

Notes to Consolidated Financial Statements

March 31, 2010

1. Basis of Preparation

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

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles generally accepted in Japan but are presented as additional information.

Certain reclassifications of previously reported amounts have been made to the consolidated financial statements for the year ended March 31, 2009 to conform them to the 2010 presentation. Such reclassifications had no effect on consolidated net assets and net loss.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥93.04 = U.S.\$1.00, the exchange rate prevailing on March 31, 2010. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. The assets and liabilities of the initially consolidated subsidiaries are valued at fair value as of their respective dates of acquisition.

The financial statements of certain consolidated subsidiaries whose fiscal year end is December 31 have been included in consolidation on the basis of a full fiscal year closing on March 31 for consolidation purposes.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

Assets and liabilities of overseas consolidated subsidiaries are translated into yen at the exchange rates in effect at the respective balance sheet dates, except for the components of net assets excluding minority interests which are translated at the respective historical rates. Revenue and expenses are translated at the average rates of exchange for the respective years. Differences arising from translation are reflected in "Translation adjustments" and "Minority interests" in the accompanying consolidated balance sheets and statements of changes in net assets.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the actual historical percentage of bad debts and an estimate of uncollectible amounts determined after an analysis of specific individual receivables.

(e) Short-term investments and investment securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost based on the moving average method.

(f) Inventories

Inventories are principally stated at lower of cost, determined by the average method, or net selling value.

Effective April 1, 2008, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9 issued on July 5, 2006). This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The effect of the adoption of this standard was immaterial to operating income and loss before income taxes and minority interests for the year ended March 31, 2009.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed at rates based on the estimated useful lives of the respective assets by the declining-balance method, except for the buildings and assets of overseas consolidated subsidiaries to which the straight-line method is principally applied.

The principal estimated useful lives are as follows:

Buildings and structures	10 to 50 years
Machinery, equipment and vehicles	5 to 12 years

Contributions granted by national and municipal governments are deducted directly from the acquisition costs of the related fixed assets as stipulated in the Corporation Tax Law of Japan. The property, plant and equipment accounts on the consolidated balance sheets at March 31, 2010 and 2009 were reduced by the following amounts:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Land.....	¥ 721	¥ 721	\$ 7,749
Buildings and structures...	501	175	5,385
Machinery, equipment and vehicles.....	561	439	6,030

Effective April 1, 2008, the Company and its domestic consolidated subsidiaries have changed the useful lives of machinery from 10 to 12 years. Effective April 1, 2008, the Company and its domestic consolidated subsidiaries have changed the useful lives of machinery from 10 to 12 years to 9 to 12 years as allowed under the revisions of the Corporation Tax Law. The effect of this change was to increase operating income by ¥851 million and to decrease loss before income taxes and minority interests by the same amount for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

(h) Accrued retirement benefits for employees

Accrued retirement benefits for employees have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss and unrecognized prior service cost. The estimated benefit is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Prior service cost is amortized in the year in which the gain or loss is recognized primarily by the straight-line method over a period of principally 15 years, which is within the estimated average remaining years of service of the eligible employees.

Net unrecognized actuarial gain or loss is amortized commencing the year following the year in which the gain or loss was recognized primarily by the straight-line method over a period of principally 15 years, which is within the estimated average remaining years of service of the eligible employees.

Effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No. 19 issued on July 31, 2008). The effect of the adoption of this standard was nil to the unrecognized portion of unfunded retirement benefit obligation at March 31, 2010 and consolidated operating income and loss before income taxes and minority interests for the year then ended.

(i) Reserve for product defect compensation

Reserve for product defect compensation is provided at an estimated amount in order to cover the anticipated compensation.

(j) Leases

For lease transactions involving the transfer of ownership, the leased assets are depreciated by the same methods used for owned fixed assets.

For lease transactions not involving the transfer of ownership, leased assets are depreciated over the lease period using the straight-line method with a residual value of zero.

Formerly, finance lease transactions not involving the transfer of ownership were accounted for as operating leases. However, effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised on March 30, 2007). Such transactions are accounted for as ordinary sale and purchase transactions. The effect of the adoption of these standards was nil to operating income and loss before income taxes and minority interests for the year ended March 31, 2009.

The Company and its domestic consolidated subsidiaries continue to account for finance lease transactions not involving the transfer of ownership that commenced prior to April 1, 2008 as operating leases.

3. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished goods.....	¥68,923	¥76,419	\$740,789
Work in process	36,668	41,185	394,110
Raw materials and supplies	21,073	22,863	226,494
	¥126,664	¥140,467	\$1,361,393

(k) Goodwill and negative goodwill

Goodwill and negative goodwill are amortized over a period of 3 years by the straight-line method.

