalents at the end of the year were ¥168.9 billion (US\$1,640 million), a year-on-year increase of ¥27.3 billion.

#### b. Financial Position

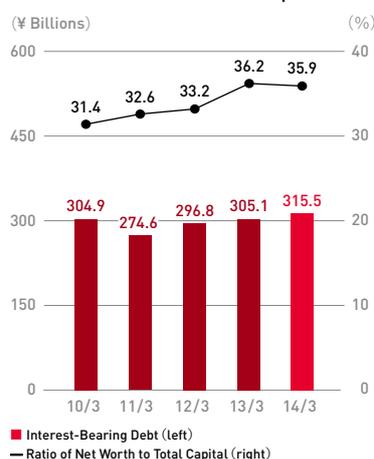
Total assets were ¥1,000.9 billion (US\$9,718 million), an increase of ¥118.4 billion, compared to total assets as of March 31, 2013. The main reasons for this increase were increases of ¥13.7 billion (US\$133 million) in cash and cash equivalents, ¥24.1 billion (US\$234 million) in notes and accounts receivable, trade, ¥14.0 billion (US\$135 million) in short-term investments, ¥24.1

billion (US\$234 million) in property, plant and equipment, ¥15.3 billion (US\$149 million) in investment securities, and ¥47.7 billion (US\$463 million) in net defined benefit assets, which offset a decrease of ¥42.6 billion (US\$413 million) in prepaid pension cost. Total liabilities were ¥618.8 billion (US\$6,008 million), an increase of ¥77.0 billion, compared to total liabilities as of March 31, 2013. The main reasons for this increase were increases of ¥12.9 billion (US\$126 million) in notes and accounts payable, ¥9.7 billion (US\$94 million) in accrued income taxes, ¥28.2 billion (US\$274 million) in long-term debt, and ¥36.4 billion (US\$354 million) in net defined benefit liability, which offset decreases of ¥18.4 billion (US\$179 million) in current portion of long-term debt and ¥19.9 billion (US\$193 million) in accrued employees' retirement benefits. Net assets totaled ¥382.2 billion (US\$3,710 million), an increase of ¥41.3 billion, compared to net assets as of March 31, 2013. The main reasons for this increase were ¥31.2 billion (US\$303 million) in net income, ¥9.4 billion (US\$91 million) in valuation difference on unrealized holding gain on securities, and ¥17.7 billion (US\$172 million) in translation adjustments, which offset a decrease of ¥10.2 billion (US\$99 million) in remeasurements of defined benefit plans. Total current assets increased ¥72.4 billion from the previous fiscal year-end, to ¥520.6 billion (US\$5,055 million). Total current liabilities grew ¥42.0 billion, to ¥331.4 billion (US\$3,218 million). As a result, the current ratio increased from 1.55 times at the previous fiscal year-end to 1.57 times. Gross interest-bearing debt increased ¥10.4 billion, to ¥315.5 billion (US\$3,063 million). Net interest-bearing debt (interest-bearing debt net of cash and cash equivalents) was down ¥16.9 billion, to ¥146.6 billion (US\$1,423 million). The net debt-equity ratio decreased from 0.51 in the previous fiscal year to 0.41. Net assets per share rose from ¥591.36 to ¥664.74 (US\$6.45). The ratio of net worth to total capital decreased from 36.2% to 35.9%.

#### Capital Expenditures Depreciation and Amortization



#### Interest-Bearing Debt Ratio of Net Worth to Total Capital



#### Asset Turnover Inventory Turnover



## 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, 2014.

### 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. Specifically, the NSK Group is particularly dependent on automotive bearings and automotive products for the automotive sector, which accounts for more than one-half of its sales.

### 4. Credit Risks

The NSK Group sells a high percentage of its products to large and relatively stable customers, and recoverability risk relating to notes and accounts receivable 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 an 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 earthquakes or other natural disasters, nuclear incidents, 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 the use of alternative products 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, protectionist restrictions as well as natural disasters due to abnormal weather or earthquakes, have caused major fluctuations in the prices of steel, crude oil, copper, rare metals, rare earth, 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 by conducting Value Analysis (VA) and Value Engineering (VE) campaigns, expanding procurement of materials and parts locally at overseas business sites, boosting utilization of materials and parts imported from overseas, and implementing 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 negative outcomes, the business performance and financial position of the Group could be adversely impacted by the consequences of this situation. Consequences might include the incurring of substantial costs and reputational damage, or being held responsible for the cost of product-related compensation payments under the terms of contracts, or having to pay legal compensation following damage due to unforeseeable misuse of one of the Group's products. 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 the viewpoint of income expansion. However, because of the diversity of product 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, that there will be a decline in sales attributable to the protection of developed products and technologies as intellectual property rights, and 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 royalty payments will arise regarding the use of the intellectual property rights of a third party, the risk that the Group will not be able to obtain permission to use the intellectual property of other parties, the risk of infringement of the intellectual property by third parties, and the risk that the NSK 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, nuclear incidents, 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 all 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, including predicting the effects of such disasters if they occur and considering precautionary measures to ensure that the NSK Group can continue operations. However, the Group cannot completely eliminate such risks.

## 13. Compliance Risks

To ensure full compliance with laws, regulations, and ethical standards, the NSK Group has established the NSK Code of Corporate Ethics. Details of this code are posted on various media including the Company's intranet and distributed to all employees. At the same time, the NSK Group works diligently to promote compliance and to reduce associated risks by providing online

education and group training. However, there is still a risk of individual employees committing compliance violations for various reasons, including inappropriate judgments resulting from an excessive emphasis on sales and profits as well as self-interest, and such actions may result in criminal prosecutions, civil suits, or administrative actions against the NSK Group. Reputational damage, or economic losses may be incurred as well.

In September 2013, NSK agreed to plead guilty and to pay a fine for participating in activities that violated the U.S. antitrust laws in relation to sales of bearings. In addition, in January 2014, NSK was ordered to pay a fine by the Quebec Superior Court of Justice for participating in activities that violated the Canadian Competition Act in relation to certain sales of automotive bearings in Canada. Moreover, in March 2014, the European Commission has imposed a fine on NSK for their participating in activities that violated the European Competition Law in relation to sales of automotive bearings. Also, in May 2014, the NSK's subsidiary in Australia was ordered by the Federal Court of Australia to pay a pecuniary penalty for contraventions of the Australian competition law in connection with certain sales of bearings. In May 2014, the Competition Commission of Singapore imposed a fine on the NSK's subsidiary in Singapore for violation of the Competition Act of Singapore in relation to certain sales of bearings in Singapore. Furthermore, NSK's manufacturing and sales subsidiary in Korea as well as its subsidiary Amatsuji Steel Ball Mfg. Co., Ltd. are currently under investigation. As a result of these investigations, it is possible that NSK's operational results, etc. will be affected. (For more information, please refer to "Management's Views on Key Issues and Future Policies" later in this document.)

## 14. Litigation Risks

The NSK Group is company in the manufacturing industry. The vast majority of litigations involving NSK Group in the past and present are the ones relating to the sales of its products. In particular, the NSK Group has a risk of being filed the litigation in relation to the product liability issues. The NSK Group joins the product liability insurance that will cover the claim alleged in the litigation for the product liability. While this insurance will work in some cases, it does not provide unlimited and unconditional coverage for the claim against the NSK Group in relation to the product liability.

In the United States and Canada, the Plaintiffs, representing purchasers, etc. of bearings products, have filed class actions against the defendants including NSK and its subsidiary located in the United States (the "Actions"). The Plaintiffs allege, among others, that the Defendants conspired with each other to restrict competition regarding transactions related to bearing products, and seek damages, injunctive relief, and other relief against the Defendants in the Actions. NSK and its subsidiaries located in the United States and Canada are going to insist on propriety and contest the Plaintiffs' claim. Although the amounts of damages claimed are not specified in the complaints, as a result of these actions, it is possible that NSK's operational results, etc. will be affected.

NSK or its subsidiaries or its affiliated companies may face additional follow-on actions similar to these actions.

Other than those relating to the sales of the products and the Actions, there have been no litigation that have a serious impact on the business performance of the NSK Group. However, it is possible that the litigation having a serious impact on the business performance of the NSK Group will be filed in the future.

#### 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 NSK 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 Act 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 polychlorinated biphenyl (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 Group companies have imbalances in the age profiles of their work forces. Looking ahead, the number of workers retiring in Japan is also expected to increase rapidly for the time being. However, there is rising 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

The NSK Group 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 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 the Group's 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 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 corporate 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 its new three-year mid-term management plan, which began in April 2013, the Company has set a target of establishing a business base to support net sales of ¥1 trillion by improving the quality of management. It is targeting net sales of ¥1 trillion in 2016, which will mark the 100th anniversary of its establishment. Based on the principles of safety, quality, and compliance, we are planning to bolster our business strategies and management base to secure further growth in a changing business environment. We will do this by continuing to work on growth strategies and strengthening profitability as well as aiming to achieve bottom-line-oriented growth and building management capabilities to handle ¥1 trillion of products.

In addition, we recognize that contributing to the reduction of global energy loss through our business activities is our social responsibility, and for this reason we will endeavor to protect the global environment and steadily improve our environmental management in an effort to help ensure the sustainable development of society.

NSK and the NSK Group are under investigation by relevant authorities in relation to the antitrust laws for sales of bearing products. In September 2013, NSK and its subsidiaries agreed to plead guilty and to pay a total of a fine of US\$68.2 million. In January 2014, NSK was ordered to pay a fine of CA\$ 4.5 million by the Quebec Superior Court of Justice. In March 2014, the European Commission has imposed a fine of €62,406,000. In May 2014, NSK was ordered by the Federal Court of Australia to pay a pecuniary penalty of A\$3 million, and the Competition Commission of Singapore has imposed a fine of S\$1,286,375 on NSK.

In January 2014, NSK's subsidiary Amatsuji Steel Ball Mfg. Co., Ltd. was investigated by the Japan Fair Trade Commission in relation to the Japan Antimonopoly Act for sales of its products. NSK and the NSK Group are cooperating fully with any relevant authorities in their investigations.

We express sincere regret for the concern these matters has caused our shareholders, customers, and other stakeholders.

The NSK Group regard the situation with the utmost seriousness. The NSK Group implements the compliance training focusing mainly on the competition law and conducts compliance audits on a global basis. We will devote every effort to strengthen the compliance and operate our business based on its social responsibilities as a corporation.

# Consolidated Balance Sheets

NSK Ltd. and Consolidated Subsidiaries

As of March 31,	Millions of yen		(Note 2) Thousands of U.S. dollars
	2014	2013	2014
<b>Assets</b>			
Current assets			
Cash and cash equivalents (Note 3)	¥ 168,940	¥ 141,653	\$1,640,194
Short-term investments (Note 3)	2,560	2,262	24,854
Notes and accounts receivable, trade	165,808	141,706	1,609,786
Less allowance for doubtful receivables	(1,502)	(1,326)	(14,583)
Finished goods	71,431	63,930	693,505
Work in process	40,683	38,534	394,981
Raw materials and supplies	19,620	16,804	190,485
Deferred tax assets (Note 6)	13,034	10,371	126,544
Other current assets	40,036	34,252	388,699
<b>Total current assets</b>	<b>520,614</b>	<b>448,187</b>	<b>5,054,505</b>
Non-current assets			
Property, plant and equipment, at cost (Notes 4, 8 and 14)			
Land	37,471	37,499	363,796
Buildings and structures	218,511	206,587	2,121,466
Machinery, vehicles and equipment	678,041	627,933	6,582,922
Construction in progress	23,603	22,149	229,155
	957,628	894,169	9,297,359
Less accumulated depreciation	(653,458)	(614,079)	(6,344,252)
<b>Property, plant and equipment, net</b>	<b>304,169</b>	<b>280,089</b>	<b>2,953,097</b>
Goodwill	226	483	2,194
Investments in non-consolidated subsidiaries and affiliates	22,928	21,888	222,602
Investment securities (Notes 3 and 8)	81,003	66,747	786,437
Deferred tax assets (Note 6)	3,008	2,578	29,204
Prepaid pension cost (Note 10)	—	42,579	—
Net defined benefit asset (Note 10)	47,740	—	463,495
Other non-current assets	21,240	19,993	206,214
<b>Total non-current assets</b>	<b>480,317</b>	<b>434,359</b>	<b>4,663,272</b>
<b>Total assets</b>	<b>¥1,000,932</b>	<b>¥ 882,547</b>	<b>\$ 9,717,786</b>

As of March 31,	Millions of yen		(Note 2) Thousands of U.S. dollars
	2014	2013	2014
<b>Liabilities and net assets</b>			
Current liabilities			
Short-term debt (Note 5)	¥ 71,469	¥ 70,789	\$ 693,874
Current portion of long-term debt (Note 8)	39,197	42,637	380,553
Notes and accounts payable (Note 8)	130,745	117,808	1,269,369
Accrued income taxes (Note 6)	12,028	2,356	116,777
Accrued expenses and other current liabilities (Notes 7 and 9)	78,005	55,870	757,330
<b>Total current liabilities</b>	<b>331,445</b>	<b>289,462</b>	<b>3,217,913</b>
Long-term liabilities			
Long-term debt (Note 8)	204,866	191,676	1,988,990
Accrued employees' retirement benefits (Note 10)	–	19,855	–
Accrued officers' retirement benefits	1,567	1,693	15,214
Deferred tax liabilities (Note 6)	35,665	27,098	346,262
Net defined benefit liability (Note 10)	36,438	–	353,767
Other long-term liabilities (Note 9)	8,793	11,949	85,369
<b>Total long-term liabilities</b>	<b>287,330</b>	<b>252,272</b>	<b>2,789,612</b>
Net assets			
Shareholders' equity (Notes 11, 18 and 22)			
Common stock, without par value			
Authorized			
2014 – 1,700,000,000 shares			
2013 – 1,700,000,000 shares			
Issued			
2014 – 551,268,104 shares	67,176	–	652,194
2013 – 551,268,104 shares	–	67,176	–
Additional paid-in capital	78,560	78,343	762,718
Retained earnings	210,739	188,034	2,046,010
Less treasury stock, at cost	(4,369)	(4,518)	(42,417)
<b>Total shareholders' equity</b>	<b>352,107</b>	<b>329,036</b>	<b>3,418,515</b>
Accumulated other comprehensive income			
Unrealized holding gain on securities	31,387	21,986	304,728
Translation adjustments	(14,067)	(31,737)	(136,573)
Remeasurements of defined benefit plans	(10,225)	–	(99,272)
<b>Total accumulated other comprehensive income</b>	<b>7,094</b>	<b>(9,750)</b>	<b>68,874</b>
Share subscription rights	328	510	3,184
Minority interests	22,626	21,015	219,670
<b>Total net assets</b>	<b>382,155</b>	<b>340,812</b>	<b>3,710,243</b>
<b>Total liabilities and net assets</b>	<b>¥1,000,932</b>	<b>¥ 882,547</b>	<b>\$9,717,786</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		(Note 2) Thousands of U.S. dollars
	2014	2013	2014
Net sales	¥ 871,742	¥ 732,842	\$8,463,515
Cost of sales (Notes 4 and 12)	686,109	596,297	6,661,252
Gross profit	185,633	136,544	1,802,262
Selling, general and administrative expenses (Notes 4, 12 and 21)	117,583	104,183	1,141,583
Operating income	68,049	32,361	660,670
Other income (expenses)			
Interest and dividend income	2,123	1,826	20,612
Interest expenses	(4,811)	(4,865)	(46,709)
Equity in earnings of affiliates	3,854	3,627	37,417
Product compensation	(2,877)	(2,866)	(27,932)
Others, net	445	228	4,320
	(1,264)	(2,050)	(12,272)
Ordinary income	66,785	30,310	648,398
Extraordinary income (expenses)			
Gain on sales of investment securities	2,839	275	27,563
Gain on sales of fixed assets	986	1,134	9,573
Loss related to Antimonopoly Act	(16,269)	(6,005)	(157,951)
Loss on devaluation of investment securities	—	(419)	—
Income before income taxes and minority interests	54,341	25,296	527,583
Income taxes (Note 6)			
Current	18,576	7,108	180,350
Deferred	1,952	600	18,951
	20,528	7,709	199,301
Income before minority interests	¥ 33,812	¥ 17,586	\$ 328,272
Minority interests in income of consolidated subsidiaries	2,645	1,847	25,680
Net income (Note 18)	31,167	15,739	302,592

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31,	Millions of yen		(Note 2) Thousands of U.S. dollars
	2014	2013	2014
Income before minority interests	¥ 33,812	¥ 17,586	\$ 328,272
Other comprehensive income			
Unrealized holding gain on securities	9,369	7,233	90,961
Translation adjustments	17,815	23,354	172,961
Share of other comprehensive income of affiliates accounted for by the equity method	540	423	5,243
Total other comprehensive income (Note 17)	27,726	31,010	269,184
Comprehensive income	¥ 61,539	¥ 48,597	\$ 597,466
(Details)			
Comprehensive income attributable to parent company	58,238	45,205	565,417
Comprehensive income attributable to minority interests	3,300	3,391	32,039

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		(Note 2) Thousands of U.S. dollars
		2014	2013	2014
<b>Shareholders' equity</b>				
<b>Common stock</b>	Beginning balance	¥ 67,176	¥ 67,176	\$ 652,194
	Ending balance	67,176	67,176	652,194
<b>Additional paid-in capital</b>	Beginning balance	¥ 78,343	¥ 78,340	\$ 760,612
	Disposition of treasury stock	217	2	2,107
	Ending balance	78,560	78,343	762,718
<b>Retained earnings</b>	Beginning balance	¥ 188,034	¥ 178,186	\$ 1,825,573
	Cash dividends	(8,650)	(5,943)	(83,981)
	Net income	31,167	15,739	302,592
	Effect of changes in fiscal year-end of certain consolidated subsidiaries	188	53	1,825
	Ending balance	210,739	188,034	2,046,010
<b>Treasury stock</b>	Beginning balance	¥ (4,518)	¥ (4,188)	\$ (43,864)
	Net change during the year	148	(329)	1,437
	Ending balance	(4,369)	(4,518)	(42,417)
<b>Total shareholders' equity</b>	Beginning balance	¥ 329,036	¥ 319,514	\$ 3,194,524
	Net change during the year	23,070	9,522	223,981
	Ending balance	352,107	329,036	3,418,515
<b>Accumulated other comprehensive income</b>				
<b>Unrealized holding gain on securities</b>	Beginning balance	¥ 21,986	¥ 14,766	\$ 213,456
	Net change during the year	9,400	7,219	91,262
	Ending balance	31,387	21,986	304,728
<b>Translation adjustments</b>	Beginning balance	¥ (31,737)	¥ (53,969)	\$ (308,126)
	Net change during the year	17,670	22,231	171,553
	Ending balance	(14,067)	(31,737)	(136,573)
<b>Remeasurements of defined benefit plans</b>	Beginning balance	–	–	–
	Net change during the year	¥ (10,225)	–	\$ (99,272)
	Ending balance	(10,225)	–	(99,272)
<b>Total accumulated other comprehensive income</b>	Beginning balance	¥ (9,750)	¥ (39,202)	\$ (94,660)
	Net change during the year	16,845	29,451	163,544
	Ending balance	7,094	(9,750)	68,874
<b>Share subscription rights</b>	Beginning balance	¥ 510	¥ 540	\$ 4,951
	Net change during the year	(182)	(30)	(1,767)
	Ending balance	328	510	3,184
<b>Minority interests</b>	Beginning balance	¥ 21,015	¥ 18,212	\$ 204,029
	Net change during the year	1,610	2,802	15,631
	Ending balance	22,626	21,015	219,670
<b>Total net assets</b>		¥ 382,155	¥ 340,812	\$ 3,710,243

See accompanying notes to the consolidated financial statements.

Eleven-Year Summary

Six-Year Segment Information

Management's Discussion and  
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# Consolidated Statements of Cash Flows

NSK Ltd. and Consolidated Subsidiaries

Year ended March 31,	Millions of yen		(Note 2) Thousands of U.S. dollars
	2014	2013	2014
<b>Operating activities</b>			
Income before income taxes and minority interests	¥ 54,341	¥ 25,296	\$ 527,583
Depreciation and amortization	35,086	34,598	340,641
Amortization of goodwill	264	722	2,563
Increase (decrease) in provision for retirement benefits and prepaid pension cost	—	(1,906)	—
Increase (decrease) in net defined benefit liabilities and net defined benefit assets	(4,523)	—	(43,913)
Interest expenses	4,811	4,865	46,709
Gain on sales of property, plant and equipment	(986)	(1,134)	(9,573)
Loss related to Antimonopoly Act	16,269	6,005	157,951
Decrease (increase) in notes and accounts receivable, trade	(16,330)	21,769	(158,544)
Decrease (increase) in inventories, net	(4,602)	5,398	(44,680)
Increase (decrease) in notes and accounts payable, trade	9,754	(22,884)	94,699
Other, net	(10,005)	(8,090)	(97,136)
Subtotal	84,079	64,639	816,301
Interest and dividends received	6,285	4,486	61,019
Interest paid	(4,869)	(4,722)	(47,272)
Loss related to Antimonopoly Act paid	(6,422)	—	(62,350)
Income taxes paid	(8,729)	(10,606)	(84,748)
Net cash provided by operating activities	70,342	53,797	682,932
<b>Investing activities</b>			
Purchase of property, plant and equipment	(42,921)	(45,866)	(416,709)
Proceeds from sales of property, plant and equipment	1,809	1,626	17,563
Purchase of investment securities	(57)	(228)	(553)
Proceeds from sales of investment securities	3,352	1,531	32,544
Other, net	(4,584)	(2,326)	(44,505)
Net cash used in investing activities	(42,402)	(45,262)	(411,670)
<b>Financing activities</b>			
Net decrease in short-term debt	(2,575)	(3,089)	(25,000)
Increase in long-term debt	49,634	49,100	481,883
Repayment of long-term debt	(42,715)	(13,801)	(414,709)
Repayment of bonds	—	(30,000)	—
Acquisition of treasury stock	(34)	(327)	(330)
Cash dividends paid	(6,479)	(6,480)	(62,903)
Other, net	(1,032)	(946)	(10,019)
Net cash provided by (used in) financing activities	(3,204)	(5,544)	(31,107)
Effect of exchange rate changes on cash and cash equivalents	2,527	3,457	24,534
Net increase in cash and cash equivalents	27,263	6,447	264,689
Cash and cash equivalents at beginning of the year	141,653	135,307	1,375,272
Increase (decrease) in cash and cash equivalents resulting from changes in fiscal year-end of certain consolidated subsidiaries	22	(101)	214
Cash and cash equivalents at end of the year	¥ 168,940	¥ 141,653	\$ 1,640,194

See accompanying notes to the consolidated financial statements.