(l) Research and development costs and computer software

Research and development costs are charged to income as incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of income or to future cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their respective estimated useful lives, generally a 5-year period.

(m) New shares issuance costs

New shares issuance costs are charged to income as incurred.

(n) Deferred income taxes

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities reported for financial reporting purposes and the corresponding balances for tax reporting purposes.

(o) Derivative financial instruments and hedging activities

All derivatives are stated at fair value with any changes in fair value included in net income for the period in which they arise, except for derivatives which meet the criteria for deferral hedge accounting under which realized gain or loss, net of the applicable income taxes, is deferred as a component of net assets. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates. An interest-rate swap which meets certain conditions is accounted for as if the interest rates applied to the interest-rate swap had originally applied to the underlying debt.

(p) Distribution of retained earnings

Under the Corporation Law of Japan and the Company's Articles of Incorporation, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The distribution of retained earnings with respect to the interim financial period is made by resolution of the Board of Directors. The accounts for the period do not reflect such distributions. (Refer to Note 23.)

(q) Accounting standard for overseas subsidiaries

Effective the year ended March 31, 2009, the Company and its overseas consolidated subsidiaries have adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18 issued on May 17, 2006) and have made necessary adjustments in the consolidation process. The effect of the adoption of this standard was immaterial to operating income and loss before income taxes and minority interest for the year ended March 31, 2009.

4. Impairment of Fixed Assets

The Company and its consolidated subsidiaries group fixed assets used for manufacturing by management segment into minimum units which generate identifiable cash flows (e.g., a factory.) They also group fixed assets used at the head office or used for sales activities as shared assets.

The Company and its consolidated subsidiaries have written down the following assets to their respective net recoverable values because the Company and its consolidated subsidiaries do not expect any future use for them and do not expect them to be recoverable. Consequently, the Company and its consolidated subsidiaries recorded a related loss on impairment of fixed assets of ¥350 million (\$3,762 thousand) and ¥3,064 million in the accompanying consolidated statements of operations for the years ended March 31, 2010 and 2009, respectively:

Usage	Classification	Location	Millions of yen		Thousands of U.S. dollars
			2010	2009	2010
Production equipment	Machinery and equipment	China.....	¥160	¥ –	\$1,720
Production equipment	Machinery and equipment	Shizuoka Prefecture.....	96	–	1,032
Production equipment	Machinery and equipment	France	94	521	1,010
Production equipment	Machinery and equipment	Hyogo Prefecture and others	–	1,212	–
Production equipment	Machinery and equipment	India	–	462	–
Production buildings and structures	Buildings and structures	Hyogo Prefecture.....	–	847	–
Production equipment and other	Equipment and vehicles	Hyogo Prefecture.....	–	22	–
			¥350	¥3,064	\$3,762

The recoverable value of the fixed assets presented in the above table has been measured primarily at net realizable value based on appraisals conducted by real estate appraisers or value in use. If a fixed asset cannot be sold or diverted to other usage, such asset is valued at nil.

Loss on impairment of fixed assets in the amount of ¥1,033 million for the year ended March 31, 2009 which was included in the above table was related to the loss resulting from the closure of TAKARAZUKA Works in Hyogo Prefecture.

5. Securities

(a) Information regarding marketable securities classified as other securities at March 31, 2010 and 2009 is summarized as follows:

	Millions of yen					
	2010			2009		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities.....	¥13,099	¥21,388	¥8,289	¥2,160	¥4,601	¥2,441
Subtotal.....	13,099	21,388	8,289	2,160	4,601	2,441
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities.....	6,547	4,324	(2,223)	16,859	13,762	(3,097)
Other	7,044	7,025	(19)	42	23	(19)
Subtotal.....	13,591	11,349	(2,242)	16,901	13,785	(3,116)
Total.....	¥26,690	¥32,737	¥6,047	¥19,061	¥18,386	¥(675)
	Thousands of U.S. dollars					
	2010					
	Acquisition costs	Carrying value	Unrealized gain (loss)			
Securities whose carrying value exceeds their acquisition costs:						
Equity securities.....	\$140,789	\$229,880	\$89,091			
Subtotal.....	140,789	229,880	89,091			
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities.....	70,367	46,474	(23,893)			
Other	75,709	75,505	(204)			
Subtotal.....	146,076	121,979	(24,097)			
Total.....	\$286,865	\$351,859	\$64,994			

Impairment losses are recorded for securities whose fair value has declined by 50% or more, or whose fair value has declined by 30% or more, but less than 50%, if the decline is deemed to be irrecoverable.