# Notes to Consolidated Financial Statements

NSK Ltd. and Consolidated Subsidiaries  
For the year ended March 31, 2014

## 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" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (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.

The balance sheet date is February 28 for Kuribayashi Seisakusho Co., Ltd., which differs from the year end of the Company; any significant effects of this difference in fiscal periods have been adjusted appropriately in consolidation. Although the balance sheet date of Rane NSK Steering Systems Ltd. was 3 months advance from the year end of the Company and any significant effects of this difference in fiscal periods have been adjusted appropriately in consolidation, it was changed to the date of the year end of the Company from this fiscal year.

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 Brazil 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

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

### 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 by the straight-line method. 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, Raw materials and Work in process 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). Supplies are stated at cost determined by the first-in first-out method (the book value stated on the balance sheet is based on valuation for decreased profitability).

**g. Property, Plant and Equipment and Depreciation (Exclude leased assets)**

Depreciation of property, plant and equipment is determined mainly by the straight-line method. The useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	20 to 50 years
Machinery, vehicles and equipment	3 to 12 years

**h. Intangible Assets (Exclude leased assets)**

Amortization of the intangible assets is determined by the straight-line method.

Software for internal use is amortized for the period of its useful life (5 years).

**i. 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 is not transferred 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.

**j. Deferred Assets**

Bond issuance cost is charged to expenses as incurred.

**k. Retirement Benefits**

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. Prior service cost is amortized as incurred by the straight-line method principally over 5 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.

**l. 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).

**m. Derivative Financial Instruments and Hedging Activities**

The Group utilizes derivative transactions to manage the finance risks.

For forward foreign exchange which meets certain criteria is applied allocation method and for interest rate swap which meets the certain criteria is applied special treatment.

Forward foreign exchange contracts are utilized in order to hedge against the adverse impact of fluctuations in foreign currency exchange rates on foreign currency denominated payables arising from importing etc. and forward foreign exchange contracts and non deliverable forward are utilized to hedge that dominated receivable arising from exporting etc. Interest rate swaps are utilized primarily to hedge against the adverse impact of fluctuations in interest rates on interest-loans payable.

Validity assessment for those hedging methods is made by confirming that there is high correlation in the fluctuations in market, cash flow and hedging methods.

**n. Changes in Accounting Principles**

The NSK Group had generally adopted the moving-average method for evaluation of supplies. When implementing its new accounting system, the Group reviewed operations from the perspective of speed and efficiency, and as a result judged that generally adopting the first-in first-out method was more appropriate. There is no retroactive application as the impact of this change is immaterial.

From the end of the fiscal year ended March 31, 2014, the NSK Group has applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance). Under the new standard, the NSK Group revised its method of accounting for retirement benefit obligations, recording the amount deducting the plan assets from these obligations as net defined benefit asset and liability, and accordingly, recording unrecognized actuarial differences and unrecognized prior service costs as net defined benefit asset and liability.

With regard to the application of the Accounting Standard for Retirement Benefits, in accordance with the provisions on transitional implementation indicated in Paragraph 37 of the standard, the impact of these changes has been recorded in retirement benefits liability adjustments through accumulated other comprehensive income. As a result, as of March 31, 2014, the NSK Group recorded net defined benefit asset of ¥47,740 million (US\$463,495 thousand), net defined benefit liability of ¥36,438 million (US\$353,767 thousand) and decreased accumulated other comprehensive income by ¥10,225 million (US\$99,272 thousand).

The amount of financial impact on per share information is included in the Amounts per Share section.

#### o. Changes in Accounting Principles That Are Difficult to Classify from Changes in Accounting Estimates

NSK and its domestic subsidiaries had generally applied the declining-balance method for depreciation of property, plant and equipment, excluding buildings obtained after April 1, 1998, however, the Company and its principal domestic subsidiaries changed to the straight-line method from the beginning of the fiscal year ended March 31, 2014. On the occasion of the launch of its new mid-term plan, NSK and its principal domestic subsidiaries reviewed the depreciation method in order to accurately reflect the actual status of production equipment and decided. The impact of this change during the year ended March 31, 2014 includes a decrease of ¥1,467 million (US\$14,243 thousand) in depreciation, and increases of ¥1,278 million (US\$12,408 thousand) in operating income, ordinary income, and income before income taxes and minority interests, respectively.

#### p. Changes in Accounting Estimates

The NSK Group had generally depreciated overseas subsidiaries' "machinery and equipment" in property, plant and equipment for 10 years, however, the Group decided to change the estimated useful life of 12 years from the beginning of the fiscal year ended March 31, 2014. In the mid-term plan which started from the beginning of this fiscal year, the Group has established a production system resistant to changes in the business environment by compensating for demand fluctuations across its global sites. Furthermore, the Group is striving to extend the life span of its production equipment by establishing a high-quality maintenance system. On this occasion, the Group reviewed the life period and decided to adopt a useful life of 12 years, which more accurately reflects actual usage. The impact of this change during the year ended March 31, 2014 includes a decrease of ¥2,607 million (US\$25,311 thousand) in depreciation, and increases of ¥2,332 million (US\$22,641 thousand) in operating income, ordinary income, and income before tax expenses and minority interests, respectively.

#### q. Accounting Standards but Not Yet Applied

On September 13, 2013, the ASBJ issued the following standards.

"Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21)

"Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22)

"Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7)

"Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2)

"Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10)

"Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4)

#### 1. Overview

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs is revised. In addition, the presentation method of net income is amended, the reference to "minority interests" is changed to "non-controlling interests" and transitional provisions for these accounting standards are also defined.

#### 2. Scheduled Date of Adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

#### 3. Impact of Adopting Revised Accounting Standards and Guidance

The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

On May 17, 2012, the ASBJ issued the following standards.

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26)

"Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25)

#### 1. Overview

The standard provides guidance for the accounting for unrecognized actual differences and unrecognized prior service costs, the calculation methods for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

#### 2. Scheduled Date of Adoption

The revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015.

#### 3. Impact of Adopting Revised Accounting Standards and Guidance

As a result of this adoption, due to the change of the periodic allocation of the retirement benefit obligation from "Straight-line method" to "Benefit formula method" and the change of discount rate, the Company anticipates a decrease in retained earnings of ¥4,872 million (US\$47,301 thousand) as of the beginning of fiscal year ended March 31, 2015.

## 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 ¥103=U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2014. The translation should not be construed as a representation that yen has 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 as of March 31, 2014 and 2013 is as follows:

As of March 31, 2014	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	50	50	0	485	485	0
Other debt securities	—	—	—	—	—	—
Subtotal	50	50	0	485	485	0
Securities whose carrying value exceeds their fair value:						
Government bonds	—	—	—	—	—	—
Corporate bonds	299	292	(7)	2,903	2,835	(68)
Other debt securities	—	—	—	—	—	—
Subtotal	299	292	(7)	2,903	2,835	(68)
<b>Total</b>	<b>¥ 349</b>	<b>¥ 343</b>	<b>¥ (6)</b>	<b>\$ 3,388</b>	<b>\$ 3,330</b>	<b>\$ (58)</b>

As of March 31, 2013	Millions of yen		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ —	¥ —	¥ —
Corporate bonds	449	450	0
Other debt securities	—	—	—
Subtotal	449	450	0
Securities whose carrying value exceeds their fair value:			
Government bonds	—	—	—
Corporate bonds	299	293	(6)
Other debt securities	—	—	—
Subtotal	299	293	(6)
<b>Total</b>	<b>¥ 749</b>	<b>¥ 744</b>	<b>¥ (5)</b>

b. Information regarding marketable securities classified as other securities as of March 31, 2014 and 2013 is as follows:

As of March 31, 2014	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	¥ 75,005	¥ 22,211	¥ 52,793	\$ 728,204	\$ 215,641	\$ 512,553
Bonds						
Government bonds	9	9	0	87	87	0
Corporate bonds	—	—	—	—	—	—
Other debt securities	—	—	—	—	—	—
Other	86	66	19	835	641	184
Subtotal	75,102	22,288	52,813	729,146	216,388	512,748
Securities whose acquisition cost exceeds their carrying value:						
Stock	1,236	1,513	(277)	12,000	14,689	(2,689)
Bonds						
Government bonds	23,997	23,997	—	232,981	232,981	—
Corporate bonds	9,997	9,997	—	97,058	97,058	—
Other debt securities	—	—	—	—	—	—
Other	66,187	66,189	(2)	642,592	642,612	(19)
Subtotal	101,418	101,698	(279)	984,641	987,359	(2,709)
<b>Total</b>	<b>¥ 176,520</b>	<b>¥ 126,986</b>	<b>¥ 52,534</b>	<b>\$1,713,786</b>	<b>\$1,232,874</b>	<b>\$ 510,039</b>

As of March 31, 2013	Millions of yen		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥ 59,647	¥ 20,931	¥ 38,715
Bonds			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other debt securities	—	—	—
Other	78	67	10
Subtotal	59,725	20,999	38,726
Securities whose acquisition cost exceeds their carrying value:			
Stock	2,367	2,852	(485)
Bonds			
Government bonds	26,005	26,005	—
Corporate bonds	9,996	9,996	—
Other debt securities	—	—	—
Other	49,880	49,880	—
Subtotal	88,250	88,735	(485)
<b>Total</b>	<b>¥ 147,975</b>	<b>¥ 109,734</b>	<b>¥ 38,241</b>

c. Information regarding sales of securities classified as other securities for the years ended March 31, 2014 and 2013 is as follows:

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds from sales	¥ 2,950	¥ 702	\$ 28,641
Gains on sales	2,838	196	27,553
Losses on sales	—	—	—

#### 4. Depreciation

Depreciation of property, plant and equipment for the years ended March 31, 2014 and 2013 amounted to ¥32,272 million (US\$313,320 thousand) and ¥32,436 million, respectively.

#### 5. Short-Term Debt

At March 31, 2014 and 2013, short-term debt consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Bank loans	¥ 71,469	¥ 70,789	\$ 693,874
<b>Total</b>	<b>¥ 71,469</b>	<b>70,789</b>	<b>\$ 693,874</b>

Short-term bank loans are unsecured and the interest rates applicable to the loans at March 31, 2014 and 2013 ranged principally from 0.45% to 7.80% and from 0.37% to 11.75%, respectively.

## 6. 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 37.8% for 2014 and 2013. 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, 2014 and 2013 differ from the statutory tax rate for the following reasons:

Year ended March 31,	2014	2013
Statutory tax rates	—	37.8%
Effect of:		
Expenses not deductible for income tax purposes	—	5.0
Income not recognizable for income tax purposes	—	(12.5)
Elimination of dividend income	—	12.2
Different tax rates applied to income of foreign subsidiaries	—	(5.8)
Change in valuation allowance of subsidiaries	—	(9.1)
Tax credits	—	(5.4)
Equity in earnings of affiliates	—	(5.4)
Retained earnings	—	5.5
Loss related to Antimonopoly Act	—	9.0
Other, net	—	(0.8)
Effective tax rates	—	30.5%

The significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 are as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued retirement benefits	¥ —	¥ 14,354	\$ —
Net defined benefit liabilities	15,439	—	149,893
Property, plant and equipment	1,951	1,989	18,942
Accrual payroll expenses	1,129	1,201	10,961
Net loss carried-forward	9,319	10,063	90,476
Accrued bonuses	4,400	3,944	42,718
Inventories	4,425	2,894	42,961
Loss on devaluation of investment securities	883	1,547	8,573
Other	13,729	6,193	133,291
Valuation allowance	(22,586)	(15,307)	(219,282)
<b>Total deferred tax assets</b>	<b>28,693</b>	<b>26,880</b>	<b>278,573</b>
Deferred tax liabilities:			
Depreciation	(2,162)	(1,966)	(20,990)
Reserve for advanced depreciation of fixed assets	(2,386)	(2,188)	(23,165)
Unrealized holding gain on securities	(18,016)	(13,092)	(174,913)
Gain on contribution of securities to employees' retirement benefit trust	(11,381)	(11,384)	(110,495)
Other	(14,470)	(12,396)	(140,485)
<b>Total deferred tax liabilities</b>	<b>(48,417)</b>	<b>(41,029)</b>	<b>(470,068)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>¥ (19,724)</b>	<b>¥ (14,148)</b>	<b>\$ (191,495)</b>

### 7. Accrued Expenses and Other Current Liabilities

At March 31, 2014 and 2013, accrued expenses and other current liabilities consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Accrued bonuses	¥ 16,350	¥ 12,225	\$ 158,738
Dividends payable	4,910	2,739	47,670
Other	56,743	40,904	550,903
<b>Total</b>	<b>¥ 78,005</b>	<b>¥ 55,870</b>	<b>\$ 757,330</b>

### 8. Long-Term Debt

At March 31, 2014 and 2013, long-term debt consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Secured loans from banks, insurance companies and others, due through 2014 at interest rate of 1.00%	¥ 7	¥ 38	\$ 68
Unsecured loans from banks, insurance companies and others, due through 2023 at interest rates ranging from 0.00% to 11.25%	209,056	199,274	2,029,670
Unsecured yen bonds: At interest rates ranging from 1.69% to 2.13%, due through 2017	35,000	35,000	339,806
	244,063	234,313	2,369,544
Less current portion	(39,197)	(42,637)	(380,553)
<b>Total</b>	<b>¥ 204,866</b>	<b>¥ 191,676</b>	<b>\$1,988,990</b>

The aggregate annual maturities of long-term debt subsequent to March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 39,197	\$ 380,553
2016	46,925	455,583
2017	36,649	355,816
2018	42,724	414,796
2019 and thereafter	78,566	762,777
<b>Total</b>	<b>¥ 244,063</b>	<b>\$2,369,544</b>

The assets pledged as collateral for notes and accounts payable, and long-term debt at March 31, 2014 and 2013 are as follows:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Assets pledged as collateral			
Investment securities	¥ 6	¥ 4	\$ 58
Factory foundation	67	71	650
<b>Total</b>	<b>¥ 73</b>	<b>¥ 75</b>	<b>\$ 709</b>

Factory foundation includes buildings and structures and machinery, vehicles and equipment.

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Corresponding obligations			
Notes and accounts payable	¥ 31	¥ 34	\$ 301
Current portion of long-term debt	7	30	68
Long-term debt	—	7	—
<b>Total</b>	<b>¥ 38</b>	<b>¥ 72</b>	<b>\$ 369</b>

## 9. Lease Obligations

At March 31, 2014 and 2013, lease obligations consisted of the following:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current portion of lease obligations	¥ 361	¥ 365	\$ 3,505
Lease obligations, less current portion, due through 2027	840	796	8,155
<b>Total</b>	<b>¥ 1,202</b>	<b>¥ 1,161</b>	<b>\$ 11,670</b>

The aggregate annual maturities of lease obligations subsequent to March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 264	\$ 2,563
2017	178	1,728
2018	103	1,000
2019	63	612
2020 and thereafter	230	2,233
<b>Total</b>	<b>¥ 840</b>	<b>\$ 8,155</b>

## 10. Retirement Benefit Plans

For the year ended March 31, 2014

The Company and certain of its consolidated subsidiaries have either funded or unfunded defined benefit plans, lump-sum retirement allowance, and/or defined contribution plans.

The Company also has a retirement benefit trust.

Extra payments may be added upon retirement of employees of the Company and its domestic consolidated subsidiaries, which are not included in the retirement benefit obligation based on the retirement benefit accounting.

The defined benefit plans and lump-sum retirement allowance at the certain consolidated subsidiaries are applying simplified method for defined benefit liability and the retirement benefit expense.

The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows (Excluding the plan with simplified method.):

Year ended March 31, 2014	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation at April 1, 2013	¥ 175,397	\$1,702,883
Service cost	4,831	46,903
Interest cost	4,783	46,437
Actuarial loss	(1,326)	(12,874)
Retirement benefit paid	(7,672)	(74,485)
Prior service cost	—	—
Other	16,750	162,621
Retirement benefit obligation at March 31, 2014	¥ 192,764	\$1,871,495

The changes in plan assets during the year ended March 31, 2014 are as follows (Excluding the plan with simplified method.):

Year ended March 31, 2014	Millions of yen	Thousands of U.S. dollars
Plan assets at April 1, 2013	¥ 176,505	\$1,713,641
Expected return on plan assets	5,970	57,961
Actuarial loss	12,511	121,466
Contributions by the Company	7,041	68,359
Retirement benefits paid	(6,162)	(59,825)
Other	10,288	99,883
Plan assets at March 31, 2014	¥ 206,155	\$2,001,505

The changes in defined benefit liability with the simplified method during the year ended March 31, 2014 are as follows:

Year ended March 31, 2014	Millions of yen	Thousands of U.S. dollars
Defined benefit liability at April 1, 2013	¥ 1,961	\$ 19,039
Retirement benefit expense	270	2,621
Retirement benefit paid	(95)	(922)
Contributions to the plan	(47)	(456)
Defined benefit liability at March 31, 2014	¥ 2,088	\$ 20,272

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of March 31, 2014	Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligation	¥ 191,158	\$ 1,855,903
Plan assets at fair value	(207,472)	(2,014,291)
	(16,314)	(158,388)
Unfunded retirement benefit obligation	5,012	48,660
Net assets for retirement benefits in the balance sheet	(11,301)	(109,718)
Defined benefit liability	36,438	353,767
Defined benefit assets	(47,740)	(463,495)
Net assets for retirement benefits in the balance sheet	¥ (11,301)	\$ (109,718)

(Note) Including the plan with simplified method.

The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

Year ended March 31, 2014	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 4,831	\$ 46,903
Interest cost	4,783	46,437
Expected return on plan assets	(5,970)	(57,961)
Amortization of actuarial loss	981	9,524
Amortization of prior service cost	(1,005)	(9,757)
Retirement benefit expense with simplified method	270	2,621
Retirement benefit expense for the retirement benefit plan	¥ 3,890	\$ 37,767

## Notes to Consolidated Financial Statements

Prior service cost and actuarial loss included in other comprehensive income (before tax effect) for the year ended March 31, 2014 are as follows:

Year ended March 31, 2014	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service cost	¥ (3,831)	\$ (37,194)
Unrecognized actuarial loss	15,266	148,214
Total	¥ 11,435	\$ 111,019

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

Bonds	39%
Stocks	50%
Other	11%
Total	100%

(Note) 82% of plan assets is set for the defined benefit plan. 24% of plan assets set for the defined benefit plan is comprised of the retirement benefit trust set for the defined benefit plan.

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

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

Year ended March 31, 2014	
Discount rate	Mainly 1.0%
Expected rate of return on plan assets	Mainly 2.2%

The contribution to the defined contribution plan of the Company and its subsidiaries for the year ended March 31, 2014 amounted to ¥823 million (US\$7,990 thousand).

For the year ended March 31, 2013

The Company and its domestic subsidiaries have defined benefit corporate 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 table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2013 for the Company's and the subsidiaries' defined benefit plans:

As of March 31, 2013	Millions of yen
Retirement benefit obligation	¥(178,621)
Plan assets at fair value	177,767
Unfunded retirement benefit obligation	(853)
Unrecognized actuarial loss	27,743
Unrecognized prior service cost	(4,165)
Net retirement benefit obligation	22,723
Prepaid pension cost	42,579
Accrued retirement benefits	¥ (19,855)

The components of retirement benefit expenses for the year ended March 31, 2013 are outlined as follows:

Year ended March 31, 2013	Millions of yen
Service cost	¥ 4,152
Interest cost	4,783
Expected return on plan assets	(4,663)
Amortization of actuarial gain or loss	2,903
Amortization of prior service cost	(896)
Net period retirement benefit cost	6,279
Contribution to defined contribution plans	739
Total	¥ 7,018

The assumptions used in accounting for the above plans for the year ended March 31, 2013 are as follows:

Year ended March 31, 2013	
Discount rate	Mainly 1.0%
Expected rate of return on plan assets	Mainly 2.2%

Provision of reserve for retirement benefit included in cost of sales for the year ended March 31, 2013 amounted to ¥3,363 million.

## 11. Shareholders' Equity

Dividend of retained earnings can be transferred 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.

## 12. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2014 and 2013 amounted to ¥9,919 million (US\$96,301 thousand) and ¥10,432 million, respectively.

## 13. Commitments and Contingencies

a. At March 31, 2014 and 2013, the Company and its subsidiaries had the following contingent liabilities:

As of March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
As guarantor of indebtedness of:			
Employees	¥ 8	¥ 11	\$ 78
MSP Industries SDN. BHD.	179	287	1,738
<b>Total</b>	<b>¥ 187</b>	<b>¥ 298</b>	<b>\$ 1,816</b>

b. Factored receivables for the years ended March 31, 2014 and 2013 amounted to ¥1,843 million (US\$17,893 thousand) and ¥3,047 million, respectively.

c. Litigation and Other Legal Matters

### 1. Investigations by overseas authorities

Regarding sales of bearing products, NSK's manufacturing and sales subsidiary in Korea was investigated in July 2012 by the Korean Fair Trade Commission in relation to the Monopoly Regulation and Fair Trade Act. In addition, the headquarters and related sales branches of NSK's subsidiary Amatsuji Steel Ball MFG. Co., Ltd. were investigated in January 2014 by JFTC in relation to the Japan Antimonopoly Act for sales of its products.

Moreover, NSK's subsidiaries are under investigation by relevant authorities in some other countries.

NSK and the NSK Group are cooperating fully with any relevant authorities in their respective investigations.

As a result of the above, financial losses, such as surcharge payments, may occur in the future; however, it is difficult to provide a reasonable estimate of the amount of such losses at this time. Their impact on NSK's operational results, etc. is uncertain.

### 2. Class actions filed overseas

In the United States, the Plaintiffs, representing purchasers, etc. of bearing products, have filed class actions against the Defendants including NSK and its subsidiary located in the United States (the "Actions"). The Plaintiffs allege, among others, that the Defendants conspired with each other to restrict competition regarding transactions related to bearing products in the United States, and seek damages, injunctive relief, and other relief against the Defendants in the Actions. In addition, in Canada, similar kinds of class actions against the Defendants including NSK and its subsidiary located in Canada have been filed.