The Company has recognized an impairment loss on devaluation of investment securities of ¥13,921 million for the year ended March 31, 2009. In addition, no impairment losses were recognized for those investment securities whose fair values had declined by 30% or more, but less than 50% as of March 31, 2009 because they were determined to be recoverable.

(b) The carrying value of non-marketable securities classified as other securities at March 31, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Investment securities:			
Unlisted equity securities	¥677	¥742	\$7,276
Unlisted foreign bonds	2,516	2,516	27,043
Unlisted domestic bonds	1,000	–	10,748
	¥4,193	¥3,258	\$45,067

(c) Sales of investment securities for the year ended March 31, 2009 are summarized as follows:

	Millions of yen
Sales	¥ 192
Aggregate gain	122

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans principally represent short-term notes with average annual interest rates of 0.86% and 1.57% at March 31, 2010 and 2009, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans from banks and other financial institutions, due through 2018, at an average annual interest rate of 2.3%	¥91,232	¥74,603	\$980,567
2.70% unsecured bonds due 2009	–	10,000	–
0.76% unsecured bonds due 2010	20,000	20,000	214,961
1.66% unsecured bonds due 2013	10,000	10,000	107,481
Lease obligations due through 2018	1,383	41	14,865
	122,615	114,644	1,317,874
Less current portion	(26,914)	(11,936)	(289,273)
	¥95,701	¥102,708	\$1,028,601

Assets pledged as collateral for short-term bank loans of ¥600 million (\$6,449 thousand) at March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	
Land	¥298	\$3,203
Buildings and structures	328	3,525
	¥626	\$6,728

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥26,914	\$289,273
2012	19,693	211,662
2013	13,619	146,378
2014	47,943	515,294
2015	11,707	125,828
2016 and thereafter	2,739	29,439
	¥122,615	\$1,317,874

7. Accrued Retirement Benefits for Employees

The Company and certain domestic consolidated subsidiaries have defined benefit pension plans, i.e., corporate pension fund 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. They also have defined contribution pension plans and advance payment plan. Certain overseas consolidated subsidiaries also have defined benefit pension plans.

The following table sets forth the funded and accrued status and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2009 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Retirement benefit obligation	¥(99,147)	¥(102,168)	\$(1,065,638)
Plan assets at fair value	55,695	49,514	598,613
Unfunded retirement benefit obligation	(43,452)	(52,654)	(467,025)
Unrecognized actuarial loss	14,204	21,499	152,666
Unrecognized prior service cost	(985)	(1,100)	(10,587)
Net retirement benefit obligation	(30,233)	(32,255)	(324,946)
Prepaid pension cost	25	23	269
Accrued retirement benefits for employees	¥(30,258)	¥(32,278)	\$(325,215)

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥2,832	¥3,186	\$30,439
Interest cost	2,949	3,128	31,696
Expected return on plan assets	(1,402)	(1,817)	(15,069)
Amortization:			
Actuarial loss	2,070	1,287	22,248
Prior service cost	(169)	(162)	(1,816)
Retirement benefit expenses	6,280	5,622	67,498
Contributions to defined contribution pension plans	777	806	8,351
Retirement benefit expenses	¥7,057	¥6,428	\$75,849

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2010 and 2009 are a discount rate principally of 2.6% and an expected rate of return on plan assets principally of 2.5%.

8. Shareholders' Equity

(a) The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥8,639 million (\$92,853 thousand) at March 31, 2010 and 2009.

(b) Movements in issued treasury stock during the years ended March 31, 2010 and 2009 are summarized as follows:

	Number of shares			
	Thousands			
	2010			
	March 31, 2009	Increase	Decrease	March 31, 2010
Treasury stock	750,862	35,089	12,944	773,007
2009				
	March 31, 2008	Increase	Decrease	March 31, 2009
Treasury stock	1,059,883	603,901	912,922	750,862

9. Contingent Liabilities

The contingent liabilities of the Company at March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	
Keep-well agreement with an affiliate, NTN de Mexico, S.A. for its loans from financial institutions	¥ 154	\$ 1,655

10. Finance Leases without Covenants Transferring Ownership of Properties to Lessees

Lessees' accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of property leased to the Company and its consolidated subsidiaries at March 31, 2010 and 2009, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) had been capitalized:

	Millions of yen					
	2010			2009		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥2,639	¥2,144	¥495	¥2,647	¥2,032	¥615
Machinery, equipment and vehicles	250	178	72	291	170	121
Other assets	14	11	3	19	14	5
	¥2,903	¥2,333	¥570	¥2,957	¥2,216	¥741
	Thousands of U.S. dollars					
	2010					
	Acquisition costs	Accumulated depreciation	Net book value			
Buildings and structures	\$28,364	\$23,044	\$5,320			
Machinery, equipment and vehicles	2,687	1,913	774			
Other assets	150	118	32			
	\$31,201	\$25,075	\$6,126			

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥171 million (\$1,838 thousand) and ¥184 million for the years ended March 31, 2010 and 2009, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥171 million (\$1,838 thousand) and ¥184 million for the years ended March 31, 2010 and 2009, respectively.