NSK and its subsidiaries located in the United States and Canada are going to insist on propriety and contest the Plaintiffs' claim. Although the amounts of damages claimed are not specified in the complaints, as a result of these actions, it is possible that NSK's operational results, etc. will be affected.

NSK, its subsidiaries, or its affiliated companies may face additional follow-on actions similar to these actions.

## 14. 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, 2014 and 2013, 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
	2014	2013	2014
Acquisition costs:			
Machinery, vehicles and equipment	¥ 781	¥ 722	\$ 7,583
Other assets	9	20	87
<b>Total</b>	<b>¥ 791</b>	<b>¥ 743</b>	<b>\$ 7,680</b>
Accumulated depreciation:			
Machinery, vehicles and equipment	¥ 357	¥ 315	\$ 3,466
Other assets	3	12	29
<b>Total</b>	<b>¥ 360</b>	<b>¥ 327</b>	<b>\$ 3,495</b>
Net book value:			
Machinery, vehicles and equipment	¥ 423	¥ 407	\$ 4,107
Other assets	6	8	58
<b>Total</b>	<b>¥ 430</b>	<b>¥ 416</b>	<b>\$ 4,175</b>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥90 million (US\$874 thousand) and ¥89 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, 2014 and 2013, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 and 2013 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due in one year or less	¥ 78	¥ 70	\$ 757
Due after one year	351	345	3,408
<b>Total</b>	<b>¥ 430</b>	<b>¥ 416</b>	<b>\$ 4,175</b>

### b. Operating Leases

Future minimum lease payments for noncancelable operating leases subsequent to March 31, 2014 and 2013 are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due in one year or less	¥ 1,141	¥ 1,069	\$ 11,078
Due after one year	1,679	1,741	16,301
<b>Total</b>	<b>¥ 2,820</b>	<b>¥ 2,810</b>	<b>\$ 27,379</b>

## 15. 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, 2014 and 2013:

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

#### 1. Currency-related transactions

As of March 31, 2014	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\$	¥ 4,534	¥ (17)	¥ (17)	\$ 44,019	\$ (165)	\$ (165)
STG£	26	0	0	252	0	0
EUR	108	(0)	(0)	1,049	(0)	(0)
YEN	426	1	1	4,136	10	10
Buy:						
US\$	¥ 7,676	¥ 296	¥ 296	\$ 74,524	\$ 2,874	\$ 2,874
STG£	19	(0)	(0)	184	(0)	(0)
EUR	8,825	6	6	85,680	58	58
A\$	54	0	0	524	0	0
YEN	1,471	(11)	(11)	14,282	(107)	(107)
<b>Total</b>	<b>¥ 23,144</b>	<b>¥ 275</b>	<b>¥ 275</b>	<b>\$ 224,699</b>	<b>\$ (2,670)</b>	<b>\$ (2,670)</b>

(Note) The calculation of fair value

The fair value of forward foreign exchange contracts and non-deliverable forward are based on the appraised value provided by the contracted financial institutions.

As of March 31, 2013	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Transactions, excluding market transactions			
Forward foreign exchange contracts			
Sell:			
US\$	¥ 4,080	¥ (17)	¥ (17)
STG£	98	0	0
EUR	98	1	1
INR	434	(14)	(14)
YEN	302	7	7
Buy:			
US\$	¥ 2,249	¥ (18)	¥ (18)
STG£	65	0	0
A\$	54	0	0
C\$	1	0	0
NT\$	490	(4)	(4)
YEN	1,094	4	4
<b>Total</b>	<b>¥ 8,968</b>	<b>¥ (41)</b>	<b>¥ (41)</b>

## 2. Interest-related transactions

As of March 31, 2014 Not applicable.

As of March 31, 2013	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	¥ 357	¥ —	¥ (7)	¥ (7)
<b>Total</b>	<b>¥ 357</b>	<b>¥ —</b>	<b>¥ (7)</b>	<b>¥ (7)</b>

(Note) The calculation of fair value

The fair value of interest swap transactions is based on the appraised value provided by the contracted financial institutions.

## b. Derivative transactions which have been accounted for as hedges

### 1. Currency-related transactions

As of March 31, 2014	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\$	¥ 24,120	(Note)	\$ 234,175	(Note)
EUR	8,311	(Note)	80,689	(Note)
C\$	275	(Note)	2,670	(Note)
A\$	330	(Note)	3,204	(Note)
THB	155	(Note)	1,505	(Note)
<b>Total</b>	<b>¥ 33,193</b>	<b>—</b>	<b>\$ 322,262</b>	<b>—</b>

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

As of March 31, 2013	Millions of yen	
	Notional amount	Fair value
Transactions, excluding market transactions		
Allocation method		
Forward foreign exchange contracts		
Sell:		
US\$	¥ 21,652	(Note)
EUR	6,460	(Note)
C\$	297	(Note)
A\$	421	(Note)
<b>Total</b>	<b>¥ 28,832</b>	<b>—</b>

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

## 16. Financial Instruments

### a. 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.

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

Carrying value of financial instruments on the consolidated balance sheet as of March 31, 2014 and 2013 and estimated fair value are shown in the following tables. The following tables do not include financial instruments for which it is extremely difficult to determine the fair value (please refer to Note 2).

As of March 31, 2014	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
(1) Cash and deposits	¥ 68,319	¥ 68,319	¥ —	\$ 663,291	\$ 663,291	\$ —
(2) Notes and accounts receivable	164,367	164,367	—	1,595,796	1,595,796	—
(3) Securities and investment securities						
① Held-to-maturity securities	349	343	(6)	3,388	3,330	(58)
② Other securities	176,520	176,520	—	1,713,786	1,713,786	—
<b>Total assets</b>	<b>¥ 409,557</b>	<b>¥ 409,550</b>	<b>¥ (6)</b>	<b>\$ 3,976,282</b>	<b>\$ 3,976,214</b>	<b>\$ (58)</b>
(1) Notes and accounts payable	¥ 130,745	¥ 130,745	¥ —	\$ 1,269,369	\$ 1,269,369	\$ —
(2) Short-term debt	71,469	71,469	—	693,874	693,874	—
(3) Bonds (*1)	35,000	36,259	1,259	339,806	352,029	12,223
(4) Long-term debt (*1)	209,063	214,426	5,362	2,029,738	2,081,806	52,058
<b>Total liabilities</b>	<b>¥ 446,277</b>	<b>¥ 452,899</b>	<b>¥ 6,621</b>	<b>\$ 4,332,786</b>	<b>\$ 4,397,078</b>	<b>\$ 64,282</b>
Derivatives(*2)	¥ 275	¥ 275	¥ —	\$ 2,670	\$ 2,670	\$ —

As of March 31, 2013	Millions of yen		
	Carrying value	Estimated fair value	Difference
(1) Cash and deposits	¥ 54,643	¥ 54,643	¥ —
(2) Notes and accounts receivable	140,380	140,380	—
(3) Securities and investment securities			
① Held-to-maturity securities	749	744	(5)
② Other securities	147,975	147,975	—
<b>Total assets</b>	<b>¥ 343,748</b>	<b>¥ 343,743</b>	<b>¥ (5)</b>
(1) Notes and accounts payable	¥ 117,808	¥ 117,808	¥ —
(2) Short-term debt	70,789	70,789	—
(3) Bonds (*1)	35,000	36,771	1,771
(4) Long-term debt (*1)	199,313	203,878	4,564
<b>Total liabilities</b>	<b>¥ 422,911</b>	<b>¥ 429,247</b>	<b>¥ 6,336</b>
Derivatives (*2)	¥ (48)	¥ (48)	¥ —

(\*1) Bonds and long-term debt 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 deposits 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 debt

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 debt

The fair value of long-term debt 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 debt and current credit risk.

For the fair value of long-term debt at variable interest rates, as the market value is 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.

(Note 2) Financial instruments for which it is extremely difficult to determine fair value as of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars	
	Carrying value		Carrying value	
As of March 31, 2014				
Investments in non-consolidated subsidiaries and affiliates	¥ 22,928		\$ 222,602	
Unlisted stocks	¥ 4,314		\$ 41,883	
As of March 31, 2013				
Investments in non-consolidated subsidiaries and affiliates	¥ 21,888			
Unlisted stocks	¥ 4,294			

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, 2014 and 2013.

	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
March 31, 2014								
Cash and deposits	¥ 68,267	¥ -	¥ -	¥ -	\$ 662,786	\$ -	\$ -	\$ -
Notes and accounts receivable	165,808	-	-	-	1,609,786	-	-	-
Securities and investment securities								
Held-to-maturity securities (Corporate bonds)	-	349	-	-	-	3,388	-	-
Other securities with maturities (Government bonds)	23,997	9	-	-	232,981	87	-	-
Other securities with maturities (Corporate bonds)	9,997	-	-	-	97,058	-	-	-
Other securities with maturities (Other)	52,100	10	-	-	505,825	97	-	-
Total	¥ 320,171	¥ 369	¥ -	¥ -	\$ 3,108,456	\$ 3,583	\$ -	\$ -
March 31, 2013								
Cash and deposits	¥ 54,587	¥ -	¥ -	¥ -				
Notes and accounts receivable	141,706	-	-	-				
Securities and investment securities								
Held-to-maturity securities (Corporate bonds)	399	349	-	-				
Other securities with maturities (Government bonds)	25,995	9	-	-				
Other securities with maturities (Corporate bonds)	9,996	-	-	-				
Other securities with maturities (Other)	37,800	10	-	-				
Total	¥ 270,486	¥ 369	¥ -	¥ -				

## Notes to Consolidated Financial Statements

(Note 4) Redemption schedule of corporate bonds and long-term debt after March 31, 2014 and 2013.

March 31, 2014	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	¥ 15,000	¥ —	¥ 20,000	¥ —	¥ —	¥ —	\$145,631	\$ —	\$194,175	\$ —	\$ —	\$ —
Long-term debt	24,197	46,925	16,649	42,724	44,566	34,000	234,922	455,583	161,641	414,796	432,680	330,097
Total	¥ 39,197	¥ 46,925	¥ 36,649	¥ 42,724	¥ 44,566	¥ 34,000	\$380,553	\$455,583	\$355,816	\$414,796	\$432,680	\$330,097

March 31, 2013	Millions of yen					
	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	¥ —	¥ 15,000	¥ —	¥ 20,000	¥ —	¥ —
Long-term debt	42,637	22,896	44,438	15,046	29,294	45,000
Total	¥ 42,637	¥ 37,896	¥ 44,438	¥ 35,046	¥ 29,294	¥ 45,000

### 17. Other Comprehensive Income

Amount of reclassification adjustment and tax effect allocated to each component of other comprehensive income are as follows:

Year ended March 31,	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized holding gain (loss) on securities			
Unrealized holding gain (loss) on securities arising during the year	¥ 17,131	¥ 11,651	\$ 166,320
Reclassification adjustment	(2,837)	(614)	(27,544)
Net unrealized holding gain (loss) on securities before tax effect	14,294	11,037	138,777
Tax effect	(4,924)	(3,803)	(47,806)
Unrealized holding gain (loss) on securities, net of tax	9,369	7,233	90,961
Translation adjustments			
Translation adjustments arising during the year	17,815	23,354	172,961
Share of other comprehensive income of affiliates accounted for by the equity method			
Share of other comprehensive income of affiliates accounted for by the equity method arising during the year	540	423	5,243
Total other comprehensive income	¥ 27,726	¥ 31,010	\$ 269,184

## 18. Amounts per Share

Year ended March 31,	Yen		U.S. dollars
	2014	2013	2014
Net income:			
Basic	¥ 57.70	¥ 29.14	\$ 0.56
Diluted	57.63	–	0.56
Net assets	664.74	591.36	6.454
Cash dividends applicable to the year	16.00	11.00	0.155

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 ¥44,753 million (US\$434,495 thousand) and ¥46,177 million from NSK-Warner K.K., its major affiliate, which was accounted for by the equity method for the years ended March 31, 2014 and 2013, respectively. The related payable balances at March 31, 2014 and 2013 amounted to ¥8,500 million (US\$82,524 thousand) and ¥9,637 million, respectively. The purchase prices were negotiated on an arm's-length basis considering the total cost for its production.