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥146	\$1,569
2012 and thereafter	424	4,557
Total	¥570	\$6,126

The acquisition costs and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

No loss on impairment was allocated to any leased assets for the years ended March 31, 2010 and 2009.

11. Operating Leases

Future minimum lease payments subsequent to March 31, 2010 for non-cancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥134	\$1,440
2012 and thereafter	1,746	18,766
Total	¥1,880	\$20,206

12. Financial Instruments – Fair Value

Effective the year ended March 31, 2010, the Company adopted the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10 originally issued on January 11, 1999 and revised on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 issued on March 10, 2008). These accounting standards require the Company to disclose the fair values of all financial instruments.

Overview

(a) Policy for financial instruments

The Company and its subsidiaries (collectively, the "Group") raise necessary funds in accordance with management plans mainly by bank borrowings and corporate bonds in support of operations related to the manufacture and sale bearings, constant-velocity joints and precision mechanical equipment. The Group utilizes bank borrowings for short-term operating funds, and bank borrowings and corporate bonds for long-term capital investments and finances. Temporary surplus funds are managed by low-risk financial assets. The Group utilizes derivatives to avoid or mitigate risks as described in the later part of this note and does not hold them for speculative purposes.

(b) Types of financial instruments and related risks

Trade receivables, notes and accounts receivable, are exposed to credit risk of customers. In addition, as a result of the business of the Group, which operates globally, foreign currency trade receivables are exposed to currency rate fluctuation risk, which is mitigated by utilizing forward foreign currency exchange contracts.

Securities are mainly composed of stocks of the companies with which the Group has business relationships and they are exposed to fluctuation risk of market prices.

Trade payables, notes and accounts payable, are due within one year. Certain trade payables resulting from the import of raw materials is denominated in foreign currencies. These are exposed to fluctuation risk of foreign currencies. However, the risk is mitigated because the trade payables, notes and accounts payable denominated in foreign currencies are within the range of accounts receivable which are denominated in the same currencies.

Loans and corporate bonds are mainly utilized for business operations of the Group. Short-term loans are mainly utilized for financing of operating activities. Long-term loans and corporate bonds are mainly utilized for capital investments and financing. These have maturity dates of less than 8 years, at the longest, subsequent to March 31, 2010. Certain loans are exposed to fluctuation risk of interest rates due to floating rates and this risk is hedged by interest rate swap agreements.

The Group has a policy to utilize derivative transactions involving forward foreign currency exchange contracts, currency option agreements, currency swap agreements, interest swap agreements and interest option agreements for the purpose of avoiding future fluctuation risk of foreign currencies trade receivables and payables and mitigating future fluctuation risk of interest rate of loans and corporate bonds. The Group utilized forward foreign currency exchange contracts and interest rate swap agreements for the year ended March 31, 2010. Refer to "(o) Derivative financial instruments and hedging activities" in Note 2. "Summary of Significant Accounting Policies."

(c) Risk management for financial instruments

(i) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with internal rules and manual, the credit management section periodically monitors financial conditions of major customers, manages collection due dates and balances of each customer and tries to identify credit risk of customers with worsening financial conditions at the early stage and mitigate the risk.

Credit risk of securities is quite low because the Group utilizes convertible deposits with high credit ratings, up to a limited amount, which is approved by the Group.

The Group believes credit risk of derivative transactions is almost nil because counter parties are financial institutions with high credit ratings.

(ii) Monitoring of market risks (the risks arising from fluctuations in foreign currency exchange rates, interest rates and others)

The Group mainly utilizes forward foreign currency exchange contracts for hedging of fluctuation risk which is identified by each currency. Depending on the market conditions of foreign currencies, the Group utilizes forward foreign currency exchange contracts for forecasted export transactions with a maximum period of 6 months.

The Group utilizes interest rate swap agreements to mitigate fluctuation risk of interest rates.

The Group continuously reviews securities holdings by monitoring periodically the market value and financial condition of securities' issuers (companies with business relationships with the Group) and by evaluating those relationships.

The Group has established policies which include maximum upper limits and reporting obligations for derivative transactions and comply fully with these guidelines. Derivative transactions are entered into by the Company's Financial HQ. and certain consolidated subsidiaries. The Company carries out mutual supervision and monitoring of the derivative transactions in accordance with management policies and its consolidated subsidiaries apply the same approach. Each derivative transaction of the Company is reported to the director responsible when entered into. The consolidated subsidiaries are required to report the status of their open derivatives positions to the Company on a monthly basis and are also required to consult with the Company when they enter into derivative transactions other than forward foreign currency exchange contracts.

(iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

The Group manages liquidity risk with the responsible section preparing and updating cash flow plans and keeping necessary funds based on reports of each section.

Syndicated loans have certain financial covenants that represent a liquidity risk from an early repayment request by financial institutions.

(vi) Supplementary explanation of the fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 13 "Derivative Financial Instruments and Hedging Activities" are not necessarily indicative of the actual market risk involved in the derivative transactions.

Fair Value of Financial Instruments

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

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
				2010		
(1) Cash and cash equivalents.....	¥32,759	¥32,759	¥ -	\$352,096	\$352,096	\$ -
(2) Short-term investments.....	1,874	1,874	-	20,142	20,142	-
(3) Trade receivables	100,667	100,667	-	1,081,975	1,081,975	-
(4) Investment securities.....	25,737	25,740	3	276,623	276,655	32
(5) Short-term loans receivable included in other current assets.....	304	304	-	3,268	3,268	-
Total Assets.....	¥161,341	¥161,344	¥3	\$1,734,104	\$1,734,136	\$32
(6) Trade payables.....	90,207	90,207	-	969,551	969,551	-
(7) Short-term bank loans.....	110,407	110,407	-	1,186,662	1,186,662	-
(8) Current portion of long-term debt.....	26,732	26,744	12	287,317	287,446	129
(9) Accrued income taxes.....	2,637	2,637	-	28,343	28,343	-
(10) Long-term debt.....	94,500	95,851	1,351	1,015,692	1,030,213	14,521
Total Liabilities	¥324,483	¥325,846	¥1,363	\$3,487,565	\$3,502,215	\$14,650
Derivatives(*).....	¥(269)	¥(269)	¥ -	\$(2,891)	\$(2,891)	\$ -

* Assets and liabilities arising from derivatives are shown at net value with the amount in parentheses representing net liability position.

Note 1: Methods to determine the fair value of financial instruments and other matters related to securities and derivative transactions

(1) Cash and cash equivalents, (2) Short-term investments, (3) Trade receivables and (5) Short-term loans receivable included in other current assets
Since these items are settled in a short time period, their carrying value approximates fair value.

(4) Investment securities

The fair value of stocks is based on quoted market prices.

(6) Trade payables, (7) Short-term bank loans and (9) Accrued income taxes
Since these items are settled in a short time period, their carrying value approximates fair value.

(8) Current portion of long-term debts and (10) Long-term debts

Long-term debts are composed of long-term loans and corporate bonds. The fair market value of corporate bonds is based on quoted market prices. The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied assuming new loans under the similar conditions to existing loans are made.

Floating interest rates for certain long-term loans were hedged by interest rate swap agreements and accounted for as loans with fixed interest rates. The fair value of those long-term loans is based on the present value of the total of principals, interests and net cash flows of swap agreements discounted by the interest rates to be applied assuming new loans under similar conditions are made.

Derivatives Transactions

Please refer to Note 13 "Derivative Financial Instruments and Hedging Activities" section of Notes to Consolidated Financial Statements.

Note 2: Financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	
Unlisted stocks Stocks of subsidiaries and affiliates	¥10,976	\$117,971
Other	677	7,276
Unlisted foreign bonds.....	2,516	27,042
Unlisted domestic bonds.....	1,000	10,748
Total	¥15,169	\$163,037

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

Note 3: Redemption schedule for receivables and marketable securities with maturities at March 31, 2010 is as follows:

	Millions of yen			
	2010			
	Within one year	More than one year and within five years	More than five years and within ten years	More than ten years
Cash and cash equivalents.....	¥32,759	¥ -	¥ -	¥ -
Short-term investments	1,874	-	-	-
Trade receivables.....	100,667	-	-	-
Short-term loans receivable included in other current assets.....	304	-	-	-
Total	¥135,604	¥ -	¥ -	¥ -

	Thousands of U.S. dollars			
	2010			
	Within one year	More than one year and within five years	More than five years and within ten years	More than ten years
Cash and cash equivalents.....	\$352,096	\$ -	\$ -	\$ -
Short-term investments	20,142	-	-	-
Trade receivables.....	1,081,975	-	-	-
Short-term loans receivable included in other current assets.....	3,268	-	-	-
Total	\$1,457,481	\$ -	\$ -	\$ -

Note 4: The redemption schedule for long-term debt is disclosed in Note 6 "Short-Term Bank Loans and Long-Term Debt" section of Notes to Consolidated Financial Statements.

13. Derivative Financial Instruments and Hedging Activities

(a) Derivative transactions to which hedge accounting is not applied

The estimated fair value of the derivatives positions outstanding which do not qualify for deferral hedge accounting at March 31, 2010 is summarized as follows:

Currency-related transactions

Classification	Transaction	Millions of yen		
		Notional amount	Fair value	Valuation gain (loss)
		2010		
Over-the-counter transactions	Forward foreign currency exchange contracts Selling:			
	U.S. Dollars.....	¥10,963	¥(230)	¥(230)
	EURO	5,586	166	166
	Thai Baht	1,763	(81)	(81)
	Canadian Dollars.....	378	(14)	(14)
	Great Britain Pounds.....	154	0	0
	Total	¥18,844	¥(159)	¥(159)

Classification	Transaction	Thousands of U.S. dollars		
		Notional amount	Fair value	Valuation gain (loss)
		2010		
Over-the-counter transactions	Forward foreign currency exchange contracts Selling:			
	U.S. Dollars.....	\$117,831	\$(2,472)	\$(2,472)
	EURO	60,039	1,784	1,784
	Thai Baht	18,949	(871)	(871)
	Canadian Dollars.....	4,063	(150)	(150)
	Great Britain Pounds.....	1,655	0	0
	Total	\$202,537	\$(1,709)	\$(1,709)

The fair value of forward foreign currency exchange contracts are computed using prices provided by counter party financial institutions. The amount of contract more than one year has not been presented because it is nil.

(b) Derivative transactions to which hedge accounting is applied

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting at March 31, 2010 is summarized as follows:

Currency-related transactions

Method of hedge accounting	Transaction	Major hedged item	Millions of yen		Thousands of U.S. dollars	
			2010			
			Notional amount	Fair value	Notional amount	Fair value
Deferral hedge	Forward foreign currency exchange contracts	Investment in affiliates				
	Buy:EURO		¥ 5,909	¥ (110)	\$ 63,510	\$ (1,182)
	Total		¥ 5,909	¥ (110)	\$ 63,510	\$ (1,182)

The fair value of forward foreign currency exchange contracts are computed using prices provided by counter party financial institutions. The amount of contract more than one year has not been presented because it is nil.

Interest-rate related transactions

Method of hedge accounting	Transaction	Millions of yen		
		2010		
		Notional amount	More than one year	Fair value
Swap rates applied to underlying debt	Interest rate swaps			
	Receive / floating and pay / fixed.....	¥ 20,000	¥ 20,000	(*)
	Total	¥ 20,000	¥ 20,000	(*)

Method of hedge accounting	Transaction	Thousands of U.S. dollars		
		2010		
		Notional amount	More than one year	Fair value
Swap rates applied to underlying debt	Interest rate swaps			
	Receive / floating and pay / fixed.....	\$ 214,961	\$ 214,961	(*)
	Total	\$ 214,961	\$ 214,961	(*)

* Because interest rate swap agreements are accounted applying swap rates to underlying long-term debt, their fair value is included in that of long-term debt disclosed in Note 12.

14. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses totalled ¥14,688 million (\$157,868 thousand) and ¥17,402 million for the years ended March 31, 2010 and 2009, respectively.

15. Provision of Reserve for Product Defect Compensation

The Company encountered some quality-control issues related to certain products and provided a reserve of ¥600 million for the year ended March 31, 2009, which was presented as a component of other expenses in the accompanying consolidated statement of operations for the year.

16. Reorganization Expenses

Reorganization expenses for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loss on disposal of fixed assets	¥ 131	¥ 364	\$ 1,408
Relocation expenses of equipment.....	11	162	118
Other.....	—	586	—
	¥ 142	¥ 1,112	\$ 1,526

Reorganization expenses for the year ended March 31, 2009 have included certain losses of ¥925 million in the aggregate resulting from the closure of TAKARAZUKA Works.

17. Loss on Liquidation of Subsidiaries

On December 25, 2009, the Company's Board of Directors' meeting approved the liquidation of a consolidated subsidiary, NTN-BCA CORP. The Company has recorded related losses as loss on liquidation of a subsidiary of ¥1,183 million (\$12,715 thousand) in the consolidated statement of operations for the year ended March 31, 2010.

18. Closure of TAKARAZUKA Works

Upon the completion of the transfer of manufacturing activities at TAKARAZUKA Works to other factories, the Company ceased the operation of the TAKARAZUKA Works at the end of March 2009 and closed it in July 2009. Although the Company had planned to sell the site after soil improvement work, the Company did not recognize any gain or loss on this land for the year ended March 31, 2010, because the Company could not estimate them reasonably.

19. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporate tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 40.0% for the years ended March 31, 2010 and 2009. Overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The details of the differences between the statutory tax rate and effective tax rate for the years ended March 31, 2010 and 2009 are omitted because the Company and consolidated subsidiaries recorded loss before income taxes and minority interests for the years.

The tax effects of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2010 and 2009 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued retirement benefits for employees	¥ 13,829	¥ 14,605	\$ 148,635
Inventories	1,009	2,117	10,845
Tax loss carryforwards	16,785	10,518	180,406
Reserve for product defect compensation	536	616	5,761
Accrued expenses	3,027	2,539	32,534
Unrealized holding loss on securities.....	–	265	–
Foreign tax credit.....	1,892	–	20,335
Accrued expenses for a defined contribution pension plan.....	2,080	2,862	22,356
Other	6,245	4,685	67,123
Gross deferred tax assets	45,403	38,207	487,995
Less: valuation allowance	(8,253)	(5,892)	(88,704)
Total deferred tax assets	37,150	32,315	399,291
Deferred tax liabilities:			
Depreciation and amortization.....	(8,423)	(8,144)	(90,531)
Unrealized holding gain on securities	(2,414)	–	(25,946)
Reserve for deferred gain on property included in retained earnings	(393)	(400)	(4,224)
Retained earnings of overseas consolidated subsidiaries	(117)	(227)	(1,258)
Other	(716)	(611)	(7,695)
Total deferred tax liabilities.....	(12,063)	(9,382)	(129,654)
Net deferred tax assets	¥ 25,087	¥ 22,933	\$ 269,637

20. Amounts per Share

Amounts per share at March 31, 2010 and 2009 and for the years then ended were as follows:

	yen		U.S. dollars
	2010	2009	2010
Net assets	¥ 374.19	¥ 376.77	\$ 4.02
Net loss:			
Basic	4.00	19.14	0.04
Cash dividends.....	8.00	13.00	0.09

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end.

Basic net income or loss per share is computed based on the net income or loss attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share has not been presented because there are no dilutive potential of shares of common stock for the year ended March 31, 2010, and the Company and consolidated subsidiaries recorded a net loss for the years ended March 31, 2010 and 2009.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

21. Supplementary Cash Flow Information

The assets and liabilities of NTN-NIDEC (THAILAND) CO.,LTD. and NTN-NIDEC (ZHEJIANG) CORPORATION at the time they were excluded from the scope of consolidation during the year ended March 31, 2010 because of the Company's sales of investments in these subsidiaries, related sales value and proceeds from sales of investments are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	
Current assets	¥ 4,157	\$ 44,680
Fixed assets	4,288	46,088
Current liabilities	(4,923)	(52,913)
Long-term liabilities.....	(2)	(22)
Minority interests	(1,408)	(15,133)
Gain on sales of investments in subsidiaries	723	7,771
Sales value of investments in subsidiaries	2,835	30,471
Cash and cash equivalents of sold subsidiaries	(414)	(4,450)
Proceeds from sales of investments in subsidiaries.....	¥ 2,421	\$ 26,021

The assets and liabilities of S.N.R. ROULEMENTS and its eight subsidiaries (which were initially consolidated during the year ended March 31, 2009) and the relationship between the acquisition costs and the net cash flow from such acquisition are summarized as follows:

	Millions of yen
	2009
Current assets	¥ 53,119
Fixed assets	31,755
Current liabilities	(49,648)
Long-term liabilities.....	(8,512)
Negative goodwill	(111)
Minority interests	(13,056)
Total acquisition cost of investments in subsidiaries	13,547
Previous years' acquisition cost of investments in subsidiaries.....	(9,437)
Acquisition cost of investments in subsidiaries during the year.....	4,110
Cash and cash equivalents of acquired subsidiaries	(1,122)
Expenditure for acquisition of investments in subsidiaries	¥ 2,988

22. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of bearings, constant-velocity joints and precision equipment. As more than 90% of the consolidated net sales and operating income for the years ended March 31, 2010 and 2009 were made and more than 90% of the consolidated total assets were held in the machinery and equipment parts segment, the disclosure of business segment information has been omitted.