For the years ended March 31, 2014 and 2013, 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, 2014	Millions of yen	Thousands of U.S. dollars
Total current assets	¥ 27,695	\$ 268,883
Total non-current assets	13,779	133,777
Total current liabilities	11,544	112,078
Total long-term liabilities	3,043	29,544
Total net assets	26,887	261,039
Year ended March 31, 2014		
Net sales	¥ 50,356	\$ 488,893
Income before income taxes and minority interests	8,966	87,049
Net income	6,438	62,505
As of March 31, 2013		
Total current assets	¥ 28,644	
Total non-current assets	14,112	
Total current liabilities	12,999	
Total long-term liabilities	3,216	
Total net assets	26,540	
Year ended March 31, 2013		
Net sales	¥ 50,789	
Income before income taxes and minority interests	7,877	
Net income	5,375	

## 20. Segment Information

The reportable segments of the Company are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Company's organization centers on its customer/product-based division headquarters, which plans comprehensive business strategies not only for business in Japan but globally. Therefore, the Company has decided to designate its customer/product-based Industrial Machinery segment and Automotive segment as its two reportable segments.

The Industrial Machinery business is in charge of production and sales of industrial machinery bearings, ball screws, and linear guides.

The Automotive business is in charge of production and sales of bearings for car manufacturers and automotive component manufacturers, steering columns and automatic transmission components.

The accounting policies of the segments are substantially the same as those described in "Summary of Significant Accounting Policies." Segment performance is based on operating income or loss. Intersegment sales and any transfer prices are recorded at market values.

Sales, income (loss), assets, liabilities and other items by reportable segment for the years ended March 31, 2014 and 2013 are summarized as follows:

Year ended March 31, 2014	Reportable segments			Others	Total	Adjustments	Consolidated
	Industrial Machinery Business	Automotive Business	Subtotal				
Sales							
Sales to third parties	¥ 242,969	¥ 590,545	¥ 833,515	¥ 38,226	¥ 871,742	¥ —	¥ 871,742
Inter-segment sales and transfers	—	—	—	26,465	26,465	(26,465)	—
<b>Total</b>	<b>¥ 242,969</b>	<b>¥ 590,545</b>	<b>¥ 833,515</b>	<b>¥ 64,692</b>	<b>¥ 898,208</b>	<b>¥ (26,465)</b>	<b>¥ 871,742</b>
Segment income (loss) (Operating income)	¥ 23,712	¥ 49,201	¥ 72,914	¥ 2,900	¥ 75,815	¥ (7,765)	¥ 68,049
Segment assets	¥ 280,010	¥ 446,852	¥ 726,862	¥ 93,097	¥ 819,959	¥ 180,972	¥1,000,932
Other items							
Depreciation and amortization	¥ 12,556	¥ 20,189	¥ 32,746	¥ 2,907	¥ 35,653	¥ (567)	¥ 35,086
Investments in affiliates	7,154	14,771	21,925	620	22,545	—	22,545
Increase in tangible and intangible assets	¥ 10,580	¥ 32,613	¥ 43,194	¥ 2,536	¥ 45,731	¥ (282)	¥ 45,448

Year ended March 31, 2014	Reportable segments					Thousands of U.S. dollars	
	Industrial Machinery Business	Automotive Business	Subtotal	Others	Total	Adjustments	Consolidated
<b>Sales</b>							
Sales to third parties	\$2,358,922	\$5,733,447	\$8,092,379	\$ 371,126	\$8,463,515	\$ —	\$8,463,515
Inter-segment sales and transfers	—	—	—	256,942	256,942	(256,942)	—
<b>Total</b>	<b>\$2,358,922</b>	<b>\$5,733,447</b>	<b>\$8,092,379</b>	<b>\$ 628,078</b>	<b>\$8,720,466</b>	<b>\$ (256,942)</b>	<b>\$8,463,515</b>
<b>Segment income (loss) (Operating income)</b>	<b>\$ 230,214</b>	<b>\$ 477,680</b>	<b>\$ 707,903</b>	<b>\$ 28,155</b>	<b>\$ 736,068</b>	<b>\$ (75,388)</b>	<b>\$ 660,670</b>
<b>Segment assets</b>	<b>\$2,718,544</b>	<b>\$4,338,369</b>	<b>\$7,056,913</b>	<b>\$ 903,854</b>	<b>\$7,960,767</b>	<b>\$1,757,010</b>	<b>\$9,717,786</b>
<b>Other items</b>							
Depreciation and amortization	\$ 121,903	\$ 196,010	\$ 317,922	\$ 28,223	\$ 346,146	\$ (5,505)	\$ 340,641
Investments in affiliates	69,456	143,408	212,864	6,019	218,883	—	218,883
Increase in tangible and intangible assets	\$ 102,718	\$ 316,631	\$ 419,359	\$ 24,621	\$ 443,990	\$ (2,738)	\$ 441,243

(Note 1) "Others" is excluded from reportable segments and including production and sales of steel balls, production of machineries, and production and sales of systemized products (photo fabrication exposure equipment).

(Note 2) The adjustment made for segment operating income, ¥ (7,765) million (US\$ (75,388) thousand) includes intersegment elimination amount to ¥296 million (US\$2,874 thousand) and corporate expenses amount to ¥ (8,061) million (US\$ (78,262) thousand), which is not allocated to the reportable segments. Corporate expense is the cost occurring from administrative department in the Company's HQ, which is not belonging to any reportable segments.

(Note 3) The segment income has been adjusted based on the operating profit in Consolidated Statements of Income.

(Note 4) The adjustment of segment assets, ¥ 180,972 million (US\$1,757,010 thousand) includes intersegment elimination amount to ¥(5,889) million (US\$(57,175) thousand) and corporate assets amount to ¥186,862 million (US\$1,814,194 thousand), which is not allocated to any reportable segments. Corporate assets are mainly the surplus fund of the Company (cash and cash equivalent) and long-term investment (investment securities).

(Note 5) The adjustment of depreciation and amortization, ¥ (567) million (US\$ (5,505) thousand) is intersegment elimination.

(Note 6) The adjustment of increase in tangible and intangible assets, ¥ (282) million (US\$ (2,738) thousand) is the intersegment elimination.

Year ended March 31, 2013	Reportable segments					Millions of yen	
	Industrial Machinery Business	Automotive Business	Subtotal	Others	Total	Adjustments	Consolidated
<b>Sales</b>							
Sales to third parties	¥ 216,142	¥ 490,545	¥ 706,687	¥ 26,154	¥ 732,842	¥ —	¥ 732,842
Inter-segment sales and transfers	—	—	—	27,124	27,124	(27,124)	—
<b>Total</b>	<b>¥ 216,142</b>	<b>¥ 490,545</b>	<b>¥ 706,687</b>	<b>¥ 53,278</b>	<b>¥ 759,966</b>	<b>(27,124)</b>	<b>¥ 732,842</b>
<b>Segment income (loss) (Operating income)</b>	<b>¥ 13,020</b>	<b>¥ 24,992</b>	<b>¥ 38,012</b>	<b>¥ 2,164</b>	<b>¥ 40,176</b>	<b>¥ (7,815)</b>	<b>¥ 32,361</b>
<b>Segment assets</b>	<b>¥ 253,030</b>	<b>¥ 392,081</b>	<b>¥ 645,112</b>	<b>¥ 81,343</b>	<b>¥ 726,456</b>	<b>¥ 156,091</b>	<b>¥ 882,547</b>
<b>Other items</b>							
Depreciation and amortization	¥ 12,321	¥ 19,716	¥ 32,037	¥ 3,159	¥ 35,197	¥ (599)	¥ 34,598
Investments in affiliates	4,698	15,951	20,650	615	21,265	—	21,265
Increase in tangible and intangible assets	¥ 11,896	¥ 31,936	¥ 43,832	¥ 4,735	¥ 48,567	¥ (542)	¥ 48,025

## 1. Information by Region

## (1) Sales

Year ended March 31, 2014

Millions of yen

Japan	The Americas	Europe	China	Other Asia	Total
¥ 329,136	¥ 134,482	¥ 124,590	¥ 167,239	¥ 116,293	¥ 871,742

Year ended March 31, 2014

Thousands of U.S. dollars

Japan	The Americas	Europe	China	Other Asia	Total
\$ 3,195,495	\$ 1,305,650	\$ 1,209,612	\$ 1,623,680	\$ 1,129,058	\$ 8,463,515

(Note 1) The sales are based on the customers' location and categorized by either countries or regions.

(Note 2) The categories of the countries or the regions are based on the proximity.

(Note 3) Main countries and regions belonging to other regions apart from Japan and China are follows;

The Americas: the United States, Canada, Mexico, Brazil etc.

Europe: the United Kingdom, Germany, Poland, and other European countries etc.

Other Asia: East and South East Asian countries (apart from Japan and China), India and Australia etc.

## (2) Tangible assets

As of March 31, 2014

Millions of yen

Japan	The Americas	Europe	China	Other Asia	Total
¥ 133,670	¥ 26,088	¥ 30,880	¥ 75,180	¥ 38,349	¥ 304,169

As of March 31, 2014

Thousands of U.S. dollars

Japan	The Americas	Europe	China	Other Asia	Total
\$ 1,297,767	\$ 253,282	\$ 299,806	\$ 729,903	\$ 372,320	\$ 2,953,097

(Note 1) The categories of the countries or the regions are based on the proximity.

(Note 2) Main countries and regions belonging to other regions apart from Japan and China are follows;

The Americas: the United States, Canada, Mexico, Brazil etc.

Europe: the United Kingdom, Germany, Poland, and other European countries etc.

Other Asia: East and South East Asian countries (apart from Japan and China), India and Australia etc.

## 2. Amortization of Goodwill by Reportable Segment

Year ended March 31, 2014	Reportable segments					Total	Millions of yen
	Industrial Machinery Business	Automotive Business	Subtotal	Others	Corporate/ Eliminations		
Amortization during the year	¥ —	¥ 150	¥ 150	¥ 114	¥ —	¥ 264	
Unamortized balance at the end of the year	¥ —	¥ —	¥ —	¥ 226	¥ —	¥ 226	

Year ended March 31, 2014	Reportable segments					Total	Thousands of U.S. dollars
	Industrial Machinery Business	Automotive Business	Subtotal	Others	Corporate/ Eliminations		
Amortization during the year	\$ —	\$ 1,456	\$ 1,456	\$ 1,107	\$ —	\$ 2,563	
Unamortized balance at the end of the year	\$ —	\$ —	\$ —	\$ 2,194	\$ —	\$ 2,194	

## 21. Stock Option

Information regarding stock option plans of the Company at March 31, 2014 is as follows:

Date of approval	June 25, 2008	June 25, 2009	June 25, 2010	June 24, 2011
Date of grant	August 26, 2008	August 25, 2009	August 26, 2010	August 30, 2011
Grantees	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	12 directors and 28 executive officers, 52 employees, 19 directors of subsidiaries specified by the NSK Board of Directors Total 111	12 directors and 27 executive officers, 46 employees, 21 directors of subsidiaries specified by the NSK Board of Directors Total 106
Type of shares to be issued upon exercise of share subscription rights	Common stock	Common stock	Common stock	Common stock
Number of shares to be issued upon exercise of share subscription rights	785,000 shares	828,000 shares	823,000 shares	779,000 shares
Exercise price (yen)	¥932	¥603	¥641	¥831
Exercise period	August 26, 2008– August 25, 2013	August 25, 2009– August 24, 2014	August 26, 2010– August 25, 2015	August 30, 2011– August 29, 2016
Stock options outstanding as of March 31, 2012	785,000 shares	810,000 shares	823,000 shares	779,000 shares
Exercised in this period	14,000 shares	317,000 shares	112,000 shares	38,000 shares
Expired in this period	771,000 shares	–	–	–
Stock options outstanding as of March 31, 2013	–	493,000 shares	711,000 shares	741,000 shares
Weighted average exercise price (yen)	¥981	¥1,038	¥1,053	¥1,113
Weighted average fair value per stock at the granted date	¥146	¥207	¥149	¥162

Stock option expense included in selling, general and administrative expenses for the years ended March 31, 2014 and 2013 amounted to ¥19 million (US\$184 thousand) and ¥79 million, respectively. Gains on expiration of unexercised stock options recorded for the years ended March 31, 2014 and 2013 amounted to ¥112 million (US\$1,087 thousand) and ¥108 million, respectively.

## 22. Treasury Stock

Treasury stock the Company and affiliates owned for the years ended March 31, 2014 and 2013 were 10,901,237 common stocks and 11,349,715 common stocks, respectively.

## 23. Subsequent event

Not applicable.

# Management's Report on Internal Control over Financial Reporting

## Basic Framework of 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 Revision 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 on March 30, 2011.

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, 2014 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 revised by the Company on September 30, 2013. 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. 54 of the group companies, consisting of the Company, consolidated subsidiaries and major affiliates accounted for by 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 41 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 14 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, 2014 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.

### 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, 2014 was effective.

Norio Otsuka  
President and Chief Executive Officer  
NSK Ltd.



June 25, 2014

# Independent Auditor's Report



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## Independent Auditor's Report

The Board of Directors  
NSK Ltd.

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of NSK Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as of March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NSK Ltd. and its consolidated subsidiaries as of March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

#### Emphasis of Matter

We draw attention to Note 1 (o) to the consolidated financial statements, which describes that effective the year ended March 31, 2014, NSK Ltd. and its principal domestic subsidiaries changed their depreciation method of property, plant and equipment from the declining-balance method to the straight-line method. Also, we draw attention to Note 1 (p) to the consolidated financial statements, which describes that effective the year ended March 31, 2014, NSK Ltd.'s overseas subsidiaries changed their useful lives of machinery and equipment.

Our opinion is not qualified in respect of this matter.

#### Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

### Report on the Management's Report

We have also audited the accompanying Management's Report on Internal Control Over Financial Reporting for the consolidated financial statements as of March 31, 2014 of NSK Ltd. and its consolidated subsidiaries (the "Management's Report").

#### Management's Responsibility for the Management's Report

Management is responsible for designing and operating internal control over financial reporting, and the preparation and fair presentation of the Management's Report. Internal control over financial reporting may not prevent or detect misstatements.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the Management's Report based on our audit. 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 involves performing procedures to obtain audit evidence about management's assessment on internal control over financial reporting in the Management's Report. The procedures selected depend on the auditor's judgment, including materiality of effect on the reliability of financial reporting. An internal control audit includes examining 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our internal control audit opinion.

#### 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, 2014 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, 2014  
Tokyo, Japan

# NSK Group

As of March 31, 2014

Region	Company Name	Consolidated Equity	Outline of Business
Japan	NSK MICRO PRECISION CO., LTD.	55.0%	Manufacture and sales of bearings
	NSK MICRO PRECISION CO., LTD. (NAGANO)	100.0%	Manufacture of bearings
	NSK NEEDLE BEARING LTD.	98.1%	Manufacture of bearings
	NSK STEERING SYSTEMS CO., LTD.	100.0%	Manufacture of automotive components
	NSK KYUSHU CO., LTD.	100.0%	Manufacture of precision machinery & parts
	NSK TECHNOLOGY CO., LTD.	100.0%	Manufacture and sales of systemized products
	ASAHI SEIKI CO., LTD.	73.8%	Manufacture of bearing parts and automotive components
	AMATSUJI STEEL BALL MFG. CO., LTD.	100.0%	Manufacture and sales of steel and ceramic balls, etc.
	AKS EAST JAPAN CO., LTD.	100.0%	Manufacture of steel balls
	NSK TOYAMA CO., LTD.	100.0%	Manufacture of bearing parts
	SHINWA SEIKO CO., LTD.	82.4%	Manufacture of bearing parts
	KURIBAYASHI SEISAKUSHO CO., LTD.	73.5%	Manufacture of bearing parts
	NSK MACHINERY CO., LTD.	100.0%	Manufacture of machine tools and precision machinery & parts
	NSK REAL ESTATE CO., LTD.	100.0%	Real estate management and rental
	NISSEI BLDG. MANAGEMENT LTD.	70.0%	Management of Nissei Building
	NSK-CHUGAI, LTD.	65.0%	Insurance agent and sales of machine components, etc.
	NSK HUMAN RESOURCE SERVICES LTD.	100.0%	Provision of personnel support services and consulting
	NSK LOGISTICS CO., LTD.	100.0%	Distributor of NSK products and manufacturing contractor of machine components
	NSK NETWORK AND SYSTEMS CO., LTD.	100.0%	Provision of consulting, design, development, sales and maintenance services for computer systems and networks
	ADTECH CORPORATION	51.0%	Research and development of automotive components
INOUE JIKUKE KOGYO CO., LTD.	40.0%	Manufacture and sales of bearings	
NSK-WARNER K.K.	50.0%	Manufacture of automotive components	
CHITOSE SANGYO CO., LTD.	50.0%	Manufacture of automotive components	
<b>THE AMERICAS</b>			
U.S.A.	NSK AMERICAS, INC.	100.0%	Control of American subsidiaries and affiliates
	NSK CORPORATION	100.0%	Manufacture of bearings and sales of bearings, automotive components and precision machinery & parts
	NSK PRECISION AMERICA, INC.	100.0%	Manufacture and sales of precision machinery & parts
	NSK LATIN AMERICA, INC.	100.0%	Sales of bearings and precision machinery & parts
	NSK STEERING SYSTEMS AMERICA, INC.	100.0%	Manufacture and sales of automotive components
	NSK-AKS PRECISION BALL COMPANY	100.0%	Manufacture and sales of steel balls
Canada	NSK-WARNER U.S.A., INC.	50.0%	Sales and technical services of automotive components
Canada	NSK CANADA INC.	100.0%	Sales of bearings and precision machinery & parts
Mexico	NSK RODAMIENTOS MEXICANA, S.A. DE C.V.	100.0%	Sales of bearings and precision machinery & parts
	NSK BEARINGS MANUFACTURING, MEXICO, S.A. DE C.V.	100.0%	Manufacture of bearings
Brazil	NSK BRASIL LTDA.	100.0%	Manufacture of bearings and sales of bearings and precision machinery & parts
Argentina	NSK ARGENTINA S.R.L.	100.0%	Sales of bearings and precision machinery & parts
Peru	NSK PERU S.A.C.	100.0%	Sales of bearings and precision machinery & parts
<b>EUROPE</b>			
U.K.	NSK EUROPE LTD.	100.0%	Control of European subsidiaries and affiliates
	NSK UK LTD.	100.0%	Sales of bearings, automotive components and precision machinery & parts
	NSK BEARINGS EUROPE LTD.	100.0%	Manufacture of bearings
	NSK STEERING SYSTEMS EUROPE LTD.	100.0%	Manufacture of automotive components
	NSK PRECISION UK LTD.	100.0%	Manufacture of precision machinery & parts
	AKS PRECISION BALL EUROPE LTD.	100.0%	Manufacture and sales of steel balls
Germany	NSK EUROPA HOLDING GMBH	100.0%	Holding company of subsidiaries in Germany
	NSK DEUTSCHLAND GMBH	100.0%	Sales of bearings and automotive components
	NEUWEG FERTIGUNG GMBH	100.0%	Manufacture of bearings
France	NSK FRANCE S.A.S.	100.0%	Sales of bearings, automotive components and precision machinery & parts
Italy	NSK ITALIA S.P.A.	100.0%	Sales of bearings, automotive components and precision machinery & parts
Spain	NSK SPAIN S.A.	100.0%	Sales of bearings, automotive components and precision machinery & parts