(a) Geographic segment information

Segment information by geographic area for the years ended March 31, 2010 and 2009 is summarized as follows:

	Millions of yen						
	2010						
	Japan	America	Europe	Asia and other areas	Total	Eliminations or corporate	Consolidated
External sales	¥ 166,818	¥ 86,819	¥ 134,247	¥ 64,862	¥ 452,746	¥ -	¥ 452,746
Intersegment sales	84,736	2,187	2,749	5,104	94,776	(94,776)	-
Net sales	251,554	89,006	136,996	69,966	547,522	(94,776)	452,746
Operating expenses	263,213	88,299	132,889	62,800	547,201	(95,854)	451,347
Operating (loss) income	¥ (11,659)	¥ 707	¥ 4,107	¥ 7,166	¥ 321	¥ 1,078	¥ 1,399
Total assets	¥ 430,145	¥ 107,569	¥ 115,776	¥ 63,325	¥ 716,815	¥ (98,013)	¥ 618,802

	Millions of yen						
	2009						
	Japan	America	Europe	Asia and other areas	Total	Eliminations or corporate	Consolidated
External sales	¥ 210,266	¥ 103,242	¥ 149,215	¥ 64,377	¥ 527,100	¥ -	¥ 527,100
Intersegment sales	101,618	1,678	2,608	6,221	112,125	(112,125)	-
Net sales	311,884	104,920	151,823	70,598	639,225	(112,125)	527,100
Operating expenses	313,541	105,068	149,246	65,239	633,094	(115,473)	517,621
Operating (loss) income	¥ (1,657)	¥ (148)	¥ 2,577	¥ 5,359	¥ 6,131	¥ 3,348	¥ 9,479
Total assets	¥ 430,046	¥ 109,123	¥ 120,580	¥ 65,848	¥ 725,597	¥ (97,984)	¥ 627,613

Thousands of U.S. dollars

	2010						Consolidated
	Japan	America	Europe	Asia and other areas	Total	Eliminations or corporate	
External sales	\$ 1,792,971	\$ 933,136	\$ 1,442,896	\$ 697,141	\$ 4,866,144	\$ -	\$ 4,866,144
Intersegment sales	910,748	23,506	29,546	54,858	1,018,658	(1,018,658)	-
Net sales	2,703,719	956,642	1,472,442	751,999	5,884,802	(1,018,658)	4,866,144
Operating expenses	2,829,031	949,043	1,428,300	674,978	5,881,352	(1,030,245)	4,851,107
Operating (loss) income	\$ (125,312)	\$ 7,599	\$ 44,142	\$ 77,021	\$ 3,450	\$ 11,587	\$ 15,037
Total assets	\$ 4,623,226	\$ 1,156,159	\$ 1,244,368	\$ 680,621	\$ 7,704,374	\$ (1,053,450)	\$ 6,650,924

As described in Note 2(g), effective April 1, 2008, the Company and its domestic consolidated subsidiaries have changed the useful lives of machinery from 10 to 12 years to 9 to 12 years as allowed under the revisions of the Corporation Tax Law.

The effect of this change was to decrease operating expenses and operating loss in the "Japan" segment by ¥851 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method.

(b) Overseas sales

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

	Millions of yen			
	2010			
	America	Europe	Asia and other areas	Total
Overseas sales	¥ 90,017	¥ 127,068	¥ 79,297	¥ 296,382
Consolidated net sales				452,746
Overseas sales as a percentage of consolidated net sales	19.9%	28.1%	17.5%	65.5%

	Millions of yen			
	2009			
	America	Europe	Asia and other areas	Total
Overseas sales	¥ 109,289	¥ 141,674	¥ 81,289	¥ 332,252
Consolidated net sales				527,100
Overseas sales as a percentage of consolidated net sales	20.7%	26.9%	15.4%	63.0%

	Thousands of U.S. dollars			
	2010			
	America	Europe	Asia and other areas	Total
Overseas sales	\$ 967,509	\$ 1,365,735	\$ 852,289	\$ 3,185,533
Consolidated net sales				4,866,144

23. Subsequent Events

(a) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2010, was approved at the annual general meeting of the shareholders held on June 25, 2010:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥4.0 (U.S.\$0.04) per share)	¥ 2,127	\$ 22,861

(b) Establishment of a significant subsidiary

On May 11, 2010, the Board of Directors' meeting of the Company approved the establishment of a subsidiary, NTN do Brasil Produção de Semi-Eixos Ltda., in São Paulo, Brazil to respond to growing demand for automotive products in developing countries. It will manufacture and sell products related to constant-velocity joints. Its establishment date was on May 21, 2010. The investment amount for the Company and its overseas consolidated subsidiary, NTN TRANSMISSIONS EUROPE was 35,420 thousand Brazilian real in aggregate. It is jointly owned by the Company and NTN TRANSMISSIONS EUROPE and ownership ratios are 70% and 30%, respectively.

(c) Sales of Investments in Securities

At the Board of Directors' meeting of the Company held on June 23, 2010, it was resolved that the Company would sell certain investments in securities during the two year period from August 2010. The Company expects a gain on these sales of investments in securities of approximately ¥3,000 million (\$32,244 thousand).