Region	Company Name	Consolidated Equity	Outline of Business
Netherlands	NSK EUROPEAN DISTRIBUTION CENTRE B.V.	100.0%	Warehousing and distribution of bearings and automotive components
Poland	NSK BEARINGS POLSKA S.A.	95.5%	Manufacture of bearings
	NSK POLSKA SP. Z O.O.	100.0%	Sales of bearings
	NSK NEEDLE BEARING POLAND SP. Z O.O.	100.0%	Manufacture of bearings
	NSK STEERING SYSTEMS EUROPE (POLSKA) SP. Z O.O.	100.0%	Manufacture of automotive components
	AKS PRECISION BALL POLSKA SP. Z O.O.	100.0%	Manufacture and sales of steel balls
Turkey	NSK RULMANLARI ORTA DOGU TIC. LTD. STI (NSK BEARINGS MIDDLE EAST TRADING CO., LTD.)	100.0%	Sales of bearings and precision machinery & parts
South Africa	NSK SOUTH AFRICA (PTY) LTD.	100.0%	Sales of bearings and precision machinery & parts
<b>ASIA</b>			
Singapore	NSK INTERNATIONAL (SINGAPORE) PTE LTD.	100.0%	Sales of bearings
	NSK SINGAPORE (PRIVATE) LTD.	70.0%	Sales of bearings and precision machinery & parts
Indonesia	PT. NSK BEARINGS MANUFACTURING INDONESIA	100.0%	Manufacture of bearings
	PT. NSK INDONESIA	100.0%	Sales of bearings
	PT. AKS PRECISION BALL INDONESIA	100.0%	Manufacture and sales of steel balls
	PT. NSK-WARNER INDONESIA	50.0%	Manufacture of automotive components
Thailand	NSK BEARINGS MANUFACTURING (THAILAND) CO., LTD.	74.9%	Manufacture and sales of bearings
	SIAM NSK STEERING SYSTEMS CO., LTD.	74.9%	Manufacture and sales of automotive components
	NSK ASIA PACIFIC TECHNOLOGY CENTRE (THAILAND) CO., LTD.	100.0%	Technological support and development of bearings
	NSK BEARINGS (THAILAND) CO., LTD.	49.0%	Sales of bearings, automotive components and precision machinery & parts
Malaysia	NSK BEARINGS (MALAYSIA) SDN. BHD.	51.0%	Sales of bearings, automotive components and precision machinery & parts
	NSK MICRO PRECISION (M) SDN. BHD.	100.0%	Manufacture of bearings
	ISC MICRO PRECISION SDN. BHD.	100.0%	Manufacture of bearings
China	NSK (CHINA) INVESTMENT CO., LTD.	100.0%	Holding company of Chinese subsidiaries and affiliates, sales of bearings, automotive components and precision machinery & parts
	KUNSHAN NSK CO., LTD.	85.0%	Manufacture of bearings
	CHANGSHU NSK NEEDLE BEARING CO., LTD.	100.0%	Manufacture of bearings
	NSK STEERING SYSTEMS DONGGUAN CO., LTD.	100.0%	Manufacture of automotive components
	ZHANGJIAGANG NSK PRECISION MACHINERY CO., LTD.	100.0%	Manufacture of bearing parts
	SUZHOU NSK BEARINGS CO., LTD.	100.0%	Manufacture of bearings
	AKS PRECISION BALL (HANGZHOU) CO., LTD.	100.0%	Manufacture and sales of steel balls
	NSK (CHINA) RESEARCH AND DEVELOPMENT CO., LTD.	100.0%	Technological support and development of bearings, automotive components and precision machinery & parts
	NSK-WARNER (SHANGHAI) CO., LTD.	50.0%	Manufacture of automotive components
	NSK-WANDA ELECTRIC POWER ASSISTED STEERING SYSTEMS CO., LTD.	100.0%	Manufacture of automotive components
	NSK-YAGI PRECISION FORGING (ZHANGJIAGANG) CO., LTD.	100.0%	Manufacture of bearing parts
	SHENYANG NSK PRECISION CO., LTD.	100.0%	Manufacture of precision machinery & parts
	SHENYANG NSK CO., LTD.	100.0%	Manufacture of bearings
	HEFEI NSK CO., LTD.	100.0%	Manufacture of bearings
NINGBO MOS GROUP CO., LTD.	41.7%	Manufacture and sales of bearings	
Hong Kong	NSK HONG KONG LTD.	70.0%	Sales of bearings, automotive components and precision machinery & parts
Taiwan	TAIWAN NSK PRECISION CO., LTD.	70.0%	Sales of precision machinery & parts
	TAIWAN NSK TECHNOLOGY CO., LTD.	100.0%	Sales of systemized products
South Korea	NSK KOREA CO., LTD.	100.0%	Manufacture of bearings and precision machinery & parts and sales of bearings, automotive components and precision machinery & parts
	NSK NEEDLE BEARING KOREA CO., LTD.	100.0%	Manufacture of bearings
	KOREA NSK TECHNOLOGY CO., LTD.	100.0%	Sales of systemized products
Vietnam	NSK VIETNAM CO., LTD.	100.0%	Sales of bearings
India	NSK INDIA SALES CO. PVT. LTD.	100.0%	Sales of bearings and automotive components
	NSK-ABC BEARINGS LTD.	97.5%	Manufacture and sales of bearings
	RANE NSK STEERING SYSTEMS LTD.	51.0%	Manufacture and sales of automotive components
Australia	NSK AUSTRALIA PTY. LTD.	100.0%	Sales of bearings, automotive components and precision machinery & parts
New Zealand	NSK NEW ZEALAND LTD.	100.0%	Sales of bearings, automotive components and precision machinery & parts

# Technological History of NSK

Since commencing production of the first bearings in Japan in 1916, NSK has led each era of technological development. As a leading company backed by innovative technologies accumulated over its almost 100-year history, NSK contributes to the advancement of a broad range of industry in Japan and around the world.

## A bearing pioneer in Japan

1916

- **Japan-first** Development of ball bearings



1926

- **Japan-first** Development of cylindrical roller bearing for aircraft engines

1931

- Entered market for main bearings in engines of domestically produced aircraft
- Development of tapered roller bearings for axles of gasoline cars of Japan National Railways

1945

- **Japan-first** Development of main bearings for domestically produced jet engine (Ne 20)



## Contributing to postwar reconstruction

1948

- **Japan-first** Development of ultra-large self-aligning roller bearings for thermal power generation equipment
- **Japan-first** Development of large four-row tapered roller bearings for roll necks of steel rolling mills

1949

- **Japan-first** Development of miniature ball bearings for cameras

1957

- Contributed to bearing noise reduction
- Established method for measuring bearing noise

1958

- **Japan-first** Development of ball screws



1959

- Entered market for ball screw type steering

1950

- Signed export contract and technological partnership with overseas manufacturers
- Bearing quality and costs on par with that of overseas manufacturers

1961

- Established an R&D center
- **Japan-first** Development of stainless steel miniature ball bearings for high-speed dental drills

## Supporting strong economic growth

1963

- Started production of needle bearings
- **Japan-first** Development of bearings for Shinkansen bullet trains

1964

- Started production of automatic transmission parts

1968

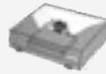
- Entered market for steering columns

1973

- Fabricated 5-meter outer diameter bearings for continuous casting in steelmaking
- Developed NSK's first original grease for bearings (NS7)

1975

- **World-first** Development of high-precision bearings for VCRs



1979

- Entered market for clean sealed bearings
- Developed method for assessing bearing fatigue

## Technology advancement and diversification

1980

- Entered market for mechatronic products

1981

- Established Tribology Technical Center

1984

- **World-first** Development of direct-drive motors and mega-torque motors for factory automation
- **World-first** Development of mask exposure equipment for production of large LCD TVs



1985

- Established heat treatment (TF) technology
- **Japan-first** Development of bearings for jet engines for civil aircraft

1986

- **World-first** Development of electric power steering (EPS) systems for battery-powered forklifts

1987

- Entered market for hub-unit bearings (third generation) for automobile wheels

1989

- Entered market for electric power steering (EPS) systems for automobiles

1990

- Developed highly pure (EP) steel

1991

- **Japan-first** Development of integrated single-axle actuators, monocarriers

1996

- Developed bearing analytical program called BRAIN

1997

- Entered market for bearings for Shinkansen bullet trains (300km/h)
- Entered market for ultra high-speed angular contact ball bearings for machine tools

## World-leading technological challenges

1999

- **World-first** Development of half-toroidal continuously variable transmissions (CVT)



2000

- Entered market for 40 nm non-repeatable run-out (NRR0) ball bearings for hard disk drives

2002

- Completed the Fujisawa Research and Development Center
- Introduced the HMC-B02 series of high-speed, quiet-running ball screws (current BSS series)

2004

- Launched the HPS series of bearings for industrial machinery
- **World-first** Development of world's smallest deep groove ball bearings (inner diameter 0.6 mm; outer diameter 2.0 mm; width 0.8 mm)



2005

- Developed full complement of cylindrical roller bearings for wind turbine gearboxes

2006

- Mass production of V1 series of highly dust-resistant ball screws

2007

- Developed highly functional double-row angular contact ball bearings for industrial pumps
- Developed ball screw shift actuators for outboard engines with the world's highest output

2008

- Developed solid lubrication angular contact ball bearings for vacuum robots
- Developed manipulation system that enables minute operations

2009

- Developed low-torque ball bearings for hybrid vehicles
- Commercialized NSKHPS™ high-performance standard angular contact ball bearings for industrial machinery
- Opened new R&D center in China, rounding out global R&D structure
- **World-first** Development of electro-mechanical integrated column-type electric power steering (EPS) systems



2010

- Commercialized HMS series ball screws for high-speed machine tools
- **Japan-first** Development of high-performance wheel bearings for satellite attitude control

2011

- Developed ultra-long-life ball bearings for automobile transmissions
- Developed energy-saving bearings for high-efficiency motors
- **World-first** Development of high-efficiency toroidal variator module for front-wheel drive vehicles
- **World-first** Development of cold-formed hub-unit bearings for tire wheels



- **World-first** Development of low-friction ball screws for regenerative braking systems of electric and hybrid vehicles
- **World-first** Development of ball screws for seismic dampeners used in buildings

2012

- Developed hub-unit bearings with high-reliability seals for automobile wheels
- Developed highly reliable anti-creep design tapered roller bearings for mining dump truck wheels
- **Japan-first** Development of axle sensor bearings for passenger train cars

2013

- **World-first** Development of 100% food-derived lubricant grease

# NSK Global Network

## Japan

	○	●	□	■	△
Japan	22	36	6	1	1

## The Americas (6)

	○	●	□	■	△
U.S.A.	7	10	1	1	1
Canada		3			
Mexico	1	1	1		
Brazil	1	5		1	
Peru		1			
Argentina		1			
<b>Total</b>	<b>9</b>	<b>21</b>	<b>1</b>	<b>2</b>	<b>1</b>

## Europe/Middle East/Africa (12)

	○	●	□	■	△
U.K.	4	2	1	1	1
Germany	1	2	2	1	
France		1			
Italy		1			
Holland		1			
Spain		1			
Poland	4	3		1	
Russia		1			
Sweden			1		
Turkey		1			
UAE		1			
South Africa		1			
<b>Total</b>	<b>9</b>	<b>15</b>	<b>3</b>	<b>3</b>	<b>1</b>

## Asia/Oceania (12)

	○	●	□	■	△
Singapore		2			1
Indonesia	3	2			
Thailand	2	3			1
Malaysia	2	4			
China	12	18	1	1	1
Taiwan		6			
South Korea	2	2			1
Philippines			1		
Vietnam		1	1		
India	4	6			1
Australia		4			
New Zealand		1			
<b>Total</b>	<b>25</b>	<b>49</b>	<b>3</b>	<b>3</b>	<b>3</b>

○ : Production site...65 ● : Sales site...121 □ : Representative office...7 ■ : R&D center...14 △ : Headquarters...6  
 \*Figures in parentheses are the number of countries.

## Information for Investors

As of March 31, 2014

### Corporate Address

NSK Ltd.  
 Nissei Bldg., 1-6-3 Ohsaki, Shinagawa-ku,  
 Tokyo 141-8560, Japan  
 Tel: +81-3-3779-7111  
 Fax: +81-3-3779-7431

### Contact Information

For questions or additional information,  
 please contact:  
 IR & CSR Office, NSK Ltd.  
 Nissei Bldg., 1-6-3 Ohsaki, Shinagawa-ku,  
 Tokyo 141-8560, Japan  
 Tel: +81-3-5487-2564  
 Fax: +81-3-3779-7442  
 E-mail: 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, 2014, at the Company's  
 headquarters in Tokyo.

### Common Stock

Authorized: 1,700,000,000 shares  
 Issued: 551,268,104 shares  
 (Treasury stock: 10,473,256)

### Number of Shareholders

18,833

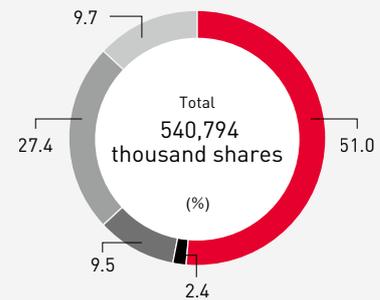
### Transfer Agent

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

### Listings

Tokyo

### Breakdown of Shareholders



### Number of Shares (thousand shares)

Financial Institutions	275,748
Securities Companies	12,858
Other Japanese Corporations	51,419
Foreign Investors	148,503
Individuals / Others	52,264

### 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 First Section of the Tokyo Stock Exchange to denominate the base market value (January 4, 1968) x 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.

